FINANCE AND GROWTH: THE CASE OF THE MANUFACTURING SECTOR IN GUYANA

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EXECUTIVE SUMMARY

This paper examines the question of how access to finance capital affects business formation, performance, and development in the manufacturing sector in Guyana. This study builds on a previous study of small firms in the commercial, agricultural and industrial sectors of Trinidad, Barbados and Jamaica by Professor Michael Henry.

The data for the study was drawn primarily from a survey of manufacturing firms throughout Guyana in May-June, 1990. Two hundred manufacturing firms were selected randomly for the survey. The data was collected through interviews with the owner/manager of the firms using a structured questionnaire. The data was analyzed using the statistical package $SPSS_x$, made available by the School of Business of Carleton University.

Our analysis of the relationship between access to capital and enterprise performance and development showed that the major determinants of enterprise performance are its degree of access to capital, certain characteristics of the entrepreneur, such as, his level of education, training and experience, and the form of organization of the enterprise. A corporate form is most effective for enhancing enterprise performance. Further, commercial banks were found to be the least hospitable source of credit for manufacturing businesses. Thus, an increasing number of entrepreneurs turned to relatives and friends and government sponsored programmes for business loans. Consequently, we recommend that the government continue with its various programmes to help the manufacturing sector but also introduce appropriate changes to increase their effectiveness.

INTRODUCTION

This study examines how access to finance capital or capital availability affects business formation, performance and development in the manufacturing sector in Guyana. This study builds on a previous study of small firms in Trinidad and Tobago, Barbados and Jamaica by Professor Michael Henry (1989). The methodology and analytical techniques utilized in our study are similar to those used in the study by Henry. The main difference between the two studies lie in their scope. Henry's study focused on small firms in the agricultural, commercial and industrial sectors in the three countries whereas our study focuses exclusively on the manufacturing sector in Guyana regardless of firm size.

The objectives of this study are to examine and ascertain the main factors affecting the performance of manufacturing businesses and to suggest ways to improve this performance. The relative lack of empirical studies on the manufacturing sector in Guyana suggests that an exploratory study such as ours is indeed appropriate. It is hoped that the findings of this study will improve our understanding of the dynamics of the sector and consequently influence policy decisions.

This paper is divided into the following sections: methodology and data, overview of the manufacturing sector, access to capital, performance of established enterprise, conclusion and recommendations.

METHODOLOGY AND DATA

The data for this study was drawn primarily from a recent survey of manufacturing firms throughout Guyana. The firms were selected randomly from a single list which was compiled from other lists provided by the Guyana Manufacturing and Industrial Development Agency (GUYMIDA), the Institute of Small Enterprises Development

(ISED), the Guyana Agricultural and Industrial Development Bank (GAIBANK), and a previous survey of manufacturers which we undertook in 1987.

The data was collected through interviews with the owner/manager of the firms using a structured questionnaire. The survey instrument was pretested on a sample of seven firms selected randomly. These firms were not included in the list from which our final sample was drawn. A sample of two hundred manufacturing firms were randomly chosen for the survey. The interviewers were given special training for this exercise.

The interview schedule requested data on items relating to the general demographic profile of the enterprise/owner (form of organization, location, age, education, experience etc), specific financial information (sales, profit, equity, debt etc), and other general information (markets, capacity utilization, constraints, opportunities etc).

The returned questionnaires were carefully checked for clarity and completeness. Out of the 200 responses received, forty-three (43) were rejected because of missing data resulting in a net of 157 usable responses. Data from these 157 checked responses were analyzed using the statistical package $SPSS_x$ for mean values, distributions, percentages, correlations, and regression analysis.

We will begin our analysis with a brief description of the conditions under which the manufacturing sector operates. The focus of the discussion will be on the structure of the manufacturing sector, its contribution to the economy, and the major constraints and opportunities facing manufacturers.

OVERVIEW OF THE MANUFACTURING SECTOR

The manufacturing sector, exclusive of bauxite processing and sugar and rice milling, is very small accounting for approximately 12% of GDP and less than 10% of export earnings (Exhibit 1). Data on the share of manufacturing employment to total employment is unfortunately not available. We believe that the contribution of the manufacturing sector to the economy has remained far below its potential, which is considerable given Guyana's natural resource endowment, cheap manpower and generous incentives regime. Elsewhere it is argued that the failure of the manufacturing sector to realize its full potential may be attributed inter alia to the extremely low level of private investment, particularly foreign investment, in Guyana's economy. Exhibit 2 shows the level of private and public investments in the economy over the period 1971-1988.

The manufacturing sector is composed of both public and private sector enterprises. Public enterprises are fewer in number but are larger than most private sector enterprises in terms of the levels of sales, employment and investments. However, private sector enterprises account for approximately two-thirds of the manufacturing activity carried out in the economy.

Most private sector enterprises are engaged in three broad areas of manufacturing activity, namely, food and beverages; furniture; and garment and shoes. In our survey, over eighty-five percent (85%) of the firms are from within these three areas of manufacturing. In addition, approximately ninety percent (90%) of the firms produce exclusively for the domestic market and the remainder produces for both domestic and export markets. However, a review of the sector's main activity and sizes of the responding firms revealed no evidence of a response bias.

EXHIBIT 1

SHARE OF GDP BY SECTOR

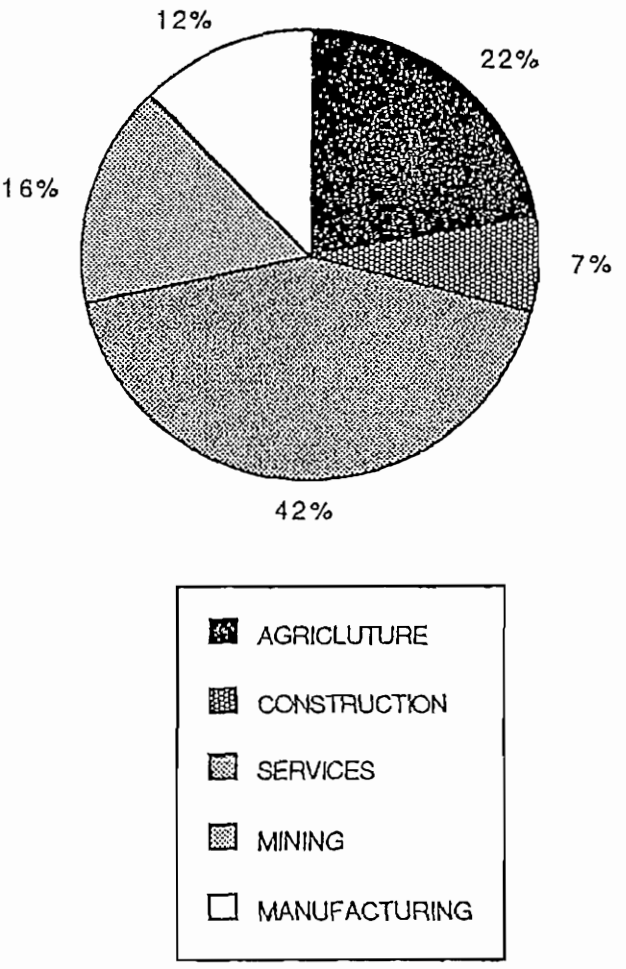
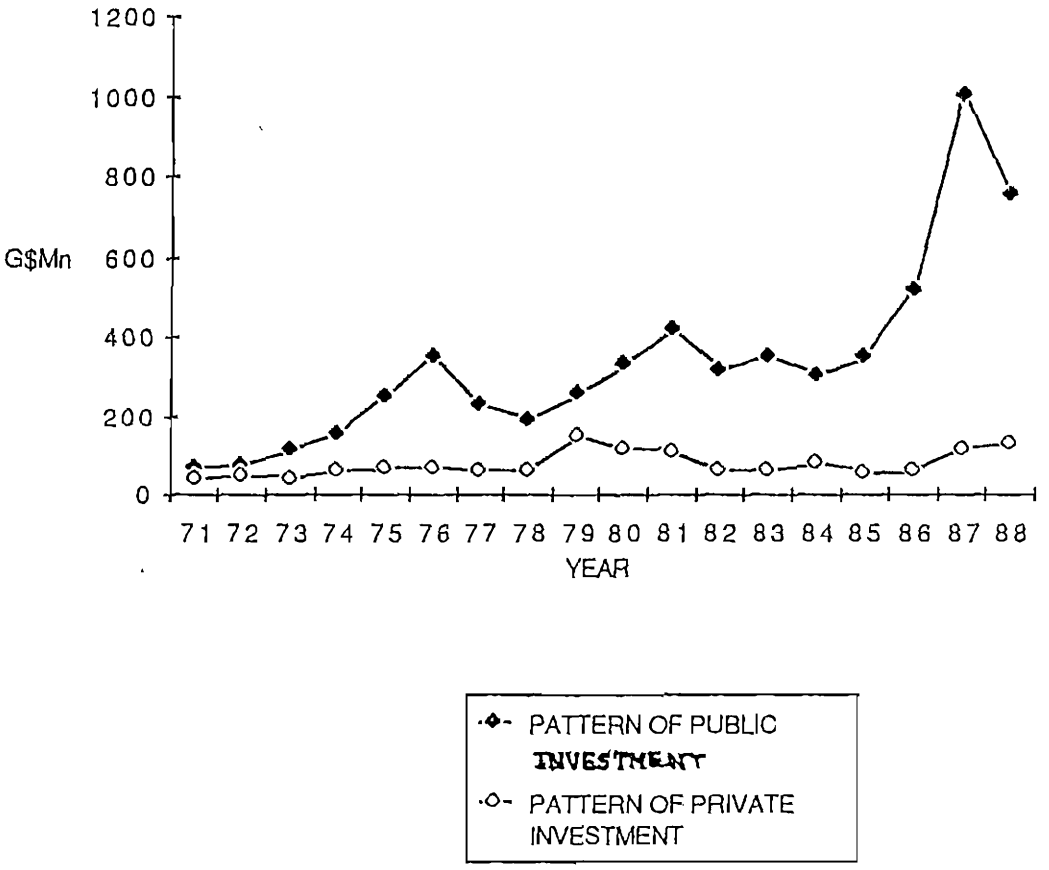


EXHIBIT 2

PATTERN OF PUBLIC AND PRIVATE INVESTMENT



Source: Bank of Guyana Statistics

The majority of the private sector enterprises, especially those in the rural areas, are small family-owned businesses. In our survey, sixty percent (60%) of the firms employ 15 or less workers, twenty-five percent (25%) employ between 16 and 50 workers and, fifteen percent (15%) employ more than 50 workers. Further, approximately seventy-five percent (75%) of the firms employ at least three (3) family members. In terms of sales, only thirteen percent (13%) of the firms reported sales in excess of one million Guyana dollars (1985 Constant Dollars). In addition, only eighteen percent (18%) of the firms reported total investments in excess of one million dollars.

These statistics indicate that the majority of the firms in the private sector are small and do not have the ability to benefit from economies of scale. Approximately seventy-five percent (75%) of the firms in our survey reported that they were operating at below fifty percent (50%) of their capacity because of production bottlenecks and limited market size. This situation raises questions about the level of efficiency of these firms and their ability to grow into medium or large-scale units. It is, therefore, not surprising that the manufacturing sector's contribution to the economy is not significant.

Despite the government's generous incentive program which aims to encourage private sector participation in industry, the level of private investment has not been forthcoming as expected. In our survey, only fifteen percent (15%) of the firms have benefitted, at one time or another, from fiscal and other incentives offered by the government. However, it is worthy to note that almost seventy-five percent (75%) of the entrepreneurs interviewed claimed that they never applied for any government incentives because they believed that the system was too cumbersome, bureaucratic and required excessive paper work for which they neither have the expertise nor the time.

This situation raises two important issues concerning the government's incentive program. The first issue relate to the appropriateness of the incentive scheme and the second issue concerns the administration of the scheme. It is apparent that industrial incentives do not rank high in the entrepreneur's list of priorities influencing his/her investment decision. In a previous unpublished study of industrial incentives (Persaud, 1987), it was shown that Guyana's incentive scheme was more suited to the foreign investor producing for export markets rather than the local investor producing for the domestic market. Since the private sector is almost exclusively owned and controlled by local entrepreneurs, the incentive scheme is considered inappropriate.

The issue of the administration of the incentive scheme is very important given the government's recent efforts to attract much needed foreign investment into Guyana. If firms are to really benefit from the incentives, every effort should be made to simplify the rules and procedures, reduce red tape and eliminate all unnecessary paper work. In essence, the government needs to streamline the regulations and procedures governing the scheme.

The private sector, including manufacturing, is plagued with a number of problems. The severe shortage of technical and managerial manpower, the difficult foreign exchange and power situation, the shortage of raw materials, spare parts and other inputs, inadequate supporting infrastructure - transportation and communication, the rising cost of inputs and unfavourable consumption taxes are just a few of the problems that have posed significant constraints to manufacturing activity.

In addition, the manufacturing sector is faced with excessive controls and regulations, both de jure and de facto. Further, in many instances these controls and regulations are not

always applied in a consistent and predictable fashion, which leads to considerable confusion and uncertainty. In our survey, several entrepreneurs registered complaints of favouritism and corrupt practices by some government officials in the areas of import licensing, foreign exchange allocation, customs and excise duties etc. These problems need to be tackled in a very serious and systematic fashion.

However, apart from these problems, we believe that the main causes for the sector's lack of dynamism have been a lack of confidence by the private sector, the overregulation of the economy, no clearly defined role for the private sector and the uncertain investment climate.

In spite of these problems, Guyana has the potential for the development of a vibrant manufacturing sector capable of producing for both export and domestic markets. The opportunities for investment in products like garments, shoes, pharmaceuticals, processed agricultural products, paints, other natural resource-based products, and assembly-type enclave export industries are great. The government's recent moves to ease some of its control over the economy and encourage private investment through privatization and divestment is a step in the right direction. However, the impact of divestment and privatization hinges on the nature of the process and agreements reached between the investor and the government.

Having outlined the general conditions under which the manufacturing sector operates, we will now examine the specific issue of the role of finance capital in the growth and development of manufacturing enterprises.

ACCESS TO FINANCE CAPITAL

ENTREPRENEURIAL SKILLS AND EXPERIENCE

There are various sources from which an entrepreneur can obtain credit to start and expand his/her enterprise. These include investors' personal savings and those of relatives and friends (non-institutional seed capital); loans from commercial banks and other financial institutions (institutional capital); loans and grants from government sponsored programs; and other sources, such as, the church, credit unions, and private individuals (moneylenders).

However, access to credit especially from institutional sources is conditioned upon the enterprise fulfilling certain conditions such as the provision of collateral and establishing the viability of the enterprise. In addition to these requirements, the ability to provide sound management may make an enterprise relatively more acceptable to institutional sources of credit which may enhance its performance (Henry, 1989). Therefore, it will be instructive for us to examine those characteristics of the entrepreneur which may improve his/her chances of successfully securing credit from institutional sources.

The ability to provide sound management is dependent to a large extent on the entrepreneur's level of training, education and experience. Training and experience may be obtained through ownership and management of a business enterprise over a long time period, prior work experience in a managerial capacity, and through formal vocational training programmes and/or courses taken in business management.

In our survey, we requested information on the entrepreneur's formal educational achievement, vocational or other courses taken in business management, prior work

experience in a managerial capacity, and years of ownership and management of his enterprise.

Table 1 shows the percentage of entrepreneurs who received additional training and experience by geographical location i.e. whether the enterprise is located in the urban or rural area. According to table 1, thirty-three percent (33%) of the urban subsample and eighteen percent (18%) of the rural subsample completed at least two years of university education. In terms of specific business-related training and experience, we observe that entrepreneurs from the urban areas do better than their counterparts from the rural areas. Thirty percent (30%) of the urban subsample completed courses in business management as opposed to twenty percent (20%) from the rural subsample. Additionally, thirty-nine percent (39%) and twenty-four percent (24%) of the urban entrepreneurs owned the enterprise for more than a decade and had prior work experience in a managerial capacity respectively. This compares to thirty-four (34%) and nineteen percent (19%) respectively for rural entrepreneurs. Finally, eight percent (8%) of the urban and (15%) of the rural subsamples had none of the following: university education, courses in business management, ownership of an enterprise for at least ten years, or prior experience in a managerial capacity.

The differences in the level of training and experience between the urban and rural subsample was found to be statistically significant at the five percent level. This implies that the level of training and the geographical distribution of the sample is not independent. These results seem to suggest that urban entrepreneurs are more equipped for the management of enterprise than their rural counterparts, and this may make the enterprise relatively more acceptable to institutional credit. Therefore, by extension we would expect a marked differential in enterprise performance i.e. urban enterprises should do better than

TABLE 1

PERCENTAGE OF ENTREPRENEURS WHO RECEIVED ADDITIONAL TRAINING AND EXPERIENCE BY GEOGRAPHICAL LOCATION

TRAINING/EXPERIENCE	URBAN (49)*	RURAL (108)*
Completed at least two years of university	33%	18%
Completed courses in business management	30	20
Owned enterprise for ten or more years	39	34
Owned/managed a business prior to present enterprise	24	19

* Size of sub-samples

rural enterprises.

Table 2 shows the distribution of the enterprises according to years of schooling of the entrpreneurs and size of the entreprise, measured by the levels of sales and employment. The correlation between years of schooling and size of enterprise, measured by sales and employment are .16 and .22 respectively. These correlation coefficients indicate a positive casual relationship between years of schooling and size of enterprise. However, this relationship will be examined more closely later on in the analysis.

An examination of table 3 shows that the average number of hours worked per week by those with and without university education is 49.6 and 45.2 respectively for the urban subsample compared to 61.3 and 54.1 respectively for the rural subsample. No statistical difference was observed between the average number of hours worked per week by those with and without university education in either the urban or the rural subsamples. However, the difference between the urban and rural subsamples in the average number of hours worked per week by those entrepreneurs with and without university education is statistically significant at the 5% level. In other words, for each subsample, entrepreneurs with and without university education worked equally hard on their business. But, when the two subsamples are compared, we find that rural entrepreneurs (both with and without university education) spent significantly more time on their enterprise than their urban counterparts.

We may speculate on the reasons why rural entrepreneurs spend more time in the management of their business. One possible reason may be the relative lack of business-related training and experience which may affect their ability to employ proper management techniques, and consequently they spend more time on their enterprises to make up for this

TABLE 2

RELATIONSHIP BETWEEN YEARS OF SCHOOLING AND SIZE OF ENTERPRISE MEASURED BY THE LEVEL OF SALES AND EMPLOYMENT

Panel A

Years of Schooling[1]	Size of enterprise (sales)[2]		
	Low	High	Total
Low	39	11	50
High	88	19	107
Total	127	30	157

Panel B

Years of schooling	Size of Enterprise (employment)[3]		
	Low	High	Total
Low	36	23	59
High	66	32	98
Total	102	55	157

1. Low indicates 0-10 years of schooling, while High indicates 10-20 years of schooling.

2. Low indicates G$0-300,000 High indicates greater than 300,000. Expressed in 1985 constant dollars.

3. Low denotes 0-15 employees and High denotes 15 or more employees.

TABLE 3

AVERAGE NUMBER OF HOURS WORKED BY ENTREPRENEURS WITH AND WITHOUT UNIVERSITY EDUCATION (HOURS PER WEEK)

Education	Urban (49)	Rural (108)
No University Education	49.6	61.3
University Education	45.2	54.1

TABLE 4

SOURCES OF CAPITAL AND PERCENTAGE OF ENTREPRENEURS WHO USED CAPITAL FROM THE VARIOUS SOURCES BY GEOGRAPHICAL LOCATION[1]

Sources of Capital	Urban (49)	Rural (108)
Owner's Savings/Relatives & Friends	53% (19285)	67% (27367)
Commercial Banks	16 (34341)	10 (29110)
Government Programmes	22 (42678)	18 (51217)
Other Sources	8 (8056)	6 (5972)

1. the numbers in parentheses represent median 1985 constant dollar values

deficiency. As an aside, we note from our survey that entrepreneurs from both the urban and rural areas do not keep proper financial records, but the practice is more prevalent among the rural entrepreneurs. The nature of the organization of the enterprise may also contribute to this situation. Approximately twenty percent (20%) of the enterprises are small family-owned and controlled business with just a few outside employees. So, the entrepreneur invariably ends up managing all aspects of the business, both managerial and operational, with the rest of the family members and employees doing the basic production tasks. Finally, most of the firms in the rural areas are relatively new, in the sense that they have been in existence for less than seven years, and the entrepreneurs may feel that the extra effort is necessary to get the enterprise off the ground.

EQUITY AND DEBT CAPITAL

Table 4 shows the proportion of entrepreneurs who obtained equity capital from the various sources to start their businesses. Accordingly, the two major sources of equity capital for the majority of the entrepreneurs are their own savings, that of relatives and friends (Row 1), and government programmes (Row 3). Together, these two account for 81% of the entrepreneurs and 86% (3,914,415) of the total equity capital used to start an enterprise. Further, 62% of the enterprises obtained 54% (2,471,834) of their equity capital from the entrepreneurs' own savings and from his/her relatives and friends. Commercial bank credit constituted 13% of the total capital which was used by 12% of the entrepreneurs.

Further analysis indicates that of the total capital used by the urban enterprises, 21% (274,728) was obtained from commercial banks and 37% from government programmes compared to 10% and 29% respectively for rural enterprises. This difference in access to institutional credit was found to be statistically significant at the 5% level. In addition,

social capital (Rows 1 & 4) accounted for 61% of the total equity capital used by rural enterprises. Thus, it is clear that social capital is a very important source of funds for business formation.

Let us now examine the level of access to debt capital i.e. capital taken for business development and expansion. According to Table 5, 40% of the entrepreneurs borrowed 25% of the debt capital from relatives and friends, and 44% obtained 61% (2,352,318) of the debt capital used from government programmes. Only 13% of the debt capital used was provided by commercial banks and this capital was obtained by 21% of the entrepreneurs.

However, for the urban enterprises, 76% (1,180,281) of their total debt capital was obtained from bank loans and government programmes. In the case of the rural enterprises, 62% of the total debt capital used was obtained from government programmes and 11% from commercial banks. Thus, we see that debt capital provided by relatives and friends and government programmes constitute the most important sources of capital for business development. Moreover, there is a greater measure of dependence on government financing for business development than for business formation. Also, it seems that commercial banks are more inclined to grant loans for business purposes than for founding an enterprise.

Next, let us examine the debt ratio of the enterprises. The debt ratio of an enterprise is defined as the ratio of total debt to total capitalization, times 100 (Henry, 1989). The average debt ratio of the enterprise at start-up is 58% and the average debt ratio of the established enterprises in 1989 is 32%. The debt ratios for the urban and rural enterprises

TABLE 5

PERCENTAGE OF ENTREPRENEURS WHO USED DEBT CAPITAL FROM VARIOUS SOURCES[1]

Sources of Debt Capital	Urban (35)	Rural (59)
Relatives and Friends	43% (24673)	39% (25310)
Bank Loans	26 (29765)	19 (22514)
Government Programme	49 (53718)	41 (59963)
Other Sources	0 (0)	7 (14419)

1. the numbers in parentheses represent median 1985 constant dollar values

are 36% and 26% respectively. These statistics show that debt capital is an important source of financing for business development.

THE PERFORMANCE OF ESTABLISHED ENTERPRISES

From the foregoing analysis, it appears that urban entrepreneurs are better-placed for the management of enterprise in terms of their level of education, training and experience. In addition, both urban and rural enterprises make extensive use of noninstitutional capital obtained from his/her personal savings, savings of relatives and friends, and government financing programmes for debt capital. But, urban enterprises, have, on average, been in existence for a longer time vis-a-vis rural enterprises.

Thus, we may hypothesize that the level of performance (in terms of the levels of sales, employment and profit) of an enterprise depends on the degree of its access to capital, measured in terms of its debt ratio and the level of noninstitutional seed capital at start-up; the age of the enterprise; the organizational form of the enterprise; and the adequacy of preparation of the entrepreneurs for the management of enterprise, expressed in terms of the level of education, training and prior work experience.

The level of performance of the enterprises are estimated using three linear regression models where the dependent variables are the size measures, level of sales (Model 1), level of employment (Model 2), and profits as a percentage of sales (Model 3). The regression results generated by $SPSS_X$ using a step-wise procedure are summarized in tables 6 - 8.

Thus, according to Model 1 (Table 6), the performance of an enterprise is enhanced when the following conditions exist: the real dollar value of noninstitutional seed capital at start-

up is larger, the enterprise is organized along corporate lines, the entrepreneur's experience in managing a business either through ownership or prior experience in a managerial capacity is greater and the enterprise is in existence for a long time. The latter result suggests that as enterprises become more established they are better able to deal with the problems facing the business.

The results of Model 2, Table 7, indicate that the performance of an enterprise is enhanced when the level of entrepreneurial knowledge (years of schooling and other relevant training) and work experience (in a managerial capacity) is higher; the real dollar value of noninstitutional seed capital at start-up is larger; the debt ratio is lower; and the enterprise is organized along corporate lines. In addition, we observe that urban enterprises performed relatively better than rural enterprises. This result confirms our expectations that urban enterprises should do better than rural enterprises for reasons alluded to earlier. One interesting result is that the number of hours worked per week had a negative effect on enterprise performance. This implies that the entrepreneur is expending more effort on his business than required.

When we examine the performance of the enterprises using profits as a percentage of sales in Model 3, Table 8, we observe that only two variables had a positive effect on enterprise performance. These variables are the real dollar value of noninstitutional seed capital at start-up and the entrepreneurs formal years of schooling. This result supports the hypothesis that there is a positive casual relationship between years of schooling and enterprise performance. However, for this particular model the values for R^2 and the F-statistic are very low.

TABLE 6

Determinants of Enterprise Performance Measured by the Level of Sales

Variable	Coefficient	t-ratio
C	231128.768 (356019.197)	.649
X_1	20333.359 (72670.561)	.280
X_2	6094.284 3251.590)	1. 874**
X_3	1.31003 (.605159)	2.165**
D_1	297122.991 156917.337	1.894**
D_2	-349865.094 (212516.745)	-1.646***
D_3	-23759.337 (254128.592)	-.093
R^2 = .37	F = 10.56	n =144

X_1 : Age of the enterprise
X_2 : Quadratic form of X_1
X_3 : real value of noninstitutional seed capital in the year the enterprise started
D_1 : dummy variable indicating the form of organization of the enterprise
D_2 : dummy variable indicating whether the entrepreneur had owned or managed a business
D_3 : dummy variable indicating whether the entrepreneur completed courses in management or other vocational courses

* Significant at 99%
** Significant at 95%
*** Significant at 90%

TABLE 7

Determinants of Enterprise Performance Measured by (the Log of) the Level of Employment

Variable	Coefficient	t-ratio
C	.9230 (.4773)	1. 934**
X_1	.0420 (.0165)	2.545*
X_2	-.0112 (.0077)	-1.453***
X_3	.0643 (.0196)	3.280*
X_4	2.30185E-06 (1.0040E-06)	2.293**
X_5	.0202 (.0189)	1.070
X_6	-5.2451E-04 (2.6931E-04)	-1.948**
X_7	-.438614 (.200534)	-2.187**
D_1	.4592 (.2158)	2.127**
R^2 = .43	F = 6.65	n =149

X_1 : entrepreneurial knowledge and experience
X_2 : average hours worked per week by entrepreneur
X_3 : years of schooling
X_4 : real value of noninstitutional seed capital in the year the enterprise started
X_5 : debt ratio in 1988
X_6 : quadratic form of X_5
X_7 : dummy variable indicating the location of the firm
D_1 : dummy variable indicating the form of organization of the enterprise

TABLE 8

Determinants of Enterprise Performance Measured by Profits as a Percent of Sales

Variable	Coefficient	t-ratio
C	65.484 (15.905)	4.117*
X_1	.00568 (.9938)	.006
X_2	5.7225E-05 (3.16728E-05)	1.810**
D1	15.9158 (12.9692)	1.227***
D2	-9.9935 (11.1264)	-.898
$R^2 = .18$	F = .46	n =138

X1 : years of schooling
X2 : real value of noninstitutional seed capital in the year the enterprise started
D1 : dummy variable indicating the form of organization of the enterprise
D2 : dummy variable indicating whether the entrepreneur completed courses in management or other vocational courses

* Significant at 99%
** Significant at 95%
*** Significant at 90%

In light of the preceding results, let us examine the issue of access to capital a little more closely. Our questionnaire requested information on the number of times the entrepreneur applied for business loans, whether the loans were granted or rejected, the reason for rejection, the cost of the loan, the time period for repayment, and the amount of collateral required.

From the responses to these questions, we note that approximately forty-two percent (42%) of the entrepreneurs, especially those from the rural areas, had experienced extreme difficulties in obtaining a loan from the commercial banks for business purposes. Twenty-seven percent (27%) of these entrepreneurs claimed that their loan applications were rejected on two occasions. The main reason given for the rejection was the inability of the entrepreneurs to provide enough securities to cover the loan and interest payments. The entrepreneurs also expressed the view that the terms and conditions of commercial bank loans were too stringent i.e. the interest rates were too high, the repayment period too short, and the amount of security requested was more than they can provide.

Therefore, it is not surprising that more than seventy-five percent (75%) of the entrepreneurs preferred to borrow from government programmes where the cost of the loan was lower and the repayment period longer. However, the entrepreneurs would still have to deal with the problem of providing collateral to cover the loan. Also, nineteen percent (19%) of the entrepreneurs claimed that they preferred to complement their initial capital with the profits from their business and/or loans from relatives and friends.

The results of the foregoing analysis confirm our expectations that the major determinants of enterprise performance are its degree of access to capital, measured by its level of noninstitutional seed capital and debt ratio; the form of the organization; and the adequacy

of preparation of the entrepreneurs for the management of enterprise. The results of our study are consistent with those found by Henry (1989) except for the following:

1. The average number of hours worked per week by the entrepreneur had a significant negative effect on enterprise performance in our model, but was found to be insignificant in Henry's sectoral model (Model IIa). This may reflect the greater role played by family labour in this model.

2. Enterprises which have been in existence for a longer time performed better, thus, there is a significant effect between the age of the enterprise and performance. This variable was not significant in any of Henry's models.

3. The level of training and the geographical distribution of the enterprises is not independent. This relationship was found to be independent in Henry's study.

4. In our study, we found that a significant number of enterprises depended on government financing programmes for business loans, whereas, there was no significant dependence on government financing programmes in the tri-state area.

CONCLUSION

In conclusion, this study shows that, other things being equal, the process of business formation and development depends on the following conditions: the enterprises' degree of access to finance capital, the quality of its human capital (entrepreneurial skills) and the nature of the organization. Moreover, we note that social capital accounted for a significant proportion of the equity capital used to start an enterprise and government financing programs provided the bulk of the debt capital used for expansion and development. Commercial banks were the least hospitable source of credit to manufacturing enterprises. Also, in terms of the adequacy of entrepreneurial preparation, we observe that urban entrepreneurs are better-equipped for the management of enterprise.

Therefore, any policy which is intended to improve enterprise performance must of necessity address these issues. In the past, the government has taken several initiatives, such as, the establishment of entrepreneurial training programs, the provision of institutional support, consultancy services, concessionary financing etc., to foster manufacturing development. However, these schemes have had little impact on the sector's performance and development. The inability of these programs to fulfill entrepreneurs' expectations has caused them to lose faith in the programs and in the government's ability to manage the programs. Thus, the government should introduce measures to make the various programs more comprehensive, reliable, accessible and responsive to the needs of entrepreneurs. Any program modifications should strengthen the coordination, monitoring and delivery systems currently in place. Only then will these programs become effective and result in improved efficiency, production, and profitability.

Finally, the revival and expansion of the private sector, including the manufacturing sector, requires substantial injections of capital, technical and managerial skills, ... new markets

and a stable policy supporting the development of the private sector. These problems can be alleviated with the attraction of foreign investors who will bring not only additional capital and equipment but also efficient management, new technology, a new product range, and access to external markets.

A generous incentive scheme alone is not enough to attract foreign investment. A favourable investment climate, a stable political system, a strong economy, a vibrant private sector, and the track record of a positive government attitude towards the private sector are all important conditions affecting the investor's decision to invest in a foreign country. Moreover, to attract significant levels of foreign investment of the type needed, it is incumbent on the government to remove any ambiguity concerning its determination to provide adequate support and guarantees to private investors regarding the security of their investment.

RECOMMENDATIONS

In light of the foregoing, we recommend the following:

1. The government should introduce a comprehensive and integrated program of entrepreneurial development which involves the training of existing and potential entrepreneurs, especially those in the rural areas. The training program should include management skills training, feasibility study, project preparation, and motivational development.

2. That special financing program be drawn up to meet the needs of these enterprises. The terms and conditions for obtaining a loan should be reviewed with a view to make it less difficult to obtain a loan. The government should consider granting loans based on the viability of the undertaking rather than on the ability to produce collateral. This involves careful monitoring of such loans. Also, every attempt should be made to encourage commercial banks to offer substantially greater credit to these enterprises. One way to achieve this may be to set up a guarantee loan fund whereby collateral-deficient, but worthwhile undertakings can be financed.

3. Consultation and advisory assistance provided should take the form of research and information on market channels, sales promotion, and direct marketing of products, especially in export markets. Also, the entrepreneurs could be assisted with the selection, introduction, and adaptation of appropriate technology.

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