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CORPORATE FINANCING AND USE OF BANK CREDIT IN TRINIDAD AND TOBAGO

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CHAPTER I

INTRODUCTION

Commercial banks are held to dominate the market for short-term funds in most developing countries including those in the Caribbean. As a consequence, most of the literature on the financial systems of Caribbean countries has focussed on the structure and behaviour of commercial banks (Thomas, 1965; Miller, 1971; Mc Lean, 1975; Bourne, 1984). Much of monetary policy in the region has also emphasised the regulation of the behaviour of the commercial banks (Thomas, 1972). Implicit in such regulation, by means of reserve requirement variations, liquidity ratios, selective credit controls or direct interventions, is a judgement on the part of the monetary authorities that such regulation will affect the economic behaviour of individual consumers and business firms and lead to behaviours which are more consistent with their policy objectives.

The literature on monetary policy has by and large attempted to assess which instruments are more effective in influencing the behaviour of the banks and the conditions under which the instruments become or cease to be effective. The conclusion of the Caribbean literature, as well as the literature of other developing countries, has been that

reserve requirement variation is the most effective instrument, but its effectiveness is contingent, inter alia, on the excess liquidity of the banking system.

While the behaviour of commercial banks and other financial institutions in developing countries are now relatively well understood, the nexus between the banks and their customers, particularly their corporate customers is rather less well understood. There is a general presumption in the literature that since banks are the main source of externally-generated funds for firms, monetary policy, insofar as it is effective in influencing bank behaviour, will in turn influence the financing and expenditure decisions of non-financial firms.

In assessing the validity or otherwise of this presumption, several issues must be addressed. Firstly, it will be important to distinguish between the different kinds of expenditures firms may undertake -- working capital, fixed asset investment, stock, other expenses -- and how each of these is influenced by bank financing. For example, the availability and cost of bank financing may affect working capital financing but not fixed asset investment. Secondly, the financing alternatives available to firms must be delineated. We would need to know for example, whether bank financing is easily substituted by other sources of externally-generated funds and/or internally-generated funds. If substitution is easy, then the tightening of bank credit may not seriously affect the ability of firms to finance themselves.

Thirdly, it is important to examine the forms in which bank credit is made available to non-financial enterprises -- overdraft, mortgage loans, term loans -- and how these forms of credit are secured. Arguably the form of credit or credit instrument should be tailored to the purpose for which the loan is extended and if the tailoring is imperfect, bank financing may be inefficient.

These factors are in turn dependent on the sector of activity of the firm, its size, organisation (public or private company), ownership (local, foreign or government), trading history and track record, and other factors.

The data now collected and published by the Central Bank do not permit these issues to be addressed. The uses to which bank credit is put by borrowers is not known. The Bank does request and receive data on credit extended to the various sectors of the economy and in addition it seeks to distinguish broadly between consumer loans and business loans. However, even the banks themselves are unable to determine comprehensively and accurately what business firms do with the credit extended to them, not least because of the large proportion of overdraft loans extended and the difficulties of keeping track of the utilisation of overdraft credit. Essentially, the banks have not organised their data generation systems in ways which would allow them to assess how firms make use of the credit extended to them.

The issues posed above were deemed to be sufficiently important to elicit a definite research response. Analysis of these issues would have implications for monetary and financial policy in two respects. Firstly, insofar as the commercial bank/non-financial corporation nexus was clarified, the monetary authorities would be in a better position to know what might be the likely real effects of their monetary policies. Secondly, analysis of how businesses make use of the various forms of bank credit might permit some assessment of the relative efficiencies of various financial instruments in corporate financing and how the longer term development of the money and capital markets might best be served.

Analysis of these issues would also be useful to the commercial banks, other financial institutions and the business firms themselves, insofar as it could clarify what was actually taking place in the market for funds from the perspective of the firms themselves, and how the firms viewed bank financing and their working relationships with banks and other financial institutions.

Since the existing data base was inadequate, a survey needed to be undertaken. The survey methodology is described at length in Chapter Two. We may note here however, that a survey taken at a point in time is but a snapshot of what is happening. The results are contingent on the state of the economy and the financial system at that point in time, as well as the history of the relevant variables and institutions leading up

to that point in time. It is necessary, therefore, that the survey results be supplemented either by another survey at another point in time, or relevant international comparisons, or both.

Previous literature on corporate financing in general or the utilisation of bank credit in particular in the Caribbean has not been extensive. Palmer (1967) examined a small 'sample' of large firms, including one insurance company, in Jamaica for the year 1963. Palmer's theoretical framework and survey methodology are however, seriously flawed and the evidence adduced and the results are at best anecdotal. Bourne (1972) conducted a survey of 119 firms in Guyana in 1971, of which data from 44 were usable. Bourne's analytical framework is consistent with the theory of finance. At appropriate points we compare our results with Bourne's. Bourne goes further and attempts to use the cross-section data to test certain hypotheses using regression analysis.

The literature on corporate financing and utilisation of bank credit in developed countries and developing countries outside the Caribbean is more extensive (Maycock and Gardner (1976), Brodersohn (1981), Shetty (1982), and references therein). Some of the results of these studies will also be compared with the results obtained here.

CHAPTER II

SURVEY METHODOLOGY AND SAMPLE CHARACTERISTICS.

1. Survey Methodology

A questionnaire, reproduced as Appendix 1, was designed to elicit the required information from respondent firms. Certain primary or key identifiers were incorporated to form the basis for classification of the responses, viz (i) sector of activity (ii) legal status (iii) ownership (iv) size, as measured by (a) employment and (b) total revenue for the last financial year. Other minor identifiers were (i) location of business operations and (ii) number of years in operation. It was not expected that these latter would influence significantly the utilisation of bank credit, though it was hypothesised that the number of years in operation may affect the degree of access to bank credit.

The questionnaire addressed the value of the firm's investment in fixed assets for 1981, 1982 and 1983 (to date) and how this investment was financed - overdraft borrowing, other external borrowings, increase in share capital and internally-generated funds (profit and depreciation). The questionnaire identified several institutional sources of funds - banks, non-banks, government agencies, suppliers' credit, etc., - and sought to determine how much funding was obtained from these sources and the uses to which these funds from the various

sources were put, e.g. stock purchase, working capital, capital expenditure, other expenses, etc. The objective here was to determine whether or not particular sources of funds were utilised for particular purposes. Overdraft loans were excluded from this analysis.

The questionnaire then addressed overdraft borrowing specifically, requesting data on overdraft limits, overdraft balances on a quarterly basis, interest paid, maximum proportion of overdraft limit utilised and the use of overdraft borrowing for stock purchase, working capital, purchase of fixed assets and other expenses. The difficulty anticipated in respect of this area was that it would have been impossible to determine the actual quantity of financing made available to firms through the overdraft system unless one had daily or weekly balances. The responses could therefore give no more than a general understanding of the extent of use and the purposes to which overdraft borrowing is put.

The questionnaire requested balance sheets and sources and uses of funds statements to support the responses. It also sought to elicit qualitative responses as to whether and to what extent the availability and cost of bank credit influenced the scale and expansion of business activity and how these factors ranked relative to other influences. Firms were also asked to comment on their relationship with commercial banks, the role of Central Bank and the need to develop financing instruments alternative to bank credit.

The questionnaire was directed to the firms' accountant or person responsible for its financial affairs and therefore not many problems were anticipated in the understanding of the questionnaire, except in the case of small firms without in-house accounting expertise. In the event, problems were experienced with the valuation of firms' investment in fixed assets, and other areas of inconsistency emerged.

2. Sampling Methodology

The Central Statistical Office's Register of Business Establishments was used as the sampling frame for the selection of firms. The register lists firms by National Income Accounting activity sectors, with accompanying information on address, ownership and employment. For the purpose of this survey, the population was defined as firms employing ten (10) or more persons. The population attributes are summarised in Table 2.1.

TABLE 2.1

POPULATION ATTRIBUTES

ACTIVITY SECTORS	Number of firms	SIZE*			OWNERSHIP		
		Small	Medium	Large	Gov't	Local	Foreign
Export Agriculture	3	-	-	3	2	1	-
Petroleum Mining, Export, Refining	6	1	-	5	2	-	4
Petroleum Service Contractors	47	21	22	4	-	28	19
Petroleum Marketing	1	-	-	1	1	-	-
Service Stations	51	48	3	-	-	51	-
Petro-Based Companies and Steel	7	3	1	3	6	-	1
Food	58	30	25	3	5	40	13
Bakeries	26	21	3	2	-	26	-
Tobacco	1	-	-	1	-	-	1
Drink	11	5	5	1	-	11	-
Textiles & Garments	81	54	23	4	-	76	5
Footwear & Headwear	14	7	7	-	-	13	1
Printing	37	30	7	-	-	37	-
Paper & Paper products	17	10	5	2	1	13	3
Sawmills	16	13	3	-	1	15	-
Furniture & Woodwork	43	37	5	1	-	43	-
Chemicals & Related Products	52	31	17	4	1	42	9
Assembly	88	51	29	8	1	79	8
Miscellaneous Manufacturers	30	24	5	1	-	25	5
Construction	167	116	40	11	-	156	11
Distribution	498	380	94	24	-	453	45
Hotels & Guest Houses	20	10	8	2	1	15	4
Transport, Storage & Communication	96	61	27	8	6	76	14
Services	122	97	19	6	1	113	8
Personal Services	119	104	15	0	1	117	1
TOTAL firms employing over 10 persons	1,611	1,154	363	94	29	1,430	152
% of Total	100	71.6	22.6	5.8	1.8	88.8	9.4

* 10 to 50 persons --- Small
50 to 249 persons --- Medium
250+ persons --- Large.

Given the uneven distribution of firms when classified by size and ownership, and in an effort to ensure the selection of a cross section of large firms, as well as firms owned by government and foreigners, the method of sampling consisted of judgement selection combined with a stratified random sample. The desired sample size was not to exceed one hundred (100) firms, which was judged to be the maximum manageable sample size given the researchers' resources and time.

The Register of Business Establishments was examined, sector by sector, and a judgement selection of the most significant firms made, bearing in mind the relative size of the sector and composition by ownership.

A random selection of the remaining firms was carried out using a random numbers table. For each sector, all the firms other than those already selected were numbered sequentially. Based on the total number of firms in each sector, and the overall required size of the sample, it was decided to approximate a 1 in 50 sample size. The method of determining the number of firms to be randomly selected for each sector, is illustrated in Table 2.2. It was determined that the random selection should not include any foreign-owned or government-owned firms, since these were adequately represented in the judgement selection. Using the random numbers table, the required number of firms for each sector, as well as an appropriate number of substitute or replacement firms for each sector, were selected.

TABLE 2.2

METHOD OF SELECTION OF FIRMS

SECTOR	Total Population	No. of firms Judgement Selection	Remaining firms	No. of firms in Random Selection
Agriculture	3	1	2	0
Petroleum	6	3	3	0
Pet. Service Contractors	47	0	47	1
Pet. Service Station	51	0	51	1
Pet. Marketing	1	1	0	0
Pet. Based Co. & Steel	7	3	4	0
Food Drink & Tobacco	96	11	85	2
Textiles, Garments, Footware	95	3	92	2
Printing, Publishing & Paper	54	4	50	1
Wood & Related Products	59	2	57	1
Chemicals	52	8	44	1
Assembly	88	9	79	2
Miscellaneous Manufacturing	30	0	30	1
Construction	167	2	165	4
Distribution	498	6	492	10
Hotels, Restaurants etc.	20	2	18	0
Transportation, Storage, & Communication	96	0	96	2
Professional Services	122	0	122	3
Personal Services	119	0	119	3
Total	1611	55	1556	34

The survey was finalised with a total sample of eighty nine (89) firms. An analysis of the sample of firms is given in Table 2.3. From these 89 firms, it was decided to select ten (10) firms to be used in a pilot survey. The firms were selected so as to cover small, medium and large operations as well as locally-owned, government-owned and foreign-owned firms. The pilot survey was to be used as a basis for determining the types of problems firms would encounter in completing the questionnaire and consequently, to make any final changes to the questionnaire. Field work for the pilot survey began in May 1983 with the mailing of questionnaires, followed closely with personal contact by a research officer from the Bank's Research Department. The pilot survey was closed-off in mid-June 1983 with completed questionnaires and feedback from eight of the ten firms. Following the pilot survey, the questionnaire was finalized as illustrated in Appendix I and mailed to the remaining 79 firms with a covering letter.

TABLE 2.3

Characteristics Of Firms Selected In Sample

SIZE	No. of Firms	% of Sample Total	OWNERSHIP	No. of Firms	% of Sample Total
Large	28	31.5	Gov't	11	12.4
Medium	30	33.7	Foreign	13	14.6
Small	31	34.8	Local	65	73.0
	89	100.0		89	100.0

SECTORS	No. of Firms
Sugar	1
Oil-Products and Refining	3
Service Contractors	1
Oil-Bulk Distribution	1
Oil-Retail Distribution	1
Fertilizer	2
Steel	1
Food	7
Drink	5
Tobacco	1
Textiles & Garments	3
Footwear	2
Printing, Packaging & Paper Products	5
Wood & Related Products	3
Chemicals	9
Assembly	11
Miscellaneous Manufacturing	1
Construction	6
Distribution	16
Hotels & Guest Houses	2
Transport, Storage Communication	2
Professional Services	3
Personal Services	3
	89

Nine research officers, each with responsibility for approximately nine firms, carried out the field work which began soon after the questionnaires were mailed on June 23rd, 1983. Field work included 'telephone reminders' and visits to firms with appointments either to complete the questionnaire or for interviews to clarify some of the areas of the questionnaire. While the survey was in the field, several changes were made to the original sample of firms. Firms which were selected on the judgement basis were replaced on a judgement basis, while firms selected on the random basis were replaced by the firms which had been randomly selected as "stand-by" or substitute firms.

The survey was closed at the end of August 1983 with responses from sixty nine (69) firms, or a non-response rate of 22 per cent. Given that the mail questionnaire technique was used, though there was follow-up, the response rate (78 per cent) can be considered particularly good.

3. Sample Characteristics

The characteristics of the 69 respondent firms in respect of sector classification, ownership and size (employment) approximated closely the characteristics of the original sample (Table 2.4). Two of

the respondent firms which had been classified in the sampling frame as employing more than ten persons turned out in fact to employ less than ten persons. They were however, retained in the analysis.[1]

The size distribution of respondent firms, measured by the number of employees reveals that 29.0 per cent were large (over 251 employees), 40.6 per cent were medium-sized (51-250 employees) and 30.4 per cent were small firms (less than 50 employees). Relative to the population of firms therefore, the size distribution of the respondent firms is biased heavily towards larger organisations and this must be borne in mind in assessing the survey results and the conclusions drawn. However, the researchers were not uncomfortable with this bias since larger firms account for the greater part of total output and employment and presumably, the greater part of the demand for bank credit as well.

The size distribution of respondent firms measured by total revenues earned in their last financial year reveals that 18 firms (26 per cent) earned revenues in excess of $50 million while 21 firms (30 per cent) earned revenues of less than $5 million.

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1 One of the 'spin-offs' of the survey work undertaken by the authors was that we were able to update the Central Statistical Office in respect of the data on the firms on their Register.

TABLE 2.4

Characteristics of Respondent Firms

SIZE	Number	% of Total	OWNERSHIP	Number	% of Total
Large	20	29.0	Gov't	9	13.0
Medium	28	40.6	Foreign	10	14.5
Small	21	30.4	Local	50	72.5
TOTAL	69	100.0		69	100.0

SECTORS	Number	% of Total
Sugar	1	1.4
Petroleum	5	7.2
Manufacturing	36	52.0
Food Drink & Tobacco	11	15.9
Textiles, Garments, Footwear	4	5.8
Chemicals and Non-Metallic	7	10.1
Assembly	9	13.0
Other	5	7.2
Construction & Construction Services	4	5.8
Distribution	15	21.7
Other	8	11.6
	69	100.0

The geographical distribution of the respondent firms revealed that 47 (68 per cent) were located in the North-West, of which 23 (33 per cent) were located in Port of Spain, 8 (12 per cent) were located in the North-East, 3 (4 per cent) were located in Central Trinidad and 11 (16 per cent) were located in South Trinidad, of which 6 (9 per cent) were located in San Fernando.

Most of the respondent firms (53 firms or 77 per cent) were in existence and operating for over ten (10) years, of which 17 (25 per cent) had been in operation for over twenty five (25) years. Only two (2) firms had been in operation for less than five (5) years. As might be expected, the largest firms measured by number of employees had been in existence longest. Thirteen (13) of the twenty large firms (over 251 employees) had been in operation for 15 years or more and another four (4) large firms had been in existence for over ten (10) years. Of the fifteen (15) firms which were in operation for less than ten (10) years, five (5) were medium-sized (51-250 employees) and eight (8) were small firms (Table 2.5).

Fifty (50) firms or 73 per cent of the respondents were private limited liability companies, while fourteen (14) were public limited liability companies, two (2) were partnerships and three (3) were sole traders (Table 2.6). This distribution is not unexpected given the business traditions in Trinidad and Tobago whereby family firms incorporate as private companies and have displayed a reluctance to

become public companies which involves a much greater degree of disclosure and ultimately, a dilution of family control over the enterprise.

Table 2.5

Respondent Firms - Relationship Between Size And Years In Operation (per cent)

Size of Firm	No. of Years in Operation				
	Non Response	Under 9 Years	10 - 25 Years	Over 25 Years	TOTAL
LARGE	1.4	2.9	15.9	8.8	29.0
MEDIUM	-	7.2	20.3	13.2	40.7
SMALL	-	11.5	15.9	2.9	30.3
TOTAL	1.4	21.6	52.1	24.9	100.0

Legal Status	No. of Firms	Percentage of Total
Sole Trader	3	4.3
Partnership	2	2.9
Private Limited Company	50	72.5
Public Limited Company	14	20.0
TOTAL	69	100

4. Problems of Inference

The sample selected for analysis cannot be considered representative by the normal statistical criterion of random selection. In the first place, the authors deliberately chose 'large' firms, those employing over ten (10) persons. Secondly, the judgement selection process utilised prior information in selecting firms into the sample. The net result of these procedures is that one cannot correctly and appropriately infer in a statistical sense anything about the population of firms in Trinidad and Tobago from the sample. In reporting our results therefore, we have been careful to confine the results to the actual sample of firms and have avoided making inferences about firms in general.

The procedures which were adopted are however, defensible in that it can be argued that our results are applicable to the larger firms in the economy which in any event would account for proportionately the greater part of the bank credit. Our results allow us to say nothing about how small firms make use of bank credit or the special problems or advantages they may experience.

A second important inferential issue is that our results relate to a specific period of time ending around mid-1983. As such these results may not be transferable to other periods of time. Specifically, the reference period covered the boom years when excess liquidity in the

banking system was high, credit was expanding rapidly, and access to credit generally easy. In the current downturn, these variables have all changed dramatically and the conclusions which we drew from the sample results may not all be applicable to a contracting economy.

CHAPTER III

BANK/CUSTOMER RELATIONSHIPS

Most firms (48 or 70 per cent) had a relationship with only one bank, while 11 (16 per cent) had a relationship with two banks, and 6 (9 per cent) had a relationship with three banks (Table 3.1). Six (6) of the nine (9) firms with three or more banks were in either the Sugar or Petroleum Industries, and seven (7) of the nine (9) were large firms measured either by number of employees or revenue.

For those firms which had relationships with more than one bank, some of the reasons for this seemed to be (i) an historical association with more than one bank, (ii) 'prudence' (iii) the ability to take advantage of the whole range of facilities offered, but which were not necessarily delivered by any one bank. However, the most frequently cited reason was simply that the size of the firm's operations, either in absolute terms or relative to the size of banks and their probable desired exposure to a large firm, dictated that more than one bank be used. Interestingly, one respondent firm offered the view that only one bank was necessary since there was a lack of interest rate competition among banks which might warrant multiple banking or 'shopping around'.

TABLE 3.1

Banking Relationships by Size of Firm
(Percentage Distribution)

Size of Firm	Non Response	1	2	3	More than 3	Total
	Number of Banking Relationships					
Large	-	10.2	8.7	5.7	4.3	28.9
Medium	1.5	33.3	4.3	1.5	-	40.6
Small	-	26.1	2.9	1.5	-	30.5
TOTAL	1.5	69.6	15.9	8.7	4.3	100.0
MEMO ITEM:						
Number of firms	1	48	11	6	3	69

Almost all respondent firms had overdraft facilities with their banks. Only three firms (3) indicated that they had none and there were two (2) non-responses. Twenty-seven (27) firms (39 per cent) had overdraft limits of up to $1 million, 23 firms (33 per cent) had overdraft limits of between $1 million and $5 million, and 14 firms (20 per cent) had overdraft limits of over $5 million, of which 10 were large firms and 4 were medium-sized, measured by number of employees (Table 3.2). Ten (10) of the fourteen (14) firms with large overdraft limits were in operation for over 15 years, while only one (1) with a large limit was in operation for less than 5 years.

Most firms (65 per cent) appeared to be utilizing their overdraft facilities. Sixty five (65) per cent of firms recorded debit (overdrawn) balances at the end of each of the four quarters of 1982. Another twelve (12) firms (17 per cent) recorded balances which fluctuated from debit to credit over the same period. Only eight (8) firms (12 per cent) recorded credit balances at the end of each of the four quarters of 1982. Two-thirds (68 per cent) of respondent firms breached their overdraft limits at some time during 1982. Twenty three (23) firms (33 per cent) drew between 101-120 per cent of their respective limits, 10 drew between 121-150 per cent of their respective limits, 9 drew between 151-200 per cent of their respective limits and 5 drew over 200 per cent of their limits.

TABLE 3.2

Size of Overdraft Facility In Relation to Size of Firm (Percentage Distribution)

Size of Firm	Non-Response	No Overdraft Facility	Under $1 Million	$1 Million to $5 Million	Over $5 Million	Total
Large	1.5	1.5	-	11.5	14.4	28.9
Medium	1.5	-	13.0	20.2	5.9	40.6
Small	-	3.0	26.1	1.4	-	30.5
TOTAL	3.0	4.5	39.1	33.1	20.3	100.0
MEMO ITEM:						
Number of firms	2	3	27	23	14	69

These data suggest that banks had been operating their overdraft limits quite flexibly for most firms and information from other sources suggests that in fact limits have, in the past, been increased when the account is reviewed and persistent breaches of the limit noted. This is likely to have changed however, as the economic climate has deteriorated and banks monitor the use of overdraft facilities more closely and are much tougher in dealing with requests for increases in limits.

In order to assess whether the availability and/or cost of finance was a major constraint on their operations, firms were asked to rank these factors and others -- market size, availability of management and availability of technical staff -- according as they were important in affecting the scale of their operations. Generally, market size was seen to be the most significant constraint. Fifty one (51) firms (74 per cent) cited market size as 'very important' to their scale of operations, while another 12 firms (17 per cent) indicated it was 'important'. 'Availability of Management' was the next major constraint with 87 per cent of firms citing this factor as 'important' or 'very important' while for only 6 firms (9 per cent) it was either of minimal importance or 'unimportant'. Five (5) of these 6 firms were small as measured by the number of employees and all were locally-owned. 'Availability of Finance' ranked as the third major constraint with 82 per cent of firms viewing this factor as 'very important' or 'important', while 8 firms (11 per cent) viewed it as either of minimal importance or 'unimportant'. Five (5) of these 8 firms were in the Distribution sector, four (4) were small, and four (4) medium-sized, as measured by number of employees, and all were locally-owned.

'Availability of Technical Staff' ranked as the fourth major constraint, on the scale of operations while the 'Cost of Finance' was ranked last, with 80 per cent of firms citing this factor as 'very important' or 'important' and 10 firms (15 per cent) citing it as of minimal importance or 'unimportant' to their scale of operations. Five (5) of these ten (10) firms were located in the Distribution sector, all were small or medium-sized, and eight (8) were locally-owned and two (2) were foreign-owned.

The relative ranking of the availability and cost of finance as constraints on firms was confirmed by their responses to the questions on the importance of the interest rate and size of loan repayments in the undertaking of a capital project. Thirteen (13) firms (19 per cent) indicated that the interest rate was 'not important', while 42 per cent indicated it was 'very important' or 'important'. Ten (10) of the thirteen (13) firms indicating that the interest rate was 'not important' were locally-owned, two (2) were foreign-owned and one (1) was govenment-owned. Interestingly however, 4 of these 13 firms had not borrowed to finance capital investment for 1982, while only four (4) had financed 60 per cent or more of capital investment by borrowing in 1982.

Eight (8) firms (12 per cent) indicated that the size of loan repayment was 'not important' compared with 54 per cent which viewed this factor as 'important' or 'very important'. Again, of these eight (8) firms, four (4) had done no borrowing to finance capital investment in

1982, one (1) had undertaken no capital investment in 1982 at all while only two (2) had financed more than 60 per cent of capital investment in 1982 from borrowings.

The relative ranking of the cost and availability of finance is probably related to the easy credit conditions and generally low interest rates which prevailed in Trinidad and Tobago until recently. As credit conditions become tighter these factors will certainly loom larger as constraints in the eyes of firms, though it is unlikely that the cost and availability of finance will become more important than market size as constraints on the scale of operations of firms or on their investment plans.

TABLE 3.3

Significance Attributed by Firms to Various Constraints on Their Operations

Type of Constraint	Level of Significance (Percentage Distribution)					
	Non Response	Very Important	Important	Of Minimal Importance	Unimportant	TOTAL
Market Size	5.8	73.9	17.4	2.9	-	100
Availability of Management	4.3	42.0	45.0	7.2	1.5	100
Availability of Finance	5.8	53.6	29.0	4.3	7.3	100
Availability of Technical Staff	4.3	42.0	43.6	5.8	4.3	100
Cost of Finance	5.8	31.9	47.8	8.7	5.8	100

Firms were asked whether or not they had difficulty in expanding their business activity over the five years prior to the survey owing to (i) banks claiming that loan funds were not available, (ii) banks querying the feasibility of the project(s) or (iii) lack of adequate collateral support; and also whether or not proposed capital investment projects had been deferred, scaled-down or abandoned due to unavailability of credit and/or the high cost of credit.

In respect of banks claiming unavailability of loan funds, 15 firms (22 per cent) indicated 'yes', while 44 firms (64 per cent) said 'no'. Twelve of the fifteen firms were small or medium-sized, eleven were local, two foreign and two, government-owned. The incidence of a positive response was highest in the 'Manufacturing - Chemicals and Non-Metallic Minerals' and 'Manufacturing - Assembly' industries where three of the seven firms and four of the nine firms in these sectors indicated that banks had claimed lack of funds.

Only five (5) firms (7 per cent) indicated that banks had queried the feasibility of their proposed projects, and five (5) (7 per cent) indicated that banks were not satisfied with the level of collateral support. Two (2) of the five firms whose project's feasibility was queried were government-owned and two (2) were large firms.

Sixteen (16) firms (23 per cent) indicated that they had had investment projects deferred. Twelve (12) firms (17 per cent) indicated that they had had projects scaled-down, but only five (5) firms (7 per cent) indicated that projects had actually been abandoned. Of the sixteen (16) firms which had had projects deferred, seven (7) were large and six (6) were medium-sized. The incidence of deferral was highest in Textiles and Garment Manufacturing and Construction. Of the twelve (12) firms which had had projects scaled-down, four (4) were large and six (6) were medium-sized, while the incidence of down-sizing of projects was highest in the Construction sector. Of the five (5) firms which had had to abandon projects, three (3) were large, while the sectoral incidence of abandonment, though uniformly low, was again highest in the Construction sector.

Thirteen (13) firms (19 per cent) indicated that deferral, scaling-down or abandonment was due to the unavailability of credit, while an almost equal number (12 firms or 17 per cent) indicated that unavailability of credit was not the reason for deferral, scaling-down or abandonment. Neither of the factors--size of firm or sector of activity, except for Construction-- was able to discriminate between the positive and negative responses and therefore the experience of firms in this regard is probably related to either firm-specific factors or the timing of application for credit.

Seven (7) firms (10 per cent) indicated that their project proposals were adversely affected by the high cost of credit, while twice as many (15 firms, 22 per cent) indicated that the high cost of credit was not the reason for deferral, scaling-down or abandonment. Three (3) of the seven (7) firms were in the Construction sector and four (4) were large and two (2) were medium-sized.

These results support some interesting conclusions. Firstly, they tend to confirm our previous conclusion that financing, either in terms of availability or cost, has not been a major or severe constraint for most firms. Secondly, of these two factors - availability and cost of credit, the former was generally seen to be more significant than the latter, which may suggest that perhaps banks prefer to ration credit rather than raise interest rates. Thirdly, one may have expected a priori, that smaller firms would have been the ones more adversely affected in these regards, but this did not appear to be the case.

Generally, of those firms adversely affected by the unavailability or cost of credit, the larger firms seemed to be proportionately more affected than the smaller firms. This however, could be related to the fact that larger firms would have larger and more ambitious investment projects requiring large amounts of funds and therefore these projects would have been more risky to the banks. Fourthly, the Construction industry would appear to have experienced more problems than other sectors in respect of bank financing. The reasons for this could withstand further investigation.

Asked to comment directly on their relationships with their banks, most firms indicated that their relationships were both 'long-standing' and 'good' to 'excellent'. Some of the adjectives actually used to describe the relationships were 'supportive', 'cordial', 'healthy', 'very helpful', 'flexible', and 'active'. The service which banks provided were also seen to be more than adequate for most respondents and were described as 'modern', 'up-to-date', 'efficient', 'prompt' and 'eager to help'. In several instances, the advice provided by banks and/or discussions held with banks on business matters were held to be useful and in one or two instances, instrumental. Firms identified the banks' overdraft facilities, special loans, letters of credit, bonding and foreign exchange services as useful.

Not all comments were favourable, however. A few respondents were of the view that banks were or had been 'insensitive' to their peculiar needs, 'over-cautious' in respect of investment projects, that their decision-making process was 'too long, demanding and tedious' and the degree of responsibility of branch managers was 'too limited'.

CHAPTER IV

SOURCES OF FUNDS

The sources of finance for a company are internal and external. The availability of internal funds or savings reflects current and past profit levels, as well as depreciation allowances, taxation and the company's dividend policy. Some of the main sources of external financing have traditionally been trade credits, borrowing from banks, issue of shares and long-term debt issues. The choice of financing between internal and external funds, and the particular instrument of external financing would depend on the desired capital structure of the firm[1] as well as on the relative cost and availability of the various financing mechanisms.

Based on the survey results, two financing ratios are analysed in detail, these are: (i) Internal Funds to Total Funds ('the internal funds ratio') from which we can also derive the ratio of External Funds to Total Funds; and (ii) Total Bank Resources (i.e. bank loans plus decreases in 'cash and bank balances') to Total Sources of Funds. This chapter also highlights the importance of bank financing and the relative distribution of the main bank financing instruments, as well discusses the contribution of various institutional sources of credit.

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[1] See Chapter VII.

1. Internal Sources

As shown in Table 4.1, internally-generated funds i.e. funds from operating profits, before depreciation and other non-cash expenses are deducted, accounted for a weighted average of 51 per cent of total sources of funds for the reporting period[1]. However, the median rate was 32 per cent. The variation in the two measures of central tendency indicates that the internal funds ratio is positively skewed.

Subject to the usual caveats and qualifications when international comparisons are made, this compares to both the U.K. and Germany where, as reported in the Bank of England study (1984), internal funds have accounted for an average of 60 per cent of companies' total sources of funds since the 1970's, although the specific averaging technique is not indicated. The ratio for Germany however was more stable than the highly cyclical U.K. ratio. Maycock and Gardner (1976) in their study on corporate finance in Western Europe, quotes Rybczynski (1974) who gives the internal funds ratio for Japan as 38 per cent over the 1967-1971 period. The study concludes that, for each of the major industrialized countries considered (including the U.S.A.), with the exception of Japan, it appears that during the 1960's, retained profits and depreciation generally provided somewhere between one-half and two-thirds of total funds requirement, leaving roughly one-third to

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1 47 firms supplied data for 1982, 14 for 1981 and 2 for 1980. The consolidation of data from different accounting periods assumes that the relative distribution of sources and uses of funds is constant. This assumption may impose some limitation to the results.

TABLE 4.1

SOURCES OF FUNDS [1]

SOURCES	% Distribution
A. INTERNAL	51.0
B. EXTERNAL	49.0

[1] 47 firms supplied data for 1982, 14 for 1981 and 2 for 1980.

one-half to be financed from external sources. The study further concluded that large quoted companies evidently used external finance to a greater extent than smaller companies which looked more to internally-generated funds.

For the United States, Mains (1983), in an examination of the sources of corporate funds since 1960 notes that, except for the sharp reversals in 1975 and 1980, the internal funds ratio declined steadily from 73 per cent to 66 per cent in 1981. External sources increased as a proportion of total sources, with debt, rather than new equity, being the primary external source. Mains cites the increase in corporate capital

expenditure and the combined effect of changes in corporate profitability and corporate dividend policy, as the factors mainly responsible for the relative decline in internally-generated sources of finance.

M.C. Shetty (1982) in his study on financing of manufacturing enterprises in Bangladesh, Indonesia, Malaysia, Sri Lanka and Thailand in the 1970's, concludes that internal funds were by far the more important source of financing. This he attributes to the generous depreciation rates, tax holiday benefits and low corporate and other taxes, as well as to the relative underdevelopment of financial institutions. He notes that, while in the early 1970's a significant proportion of small-scale units operated entirely outside the financial system, by the late 1970's, due to the better allocation of short-term commercial bank credit and the spread of specialized development finance institutions, there was an increased reliance on external sources of funds.

In the Caribbean, Bourne (1972) in his 1971 survey of business firms in Guyana concludes that internally-generated funds accounted for an average of 44 per cent of total financing, with businesses relying on external sources of funds for the larger proportion (56 per cent) of their financial requirements. His preliminary observations indicated that the mean dependence on external sources of finance was greater for locally-owned firms, than for foreign-owned firms. He also observed that the degree of internal financing varied directly with the degree of sophistication of the corporate structure.

TABLE 4.2

Relative Importance of Internal and External Sources of Funds in Selected Countries

COUNTRY	PERIOD	INTERNAL FUNDS/ TOTAL FUNDS
United Kingdom	1970's	60
Germany	1970's	60
U.S.A.	1981	66
Japan	1967-1971	38
Guyana	1971	44
Trinidad & Tobago	1981-1982	51 (Mean)
		32 (Median)

In Trinidad and Tobago, the relative dependence on internally-generated funds is analysed by sector, employment and revenue size, ownership and age of establishment. The internal funds ratio was negative for 17 per cent (12 firms) of the sample. A further 20 per cent (14 firms), 14 per cent (10 firms) and 13 per cent (9 firms) stated that these funds accounted for 1-25 per cent, 26-40 per cent and 41-50 per cent respectively, of total funds from all sources. Profits accounted for over 50 per cent of total funds in 23 per cent (16 firms) of the sample.

The Petroleum, Food, Assembly and Other sectors were over-proportionately represented amongst the firms in which internal funds accounted for over 50 per cent of the total sources of funds. On the other hand, for the majority of firms in the Sugar, Textiles, Other Manufacturing and Construction sectors, internal funds represented less than 25 per cent of total sources. Approximately half of the firms in the Chemicals and Distribution sectors relied on internal funds for between 25-50 per cent of their financing requirements.

In general, firms employing a larger number of persons exhibited higher internal funds ratios. This ratio varied between 61-90 per cent for 36 per cent (5 firms) of the firms employing over 500 persons. Using annual revenue as the indicator of size, smaller firms and larger firms exhibited significant dependence on internally-generated funds, while medium-sized firms reported a markedly lower average dependence. For 29 per cent (2 firms) of the firms with annual revenues less than $1 million and for 33 per cent (6 firms) with annual revenues greater than $50 million, internal funds represented over 61 per cent of total sources of funds. On average however, for firms with annual revenues less than $3 million, internal funds represented 36 per cent of total funds and for firms with annual revenues exceeding $20 million, this proportion was 35 per cent. This compares with firms with annual revenues between $3-$20 million whose average dependence on internally generated funds was 20 per cent.

TABLE 4.3

Internal Funds Ratio by Size of Firm
(per cent)

Internal Funds Ratio	SMALL (Less $3m)	MEDIUM ($3-$20m)	LARGE (over $20m)
Non-Response	25	8	7
Under 25%	25	50	37
25 - 50%	25	29	26
51 - 70%	0	8	18
Over 70%	25	5	12
TOTAL	100	100	100
MEDIAN RATE	35.5	20.5	34.9

A significant proportion of foreign-owned firms exhibited higher internal funds ratios compared with locally- and government-owned firms. Thirty (30) per cent of foreign firms had internal funds ratios exceeding 80 per cent. However, on average, government firms reported the highest use of internal funds - 55 per cent, compared to foreign firms whose average was 50 per cent and local firms with an average internal funds ratio of 27 per cent.

There appears to be a significant correlation between the age of a firm and its reliance on internal funds. Older established firms generally had higher internal funds ratios, although for firms established over 25 years, there seems to be a reversal of this pattern. For 50 per cent of firms established less than 5 years ago, internal funds accounted for less than 15 per cent of total funds. For firms established 5-9 years ago, although 38 per cent of these firms reported that this ratio was less than 15 per cent, 15 per cent stated that internal funds accounted for 81-90 per cent of total sources. Firms established 10-25 years ago had an average dependence on internal funds of 30 per cent, while firms established over 25 years had an average internal funds ratio of 20 per cent.

2. External Sources

The relative importance of internal versus external financing can be readily assessed from the analysis in Section 1. However, substantial variations, in methods of obtaining external funds may be evident among countries due to differing financial and institutional traditions and the degree of development of the financial sector. The relative importance of commercial banks versus securities markets is sometimes used to describe corporate financial markets as either 'bank oriented' or 'market oriented'.

Table 4.4 indicates that external funds accounted for a weighted average of 49 per cent of total external sources of funds for the reporting period. Of the total external sources, decreases in Cash and Bank Balances was the most significant, accounting for 49.8 per cent. Combined with bank loans (10.2 per cent), total commercial bank resources represented as much as 60 per cent of total external sources of funds. Non-bank loans (5.7 per cent) do not apear to be an important source of funds to businesses in Trinidad and Tobago.

Increases in trade credits accounted for a relatively high proportion (17.8 per cent) of total external funds, while changes in other working capital balances also appears to be a significant source of external funds. In the new and relatively under-developed capital market in Trinidad and Tobago, corporate bond issues have not been a source of finance and new equity issues have not contributed significantly to total financing requirements.

TABLE 4.4

EXTERNAL SOURCES OF FUNDS [1]

	EXTERNAL SOURCES	% Distribution
(i)	Decrease in Cash and Bank Balances	49.8
(ii)	Increase in Trade Credits	17.8
(iii)	Bank Loans	10.2
(iv)	Other Loans	5.7
(v)	Issue of Shares	2.9
(vi)	Other Sources[2]	13.6

Memo

External Funds Ratio	49.0 (Mean)
	68.0 (Median)

1 47 firms supplied data for 1982, 14 for 1981 and 2 for 1980.

2 Includes Decreases in trade debtors, decreases in inventories and other woking capital changes as well as decreases in financial investments and sale of fixed assets.

Over the reporting period, share issues accounted for only 2.9 per cent of total external sources of funds. The Trinidad and Tobago corporate financial market can therefore be clearly described as 'bank-oriented'. The situation appears to be similar in Guyana, where Bourne (1972) reported that bank credit accounted for an average of 54 per cent of total external sources of funds. In Sections 3 and 4 below, bank financing is examined in greater detail while Section 5 examines the relative importance of the various institutional sources of fund.

3. Bank Financing

Total bank resources is defined as the sum of bank loans plus any decrease in the item 'cash and bank balances'. Changes in 'cash and bank balances' reflect the net of increases/decreases in current account borrowing and increases/decreases in current account deposits. A net increase in cash and bank balance therefore represents a use of funds and a net decrease represents a source of funds.

A decrease in a firm's current account deposits cannot be strictly termed a use of bank's funds. However, owing to the difficulty of differentiating whether a decrease in cash and bank balances is due to a decrease in the firm's deposits, an increase in bank borrowing or a combination of both, for the purposes of this exercise, all decreases in cash and bank balances are included as a source of funds from commercial banks. Also, owing to the nature of the overdraft facility, it is

difficult to accurately estimate the total amount of credit which an overdraft facility allows a firm. However, in this study, a net annual decrease in cash and bank balances is taken to represent the net overdraft credit extended by commercial banks to the firm.

The survey results show that the weighted average of bank resources to total sources of funds was 29.4 per cent. However, for the median firm, bank resources accounted for only 9 per cent of total sources of funds. The distribution of the bank resources ratio by firm reveals the following pattern. For 50 per cent of the sample (35 firms), bank resources accounted for 1-10 per cent of total funds. For a further 12 per cent (8 firms), this ratio varied between 11-20 per cent and for 13 per cent of the sample banks' resources accounted for 21-50 per cent of total sources. Significantly, 11 per cent of the sample (8 firms) recorded a reliance on banks' resources for over 50 per cent of their financing requirements.

Analysed by firms' activity, the sample results indicate a greater reliance on bank resources by firms in the Sugar, Chemicals, Assembly and Distribution sectors, where 100 per cent, 28 per cent, 22 per cent and 13 per cent of firms respectively, recorded that bank resources contributed more than 50 per cent of their total sources of funds. This contrasts with firms in the Food, Textiles, and Other Manufacturing sectors, where 73 per cent, 75 per cent and 60 per cent of firms respectively, stated that bank resources contributed 10 per cent or less of their total sources of funds.

TABLE 4.5

Banks' Resources as a Proportion of Total Sources of Funds of Sector
(% of firms)

SECTOR	BANKS' RESOURCES AS A PERCENTAGE OF TOTAL SOURCES OF FUNDS						
	Non Response	1-10	11-30	31-50	51-60	81-100	TOTAL
SUGAR	-	-	-	-	-	100.0	100.0
PETROLEUM	20.0	40.0	20.0	20.0	-	-	100.0
MANUFACTURING							100.0
Food, Drink & Tobacco	-	72.7	9.1	9.1	9.1	-	100.0
Textiles, Garments & Footwear	25.0	75.0	-	-	-	-	100.0
Chemical & Non-Metallic Products		57.1	14.3	-	28.6	-	100.0
Assembly & Related Products	22.2	44.4	11.1		22.2	-	100.0
Other Manufacturing		60.0	40.0	-	-	-	100.0
CONSTRUCTION	25.0	50.0	25.0	-	-	-	100.0
DISTRIBUTION	13.3	40.0	33.3	-	6.7	6.7	100.0
OTHER	25.0	37.5	12.5	25	-	-	100.0

Using both numbers employed and annual revenues, larger firms exhibited a wider degree of variability in the ratio of bank resources to total sources of funds. Of the firms employing over 500 persons, 57 per cent (8 firms) recorded that this ratio was 10 per cent and less, while 14 per cent (2 firms) stated that the ratio varied between 81-100 per cent. Similarly, of the firms with annual revenues in excess of $50 million, 61 per cent (11 firms) recorded a ratio of 10 per cent and less, and 11 per cent (2 firms) stated that this ratio was 81-100 per cent. This compares to the smaller firms where banks' resources as a percentage of total sources of funds was a consistently smaller proportion.

Of the firms employing less than 25 persons, 38 per cent (5 firms) stated that bank resources accounted for 10 per cent or less of total sources of funds and a further 38 per cent (5 firms) stated that this proportion was 11-30 per cent, with no firm indicating a higher percentage. Similarly, of the firms with annual revenues less than $5 million, 33 per cent (7 firms) indicated that bank resources were 10 per cent or less of total sources of funds, with a further 33 per cent (7 firms) stating that the ratio varied between 11-30 per cent and only 5 per cent (1 firm) falling into the higher 41-50 per cent class interval.

Analysed by ownership, the data indicate a marked difference in the use of bank resources as a source of funds. Locally-and government-owned firms exhibited a greater proportion of total funds originating from bank resources. Seventy per cent of foreign firms recorded that bank resources accounted for 10 per cent or less of total

funds, compared with 50 per cent for local firms and 33 per cent for government-owned firms. This lower use of bank resources by foreign-owned firms may simply reflect the restrictions imposed by the Central Bank on their borrowing from the domestic banking system.

There also appears to be a direct correlation between the number of years in operation and a firm's dependence on bank resources for its financing needs. For firms established over 25 years, the bank resources ratio exceeded 20 per cent for 30 per cent of firms, although the majority of firms (65 per cent) recorded ratios of 1-10 per cent. The pattern is similar for firms established 10-25 years ago, but contrasts with the ratio for firms established less than 10 years, for which bank resources accounted for over 20 per cent of total funds in only 13 per cent of firms.

4. Instruments of Bank Financing

In order to highlight specifically the use of over-draft credit, given the difficulties of measuring the total funds used through this facility, firms were requested to list, by type of loan, the total value of commercial bank credit outstanding as at May 31st, 1983. Eighty-one (81) per cent of the sample of (56 firms) indicated that they had bank credit outstanding as of May 31st 1983. Four (4) firms (5.8 per cent) all small, did not respond. Somewhat surprisingly, nine (9) firms (13 per cent) indicated that they had no bank credit outstanding on that

date. Three (3) of these were large firms, six (6) were locally-owned and two (2) were government-owned. Five (5) of the nine were operating in the Distribution and Other Services sectors, while two (2) were in the Petroleum sector. By and large, the amount of bank credit outstanding was positively related to the size of the firm. Only one (1) small firm had bank credit outstanding in excess of $2 million, while all of the firms with bank credit outstanding in excess of $20 million were large firms.

Table 4.6

Bank Credit Outstanding as at May 31, 1983

By Size of Firm *

Size of Firm	Non Response	Nil	Less Than $1Mn	$1Mn $5Mn	Over $5 Mn	Total
Large	2.8	4.3	1.4	4.3	25.0	37.8
Medium		1.4	9.0	17.3	4.2	31.9
Small	5.8	7.2	13.0	2.9	1.4	30.8
TOTAL	8.6	12.9	23.4	24.5	30.6	100.0

* Annual Revenue is used as the indicator of size.

Fifty one (51) firms were utilising overdraft loans on May 31st, 1983, of which twenty one (21) (30.4 per cent) had overdraft loans which accounted for over 90 per cent of total bank credit outstanding, while another nine (9) (13 per cent) had overdraft loans which accounted for between 60 - 90 per cent of total bank credit outstanding. These results

support the conclusion that overdraft borrowing is the more important and perhaps the preferred form the bank credit for business loans.

Table 4.7

Overdraft Credit as a Proportion of Total Bank Credit by Sector

Overdraft Credit	Sugar & Petroleum	Manufacturing	Construction	Distribution	Other	TOTAL
Non-Response	-	4.2	-	-	1.4	5.6
Not Applicable	2.9	2.8	-	2.9	5.8	14.4
Nil	-	1.4	-	4.3	-	5.7
Less than 40%	-	11.4	1.4	4.3	1.4	18.5
40% - 60%	1.4	12.9	1.4	2.8	1.4	19.9
80% - 100%	4.3	18.8	2.8	8.6	1.1	35.9
TOTAL	8.6	51.5	5.6	22.9	11.4	100.0

By contrast, mortgage loans accounted for over 90 per cent of total bank credit outstanding for just three (3) firms (4.3 per cent), and for between 60 - 90 per cent for only another three (3) firms. Forty-one (41) firms (59.4 per cent) did not make use of mortgage loans at all.

Commercial banks' loans other than over-draft loans accounted for a weighted average of 5.0 per cent of total sources of funds. However for the median firm, this ratio was less than 1 per cent. In fact, 61 per cent of the sample (42 firms) stated that bank loans accounted for less than 1 per cent of their total sources of funds. For a further 13 per cent of the sample, (9 firms), this proportion

varied between 1-15 per cent, while for 9 per cent of the sample (6 firms) this proportion was 15-50 per cent and for 6 per cent (4 firms) a proportion of over 50 per cent was recorded.

The firms for which bank loans accounted for 15-50 per cent of total funds were in Food (18 per cent), Chemicals (14 per cent), Assembly (22 per cent) and Other Manufacturing (20 per cent) sectors, while the firms for which bank loans accounted for over 50 per cent of total funds were in the Chemicals (14 per cent) Assembly (11 per cent) and Distribution (13 per cent) sectors.

The survey results also indicate that larger firms, that is firms employing over 100 persons, as well as firms with annual revenues in excess of $5 million, showed a higher dependence on non-overdraft bank loans as a source of funds. Analysed by ownership, all the foreign and government-owned firms were either non-respondent or indicated that non-overdraft bank loans were less than 1 per cent of total sources of funds. This compares with the local firms for which, although 54 per cent stated that non-overdraft bank loans was less than 1 per cent of total funds, 18 per cent, 12 per cent and 8 per cent stated that this ratio varied between 1-15 per cent, 16-40 per cent and over 40 per cent, respectively.

5. Institutional Sources of Funds: A Comparison

Firms were requested to record the total value of funds received during Calender 1982 by the following institutional sources -- banks, finance companies, trust companies, insurance companies, government-owned financial institutions (DFC, ADB, IDC), directors, suppliers' credit, other foreign loans, government loans and other sources (to be specified) -- in order to highlight the relative importance of various institutional sources of funds in the financing patterns of business in Trinidad and Tobago, . Bank loans were to exclude overdraft loans, necessarily, since the actual amount of credit utilised by means of overdraft would have been difficult to estimate.

Non-overdraft bank loans accounted for some proportion of total non-overdraft loans in 1982 for only 21 firms or 30 per cent, of the sample. Of these 21 firms however, 10 firms stated that non-overdraft bank loans accounted for 60 per cent of their total non-overdraft funds borrowed in 1982.

In respect of the twenty one (21) firms which utilised non-overdraft bank loans, fifteen (15) (71 per cent) were in operation for more than fifteen years. In addition, six (6) of the ten (10) firms for which non-overdraft bank loans accounted for over 60 per cent of total non-overdraft loans were in operation for over fifteen years. Of the twenty one (21) firms utilising non-overdraft bank loans, only one was foreign-owned. This firm held over 80 per cent of its total

non-overdraft loans in the form of bank loans. The low proportion of foreign firms accessing non-overdraft bank credit probably reflects the operation and effects of the Central Bank's Regulated Borrowers policy on the access of foreign-owned firms to the domestic loan market.

It would appear as well that a high proportion of non-overdraft bank borrowing may be related to firm's investment activity. Of the twenty one (21) firms utilising non-overdraft bank credit, fourteen (14) undertook investment in excess of $1 million in 1982. Of the ten (10) firms with a bank credit to total credit ratio of over 60 per cent, six (6) undertook investment of over $1 million.

Suppliers' credit was the second most used source of institutional funds in 1982. Twenty (20) firms or 29 per cent of the sample recorded the some proportion of their total non-overdraft loans arose through suppliers' credit. Of these firms, 12 firms stated that suppliers' credit accounted for over 60 per cent of total non-overdraft funds. Of the twenty (20) firms utilising suppliers' credit, sixteen (16) (80 per cent) had been in operation for over 15 years, and most (17 firms) were medium or large sized. The use of suppliers' credit was also correlated with fixed investment in 1982, in that 11 of the 20 firms undertook fixed investment in excess of $1 million in 1982. Such a correlation should not necessarily occasion surprise. Some suppliers' credit is related to the inventory and sales of firms in the distribution sector. But suppliers' credit is also related to the purchase of capital goods. Of the 12 firms for which suppliers' credit accounted for over 60

per cent of total credit (non-overdraft), three (3) were in the Distribution sector, but the others were located in all the other sectors, except Sugar.

Loans from non-bank financial institutions accounted for some proportion of total non-overdraft funds received in 1982 for only 11 firms or 16 per cent of the sample. Of these firms, five (5) recorded that loan from N.F.I's represented over 60 per cent of their total non-overdraft financing. The eleven (11) firms which utilised NFI loans in their non-overdraft borrowings were characteristically 'younger' and smaller than the firms utilising bank credit and suppliers' credit in their non-overdraft credit portfolios. Six (6) of the eleven (11) (54 per cent) were in existence for less than fifteen (15) years, while only three (3) of the eleven were classified as large, measured by employment. Also NFI loans were less strongly correlated with fixed investment in 1982. Of the five (5) firms whose NFI borrowings exceeded 60 per cent of total non-overdraft credit, only two (2) undertook fixed investment in 1982 in excess of $1 million.

Only ten (10) firms in the sample indicated that foreign loans, direct government loans and loans from government financial institutions accounted for some proportion of their total non-overdraft institutional sources of funds in 1982.

Table 4.8

Institutional Forms of Credit Utilized by Firms in 1982 by Number of Years in Operation

	Non Response	Under 15 yrs.	15-25 Yrs.	Over 25 Yrs.	Total
BANK CREDIT/ TOTAL CREDIT RATIO	4.8	23.8	38.0	33.4	100.0
Less than 40%	-	4.8	19.0	9.6	33.4
Greater than 40%	4.8	19.0	19.0	23.8	66.6
SUPPLIERS CREDIT/ TOTAL CREDIT RATIO		20.5	45.0	35.0	100.0
Less than 40%	-	5.0	10.0	5.0	20.0
Greater than 40%	-	5.0	35.0	0.0	80.0
NFI/TOTAL CREDIT RATIO	.1	5.5	27.2	8.2	100.0
Less than 40%	.1	5.4	-	8.2	63.7
Greater than 40%	-	9.1	27.2	-	36.3

CHAPTER V

USES OF FUNDS

Development economists are concerned with financial development so as to improve the flow of financial resources to firms, in the expectation that these resources will permit a higher level of investment and hence a higher rate of growth and development The improvement of the allocation of finances among businesses and, within businesses among the alternative uses of funds, is therefore one of the essential goals of financial development programmes in most countries. In Trinidad and Tobago discussions of the savings/investment relationship and the financial constraints on industrial development have generally revolved around reference to the structure of the loan portfolio of the commercial banks'. The more recent Flow of Funds studies, while representing a step forward, are still limited in several areas. In this survey, data on the overall use of funds as well as details on fixed investment were collected from the businesses themselves.

As illustrated in Table 5.1, information supplied by 63 of the firms in the sample revealed that for the reporting period[1], a weighted average of 43.5 per cent of the total funds used was channelled into investment in fixed assets. Increases in stock accounted for 8.8

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[1] See Chapter IV, footnote 1, pp 35.

percent of the total funds used, while net increases in debtors (12.7 per cent), decreases in creditors (6.4 per cent) and increases in other working balances (14.4 per cent) accounted for a further 33.5 per cent. Repayment of loans represented 2.7 per cent, dividend payments, 2.9 per cent, and investment in securities, 1.0 per cent of total funds used. Increases in cash and bank balances accounted for 7.6 percent of total funds used.

TABLE 5.1

USES OF FUNDS [1]

USES	%
Fixed Investment	43.5
Increase in Stock	8.8
Other Working Balances[2]	33.5
Capital Repayments	2.7
Increases in Cash & Bank Balances	7.6
Investment in Securities	1.0
Dividend Payments	2.9
TOTAL USE OF FUNDS	100.0

1 47 firms supplied data for 1982, 14 for 1981 and 2 for 1980.

2 Includes increase in debtors and decreases in creditors.

The use of funds by businesses in Trinidad and Tobago is compared with those of firms in the U.K., Germany and the U.S.A. in Table 5.2. Sources and uses of Funds are best analysed over a number of years since the patterns indicated for one accounting period may reflect some short-term occurence. This was evident by the considerable year-to-year fluctuation in the respective ratios observed for the U.K., West Germany and U.S.A. The average over a period is therefore reported in Table 5.2 for these countries, while for Trinidad and Tobago, the ratios are illustrated for the single reporting period of the survey.

TABLE 5.2

COMPARATIVE USES OF FUNDS
(per cent)

USES	U.K. (1971-1975)	West Germany (1971-1973)	U.S.A. (1976-1979)	Trinidad & Tobago (1982)
Gross Fixed Assets	42.6	61.4	66.9	43.5
Stock & Work-in-Progress	20.3	11.8	6.8	8.8
Financial Assets	33.7	26.8	26.3	8.6
Other	3.4			39.1
TOTAL USE OF FUNDS	100.0	100.0	100.0	100.0

SOURCES: (i) J. Maycock and C. Gardner, Sources of Corporate Finance in Western Europe - pp. 149 and 158

(ii) N. Mains, "Recent Corporate Financing Patterns", Federal Reserve Bulletin, Sept. 1980.

1. Fixed Asset Investment Ratio

The survey results indicate that for the reporting period, the median firm in Trinidad and Tobago invested 27.4 per cent of its total funds in fixed assets. However, firms in the Textiles, Garments and Footwear sector and Distribution sector indicated significantly lower levels of capital expenditure, with 50 per cent of firms in the former sector (2 firms) and 40 per cent of firms in the latter sector (6 firms) reporting fixed asset investment ratios of less than 10 per cent. In contrast, firms in the Food, Drink and Tobacco sector and Chemicals and Non-Metallic Minerals sector recorded significantly higher ratios, with 45.5 per cent of firms in the former sector (5 firms) and 42.9 per cent of firms in the latter sector (3 firms) indicating fixed investment ratios of over 50 per cent.

Analysed by size, medium-sized firms, both in terms of numbers employed and annual revenues, recorded the relatively highest proportion of total funds being channeled into fixed assets. For firms with annual revenues less than $3 million, the median rate of capital investment was 15.5 per cent, compared to 40.5 per cent for firms with annual revenues between $3-$20 million and 28.9 per cent for firms with annual revenues in excess of $20 million.

TABLE 5.3

Fixed Asset Investment Ratio by Sector
(per cent)

SECTOR	PERCENTAGE DISTRIBUTION						
	Non-Response	0-10	11-30	31-50	51-80	81-100	TOTAL
Sugar	-	-	100.0	-	-	-	100.0
Petroleum	20.0	20.0	-	40.0	20.0	-	100.0
Manufacturing	8.3	19.4	27.9	19.4	19.4	5.6	100.0
Construction	25.5	-	25.0	50.0	-	-	100.0
Distribution	6.7	40.0	26.6	13.3	13.3	-	100.0
Other	25.0	12.5	25.0	37.5	-	-	100.0

Analysed by ownership, considerable differences were also observed in the ratio of fixed investment to total funds. Foreign firms generally recorded lower ratios than locally owned and government-owned firms, although for 10 per cent of foreign firms (1 firm), this ratio exceeded 80 per cent. Investment in fixed assets accounted for less than 20 per cent of total funds for 36 per cent of local firms (18 firms), compared to 60 per cent for foreign firms and 11 per cent for government-owned firms. The median ratio of fixed assets investment for the three groups of companies was 26.8 per cent, 13.8 per cent and 45.5 per cent for locally-, foreign-, and government-owned firms, respectively.

The survey results also seem to indicate that the proportion of total funds invested in fixed assets also varied considerably depending on the age of the firm. Firms in operation under 10 years and firms in operation over 25 years recorded lower fixed investment ratios than firms which have been in operation for between 10 and 25 years. Investment in fixed assets accounted for over 40 per cent of total uses of funds in 20 per cent (3 firms), 42 per cent (15 firms) and 18 per cent (3 firms), of 'young' 'middle-aged' and old firms, respectively.

TABLE 5.4

Fixed Asset Investment Ratio by Number of Years in Operation
(per cent)

Fixed Asset Investment Ratio	No. of Years in Operation				
	5	5-9	10-14	15-25	25
%					
Non-Response	50.0	23.0	15.3	8.8	-
0 - 10	-	30.8	7.7	17.4	35.2
11 - 20	50.0	-	7.7	13.0	29.4
21 - 30	-	15.4	7.7	13.0	5.9
31 - 50	-	15.4	30.8	26.1	23.6
51 - 80	-	15.4	30.8	13.0	5.9
81 - 100	-	-	-	8.7	-
TOTAL	100.0	100.0	100.0	100.0	100.0

3. Value and Type of Capital Investment

The questionnaire required firms to record the dollar value of their investment in fixed assets for 1981 and 1982, broken down by type of fixed asset. The results indicate a median value of fixed asset investment of $500,000 for 1981 and $775,200 for 1982. For 1981, of the 69 firms surveyed, 19 percent (13 firms) did not respond to the question on their level of investment in fixed assets. Seven percent (5 firms) recorded no investment in fixed assets, 40 percent (28 firms) had invested up to $1 million, 19 percent (13 firms) had invested between $1-5 million and 15 percent (10 firms) had invested over $5 million in fixed assets.

In 1982, the pattern of capital investment was similar. Nine percent (6 firms) were non-respondent, while 9 per cent (6 firms) recording no capital investment, 42 percent (29 firms) had invested up to $1 million, 24 percent (17 firms) had invested between $1-5 million and 16 percent (11 firms) had invested over $5 million. The distribution of firms by sector, ownership and size, recording the various levels of capital expenditure, reflect similar patterns for 1981 and 1982.

In 1982 the one firm representing the sugar Manufacturing sector and 3 of the 5 firms in the Petroleum sector engaged in capital expenditure exceeding $5 million. In the Food, Drink and Tobacco sector, 36 percent (4 firms) invested over $5 million in fixed assets while a further 55 percent (6 firms) recorded capital investment of between $1 and $5 million. The Chemicals, Assembly and Construction sectors were characterized by medium to large capital expenditures with 28 percent (2 firms), 22 percent (2 firms) and 75 percent (3 firms), respectively, of the total number of firms in each of these sectors recording expenditures of $1-$5 million.

In the Chemicals and Assembly sectors a further 28 percent (2 firms) and 11 percent (1 firm), respectively, recorded expenditure in excess of $5 million. In contrast, the Textiles, Garments and Footwear, Other Manufacturing, and Other sectors were all characterized by relatively low capital expenditures of less than $100,000. In the Distribution sector, 7 percent (1 firm) was non-respondent, 20 percent (3 firms) had no capital expenditure, 13 percent (2 firms) had capital expenditure not exceeding $100,000, 47 percent (7 firms) invested between $100,000 - $1 million and 13 percent (2 firms) invested between $1 and $5 million in fixed assets.

Firms with annual revenues in excess of $25 million comprised 35 percent (24 firms) of the sample. Of these firms, over 42 percent (10 firms) recorded capital investment for 1982 of between $1 and $5 million and 33 percent (8 firms) undertook capital investment in excess of $5 million. Medium-sized firms, that is firms with revenues between $5 and $25 million comprised 32 percent (22 firms) of the sample, of which 41 percent (9 firms) recorded capital investment for 1982 between $50,000-$500,000. Firms with revenues under $5 million comprised 30 percent (21 firms) of the sample, of these, 19 percent (4 firms) invested under $50,000 and 33 percent (7 firms) invested between $50,000-$500,000.

In terms of ownership, 13 percent (9 firms) of the sample comprised government-owned firms, 15 percent (10 firms) were foreign-owned and 72 percent (50 firms) were locally-owned. Of the government-owned firms, 67 per cent had capital investment in excess of $5 million while only 10 percent and 8 percent respectively, of the foreign and local firms recorded this level of capital investment. The

modal value of investment for the foreign firms (30 per cent) fell in the $0.5 -$1 million class interval. For the local firms, while the modal point, representing 16 percent of the local firms, fell in the $1-$2 million interval, capital investment was fairly evenly distributed among the intervals ranging from $50,000 to under $5 million.

Table 5.5

Investment in Fixed Assets by Ownership of Firm, 1982
(per cent)

Ownership of Firms	VALUE OF INVESTMENT					
	Non Response	No Investment	Less Than $1 Mn	$1 Mn $5 Mn	Over $5 Mn	TOT
Locally Owned	4.3	5.8	34.9	22.0	5.8	72.
Foreign Owned	1.4	1.4	.1	2.8	1.4	14.
Government Owned	2.9	1.4	-		8.8	13.
TOTAL	8.6	8.6	42.0	25.5	16.0	100.

An analysis of the type of fixed assets in which companies invested reveals a relatively low proportion of total capital investment being channelled into Plant and Machinery as opposed to other types of fixed assets such as vehicles, office equipment, buildings and capital work in progress. Although as many as 26 percent (18 firms) of the sample did not supply information on their capital investment by type, the responses indicate that for firms engaged in the manufacture of Food, Drink and Tobacco and firms in the Assembly sector, the greater proportion of their capital investment was in respect of plant and equipment. In 64 percent and 89 percent, respectively, of these firms, plant and machinery accounted for over 40 percent of the total value of their investment in fixed assets.

In all other sectors, investment in Plant and Machinery comprised a relatively small percentage of total capital investment. For the capital-intensive petroleum sector, 20 percent (1 firm) expended 80-100 percent of total capital investment in Plant and Machinery, 20 percent (1 firm) expended 20-39 percent and 60 percent (3 firms) did not respond.

CHAPTER VI

THE FINANCING OF CAPITAL INVESTMENT AND USE OF OVERDRAFT CREDIT

Most attempts to link specific sources of funds in a business to specific uses are fraught with difficulty. However, funds have traditionally been classified as short term, medium term and long term. Short term funds were then related to working capital management, medium term funds to purchase of assets with a relatively short economic life and long term funds to the purchase of fixed and other assets with a relatively long economic life. More recently, owing to the increasing disparities when matching sources and uses of funds by maturity, sources of funds have simply been classified as internally or externally generated. Internal funds are on important source of finance for working capital and a cheap source of financing the purchase of fixed assets. External funds may take the form of either equity capital or debt of various kinds. However, the use to be made of the funds may also determine the appropriate source of finance.

In light of the above, the survey questionnaire requested information on (i) the various sources of finance used for investment in fixed assets and (ii) the use of overdraft credit.

1. Sources of Finance for Investment in Fixed Assets:

(i) Bank Overdraft

Over the period 1975-1980, for the majority of firms, a relatively small proportion of investment in fixed assets was financed by overdraft credit. Categorised by revenue levels, 42 per cent of the sample (29 firms) stated that during the period 1975 to 1980, none of their capital investment had been financed by overdraft borrowing. A further 20 percent (14 firms) claimed that less than 50 percent of their overall capital investment had been financed through their overdraft facility. These firms were fairly evenly distributed across revenue categories ranging from $1 to $50 million. Only 6 percent of the sample (4 firms) stated that as much as 90-100 percent of their capital investment had been financed by overdraft. Again the distribution of these firms was closely representative of the sample, with 1 firm classed as small (revenue $1 to $3 million), 2 firms classed as medium sized, (revenue $5 to $15 million) and 1 large firm (revenue $25 to $50 million).

TABLE 6.1

OVERDRAFT FINANCING OF FIXED ASSETS
BY REVENUE SIZE, 1975-1980
(per cent)

Overdraft Financing of Fixed Assets	Less Than $3m	$3-$10m	$10-$25m	$25-$50	Over $50
Non-Response	25	34	13	17	28
Nil	57	42	33	33	39
1 - 29	6	8	33	17	5
30 - 49	6	0	7	0	17
50 - 79	0	8	7	17	5
80 - 100	6	8	7	16	0
TOTAL	100	100	100	100	100

The distribution of firms by sector reveals that the 42 percent of the sample (29 firms) which did not finance any of their capital investment by overdraft during 1975-1980, were overproportionately represented by firms in the Sugar, Petroleum, Chemicals, Construction and Other sectors. On the other hand, less than 50 percent of the firms in the Food, Textiles, Assembly, Other Manufacturing and Distribution sectors fell in this category. Firms in these latter sectors also comprised the majority of the 20 percent of the sample (14 firms) which stated that between 1-50 percent of their capital investment was financed by overdraft. Of the 6 percent (4 firms) which claimed that as much as 90-100 percent of their capital was financed by overdraft, 50 percent (2 firms) were involved in the manufacture of textiles, 25 percent (1 firm) in Assembly and 25 percent (1 firm) in the Distribution sector.

The distribution of firms by years in operation seems to indicate that a disproportionate number of firms established over 25 years ago financed a significant percentage of their capital investment with overdraft credit during the 1975-1980 period. Of the 17 firms established over 25 years ago, 24 percent, 35 percent and 18 percent financed none, 1-50 percent and over 50 percent, respectively, of their capital investment with overdraft credit.

The low percentage of capital investment financed by bank overdraft indicated for the 1975-1980 period is also evident for 1981 and 1982. In 1981, 41 percent (28 firms) stated that none of their investment in fixed assets had been financed by overdraft, while a further 19 percent (13 firms) stated that this percentage was not more than 29 percent. However the 17 per cent of the sample (12 firms) which recorded that as much as 90-100 percent of their capital investment for 1981 was financed by overdraft is significantly higher than the 6 percent (4 firms) which indicated this for their 1975-1980 capital investment.

In 1982, 54 per cent of the sample (37 firms) stated that none of their capital investment was financed by overdraft borrowing while 15 percent (10 firms) stated that approximately 1-29 percent of their capital investment was financed through their bank overdraft. Ten (10) per cent of the sample (7 firms) financed 90-100 percent of their capital investment in 1982 with bank overdraft, this compares to the 17 per cent and 6 per cent recording this ratio for 1975-1980 and 1981, respectively.

For both 1981 and 1982, an analysis of responses by revenue size, sector of activity and age of establishment reveals no clear link between the above characteristics and the firm's use of its overdraft for financing capital investment. The patterns observed in the 1975-1980 period which linked certain sectors to a higher use of overdraft for capital investment and which indicated that the older established firms financed a greater proportion of their capital investment with overdraft, were not apparent for 1981 and 1982.

(ii) Other External Borrowing

During the period 1975-1980, 29 percent of the sample (20 firms) stated that over 50 percent of their capital investment was financed by external borrowing other than commercial bank overdraft. A further 10 percent (7 firms) stated that up to 50 per cent of their total investment in fixed assets for this period was financed by other external borrowing while as much as 33 percent (23 firms) stated that none of their capital investment was financed from other external borrowing. In terms of age of establishment and sector of activity, no clear preference for the use of "other external borrowing" was observed. With respect to size as measured by revenue however, there appears to be some bias for larger firms to rely more heavily on "other external borrowing". Of the 46 firms with revenue in excess of $5 million, 30 percent stated that over 50 percent of their capital investment was financed by "other external borrowing," compared to 24 percent of the 21 firms with revenues of less than $5 million.

In 1981, 29 percent of the sample (20 firms) stated that over 50 percent of their capital investment was financed by "other external borrowing" while 7 percent (5 firms) stated that this percentage was between 1-50 percent. As many as 46 percent of the sample (32 firms) stated that none of their capital investment had been financed by "other external borrowing".

Similarly in 1982, 33 percent (23 firms) of the sample had over 50 percent of their capital investment financed by "other external borrowing", 7 percent (5 firms) had between 1-50 percent and 42 percent (29 firms) stated that none of their capital investment had been financed by "other external borrowing". For both years the longer established firms and firms with larger revenues exhibited a higher dependence on non-overdraft external borrowing for their capital projects. Analysed by sector, there appears to be a greater dependence on "other external borrowing" in the Food, Assembly and Construction sectors. Thirty-six percent of the firms in the Food, Drink and Tobacco sector, 44 per cent of firms in Assembly and 75 per cent of firms in Construction financed over 50 percent of their capital investment by means of "other external borrowing".

TABLE 6.2

THE FINANCING OF FIXED ASSETS THROUGH NON-OVERDRAFT BORROWING BY SIZE AND AGE OF FIRM, 1981 & 1982

(per cent)

RESPONSE	REVENUE SIZE						AGE OF ESTABLISHMENT					
	Less than $10m		$10-$50m		Over $50m		Less than 10 yrs.		10-25 yrs.		Over 25 yrs.	
	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982
%												
Non-Response	18	13	6	5	5	5	21	7	10	13	5	6
Not Applicable	11	14	0	0	6	6	13	20	3	3	6	6
Nil	46	50	47	33	44	44	33	27	53	47	47	47
1 - 29	0	4	0	5	6	0	13	13	3	3	6	0
50 - 79	7	4	33	33	11	11	13	20	17	14	18	12
80 - 100	11	11	9	19	22	28	7	13	11	17	18	23
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100

(iii) Internally Generated Funds

During the period 1975-1980, 32 percent of the sample (22 firms) stated that none of their capital investment had been financed by internally-generated funds, 12 percent (8 firms) stated that between 1-50 percent of their capital investment was financed by internally-generated funds, while 27 percent (19 firms) stated that over 50 percent of their capital investment had been financed by internally-generated funds.

For this period, there was no clear link between the age of establishment of firms and their use of internally-genearated funds for finanacing capital investment. When analysed by activity sectors however, the Sugar, Textiles, Assembly and Construction sectors exhibited a greater concentration of firms financing little or none of their capital investment with internally-generated funds. An examination of this financing pattern using revenue as the criterion indicated that amongst firms with annual revenues of less than $3 million, 19 percent, 19 percent and 38 percent respectively, financed none, 1-50 percent and over 50 percent of their capital investment with internally-generated funds. This compares to firms with annual revenues in excess of $25 million, among which 42 percent, none and 29 percent, respectively, financed none, 1-50 percent and over 50 percent of their capital investment with internally-generated funds.

The responses for 1981 and 1982 suggest a trend towards increased use of internally-generated funds for capital formation. In 1981, 42 percent of firms financed none of their investment in fixed assets by own funds, but by 1982 this percentage had dropped to 32 per cent. On the other hand, while in 1981, 18 per cent of firms had financed 90-100 percent of their investment in fixed assets by means of their own funds, by 1982 this had increased to 22 percent.

TABLE 6.3

INTERNAL FINANCING OF INVESTMENT IN FIXED ASSETS-
1975-1980, 1981 and 1982

Percentage Distribution	1975 - 1980	1981	1982
Non-Response	27.5	10.0	11.6
Not Applicable	1.4	5.8	7.2
Nil	31.9	42.0	31.9
1 - 29	8.7	8.7	11.6
30 - 49	2.9	5.8	2.9
50 - 79	7.2	7.2	8.6
80 - 100	20.2	20.3	26.0
TOTAL	100.0	100.0	100.0

2. The Use of Overdraft Credit

The survey questionnaire listed the following uses of funds:- (i) purchase of stock, (ii) other working capital expenditure and (iii) investment in fixed assets. Firms were requested to give their approximate percentage utilization of overdraft credit for each of these uses of funds for 1982. Overall there was a high non-response rate to this section of the questionnaire. However, the results indicate that for 1982, purchase of stock was the principal use of overdraft funds, with other working capital expenditure and investment in fixed assets ranking second and third, respectively. The results are examined by the activity sector of firms.

(i) Purchase of Stock

Forty-two (42) per cent of the sample (29 firms) stated that for 1982 over 40 percent of their overdraft funds were channelled into stock. However, a relatively high proportion of firms in the Petroleum, Construction and Other sectors, stated that none of their overdraft went to the purchase of stock. In the Distribution sector, 47 percent (7 firms) claimed that over 60 percent of their overdraft was utilized in stock acquisition, while 13 percent (2 firms) stated between 1-60 percent of their overdraft went into stocks. All of the firms in the Distribution sample which used an overdraft facility, stated that some proportion of their purchase of stock was financed through their overdraft. In the Manufacturing sectors the use of overdraft for the

purchase of stock was relatively lower. Twenty-five percent (9 firms) claimed that over 60 percent of their overdraft was invested in stock, while a further 36 percent (13 firms) stated that this percentage was somewhere between 1-60 percent and 17 percent (6 firms) indicated that none of their overdraft funds was channelled into stock purchases.

(ii) Other Working Capital

Sixteen percent of the sample (11 firms) stated that none of their overdraft funds was used to finance working capital other than stock, with a further 33 percent (23 firms) stating that this percentage was somewhere between 1-40 per cent, and 21 percent (15 firms) indicating that over 40 percent of their overdraft was used to finance working capital other than stock. In the Distribution sector, 7 percent and 43 percent of firms stated that nil and 1-40 per cent, respectively, of their overdraft was used to finance working cpital other than stock. In none of the Distribution firms was this ratio higher than 40 per cent.

In the Manufacturing sector, 17 percent, 36 percent and 25 percent of fims stated that nil, 1-40 percent and over 40 percent respectively, of their overdraft was used for this purpose. In the Manufacturing sub-sectors, of the firms which stated that none of their overdraft went into stock, the Food and Chemicals sectors were over-represented with a corresponding over-representation amongst the firms which stated that over 40 percent of their overdraft was used for other working capital. In the Sugar sector it was stated that all of

overdraft credit was channelled into working capital other than stock while in the Petroleum sector the majority of overdraft credit was utilized for this purpose with a small percentage being used for stock.

(iii) Fixed Assets

The majority of firms stated that a relatively low percentage of overdraft credit was used to finance the purchase of fixed assets in 1982. This is consistent with responses to the percentage of capital investment financed by various sources of funds, in which overdraft credit was ranked as the least important source. For 1982, 42 percent of the sample (29 firms) stated that none of their overdraft credit went into the purchase of fixed assets. A further 23 percent (16 firms) stated that not more than 20 percent of their overdraft was used to finance fixed asset purchases, while only 7 percent (5 firms) stated that over 20 percent of their overdraft was utilized for this purpose. In the Distribution sector, the percent of overdraft used for capital investment was very low while in the Manufacturing sectors, the utilization of overdraft for this purpose was slightly higher with the Assembly sub-sector noticeably above the average for manufacturing as a whole. The Sugar and Petroleum sectors utilized very small proportions of their overdraft in purchasing fixed assets while firms with the highest percent of overdraft credit being channelled into fixed assets came from the Construction and Other sectors.

CHAPTER VII

BUSINESS FINANCIAL STRUCTURE

The financing patterns of businesses in Trinidad and Tobago are analysed employing key financial ratios computed from the Balance Sheets for the latest year supplied by the sample of firms[1]. The analyses are based on this snapshot, with no attempt at assessing the restructuring of financing patterns in response to changing financial conditions. Table 7.1 illustrates the structure of assets and liabilities for the sample of firms.

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1 47 firms supplied data for 1982, 14 for 1981 and 2 for 1980. The consolidation of data from different accounting period assumes that the relative distribution of assets and liabilities is constant. This assumption may impose some limitation to the results.

TABLE 7.1

SUMMARY BALANCE SHEET[1]
(per cent)

Assets			Liabilities		
Current Assets (of which)		33.2	Current Liabilities		28.4
(i) Balances with Commercial Banks	(7.5)		(i) Due to Commercial Banks	(39.4)	
(ii) Other	(92.5)		(ii) Other	(60.6)	
Fixed Assets		52.5	Long-Term Liabilities		28.5
			(i) Due to Commercial Banks	(10.5)	
Other Assets		14.3	(ii) Other	(89.5)	
			Share Capital & Reserves		43.1
TOTAL		100.0	TOTAL		100.0

47 firms supplied data for 1982, 14 for 1981 and 2 for 1980.

1. The Level of Gearing

The relationship between debt (total liabilities), Net Worth or Shareholder's Equity (Issued Capital plus Reserves) and Total Assets, normally referred to as the gearing of a firm, is conventionally used as a measure of financial soundness. The Debt:Equity ratio indicates the relative importance of external debt and own resources, with a smaller and more stable ratio reflecting a lower probability of insolvency. An analysis of the survey results reveal a weighted average Debt:Equity ratio of 1.32:1, or expressed as a percentage, debt accounted for 57 per cent of total assets while equity, the reciprocal, accounted for 42 per cent. These ratios for the median firm were 1.37:1 or 58 per cent.

In comparison, Mains (1980) in his study on corporate financing patterns in the U.S., revealed that the ratio of equity to total assets edged downwards from nearly 66 per cent in the 1950's to less than 58 per cent by the end of 1979[2]. The reduced level of equity in the balance sheets was attributed to both the general weakness in retained earnings and the increased reliance on debt financing due to escalating inflation, tax deductibility of interest payments and generally low levels of stock prices and price-earnings multiples.

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2 International comparisons are subject to the usual qualifications based on differences in information bases, business law, accounting practices, etc.

The Bank of England (1984) in their examination of the sources and structure of business finance in the U.K. and the Federal Republic of Germany, discusses the respective capital gearing ratios. The net capital gearing ratio, defined as net financial debt as a proportion of total trading assets rose from approximately 50 per cent in the 1970s to over 60 per cent at the end of 1982 in Germany, while over the same period for the U.K., this ratio declined to just over 25 per cent. It is hypothesized that a significant percentage of the gap between the ratios in the two countries is due (i) to the predominance in Germany of small and medium-sized private businesses which, as is also true for the U.K., tend to be more highly geared, and (ii) the convention in Germany of valuing fixed assets at true historic costs in contrast to the U.K. convention of frequent revaluations.

TABLE 7.2

Comparative Gearing Ratios
(per cent)

COUNTRY	Debt/Assets	Equity/Assets	Debt/Equity
Trinidad and Tobago(1981/1982)	58	42	138
United States (1979)	42	58	72
United Kingdom (1982)	25	75	33
Fed. Rep. of Germany (1982)	60	40	150

The ratios of Debt:Equity and Equity:Total Assets are examined by activity sector, size, ownership and age of firm, following which some overall trends are highlighted and explanations of the levels of gearing hypothesized.

The ratio of total liabilities to issued capital plus reserves reveals that 35 per cent of the sample (24 firms) had a debt:equity ratio in excess of 200 per cent, while 16 per cent of the sample (11 firms) had ratios varying between 100-200 per cent and for a further 39 per cent of the sample (27 firms), the ratio was less than 100 per cent.

Firms in the Construction and Distribution sectors recorded the highest debt:equity ratios, averaging[3] 350 per cent, with firms in the Sugar, Chemicals and Other Manufacturing sectors operated at significantly lower gearing levels, averaging at 97 per cent. Firms involved in the manufacture of Food, Drink and Tobacco, recorded the lowest average debt:equity ratio (68 per cent). Analysed by employment size, there seems to be a general trend for smaller firms to have higher debt:equity ratios. Amongst firms employing over 500 persons, 43 per cent exhibited ratios where debt was less than 100 per cent of equity although 14 per cent had ratios in excess of 500 per cent. This compares with firms employing less than 25 persons of which, 38 per cent had ratios less than 100 per cent, while 31 per cent had ratios in excess of 500 per cent. Using revenue as the indicator of size however, this trend for smaller firms to exhibit higher debt:equity ratios was not clearly evident.

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3 All averages represent the rate for the median firm, unless otherwise stated.

Table 7.3

Debt/Equity Ratio By Size of Firm
(Per cent)

Size of Firm	Debt: Equity Ratio					
	Non Response	Less Than 40 %	41% - 100%	101%-500%	Over 500%	TOTAL
Small (Less than $5m)	5.7	2.9	7.1	10.2	7.2	33.1
Medium ($5m-$25m)	1.4	1.0	15.8	10.0	4.3	32.5
Large (Over $25m)	2.8	1.4	11.5	14.3	4.4	34.4
TOTAL	9.9	5.3	34.4	34.5	15.9	100.0

When the debt:equity ratio is analysed by ownership of firm, a larger percentage of locally and government-owned firms were seen to exhibit higher ratios than foreign firms, although a significant proportion of locally-owned and government-owned firms also recorded ratios where debt was less than 100 per cent of equity. Twenty (20) per cent of foreign firms had ratios in which debt varied from 200 to greater than 500 per cent of equity, compared to 36 per cent and 44 per cent, respectively, for locally-owned and government-owned firms. However, while 20 per cent of foreign firms had ratios in which debt was less than 100 per cent of equity, for local and government firms these percentages were 40 and 56 per cent, respectively. Thus, while the level of gearing for local and government firms fluctuated widely, foreign firms recorded more stable ratios with an average of 150 per cent.

The survey data also seem to indicate that a greater proportion of longer established firms had lower debt to equity ratios than those established more recently. For firms established less than 10 years ago, 33 per cent (5 firms) recorded debt to equity ratios in excess of 500 per cent compared to firms established over 15 years ago, amongst which this ratio exceeded 500 per cent in only 12 per cent of the firms (5 firms). However, this pattern is not evident when firms with ratios varying between 101-500 per cent are examined. The debt:equity ratio fell in this range for 27 per cent (4 firms) of the more recently established firms and 35 per cent (14 firms) of the longer established firms.

An examination of the ratio of Equity:Total Assets reinforces the trends discussed above. For 14 per cent of the sample (10 firms), equity was more than 61 per cent of total assets, while for 42 per cent (29 firms) the proportion varied between 31-60 per cent, and for 33 per cent of the sample (23 per cent) equity was less than 30 per cent of total assets. Owner's funds accounted for the highest proportion of total assets in the Petroleum, Food and Other sectors, with the Construction, Distribution and Chemicals sectors exhibiting lower percentages.

Table 7.4

Equity/Total Assets Ratio by Sector
(per cent)

Sector	EQUITY/TOTAL ASSETS RATIO				
	Non Response	Less Than 30 %	31% - 60%	61% - 100%	TOTAL
Sugar and Petroleum	-	5.8	8.5	10.2	24.5
Manufacturing	5.8	7.2	20.2	2.9	36.1
Construction	1.4	2.9	1.8	-	6.1
Distribution	1.4	13.1	7.2	-	21.7
Other	1.4	2.9	5.9	1.4	11.6
TOTAL	10.0	31.9	43.6	14.5	100.0

Larger firms, both in terms of numbers employed and revenues, clearly reflected a higher percentage of total assets in capital and reserves. Amongst firms employing over 100 persons, 43 per cent (19 firms) stated that capital plus reserves accounted for over 50 per cent of total assets, compared to firms employing less than 100 persons, amongst which 16 per cent (4 firms) recorded that capital plus reserves accounted for over 50 per cent of total assets. In terms of revenue, of firms with annual revenues in excess of $25 million, 33 per cent stated that capital plus reserves was over 50 per cent of total assets and 58 per cent stated that it was less than 50 per cent of total assets. This compares with firms with annual revenues less than $5 million, amongst which these two categories were 14 per cent and 67 per cent, respectively.

An analysis of the ratio of capital plus reserves to total assets, by ownership of company supports the patterns revealed in the analysis of the debt:equity ratio. Foreign firms evinced a more stable pattern with capital plus reserves fluctuating between 31-60 per cent of total assets. This ratio for locally-owned firms was more broadly distributed between 11-80 per cent while for government-owned firms the ratio fell mainly in the 11-30 per cent and 51-100 per cent groupings.

For Trinidad and Tobago therefore, the survey results indicate that firms are relatively highly geared with the larger firms and foreign firms, less highly geared. In sectors such as Petroleum and Food, with a significant percentage of both large and foreign firms, the gearing ratios tend to be lower than for sectors such as Construction and Distribution, with their predominance of medium-sized, locally-owned firms. The government-owned firms however, though almost all large-sized, fall on either side of the scale, determined mainly by the profitability of the enterprise.

It is hypothesized that the relatively high gearing of firms in Trinidad and Tobago is due to a combination of the following factors:

(i) the predominance of small, medium-sized business which seem to have a preference for this structure of financing;

(ii) the relative un-importance of equity financing among private family businesses in an effort to maintain control;

(iii) the presence of a well-developed banking system which offers businesses relatively easy access to bank credit without stringent monitoring of the firms' gearing, etc;

(iv) the norm of valuing assets at cost, which in a period of rapid inflation, tends to understate the contribution of owners' equity, in which capital revaluations would have been reflected.

In contrast to the above factors which may contribute to the high indebtedness of firms, it is important to note that this survey was conducted in a period of generally super-normal profits. Thus the retained earnings accumulated during the boom years may be considerably over-stating the long-term norm of the level of gearing of firms in Trinidad and Tobago.

2. Bank Borrowing

Effective financial planning requires detailed knowledge of the extent to which the principal demanders of loanable funds - businesses, are reliant on bank credit. The Balance Sheets of businesses surveyed were analysed to determine the relative levels of firms' indebtedness to commercial banks, using sector, size, ownership and age criteria.

Overall however, total liabilities to commercial banks as a proportion of total assets averaged 14 per cent, total liabilities to commercial banks as a proportion of total liabilities averaged 23 per cent, and long-term liabilities to commercial banks as a proportion of total long-term liabilities averaged 10 per cent. This compares to the United Kingdom for which, as reported in the Bank of England (1984) study, loans from banks to total assets, at the end of 1981, was 14 per cent, and loans from banks to total liabilities was 27 per cent.

For the U.S.A., while no specific ratios are quoted, the increased dependence on short-term sources of funds and bank loan commitments is reported in both the Mains (1980) and Mitchell (1983) studies. Mitchell reports that for 1982, more than 50 per cent of outstanding commercial and industrial loans were made under commitments (over-drafts). For Trinidad and Tobago, as at the end of 1984, 76 per cent of outstanding bank loans to businesses was in the form of overdraft credit[4]. References to Germany (Bank of England 1984 study) and Guyana (Bourne 1972) all support the dominance of commercial bank debt in the financial structure of businesses in these countries. Following is a detailed analysis of the survey results for Trinidad and Tobago.

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4 SOURCE: Central Bank - RD 20/2: items (v) + (vii).

Table 7.5

Commercial Bank Debt in the Financial Structure of Business Firms
(%)

ITEM	MEDIAN
1. Liabilities to Commercial Banks/ Total Assets	14
2. Liabilities to Commercial Banks/ Total Liabilities	23
3. Long Term Liabilities to Commercial Banks/Total Long Term Liabilities	10

Total liabilities to commercial banks accounted for 1-15 per cent of total assets in 52 per cent of the sample (36 firms) with a further 25 per cent (17 firms) stating that this proportion varied between 16-30 per cent. Total liabilities to commercial banks did not exceed 80 per cent of total assets for any of the firms in the sample. The majority of firms in the Sugar, Petroleum and Chemicals sectors stated that commercial bank liabilities was less than 15 per cent of total assets while a significant percentage of firms in the Food, Textiles and Other Manufacturing sectors also exhibited relatively low indebtedness to commercial banks. Analysed by employment size, the ratio of liabilities to commercial banks to total assets appears to be proportionately distributed across employment categories.

The ratio of liabilities to commercial banks to total liabilities reflects similar trends to those revealed through an analysis of the ratio of liabilities to commercial banks to total assets, except where the value of owners' funds (Total Assets - Total liabilities) is significant, in which case the percentages are larger and the patterns sometimes more distinct. Overall, 36 per cent (25 firms), 22 per cent (15 firms) and 19 per cent (13 firms) of the sample stated that liabilities to commercial banks accounted for 1-15 per cent, 16-30 per cent and 31-50 per cent, respectively, of their total outstanding liabilities.

In the Sugar, Petroleum and Chemicals sectors, 100 per cent, 80 per cent and 100 per cent of firms, respectively, stated that their total liabilities to commercial banks was less than 30 per cent of their total outstanding liabilities. In the Food sector however, 45 per cent of firms indicated that this proportion varied between 31-60 per cent. In the Assembly and Distribution sectors also, 22 per cent and 26 per cent of firms respectively, stated that liabilities to commercial banks accounted for over 61 per cent of their total liabilities.

Analysed by employmemnt size, the data revealed that in firms employing under 50 persons, 24 per cent indicated that commercial bank liabilities exceeded 50 per cent of their total liabilities, compared to 11 per cent and 15 per cent for firms employing 50-250 persons and firms employing over 250 persons, respectively. Similarly, analysed by revenue size, 19 per cent, 16 per cent and 11 per cent of small (under $5

million), medium ($5-$20 million) and large (over $20 million) firms respectively, held over 50 per cent of their total liabilities in liabilities to commercial banks. The data therefore seem to indicate that for a greater percentage of small firms, liabilities to commercial banks generally constitute a significant proportion of their total liabilities.

An examination of the ratio of liabilities to commercial banks to total liabilities, by ownership of firm, seems to support the proposition of financial insulation of the direct foreign investment enterprises from the general financial system. Eighty per cent of foreign firms stated that liabilities to commercial banks was less than 30 per cent of total liabilities, compared with 54 per cent and 55 per cent for the locally-owned and government-owned firms, respectively. On the other hand, a slightly higher percentage of government firms than local firms (22 per cent compared with 18 per cent), held over 50 per cent of their total liabilities as liabilities to commercial banks.

There appears to be a correlation between the number of years a firm has been in operation and the extend of indebtedness to commercial banks. In all of the firms established less than 5 years ago, commercial banks' liabilities varied between 1-15 per cent of total liabilities, compared with firms established 10-14 years ago where this percentage was 54 per cent and firms established over 25 years where this proportion was only 29 per cent.

Table 7.6

Liabilities to Commercial Banks as a Proportion of Total Liabilities, by Ownership of Firm
(%)

BANK LIABILITIES to TOTAL LIABILITIES	LOCAL FIRMS	FOREIGN FIRMS	GOVERNMENT FIRMS
%			
Non-Response & Not Applicable	6.0	20.0	0.0
0-15	30.0	60.0	44.4
16-30	24.0	20.0	11.1
31-50	22.0	-	22.2
51-80	14.0	-	22.2
81-100	4.0	-	-
TOTAL	100.0	100.0	100.0

Long-term liabilities to commercial banks accounted for 1-15 per cent of total long-term liabilities for 48 per cent (33 firms) of the sample, with a further 16 per cent (11 firms) recording no long-term liabilities to commercial banks. For 14 per cent of the sample (10 firms) long-term liabilities to commercial banks varied between 16-19 per cent of total long-term liabilities while 16 per cent of firms (11 firms) stated that long-term liabilities to commercial banks was in excess of 90 per cent of their total long term liabilities. Firms in the Textiles, Other Manufacturing and Distribution sectors were over-proportionately represented in this latter category.

Analysed by both employment size and revenue, there is a tendency towards smaller firms indicating that a more significant percentage of their long term liabilities was due to commercial banks. In terms of ownership, the ratios for foreign-owned and government-owned firms exhibited a lower use of long-term liabilities from commercial banks than did local firms. For local firms 22 per cent (11 firms) stated that long-term liabilities to commercial banks accounted for 91-100 per cent of their total liabilities, with a further 14 per cent (7 firms) stating that this percentage was between 51-90 per cent. Among the foreign-owned and government-owned firms however, 70 per cent (7 firms) and 56 per cent (5 firms), respectively, stated that commercial banks' liabilities were 1-15 per cent of total long-term liabilities and a further 10 per cent and 44 per cent, respectively, stated that there were no long-term liabilities to commercial banks.

CONFIDENTIAL. APPENDIX I

CENTRAL BANK OF TRINIDAD AND TOBAGO

RESEARCH DEPARTMENT

SURVEY: BUSINESS USE OF BANK CREDIT

1. Name of business establishment ....

2. Address of business establishment..

3. Number of years in operation ....

4. Main business activities ....

   ....

5. Legal status of business:

   ☐ Sole trader ☐ Private Limited Liability Company

   ☐ Partnership ☐ Public Limited Liability Company

6. Ownership of business: Please give percentage of equity held by:

   ☐ Government ☐ Foreigners ☐ Nationals of Trinidad & Tobago

7. Please give the total numbers employed with your establishment as at the end of 1982 ....

8. What was your total Revenue for your last financial year?

   $..............................

9. What was the total value of commercial bank credit outstanding to your business as at May 31, 1983?

   Total..................................

   of which
   - (i) Overdraft Loans ....
   - (ii) Demand Loans ....
   - (iii) Instalment Loans.................
   - (iv) Special Loans....................
   - (v) Mortgage Loans...................

10. What was the total value of your investment in Fixed Assets for the following periods?

	1981	1982	1983 to Date
TOTAL:	....	....	....
of which (i) Plant & Machinery	....	....	....
(ii) Vehicles	....	....	....
(iii) Office Equipment	....	....	....
(iv) Buildings	....	....	....
(v) Capital Work in Progress	....	....	....

11. For each of the following periods, approximately what percentage of investment in fixed assets has been financed out of:

	1975-1980	1981	1982
(i) Overdraft Borrowings	....	....	....
(ii) Other External Borrowings	....	....	....
(iii) Increase in Share Capital	....	....	....
(iv) Internally Generated Funds	....	....	....

(N.B: *Other External borrowings refer to the sum of all borrowings (other than overdrafts), from sources external to the firm e.g. commercial bank term loans, loans from other financial intermediaries, director's loans, government loans, Head Office loans etc.).*

Internally generated funds refer to the annual profits accumulated by the firm plus depreciation and other expenses not involving an actual outlay of funds).

12. Total loans (other than overdrafts), obtained/repaid during 1982, and the uses to which these funds were allocated.

	Commer-cial Banks	Finance Companies	Trust Companies	Insurance Companies	D.F.C./ I.D.C./ A.D.B.	Directors	Suppliers Credit	Other Foreign Loans	Gov't Loans	Other (specify)
(i) Actual sums received during the year										
(ii) Total repayments for the year										
(iii) Approximate percentage of funds allocated to the following uses:										
(a) Purchase of Stock										
(b) Other expenses of the business (working capital)										
(c) Capital expenditure (fixed assets)										
(d) Other expenses not related to the business (e.g. director's loans, loans to affiliated companies etc.)										
(e) Other (specify)										

13. For each of the commercial banks with which you have established current accounts and overdraft facilities, please give the value of:

	BANK 1	BANK 2	BANK 3
A. Your bank overdraft limit			
for 1982	....	....	....
and 1983	....	....	....
B. Your credit/debit balance on current account as at the following dates:			
31st March, 1982	....	....	....
31st June, 1982	....	....	....
30th September 1982	....	....	....
31st December 1982	....	....	....
31st March 1983	....	....	....
C. What was the total value of interest paid on your overdraft for:			
1982	....	....	....
1983 to date	....	....	....

14. Given that your overdraft borrowings fluctuate from week to week or month to month, could you give (approximately), the maximum proportion or amount of your overdraft limit utilized at any point during

1982 ....

1983 to date ....

15. Approximately what percentage of your overdraft borrowings for the following periods was allocated to:

	1982	1983 (to ~~date~~)
(i) Purchase of stocks		
(ii) Other Working Capital		
(iii) Purchase of fixed assets		
(iv) Other		

16. How important do you consider each of the following in determining the scale (size) of your operation. (1 - very important; 5 - minimal importance).

(i)	Market size	1	2	3	4	5
(ii)	Availability of Management	1	2	3	4	5
(iii)	Availability of Technical Staff	1	2	3	4	5
(iv)	Availability of Finance	1	2	3	4	5
(v)	Cost of Finance	1	2	3	4	5
(vi)	Other (specify)	1	2	3	4	5

17. Over the last five years, have you ever found it difficult to expand your business activities due to:

(i)	Banks claiming that loanable funds were not available	☐ Yes	☐ No
(ii)	Banks querying the feasibility of the project	☐ Yes	☐ No
(iii)	Lack of adequate collateral support (security) for the project	☐ Yes	☐ No

18. Over the last five years, were any of your proposed capital investment projects:

		PROJECT 1		PROJECT 2	
(i)	Deferred	☐ Yes	☐ No.	☐ Yes	☐ No
(ii)	Scaled-down	☐ Yes	☐ No	☐ Yes	☐ No
(iii)	Abandoned	☐ Yes	☐ No	☐ Yes	☐ No

Due to:

(i)	unavailability of credit	☐ Yes	☐ No	☐ Yes	☐ No
(ii)	high cost of credit	☐ Yes	☐ No	☐ Yes	☐ No

19. How would you rank the undermentioned factors in determining whether a capital project is undertaken. (1 - very important; 5 - minimal importance).

(i)	the rate of interest	1	2	3	4	5
(ii)	the size of loan repayments (amortization)	1	2	3	4	5

20. Could you please supply us with a copy of your "Balance Sheet" and "Sources and Application of Funds Statement", for the last three (3) years. If these statements are unavailable, could you please complete the following statements for your last financial year.

A

BALANCE SHEET AS AT ....

ASSETS		LIABILITIES & OWNER'S EQUITY	
1. Current Assets		4. Current Liabilities	....
(i) Balances with Commercial Banks	....	(i) Due to Commercial Banks	....
(ii) Other	....	(ii) Other	....
2. Fixed Assets	....	5. Long-Term Liabilities	....
3. Other Assets	....	(i) Due to Commercial Banks	....
		(ii) Other	....
		6. Share Capital & Reserves	....
TOTAL (1+2+3)	....	TOTAL (4+5+6)	....

B.

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS
FOR THE YEAR ENDING..................

SOURCES OF FUNDS		APPLICATION OF FUNDS	
1. Profits before depreciation & Other non-cash expenses	....	1. Increase in Stock	....
2. Bank Loans	....	2. Increase in Debtors	....
3. Other Loans	....	3. Decrease in Creditors	....
4. Increase in creditors	....	4. Repayment of Loans	....
5. Decrease in Debtors	....	5. Investment in Securities	....
6. Sale of fixed assets	....	6. Investment in Fixed Assets	....
7. Other (specify)	....	7. Dividends paid (owner's drawings)	....
....	....	8. Other (specify)	....
....	....	....	....
8. TOTAL (1 to 7)		9. TOTAL (1 to 8)	
9. Decrease in Cash and Bank Balances	....	10. Increase in Cash and Bank Balances	....
TOTAL SOURCES OF FUNDS(8+9)	....	TOTAL USES OF FUNDS (9+10)	....

21. Comment briefly on your relationship with commercial banks. (Longstanding? Why more than one? Their role in your business expansion, Use of facilities offered, etc.)

22. What are your views on the role of the Central Bank in the area of credit management in Trinidad and Tobago?