

Abstract

Title: A Study of the Sources of Financing for Businesses in the Fruit and Vegetable Processing Industry in Chiang Mai Province

By: Kamolthip Cumjai

Degree: Master Of Business Administration

Major Field: Business Administration

Chairman, Thesis Advisory Board: 

(Assistant Professor Choosak Jantanopsiri)

..... 19 / 3 / 1998

The objectives of this study are 1) to identify the formal and informal sources of financing for businesses in the fruit and vegetable processing industry in Chiang Mai Province; 2) to analyze the decision- making process of lenders in approval of loans and credit ; 3) to examine the factors that influence the decision of business owners in their selection of sources of financing; and, 4) to determine the relationship between formal and informal sources of financing for businesses in the fruit and vegetable processing industry.

The data used in this study were collected by random survey from 67 businesses in the fruit and vegetable processing industry. The five largest commercial banks in Thailand and The Industrial Finance Corporation of Thailand were surveyed as well to represent the formal financing sources.

This study used descriptive statistics to analyze the general information on the sources of financing for businesses in the fruit and vegetable processing industry. Multiple regression analysis was then used to examine the relationship between the formal and informal sources of financing.

It was determined that 85.18 percent of small business owners in the industry borrowed capital from both formal and informal sources of financing. The average loan ratio when they started their businesses was 40.30 percent from formal

sources and 8.10 percent from informal sources. During business expansion, it was determined that the loan ratio changed to 33.70 percent from formal sources and 27.30 percent from informal sources.

It was determined that 92.50 percent of medium sized business owners borrowed capital from both formal and informal source of financing. For these businesses, loans at the start were 48.90 percent from formal financing sources and 3.60 percent from informal sources. During business expansion, it was determined that the loan ratio changed to 33.90 percent from formal sources and 21.40 percent from informal sources.

For the formal sources of financing, lenders consider a business owner's ability to repay their loan as of greatest importance.

The most influential factor for business owners in their decision relative to selection of a source of financing was interest rate.

Regarding the relationship between the formal and informal sources of financing and other important factors related to the business, it was determined that if a small business owner had only a small quantity of capital at the start then a large percentage of that capital came from formal sources. This was due in part to the higher interest rate for loans from informal sources such as relatives, friends or informal moneylenders. When a small business expanded, the capital from formal loans increased with the amount of registered capital. Business expansion that did not use formal loans used financing from informal sources, accumulated profit and additional investment by the owner.

Relative to the relationship between the formal and informal sources of financing and other important factors related to the business, it was determined that owners of medium sized businesses used informal loans much more than their own capital and their partnership funds. But if financing from informal sources had high interest rates then they borrowed from formal sources of financing. When a medium size business expanded, the capital from formal loans increased with the amount of the registered capital and operating finances. Business expansion that did not use formal loans used financing borrowed from informal sources, partnership funds, and additional investment by the owners.