

Corporate Fundraising in Laos

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Enrollment year: 2017

Countries visited: Laos and Vietnam

Research period: 06/02/2018 to 08/28/2018

Keywords: corporate finance, fundraising, Laos, bank credit, self-financing

Research background

Laos is in Southeast Asia and shares its borders with China and four other ASEAN states. This country is landlocked with no direct access to the sea; this becomes the biggest obstacle in opening its market to the world. However, the economy of Laos continues to grow annually and has become one of the fastest growing economies in the region. Based on a World Bank report, the gross domestic product (GDP) growth rate was 7% in 2016 with the per capita GDP at 2,457 USD (2017) ¹. Despite a high economic growth rate, the people and local businesses still rely heavily on imported products. This behavior is a concern for the government of Laos, whose priority is to minimize the consumption of imported products. Thus, the observation of local investments is necessary in order to understand the domestic production capacity, and suggest appropriate policies for facilitating the operation of local businesses, especially assisting them with sources of finance. Therefore, the author intends to conduct a survey on corporate's finance with a focus on medium-scale and large-scale enterprises, in order to understand their financial structures and identify the barriers in access to finance for their business operations.

Research purpose

This study will examine the financial system of medium-scale and large-scale enterprises in Laos, including their corporate financial structure, fundraising behavior, financial issues, and equity market incentives. Additionally, this study will examine the financial condition and reforms of state-owned enterprises (SOEs) in Laos.

¹ The World Bank Group

Results/Achievements

Following are the results of this fieldwork. We visited 65 firms, 49.2% of which are limited companies. To be specific, 26.2% are in the manufacturing/production sector, 11.5% are in the information and telecommunication sector, 9.8% are in the transportation and postal service sector, and the rest are in other sectors. Most of the firms operate their business by utilizing their own funds (self-financing) from the beginning of the establishment, and then move to bank loans for their financial needs. Some private firms receive contributions from their shareholders (as shown in table 1).

Table 1: Fundraising method of sample

<i>Fundraising method</i>	<i>Starting [firm (%)]</i>	<i>Present [firm (%)]</i>
Own fund	38(62.29)	16 (26.22)
Bank borrowing	1 (1.64)	
Borrowing from family, relatives, and friends	1 (1.64)	
Shareholders and related parties	15 (24.60)	13 (21.31)
Own fund and bank borrowing	6 (9.83)	24 (39.34)
Others		8 (13.11)

Source: Author's calculation based on the survey results.

When we carefully observe the bank credit provided to our sample, we find that the state-owned commercial banks prominently figure in the bank transactions of a firm, and are nominated as a source of funds for bank loans. Moreover, collateral for bank loan guarantees is the biggest concern for many firms, particularly state-owned enterprises. Furthermore, trade credit is applied to various firms as an alternative to avoid bank loans. These are some of the key findings of this fieldwork from June 02 – August 28, 2018.

Plans for further research

This is a preliminary fieldwork for the research on corporate fundraising. More understanding is needed for other types of enterprises, such as the SOEs. Therefore, further surveys are necessary to collect information on SOEs. In addition, a possible solution for minimizing SOEs' financing obstacles can be analyzed, particularly the capital markets as an alternate source for SOEs' finance.



Photo 1: Interview and discussions with the president of Sinouk Coffee



Photo 2: Interview and discussions with the deputy managing director and other officers of Lao Logistic State Enterprise