

# Chapter 5

## SME Access to Finance: Evidence from Laos

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## CHAPTER 5

### SMEs Access to Finance: Evidence from Laos

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*Lao SMEs are at an early stage of development, and face various problems. One of the most important problems is financial constraints. In order to promote SMEs as engines of growth, it is crucial to understand the issues surrounding SMEs' access to finance. The main objective of this study is to examine the barriers confronting Lao SMEs' access to finance and to identify the contribution of financial access to SMEs performance. In addition, factors enabling successful access to finance are investigated. 198 samples from a nation-wide survey are used for this study. The results show that access to finance could improve SMEs' performance. But Lao SMEs face various financial constraints such as collateral, complex application processes as well as a limited economic environment and options for financial sources. Only a small portion of SMEs are able to access finance. However, larger domestic firms, in terms of capital, which are determined to grow their businesses, seem to have a greater possibility of being able to access financial sources.*

*Keywords: Lao SMEs; access to finance*

*JEL Classification: F14; F23*

## 1. Introduction

Empirical studies show that financial access contributes to economic growth, and poverty reduction<sup>1</sup> (Beck, Demirguc-kunt, and Maksimovic, 2005 Rajan, and Zingles 1998). Therefore, access to finance has gained attention from policy makers to support SMEs' development. However, access to finance is a complex issue and needs to be understood from both the demand and the supply side.

The Lao financial system is still weak and its contribution to economic growth is quite small. The ratio of bank total assets and deposits to GDP was about 20% and the ratio of total loans to GDP was less than 10% in 2008. In addition, the State-owned commercial bank (SOCB) is dominant with a more than 60% share in terms of assets, deposits and loans (Kyophilavong, 2010). SOCB provides loans or credit mostly to large enterprises and State-owned enterprises (SOE). Therefore, it is difficult for SMEs to gain access to finance from Lao banks.

Lao SMEs are at an early stage of development and face various issues. Access to finance is one of the most important issues for SMEs in Laos. The Government of Laos (GoL) has a plan and a strategy to support SMEs in their bid to access finance in order to increase their performance and productivity. However, there is a lack of understanding of the characteristics of Lao SMEs' access to finance.

Despite the importance of access to finance, studies related to Lao SMEs in terms of access to finance are limited<sup>2</sup>. Therefore, the purpose of this study is to gain a better understanding of the characteristics of Lao SMEs' access to finance. In order to do this, this study has three more specific objectives. The first is to examine the issues of access to

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<sup>1</sup> Finance leads to increased growth through various channels. Firstly, finance supports growth by raising and pooling funds which allows firms to take more risky investment. Secondly, finance helps allocate resources to their most productive use. Thirdly, finance helps monitor the use of funds and provides an instrument for risk mitigation (World Bank, 2001; Claessens, 2006).

<sup>2</sup> There are a number of studies on SMEs' access to finance in some countries by Michaelas *et al.*, (1999), Cressy and Olofsson (1997), Jordan *et al.*, (1998), Vos *et al.*, (2007), and Tagoe *et al.*, (2005), and Claessens, Stiji, (2006).

finance. The second is to identify the effects of access to finance on their performance. The third is to assess the factors affecting access to finance. This study used information from an SME survey (196 samples) conducted by the author in November to December 2010.

The rest of this paper is organized as follows. Section 2 provides information on the situation of financial sectors. Section 3 overviews recent economic developments and barriers to SMEs. Section 4 provides background on survey methods and characteristics of SMEs. Section 5 provides information on the situation of SMEs' access to finance.

Section 6 discusses the characteristics of SMEs' access to finance by sector. Section 7 identifies the way in which access to finance affects SMEs performance and identifies the characteristics of SMEs access to finance. The final section concludes and contains policy recommendations.

## **2. Financial Sector Development and SMEs Promotional Policy**

### **2.1. Financial Sector Development**

The financial system is still at an early stage of development and its contribution to growth appears to be rather small in Laos.

As of the end of 2008, the banking sector consisted of (a) four State-owned commercial banks (SOCBs); (b) two joint-venture banks between private and government; (c) five private banks including joint ventures; (d) nine branches of foreign banks; and (e) three representative offices of foreign banks.

In addition, there were 37 Non-banks and financial institutions. SOCBs dominate the market with more than half of total assets and loans; and more than two-thirds of total deposits (Table 2-1). The two largest banks (BCEL and LDB) are fully owned by the government. BCEL maintains a dominant position accounting for approximately half of total deposits and loans. It suggests that the Lao-banking sector is dominated by SOCBs.

**Table 2-1. Market Share of Banking Institutions (as of June 2008)**

Financial Institution Types	Number	Assets		Deposit		Loan	
		Kip billion	%	Kip billion	%	Kip billion	%
State-owned Commercial Bank	4	7704	61	6542	69	2912	74
Joint Venture Bank + Private Bank	6	2971	24	1854	20	521	13
Foreign Bank Branch *)	11	1942	15	1050	11	521	13
<b>Total</b>	<b>21</b>	<b>12617</b>	<b>100</b>	<b>9446</b>	<b>100</b>	<b>3954</b>	<b>100</b>

*Source:* the Bank of Lao PDR.

*Note:* \*including representative Office of Foreign Bank.

The Lao financial market is relatively small and is still at an early stage of development because there are no alternative sources of funding. Only the banking sector supplies credit to the economy (Kyophilavong, 2010a). Laos established a stock market at the end of 2010. There are only two big companies trading as of March 2011.

Table 2-2 also shows the contribution made by the banking sector to the Lao economy. The Laobanking sector is relatively small when compared to the size of the economy. For instance, the ratio of total assets of the banking system to GDP is about 27 percent. This is particularly low for an economy with a non-diversified financial system, bank-based system (e.g. with no alternative, but where banks mainly supply loans). The low ratio of credit to GDP is due to three main causes, namely, the lack of skilled human resources, distorted price signals and weak legal enforcement of Nonperforming loans (NPLs). Therefore, strengthening the banking sector is one of the most important factors to support economic development in Laos (Kyophilavong, 2010a). Therefore it is difficult for SMEs to gain access to finance from the banking sector because it has supply-side constraints. It is important to strengthen and improve the financial sector in order to promote economic development, especially to find ways to support SMEs in order to diversify the economy.

**Table 2-2. Contribution of Banking Sector to Lao Economy  
(from December 2005 to June 2008)**

	(%)			
<b>Share by GDP</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Total Assets	22.4	25.8	28.49	27.02
Total Deposits	17.4	19.1	22.08	20.23
Total Loans	8.3	8.8	8.79	8.47
T-bills	0.68	0.74	n. a	n. a

*Source:* Bank of Lao PDR.

*Note:* - on June of 2008.

- n.a refers not available.

## **2.2. SME Promotional Policies**

The Government of Laos (GoL) has enhanced private sector development to promote growth (GoL, 2004). Therefore, in order to achieve this objective, GoL has established strategies and policies to support SMEs' development.

Before the introduction of the New Market Mechanism in 1986, most large enterprises were State-Owned Enterprises (SOEs). Since then, the government has embarked on a major privatization program with two pillars. The first was transferring SOEs to private ownership (including joint ventures with domestic and foreign enterprises). The second was the privatization of markets by allowing private enterprises (including foreign-owned enterprises) to operate more freely (Bird and Hill, 2010). As a result, the number of SOEs was reduced from more than 800 in the early 1990s to 149 in 2004. While the contribution of SOEs to the economy has declined, some industrial sectors (cement, steel, pharmaceuticals, food processing and beverages), the financial sector, and utilities are still state-owned.

In 1994 the government introduced the Business Law, which allowed enterprises to operate freely. In 2006, the government replaced the Business Law with the Enterprises Law in order to reduce administrative costs and barriers. This law introduced a negative list for registration, promised a 10-day registration period, and simplified registration procedures (Bird and Hill, 2010). The government also began to actively promote Foreign Direct Investment (FDI) by introducing the Law on Promotion and Management of Foreign Direct Investment in 1994. To promote FDI and provide more incentives, this law was amended in 2004.

These laws were important in promoting investment, but because foreign and domestic investors were covered under different investment laws, approval conditions and national treatment were compromised. In order to correct these weaknesses, in July 2009 the National Assembly passed a new investment law; it merges the domestic and foreign investment laws; moves towards national treatment for domestic and foreign investors; eliminates barriers for obtaining investment licenses; and defines investment incentives better (Bird and Hill, 2010).

In summary, GoL has considered private sector development as an engine of growth, therefore, GoL has introduced new laws, regulations and programs in order to support private sector development.

### **2.3. SME Promotion Policies and Financial Supports**

In order to promote SME and private sector development in Laos, GoL has promulgated Primary Office Decree No.42/PM. The goals of this decree are as follows: a) to improve the regulatory environment; b) to enhance the competitiveness of establishments; c) to expand domestic and international market access; d) to improve access to finance; e) to encourage the development of business organization; f) to enhance entrepreneurial attitudes and characteristics within society. Furthermore, Prime Minister's Degree No. 42/PM established the SME Promotion and Development Office (SMEPDO). The main objective of SMEPDO is to promote the establishment and sustainable development of SMEs.

Until now there has been no SME Promotion Bank. However, SMEPDO has introduced an SME fund decree in 2010. The main objective of the decree is to introduce rules and regulations on mobilizing and using SME funds to support SMEs. However, there is still a lack of supporting decrees and regulatory framework required to implement it.

### **3. Recent Economic Developments and Barriers to SMEs**

#### **3.1. Recent Economic Developments and the Role of SMEs**

SME development is crucial to sustain economic development. Even though Laos has maintained high economic growth, it still has serious macroeconomic issues to overcome. First, Laos is basically facing chronic twin deficits in government spending and in international trade. Deficit financing is mainly dependent on foreign sources. Secondly, recent economic development in Laos is highly dependent on resources such as mining and hydroelectricity. It shows that the Lao economy is not diversified and is at high risk of external shock and the effects of Dutch disease. Therefore, the strengthening of SME development is one of the most important factors for long term growth in Laos.

Various empirical studies have illustrated that resource-rich countries like Laos fail in accelerating growth compared with resource-poor countries for a number of reasons. One important cause of low growth in resource-rich countries is “Dutch disease”, a syndrome which occurs when capital inflows and resource booms give rise to an appreciation of the real exchange rate, which in turn has a negative effect on tradable goods production (Sachs and Warner, 2001; Coden and Neary, 1982). Tradable goods such as agricultural and industrial goods are the engines of long-term economic growth, and therefore a shrinking tradable sector leads to declining growth in the long-term.

In order to cope with Dutch Disease and to ensure long-term economic development, diversifying economic activity and appropriate macroeconomic management are crucial (Kyophilavong and Toyoda, 2008). SMEs play an important role in diversifying the economy and generating employment, income and new technology for long-term development.

#### **3.2. The Current Situation and Barriers**

Unfortunately, there is a lack of data on enterprises in Laos. Therefore, information about the contribution of SMEs to economic activities is not available. The NSC conducted The Economic Census in 2006 and provided initial information on the size distribution of



enterprises (NSC, 2007). The results showed that micro, small and medium-size enterprises dominated the private sector but there were few large firms in the economy. There were a total of 126,913 enterprises employing 346,000 persons. About 93 % of enterprises employed less than 5 workers. About 23% of enterprises were located in Vientiane, 30% in the north, 32% in the central region, and 16% in the south. The trade sector, including wholesale and retail, was the major source of employment, accounting for about 64% of all employment in all sectors. This survey showed that Lao enterprises were relatively small in terms of employment and sales (Kyophilavong, 2010b).

SME development seems to have expanded. GTZ (2008) conducted a survey of 390-460 registered establishments in 2005 and 2007, and the results showed that enterprise growth was quite dynamic. Most establishments reported that their activities were expanding. In addition, Kyophilavong *et. al.*, (2007) confirmed that about 10 % of establishments perceived their business as running very well and more than 17 % were optimistic about the future of their business.

According to my knowledge, there are three studies of barriers facing SMEs in Laos. First, GTZ (2008) provides information on changes in the awareness of barriers facing SMEs. The top four barriers facing SMEs in 2007 were: access to capital; finding skilled technical labor; access to technology and business development service providers; and increased fees and regulations. Secondly, Kyophilavong *et. al.*, (2007) carried out a survey of SMEs in 2006 and collected more than 16,000 samples. According to the survey results, the top three obstacles to running SMEs were taxation, macroeconomic stability, and access to finance. Thirdly, ADB-World Bank (2007) carried out a survey on the enterprise investment climate in 2005. The major constraints facing enterprises were identified as infrastructure, regulation, taxation, macroeconomic stability, and access to finance.

In sum, the main barriers for SMEs are access to finance, taxation and regulations, and the business climate, including macroeconomic stability.

## 4. Data Collection and Characteristics of SMEs

### 4.1. Description of Data Collection

In order to obtain a valid, representative sample, the survey was divided into two parts: the sampling section process and the survey process. The survey process used the same approach as a previous study<sup>3</sup> (Kyophilavong, 2010b).

The sampling is shown in Table 4-1 and 4-2. 198 samples were collected in the main cities and provinces in Laos. The sample included five sectors such as garments (18%), manufacturing (13%), wood processing/ handicraft (20%), construction material (13%), food/ beverages (26%).

**Table 4-1. Sample Distribution**

	<b>Sample</b>	<b>Percentage</b>
Vientiane	102	51.5
Savanakhet	46	23.2
Champasack	50	25.3
<b>Total</b>	<b>198</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

<sup>3</sup> The sampling process followed four steps.(1) Collection of a list of establishments from the tax department of the Ministry of Finance, and the enterprise register office at the Ministry of Industry and Commerce. (2) Selection of SMEs which had a contact phone number and detailed address. (3) Division of SMEs were by detailed sectors. (4) Division of SMEs by sectors into big, medium and small. The survey process was conducted as follows. (1) Interviewers (students and lecturers from FEBM), including a pre-test in order to gather feedback from the questionnaire translation. (2) SME owners/ directors to be interviewed were called to confirm their willingness to participate in the survey. (3) appointments were made with owners/ directors of establishments. (4) Face to face interviews were conducted.

**Table 4-2. Sample Framework**

	<b>Sample</b>	<b>%</b>
Construction Materials	27	13.64
Food/ Beverage	53	26.77
Garment	37	18.69
Manufacturing	26	13.13
Wood Processing/ Handicraft	40	20.20
Other	15	7.58
<b>Total</b>	<b>198</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

#### **4.2. Characteristics of SMEs**

Table 4-3 shows the characteristics of SMEs by sector in terms of number of employees, ownership, profits, sales growth, cost structure, source of intermediate inputs and products, and sales destination.

More than 60% of firms were established after 2000, which shows that SMEs are still in the early stages of development. More than half of firms are domestic SMEs. SMEs had profits of more than 19% of total sales in 2009 which was approximately 1% less than in 2008, which shows that SMEs might have been negatively impacted by the Global Financial Crisis in 2008. Sale growth was declined in 2008 due to the impact of the Global Financial crisis. Approximately 58% of SMEs are involved in exporting.

**Table 4-3. Characteristic of SMEs**

<b>Characteristic of Firm</b>	
Established since 2000 (%)	68.2
<i>Number of Employment (%)</i>	
1-5 person	35.4
6-49 person	44.9
<i>Educated Employment (%)</i>	
Tertiary Education	4.7
Vocational Training	13.1
<i>Ownership (%)</i>	
Domestic	54.0
Foreign	45.9
<i>Profit (%)</i>	
2008	18.69
2009	19.84
<i>Sale Growth (%)</i>	
2008	10.7
2009	20.4
<i>Cost Structure 2009 (%)</i>	
Labor	17.1
Raw Materials	42.55
Utility	14.8
<i>Product Sold (%)</i>	
Domestic	58.7
Export	41.3

*Source:* ERIA SMEs Survey in 2010.

Table 4-4 illustrates business capacity: firms' efforts to improve business processes or organizations, adopt new production methods, and introduce new goods to the market in the past three years. The results show that 40% of SMEs have met international standards. About 50% of SMEs bought new machinery or facilities with new functions into operation. And 45% of SMEs have introduced new products or service to the market in the past three years. In summary, most sectors have tried to improve their business processes, adopt new production methods, and introduce new products to the market, but their business capacity is still limited.

Most SMEs are family-run and about 20% of SME owners have experience in investing in and operating other businesses. About 46% of SMEs want to expand their business in the next few years. It shows that small number of SMEs owners have experiences in investing and operating other business (Table 4-5).

**Table 4-4. Business Capacity**

<b>Efforts for Improving Business Processes</b>	<b>%</b>
Met an International Standard	40.9
Introduced ICT Technologies	31.3
Established New Divisions or New Plants	28.8
Bought New Machines or Facilities	56.6
Improved Existing Machines, Equipment	62.6
Introduced New Know-How	56.1
Introduced New Products or Services to the Market in Past Three Years	46.5
To the New Market	42.9
By using the New Technologies	34.3

*Source:* ERIA SMEs Survey in 2010.

**Table 4-5. Experiences of Owner**

	<b>Percent</b>
The Majority Ownership of the Business by Members of the Same Family	52.5
Owner Invests in Others	18.2
Owner as Operator of these Other Business	27.8
Intend to Expand the Size and Scope of your Business	46.5

*Source:* ERIA SMEs Survey in 2010.

## **5. Situation of SMEs Access to Finance**

### **5.1. Source of Finance and Its Satisfaction**

SMEs face financial constraints for their business set-up and operation in Laos. The main sources of internal finance for business set-up and operations are from personal savings, retained earnings and loans from friends and relatives (Table 5-1 and 5-2).

In terms of sources of finance for set-up, personal savings of business owners, retained earnings and loans from friends and relatives make up the highest share which accounts for about 70% of total sources of finance. Less than 15% of SMEs have finance sources from financial institutions including credit cards, credit from government lending agencies, and micro-credit. Finance sources for operating are similar to finance sources for business set-

up, but the share of credit from government lending agencies is somewhat higher accounting for about 20% of the total.

In summary, the majority of financing for business set-up and operations comes mainly from internal financial sources such as personal savings, retained earnings and loans from friends and relatives. Very few SMEs are able to access loans from external financial sectors such as banks, financial institutions and micro-credit. It shows that SMEs are facing constraints in accessing financial sources especially in the external financial sector.

**Table 5-1. Sources of Finance for Set-up**

	<b>Frequency</b>	<b>Percent</b>
Financial-Institution including Credit Cards	13	3.0
Credit from Government Lending Agencies	38	8.6
Retained Earnings	96	21.8
Trade Credit Owing to Suppliers	38	8.6
Leasing	21	4.8
Personal Savings of Business Owner(s)	133	30.2
Loans from Friends or Relatives	70	15.9
Angels	13	3.0
Micro-credit	9	2.0
Other Sources of Financing	9	2.0
<b>Total</b>	<b>440</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

**Table 5-2. Source of Finance for Operating**

	<b>Frequency</b>	<b>Percentage</b>
Commercial or Personal Loans and Lines of Credit from Financial Institution including Credit Cards	29	6.6
Credit from Government Lending Agencies	90	20.5
Retained Earnings	84	19.2
Trade Credit Owing to Suppliers	19	4.3
Leasing	27	6.2
Loans from Employees	76	17.4
Personal Savings of Business Owner(s)	90	20.5
Angels	17	3.9
Micro-credit	0	0.0
Other Sources of Financing	6	1.4
<b>Total</b>	<b>438</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

About 80% of SMEs are not satisfied with financial institutions when they request financial support (Table 5-3). It shows that SMEs face various constraints in terms of accessing finance such as high opportunity costs, a complex documentation process, and lack of information from financial institutions.

**Table 5-3. Satisfaction of Financial Accession**

	<b>Frequency</b>	<b>Percent</b>
Very Satisfied	8	21.1
Satisfied	0	0.0
Neither Satisfied nor Dissatisfied	13	34.2
Dissatisfied	14	36.8
Very Dissatisfied	3	7.9
<b>Total</b>	<b>38</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

## **5.2. Recent Requests for Financing**

Only a small percentage of SMEs have requested finance. 73 SMEs have requested finance which accounts for about 30% of the total number of SMEs (198 firms) in this study.

There are three types of request for financing; request for lease financing, request for equity financing, and request for supplier and government financing. Requests for leasing financing is one of the highest shares accounting for 54.8% and next is requests for supplier and government financing which accounts for 26.0% and finally, requests for equity financing which accounts for 19.2% (Table 5-4). It shows that leasing finance has become popular for SMEs.

There are three periods of request for equity financing: the last 12 months, the last 3 years, and more than 3 years ago. Requests for financing in the last 12 months is the highest share, accounting for 46.6% and the second highest share is requests for financing in the last 3 years (Table 5-4). It shows that the number of requests for financing has increased recently due to increasing SME performance and financial system development, especially in the leasing business.

In financial sources, banks play an important role, accounting for 70% of total credit providers and 13% from financial institutes (Table 5-5). There are various reasons for choosing credit providers (Table 5-6). One of the most important reasons for choosing a financial institution is “Thought this credit supplier would offer the best credit terms and conditions” accounting for 30 % and “This was the regular financial institution for the business” accounting for 18%. The use of finance has various proposes but the main use of financial sources is for buying other machinery and equipment (22.4%); working capital/ operating capital (21.2%); buying vehicles/ rolling stock (13.5%) (Table 5-7).

From the analysis above, it can be seen that leasing finance seems to play an important role in SMEs being able to obtain machinery, vehicles and other equipment and their requests for leasing financing has increased mainly due to an increased supply of leasing firms.

**Table 5-4. Recent Request for Financing**

	Unit	The last 12 months	The last 3 years	More than 3 years ago	Total	Percent (%)
Request for Lease Financing	Freq.	19	19	2	40	54.8
	%	47.5	47.5	5	100	
Request for Equity Financing	Freq.	11	0	3	14	19.2
	%	78.6	0.0	21.4	100	
Request for Supplier and Government Financing	Freq.	4	3	12	19	26.0
	%	21.1	15.8	63.2	100	
<b>Total</b>	Freq.	<b>34</b>	<b>22</b>	<b>17</b>	<b>73</b>	<b>100.0</b>
	%	<b>46.6</b>	<b>30.1</b>	<b>23.3</b>	<b>100.0</b>	

Source: ERIA SMEs Survey in 2010.

**Table 5-5. The Last Financial Institution or Credit Supplier**

	Frequency	Percent
Bank	16	72.7
Microfinance Institution	3	13.6
Government Institution	1	4.5
Other	2	9.1
<b>Total</b>	<b>22</b>	<b>100.0</b>

Source: ERIA SMEs Survey in 2010.



**Table 5-6. The Reasons for Choosing Financial Institute**

	<b>Frequency</b>	<b>Percent</b>
This was the regular financial institution for the business	7	17.9
This was the only credit supplier in our area	2	5.1
Other credit suppliers would reject the application	5	12.8
This credit supplier would offer the lowest interest rate	6	15.4
This credit supplier would offer the best credit terms and condition	12	30.8
Others	7	17.9
<b>Total</b>	<b>39</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

**Table 5-7. Propose of using Finance**

	<b>Frequency</b>	<b>Percent</b>
Land and Buildings	11	6.5
Vehicles/ Rolling Stocks	23	13.5
Computer Hardware and Software	8	4.7
Other Machinery and Equipment	38	22.4
Working Capital/ Operating Capital	36	21.2
Research and Development	11	6.5
Debt Consolidation	7	4.1
Intangibles	6	3.5
Purchase a Business	5	2.9
To Grow the Business	18	10.6
Another Purpose	7	4.1
<b>Total</b>	<b>170</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

Credit suppliers require collateral for credit approval, accounting for about 50% and co-signer from spouse, family members and relatives which accounts for about 40% (Table 5-8). This shows that in order to obtain credit from a credit provider SME owners must, as a minimum, have collateral and co-sign from spouse or relatives. It is one of the biggest constraints for SMEs in accessing finance as most SMEs lack assets for collateral.

There are a number of documents which are requested as part of the application process such as a formal application for financing, business financial statements, a business plan, personal financial statement, appraisal of assets, and cash flow projection (Table 5-9). As many owners of SMEs have quite a low level of education, complex documents and

application processes are another important constraint on SMEs' access to finance. However, about 90% of requests have been approved either in the full amount or partial amount (Table 5-10).

**Table 5-8. Credit Supplier Require the Business to Provide**

	<b>Frequency</b>	<b>Percent</b>
Loan Guarantee	16	18.4
Collaterals	37	42.2
Co-signer	34	39.1
<b>Total</b>	<b>87</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

**Table 5-9. Documents were Requested as Part of the Application Process**

	<b>Frequency</b>	<b>Percent</b>
Formal Application for Financing	36	19.6
Business Financial Statements	28	15.2
Business Plan	29	15.8
Personal Financial Statement	30	16.3
Appraisal of Assets	29	15.8
Cash Flow Projection	24	13.0
Other Documentation	8	4.3
<b>Total</b>	<b>184</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

**Table 5-10. Credit Authorized as a Result of this Request**

	<b>Frequency</b>	<b>Percent</b>
The Full Amount was Authorized	34	73.9
A Partial Amount was Authorized	11	23.9
The Request was Turned Down	1	2.2
Application was Withdrawn	0	0.00
<b>Total</b>	<b>46</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

### 5.3. Request for Financial Type

#### 5.3.1. Details on Last Requests for Lease Finance

There are 41 SMEs, which account for about 20% of the total number of SMEs (198 firms) in this study which have requested new or additional capital lease financing. Requests which occurred during the last 12 months and last 3 years account for more than 90% (Table 5-11). It shows that recently, SME requests for leasing finance have been increasing.

There are various types of assets that SMEs try to acquire from leasing finance (Table 5-9). Their acquisitions include machinery and equipment (38.7%), vehicles (22.7%) and business or office space (17.3%) (Table 5-12).

**Table 5-11. The Most Recent Requests for Capital Lease Financing**

	<b>Frequency</b>	<b>Percent</b>
The last 12 months	19	46.3
The last 3 years	20	48.8
More than 3 years ago	2	4.9
<b>Total</b>	<b>41</b>	<b>100.0</b>

Source: ERIA SMEs Survey in 2010.

**Table 5-12. Type of Asset that the Firm Wants to Acquire**

	<b>Frequency</b>	<b>Percent</b>
Business or Office Space	13	17.3
Vehicles	17	22.7
Computer Hardware and Software	12	16.0
Other Machinery and Equipment	29	38.7
Other	4	5.3
<b>Total</b>	<b>75</b>	<b>100.0</b>

Source: ERIA SMEs Survey in 2010.

#### 5.3.2. Details on Requests for Equity Financing

There is a small portion of SMEs which request equity financing in Laos. There are 14 SMEs, accounting for 9.6% of total SME requests for equity financing (Table 5-13).

The request for equity financing has also increased recently; it shows that more than 70% of SMEs have requested equity finance in the last 12 months.

There is a small portion of requests for equity financing from a friend or relative of the business owners and a private investor from outside the firm compared with a crown corporation or government institution and other (Table 5-14).

**Table 5-13. The Most Recent Request for Equity Financing**

	<b>Frequency</b>	<b>Percent</b>
The last 12 months	11	78.6
The last 3 years	0	0.0
More than 3 years ago	3	21.4
<b>Total</b>	<b>14</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

**Table 5-14. Request Equity Financing From**

	<b>Frequency</b>	<b>Percent</b>
A friend or relative of the business owner	2	8.7
An employee of the business	0	0.0
A private investor from outside the firm unrelated to the firm and its owners	4	17.4
A crown corporation or government institution	9	39.1
Other	8	34.8
<b>Total</b>	<b>23</b>	<b>100.0</b>

*Source:* ERIA SMEs Survey in 2010.

### 5.3.3. Details on Requests for Supplier and Government Financing

There are 19 SMEs which account for about 10% of SME requests for supplier and government financing (Table 5-15). Requests for supplier and government financing seem to be declining. SMEs SMEs requests occurred mainly more than 3 years ago.

**Table 5-15. Requests for Supplier and Government Financing**

	<b>Frequency</b>	<b>Percent</b>
The last 12 months	4	21.1
The last 3 years	3	15.8
More than 3 years ago	12	63.2
<b>Total</b>	<b>19</b>	<b>100.0</b>

*Source:* ERIA SMEs survey in 2010.

## 6. Characteristics of SMEs in Accessing Finance by Sector

### 6.1. SMEs Access to Finance by Sector

In order to promote SMEs access to finance, the characteristics of SMEs by sectoral access to finance are identified. The results are shown in table 6-1. SMEs were divided into six sectors as follows; garment, wood processing/ handicraft, food/ beverage, construction materials, manufacturing, other sector.

Garment and wood processing/ handicraft request finance more than other sectors accounting for 27.9%, and 23% respectively. About 80% of garment-sector SMEs have requested financing in the last 3 years. On the other hand, only about 57.1% of wood processing and handicraft-sector SMEs have requested financing in the last 12 months.

**Table 6-1. SMEs Access to Finance by Sector**

	Unit	The last 12 month	The last 3 years	More than 3 years ago	Total	Percent (%)
Garment	Freq.	0	14	3	17	27.9
	%	0	82.4	17.6	100	
Wood Processing/ Handicraft	Freq.	8	4	2	14	23.0
	%	57.1	28.6	14.3	100	
Food/ Beverage	Freq.	4	3	2	9	14.8
	%	44.4	33.3	22.2	100.0	
Construction Material	Freq.	2	6	1	9	14.8
	%	22.2	66.7	11.1	100.0	
Manufacturing	Freq.	3	2	1	6	9.8
	%	50.0	33.3	16.7	100.0	
Other	Freq.	1	4	1	6	9.8
	%	16.7	66.7	16.7	100.0	
<b>Total</b>	<b>Freq.</b>	<b>18</b>	<b>33</b>	<b>10</b>	<b>61</b>	<b>100.0</b>
	<b>%</b>	<b>29.5</b>	<b>54.1</b>	<b>16.4</b>	<b>100.0</b>	

*Source:* ERIA SMEs Survey in 2010.

### 6.2. Last Request for Lease Finance by Sector

In terms of requests for lease financing, it seems that the garment and wood processing/ handicraft sector dominates with more than 50% of requests. Most of the garment and wood processing/ handicraft requests for leasing financing have occurred in the last 12 months and the last 3 years (Table 6-2).

**Table 6-2. Last Request for Leases Financing by Sector**

	Unit	The last 12 month	The last 3 years	More than 3 years ago	Total	Percent (%)
Garment	Freq. %	1 8.3	11 91.7	0 0.0	12 100.0	30.0
Wood Processing/ Handicraft	Freq. %	6 66.7	2 22.2	1 11.1	9 100	22.5
Food/ Beverage	Freq. %	3 75.0	1 25.0	0 0.0	4 100	10.0
Construction Material	Freq. %	4 66.7	2 33.3	0 0.0	6 100	15.0
Manufacturing	Freq. %	3 75.0	1 25.0	0 0.0	4 100	10.0
Other	Freq. %	2 40.0	2 40.0	1 20.0	5 100	12.5
<b>Total</b>	<b>Freq. %</b>	<b>19 47.5</b>	<b>19 47.5</b>	<b>2 5.0</b>	<b>40 100.0</b>	<b>100</b>

Source: ERIA SMEs Survey in 2010.

### 6.3. Requests for Equity Financing by Sector

The wood processing and handicraft and construction material sector requests for equity finance have been more than other sectors, accounting for about half of all requests. Two sectors have requested equity financing in the last 12 months (Table 6-3). It shows that requests for equity financing have been increasing due to increased demand of SMEs for this type of finance and also factors from the supply-side.

**Table 6-3. Requests for Equity Financing by Sector**

	Unit	The last 12 month	The last 3 years	More than 3 years ago	Total	Percent (%)
Garment	Freq. %	1 100.0	0 0.0	0 0.0	1 100.0	7.1
Wood Processing/ Handicraft	Freq. %	4 100.0	0 0.0	0 0.0	4 100	28.6
Food/ Beverage	Freq. %	2 100.0	0 0.0	0 0.0	2 100	14.3
Construction Material	Freq. %	2 66.7	0 0.0	1 33.3	3 100	21.4
Manufacturing	Freq. %	0 0.0	0 0.0	1 100.0	1 100	7.1
Other	Freq. %	2 66.7	0 0.0	1 33.3	3 100	21.4
<b>Total</b>	<b>Freq. %</b>	<b>11 78.6</b>	<b>0 0.0</b>	<b>3 21.4</b>	<b>14 100.0</b>	<b>100</b>

Source: ERIA SMEs Survey in 2010.

#### 6.4. Requests for Supplier and Government Financing by Sector

The Garment and Construction Material sectors make about half of all requests for supplier and government financing. Most construction material SMEs requests for supplier and government financing were made more than 3 years ago (Table 6-4). On the other hand, around half of garment sector requests for supplier and government financing were made in the last 3 years.

**Table 6-4. Requests for Supplier and Government Financing by Sectors**

	Unit	The last 12 month	The last 3 years	More than 3 years ago	Total	Percent (%)
Garment	Freq. %	1 25.0	2 50.0	1 25.0	4 100.0	21.1
Wood Processing/ Handicraft	Freq. %	2 66.7	0 0.0	1 33.3	3 100	15.8
Food/ Beverage	Freq. %	1 33.3	0 0.0	2 66.7	3 100	15.8
Construction Material	Freq. %	0 0.0	0 0.0	5 100.0	5 100	26.3
Manufacturing	Freq. %	0 0.0	1 50.0	1 50.0	2 100	10.5
Other	Freq. %	0 0.0	0 0.0	2 100.0	2 100	10.5
<b>Total</b>	<b>Freq. %</b>	<b>4 21.1</b>	<b>3 15.8</b>	<b>12 63.2</b>	<b>19 100.0</b>	<b>100</b>

Source: ERIA SMEs survey in 2010.

#### 6.5. Characteristics of Financial Services by Characteristics of SMEs.

This session investigates the characteristics of SMEs access to finance in terms of loan size, interest rate and term of loan. I have divided characteristics of firm into four categories: by year of establishment, by sector of industry, by firm size in terms of number of employment, and by firm size in terms of value (asset) of firm (Table 6-5). The results are explained as follows.

In firm access to finance by year of establishment, I have divided firms into two groups: firms which were established before 2000 and those established after 2000. There is not much difference in loan interest rate per month by firms' establishment year, but it is different in loan size and term of loan. Firm which were established before 2000 seem to

get larger loans from credit suppliers than the firms established after 2000. On the other hand, firm which were established after 2000 seem to have a longer term of loan from credit suppliers than firms established before 2000. It might be due to credit constraints from suppliers which could not provide longer terms of loans to firms.

In firm access to finance by sector, the sample size was divided into six sectors: garment; wood processing/ handicraft; food/ beverage; construction materials; manufacturing; other sector.

There is not much difference in loan interest rate by sector, although there were some differences in loan size and terms of loan. Manufacturing and garment seem to receive larger loan size from credit suppliers compared with other sectors. Despite having a large size of loan, the garment sector has a short term of loan and high loan interest rate. It shows that the garment sector seems to face more problems in accessing finance compared with other sectors.

In firm access to finance by size of firm in terms of employment, firm size is divided into five categories: 1-5 persons; 6-49 persons; 50-99 persons; 100-199 persons; and more than 200 persons. There are some differences in terms of loan size, interest rate and terms of loan. Large firms seem to have larger loan size but comparatively short terms of loan and have to pay higher interest rates. Most big firms prefer a longer term of loan for their cooperation and investment, but credit suppliers do not provide long term of loans for large firms. Suppliers might face credit constraints and consider the high risks involved in providing loans.

In access to finance by worth of firm, worth of firm is divided into five categories: less than \$25,000; \$25,000-\$100,000; \$100,000-\$500,000; \$500,000-\$10,00,000; over \$1 million. There are differences in loan size, loan interest rate, and term of loan by worth of firm. More valuable firms seem (high worth of firm) to receive larger-size loans than smaller firms which have a lower value. Surprisingly, large, valuable firms seem to pay a higher interest rate and have a shorter term of loan compared with lower value firms.

In summary, there are some differences in loan size, interest rate and terms of loan by year of firm establishment, sector, firm size and worth of firm. Large manufacturing firms



in terms of number of employment and value (worth of firm) which were established before 2000 seem to receive higher value loans but shorter period of term of loan. In addition, larger firms seem to pay higher interest rate than smaller firms. It could explain why credit suppliers, which are mainly from state-owned commercial banks (SOCB), put constraints on providing loans to firms.

**Table 6-5. Characteristics of Financial Service by Characteristics of SMEs**

	<b>Loan Size</b>	<b>Interest Rate per Month</b>	<b>Term of Loan (month)</b>
<b>By Establish Year</b>			
Before 2000	514243	1.3	19
Since 2000	64936	1.4	24
<b>By Sector</b>			
Garment	161364	1.5	5.9
Wood Processing/ Handicraft	42450	1.1	30.6
Food/ Beverage	23617	1.2	27.0
Construction Materials	72500	1.4	19.8
Manufacturing	787176	0.9	28.3
Other	12159	3.2	30.7
<b>By Size (Person)</b>			
1-5 persons	16798	1.3	16.7
6-49 persons	44644	1.3	32.3
50-99 persons	1277721	1.6	25.2
100-199 persons	162500	1.5	2.0
More than 200 persons	203000	1.5	8.6
<b>Worth of Firm (\$1000)</b>			
Less than 25	37089	1.4	16
25 – 100	45688	2.0	31
100 – 500	60845	1.3	23
500 – 1000	400000	1.3	2
Over 1 million	678060	1.0	24

Source: ERIA-SME Survey.

## 7. Factors Affecting Firm Performance and Access to Finance

### 7.1. Factors Affecting Firm Performance

Multi-regression model is used in order to investigate the factors affecting firm performance<sup>4</sup>. Firm performance is determined by various factors. A detailed explanation of variables is shown in Table 7-1.

The dependent variable is the percentage of profit in total sales in 2009, and the independent variable includes characteristics of firm, situation of access to finance, and characteristics of owner of firm. We used the Ordinary Least Square (OLS) method. In order to avoid multicollinearity in the independent variables, the correlation matrix method was employed. We chose variables which had correlations of less than 50%. We estimated firm's performance functions in order to investigate the impact of various variables on firm performance. The results are explained below.

The regression result is shown in table 7-2. The adjusted  $R^2$  of this model was 0.25 %, showing the model fitted quite well. Of 26 variables, there are 5 variables which were found to be statistically significant when assessing the performance of a firm. In 5 variables, we found four variables such as food/ beverage, domestic firm, management experience, and experience in other business which have a positive impact on firm performance. But one variable (overall source of financial operating) has a negative impact on firm performance. Here, overall source of financial operating is defined as a number of financial sources which includes sources from both formal and informal financial sources such as commercial or personal loans from financial institutions, credit from government lending agencies or government grants, micro-credit, retained earnings, trade credit owing to suppliers, leasing, loans from employees, personal savings of business owners, loans from individuals unrelated to the firm or its owner, and other sources of financing. The greater the number of financial sources, the greater the constraints on access to finance there

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<sup>4</sup> See more analysis on factors access to finance see Vos *et al.*, (2007); Cressy and Olofsson (1997); and Michaelas *et al.*, (1999).

will be. The empirical data confirm that constraints on access to finance has a negative impact on firm performance.

**Table 7-1. Variables for Regression**

Symbol	No. of QQ	Definition	Unit
Y1	Q6.A	Profit in Total Sale (2009)	%
X1	Q6.A	Sale in 2009	US\$
X2	Q6.B	Number of Employment	Number
X3	Q.A1	Request for Funding	Yes = 1
X4	Q.G1	Sources of Financial Operations	Number
X5	Q.2	Year of Establishment	2010 = 1
X6	Q4	Construction Materials	Yes = 1
X7	Q1	Food/ Beverage	Yes = 1
X8	Q2	Garment	Yes = 1
X9	Q3	Manufacturing	Yes = 1
X10	Q4	Wood Processing/ Handicraft	Yes = 1
X11	Q5	Domestic Firm	Yes = 1
X12	Q6	Tertiary in Total Employment	%
X13	Q7.B	Domestic Buyers	Domestic = 1
X14	Q8.A	Improving Business Processes/ Organization	Number
X15	Q8.B	Adoption of New Production Method	Number
X16	Q8.C	Introduction of New Products or Services	Yes = 1
X17	Q.E1	Age of the Largest Shareholder	Year
X18	Q.E2	Gender	Male = 1
X19	Q.E3	Management Experience	Year
X20	Q.E4	Languages Ability	English/ French = 1
X21	Q.E5	Net-worth of the Largest Shareholder	Number (1-5)
X22	Q.E6	The Largest Shareholder is Family Member	Yes = 1
X23	Q.E8	Owner as Operator of these Other Business	Yes = 1
X24	Q.E10	Experience in Other Business	Yes = 1
X25	Q.F1	Business Expansion	Yes = 1
X26	Q.F4	Obstacles to Growth of Business	Number

Source: ERIA SMEs Survey in 2010.

**Table 7-2. Factors Affecting Firm Performance**

Symbol	Definition	Coefficient	t-value
X1	Sale 2009	-0.000	-0.4
X2	Number of Employment	-0.005	-0.4
X3	Request for Funding	-3.593	-1.4
X4	Sources of Financial Operations	-2.501	-2.1 **
X5	Year of Establishment	-0.254	-1.5
X6	Construction Materials	0.974	0.2
X7	Food/ Beverage	6.998	1.67 *
X8	Garment	-2.939	-0.6
X9	Manufacturing	-1.824	-0.4
X10	Wood Processing/ Handicraft	4.446	1.1
X11	Domestic Firm	7.326	1.8 *
X12	Tertiary in Total Employment	-0.035	-0.5
X13	Domestic Buyers	-1.14	-0.3
X14	Improving Business Processes/ Organization	-0.021	0.0
X15	Adoption of New Production Method	0.171	0.1
X16	Introduction of New Products or Services	-0.690	-0.3
X17	Age of the Largest Shareholder	0.118	1.5
X18	Gender	2.715	1.1
X19	Management Experience	0.737	2.9 ***
X20	Languages Ability	0.4	0.1
X21	Net-worth of the Largest Shareholder	-1.203	-1.4
X22	The Largest Shareholder is Family Member	-1.106	-0.4
X23	Owner as Operator of these Other Business	-1.649	-0.6
X24	Experience in Other Business	8.525	2.8 ***
X25	Business Expansion	-4.08	-1.6
X26	Obstacles to Growth of Business	-0.185	-0.3

*Source:* Author's estimation from ERIA SMEs survey in 2010.

*Note:* \*, \*\*, an\*\*\*indicates that the coefficient are significant at the 10%, 5% and 1% level, respectively.

## 7.2. Determinants of Factors Affecting SME Access to Finance

In order to assess the factors that influence access to finance , the logit model is used. This model is particularly suited to the task at hand because it is designed to handle regressions involving dichotomous dependent variables<sup>5</sup>. This consideration is singularly

<sup>5</sup> The same framework was used to analysis the factors affect on production network in Lao SMEs, see more details in Kyophilavong (2010b).

important since business owners were asked to say whether they requested financing or not. These responses, coded 1 for 'request for financing' and coded 0 for other, is called the dependent variable. Here, it is important to note that 'Request to finance' is proxy for 'Access to finance'. The explanatory variables describe various attributes of type of establishment, type, size and etc (for more details see Table 7-3).

We used a logit model to estimate the factors affecting access to finance for Lao SMEs. The results of the logit model are shown in Table 7-4. In 25 dependent variables, five variables were found to be statistically significant on firm's access to finance. Food/ beverage and garment were found to have a negative impact in terms of firm's access to finance. On the other hand, domestic firms, improving business processes/ organization, net worth of the largest shareholder (size of firm in terms of capital) were found to have a positive impact on access to finance. The empirical result shows that domestic large firms which have seen improvement in their business have a greater possibility of being able to access finance.

**Table 7-3. Definitions of Variables for Model**

<b>Variables</b>	<b>No of QQ</b>	<b>Definition</b>	<b>Unit</b>
Y	Q.A1	Request for Funding	Yes = 1, No = 0
X1	Q6.A	Profit in Total Sale (2009)	%
X2	Q6.A	Sale in 2009	US\$
X3	Q6.B	Number of Employment	Number
X4	Q.2	Year of Establishment	2010 = 1
X5	Q4	Construction Materials	Yes = 1
X6	Q1	Food/ Beverage	Yes = 1
X7	Q2	Garment	Yes = 1
X8	Q3	Manufacturing	Yes = 1
X9	Q4	Wood Processing/ Handicraft	Yes = 1
X10	Q5	Domestic Firm	Yes = 1
X11	Q6	Tertiary in Total Employment	%
X12	Q7.B	Domestic Buyers	Yes = 1
X13	Q8.A	Improving Business Processes/ Organization	Number
X14	Q8.B	Adoption of New Production Method	Number
X15	Q8.C	Introduction of New Products or Services	Yes = 1
X16	Q.E1	Age of the Largest Shareholder	Year
X17	Q.E2	Gender of the Largest Shareholder	Male = 1
X18	Q.E3	Management Experience	Year
X19	Q.E4	Languages Ability of the Largest Shareholder	English/ French = 1
X20	Q.E5	Net-worth of the Largest Shareholder	Number (1 – 5)
X21	Q.E6	The Largest Shareholder is Family Member	Yes = 1
X22	Q.E8	Majority Owner as Operator of these Other Business	Yes = 1
X23	Q.E10	Experience in Other Business	Yes = 1
X24	Q.F1	Business Expansion	Yes = 1
X25	Q.F4	Obstacles to Growth of Business	Number

*Source:* ERIA SMEs Survey in 2010.

**Table 7-4. Factors Affect Request for Financing**

Variables	Definition	Coefficient	z-value
X1	Profit in Total Sale (2009)	-0.032	-1.25
X2	Sale in 2009	-0.000	-1.11
X3	Number of Employment	0.002	0.89
X4	Year of Establishment	-0.081	-1.52
X5	Construction Materials	-0.985	-0.86
X6	Food/ Beverage	-2.525	-2.06 **
X7	Garment	-2.861	-2.05 **
X8	Manufacturing	-2.609	-2.1
X9	Wood Processing/ Handicraft	-0.843	-0.8
X10	Domestic Firm	3.018	2.22 **
X11	Tertiary in Total Employment	0.0131	0.65
X12	Domestic Buyers	-0.687	-0.8
X13	Improving Business Processes/ Organization	2.568	3.54 **
X14	Adoption of New Production Method	-0.903	-1.14
X15	Introduction of New Products or Services	0.794	1.22
X16	Age of the Largest Shareholder	0.018	0.81
X17	Gender of the Largest Shareholder	-0.582	-0.91
X18	Management Experience	0.125	1.56
X19	Languages Ability of the Largest Shareholder	0.333	0.44
X20	Net-worth of the Largest Shareholder	0.411	1.73 *
X21	The Largest Shareholder is Family Member	0.255	0.28
X22	Majority Owner as Operator of these Other Business	0.783	0.94
X23	Experience in Other Business	0.747	0.94
X24	Business Expansion	-0.163	-0.24
X25	Obstacles to Growth of Business	0.222	1.24
	Constant	-5.066	-2.36
Number of Obs.		160	
LR chi2 (31)		89.78	
Prob > chi2		0	
Pseudo R2		0.441	

*Source:* Author's estimation from ERIA SMEs survey in 2010.

*Note:* \*, \*\*, and \*\*\* indicates that the coefficient are significant at the 10%, 5% and 1% level, respectively.

## **8. Conclusion and Policy Recommendations**

Lao SMEs are at an early stage of development and face various problems. One of the most important issues is access to finance. The main objective of this study is to gain a better understanding of the characteristics of Lao SMEs' access to finance.

Some SMEs have improved their businesses and adopted new production methods, but this is only a small portion of the total number. Lao SMEs have performed quite well recently with total average profits of about 19%. Empirical results confirm that SMEs which have constraints on financial access have poor performance compared to SMEs which do not have constraints on access to finance. There are few SMEs which could gain access to finance, about 20% of SMEs (198 firms) in this study. However, the trend towards access to finance has increased recently due to financial sector improvement, liberalization of the financial sector and the demand for finance. However, there are various constraints on access to finance such as collateral, the complex application process and lack of information from financial institutions. About 80% of SMEs which request finance are not satisfied with the lending terms of financial institutions. Domestic firms which have a large size in terms of capital and can manage to improve their business innovation seem to have greater opportunities to access finance.

In order to promote SMEs as an engine of growth, it is important to help them to gain access to finance. It is important for policy makers to take into consideration the following.

Firstly, it is clear that the high cost of accessing finance and financial services is not diversified in Laos. Therefore, it is important for policy makers to improve the financial system, and liberalize the financial sector in order to increase competition and have greater diversification in the financial sectors. Secondly, whilst the business climate remains poor and SMEs are still at an early stage of development and face various difficulties. Therefore, it is important for policy makers to improve the business climate in order to minimize the cost of doing business and improve innovation and productivity. Thirdly, as SMEs are facing heavy constraints on access to finance, it is important for policy makers to provide training on access to finance and induce credit guarantee schemes for SMEs. In



addition, the establishment of banks or financial institutions for SMEs needs to be considered.

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