



MFA Newsletter

4th Issue, July 2014

EDITORIAL

Dear Readers,

We are happy to present you the 4th edition of the MFA Newsletter. This time around the publication focuses on topics related to social and financial performance of MFIs.

The first article highlights the Smart Campaign, a worldwide effort by microfinance leaders to put the interests and the protection of clients first in all microfinance operations.

In the second contribution we present the results of the MFA's Performance Monitoring & Benchmarking system, trying to describe and interpret the evolution of the major performance ratios over the past 2 years, i.e. since the establishment of this system.

And as always, the Newsletter contains a page with the latest MFA news, institutional developments and activities.

We hope you will find this edition of our Newsletter of interest.

Sincerely yours,

Pamouane Phetthany
MFA Director

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UPCOMING EVENTS

Asia Microfinance Forum 2014, Shanghai ,
China 4 – 8 August



Smart Campaign helps boost Client Protection

Experience has shown that microfinance does not automatically and inevitably improve the lives of poor clients. Therefore, MFIs should not only look at their financial sustainability but also at the benefits their operations bring to clients – i.e. their social performance. The “Smart Campaign” is part of wider efforts to improve social performance. It is a tool that helps protect clients of MFIs.

What is the Smart Campaign?

The Smart Campaign is an effort by microfinance leaders from around the world to reach a common goal: to keep clients as the driving force of the microfinance industry and to put the interests of clients first. In order to achieve this goal, the campaign strives to provide MFIs with the tools and resources they need to deliver transparent, respectful, and prudent financial services to their clients.

The centerpiece: the Client Protection Principles (CPP)

The 7 Client protection principles that were initially extracted from a number of existing codes of conduct in 2008 are at the heart of the Smart Campaign. The CPP are as follows:

1. Appropriate product design and delivery: Design products and delivery channels in such a way that they do not cause clients harm.
2. Prevention of over-indebtedness: Determine that clients have the capacity to repay without becoming overindebted.
3. Transparency: Communicate clear, sufficient and timely information in a manner and language clients can understand.
4. Responsible pricing: Set pricing, terms and conditions in a way that is affordable for clients.
5. Fair and respectful treatment of clients: Treat clients fairly and respectfully, not dis-

criminate and ensure adequate safeguards to detect and correct corruption.

6. Privacy of clients data: Respect the privacy of individual client data in accordance with the applicable laws and regulations.
7. Mechanisms for complaint resolution: Put in place timely and responsive mechanisms for complaints and problem resolution for clients.

The MFIs that endorse the Smart Campaign commit themselves to fully integrate the CPP into all microfinance operations. There is a strong business case for MFIs to do this: it helps them build stronger relationships with clients, increases client retention and reduces financial risk.

The Smart Campaign in Laos

Back in 2011, the MFA/MFWG had organized a ToT on “Social Performance Management” which also included a presentation and discussion of the Client Protection Principles (CPP).

At the member meeting in April 2014, the MFA introduced the Smart Campaign to its members and presented a draft Code of Conduct for MFA members which focuses on the CPP. This Code will be endorsed by all member MFIs.

So far 3 Lao MFIs as well as ACLEDA Bank Laos and the MFA have endorsed the Smart Campaign.

Endorsement, self-assessment and tools:

However, endorsement of the Smart Campaign (<http://smartcampaign.org/>) is just a first step. MFI endorsers are encouraged to conduct a self-assessment using the [Getting Started Questionnaire](#) which will help them to assess their client protection practices. The self-assessment is a further step towards Certification. This is a third-party evaluation to publicly recognize financial institutions that meet all 30 standards defined for the CPP.

And finally it should be noted that the Smart Campaign offers [over 60 practical tools](#) to help MFIs implement the client protection principles. All these tools are available for download free of charge.

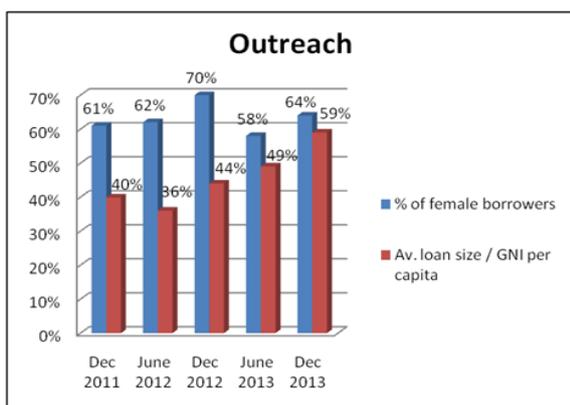


MFA monitors MFI Performance

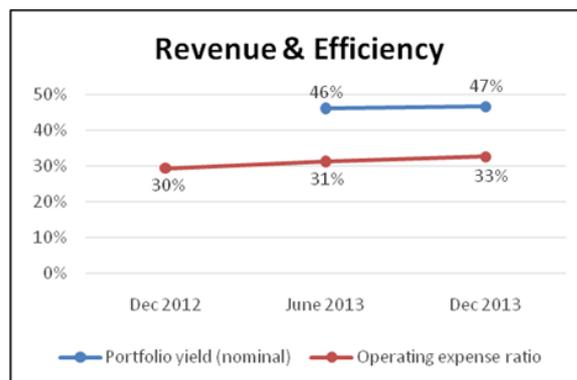
Since 2012, the MFWG/MFA has been collecting, processing and publishing financial performance data from its member MFIs on a half-yearly basis. The number of reporting members increased from 13 for the December 2011 data to 20 for the data as per December 2013. Although this represents only one third of all the MFIs supervised by the regulator (BOL), these 20 MFIs account for roughly 85% of active borrowers and close to 80% of aggregated total assets and loan portfolio of the regulated micro-finance sector. Therefore, the results of the MFA Performance Monitoring System presented here can be regarded as quite representative for the sector. Since 2013, the MFA has used the so-called 'Factsheet' for collecting data from its members which makes them more consistent and reliable. However, we should add a word of caution: The time series presented here are not long enough to allow us to draw any clear cut and absolute conclusions, but can only indicate some trends.

Outreach

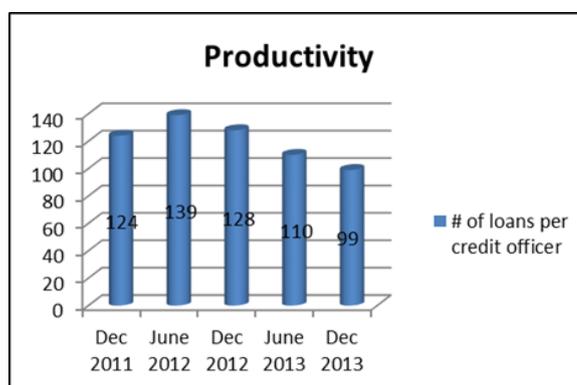
As the graph below indicates, there is a clear trend over the past two years of increasing average loan sizes, both in absolute terms and as percentage of GNI per capita. On the other hand, as far as the proportion of female borrowers is concerned no clear trend can be detected. However, as the benchmarking table on the next page shows, this proportion is considerably lower for Laotian MFIs than it is in the case of MFIs in other Asian countries.



Efficiency and Productivity



The MFA figures seem to indicate that efficiency as measured by the operating expense ratio diminishes slightly between 2012 and 2013. There are no reliable data available for the period before 2012. Regardless of whether or not this is a trend, these values are very high by international standards (see also benchmarking matrix) and indicate an urgent need to reduce operating expenses, among other things by reaching economies of scale. Along the same lines, the level of portfolio yield is high by international standards, reflecting the high interest rates charged by Lao MFIs.

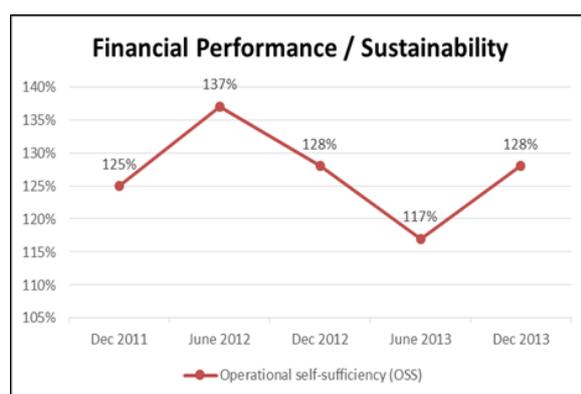


Likewise, MFA data indicate a relatively sharp drop in productivity as expressed by the number of loans per credit officer, from 124 in 2011 to 99 in 2013. This slump may partly be explained by the low productivity levels of some new market entrants, although this trend can be observed with almost all the MFIs that have reported to the MFA since 2011.



Financial performance

Over the last two years Lao MFIs have been able to maintain a sound level of operational self-sufficiency. There have been some major fluctuations between the June and December data points, but all in all the level of the ratio has remained more or less stable.



Portfolio quality



As can be seen in the above figure, PAR30 has significantly deteriorated between 2011 and 2013, from about 6% to roughly 9%. While an increase in this ratio can be observed across all three MFI categories, it is most pronounced in the case of DTMFIs. On the other hand, the SCUs have constantly had a high PAR30 (almost always above 10%) and are thus responsible for the generally high level of this ratio compared to other Asian countries.

Lao Microfinance Association (MFA)

MFI Performance Benchmarking December 2013 (Data as of 31st December 2013)

(Lao MFIs: Self-reported data)

Ref	INDICATORS	Lao MFI Peer Groups (December 2013)				MFIs other Asian countries (medians, 2012) (1)				Industry Standards
		Average NDTMFIs (6)	Average SCUs (7)	Average DTMFIs (7)	Overall Average Lao MFIs (20)	Vietnam (36 MFIs)	Cambodia (19 MFIs)	Philippines (25 MFIs)	East Asia & Pacific Small Scale (2) (77 MFIs)	
A) Institutional Characteristics										
1	Gross Loan Portfolio (USD)	733'163	243'257	1'525'773	839'110	840'340	19'724'520	11'771'855	410'802	
2	Total Assets (USD)	916'380	324'339	2'330'479	1'204'100	936'241	58'514'279	25'278'076	465'691	
3	Number of staff	18	8	39	24	26	213	316	12	
B) Outreach										
4	Number of active borrowers (female and male)	1'517	392	2'288	1'393	5'012	41'480	42'744	1'386	
5	% of female borrowers	81%	64%	54%	64%	99%	79%	97%	93%	
6	Average outstanding loan size (USD)	652	617	966	750	161	1562	195	253	
7	Average outstanding loan size / GNI per capita (3)	51%	49%	76%	59%	12%	186%	9%	14%	
C) Financial Performance										
8	Operational Self-Sufficiency (OSS)	150%	121%	116%	128%	144%	131%	113%	113%	>= 100%
9	Return on Assets (RoA)	9.5%	5.8%	3.1%	5.8%	7.2%	4.3%	1.2%	0.4%	>= 2%
10	Return on Equity (RoE)	24.9%	13.6%	21.8%	19.6%	15.8%	21.3%	17.9%	4.4%	>= 15%
D) Efficiency and Productivity										
11	Number of loans outstanding per credit officer	120	81	99	99	376	327	299	250	>= 150 / 300
12	Operating expense ratio	26.2%	37.7%	32.3%	32.7%	13.1%	14.5%	36.4%	13.4%	<= 20%
13	Portfolio yield	47.4%	46.5%	46.5%	46.7%	22.4%	30.4%	46.5%	18.4%	
E) Portfolio Quality										
14	Portfolio at risk 30+ days (PAR30)	3.0%	12.7%	10.4%	9.0%	0.2%	0.2%	5.5%	1.8%	<= 5%

Notes:

The Lao MFI data used for establishing these benchmarks are based on self-reported data from Lao MFIs

Exchange rate applied: 1 USD = 8,025 Kip (BoL Reference Rate as of 30/12/13)

(1) Source: Mix Market, Cross-Market Analysis database, values indicated are medians

(2) Compound Peer Group "East Asia and Pacific Small Scale", i.e. MFIs from this region with a GLP < US\$2 Million

(3) GNI per capita for Laos in 2012 was US\$1,270 (Source: WB, World Development Indicators); official data for 2013 are not yet available.



MFA News

MFA facilitated workshop on Micro-insurance for MFIs

In January 2014 the MFA, in partnership with Allianz General Laos (AGL) and the Micro-finance Center (MFC), conducted a workshop to discuss how to introduce microinsurance in Laos. It gathered almost 55 representatives of microfinance institutions, development agencies and the Lao Postal Savings Institute. A representative of the Germany-based Allianz Group gave a general introduction to microinsurance and presented a micro-credit life insurance product tailored to the Laotian market.

Exposure visit to Cambodia Microfinance Association (CMA)

Also in January, 2 representatives of the MFA Board of Directors, 3 from the Audit Committee and the Director paid a visit to the Phnom Penh based CMA in order to learn from the experienced network about governance issues, especially regarding Board roles and responsibilities, CMA policy and guidelines. The group was also able to visit some members of the CMA.

MFA held 1st CEO Club meeting

On 9th April 2014, the MFA organized the first CEO Club meeting. The establishment of this club had been recommended by the Network Capacity Assessment (NCAT) conducted by SEEP in late 2013. The club allows members to build business relationships, share good practices and promote fellowship. At this first meeting, the MFI managers present discussed the NCAT report and the MFA service package, among other things.

1st Member meeting 2014 discussed Smart Campaign

At the 1st MFA member meeting on 9th April, the MFA Director introduced the Smart Campaign to the members present. She highlighted the principles and standards of client protection, the approach of the Smart Campaign, the client protection certification process as well as the tools available for improving client protection.

The presentation can be download here [\[download pdf\]](#).

Code of Conduct for MFA members approved

At the same member meeting, the MFA presented the newly designed Code of Conduct for MFA members [\[download pdf\]](#). This Code had already been approved by the MFA Board in March 2014. The member meeting decided that all existing MFA members will be required to endorse the Code and that for new members endorsement will be a prerequisite for membership.

Funding agreements with ADA and UNCDF inked

In early May, the MFA was able to sign a new co-financing agreement with the Luxembourg-based NGO ADA. The agreement covers a 2 year period, until the end of March 2016. In addition, in June the MFA inked a financing agreement (*Performance Based Agreement – PBA*) with UNCDF, the UN Capital Development Fund, which also runs over a period of two years.

Strategic Planning workshop held

On 27th June 2014, the MFA carried out a planning workshop to hammer out a new strategy for the years 2015 to 2017. All members of the Board and Management as well as a few former Board members participated in the workshop. Based on the outcomes of these discussions, the MFA Management team will now draw up the actual document over the coming 2 months.

Permanent license for the MFA

As reported in the last MFA Newsletter, the Ministry of Home Affairs (MoHA) had issued a temporary license for the MFA in October 2013. The MFA having met all the necessary requirements, the temporary license will be converted into a permanent one in the coming months.



Useful Microfinance Websites:

- Banking With The Poor Network (BWTP):
www.bwtp.org
- Social Performance Task Force (SPTF):
www.sptf.info
- Consultative Group to Assist the Poor (CGAP):
www.cgap.org
- Microfinance Information Exchange (MIX):
www.mixmarket.org
- Microfinance Gateway:
www.microfinancegateway.org
- SEEP Network:
www.seepnetwork.org
- World Bank Data - Global Findex:
<http://datatopics.worldbank.org/financialinclusion/country/lao-pdr>
- Microfinance Transparency:
www.mftransparency.org



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