MICROFINANCE INDUSTRY REPORT

Lao People's Democratic Republic

2010

Produced by the Banking with the Poor Network in collaboration with the Foundation for Development Cooperation.

Funded by the Citi Foundation as an activity of the Citi Network Strengthening Program.

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The Foundation for Development Cooperation was incorporated in 1990 in Queensland, Australia, and is an independent, not-for-profit international development organisation. Through alliances and partnerships, FDC undertakes a range of initiatives which seek to improve the lives of poor people in developing countries. FDC is a Charitable Institution, has Deductible Gift Recipient status and is exempt from Income Tax.

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ii. Foreword

This assessment was completed as a Banking With the Poor Network (BWTP Network) activity of the Citi Network Strengthening Program, in collaboration with the Foundation for Development Cooperation and funded by the Citi Foundation.

The Citi Network Strengthening Program supports the development of Industry Assessments for national and regional level networks. The purpose of the BWTP Network Industry Assessments is to provide an overview of the microfinance sectors in which the BWTP Network operates. These assessments aim to extend beyond the performance of individual institutions, and focus on the development of the microfinance market as a whole by being both descriptive and analytical in nature. The aim of these assessments is to provide an outlook on each industry that is a valuable resource to the BWTP Network, its members and the wider microfinance community.

The 'Microfinance Industry Report: Lao PDR' is a review of the microfinance sector in the Lao PDR, and constitutes a new contribution to the BWTP Network's Asia Resource Centre for Microfinance (ARCM).

The ARCM is based on dialogue and information exchange at national and regional levels in South and Southeast Asia, and aims to constitute a one-stop learning and information hub for BWTP members and other microfinance actors in Asia.

The ARCM promotes increased outreach and efficiency of financial services for the poor in South and Southeast Asia, services that are essential in the fight against poverty in the region, improving the lives of millions through asset building and increased income.

The ARCM has two main objectives:

- First, the ARCM aims to encourage partnerships and cooperation in Asia, among microfinance providers and supporters, and between providers and financiers, in order to increase financial support for microfinance schemes and to increase peer learning.
- Second, the ARCM aims to build a knowledge management platform accessible to all microfinance actors in the Asia region, in order to increase institutional capacity, to increase the dissemination of innovations, and to develop regional and sub-regional standards in microfinance.

iii. Acknowledgements

The 'Microfinance Industry Report: Lao PDR' was ably produced by Mr Timo H. Hogenhout under the direction of Jamie Bedson, BWTP Network Program Manager and Asia Regional Representative at The Foundation for Development Cooperation (FDC). The BWTP Network and FDC wishes to thank Mr Hogenhout for both undertaking this assignment and providing such a comprehensive assessment.

This report benefitted from expert peer reviews provided by Mr Jon Wynne-Williams, Principal at Coffey International Development Ltd and Mr Somphone Sisenglath, Director of the Microfinance Center Laos PDR.

The 'Microfinance Industry Report: Lao PDR' is based upon extensive desk research and personal interviews conducted by the author. All efforts have been made to provide up-to-the minute and accurate data on the sector, however the report recognises that there remains a dearth of data on key aspects of the sector. The BWTP Network looks forward to providing regular updates on new research in Lao PDR as it becomes available.

iv. Acronyms

- **AARMC** ACLEDA-ASEAN Regional Microfinance Center
- **ADB** Asian Development Bank
- **APB** Agricultural Promotion Bank
- **BOL** Bank of Lao PDR
- **CCSP** Credit Cooperative for Small Producers
- **CGAP** Consultative Group to Assist the Poor
- **CMLFs** Community Managed Loan Funds
- **CMP** Catalyzing Microfinance for the Poor
- **COA** Chart of Accounts
- **CODI** Community Organisational Development Institute
- **DPF** Depositor Protection Fund
- **EMI** Ekphatthanna DT MFI
- **FIAM** Foundation for Integrated Agricultural and Environmental Management
- **GOL** Lao PDR government
- **GTZ** German Technical Cooperation
- **IFAD** International Fund for Agricultural Development
- **IFC** International Finance Corporation
- **ILO** International Labour Organisation
- **Lao PDR** Lao People's Democratic Republic
- **LBF** Lao Business Forum
- **LCSDPA** Lao Community Sustainable Development Promotion Association
- **LDC** Least Developed Country
- **LPRP** Lao People's Revolutionary Party
- **LWU** Lao Women's Union
- **MAF** Ministry of Agriculture and Fishery
- **MB** Microbanker
- **MDG** Millennium Development Goal
- **MFC** Microfinance Center Lao PDR
- **MF** Microfinance
- **MFIs** Micro-finance institutions
- **MPI** Ministry of Planning and Investment
- **NALD** Non-profit Association of Lao Development and Environment
- **NDT MFI** Non Deposit Taking MFI
- **NGPES** National Growth and Poverty Eradication Strategy
- **NSEDP** National Social Economic Development Plan
- **NTPC** Nam Theun-2 Power Company
- **OCISP** Oudomxay Community Initiatives Support Project
- **PAR** Portfolio at Risk
- **PMO** Prime Minister's Office
- **RDMA** Rural Development in Mountainous Areas
- **RDPEC** Rural Development and Poverty Eradication Committee
- **RF** Rabobank Foundation
- **RFSDP** Rural Financial Sector Development Project
- **RMF** Rural and Microfinance
- **SCU** Saving and Credit Unions
- **SOCBs** State Owned Commercial Banks
- **TA** Technical Assistance
- **THPC** Theun Hinboun Power Company
- **UNESCO** United Nations Educational, Scientific and Cultural Organization
- **VDFs** Village Development Funds
- **VRF** Village Revolving Funds
- **VSCG** Village Savings and Credit Groups
- **WEC** World Education Consortium

Average rate as of February 2010

US Dollar (USD) 1.00 = Lao Kip (LAK) 8,500

1. The Lao PDR: Country Overview

The Lao People's Democratic Republic (Lao PDR) is a landlocked country in South East Asia, bordered by China, Myanmar, Thailand, Cambodia and Vietnam. It has a diverse ethnic population of some 6.3 million people[1]. Roughly 50% of the population consists of ethnic Lao people, the most dominant, powerful and affluent of all ethnic groups, who live in lowland areas, where the Mekong river and its tributaries determine the landscape, habitation and much of the economic activity. The rest live in hilly and upland areas, with poorer vegetation and livelihoods.

The predominant "religions" are Theravada Buddhism and Animism. The common spoken language is Lao, a language similar to Thai. Laos is a country where agriculture is prevalent. 80% of all and 90% of poor households live in rural areas and are engaged in (subsistence) farming, often combined with other income generating activities. Due to mountainous terrain and unexploded ordinance from the era of widespread bombing of Laos by the United States of America between 1964 and 1975 (the American or Vietnam war), which has contaminated 37% of the total surface, arable land makes up approximately 4% of the total land area.

The Lao PDR is scarcely populated, with an average of about 25 people per square kilometer. It has a young population with a median age of only 19.2 year and a high (2.3%), but declining, population growth rate. The average number of births per female is declining, as are child mortality rates, while life expectancy is rising.

Roughly 2/3 of the landscape of the Lao PDR, in the north to the borders with China and Myanmar and to the east to the border with Vietnam, is hilly and mountainous. These areas are remote, lack infrastructure (accessible roads, telecommunication, electricity, sanitation) and have less fertile land. These areas, away from the lowland Mekong river plain, have the poorest districts and are predominantly inhabited by people from the ethnic minorities.

1 Population Division of the Department of Economic and Social Affairs of the United Nations secretariat (2009), World Population Prospects: the 2008 revision.

The Lao PDR is one of the most ethnically diverse countries in the world, with 49 official ethnic groups, comprised of some 200 ethnic subgroups. The population can be grouped into four broad ethnic categories: Lao-Tai, Mon-Khmer, Hmong-Iu Mien and Sino-Tibet, with a variety of languages spoken. Moreover, while most of the non-Lao-Tai live in upland areas, there is a wide disparity in geographic, economic and social living conditions, aside from its cultural diversity. This disparity adds further dimension to the already challenging task of reducing poverty and moving a subsistence-oriented and low-income country out of the Least Developed Countries category by 2020, which is the target that has been set by the Lao government.

Laos is rich in minerals, boasts many forests, and generates much hydropower from dams on its rivers. The development potential of those resources has only recently been realised and acted upon. Being landlocked, Laos has, of late, been increasingly interlinked. Daily direct flights operate to China, Vietnam, Bangkok and Cambodia from different cities in Laos, but mainly from the capital Vientiane and from Luang Phabang, a UNESCO World heritage site. Increasingly, intra-country flights are being offered, predominantly but not exclusively connecting the four relatively urbanized and developed areas around the cities of Vientiane, Savannakhet, Pakse and Luang Phabang. Three bridges between Laos and Thailand have been completed, a fourth is being built, and a fifth is being planned. A direct and asphalted road now links Thailand with Vietnam through Laos, in the Savannakhet Province. Still, only 20% of all roads are asphalted, while half of the remaining roads are dirt tracks (often either dusty [in the dry season] or muddy [in the wet season]), with the other half consisting of hard gravel roads.

Table 1: Key population indicators Lao PDR

Indicator	Recent estimated value
Land Area	236,800 square km.
Population (2008 est.)	6.3 million (IMF), 5,924,145 (MCC and WHO); 5,9 (WB 2007 est.); 5,85 (ADB 2007 est.); 1.1 million households
Population density	Approximately 25 persons per sq km
Administration	16 provinces and 1 Capital (Vientiane), 142 districts
Urban %	21% (2006, ADB), 20.6 % (2005, UN est.); percentage of poor in rural areas 90% (ADB 2004)
Below USD 2 / USD 1 per day %	70% (2005, UN est.) / 73% (2003, GOL[2]) / 26% (2003, GOL)
Human Development Index	0.601 (2005, UN est.)
Age structure (ADB, 2006)	0 - 14 years: 38.9% 15 - 64 years: 57.5% 65 years and over: 3.6% Median age: 19.2 years
Population growth rate (ADB, 2006)	Overall population growth rate: 2.344% Birth rate: 27.1. births per 1000 Death rate: 7.3 deaths per 1000 Net immigration: n.a.
Life expectancy (ADB, 2006)	Total population: 63.9 years Male: 62.5 years Female: 65..3 years
Fertility rate (ADB, 2006)	3.3 children born/woman

Table 2: Key economic indicators Laos PDR

Indicator	Recent estimated value
Nominal (GDP) (2008 IMF)	USD 5,374 million
GDP composition by sector (ADB 2006)	agriculture: 42.6% industry: 31.8% services: 25.6%
Real GDP growth (IMF)	7.5 % (2007), 7,2% (2008)
GDP per capita (IMF)	USD 859 (2008)
Labour force (UN 2006)	2.1 million
Labour force by occupation (UN 2005)	agriculture: 80% industry and services: 20%
Average unemployment rate (UN, 2005 / IMF 2005 est.)	2.4 % / 1.3 %
Literacy rate (age 15 and up can read and write) (ADB 2007)	73.4 %

2 Government of Lao PDR

Indicator	Recent estimated value
Inflation rate (annual average) (GOL, IMF)	8.2% (avg. 2004-2006), 4.5% (2007), 7,6% (2008), 0,0% (2009)
LAK / US$ Exch. rate	9,658 (avg. 2007), 8,500 (2008), 8,480 (2009)
Fixed Line phone subscribers and mobile phones (GOL, MCPC 2006 est. p. 1,000)	157 (143 mobile/14 fixed) p. 1,000

1.1 Poverty and Poverty Reduction: National Goals and the MDGs

The goal set for the Lao PDR by the Lao People's Revolutionary Party (LPRP) at its 6th National Congress in 1986 with regard to poverty reduction was to progress from the status of Least Developed Country (LDC) by the year 2020. In order to achieve this goal, the Lao PDR government (GOL) is currently working within a strategic framework, the National Growth and Poverty Eradication Strategy (NGPES, 2003), under which all of GOL's growth and poverty eradication programs are being developed and implemented. The NGPES noted the steady decline in poverty, defined as the percentage of the population living under the National Poverty Line, from 45% in 1993 to 30% in 2003. In 2006 it had reportedly reached 28.7%[3]. The Millennium Development Goal (MDG), set with and for the Lao PDR with regard to poverty, is to halve the percentage by 2015, compared to the year 1990, which will have been achieved if the poverty level falls below 24%. Recent estimates made by the Lao government project that this set goal will be achieved, as can be seen in table 3, directly below.

3 Letter 2 June 2008 of Lao PDR's permanent representative to the United Nations (UN), addressed at the UN's President of the Economic and Social Council. In the annex to the letter the percentages for 1993 and 2003 were said to be 46% and 33%, based on the Third Lao Expenditure and Consumption Survey (LECS III). In 1998 it was 39% according to LECS III.

Table 3: Percentage of the Population below the National Poverty Line (or classified as poor)[4]

Year	1992	1997	2002
Poverty Rate	46%	39%	33%

Year	2007	2012 (projected)	2015 (projected)
Poverty Rate	27%	21%	17%

Realizing, and stating, that poverty can have different meanings and can be understood in different ways, GOL has adopted a definition and a set of indicators. Poverty, as defined by the Prime Minister's Decree[5] is "the lack of essential goods and services used in daily life, such as the lack of food (less than 2,100 kilocalories per person per day), clothing, permanent shelter, the inability to afford necessary medical treatment, and the inability to afford one's own education and that of other family members", currently amounting to USD 55 a month for households. Large regional differences exist in the percentage of poor households (poverty is more prevalent in the North as well as in mountainous areas), and in the monetary value of the package of essential goods and services.

The same PM's Decree defining poverty also advocates the principle of community self-development[6], which we will later see is reflected in the most commonly used microfinance methodology in the Lao PDR.

4 "Impact of the Global Economic Slowdown on Poverty and Sustainable Development in Lao PDR", paper by H.E.Dr. Bounthavy SISOUPHANTHONG, Vice-Minister, Ministry of Planning and Investment of the Lao PDR (Hanoi, Vietnam September 2009)

5 PMO/010, June 2001

6 " …the people themselves will be in charge of their own poverty alleviation, as poverty alleviation is the task of the whole population".

1.2 Historical Background

In 1975, when the American or Vietnam War in Indochina (Laos, Cambodia and Vietnam) ended, Laos became the Lao People's Democratic Republic, a one-party, centrally led communist country. It is one of the five remaining communist countries in the world to date. Members of the single ruling party, the Lao People's Revolutionary Party (LPRP), are believed to form some 2% of the population[7]. The structure of the LPRP is totally integrated in the institutions of GOL and mirrors the structure of GOL. GOL officials derive their power from their position in the LPRP. LPRP's 11-member Politburo is the most powerful institution in the country and its members are GOL's most senior leaders[8]. With regard to microfinance, it is important to note that under the direct authority and responsibility of the Politburo, outside the normal GOL structures, there are four-mass organizations with a mandate, loosely phrased, to help the development of the Lao PDR. One of the four, the Lao Women's Union (LWU), plays an important role in the creation of what is currently the most important provider of microfinance services in the Lao PDR.

From 1975 until 1986, social-economic development was characterized by the idea and practice of Collectivism. Immediately after the revolution, cooperatives were created on a large scale to organize the production process, including financial cooperatives[9]. The financial cooperatives failed and many people lost their savings. To this day, a formal, member-based financial service provider, often called 'credit-cooperative' (the name used in a regulation issued by the Bank of Lao PDR in 1994) or 'savings and credit union (SCU)' (the name used since the issuance in 2004 by the Bank of Lao PDR of the current regulation), is looked on suspiciously by Lao people.

7 "After the Sixth Party Congress" published in the volume 3, 1999 issue of Lao Studies Review, Martin Stuart-Fox;
8 Lao Peoples Democratic Republic, Public Administration, Country Profile", Division for Public Administration and Development Management, Department for Economic and Social Affairs, United Nations, January 2005
9 Which can be seen as an early form of microfinance

In 1986, the 6th LPRP National Congress made a pivotal decision on a strategy towards the social-economic development of the Lao PDR and laid the foundation for the development that we currently see. The "New Economic Mechanism" made a deliberate choice for market-oriented social-economic policies in the organization of the Lao PDR, the principles of which are embedded in the GOL policy documents, most importantly in the National Social Economic Development Plan (NSEDP) and in the NGPES. Since then, the government has been successfully building on macro-economic stability and a regulatory framework enabling a market-oriented economy. Sustained economic growth has been achieved, and inflation has been both stable and low, interrupted only by the Asian Financial Crisis.

With regard to microfinance sector the NGPES[10] states it aims to achieve the MDGs by:

- consistently moving towards a market-oriented economy, and
- facilitating microfinance as a means of encouraging the transformation of subsistence farming to market oriented farming.

The NGPES determined that the improvement of financial services to the rural areas is of special concern. Major objectives of the strategy and action plan for the future of rural and micro-credit include:

- support for market-oriented reforms,
- creating a legal environment for a variety of sustainable micro-finance institutions (MFIs),
- ensuring MFI autonomy in setting interest rates and making other business decisions,
- creating an MF Forum, and
- restructuring the Agricultural Promotion Bank (APB) into a financially self-sustainable rural finance institution.

10 See: pages 1, 43, 59 and 108

Box 1: Policy Bank in the Press

Vientiane Times, September 2009

The Nayoby Bank has planned to release 400 billion LAK (USD 46 million) in loans in 2010, according to Nayoby's spokesperson Mr Bualong Sayavong, and has requested funding in that amount from the Bank of Lao PDR (BOL).

Some 70% of this amount (or USD 32 million) is intended to be released to the 47 poorest districts and 30% (or USD 14 million) to business operators outside the 47 poorest districts who buy food products from farmers in the 47 poorest districts. Most farmers plant cash crops.

Loans will only be released when the farmers and businesses use sound investment practices, otherwise people will unduly be indebted. While state owned commercial banks Lao Development Bank and Banque pour le Commerce Exterieur have lowered their interest rates because of deflation, Nayoby has kept its rates at between 7.8% and 10% per annum. For the year 2009 BOL has approved funding of 403 billion (USD 46.5 million) and Nayoby Bank has released 80% this years target. For 2008 the released amount was 246 billion LAK (USD 28 million). Since 2007 a total of 536 billion LAK (USD 62 million) has been lent. NPL is said to be at 4%.

Box 2: Downscaling commercial banks

Phongsavanh Bank in the Lao Press (Vientiane Times, 2009)

For the coming 5 years for each individual year the wholly privately owned Phongsavanh bank will release 250 billion LAK (USD 29 million USD) in its "Easy Money Loan" product. In this line, since August 2009 to around 6.500 clients a total of 93 billion LAK (11 million USD) has been released, at an interest rate of 1,25% per month at an average of USD 1.690 per loan. After 6 months evaluation will take place; those who repay well can borrow more. After 5 years, Phongsavanh Bank intends to have 100.000 customers. Its owner and managing director: "We support the National Social Economic Development Plan and help get the Lao PDR of the list of Least Developed Countries in the year 2020, and we help SME development".

Phongsvanh head of the Credit Department Mr Litsamay Llatsavong: "We are proud to be part of improving families finances as part of the nation's grassroots economic development efforts". Purpose of loan typically to: Open a grocery store, Farming activities, Livestock Rearing, House repair and Education.

Phongsavanh bank is planning is to have 17 branches and 50 service units in the future, up from 4 branches and 9 service units now.

2. Formal Financial Sector - The Banks

After 1986, and starting in 1989, the formal financial sector was restructured into a 2-tier structure in accordance with the "New Economic Mechanism" principle. State owned 'commercial' banks (SOCBs) were separated from, and thus monitored by, a central bank, the Bank of Lao PDR (BOL). Previously financial services had been provided exclusively and directly by the state[11] and the already mentioned cooperatives. Among the SOCBs, APB was given the responsibility by GOL to support rural economic development using subsidized, targeted lending and group guarantee lending technology[12], and, until recently, APB was the only bank involved in microfinance in the Lao PDR. APB has built up a large network, with branch offices in each of the 17 provinces and 46 service units. In the process it had also built up a huge NPL portfolio and negative capital, while still extending large loans in urban areas. According to 2003 figures, 2% of total demand for (micro) credit in the rural areas was met by APB[13]. 2006 figures show that the APB serviced 14% of all known borrowers in the rural and microfinance (RMF) segment, providing 28% of the total loan amount[14].

The importance of banks in offering saving opportunities to the lower segment is indicated by the fact that in 2003, 5% of the households living outside the urban areas (approximately 40,000 clients) had savings amounting to USD 144 million in banks in the Lao PDR[15].

11 Through the National Bank, later called State Bank.
12 Started 19 June 1993, PMO/92.
13 Brett E. Coleman and Jon Wynne-Williams, "Rural Finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability (Results of Household and Supplier Surveys)," ADB and FIRST, 2006.
14 National Economic Research Institute, Committee for Planning and Investment, Microfinance Capacity Building and Research Project, "Rural and Microfinance Statistics in the Lao PDR", 2006.
15 Brett E. Coleman and Jon Wynne-Williams, "Rural Finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability (Results of Household and Supplier Surveys)," ADB and FIRST, 2006.

Since 2007 the landscape in relation to the banking sector's involvement has changed. As part of the Asian Development Bank (ADB) supported "Rural Finance Sector Development Program (RFSDP)", APB has been restructured into a bank working on market principles and its capital has been strengthened. No data were found or collected for this Country Brief on the extent of APB's current contribution to the low income segment of the population.

Again as part of the RFSDP, APB's existing portfolio of subsidized loans has been placed in a newly created state-owned institution, Nayoby Bank (translated as "Policy Bank"), in accordance with the policy of transferring subsidized lending to an on-budget mechanism. Nayoby Bank now provides subsidized lending targeted at the 47 districts in the Lao PDR that have been identified to be the poorest, out of a total of 142 districts. Nayoby Bank is a non-profit organisation, and does not accept deposits from the public.

Table 4: Nayoby Bank Loan Products

Loan Type	Short term	Medium	Long term
Loan Use	Agriculture, handicrafts, services	Livestock, land clearing	Investment
Maximum Amount	No set limit	No set limit	No set limit
Term	Max 12 months	Max 36 months	3-7 years
Collateral	Group guarantee, land title	Group guarantee	Group guarantee
Interest Rate	7% per annum (10% for traders)	8% per annum	10% per annum
Repayment Mode	Term	3 month installments	3 month installments

The potential for private commercial banks' involvement in delivering very small loans and taking small deposits has increased. Since the improvement of the Law on Commercial Banks (2007) and the Promulgation of the Law on the Promotion of Foreign investment (2005), 11 new commercial banking licenses have been issued. Among the newly created banks are banks with experience and expertise in delivering financial services to the lower segment (e.g. ACLEDA Bank Lao Ltd.) and with the explicit strategy of creating a large network of branches and service units in order to expand outreach (e.g. Phongsavanh Bank, Indochina Bank, ACLEDA Bank Lao Ltd.).

The institutional and regulatory environment is less than clear on the scope for commercial banks' involvement in the lower segment. One BOL notice allows banks to use group guarantees "as a means to secure a microfinance loan"[16]. Another BOL notice forbids banks to have a spread between interest rates on deposits and interest rates on loans of over 5%[17], making a viable entry in this segment more difficult. However, the latter notice is not being enforced sector-wide, as the actual interest rate spread, as measured by BOL itself, shows a difference between 7.5% and 8% for term-loans and time-deposits, and an interest spread of 16% for liquid savings and lending[18]. Fees are allowed and the definition of the benchmark interest rates that are used to determine the existing spread is not fixed. In other words, there is scope for cost recovery when making use of these loopholes, enabling viable financial service delivery to the lower segment. However, formulating a complete business strategy on such a shaky foundation might still prove too risky for many banks that are otherwise capable and willing to deliver the much needed financial services to the lowest segment in a sustainable manner.

Still, in the meantime, the fully Lao, privately owned Phongsavanh Bank has opened up to the lower segment with its new product, loosely translated as "the Easy (Money) Loan". In some three months, 11 million USD has been released to over 6,500 clients, at an average loan size of USD 1,700, but with a minimum of USD 590. These loans are at an interest rate of only 1.25% per month, which is highly competitive, as current rates used by MF providers range between 3 to 5% per month[19]. A significant percentage of the loans have been delivered to civil servants of various kinds, forming a minority of salaried people in the Lao PDR and allowing for salary guarantees to secure the loans.

16 BOL/277, 16 October 2007.
17 BOL/111, 28 April 2006.
18 BOL, Financial Statistics, 1st quarter 2009.

19 All percentages are calculated on a declining balance.

3. The Microfinance Sector

3.1 History

Apart from the early financial cooperatives organized after 1975, micro-"finance" was introduced in the form of rice and livestock banks in the late 1980s. The first formal regulation of credit cooperatives was issued by BOL in 1994. Two of the credit cooperatives from this era survive today[20].

In 1997 the UNDP/UNCDF was the first international development organization to launch a project in an attempt to introduce "good practice" and develop capacity, after the first two serious research reports on the Lao PDR MF sector were published in 1996-1997[21]. The project was cut short some four years later, as the UNCDF and GOL had different ideas and expectations, but a foundation for the sector was laid. The remaining elements of the UNCDF project are 3 MF "providers", or rather, administrative parts of the governments of three provinces, delivering MF services on a small scale. The project also established a capacity building initiative, ultimately forming the basis for what is now the Microfinance Center[22], which is the most professional specialized MF training and consultancy provider in the Lao PDR.

At the same time in 1997, another relevant initiative was undertaken by the Thai NGO Foundation for Integrated Agriculture Management (FIAM), when it started its collaboration with the Lao Women's Union (LWU), which continues to this day. The foundation was thus laid for what is now the most prominent mechanism for microfinance services, locally referred to as "village savings groups" or "village development funds"; in CGAP terminology, better known as "community managed loan funds".

The timing of all these developments is no coincidence. The decision of the 6th National LPRP Congress to adapt the "New Economic Mechanism" and the declared aim to exit Least Developed Country (LDC) status by 2020 were beginning to take effect. The regulatory framework was developing rapidly, the GOL's budget was being restructured, inflation was under control and successive years of steady economic growth were being achieved. The Asian Financial Crisis of 1997-1999 made many Lao lose their savings again, as the LAK lost 90% of its value, but it ultimately proved to be a mere interruption in this steady path of social-economic development.

20 There have been more credit cooperatives that were created after 1994 based on the mentioned BOL regulation, which either went bankrupt or were dissolved, but for two (CCSP 1996, RDC Naxaythong, 2001)

21 Kunkel, C.R and H.D. Seibel, "Microfinance in Laos", APRACA-GTZ publication 1997/1, March 1997 and Slover, Curtis, Jon Wynne-Williams, José Garson and Eric Duflos, "Microfinance in Rural Lao PDR: a National profile", UNDP/UNCDF, June 1997.

22 www.mfclao.com

3.2 Policy and Regulatory Level

The overall policy approach to the delivery of microfinance services in the Lao PDR is somewhat ambiguous, as three main leading elements in the approach sometimes seem less than coherent.

The "Policy Statement for Sustainable Rural and Microfinance Sector," created by an inter-ministerial Rural and Microfinance committee, has been endorsed by the Prime Minister and is standing policy for the Lao PDR[23]. It articulates a clear choice for the creation of an enabling environment based on principles of sustainability and market orientation, allowing discretionary freedom for MF providers to make decisions regarding the way their institutions function, including the setting of the level of interest rates.

The ADB-funded Rural Financial Sector Development Project (RFSDP) was, from 2004-2009 built on the Prime Minister's Office (PMO) Policy Statement, and was responsible for assisting the Government in developing an important part of the current policy and regulatory environment for the microfinance sector. RFSDP included elements pertaining to the banking and microfinance sectors as per the following:

23 PMO/1760, 17 December 2003. Recently the related action plan has been updated and approved.

Banks

- the restructuring of APB into a bank operating on market principles and the transfer of its existing portfolio of subsidized loans to a newly created on-budget mechanism, in order to phase out policy lending in APB; and
- a BOL notice allowing banks to use group guarantees as a way to secure a loan.[24]

Microfinance providers

- PMO has explicitly mandated BOL to regulate and monitor the RMF sector;
- a separate microfinance division has been created inside BOL;
- the issuance of "good practice" microfinance regulations, enabling the establishment of a diverse set of licensed, formal, independent and self-sufficient microfinance service providers; and in a related but separate decision, PMO has decided not to allow foreign ownership of MFIs at present.[25]

Simultaneously, as part of its strategy to alleviate poverty, GOL has identified 47 districts[26] that are considered the poorest and in need of the most assistance. In the districts subsidized, targeted lending is used, and this is financed from the state budget. For this purpose, village revolving funds (VRF) are created by the Rural Development and Poverty Eradication Committee (RDPEC), which is a committee of the PMO. At the same time, Nayoby Bank is used as a distribution channel for the same purpose and with similar methodology. Although admittedly these methodologies are predominantly used in a confined area, sustainability and market orientation are not elements of this approach[27].

In the cooperation between FIAM and the LWU[28] guidelines have been developed for the creation of community-based "village development funds" (VDFs) or what the Consultative Group to Assist the Poor (CGAP) refers to as "Community Managed Loan Funds" (CMLFs). These guidelines have been endorsed at the central level of both government and mass organizations (LWU), and have since been disseminated to the provincial, district and village representatives of both GOL and LWU. This process has given the creation of VDFs both legitimacy as well as political leverage and outreach. As seen in the PMO decree on poverty reduction, the participation of communities in their own economic development provides the basis for the creation of a community based organization of financial service provision. The methodology is also embedded in policy documents and PMO decrees that define the obligations of organizations' programs that affect the livelihood of Lao villagers (e.g. hydropower projects and mining companies) requiring them to include VDFs as a form of "provision of improved or better access to micro-finance and affordable micro-credit facilities" as part of their overall socio-economic compensation programs[29].

The many multi-sector programs that are designed with assistance from the international development community and are implemented in cooperation with various parts of government or one of the four mass-organizations, almost without exception, contain CMLFs as a credit-component. This explains the relative dominance of these semi-formal suppliers, particularly in the delivery of credit. However, the basic principles of self-sufficiency, transparency and accountability, outlined in the PMO's policy statement on the RMF sector, are too often not followed in the establishment processes of the CMLFs.

24 Initially, the RFSDP's intention was to oblige banks to report monthly on the outreach created in the micro-segment in, by having BOL issue a notice to that extent. In the final notice however, this obligation was not included.
25 PMO, notice 1634 (sub 2 and 3), 21/10/2005.
26 Out of a total of 142.
27 Predominantly, but not exclusively by far: Nayoby Bank reported distribution of some 43% of its subsidized loans outside the 47 poorest districts, to businesses and institutions that process and/or market goods, mostly agricultural, produced within the 47 poorest districts.
28 Later followed up on in a cooperation between the LWU and Thai government funded Community Organizations Development Institute (CODI) using the same methodology of creating VSCGs, a form of CBO, or CMLF.
29 Decree on the Compensation and Resettlement of the Development project (PMO/192, 7 July 2005) and Regulations for Implementing Decree 192/PM on Compensation and Resettlement of People Affected by Development Projects (PMO STEA/2432, 11 November 2005), STEA technical guidelines (p. 25, p. 52, p. 116 and 117).

3.3 Microfinance Regulations and BOL[30]

In June 2008 the final versions (to-date) of the microfinance regulations were issued by BOL[31]. There are three types, two of which regulate institutions that are allowed to take deposits after receiving a license from BOL and adhering to a set of prudential rules. Both of these types are monitored through monthly off-site reports and six-monthly on-site inspections by BOL's MF division.

One type of regulation allows for shareholder-owned organizations with limited liability, or the so-called Deposit Taking MFI (DT MFI), to take deposits from the general public, after being licensed by BOL and adhering to strict requirements. Lending limits are set at LAK 10 million (USD 1,150) per client. The scope for a DT MFI to borrow externally as a basis for funding is limited to 30% of its capital; hence the ability to mobilize savings is crucial for its viability. The minimum initial capital is 1 billion LAK, or USD 115.000.

The 2nd type regulates member-owned microfinance providers, or so-called Savings and Credit Unions (SCU), which are allowed to take deposits and lend only within their member group. SCUs can only operate after being licensed and, similar to the DT MFIs, are strictly regulated and monitored[32].

The third regulation requires all organizations in the Lao PDR undertaking microfinance activities (lending), under whatever name or in whatever form, to register with BOL[33]. An income statement and a balance sheet should be submitted annually, using a prescribed Chart of Accounts (COA).

30 The regulations can be downloaded from the Bank of Lao PDR's website at www.bol.gov.la under "Microfinance".
31 Since 2004 (for member based Savings and Credit Unions) and 2005 (for shareholder/limited company based Deposit Taking MFIs), pilot regulations had been issued.
32 An earlier BOL regulation on credit cooperatives dated 1994 has been withdrawn. The two already existing licensed credit cooperatives based on that regulation, need to restructure and adhere to the new SCU regulation.
33 Article 3 NDT MF regulation

The regulation is called "Non Deposit Taking MFI (NDT MFI) regulation", as it does not permit organizations delivering micro-lending services to take voluntary deposits, but up a maximum of LAK 200 million (USD 23,000). Rules and requirements for NDT MFIs are few, allowing for a diverse set of organizations to provide microfinance services, typically lending, as long as they refrain from utilising savings as the basis for lending. There are no minimum capital requirements, and funding can be entirely based on externally borrowed money and grants. Borrowing from foreign sources is allowed, but requires prior approval from BOL.

Significantly, those providers that are already engaged in MF activities and have accumulated over LAK 200 million in voluntary savings are required to obtain a license from BOL, and are required to convert to the prescribed organizational structures of either a DT MFI or a SCU and be governed by the prudential requirements stemming from the organizational format chosen[34].

3.4 Demand and Market Size

Demand for microfinance services in the Lao PDR is immense. 2003 figures show that with regard to rural households, which make up 80% of all households and 90% of poor households, unsatisfied demand for credit amounted to USD 500 million[35 36]. The same study found that of total demand, the combined percentage of demand for credit met by all formal and semi-formal providers, including APB, at that time was a low 7%. 2006 figures show that the same group of providers serviced a combined total of a mere 6.5% of the population between 15 and 64 years old, reaching 46% of all villages[37].

34 Article 20 NDT MFI regulation
35 Using current exchange rate.
36 Brett E. Coleman and Jon Wynne-Williams, "Rural Finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability (Results of Household and Supplier Surveys)," ADB and FIRST, 2006.
37 National Economic Research Institute, Committee for Planning and Investment, Microfinance Capacity Building and Research Project, "Rural and Microfinance Statistics in the Lao PDR", both years 2005 and 2006.

In the practice of credit delivery to the micro segment in the Lao PDR, interest rate levels have been the focus of attention. However, interestingly, Lao rural households value sustained, easy and flexible access to microfinance providers, including the certainty that a loan will be made, over the level of the interest rate.[38]

Successful credit delivery is also challenged by the multi-functionality of rural households, a challenge that is heightened by the number of different reasons for borrowing, including those related to health, funerals, marriage, housing, and education. Almost all rural households in the Lao PDR combine self-employed farming, predominantly rice, poultry, pig and other crops, with some other form of business activity. Effective delivery of credit needs to be flexible to deal with the different purposes of borrowing, and needs to be able to fund both farming and non-farming activities, as well as the different non-productive, emergency purposes. It is worth noting that the study found that the poorer a household, the more likely that borrowing will be utilized only for emergency, rather than productive, reasons.

With regard to savings the numbers are staggering. As per 2003 figures, all rural households together had saved a total of USD 987 million, 73% of which was in non-monetary form, predominantly livestock. Monetary savings, either deposited in a bank or held in cash, amounted to USD 263 million. Of this amount, 55% or USD 144 million had been deposited in a bank by just 5% of all rural households, making up 31% of the total amount of deposits in the banking sector, leaving USD 119 million in undeposited sums in cash. The numbers suggest a huge untapped potential for savings.

38 Brett E. Coleman and Jon Wynne-Williams, "Rural Finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability (Results of Household and Supplier Surveys)," ADB and FIRST, 2006.

Informal finance has provided services for savings and loans where banks, formal and semi-formal microfinance providers have failed. Some 33% of households have borrowed from friends, family or money lenders, with the latter at interest rates as high as 100% to 200% per annum. However, informal finance offers low transaction costs in the form of convenient locations, low collateral requirements and simple loan procedures.

The report also singles out non-economic costs, specific to the cultural setting. As mentioned earlier, the certainty that a loan will be made is seen as highly important, as in local culture refusal would be seen as a huge "loss of face". Similarly, for many "ordinary" people, entering a bank or even a microfinance institution is seen as something for the upper class, making them feel too awkward to use the services that could otherwise be available to them.

4. Supply of Microfinance[39]

[39] Source: BOL

4.1 Banks

As discussed earlier from studies completed in 2003, supply by banks to the lower segment has been limited, even at a time when the APB was given the budget, mandate and responsibility. In the meantime, from 2007, the number of privately owned commercial banks has increased rapidly, and includes banks with the specific knowledge and experience needed to successfully engage that specific market sector, the scope for supply has thus registered a strong increase.

The total amount of money deposited in the banking sector had increased by 20.7% by the end of June 2009, while in the same period the total outstanding loan-portfolio increased by 121.3% to USD 1,222 million[40], or more than twice the amount recorded 18 months previously[41]. The banking sector, and indeed the microfinance sector, was highly liquid in the past, with outstanding loans absorbing a mere 34.1% of total deposits at the end of 2007. This percentage had risen to 62.5% at the end of the 2nd quarter of 2009, in a period where, by comparison, the consumer price index rose only 4.7%. No details were found or assembled for this study on the growth in supply by banks to the "micro" segment of the market.

40 Or USD 1.22 billion USD.
41 Financial Sector Statistics, Bank of Lao PDR.

Table 5: Summary of the MF Sector after 20 June 2008

DT MFI	SCU	VSCG	VRF
Deposit Taking MFIs: licensed	SCUs: licensed	Non-Deposit Taking MFIs: need registration < 1 year or upgrade to SCU or DT MFI	
5	11	5,000	
Deposit Taking MFI regulation	SCU regulation	Non Deposit Taking MFI regulation	
	Cooperative / member owned		
	Savings based		

4.2 Non Bank MF Providers: Momentum

The microfinance sector in the Lao PDR, while still in its infancy, is gaining momentum. Starting from just three providers in early 2004, since then 13 new licensed microfinance providers have been created, totalling 16 formal microfinance providers to date. The Bank of Lao PDR has licensed 5 microfinance institutions and 11 savings and credit unions[42] to take deposits. Over the same period, 50% of the estimated 5,000 semi-formal village based and managed loan funds have been created, while the other 50% required 15 years to be established. Of those semi-formal providers, so far 8 have registered with the BOL[43]. It is worth noting that ownership of MF providers is limited to Lao nationals.

4.2.1 Licensed, Formal Microfinance Providers

Of all licensed MF providers, the Savings Institute of the Lao Postal Service (a DT MFI) is an outsider, as in many ways it is similar to a state owned commercial bank. The Savings Institute had been established and licensed before the issuance of the MF regulations and is allowed to lend amounts up to 20 million LAK (USD 2,300), when only half of that amount is normally allowed for other MFIs. It also differs in that 95% of its clientele, in relation to savings and loan products, consists of civil servants, salaried employees of the government. Loans are provided as a percentage of a year's salary and with a salary "guarantee" as "collateral". At the end of 2007, it had some 12,000 savings accounts with accumulated savings totaling USD 2.8 million and 3,850 outstanding loans totaling USD 2.4 million.[44]

42 Data BOL, August 2009: Deposit Taking MFIs, licensing: 2000 (1), 2006 (1), 2007 (2), 2009 (1); Savings and Credit Unions: 1996 (1), 2001 (1), 2004 (3) , 2008 (4), 2009 (2). Of all semi-formal providers, 8 have so far registered with BOL.
43 Semi-formal: Acknowledged by (de-)central authorities or mass organizations, not licensed or monitored by central authorities responsible for the financial sector. Almost without exception, semi-formal providers have not registered with Ministry of Commerce and Industry, the Chamber of Commerce or the Tax-Department of the Ministry of Finance.
44 Source: Interview Director Lao Postal Savings Institute.

Of all formal microfinance providers, it has the largest outreach, in 120 post offices in the country, which is more than any financial service provider in the Lao PDR, including the banks. The Savings Institute is the only MF provider offering money transfer services and because of its extended branch network and low lost structure, is the biggest provider of these services in the country. For national money transfers, its clientele hail from all strata of the population.

By late 2008, all other licensed suppliers combined (DT MFIs and SCUs), had accumulated some USD 2 million in about 13,000 savings accounts (including time-deposits) and had about 7,000 outstanding loans with a total portfolio of around USD 2 million[45]. Funding is mainly based on savings, in the form of both liquid savings as well as time-deposits. However, there are very few time-deposit accounts, showing that these institutions are serving mainly small, presumably poor, depositors with their liquid deposits. It also reveals that funding and liquidity management depend largely on a small number of individuals, exposing the institutions to risk of non-renewal or withdrawal.

In the group of 14 of a total of 16 licensed MF providers,[46] there is an approximate workforce of 140 people, of which 35 are credit officers, or 25% of total staff. Only three have more than one branch, EMI DT MFI (5 branches, 4 of which started in the last year; more will follow in 2010-2011), Newton DT MFI (3) and RDC Naxythong (2). EMI employs some 40 staff, Sainhay Samphanh DT MFI 24, RDC 9 and SCU Seno 8.

4.2.2 Semi-formal Microfinance Providers

An overview of the group of semi-formal providers, apart from a handful of former project-based MF initiatives that are now run as parts of different provincial governments, would reveal approximately 1,000 village savings and credit groups (VSCG) and approximately 4,000 village revolving funds (VRF).

45 When assessing these numbers, it should be realized that most institutions are very new.

46 No data are available on Newton DT MFI. The Lao Postal Savings Institute is mentioned separately. The special case of Fonds Cooperatif (FC) is also left out, with 47 staff for 1,700 borrowing clients and a portfolio of some USD 750.000 (2008).

These two groups are collectively referred to as VDF, but this collective term does not address the big differences in the way they have been established. Realizing that there is a spectrum of VDFs[47] with variances in their modi operandi, VSCGs can be defined as those VDFs that have funding predominantly from internally generated savings and receiving long-term good quality microfinance technical assistance (TA), while the rest are VRFs. This distinction is significant, as both elements present in the definition of VSCG are positively correlated with sustainability, as seen in results of research done in various countries including Laos[48] and as found in abundantly available anecdotal evidence from within Laos. It is this group of VDFs that have the largest outreach in delivering credit services within the Lao PDR.

In 2003 the group of semi-formal providers satisfied 5% of demand for credit in the MF segment[49] at a time when supply by licensed or formal microfinance institutions was still insignificant. The important role semi-formal providers of microfinance services play was confirmed in 2006, when it was estimated that this group served 85% of all 206,000 existing MF clients and provided 72% of total loan amounts disbursed in the lower RMF segment. At that time the total of outstanding loans amounted to USD 20 million for 100,000 borrowers.

The semi-formal providers play an important role in the delivery of savings facilities as well, as evidenced by studies referred to earlier, from just USD 1.3 million deposited in VSCG in 2003, to USD 8.4 million in 2005 and USD 7.7 million in 2006, deposited by some 167,000 people. In a 2008 interview with the Lao Women's Union (LWU), savings by a core group of participants in VSCGs intiated in cooperation with the LWU, amounting to a total of 104,000 people, were estimated to amount to at least US$ 15 million, indicative of the significant growth of the amount of savings deposited with this group of providers.

47 Or, as CGAP calls them CMLFs.

48 CGAP Focus Note No.36 on community managed loan funds. Focus Note No.36 is highly relevant in this regard and should be obligatory reading for officers of international development organizations working in the Lao PDR. Available at: www.cgap.org.

49 Or two and a half times as much as APB, Brett E. Coleman and Jon Wynne-Williams, "Rural Finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability (Results of Household and Supplier Surveys)," ADB and FIRST, 2006.

It should however be noted that exact quantitative data on (the outreach of) the semi-formal providers however are hard to find.

All licensed MF providers operate in an urban or semi-urban setting, with relatively easy access to markets, good infrastructure, high monetary income and population density. In a DT MFI, the workforce in one of its branches or a SCU consists of approximately 5 staff: a (branch) manager, an accountant, a teller, an administration assistant and one or two credit officers.

Products offered are simple savings and loans products, with short durations of less than a year. Normally, liquid savings services are offered and time deposits products with durations of of 3, 6, 9, 12, 18 and 24 months. Loan products are mostly for a maximum of 6 months and can be used for various productive and consumptive purposes, depending on the policy of the individual MF provider. Almost all lending is done on individual basis. Often an emergency loan can be made for 3 months at reduced interest rates, particularly in the case of a funeral or medical emergency.

The exception is Saynhai Samphanh DT MFI with its lending done almost completely over a period of over a year. Saynhai Samphanh DT MFI, like the Lao Postal Savings Institute, is also exceptional in the sense that they lend on basis of a loan "guarantee" to civil servants and teachers, and base the maximum amount on a percentage of the yearly income (up to 70%). Very few people in the Lao PDR have their monthly salary paid into a bank account, but more and more civil servants and employees of large companies, hydropower projects and mining companies and similar industries are paid in that manner.

Insurance products are not generally offered, but insurance of the outstanding principal or costs for a funeral is available from two MFIs. Money transfers are offered by banks, but the services offered by the Lao Postal Savings Institute are the most frequently used, because of its low cost structure and the large number of outlets.

50 One relevant MF provider, EMI, uses a flat rate of between 3.5 to 4% per month.

Table 6: Typical DT MFI and SCU Loan and Deposit Products

Loan Type	Group Loan	Individual Loan	Business Loan
Loan Use	Variable	Variable	Variable
Amount	Max 1.5 million kip	1.5 to 5.5 million kip	5.5 to 20 million kip
Term	1 to 12 months	1 to 12 months	1 to 12 months
Collateral	Joint Liability of 5-10 Members	Motorbike papers, Car license, Household assets (incl. furniture, television, refrigerator) < 3 million Kip; Land Title > 3 million Kip	
Interest Rate	3 to 5% per month on a declining basis[45]		
Repayment Mode	Installment and/or balloon		

Deposit Type	Demand	3 months	6 months	12 months	24 months
Interest Rate per annum (Kip)	8%	mostly 1% higher than commercial banks			

Table 7: Lao Postal Saving Institute Loan and Deposit Products

Loan Type	Agricultural		Handicrafts		Consumption
Loan Use	Agricultural inputs		Raw materials		Variable
Amount	0.5-70% annum salary				
Term	Max 12 months				
Collateral	Group guarantee, office guarantee				
Interest Rate	17 % per annum declining rate				
Repayment Mode	Term or Installment		Installment		Installment
Deposit Type	Demand	3 months	6 months	12 months	24 months
Interest Rate per annum (Kip)	3.5%	6%	8%	10%	n/a

For Saynhai Samphanh this leads to excellent results, with the portfolio at risk (PAR) of 30+ days less than 1%. For all other MFIs and SCUs, including the Lao Postal Service, PAR30+ is high and the industry average could well be at 10%, with individual negative exceptions. This is necessarily only a sign of bad repayment, at least ultimately, as often after a loan is written off the balance sheet, it will eventually still be collected. The main causes for high PARs are the culture of non-confrontation and solving issues amicably, but also in the discrepancy between agreements made and what is recorded in the MIS. The latter can be both due to a lack of knowledge on the usage of the MIS, as well as the lack of understanding of the relevance of having correct numbers.

In the context of the rapid expansion of some MFIs, together with the limited span of control of its founder/owner/managing director and the lack of a correct internal control systems, has led to fraud occurring in different ways and varying degrees, resulting in financial set backs as well as the realisation that there are steep learning curves. The experience in the small formal MF community has lead to recent improvements in setting up internal control mechanisms and increased awareness generally.

Typically, formal MF providers' loan portfolios are almost completely based on individual loans, as there is little demand for group loans[51]. A credit officer will collect information and at the head office, the branch manager (or, for larger loans, a credit committee) will consider the application. Land titles, driving licenses or titles of motorbikes are often physically held at the MFIs office as collateral, as the systems creating a right of mortgage or right of pledge are tedious and complicated and the created rights are difficult to enforce. Payment of loans and interest or depositing funds in a savings account are typically expected to be done at the MFI office by the borrower on a monthly basis. A new contract is normally made for every loan. The main elements of this methodology are open to improvement and a series of experiments are taking place (see Box 3).

51 As we will see below, also the core group of large and strong VSCG almost exclusively provide loans on an individual basis because of reluctance of asking other people to guarantee your loan.

Box 3: Microfinance Service Delivery Improvements in the Lao PDR

- Particularly on markets and in densely populated situations credit officers actively collect payments on loans and as deposits. New internal control mechanisms are being developed to deal with credit officers rather than tellers handling money.
- A daily loan product has been designed, enabling borrowing in the morning and repayment with interest in the late evening, typically near markets and inspired by "money lender" practices
- Weekly repayment has been created as an option
- Agents are being used who are paid commissions for both bringing in customers as well as repayment quality
- A "Revolving loan" product has been created, allowing for a single loan-contract to be used as a basis for repetitive withdrawals
- Grameen methodology based weekly center meetings are introduced within Ekphatthanna DT MFI (see Box 4).

Box 4: Grameen Banking, CARD MRI, the Lao Women's Union, EMI and the German Savings Bank Foundation[52]

A long standing collaboration between the German Savings Bank Foundation (SBFIC) and Philippine based CARD MRI has recently,in late 2008, extended their activities and collaboration into the Lao PDR. One result of this cooperation is the import of Grameen based methodology.

- Ekphatthanna (1st Development) DT MFI ('EMI') is a partner of both SBFIC and CARD MRI and receives technical support. EMI has a strategy for expansion, an exception in the Lao PDR. Its sister company, the Microfinance Center Lao (MFC), is the only professional specialized microfinance training and consultancy company of the Lao PDR. The Grameen based center meeting methodology has recently been added as a way to deliver EMI's services and has strongly increased the number of clients and products per credit officer, as well as positively stimulating repayment.
- SBFIC has established a collaborative agreement with the Lao Women's Union, with the goal of setting up a Grameen methodology based MFI, for which a license will be requested from the Bank of Lao PDR. The MFI will be a shareholder based limited company which shares will be held by the LWU and will be monitored by BOL. Currently the collaboration is shaping up under the name "Women and Family Development Fund" and 2 months ago had its first weekly center meetings.

52 See: Savings Bank for International Cooperation (SBFIC) www.sbfic.de; Center for Agricultural and Rural Development Mutually Reinforcing Institutions (CARD MRI) www.cardbankph.com; Microfinance Center Lao (MFC), www.mfclao.com and www.facebook.com/pages/...Center-Laos/109105546733.

6. Semi-Formal Microfinance Providers: Village Saving & Credit Groups and Village Revolving Funds

The VSCGs are, as their name already suggests, village based. An assembly of villagers forming this group determines the main characteristics of the VSCGs: the minimum obligatory savings amount, maximum loan amount, minimum and maximum voluntary savings amount, loan and savings products, the management of village bank, its operating hours, and the like.

The VSCG comprises the elected management committee and the "obligatory" advisory committee, consisting of the chief of the village (GOL), or sometimes his Deputy responsible for Economic Development, village (chief of) police, or the local representative of the LWU or Lao Revolutionary's People's Party's village secretary. The advisory committee monitors and audits the books, assists with conflict management matters such as non-repayment by members, and promotes the village bank. Within the management committee, each member is assigned the responsibility for one of the usual seven books (passbook, cashbook, savings, loan, daily account/ledger, simple income statement and balance sheet).

Typically the VB will open, twice or sometimes even three times a month, for the larger ones. During the meeting villagers will make deposits and, often in the afternoon, requests for loans will be reviewed by the management committee; if need be, supported by the advisory committee. If the savings exceed loans, the management committee will actively seek the business of households they gauge would need extra funds.

Large VSCGs often have a minimum obligatory monthly saving amount of LAK 5,000 (USD 0,58) and minimum voluntary amounts of LAK 20,000 (USD 2,32). Loan maximums normally are LAK 20 million (USD 2,300) with some VSCGs allowing loans up to LAK 50 million LAK (USD 5,570), both amounts which are higher than formal MF providers are allowed to lend out. Loans range from 2, 3, 6, 8 months to even 2 years, depending on the cash-flow cycle of the activity undertaken with the borrowed funds. Repayment is loose, often dependent on the availability of funds and rescheduling usually takes place. Interest payments are made monthly[53] and often the interest rate is similar to the ones found in formal MF providers, ranging from 3 to 4%, sometimes even 5% per month in relatively developed areas, to lower percentages in other areas. Interestingly, the VSCGs almost exclusively lend out based on individual lending, more often than not without collateral. Larger loans sometimes are backed up by in the surrender of the land title.

Apart from the savings and loans products, insurance, in case of a funeral, is occasionally offered, with an insured amount of LAK 3 million (USD 355), by distributing the risk over a large number of associated VSCGs. Many of the large VSCG are organized networks, offering technical support to each other, and hence have the resources to offer the funeral insurance.

No interest is paid on savings; instead, a dividend is paid based on a weighted average savings balance at the end of the year, based on percentages of total dividend decided upon in the general assembly. Loans are then called on to be repaid, as much as is needed for the redistribution of dividend. Members of both committees receive their "reward" at the end of the year as a percentage of total revenue/"profit". Typical dividend distribution could look like Table 8 below[54].

Table 8: VSCG Dividend Distribution

Profit of the Village Bank	
› Dividend for members	70%
› Payment of management committee	15%
› Payment of advisory committee	5%
› Capital	3%
› Village development capital	2.5%
› Welfare capital	2.5%
› Auditing costs	2%

53 For VDFs based on external or state funding these rates are different.

54 Deelen, Linda and Eva Majurin (2008), International Labour Organization, Subregional Office for South East Asia, 'Village Banking in the Lao PDR', a handbook for Management Committees and Support Organizations.

The VSCGs form an important group; in many ways they are currently the most prominent supplier of MF services. As we have seen earlier, they have the most outreach in the number of clients, have large amounts of accumulated funds, have been long established, are congruent with the GOL and society's organizational structure, and have strong political leverage through GOL and LWU. International evidence has shown that VSCGs are relatively self-sufficient yet need ongoing technical assistance[55]. In the group, innovative structures have been created, in the form of networks and associations of (representatives of) VSCGs, which offer technical support to the "member" VSCGs.

At the same time, the VSCG are non-professional, open three days a month at the most and lack both transparency and accountability. No conclusive assessment of their success can therefore be made. It is also this group, or rather, that part of the group with over 200 million in voluntary savings, that are most affected by BOL's new MF regulation. All have to request a license and professionalize, if the letter of the regulation is to be followed[56].

The implementation of the current MF regulations has challenges in addition to the lack of available training and technical support necessary to successfully manage the process. The main Lao VSCG creators have a different way of looking at how MF should be undertaken than the financial authority, BOL. Related to this is the lack of understanding of the different methodologies and objectives, aggravated by BOL's lack of outreach and the somewhat ambiguous setting of the enabling environment.

55 CGAP focusnote 36.

56 Alternatively, the member contributions are seen as (share) capital rather than savings, which would relieve the VSCG of the obligation to request a license. Since no interest is being paid, a minimum monthly contribution is a condition to stay member of the VSCG, and the contributions (even if made voluntary in amounts over the minimum required amount) cannot be withdrawn immediately just based on a member's request, the "savings" could well be characterized as member share capital. However, BOL's Financial Sector Strategy 2008 mentions the need to govern the large VSCGs to protect depositors. During the writing of this report, no conclusive answer to the issue of the obligation to request a license for large VSCGs could be given.

6.1. Microfinance Regulations and VCSGs: Issues Relating To Formalisation

- Committee members including village authorities in VSCGs receive relatively large rewards which they will no doubt lose after licensing;
- Reporting to and monitoring by BOL will create transparency and will reveal potential PAR, which is now not apparent;
- The maximum loan amount will be limited to LAK 10 million or USD 1,150, while currently, in VSCGs the loan amounts are often over that amount;
- Compulsory loan loss provision will depress profit and lead to lower dividends;
- Power will reside with the members (SCU) or shareholders (DT MFI) after licensing, and village authorities would lose the formal position they currently have in VSCG;
- The lack of capacity and technical infrastructure, PC knowledge and general MF knowledge and experience, both within the population of VSCGs as well as within their supporting organizations.
- 35% tax will be levied three years after formalization, while currently VSCGs are tax-exempt.

6.2 Village Revolving Funds

An estimated 4,000 villages have been reached by credit components of multi-sector social, economic development plans, implemented mostly through the Ministry of Agriculture and Fishery (MAF), the Ministry of Planning and Investment (MPI) or the LWU, initiated and funded by large international development organizations. As seen in CGAP's Guidelines and Focus Note 36, the scope for attaining self-sufficiency is lacking. All of them, however, fall under the formal scope of the NDT MFI regulation and have to register with BOL. Of importance is that millions of US dollars are disbursed this way in the form of a "loan", through a "VDF", with very low interest rates and mostly without any structure for recovery or a real objective of recovering the loans.

7. Challenges for the Lao PDR Microfinance Sector

7.1 Microfinance Sector: Competition

As identified earlier, the unmet demand for financial services in the Lao PDR is large. The limited outreach in the rural and microfinance segment of the banks, formal and semi-formal providers explains the importance of informal solutions found with family, friends and money lenders.

Since outreach is limited, gaining outreach while managing this expansion well is pivotal, and competition for the trust of clients in the lower segment is still limited. Banks, in particular Phongsvanh Bank, are competing with MF providers in some urban areas, having an advantage in the fact that they are allowed to extend loans over LAK 10 million (USD 1,150), as are the VSCGs. VSCGs have another advantage in that they are backed up by the large and powerful structures of government and mass organizations, whereas the MFIs and SCUs are not. Moreover, semi-formal providers do not pay tax, while a 35% profit tax is levied on MFIs and SCUs (after a 3 year grace period), and they are not yet subjected to the regulatory and monitoring requirements of BOL, creating transparency and accountability, whereas by definition licensed institutions are.

Strong competition, however, does exist in the labor market. With the regulatory environment currently improved and the consequential expansion of formal microfinance provision, the lack of (potential) staff, skilled or semi-skilled, is apparent. With the banking sector expanding so rapidly and few existing providers of banking, finance or microfinance training, the few educated and experienced people are already hired. Due to the static nature in the short term of the supply of educated or experienced staff, wages have risen, but the quality of services has not. As a consequence, banks target staff of microfinance providers, which have a small human resource base to begin with and cannot compete with the financially stronger banks. This process further threatens the successful development of the microfinance sector.

7.2 Consequences of Microfinance Regulations and Lack of Human Capacity in the Lao PDR

7.2.1 Meso Level: Demand

The regulations on microfinance institutions issued by the Bank of Lao PDR require VSCGs with over 200 million LAK in voluntary savings to "upgrade" to become a licensed DT MFIs or SCUs. The estimated number of VSCGs in this category is 200[57].

Currently, the knowledge of, and experience of, transforming a VSCG (or VDF) into a licensed, professional organization in the form of either a DT MFI or a SCU in the Lao PDR, is almost monopolized by the Lao Microfinance Center. The first, and to date only, program developed and supported by an international development organization to make this transition on the Lao PDR ran from April 2007 and will end in March 2010. The Dutch Rabobank Foundation funded the program, which has been implemented by the Lao Microfinance Center (MFC), technically assisted and monitored by SNV Netherlands Development Organization[58]. Since then, most of the other VSCGs (and VDFs) that have made the transformation have requested MFC's assistance. From this early experience, the most important conclusions drawn are that to successfully undertake this transformation, long term technical assistance is needed and that such assistance is very labor intensive. In short, many training days are needed. A rough estimation based on the program mentioned above suggest that thousands of training days are needed for the coming years, if the 200 VSCGs that are supposed to be obliged to request a license are to be professionalized successfully.

57 Assuming the member contribution are seen as "savings", which so far has been BOL's position, even though BOL intends compliance to be based on a participatory process.

58 Since 2009, SNV Netherlands Development Organizations is no longer involved in microfinance.

7.2.2 Macro Level: Demand

Currently, BOL's MF division is fully utilised by the workload of the existing group of only 16 formal MF providers. With 200 VSCGs needing to request a license, undergo a pre-opening screening and assessment, and at least formally, another 4,800 VDFs needing to register, on top of the ongoing of-site and on-site monitoring of already licensed MF institutions, it is clear the expected workload is beyond its current capacity.

7.3 Microfinance Training and Consultancy: Supply

Relative to the need for training, technical support and consultancy in the microfinance sector, supply is extremely limited. There is only one specialized company, the Microfinance Center Lao, offering the full range of required support, with 2 full-time and 2 part time trainers, and some 20 available resource persons for on-demand training. One other consultancy business, EBIT (www.ebitconsultancy.com) with 13 associated consultants, has 2 consultants specialized in the accounting, internal control and compliance areas. On a final note, 2 associations (Lao Community Sustainable Development Promotion Association or LA, and Non-profit Association of Lao Development and Environment, or NALD) have registered at the PMO, together employing some 12 staff deliver technical assistance services exclusively to VSCGs.

The Training Institute of BOL lacks curriculum and proper trainers on MF. The National University of Lao has part of its curriculum dedicated to rural finance, but without any current practical value for the development of the MF sector. Finally, the ACLEDA-ASEAN Regional Microfinance Center (AARMC) in Cambodia has yet to branch out and has to address the human resource matters within its own group as a start.

7.4 Meso Level or the Financial Infrastructure

With the current microfinance enabling environment (the policy statement, a responsible financial authority with a specialized microfinance division, regulations) largely in place[59], successful implementation becomes more of a focus. As seen earlier, the main bottleneck for the development of the (micro) finance sector is the lack of human capacity, both in depth as well as breadth and, more seriously, a lack of available training, education and technical support to deal with this backlog of issues. Apart from training facilities, other main elements of the financial infrastructure have not reached the level necessary to support the development of a strong MF sector.

7.4.1 Depositors Protection

The depositor protection fund (DPF) could play an important role in the development of the RMF sector because of the importance of savings as source of funding, and the lack of reliability often associated with savings in a MF provider. Moreover, BOL microfinance regulations oblige licensed MFIs and SCUs to become a member of the DPF. The Fund was established in 1999[60] and was separated from BOL in May 2007. The Fund provides a maximum coverage of 20 million LAK per account. However, it has its organisational problems and only 7 out of 15 banks are part of the Fund. The first application for participation in the Fund by MF institutions has yet to be processed, partly due to a lack of knowledge and understanding of the RMF sector within the DPF, and partly because of a general lack of development of the DPF itself. Since formal RMF suppliers have different needs from banks, (for example, loans issued by RMF suppliers are smaller), building a joint strategy with the DPF regarding DT MFIs and SCUs and offering technical support to the DPF would be beneficial.

59 Although the regulations expectedly will continuously be improved as the process of implementation and interaction with stakeholders will bring about a learning curve. Moreover, as can be seen below, the newly started GTZ project called "Access to Finance for the Poor", has as one of its main objectives precisely that, to support BOL in improving the MF regulations, and in creating both a strategy and workplan on implementation of the regulations.

60 Based on the agreement of the Minister of Finance on establishment of Depositor Protection Fund No.1285/MOF, dated September 23, 1999.

7.4.2 Meso Level: Further Challenges and Opportunities in Brief

- **Credit Bureau:** The existing CIB only works with banks, which are required to report monthly to the BOL on all loans over the equivalent of US$3,000 and, in turn, those regulated institutions have access to this information. Currently, the International Finance Corporation (IFC) is looking at support for the CIB, and extending its scope to the MF sector.
- **Payment Culture and Legal System:** Both the payment culture and the legal system aimed at securing transactions are weak. The Secure Transactions Law, although passed by the General Assembly, has not been formally implemented as yet.
- **Capital Market:** A stock market is planned for 2010.
- **Financial Education for Consumers:** There is no financial education for consumers.
- **Audit and Accounting:** Licensed MFIs and SCUs need to be externally audited at least once a year. This part of BOL's regulations is not being enforced at present. Available certified public accountants are scarce and expensive. BOL, however, performs on-site, as well as off-site, examinations.

8. Coordination and Advocacy

8.1 The Microfinance Working Group for the Lao PDR

There is strong demand and support for stakeholder coordination in the MF sector in the Lao PDR[61] [62]. So far, the informal MFWG, a multi-stakeholder platform, has narrowed this gap. However, the MFWG suffers chronically from a lack of human resources and organizational structure.

The MFWG was established in May 2007 with its leading goal stated as "To enhance the impact of microfinance on poverty alleviation by promoting a coordinated approach to sustainable microfinance that works towards international good practice principles (based on the CGAP key principles) in the Lao PDR" [63].

The MFWG has gained acceptance within the MF community inside and outside the Lao PDR. Its assistance has been sought by a dozen or so missions of donors, INGOs and commercial funds seeking for information on and access to the Lao PDR MF situation, as well as assistance with setting up workshops. It has held meetings with the aim of exchanging experience, learning and finding solutions; however, meetings have not been held recently. It has identified and disseminated information, sourced scholarships for Lao MF practitioners to study abroad, and also functions as a platform for communication between BOL and the MF sector. The MFWG has an elected board, the TOR, a bank account and a website in development.

61 See: The 2nd National conference on MF March 2007 with all stakeholders present; the 5th Northern MF Workshop with all stakeholders of the Northern part of the country present; the ADB/FIRST report of 2006, "Rural Finance in the Lao PDR: Demand, Supply and Sustainability, results of household and supplier survey's", Brett E. Coleman, Jon Wynne-Williams; "Lao PDR Financial Sector Diagnostic", IFC/MPDF, 2007.

62 Also: "Quality in Aid Management for Microfinance Survey: Good Practice in the Lao PDR, a CGAP based study", Timo H. Hogenhout, Microfinance Working Group, June 2007.

63 Terms of Reference MFWG

8.2 Finance Working Group of the Lao Business Forum

There is a Finance Working Group that is part of the Lao Business Forum (LBF), a public-private dialogue organised by IFC/MPDF, through which issues that affect the efficient functioning of financial services markets, including the MF and RF markets, can be addressed at the highest political level. In the LBF, all the banks, the Bankers Association, the MFWG and formal MF initiatives are represented. Due to withdrawal of funding by IFC, there has been less activity within the LBF since 2009.

9. Management Information System and Its Support

75% of all licensed and registered MF providers in the Lao PDR use a software program called Microbanker (MB), created by GTZ/FAO, to administer their microfinance portfolio. BOL and the two training companies MFC and EBIT are knowledgeable and have experience in the use of MB, with MFC holding an accreditation. There also a Lao language version of MB, and support in the Thai language. With the expected expansion of the formal MF sector, a proper MIS (Management information System) becomes more important; as is its related support. Because of the critical mass it has acquired in the Lao PDR, MB has momentum, but the necessary knowledge of and experience with the program within the country needs to be improved.

9.1 MIS and Community Managed Loan Funds: VSCGs and VDF

At present none of the organizations working with CMLFs uses a management information system or automated administration, other than MS Excel by some at the aggregated, district level. In order to successfully manage, control and monitor the CMLFs, as well as produce relevant reports and data either for management information reasons as well as to be able to comply with BOL's requirements, there is an urgent need for development of a quality VSCG/VDF specific MIS.

10. Challenges and Opportunities - SWOT Lao PDR Microfinance Sector

10.1 Strengths

- The regulatory environment is largely up to standard;
- some strong, long term committed international development organizations;
- a powerful network with leverage through the Lao Revolutionary Party's mass organizations; and
- some key officials within GOL with relevant knowledge, experience and understanding.

10.2 Weaknesses and Constraints

- Inconsistencies in the enabling and regulatory setting for financial service delivery to lower income households, micro and small businesses;
- the capacity of staff of BOL, in terms of numbers and quality relative to the enormity of their task at hand and lack of supportive infrastructure;
- the level of available IT and other infrastructural facilities;
- lack of capacity at micro level in numbers and quality; and
- low population density and lacking physical and technological infrastructure.

10.3 Opportunities

- The Lao PDR government's policy statements favor the development of a strong and sustainable, market oriented development of the Microfinance sector;
- strong demand for sustainable, available and accessible financial service providers within the population;
- institutional push for the creation of sustainable MF service providers, created by the new Microfinance regulations;
- large scale interest and involvement of donors and investors;
- upcoming coordination and advocacy in the form of an informal Microfinance Working Group;[64]
- growing number of young, educated people, wanting to improve both themselves and their country, and eager to work in the financial sector;
- one high quality MF training and consultancy firm, one MF consultancy firm with high quality MF accounting practices, two with expertise in Village Banking servicing, and a strong network of VBs with similar methodology; and
- a few strong MF institutions.

10.4 Threats

- A lack of human resources and knowledge gaps at the meso level; lack of knowledgeable trainers, consultants, accountants and solutions;
- donors exercising "bad practice", yielding to disbursement pressure;
- lack of dissemination of the ("Good Practice" principles outlined in) Prime Minister's "Policy Statement on the Development of the Rural and Microfinance sector" and, when successfully disseminated, a lack of understanding by the recipient officials;
- the existing system of rotating staff within Bank of the Lao PDR; and
- donors, INGOs offering only funds, and not the vehicles to enable good use of these funds, and not offering solutions or Technical Assistance.

64 www.mfwglaopdr.org

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Annex 1: Main international development organizations involved in the sector[60]

Association of Asian Confederation of Credit Unions (ACCU)

Recently ACCU has started implementation of a Dutch Agriterra-funded project, with the Department of Planning and Investment of Luang Phabang province as counterpart. The project aims to strengthen existing (small) village development funds that earlier already worked with ACCU. Dutch PSO funds the salary of an additional Dutch advisor that will complement the ACCU team.

Asian Development Bank (ADB)

The ADB has been working on the development of the enabling environment in the Rural Finance Sector Development Project, which has recently concluded. The only program currently running that directly involves MF is called "Catalyzing Microfinance for the Poor" (CMP), which has BOL as counterpart. CMP works on capacity building by training formal MF providers and those semi-formal providers that are in the process of formalizing. Training on basic MF principles is practical and occurs on the job. Issues such as accounting, business planning, use of MF software, delinquency management and the like are covered. For the MF providers that have made a business plan and fulfil a number of basic criteria, a matched grant fund is available to fund up to 100% of available capital to a maximum of USD 50.000. As part of the program government officials have been trained on basic Good Practice principles. Currently the program is awaiting a decision on a request for its continuation, as normally the three year program will end in 2010.

Apart from this, however, the ADB has many (multi) sector programs, most of them with a strong agricultural focus, containing large credit components implemented in literally hundreds of village as "village development funds".

Community Organisational Development Institute (CODI) and Foundation for Integrated Agricultural and Environmental Management (FIAM)

Both CODI (a Thai Government agency) and FIAM (a Thai NGO) have worked as partners of the LWU for many years, creating outreach in Community Managed Loan Funds (CMLF). The CMLF created with CODI and FIAM support have their funding fully based on savings generated by village members, while CODI and FIAM deliver technical assistance. CODI has recently renewed its Memorandum of Understanding with the LWU for another three years to extend its activities geographically and continue support to existing VSCGs. FIAM will expectedly do the same in 2010. The FIAM's and CODI's cooperation with the LWU has created the largest group of MF service providers in terms of numbers of clients and funds involved, but are still outside the scope of the BOL and its regulations. Success, measured in terms of a few key financial ratios, can not completely be determined as key financial statistics (e.g. PAR30+) are not available as they are not collected by the CMLFs themselves.

DGRV

DGRV has a single representative for the whole Indochina region (Vietnam, Lao, Cambodia) and a local full time MF advisor in the Lao PDR. DGRV supports 2 cooperatives initiated under an old regulation, as well as a few groups of small CMLFs scattered around the country, and works with some members of the National assembly on the enhancement of the enabling environment for cooperatives.

German Technical Cooperation (GTZ)

GTZ has recently started a long term project called "Microfinance in Rural Areas-Access to Finance for the Poor", which has its origin in the Microfinance component of a rural development program called "Rural Development in Mountainous Areas (RDMA)". The double title of the project is indicative of its ambivalence, as the existing RDMA's MF component – comprising of GTZ funding driven VDFs located in the poorest and most remote parts and ethnically

65 In alphabetical order.

diverse parts of the Lao PDR, and regional associations of these VDFs technically assisting the VDFs while having as its main source of income the interest generated by on-lending GTZ funds to the VDFs – has got a new element added to it, in the form of technical support to BOL's MF regulatory and supervisory capacity. Within GTZ and at the level of the German Ministry for International Cooperation, the program has recently been reoriented from the focal area "Rural Development" to "Economic Development", the latter also comprising Financial systems development, reflecting the shift in focus. GTZ's input, working ongoing and directly with BOL, is highly significant for the development of the enabling setting of financial service delivery to the lower segment.

Hydropower Projects and Mining Companies[66]

The dozens of projects in this category have the obligation to compensate villagers for loss of livelihood due to commercial projects. If the loss of livelihood (income) is over 20%, international standards and a Lao PMO decree force the creation of village development funds as a form of "provision of improved or better access to micro-finance and affordable micro-credit facilities". Examples include the VDFs created by Nam Theun-2 Power Company (NTPC), Theun Hinboun Power Company (THPC) and Phu Bia mining. Funds meant to compensate villagers are put in the "village bank", against which villagers can borrow money if a plan to develop some income generating activity is submitted. A 2009 report by a panel of experts defines the NTPC credit scheme to be one of the most successful NTPC initiatives, but at the same time states in the same paragraph that …."and excellent evaluation of the credit scheme has identified "a progressive erosion of microfinance principles"". The panel, containing experts on environmental and social issues, concludes that this erosion is acceptable, as it is traded of with the benefit of gaining outreach[67].

66 www.poweringprogress.org
67 McDowell, David, Thayer Scudder and Lee M. Talbot, page 18 of "15th report of the International Environmental and Social Panel of Experts", Nam Theun 2 Multipurpose project, 30 April 2009.

International Fund for Agricultural Development (IFAD)

IFAD works jointly with GTZ on the already mentioned "Microfinance in Rural Areas-Access to Finance for the Poor" program, parts of which it also funds; it funds the "Oudomxay Community Initiatives Support Project" (OCISP), a 25 million USD integrated rural development project, which next to IFAD is externally funded by the World Food Program and Lux-Development, and is also funding the joint IFAD, ADB Swiss Development Cooperation project "Northern Northern Regions Livelihood through Livestock Development project".

International Labour Organisation (ILO)

The ILO village banking programme in Lao PDR is part of an endeavour by the organisation to enhance income generating opportunities and to combat trafficking in women and children. The village banking scheme targets the rural poor in provinces bordering Thailand. ILO started the village banking programme in Lao PDR in early 2004. The village banking programme replaced earlier, less successful, efforts by the ILO to create revolving loan funds in villages with high incidence of human trafficking. By and large, these revolving loan funds dissolved within less than a year, and left the villages with worse, rather than better, functioning social support systems. ILO has set up some 100 CMLFs spread out over 5 provinces, jointly implemented with the provincial departments of labour and social welfare and the provincial departments of industry and commerce. The village banking methodology applied was based on the positive experiences of FIAM and was further improved through consultations with microfinance experts and discussions with village representatives in early 2004. The ILO works together with the Lao Community Sustainable Development Promotion Association (LCSDPA), technically assisting the village banks or VSCGs. Having recruited some of the field staff of the former FIAM Project, the LCSDPA has ample experience in supporting community-based microfinance initiatives.

Lux-Development

Next to the already mentioned participation in OCISP, Lux Development also supports the creation and development of initially 21, later some 10 to 20 more, VDFs, with the LWU as counterpart. Initial ideas to have an assessment done by a MF expert and look at sustainability and adherence to basic MF principles and BOL's MF regulations have been withdrawn because of opposition.

Rabobank Foundation

The Radobank Foundation (RF) has been involved with the BOL-licensed Credit Cooperative for Small Producers (CCSP) which was initiated in 1996. Its 10 unlicensed semi-formal sister CCSP's and the limited company called "Fund Cooperatif" which CCSP owns 48% of, and Rabobank Foundation/Alterfin, DGRV and French SIDI together own another 48%.

More importantly, RF has been involved as both funder and, to a lesser extent, technical assistant of a 3 year program, implemented by the Lao Microfinance Center and until April 2010 backstopped by SNV Netherlands Development Organization, to build up 3 new Member based, licensed MF providers based on BOL regulations for Saving and Credit Unions (SCU), and to technically support 2 existing licensed SCUs earlier initiated by ADB on a pilot basis. As RF is also involved in a producer cooperative, since the enabling environment for both producer and credit cooperatives in Laos has a strong foundation and, it is hoped that RF can be long-term involved in the Lao PDR MF sector as a development partner. Representatives of RF will visit the People's Democratic Republic in June 2010 to look into the feasibility of future engagement in the sector.

Savings Bank Foundation for International Cooperation

The German Savings Bank Foundation for International Cooperation SBFIC (www.sbfic.de) has been engaged in the Lao PDR MF sector since 2008, jointly with its long term partner CARD MRI (www.cardbankph.com), the Philippine based MFI and related mutually reinforcing institutions.

One counterpart is the LWU, with which SBFIC is building on a licensed DT MFI, based on modified Grameen Banking methodology. The project is an extension of a similar project with the Vietnamese Women's Union called the "TYM Fund".

Two other partners are the sister-companies Ekphatthanna DT MFI (EMI) and Microfinance Center (MFC). EMI and MFC are both, also independently of the relationship via SBFIC, direct partners of CARD MRI. The three-party cooperation aims to support the development of the MF sector by building the capacity of MFC and by building EMI's capacity and outreach.

UNCDF

In an explorative study and in talks with the Lao government and the Bank of Lao PDR, the UNCDF is currently looking into the feasibility of having a large, long term engagement in the development of the Lao PDR microfinance sector, with various project-objectives and potential project partners.

World Education Consortium

World Education Consortium (WEC) is involved in the sector both by delivering senior staff as Team Leaders of the ADB funded CMP program as well as by way of its efforts to set up a formal, licensed and self-sufficient SCU delivering services in the poorer, rural areas of Salawan province. In its design, the project takes the Lao PDR governmental organization in villages in to account. If successful, it would be the first licensed institution with operations in the rural areas, or maybe the 2nd after the Rural Development Cooperative Naxaythong.

World Vision

World Vision has a 16 year multi-sector Area Development Program in the Lao PDR of which the creation of a member-savings based VDF is an important element. It started the implementation some 2 years ago and has not commence work on an exit strategy as the work at the village level demands all attention. From within World Vision there is emphasis in supporting formal microfinance institutions, where in the Lao PDR the effort is in small, most poor villages.

List of relevant websites

In English and Lao

- www.bol.gov.la
- www.bol.gov.la/english/laogovtlinks.html
- www.mof.gov.la
- www.microfinancelaopdr.org
- www.mfwglaopdr.org
- www.mfclao.com
- http://www.facebook.com/pages/Microfinance-Center-Laos/109105546733
- www.ebitconsultancy.com
- www.laotrade.org.la
- www.smepdo.org

English and Thai

- www.codi.or.th

English and Japanese

- www.invest.laopdr.org

English

- www.adb.org/LaoPDR/
- www.poweringprogress.org
- www.directoryofngos.org

English and German

- www.gtz.de
- www.sbfic.de

English and Dutch

- www.rabobankfoundation.nl

Other Publications

Microfinance Industry Reports in this series

Microfinance Industry Reports
(Vietnam, Nepal, Indonesia, Bangladesh, Sri Lanka, Thailand, Lao People's Democratic Republic, Myanmar and translations), 2008-2009.
Available on CD ROM and online.

Available from the BWTP Network website
www.bwtp.org

Other BWTP Network / FDC Publications

Capacity Building for Partnerships in Microfinance Trainer's Manual
Jamie Bedson (Ed.), 2008
ISBN: 978-0-9804698-1-3
Available online and for purchase on CD ROM.
ISBN: 978-0-9804698-2-0

Microfinance in Asia: Trends, Challenges and Opportunities
Jamie Bedson (Ed.), 2009.
Available on CD ROM and online.

Microfinance and Disaster Management Trainer's Manual
Stuart Mathison (Ed.), 2006
Available for purchase and online.
ISBN: 0-9586728-9-X

Getting the Framework Right
Paul B. McGuire, John D. Conroy, Ganesh B. Thapa (Eds.), 1998
Available for purchase through the Foundation for Development Cooperation website.
ISBN: 0-9586728-3-0

Available from the BWTP Network website
www.bwtp.org

The Banking With the Poor Network Secretariat
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