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How to Sustainably Regulate Village Development Funds in the Lao People's Democratic Republic

Research Paper

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June 2020

Acknowledgement

Foremost, I would like to express my sincere gratitude to my academic advisor Professor NISHIZAWA Toshiro for his dedication and guidance on this paper. His advice has driven the crucial support to me to comprehensively conduct and understand this particular area of study. He is also one of the significant persons who gave me the great opportunity to study in Japan. Moreover, I would like to sincerely thank those professors who taught me to learn a lot of new lessons and shared the Japanese miracle experiences while I was taking the courses at Graduate School of Public Policy (GraSPP), University of Tokyo.

In addition, I would like to give special thanks to YONEYAMA Yoshiharu, Chief Representative Japan International Cooperation Agency (JICA) Laos Office who gave me the valuable chance to be involved in the JICA Knowledge Co-Creation Program. Indeed, he and his colleagues strongly support my application for this scholarship.

Furthermore, I am extremely heartfelt and thankful to JICA under the SDGs Global Leader Program for providing me substantial financial support as well as other supportive assistance during the two years of the Master degree in Japan. What's more, I would like to thank both JICA Tokyo Headquarters Office and GraSPP, University of Tokyo's officers for their kind support and cooperation as well as my organization, The Bank of the Lao PDR for giving an opportunity to enhance my knowledge abroad. Finally, I would like to truly thank my family for their persistent encouragement during my study in Japan.

Abstract

The government has concentrated on the development of rural areas by encouraging the establishment of Village Development Funds (VDFs). The overall VDFs improve the accessibility to financing for the rural poor households better than regulated financial institutions. However, many VDFs are still facing barriers in providing financial services to the poor. At the same time, VDFs themselves have not been strengthened yet. This research is qualitative based on official documents, including official statistics, and the existing research work done by the third parties. This method would assist relevant policymakers to create a favorable framework for supervising the VDFs. Concluding the study found that the government is the key support in enhancing the growth and sustainability of VDFs. Therefore, three possible components should be addressed. Firstly, establishing a favorable regulatory framework to promote the roles of VDFs. Secondly, developing the essential infrastructure in order to assist the households' generating income. Finally, strengthening the supervisory apparatus together with the VDFs management committees. These conditions would support VDFs to expand their financial services of poor households in rural areas.

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1. Background

The financial sector in Lao PDR is divided into two categories. One is a group of formal financial institutions regulated by the Bank of the Lao PDR (BOL) consisting of 44 banks and 185 financial institutions.[1] The other is a group of semi-formal financial institutions,[2] generally acknowledged as Village Development Funds (VDFs).[3] Normally, VDFs are established and supervised at district level and managed under village committees and other community representatives. Recently, the government adopted the decree on the organization and functionalities of the Ministry of Agriculture and Forestry (MAF).[4] One of MAF's duties is to build an enabling environment to reduce poverty and development village as defined on the government decree no. 348[5] by establishing a financial service unit, health care, school, and other facilities.

VDFs have been successfully used as a strategic tool for the government to improve social-economic conditions in rural villages with the support of several international organizations. VDFs provide 79 percent of the whole microloan amount (MPI, NERI and BOL, 2015). Phonvisay and Vixathep (2015) conclude that VDFs contribute to reducing poverty in the rural poor areas. The Vietnam Bank for Social Policies (VBSP), which provides financing to the poor at low-interest rates without collateral, confirms the positive outcome on beneficiaries' incomes, expenditures, and poverty reduction (Nguyen, 2007).

Various microfinance models started in the early 1990s in Lao PDR are called in different names such as the Lao Village Credit Associations, Village Banks, Village Savings and Credit Funds, Self-Help Groups, and Credit Groups, reflecting the donors' mission and initiatives. The projects were collaborative between the local government representatives and international organizations. The main objective was to promote microloan mechanisms and village revolving funds (VRFs). By mid-1996, those funds increased to 1,650 with the contribution of 31 donors and international agencies and covered 15 percent of 11,192 rural villages nationwide.[6] Micro funds/VDFs began their operations with credit and then taking deposits as the economy developed in many areas and the donors encouraged sustainable financial operations. 85 percent of the 4,815 VDFs are deposit-taking funds (MPI, NERI and BOL, 2015).

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[1] Of which, there were 20 Deposit-Taking Microfinance Institutions (DTMFIs), 77 Non-Deposit Taking Microfinance Institutions (NDTMFIs), 27 Savings and Credit Unions (SCUs), 29 leasing companies, 27 pawn shops, and 5 money transfer agencies. Monetary Statistics Quarterly Report Q3/2019, BOL.

[2] Refer to non-prudential regulated financial institutions, no legal entity, but authorized and recognized by local government agencies concerned.

[3] This paper uses VDFs as government referred in the National Growth and Poverty Eradication Strategy (NGPES), June 2004.

[4] The Prime Ministerial Decree No. 99/PM, dated March 09, 2017.

[5] The Government Decree on Measure of Poverty Eradication and Development, No. 348/GOV, dated November 16, 2017. This decree is implemented by MAF.

[6] Source: Microfinance in Rural Lao PDR: A National Profile, UNDP/UNCDF, June 1997.

Partners to collaborate with local administrations to promote VDFs consist of GIZ,[7] CARE,[8] UNICEF,[9] ILO,[10] FIAM,[11] CODI,[12] and other multilateral agencies. These organizations had established numerous VDFs by providing technical assistance for both VDFs management committee and local government officials on monitoring the VDFs. In 2003, the government approved a policy statement for the development of sustainable rural and microfinance sectors.[13] The policy emphasizes on building an enabling environment for expansion, diversity, sustainability, and security of rural and microfinance sectors. In 2004, the National Growth and Poverty Eradication Strategy (NGPES) identified 47 districts as the poorest. The government allocated a budget of LAK 25 billion and assigned Village Development Fund Supervision Committees (VDFSCs) to manage the fund. From 2003 to 2007, the government disbursed LAK 41.7 billion to support the VDFs across the country. In 2009, 528 VDFs were established in the 47 poorest districts, with coverage 34,865 households (MPI, NERI and BOL, 2015).

The government assigned a monitoring responsibility to the Ministry of Planning and Investment (MPI) upon international project completion. Due to a limitation of MPI's managing, the National Leading Committee for Rural Development and Poverty Eradication (NLCRDPE) was replaced in 2007. While some government agencies, such as Lao Women's Union (LWU), the Lao People's Revolutionary Youth Union (LPRYU), Agriculture and Forestry at district level, and other local government entities were kept responsible for overseeing VDFs (MPI, NERI and BOL, 2015).

2. Research objective and approach

The main objectives of this paper are to analyze the causes of VDFs' limited capacity to provide financial services to the poor, to identify the challenges for policy-makers, to design an enabling regulatory framework to enhance VDFs' operations and to propose some options for supervising the VDFs effectively.

- Main research questions:

1) Why do potential borrowers have only limited access to funds managed by VDFs?
2) How could MAF and BOL enable VDFs to provide the poor with financial services?

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[7] Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, a German agency for international cooperation, was established 346 VDFs in the northern region (Bokeo, Luang Namtha, and Sayaboury) as at April 2011 and covered 264 VDFs in 4 provinces (Savannakhet, Champassak, Saravan, and Attapeu) as at August 2012.

[8] Cooperative for American Remittances to Europe was established 649 VDFs.

[9] The United Nations International Children's Emergency Fund was established 489 VDFs.

[10] International Labour Organization was established 139 VDFs in 5 provinces (Borikhamxay, Champassak, Savannakhet, Khammouane, and Sayyaboury) as of 2009.

[11] Foundation for Integrated Agriculture Management, a Thai NGO, in cooperation with CODI and LWU to establish 471 VDFs in 5 provinces (Vientiane Capital, Phongsaly, Bokeo, Luang Prabang, and Champassak) as of 2010; Of which, 453 VDFs in Vientiane Capital as at September 2009.

[12] Community Organizational Development Institute, a Thai government agency.

[13] It was endorsed by the Prime Minister No. 1760/PMO, dated December 17, 2003.

- Sub-research question:

3) What mechanism or regulations should the government introduce to supervise VDFs effectively?

The paper's hypothesis for insufficient provision of services by VDFs to the poor is as follows: 1) unstable income of households, 2) ineffectiveness of management committees, 3) lack of necessary infrastructure, and 4) villages' geographical unfavorable conditions for economic growth.

This research is posited as a descriptive method. It is qualitative based on official documents, including official statistics, and the existing research work done by the third parties. This method would assist relevant policymakers to create a favorable framework for supervising the VDFs.

3. Analysis

3.1 Overview of Village Development Funds in the current situation

VDFs play an important role for improve access finance to households across the country. Table 1 presents the overview of the VDFs performance in 2013, covers 4,815 VDFs (4,121 deposit-taking VDFs, 694 non-deposit-taking VDFs) equal to 57 percent of 8,447 villages. Those VDFs can serve around 464,256 members. The borrowers are 171,137, equal to 37 percent of memberships. The total outstanding loan is LAK 587 billion, on average LAK 122 million per VDF. The agriculture and livestock are the largest share of using loan, accounts for 37.08 percent, followed by trade and services 12.43 percent. The savers cover with a huge percentage of 90 percent (419,814 savers) of memberships. The total savings is LAK 523 billion, on average LAK 127 million per VDF. The total asset is LAK 801 billion, on average LAK 166 million per VDF, and the net profit accounts for LAK 18 billion, on average LAK 3,8 million per VDF.

Table 1: Overview of the VDF's performance

No. of VDFs	**4,815**
No. of Deposit-taking VDFs	4,121
No. of Non-deposit-taking VDFs	694
No. of members	**464,256**
No. of Savers	**419,814**
Amount of savings (LAK)	**523,954,028,500**
Average of savings per VDF (LAK)	127,142,448
Average savings per member (LAK)	1,248,062
No. of borrowers	**171,137**
Amount of outstanding loan (LAK)	**587,728,943,500**
Average outstanding loan per VDF (LAK)	122,062,086
Average outstanding loan size (LAK)	369,076
Purpose of loan use	
Agriculture and livestock loan (%)	37.08
Trade and services (%)	12.43
Emergency (%)	9.70
Handicraft (%)	4.09
Other loan (%)	1.46
Asset	**801,583,124,500**
Average assest per VDF (LAK)	166,476,246
Net profit	**18,566,530,000**
Average net profit per VDF (LAK)	3,855,977

Source: Microfinance in the Lao PDR. MPI, NERI and BOL, 2015.

The participation of international organizations is a significant evolvement the VDFs as a tool for poverty reduction. Microfinance in Rural Areas-Access to Finance for the Poor (AFP) under GIZ is one of the largest contribution since 2009. The project supported VDFs through MFIs.[14] Table 2 illustrates the seven MFIs cover 794 VDFs with 120,624 members. The total outstanding loan is LAK 319 billion, with 35,696 borrowers. The total savings is LAK 384 billion, and the total asset is LAK 436 billion. Furthermore, the Savings Banks Foundation for International Cooperation (SBFIC) has been involving in enhancing the rural finances since 2009. The main counterpart is the LWU by establishing a Women and Family Development Fund (WFDF) in Vientiane. In 2010, this fund became the Women and Family Development DTMFI. The DTMFI can be accessed more than 5,000 households (MPI, NERI and BOL, 2015).

Table 2: The outreach of VDFs by 7 MFIs' monitoring as of March 2020

	NDTMFI Sayaboury	NDTMFI Sayaboury	NDTMFI Luang Namtha	NDTMFI Savannakhet	SCU Salavan	SCU Champasack	NDTMFI Attapeu	Total
No. of VDFs	48	59	183	119	122	177	86	**794**
No. of members	6,377	9,537	30,928	16,463	19,470	27,027	10,822	**120,624**
No. of borrowers	1,484	2,357	8,789	4,423	5,860	9,064	3,719	**35,696**
Amount of loans outstanding (LAK)	11,354,252,000	19,024,952,500	120,198,745,300	33,362,611,500	43,769,427,500	70,646,902,000	21,082,595,000	**319,439,485,800**
Amount of savings (LAK)	21,614,424,443	22,784,236,750	133,286,803,932	46,009,068,860	53,393,184,500	83,885,740,143	23,458,996,355	**384,432,454,983**
Average savings per VDF (LAK)	450,300,509	386,173,504	728,343,191	386,630,831	437,649,053	473,930,735	272,779,027	**484,171,858**
Asset	23,112,597,250	25,635,761,250	153,318,858,643	51,459,023,830	60,036,222,320	95,592,124,335	27,237,211,491	**436,391,799,119**

Source: AFP provided on April 28, 2020.

VDFs' objective is aimed to strengthen the rural communities. The VDFs increased from 4,434 in 2011 to 4,815 in 2013 which confirmed that the VDFs highly demanded for improving the rural household's livelihood. Sayvaya (2012) studies on microfinance reduce poverty in Sukuma District, Champasak Province. He finds the reasons of VDFs' members prefer to use their services. The highest percentage says it is easy to borrow and save 29.95 percent, 23.86 percent can help the poor, 21.32 percent wants to borrow money by the low-interest rate, and 19.29 percent wants to save money. There are some remaining challenges on the VDFs expansion to the rural area due to the low level of economic facility, limited financial literacy, low skills of VDFs management, and other unfavorable environments.

3.2 Why do potential borrowers have only limited access to funds managed by Village Development Funds?

The government has concentrated on the development of rural areas by encouraging the establishment of VDFs. Generally, VDFs located in the central region demonstrate the growth of members, savings, and loans faster than in the northern and southern regions. Table 3 shows the outreach of VDFs by region in 2013. The largest members are in the central 239,206 members, in the north accounts for 149,454 members, and the south for 75,596 members. 48 percent of borrowers are located in the central, 25 percent in the north, and 27 percent in the south. The savers

[14] There are 5 NDTMFIs and 2 SCU in 6 provinces (Sayaboury, Luang Namtha, Savannakhet, Champasaak, Salavan, Attapeu). These MFIs are called as a Network Support Organization. The project will be finished in 2021.

cover the highest percentage at 51 percent in central. This may not be surprising regarding the good socio-economic conditions and better basic infrastructure.

Table 3: Outreach of VDFs by region

	Central	Northern	Southern	Total
No. of members	239,206	149,454	75,596	464,256
Percent (%)	52	32	16	100
No. of borrowrs	82,155	42,367	46,615	171,137
Percent (%)	48	25	27	100
Amount of loans outstanding (LAK)	349,721,741,000	172,170,003,500	65,837,199,000	587,728,943,500
No. of savers	214,070	136,482	69,262	419,814
Percent (%)	51	33	16	100
Amount of savings (LAK)	353,966,022,000	118,546,983,500	51,441,023,000	523,954,028,500

Source: Microfinance in the Lao PDR. MPI, NERI and BOL, 2015.

FinMark Trust and UNCDF (2014) demonstrate the result of a survey on assessing financial service. In table 4 shows the access to infrastructure (market, bank branch, and public transport). The rural without road illustrates the lowest proportion covered by 46 percent for the market, 44 percent for a bank branch, and 62 percent for public transport. While the people in rural with road can access 63 percent, 58 percent, and 70 percent, respectively. Undeveloped infrastructure and villages' geographical are constraining factors for economic development, particularly the improvement of the household's income. For example, 75 percent of rural households are involved in farming, and become the highest percentage of the main revenue source for both urban and rural households. On the other hand, 54 percent in rural without road and 27 percent rural with road of households remain difficulty on accessing to the market.

Table 4: Access to Infrastructure

Infrastructure accessibility	Rural without road	Rural with road	Urban
Market (%)	46	63	95
Bank branch (%)	44	58	94
Public transport (%)	62	70	95

Source: FinMark Trust and UNCDF, 2104.

Sayvaya (2012) asserts that 15 VDFs are an insignificant effect on member incomes, expenditure and saving in Sukuma District,[15] Champassak Province which implies the VDFs doest not support poverty reduction. Several problems have been occurred by using VDFs' services for instant some savers have irregular income, small loan sizes (LAK 2 million to LAK 5 million) which is not applicable for the borrowers (23 percent of VDFs members need larger loans). Moreover, the loan process is another problem that takes time to receive loans. Sengsourivong and Mieno (2015) find that the VDFs help to increase the households' assets, but there is no effect on the increase in both income and expenditure in Naxaithong District,

[15] It is one of the poorest districts out of 10 in Champassak Province.

Vientiane. Many financial institutions consider that loan for agriculture is risky due to lack of financial information from borrowers, insufficient collateral to recover if loan losses. Also, weather, diseases, price risks, and market access are challenging to the farmers. MFIs can provide financial services for the poor people. On the contrary, they provide fewer loans on agricultural segments compare to land for small livestock activities (Townsend, Ronchi et al, 2018). Suvannaphakdy (n.d) stresses that the Lao VDFs provide low credit in agricultural activities (33 percent).

GIZ-AFP (2015) has done a financial literacy survey[16] in Lao PDR. The result illustrates that the majority of the rural households' income, 41 percent relies on products from forestry and rivers, 27 percent by owning the small business, and 22 percent by agricultural activities. To access the financial institution, the credit for households can be offered by banks at 67 percent and from VDFs at 4 percent. The demand of households saving shows 9 percent with banks, and 2 percent with VDFs. As a result, the survey concludes that the VDFs do not play an important role in rural areas due to the low proportion of usage of financial services.

In summary, there are three possible obstacles in accessing loans of borrowers:

- **VDFs management characteristics:** management of VDFs appear low skilled on management committee, unfavorable loans flexibility, lack of information supports. Some VDFs are more emphasized on commercial purposes rather than agriculture loans due to low risk from natural disasters. Sometimes, approval procedure takes longer to assess the loan, (MPI, NERI and BOL, 2015).
- **Borrower characteristics:** unstable occupation, and less financial literacy are the main problems of households to receive loan fromVDFs. Sayvaya (2012) finds that 89.11 percent of residents do not participate in VDFs due to they do not know the details of the loan. This can be confirmed that borrowers have difficulty in using the VDFs. Moreover, Suvannaphakdy (n.d) assesses that 76 percent of VDFs are required for the collaterals and 24 percent do not require; this could be a difficulty for some borrowers that cannot provide appropriate collateral. In addition, the management committee has less understanding of the operation of VDFs, which shows that 1.61 percent of non-members have less confidence among the committee Sayvaya (2012). GIZ-AFP (2015) finds that the borrowers prefer to take loans from family and friends rather than VDFs, because the management committees are not accountability.
- **Infrastructure characteristics:** transportation conditions, irrigation for agriculture, market information, technology, and other necessary facilities are the major concerns. These factors are constraining the households to increase their financial service from VDFs in order to retain their business activities. Phonvisay and Vixathep (2015) indicate that a rural village is near the market and river influences the households to sell more products as well as agricultural products. It could be showed from Sivilay village (with good condition) has 470 members compare to Huaysaid (not good condition) has only 297 members.

[16] The target villages were of the AFP project in Savannakhet, Salavan, and Champassck provinces. It covered 180 villages (75 percent of rural villages), 18 districts, 600 interviewees, and 20 percent of the poor households.

3.3 How could the Ministry of Agriculture and Forestry and The Bank of the Lao PDR enable Village Development Funds to provide the poor with financial services?

To support the poor household on financial services, it is not only a challenge for VDFs, but also formal financial institutions. The nature of poor households in rural areas relies on natural living conditions. For example, growing crops during the raining season, collecting foresty product and rivers. Therefore, this poor household needs the support from the government, especially fundamental infrastructure (roads, markets, irrigation, public transportation, and technology) to improve their agricultural products or other small business activities. A village is located near the market have an advantage. So that, they can sell their products and raise income (Phonvisay and Vixathep, 2015).

The basic need from poor households above is a key message for the government for further improvement. Thus, the first step, MAF should conduct the consultation workshop with all VDFs promoters, and its agenda should consist of the outcomes of VDFs and identifying the problems of the program implementation. After the workshop, the MAF will be able to monitor and regulate VDFs.

Seibel (2010) studies about the VDFs in Vientiane-roadmap scenarios for a sustainable future, he proposed that the BOL should review and consider some model which could be a simple one, either registered as NDTMFI, SCU, or district network-based SCU. If VDFs want to register as NDTMFI, the BOL should revise the regulation NDTMFI is not allowed to receive any savings. At the same time, the MAF could prepare to establish a regulatory framework to supervise the VDFs. The BOL and other agencies could assist brainstorming, create structure, and contribute to the content. Building an appropriate model with a suitable regulation could support the VDFs to provide the services to meet their members' needs.

The Microfinance Association (MFA)[17] is an important counterpart with BOL. It provides the capacity building for high ranking management and staff of MFIs. On the other hand, cooperation with international agencies is required to promote a favorable environment of the microfinance sector development. Therefore, the MFA can be involved in capacity building together with VDFs as well.

An appropriate environment will support the VDFs performance so that, they could have self-sufficiency and sustainability in finance management. On the other hand, capacity building to the VDFs' management committees is needed which is to promote good performance and transparency. Also, it aims to encourage them to become more self-management and self-governance. Furthermore, providing financial education for both management committees and the VDFs' members could help them deeply understand the function of VDFs.

[17] The initial name is the microfinance working group, which was established in 2007. It became a non-profit association under Ministry Home Affairs and covers now 92 MFIs are members. www.laomfa.org.

3.4 What mechanism or regulations should the government introduce to supervise Village Development Funds effectively?

The establishment of VDFs regulation aims to supervise its role and function for sustainable growth as well as ensuring the expansion of financial services accessibility for poor households in rural areas. Therefore, to strengthen and ensure the growth of the existing VDFs, the MAF and relevant practitioners should consider some options as below:

- **Option 1:** Establish the VDFs network supervisory at district level. This structure will comprise the elected board management and full-time technical staff. The apparatus will be a focal point unit to all VDFs within a district under its governance. The main responsibility is to monitor, provide an internal audit, finance service for VDFs, trainings, observe and facilitate the general board, consolidate financial data form individual VDF, involved in organization disputes, and make reports to Agriculture and Forestry Office (AFO)/Rural Development Unit. This model will be supervised under the AFO and district administration. This model could assist the MAF supervises only 148 networks instead of 4,815 VDFs due to the limit of the human resources. This option is needed to prepare the regulatory framework and dialogue with relevant partners.
- **Option 2:** For the VDFs which are under MFIs' monitoring. Allow the MFIs to continue to monitor since they receive technical assistance from international organizations. While BOL should report the VDFs' operation to MAF on a monthly, quarterly, and annual basis.
- **Option 3:** Transfer those VDFs which are under MFIs to the MAF, under the agreement of BOL, LWU, donors, and MAF. However, this option will take some time, depending on the MAF's human resource rotation, including prepare a regulatory framework.
- **Option 4:** Require the VDFs to register as SCU (the structure and operation similar to VDFs) with BOL, when the VDFs have been growing gradually. Under this condition, the VDFs should be evaluated by BOL in accordant with SCU regulation. If VDFs cannot pass the evaluation at the first stage, BOL can offer a pilot on the SCU model for two or three years. When the VDFs can have a good performance on financial ratios. Then, BOL can process a license for full operation. On the other hand, offering a pilot SCU's operation can apply for individual VDF, which is under the supervision of local government agencies. Nevertheless, this option requires the relevant parties involve, and make decisions together.

4. Challenges

1) The poor household cannot fully access to VDFs in rural areas due to the low level of social-economic conditions and the limitation of the fundamental infrastructure.
2) Setting up a comprehensive framework for strengthening the VDFs' operation has not been considered among stakeholders. Furthermore, the collaboration between MAF, BOL, LWU, and international agencies has not been well-managed. As a result, the VDFs segment does not strengthen.
3) Several stakeholders have supported VDFs, but the database/information is not unified. Thus, the MAF cannot envisage the overall VDFs' operation which

could be a major challenge for creating a suitable framework for supervising VDFs.
4) The VDFs with a huge amount of savings will be risky if MAF and BOL do not have a reliable mechanism and regulatory framework to supervise.
5) The issue of MFIs on VDFs supervisory is having a low level of self-sufficient ratio. It creates a burden for their operation; therefore, it could be a negative impact on both institutions if BOL does not provide a suitable framework to assist their growth.

5. Policy implications

1) The government is the key support in enhancing the growth and sustainability of VDFs. Therefore, three possible components should be addressed. Firstly, establishing a favorable regulatory framework to promote the roles of VDFs. Secondly, developing the essential infrastructure in order to assist the households' generating income. Finally, strengthening the supervisory apparatus together with the VDFs management committees. These conditions would support VDFs to expand their financial services of poor households in rural areas.
2) MAF is a dominant supervisory body for VDFs, thus they should regularly collaborate with relevant stakeholders. All parties should share information, determine critical issues, provide the existing tools, prepare a feasible analysis of some options to facilitate a suitable mechanism for supervising of VDFs as well as drafting of VDF guideline. This dialogue would help the MAF gain a visible status quo data.
3) Regarding the huge amount of VDFs, which is assigned to MAF; thus, it is required qualified human resources. To strengthen the capacity building for the authorities/technicians, the MAF should communicate with BOL, LWU, and Microfinance Association (MFA).
4) Collecting and centralizing of VDFs information from relevant stakeholders are required. It would help all participants understand how to create a favorable framework and provide reliable assistance regarding the growth of VDFs.
5) VDFs have a huge savings, BOL should analyze before offering the VDFs register as the regulated MFIs. SCU could be provided as a pilot model. When the VDFs can pass the evaluation, the formal license would be given for full operation.
6) For the VDFs are monitored by MFIs after the support of international projects is finished. BOL should assess a feasible way of whether of transferring responsibility those VDFs to MAF or remain with the MFIs. This depends on the MFIs ability and agreement between the BOL and MAF. If allow the MFIs to monitor VDFs, the BOL should provide a suitable guideline to facilitate those MFIs.

6. Conclusion

Various stakeholders have contributed to assist the growth of VDFs as part of the National Growth and Poverty Eradication Strategy (NGPES). VDFs have been expanding thanks to the government initiative. In terms of microfinance programs are seen to have a positive effect on rural households' income, expenditure, and poverty reduction. The use of VDFs in remote areas, however, remains limited.

Furthermore, rural microfinance led by VDFs has not achieved the goal to bring the poorest households out of poverty, as evidenced by the number of the poorest districts identified in 2004 remaining the same 47.

Finding a suitable method of supervising the VDFs in terms of sustainable growth is important for MAF. According to insufficient manpower, the model as VDFs network supervisory at district level could be considered. Meanwhile, creating a favorable regulatory is needed for the centralizing of VDFs. In addition, technical assistance is necessary for capacity building of VDFs management committees, especially the VDFs which do not receive any assistance from concerned promoters. Hence, the MAF should co-operate with BOL, LWU, and Microfinance Association (MFA). Similarly, BOL should revise or build up new guidelines to ensure that the MFIs are able to supervise the VDFs. Those MFIs are facing a challenge of two functions, one is to run their businesses and the other is to monitor several VDFs.

VDFs' performance in reducing poverty depends on conditions under which they operate. Therefore, the relevant stakeholders should determine a clear target in order to meet individual VDF needs. The development of essential infrastructure is one of the priorities to improve access to VDFs of households in the poorest districts. To achieve the goal, the relevant ministries including international organizations should collaborate and prepare a work plan to merge funds and avoid the overlap responsibilities, which might be a struggle in developing of VDFs sustainability.

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