

Status of Microfinance in Lao PDR: Experiences and Lessons Learned¹

**By Chantha Mingboupha
Ek Phattana Microfinance Institution (EMI)**

**Phnom Penh, Cambodia
September 6-8, 2010**

¹ This paper was presented during the IFAD-APRACA FinPower National Dissemination Forum on Revising and Deepening the Roles of MFIs in Poverty Alleviation held in Phnom Penh, Cambodia on September 6-7, 2010.

1. Background

Lao PDR is a landlocked country, one of the poorest countries in Asia and among the least developed countries of the planet. 90% of its 5.5 million inhabitants work in rural areas, mostly in subsistence agriculture. However, the formal banking sector is still underdeveloped, with three public banks, three joint-venture banks and eight foreign banks. The three public banks serve 70% of the financial sector, and are going through a restructuring process, in order to reduce nonperforming loans and the modernize. The formal banking system is mostly concentrated in Vientiane and other cities, and has limited outreach in rural areas, with only 11% of the rural population having access to formal financial institutions, and only 1% making saving deposit (Fukui and Llanto, 2003). It is estimated that 75% of the population do not have access to formal or se-mi formal services. According to a report from the Bank of Lao (2000), the potential microfinance market is 268,000 borrowers and 500,000 depositors. The same report shows that only 20% of this market is currently served by microfinance (MF) providers (APB and moneylenders being the main financiers). However, the Lao PDR microfinance industry initiatives were launched in 1997 and the industry is still at an early stage of development.

2. Microfinance Sector Background

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.

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 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, 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”.²



3. Lao Microfinance Sector Update

Policy Level:

- Bank of Lao PDR formed Financial Supervision Department in August 2010. The department will mainly focus on supervising microfinance institutions, savings and credit union, etc.
- Bank of Lao PDR working on drafting Microfinance Decrees.

Funders/donor:

- The key players are: Asian Development Bank, GTZ, IFAD, Lux-Development, SFBIC, and UNCDF.

Service Provider (MFIs, SCUs, Village Developments):

The microfinance Sector has growing quickly, the numbers of registered MFIs and SCUs with Bank of Lao PDR.

Type of Institution	Numbers
Deposit Taking MFI	5
Non-Deposit Taking MFI	7
Savings and Credit Unions	11
Village Development Fund	5,000 ³

² Microfinance Industry Report, Lao PDR 2010, produced by the Banking with the Poor Network in collaboration with the Foundation for Development Cooperation.

4. Transformation Pattern Issues and Challenges

Transformation to be MFIs or SCUs in Lao PDR mostly happens in two patterns:

Pattern	MFIs	Positive Factors	Challenges
Project to MFIs	- IFDP, Xayni Ngom MFI, Oudomxai Development MFIs.	<ul style="list-style-type: none"> - Well-trained staff - Good clients - Operation materials - Capital - Donors 	<ul style="list-style-type: none"> - Staff mind-set - Project-based (no initiative) - Strictly loan agreement and contract
Village Development to SCUs	- SCU Thakek, SCU Huachai, SCUs Songkone.	<ul style="list-style-type: none"> - Fund - Operational materials - Existing clients - Capital - Market-based - Strong ownership 	<ul style="list-style-type: none"> - Committees lack the capacity on professional ism - Community-based - The documents requirement concerned - Conflict of interest - Mind-set