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in Rural **LAO PDR**

A National Profile

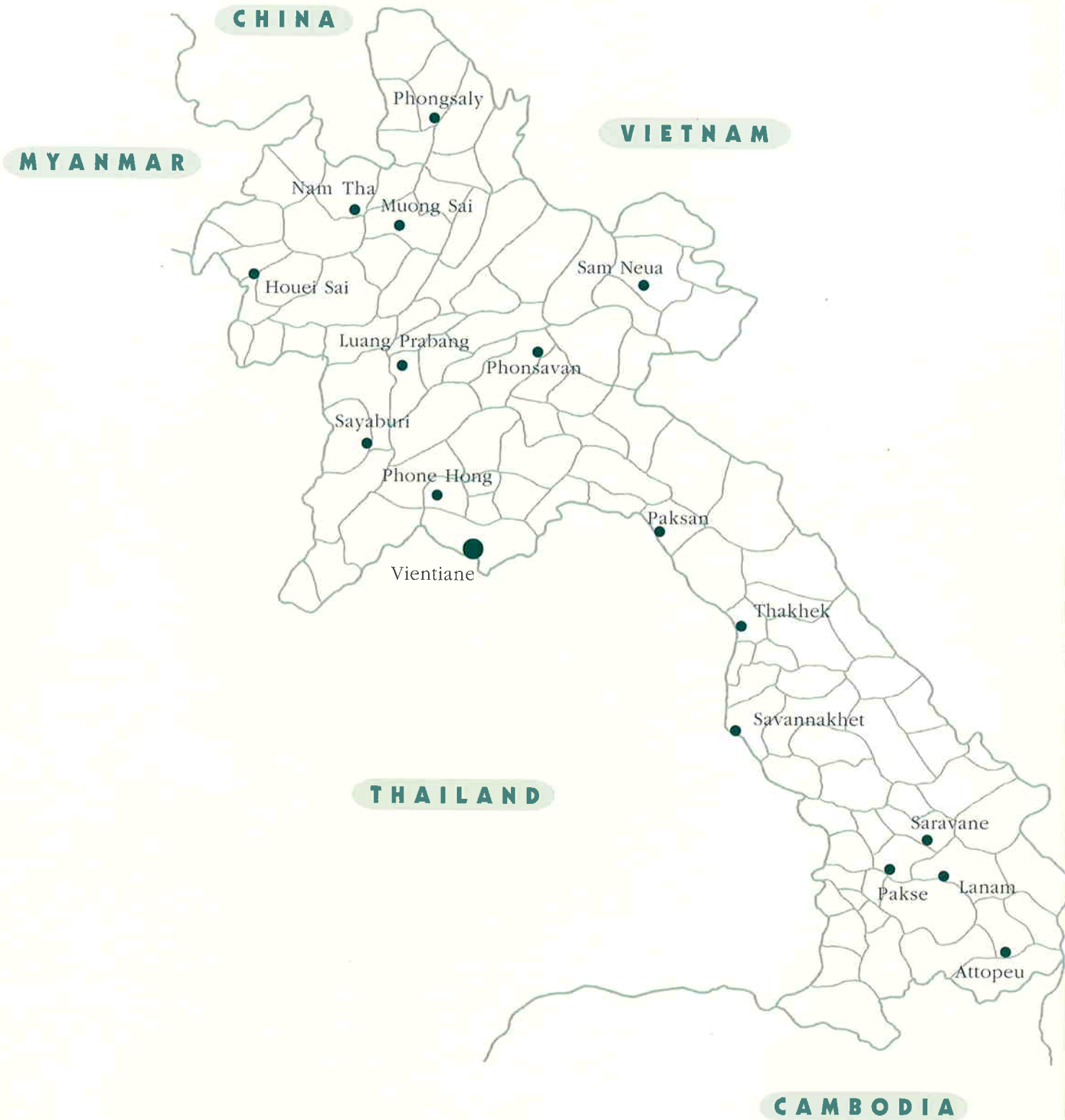
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Microfinance in Rural Lao PDR:



A National Profile

June 1997

Forewords



The Sixth Party Congress held in 1996 set the bold goal of freeing the country from underdevelopment by the year 2020, in only one generation. It guided the Government to increase economic activity in the countryside and to ensure improved rural access to markets as well as social service.


The transition from subsistence farming to market-oriented production commands credit and savings services, so much in demand at this time in Lao PDR. This Microfinance National Profile makes this abundantly clear.

Microfinance has the potential of becoming one of the major pillars for rural development and reduction of poverty in Lao PDR. UNDP and UNCDF are encouraged by the strong interest our initiative has met among Government officials in many Ministries and Provinces as well as among Laos' development partners. We are now at the stage of starting up the first major Microfinance programme in this country. After a period of study and consensus building it is now time for action.

Vientiane, June 1997

Jan Mattsson
UNDP Resident Representative.

FOR



The Microfinance National Profile presents a survey of the formal and informal credit institutions operating in Lao PDR; it provides an assessment of the supply and demand of financial services in the country as well as describes the macro policy environment in which they evolve.

The Lao financial sector has gone through a considerable expansion and modernisation process in the last five years. Banks have reorganised; branches have opened in many new places. New banks have been licensed. A new bank specifically aimed at catering to the needs of the rural population, the Agricultural Promotion Bank (APB) has been established.

Yet, the Microfinance Profile, based on a national survey, highlights the fact that the supply of financial services still cannot meet household demand. In Lao PDR as in other developing countries, growth and anti-poverty policies have increased the need for saving mobilisation. At the microenterprise level, small and very small credits as well as saving mobilization are now needed to finance working capital and long term investment needs. However, banks are slow to respond to these needs. The traditional Village Revolving Funds, while playing an obvious role in economic and social development, cannot play a sustainable intermediation role simply because they are not financial institutions.

As shown by the two Roundtables organised by the Government, UNDP and UNCDF in 1996, Microfinance may provide a solution to these problems. Microfinance institutions are non-bank institutions (such as Voluntary Organizations, Village Banks and Credit Unions) that have developed specific techniques to lend to the small and the poor entrepreneurs. In many cases, these organisations have also acquired a valuable know-how in savings and deposits mobilisation. Microfinance, therefore, has become a key component of growth and anti-poverty strategies in most developing countries. When connected with the formal banking sector, then, Microfinance organisations can provide the missing link between the micro-level where jobs and income creation take place and the macro-level where the financial intermediation process develops.

The Microfinance in Rural Lao PDR National Profile has been undertaken in the broader context of the economic and social co-operation developed between the Government of Lao PDR and UNDP, UNCDF resources has been brought in to identify, design and implement a comprehensive Microfinance project based on the conclusions of the survey. UNDP has also brought in its own financial resources to co-fund the project together with UNCDF and will also fund a parallel project aiming at developing income generating activities in several Provinces of Lao PDR.




J. Garson
Senior Technical Advisor
United Nations Capital Development Fund.

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The present document is the final version of the Lao PDR Microfinance Profile: "A working Document for Discussion" which was presented and discussed during the Donor Microfinance Roundtable organized by the Government of Lao PDR, UNDP and UNCDF in November 1996.

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The many Donors and NGOs who contributed to this document also need to be acknowledged. Without their comments before and during the Donor Roundtable, the profile would lose in objectivity. Among the many people who contributed to this document, we would like to thank Jim Tomecko, Mikiko Sasaki, Linda Ehrichs, Yves Peutot, as well as Khamkeung Khautisen and Sunnti Duangtavanh for their secretarial and administrative support.

ABBREVIATIONS

APB	Agricultural Promotion Bank
Avg.	Average
BoL	Bank of the Lao PDR
CDF or UNCDF	United Nations Capital Development Fund
GDP	Gross domestic product
GOL	Government of the Lao PDR
Lao PDR	Lao People's Democratic Republic
LWU	Lao Women's Union
NEM	New Economic Mechanism (of the GOL)
NGO	Non-governmental organization
PIP	Public Investment Programme (of the GOL)
SOCB	State-owned commercial bank
UNDP	United Nations Development Programme
VRF	Village revolving (loan) fund



Microfinance in Rural Lao PDR

A National Profile

UNDP/CDF

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I. Introduction

This Profile reviews the current status of microfinance in Lao PDR, and provides the first opportunity for a national perspective on rural Lao financial dynamics. Undertaken primarily from May through August, 1996, it summarises a comprehensive survey of lending, borrowing, savings, and linked institutional activities throughout the rural and peri-urban (semi-rural) areas of the country. It constitutes an extensive set of baseline data by which the impact of future microfinancial actions within the country can be measured.

Microfinance is a broad term that covers a potentially wide set of strategic and localised financial interventions among low-income, very low-income, and even no-income people. It refers to economic development activities among poor populations through appropriately scaled and varied financial products, and expands on the concept of *microcredit* by emphasising, in addition to credit extension, the roles of financial intermediation, savings mobilisation, formal finance sector linkages, and institutional actors stretching down to the local level. The microfinancial approach to the economies of poor areas and households is to transform latent or isolated financial resources into locally-derived sources of personal or institutional investment capital for sustainable livelihood development. Its point of insertion is at the level of locally based institutions, generally through "village banking" or "Credit Unions" structures with technical assistance provided by larger institutions.

Background and Approach of the Microfinance Profile

Following discussions with the Lao Government on the nature of planned UNDP/CDF support, it was mutually agreed that a detailed understanding of the current state of financial services in the rural and semi-rural areas of Lao PDR was needed. These areas contain 80 percent of the Lao population and high concentrations of poverty. UNDP/CDF agreed to formulate and implement this survey and to conduct it on a national scale. The survey was funded by UNDP and most research was undertaken between May and August 1996, with some follow-up in 1997 to fill out a greater understanding of donor and NGO roles in the provision of financial services.

The study was designed to clarify needs and potential strategies for microfinance. It aimed to provide a broad analysis of microfinancial (as well as more formal financial and

quasi-financial) supply and demand. This was achieved through a survey of the existing Lao financial structure and through an extensive survey of rural household finances and attitudes. Section IV of the Profile, *The Rural Household Finance Survey*, offers new insights into how rural households conduct and conceive their financial affairs. The study also intended to identify opportunities for developing microfinance services and to provide information to assist policy development. Section V reviews the Lao financial sector and includes a summary of current donor and NGO activities to promote credit and savings; detailed project descriptions are found in Appendix A-1. Major conclusions derived from the Profile are found in the Executive Summary.

KEY SOCIAL INDICATORS

Selected National Development Indicators (1995, unless otherwise stated)

Population (1994)	4.59 million
Area	236,800 sq./km
Percent Rural	80%
Life Expectancy at birth	51 years
Infant Mortality rate	125 per 1000
Population per physician	4,450
Acute malnutrition	10%
Chronic malnutrition	47%
Access to potable water	51%
Mean years of schooling	2.9
Net school enrolment (1992/93)	
Primary	72%
Lower secondary	15%
Upper secondary	2%
Tertiary	1%
Adult literacy	53.5%
Gross domestic product	US \$1.469 bill.
Nominal per capita GDP	US \$350
GDP growth rate	7%

Sources: UNDP 1996 Human Development Report; UNDP Country Strategy Note 1996

Given the frequent non-monetary nature of transactions and savings accumulation that form a core of the study's findings, interactions among monetary, financial, and non-financial practices are underscored. While as a first step to gain a national understanding of these crucial sectors the study has its shortcomings, it is hoped that these will be addressed not just through further study, but through the lessons learned at project levels as microfinancial activities are increasingly undertaken in rural Lao PDR by UNDP/CDF and by other donor agencies and international NGOs.

At a time of very real and rapid changes in the country, the persistence of rural poverty among half the Lao population presents a special challenge. New opportunities to confront this reality through village-based microfinancial intervention in rural Lao for economic growth and security highlight the need for greater co-ordination among the wide-ranging actors involved in projects with components for lending, borrowing, savings, and institutional support at the macro, meso, and micro levels.

The Profile is organised into the following sections. After the Executive Summary, Section I briefly reviews the national setting of Lao PDR. Section II examines the current macroeconomic dynamics of the country. Section III presents the findings of the Rural Household Finance Survey, providing a detailed look at the financial lives of the Lao rural poor. Section IV covers the formal and informal financial sectors, and includes a review of current donor and NGO efforts in the country. Appendix A-1 reviews donor and NGO projects on an individual basis, providing another critical overview that is required for a complete view of the Lao financial sector. Additional appendices with further details on the survey's methodology, Lao poverty conditions, and maps, tables, and charts, can be found in the rear of the Profile.

II. National Setting



In a densely populated region, the Lao People's Democratic Republic (Lao PDR) is sparsely populated, and is endowed with a potentially enriching set of natural resources. Landlocked, it borders Thailand, Myanmar, China, Cambodia, and Vietnam.

The dominant geographic features of the country are the Mekong River, the lowlands, and the Annam mountain range. The Mekong, a key transportation artery, extends along the country's western borders with Thailand and Myanmar, and lies wholly within the national borders in areas of the north and south. The Annam range runs north to south through the country's middle and eastern portions to the Vietnamese border. Between these and penetrating along the upland spines are rolling lowland areas, with ample precipitation and alluvial soils, and where the majority of the population lives.

HISTORICAL BACKGROUND

The Lao nation finds its early direct roots in the year 1353, when the Kingdom of Lan Xang was founded under the cultural influence of the Khmer. Despite long periods of external domination when Laos was a seat of conflict between neighbouring kingdoms, Lao kingdoms continued to rule within the area, and Vientiane was for centuries a centre of Buddhist learning for monks from throughout the region.

By the early 18th century, the kingdom of Lan Xang was split into three portions, each a kingdom with allegiance to neighbouring powers. In 1893, these were incorporated into a French protectorate. Throughout the colonial period, the French provided little in the way of economic or administrative development, and after the end of the Second World War and brief Japanese occupation, independence movements were organised. After the French defeat at Dien Bien Phu in 1954, a provisional government was established under Ho Chi Minh's ally in Laos during the post war anti-colonial resistance. This ruled in coalition with the royal government at Luang Prabang.

The Paris Agreement of 1973 that sought an end to the region's conflicts encouraged new political developments in Laos. A Provisional Government of National Union was formed in 1974, and by 1975 the Lao People's Revolutionary Party achieved national power. The South Vietnamese regime fell that year, and near the end of 1975 the Lao king abdicated. The Lao People's Democratic Republic was established on December 2, 1975.

In 1986, the Government adopted the New Economic Mechanism, and began a process of significant reform in the nation's economic structure.

POPULATION

The 1995 national census showed a population of 4,581,258, while the 1985 census showed 3,584,803. This implies an annual average intercensal growth rate of 2.4 percent, with a doubling of the nation's population projected in 29 years.

The Lao population is diverse, and can be divided into at least 47 separate ethnic minorities. However, a more general distinction is broadly used, based upon both topographical and ethnological distinctions. These major groupings are the lowland Lao Leum; the Lao Theung, in the midlands, with about 27 percent of the population; and the Lao Seung, in the highlands, with about 15 percent of the population. There are five major language groups. The adjective "Lao" applies to all the country's residents.

Eighty percent of the population is rural, with about a fifth in towns and cities. By far the largest of these is the capital, Vientiane, with half a million people, but a very low density of 135 persons per sq. kilometre (84/sq. mile) that extends into semi-rural regions.



Woman and child from the Yao ethnic group - Sayaboury province

NATURAL RESOURCES

Lao PDR is endowed with abundant water resources. Hydrologic exploitation of these resources, with some of the largest projects in the region already underway, requires a balance with environmental concerns. To date, hydro resources only account for one percent of the country's hydroelectric potential. Currently, about 70 percent of hydroelectric power production is exported to Thailand. The largest of the currently planned new hydroelectric facilities carries an estimated cost of US \$1.2 billion.

Forests cover 47 percent of the country, with a wide variety of commercial tree species. Currently, 80 percent of domestic energy consumption is based on fuel wood. An estimated 300,000 hectares of forest are lost annually, largely due to shifting cultivation and logging activities. Measures are now being adopted to discourage shifting farming practices that contribute to the degradation of forested lands.

Sizeable deposits of precious stones are known to be present in the country, including sapphires of particularly high quality, zircon, amethyst, and gold, as well as copper, iron ore, and tin; exploration of potential petroleum deposits is underway. However, exploitation of these resources is dependent on an enhancement of existing physical infrastructure.

Shifting cultivation can degrade the forest



ECONOMIC CHALLENGES



New business emerges after the construction of a rural road in Sayaboury

While the economy has performed well through the early 1990s, averaging six percent growth for 1991-95, the economic base remains largely pastoral. Fifty-five percent of value added derives from the agricultural sector that engages 80 percent of the population and where poverty is most concentrated. The national budget deficit is high, and the rapid expansion of money, credit, and a growing balance of payment deficit have been destabilising factors. The budget deficit remains primarily financed through external assistance, accounting for over half the total government budget.

Lao PDR's natural wealth of resources will foster a greater reliance on domestic revenue if they are exploited sustainably and efficiently. Underdeveloped infrastructure, a shortage of technical and managerial skills, and limited domestic capital are constraining factors. But with over two-thirds of the population mainly engaged in subsistence agriculture in rural areas, rural development presents the greatest challenge to effect general improvements in the population's well-being.

The transformation of household economic bases from subsistence activities to more sustainable livelihoods through diversification of the household economy and the encouragement of secondary income development are central components of the national strategy for poverty alleviation.



III. Executive Summary



This profile of financial conditions and microfinance activities in rural Lao PDR summarises data that were primarily collected from May through August, 1996. It is the first national survey of lending, borrowing, savings, and linked institutional activities throughout the rural and semi-rural areas of the country. Originally conceived as part of the formulation task for a UNCDF microfinance project in the north of the country, it was expanded to a national scope based on discussions and agreement with the Government. Reviewing and assessing the state of financial and institutional interactions throughout Lao PDR's rural areas, the profile constitutes an extensive set of baseline data which may help chart the effects of future financial interventions within the country.

BACKGROUND

The Profile's rural areas of study contain 80 percent of the Lao population and highly concentrated poverty conditions. The microfinance survey was funded by UNDP and implemented by UNCDF. Most of the research was undertaken between May and July 1996, with some follow-up to improve data on the national scope of donors and NGOs that provide credit or other financial services.

During a period of very real and rapid changes in the country, the persistence of rural poverty among half the Lao population presents a special challenge. New opportunities to confront this reality through village-based microfinancial intervention that address the needs of rural Lao for economic growth and security must emphasise greater co-ordination among the wide-ranging actors involved in a host of projects with components for lending, borrowing, savings, and institutional supports at the macro, meso, and micro levels.

A primary function of this Profile is to assist in the development of these new and co-ordinated strategies.

CONDUCT OF THE SURVEY

The Rural Household Finance Survey covered nearly 3,000 rural and semi-rural households. These were located in four area typologies defined for the purposes of the survey. For a map demarcating the following areas, see the survey area map in the appendix.

- "Peri-urban"** Rural or semi-rural areas not far from the country's four principal cities
- "Provincial capital"** Rural or semi-rural areas not far from the smaller towns and cities
- "Rural Mekong"** Areas along and near the Mekong river
- "Other rural"** Households living in rural areas not covered by the other categories, and generally including the more remote regions of the country

For the convenience of readers, the area definitions that comprise the survey's strata will be maintained *in italics* throughout the remainder of the report: *peri-urban*, *provincial capital*, *rural Mekong*, and *other rural*.

Together, these areas are estimated to contain a total of 666,500 households. Villages within these areas were randomly selected, with a further random selection of 20 households in each; in each village, at least one individual responsible for management of the household economy was also randomly identified and interviewed, called "household financial managers."

In addition to the Rural Household Finance Survey, information was solicited from commercial bank headquarters and bank branches operating in rural areas about their financial services. Information was also collected from international donor agencies and non-governmental organizations (NGOs) about projects with credit and/or savings components or providing institutional strengthening assistance to Lao public or private institutions related to the financial sector.

HOUSEHOLD FINDINGS

“Savings are broadly distributed”

The survey determined that there was a very broad distribution of savings throughout the rural population of Lao PDR. 91 percent of all households have financial savings, and 92 percent of households have non-financial savings (mainly non-producing livestock and precious metals). 97 percent of all households had at least one method of saving above immediate needs. Financial savings are almost entirely composed of cash.

“Savings strategies are financial and non-financial”

The survey distinguishes between these two common forms of savings. Cash and the very minimal depository savings comprise financial savings. Non-financial savings include precious metals and, more notably, widespread livestock ownership exceeding direct productive needs.

“Savings are rarely converted to deposits”

Only one percent of households held bank deposits. In the more isolated areas, called *other rural* in this study, no households with savings deposits were found, while 7 percent of households in the *peri-urban* areas had depository savings.

“A low ratio of deposits to all savings”

While the total financial savings of rural areas was estimated at about US \$50 million, only about US \$5.4 million was held in banks.

“Family, friends, and household-to-household loans are the largest rural credit sources”

The primary source of credit was family, friends, and lending households, extending over a third of all loans. This was followed by banks and a set of informal institutions herein referred to as “village revolving funds” or VRFs; these were the source of less than a tenth of reported loans, although there may have been significant under-reporting in *other rural* areas due to misunderstandings about the nature of these funds. Suppliers of capital goods and inputs were a very minor source of credit, and very little activity by moneylenders was encountered.



“Low levels of debts to assets”

About 11 percent of households indicated that they were carrying some debt, totalling about US \$23 million. The value of debt compared to household estimates of the value of their physical assets was low, averaging about 9.5 percent.



“Minimal extension of rural credit”

Over the year prior to the survey, about eight percent of households had borrowed to buy fixed assets, and about 13 percent had borrowed for working capital; 11 percent of all households responded that they held outstanding debt. *Other rural* area households held the majority of this debt; with half the rural population, they hold two-thirds of the outstanding debt.

“Working capital and fixed asset loans rely on different sources”

While family and friends are a large source of fixed asset loans in the three other survey areas, they provide only eight percent of these loans in *other rural* areas. It appears that VRFs are the dominant source of fixed asset loans in these more isolated regions. Household-to-household loans were the dominant source of credit for working capital loans and appeared to be important in most rural financial systems, except in *other rural* areas. Households that made loans generally made more than one. Banks and VRFs were found to be a significant secondary source of fixed asset capital in the *rural Mekong* and *other rural* areas.

“Limited credit experience or access”

Relatively few rural households borrow from any source, and short-term working capital is particularly limited in its supply. While rural households have assets, it is rarely used to collateralise loans and, when used, provides minimal financial leverage. Informal financial institutions reach about 15 percent of villages, and formal financial institutions reach considerably less.

BANKING SECTOR FINDINGS

“Limited bank outreach in rural areas”

Bank outreach is negligible in relation to the number of rural households.

“Terms and conditions are generally regularised”

Banks tend to be fairly uniform in their loan terms and conditions. Interest was charged at market rates, except for agricultural loans which are subsidised by Government policy. Banks generally require collateral, most often in the form of land or housing.

“Failure to supply microloans”

Small loans are not readily available through the banking system, and the banking system does not sufficiently extend to rural areas.

“Structural limitations of APB”

While APB achieves greater outreach than the other SOCBs, its subscription to government-set interest rates for its loans will continue to constrain deposit mobilisation by paying out higher rates on some of its deposit services than it collects for agricultural loans

“Limited deposit mobilisation”

Deposits represent, on average, only 22 percent of total liabilities and capital for the surveyed banks. While APB had by far the largest number of depositors, it had the lowest proportion of deposits to total liabilities and capital. Of the total 27,800 deposits (inclusive of all Lao PDR) 11,191 were with the APB. As stated, no bank depository accounts were encountered in the *other rural* areas that contain half the rural population of Lao PDR.

INFORMAL SECTOR FINDINGS

“Rapid growth of VRFs”

Village revolving funds have grown to cover about 15 percent of all villages in about six years. They operate outside the formal financial sector, untaxed and unregulated. Primarily, their financial service is limited to credit. At the time of the survey, their total outstanding loans were valued at about US \$5 million.

“Lack of co-ordination”

Terms, conditions, and other criteria and methods of loan disbursement vary widely between and within donor - or NGO - supported projects.

“Lack of savings mobilisation strategies”

Although evidence for a new commitment to savings mobilisation among rural beneficiaries is apparent, most projects with credit components have failed to include savings mechanisms.

“Limited Sustainability”

Few VRFs have been established or conceived of as self-sustaining financial institutions. With extremely variable loan policies often established without adequate training by village-level participants, and with commitments to continue financing diminishing revolving funds, there is little likelihood of sustainability without structural, organizational, and co-ordinated changes. Shortcomings in monitoring and information systems are an obstacle to developing sustainable approaches.

“Limited intermediate roles”

The donor- and NGO-supported VRFs often lack the capacity or experience for financial intermediation necessary to escalate the mobilisation of domestic financial resources.

CONCLUSIONS & FUTURE STEPS

UNDP/CDF assisted the GOL to organise two major conferences on new directions for microfinance in Lao PDR, a Roundtable for Government officials in August 1996 and a Roundtable for the international aid community active in the country in November 1996. These are discussed in the sections, “The Macroeconomic Setting”, and in “The Dynamics of Supply: The Lao Financial Sector.”

The Roundtables identified the need to promote the financial sustainability of microfinance projects. The Microfinance Profile’s analysis of the potential for savings mobilisation among rural Lao helps to point the way to this strategy through the design of new savings components in donor - and NGO - funded projects, as well as by the formal financial sector.

For international aid agencies, new microfinance projects will require designs that complement formal sector strategies. In particular, this will require a careful focus on establishing real interest rates and including cost-coverage mechanisms that will avoid distortions in savings and credit markets. Government will also have to assess and respond to the regulatory environment in which financial service growth will be encouraged, including rationalisation of interest rate policies within agricultural sector loans. In August 1996, a resolution was adopted at the UNDP/CDF - GOL Microfinance Roundtable to establish a Microfinance Task Force that will help to plan, co-ordinate, and facilitate these reforms.

The UNDP/CDF Microfinance project in Sayaboury and Oudomxay provinces has identified several key components of a new approach to microfinance that has incorporated lessons learned within the UN system and by a growing field of international experts and projects. These points are relevant for consideration by the principle stakeholders involved in microfinance programmes in Lao PDR.

The compatibility of independent microfinance projects and integrated development approaches

Microfinance is one of several approaches to improve local conditions or meet basic human needs. While the direct connection of a microfinance project to non-financial objectives as a “project component” can easily threaten the sustainability of a financial approach, its goals are furthered by promoting simultaneous complimentary inputs to the same beneficiary population, such as training in marketing, management, and income-generating activities; infrastructure investments; or direct human needs in areas like education and health.

Differing needs require flexible financial products

The rural poor often live in isolated areas and have few assets for collateral, and village banking models have been shown to be an effective method to pool resources, risks, and skills. Individual entrepreneurs require more specialised lines of credit for direct lending under more generally conventional bank underwriting criteria, terms, and conditions.

Donor/NGO lending activities and financial sustainability

While many village revolving funds established by international donors and NGOs are delivering credit, many are operating without sustainable designs. Below-market interest rate credit may channel investments to non-viable enterprises and create unrealistic expectations about the future cost of money. However, there is a growing effort among donors and NGOs to address these problems and deliver more market-ready credit products as well as foster deposit mobilization. Charting a new course for such projects is particularly crucial given the projects' large share of the credit market, notably in *other rural* areas.

Institutional capacity building

Sustainability requires investment to enable reliable village - level management and oversight, additional capacity investments at the larger institutional level of financial intermediaries, and further management and organizational support to the Lao financial sector.

Direct linkages with the formal sector

The process of expanding credit in rural areas is not independent of the formal banking system. Banks provide the mechanism through which rural savings are converted into financial deposits that become a capital base for investment. The process, called "financial deepening", and the mechanism, referred to as "monetisation," are the two central components of a sustainable financial (and microfinancial) service sector that can grow securely and independently over the long term.

Reinvesting rural savings

While deposit mobilisation provides direct benefits to the rural poor, these benefits remain limited and solitary if savings are not transformed into loans that are put to work financing rural needs. This process of mobilisation and re-circulation can be met by village banking or credit union models that emphasise the mutually reinforced bond between savings and credit.

Institutional frameworks for non-bank intermediaries

As long as the formal banking system lacks the resources or the motivation to enter the microfinancial rural market, intermediate non-bank institutions such as the Lao Women's Union and international NGOs will be the instruments of financial deepening in rural communities. Legislative and regulatory action to provide clearer frameworks to credit co-operatives, village banks, non-bank institutions, and similar financial intermediaries requires a strongly supported co-ordinating role for the Government Microfinance Task Force.

IV. The Macroeconomic Setting



BACKGROUND

The currency of Lao PDR is the Kip, with 50, 100, 500, and 1000 kip notes in circulation. At the time the figures for this report were collected, the kip traded at 925 to the US dollar. During the 1960's and early 70's, the kip's value was maintained through international aid assistance.

In 1975 the Lao People's Democratic Republic was established under the Lao People's Revolutionary Party. With external currency supports withdrawn, devaluation was rapid and inflation rose sharply. Significant drops in national production followed. About 10 percent of the population emigrated, with a disproportionate impact on skilled sectors. Efforts were made to protect the nation's most vital trade sectors through multiple exchange rates.



Agriculture is the main economic activity in Lao PDR

By 1986, with foreign assistance and currency supports again faltering, the government launched an economic reform policy (see Section II-B), and began to encourage foreign direct investment and an open-door policy for visitors.

Strong economic growth, and the relative stability of domestic prices and currency, were achieved from 1990 through 1994. Thereafter, inflation accelerated to two-digit levels and the exchange rate deteriorated against the domestic currency by nearly 30 percent, while growth has continued. Gross Domestic Product (GDP) has averaged a very healthy 6.4 percent growth rate per year through the 1990's.

Lao PDR is well-located to benefit from its economic reforms in a region of high economic growth. Today, the majority of national wealth is concentrated in the capital, Vientiane, located just across the border from country's biggest trade partner, Thailand. The city is a relatively dynamic enclave for further economic growth.

The country is rich in natural resources, especially in relation to its low population density. Forests cover over 60 percent of the land, providing opportunities for sustainable exploitation; mineral resources, abundant water, and other natural resources can be further tapped. Hydroelectric power is a main export earner, and hydroelectric dam projects are among the largest construction projects in the region. New transportation infrastructure projects are planned to help connect the nation's interior to neighbouring countries' transport links.

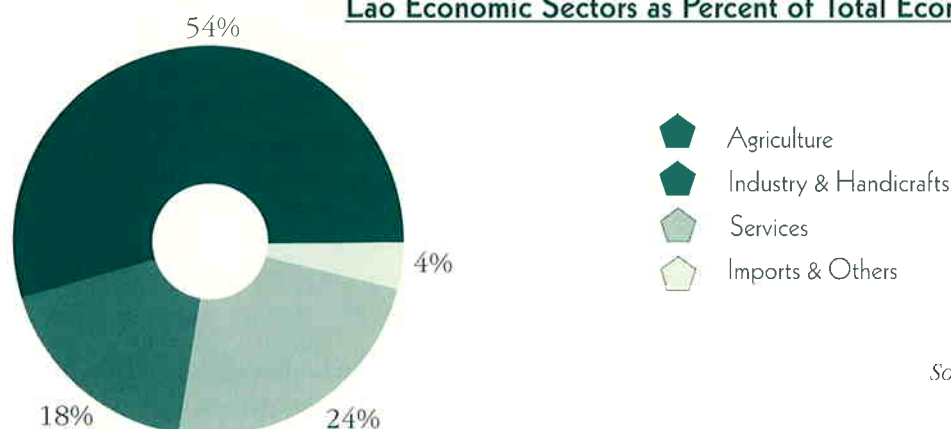
Still, Lao PDR remains classified as a "least developed country," a definition relative to both human and economic development indicators. Eighty percent of the population live in rural areas, where incomes are substantially lower than the major cities and poverty rates are high. Nationally, human development indices are low, ranking 138 out of 174

countries in the (UNDP) Human Development Index, with average life expectancies of 51 years and a one-third adult illiteracy rate. About half the total population lives by subsistence, outside the market economy. The development of rural areas is, therefore, a special and paramount challenge for the nation.

The country is characterised by other development challenges. Transportation is difficult. Physical infrastructure is poor. There is a shortage of technical and managerial skills and certain shifting slash and burn agriculture practices degrade forested slopes, particularly with increased population pressure. And, as this report will document, the lack of access to appropriate financial services creates a development challenge for the rural and semi-rural communities.

The graph of Lao PDR's productive sectors that follows highlights the country's continuing reliance on agriculture. Further data follow in the next sub-section.

Lao Economic Sectors as Percent of Total Economy



Source: UNDP Country Strategy Note, 1996

GROWTH AND THE "NEW ECONOMIC MECHANISM"

The New Economic Mechanism (NEM) programme was launched by the Government of Lao PDR in 1986, marking the start of a transformation from a centrally-planned to a market-based economic system. The NEM ushered in progressive changes in the role of the state, leading to less state involvement in production and trade and greater management of the economy through macro-economic policy.

Over the first decade of transition, significant progress has been made. The economy performed well in the early nineties, despite some setbacks in 1995. Growth in GDP varied between 5 and 8 percent per year, and is expected to continue growing at about 7-7.5 percent in 1996-97. GDP growth per capita has been dramatic: from around US \$200 in 1990 to US \$350 in 1995.

GDP by Sectoral Origin (Billion Kip at Constant 1990 Prices)

SECTOR	1992		1993		1994		1995	
	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture	395.6	58.0	406.2	56.3	439.8	56.4	461.6	5.2
Crops	221.2	32.4	196.7	27.3	221.4	28.4	236.3	8.3
Livestock and Fishery	158.9	23.3	165.5	22.9	172.6	22.1	178.4	1.3
Forestry	15.5	2.3	44.0	6.1	45.8	5.9	46.9	5.6
Industry	113.6	16.7	125.3	17.4	136.6	17.5	154.4	8.5
Mining and Quarrying	0.9	0.1	1.3	0.2	1.7	0.2	1.6	0.2
Manufacturing	85.8	12.7	92.4	12.8	96.7	12.4	110.4	3.2
Construction	19.1	2.8	22.1	3.1	26.0	3.3	31.7	3.8
Electricity and Water	7.8	0.1	9.5	1.3	12.3	1.6	10.8	1.3
Services	163.0	23.9	175.6	24.3	187.1	24.0	201.1	4.0
Import Duties	9.6	1.4	14.7	2.0	16.6	2.1	19.3	2.3
Totals	681.8	100.0	721.8	100.0	780.1	100.0	836.4	100.0

Source: National Statistics Centre

GDP by industrial origin and the shares of different economic sectors for the period 1992-95 are summarised in the table above. Agriculture dominates economic activities, but its share of GDP has been declining slowly with the expansion of the manufacturing and service sectors. In 1995 it accounted for more than 55 percent of total GDP compared to 18.5 percent for industry and 24 percent for services. Between 1992 and 1995 the agricultural sector grew in real terms by a total of 16.7 percent. This compared with growth in industry of 35.9 percent and in services of 23.4 percent. Overall, GDP grew by 22.7 percent during the same years.

About 80 percent of the population is engaged in agricultural production (including livestock, fisheries and forestry). The GDP per capita in the agricultural sector is significantly less than in other sectors. Economic growth has yet to benefit the majority of the Lao people, who are engaged in subsistence agriculture and have had little opportunity to participate in the market economy. To date, the rural poor have benefited the least from the new dynamics of the NEM.

Inflation has been a volatile factor in the economy. From a low of 6 percent in 1986, it surged to 63 percent in 1989. Since then, inflation has remained under control, falling to single digits from 1992 to 1994 when it bottomed at 6.8 percent. However, in the past two years, demand-pull factors, arising from rapid expansions of liquidity and

domestic credit, pushed inflation to about 20 percent in 1995. Originally targeting inflation for 1996 at 7.5 percent, the Government revised its estimates upwards to 15-16 percent.

To combat inflationary pressure, minimum deposit rates have been lifted from 12 to 16 percent and the maximum lending rate of 24 percent has been abolished. However, due to the lack of competition in the financial sector, deposit rates hardly exceeded 16 percent, resulting in negative interest rates in 1995 and, in all likelihood, for 1996 as well.

PUBLIC SECTOR INVESTMENT

Social spending accounts for 32.3 percent of investment, of which 17.2 percent is allocated to education and health. Historically, low levels of spending on social sector activities have contributed to the country's low social indicators.

Public investment distribution by sector is shown in the table below for 1994 and 1995. Government investment in communications infrastructure dominates the budget. In the current year, planned investments in agriculture and forestry account for 11.5 percent of total investment and 43.6 percent of investment in the productive sectors of agriculture and forestry, industry, and communications. Investment in industry comprises 15 percent of the total and 56.4 percent of investment in the productive sectors.

**Sectoral Distribution of Public Investment for Financial Years
1994-95 (Actual) and 1995-96 (As Anticipated)**

Sector	FY 1994-95	Percent of Total	FY 1995-96	Percent of Total
	(Billion Kip)		(Billion Kip)	
Agricultural and Forestry	20.6	12.4	23.4	11.5
Industry	32.2	19.4	30.3	15.0
Communication	78.9	47.5	83.5	41.2
Education	12.7	7.7	19.4	9.6
Public Health	7.7	4.6	15.4	7.6
Culture	1.8	1.1	3.8	1.8
Housing	1.8	1.1	6.9	3.4
Social Welfare	4.0	2.4	14.1	7.0
Rural Development	6.4	3.8	5.8	2.9
Total	166.1	100.0	202.7	100.0

Source: Committee for Planning and Co-operation

Government resources are constrained and there has been a persistent budget deficit, illustrated in the table that follows. To date this has been covered by foreign grants and by project and programme loans with concessionary terms. Improving the tax collection system and the mobilising domestic resources for private sector investment are key priorities for deficit reduction and future development potential.

**Government Revenue and Expenditure
1993 to 1995 (Actual) and 1996 (Estimated)**

GOL Revenue and Expenditure	1993	1994	1995	1996
	(Billion Kip)	(Billion Kip)	(Billion Kip)	(Billion Kip)
Revenue and Grants	144.5	210.5	238.4	295.5
Revenue	113.2	143.6	165.7	205.3
Tax	85.9	114.5	134.9	169.6
Non-Tax	27.3	29.1	30.8	35.7
Grants	31.3	66.9	72.7	90.2
Expenditures	170.5	266.7	294.0	356.0
Current	104.9	127.1	142.7	167.5
Capital	65.6	139.6	151.2	188.5
Current Balance	8.3	16.5	23.0	37.8
Overall Balance	(25.9)	(56.2)	(55.6)	(60.5)

Source: Ministry of Finance

Poverty

Despite economic growth, poverty is still widespread throughout Lao PDR. The most recent poverty study is by the World Bank¹. Using a poverty line based on consumption expenditure, it shows that in 1993 about 46 percent of the Lao population fell below a monetary poverty line defined by a purchase bundle of basic food and non-food items. Wide disparities were evident between urban and rural areas. Average urban consumption expenditure was 74 percent above the poverty line, while average rural consumption expenditure was just 12 percent above the poverty line.



Poverty is higher in rural areas - a Hmong household in Phongsaly Province

Flood and drought affect many areas of production. The overwhelming dependence on rice production and vulnerability to erratic weather conditions underscore the importance of diversifying the economic activities of rural households. In isolated areas with subsistence economies and limited access to markets and financial services, opportunities for income generation through agricultural diversification and improved efficiency in the factors of production in this and in other economic sectors of *other rural* areas are severely constrained.

Urban unemployment is estimated to be about 6 percent (1994). There are twice as many new entrants to the labour market each year as there are new jobs, and current population growth is 2.4 percent per year. Generating enough employment in both the urban and rural areas is a critical issue for Lao PDR. While service and industrial sector jobs are needed, most workers lack vocational skills and three-quarters of the work force have not completed primary education. The country also lacks people with entrepreneurial and business management training to lead private sector development.

The highest incidence of poverty was among farm households, with 53 percent falling below the poverty line. The lowest incidence was among the self-employed, with 14 percent below the poverty line. Apart from low incomes, other factors including limited educational opportunity, low levels of health, and inadequate food supply have all contributed to the poor living conditions of Lao people. In accordance with the overall findings of this Profile, it should also be noted that there is little opportunity to change the root conditions of poverty without addressing the domestic sources of investment and the role of indigenous finance in future development.

Further details on poverty estimates and accompanying figures are found in Appendix A-2.

Employment and Income

The population's main economic activity is rice production. Yields are low, and limited irrigation restricts most farmers to one annual crop. Lao PDR has had difficulty meeting its basic food needs, and between 1991 and 1995 there was a national shortfall.

Rice is the main source of subsistence in Lao PDR. Over 80% of the arable land is used for rice production.



¹ "Lao PDR Social Development Assessment and Strategy", August 1995. See appendix A2 for a summary of key findings.

GOVERNMENT ECONOMIC OBJECTIVES

Specific economic objectives in the period 1996 to 2000 are to achieve economic growth of 8 to 8.5 percent per year, with per capita income reaching US \$500 by 2000; hold inflation below 10 percent; increase public investment to 12-13 percent of gross domestic product (GDP); and increase and maintain import coverage of gross official reserves to a level equivalent to 3 months of imports.

Efforts to improve revenue collection target progressive increases in the ratio of tax revenues to GDP, to around 15 percent. Measures to control expenditures aim to stabilise current spending at around 10 percent of GDP and allow for increased capital spending. A rolling Public Investment Programme (PIP) will accommodate annual adjustments in these targets.

Social development objectives are diverse, but key features focus on improving food security, income opportunities, and access to education and health services. Under the PIP, Government will increase spending on social services and associated infrastructure in rural areas.

In the agricultural sector, the medium-term objectives are to improve self-sufficiency in rice production; to develop a favourable environment for farmers and market intermediaries to produce and distribute a wider range of agricultural products; to invest in transport and irrigation infrastructure; to eliminate remaining controls on the movement of goods and labour; and to provide support services. To facilitate the shift from subsistence to commercial agriculture, improvements in production technology and increasing efficiency will be required, and local processing of primary produce is a priority. The promotion of non-farm income generation activities and the efficient mobilisation of domestic financial resources to support new and flexible investment will play a key role in meeting these objectives.

The National Assembly of the Lao PDR has approved eight priority programme areas. These eight areas are:

- 1 Food production
- 2 Stabilisation of shifting cultivation
- 3 Commercial production
- 4 Infrastructure development
- 5 Human resources development
- 6 Rural development
- 7 Services development
- 8 Improved foreign economic relations

Recognising the important role of financial sector reform to support these objectives, the Sixth Party Congress (KPL - 22/03/96) stated that:

“...we must urgently upgrade the efficiency of the state business banks. We must expand the bank branches to localities, especially the APB, in order to bring them wider services, and to boost production. We must set correct and flexible interest rates to encourage increasing domestic savings...”



UN SUPPORT TO LAO ECONOMIC REFORM & DEVELOPMENT

In agreement with the Government of Lao PDR, UN support is targeted within these programmes, with specific priorities for human resource development and rural development. In its human resources development activities, UN assistance will help with improvements in health care, education, employment and social security, environmental planning and regulation, and refugee repatriation.

In rural development, the components of UN assistance are household food security, rural infrastructure development, income generation, sustainable use of natural resources, drug control, unexploded ordnance removal, disaster preparedness, and support to microfinance.

In March 1996 UNDP launched a decentralized rural development programme formulation exercise starting with a comprehensive situation analysis including above issues in five targeted provinces of Sayaboury, Oudomxay, Xieng Khouang, Savannakhet and Sekong. At the request of Government, its purposes are to support the decentralisation of responsibilities for development by assisting provincial and district authorities to plan needs-based development activities within the capacity of local institutions for implementation; identify specific activities for donor support; provide financing for un-funded priority projects; and provide institutional support and capacity-building at provincial and district levels during implementation.

The Government has agreed that UN support for income generation will emphasise access to microfinance, along with related business and technical advisory services. Assistance will be aimed at commercialisation of agricultural production, forestry, cottage industries, and micro-enterprises. Interventions will promote a shift away from the subsistence economy towards integration to the market, aiming to increase real income and provide better access to food, products, and services. Rural employment creation to help slow the migration of job-seekers to urban centres is also an important objective.

A specific UN initiative that complements the decentralised rural development programme is assistance to develop microfinance services in Lao PDR. The initiative was launched by UNDP/CDF with this profile of microfinance.

SOME IMPLICATIONS FOR MICROFINANCE POLICY

Dominant structural characteristics and recent macro-economic trends have important implications for microfinance policy. As mentioned earlier, agriculture is the overwhelmingly dominant sector, directly involving 80 percent of the population. However, with limited development of technology and infrastructure this sector remains vulnerable, particularly to climatic factors and to the internationalization of the economy in the region.

Poverty indicators show that the poor are predominantly rural. Diversification into non-agricultural income generating activities would not only improve household well-being, but would help stabilise rural household economies against fluctuations in their primary activity. Investment is required in order to carry out this diversification and to make risk-taking a viable option through transformations and specialization in the agricultural business cycle, from production to packaging and marketing. Microfinance provides a critical point of insertion for these transformative interventions in rural household economies.

Increases in the rate of inflation have some worrying implications for microfinance. Current commercial rates of interest for credit are negative. This jeopardises sustainability incentives as unadjusted rates of interest will reduce the real value of microfinance loan funds and offer little motivation for rural households to convert their current savings in cash, livestock, and precious metals to deposit accounts that can re-circulate as loans.

Mobilisation of deposits will provide additional resources for local investment. Increased savings mobilisation and the associated rise in the monetisation of financial resources will encourage currency stabilisation. Meanwhile, the microenterprise and small entrepreneurial sectors will have increased access to financing, providing additional opportunities for production increases to boost the GDP. In turn, rational taxation of new base sources can increase Government revenues for public investments in vital sectors. In the areas of health and education, for example, these investments would provide further long-term returns by increasing the value and efficiency of human capital.

UNDP / CDF - Microfinance Roundtable

The GOL asked to be apprised of the Microfinance survey's findings at an early date, and in August 1996 UNDP and the Ministry of Finance organized a roundtable to brief Government and discuss the findings. The Roundtable was chaired by the Minister of Finance Minister and the Governor of the Bank of Lao, and attended by vice ministers, each relevant Government ministry, and representatives of mass organisations.

In a key statement of Government interest in furthering microfinance development and the implications of the Profile's findings, the Vice Minister of Finance noted that "household savings were large enough to contribute to the establishment of microfinance systems to guarantee village economic development step-by-step." The ministry's minutes of the meeting stated that "[the Roundtable participants agreed that] there should be a new system established to implement microfinance programs either in the form of credit unions or village banking, depending on the appropriateness of each situation," and recognised the "need to have an institution [or] organisation to act as intermediary between banking or financial institutions and the rural communities."

Based on a strong commitment to intermediate financial institutions, the Government asked UNDP to assist in organising a follow-up Roundtable for donors and international NGOs, and solicited assistance to set up a Microfinance Task Force to co-ordinate ongoing planning (see section VII: "Next Steps").



The Government Microfinance Roundtable, funded by UNDP and chaired by HE Xaysomphone Pomvihane, Minister of Finance and Jan Mattsson, UN Resident Coordinator Vientiane August 1996

V. The Rural Household Finance Survey



INTRODUCTION TO THE SURVEY

A broad survey of the current state of savings and loan activities throughout rural Lao PDR was contracted by UNDP/CDF between May and July, 1996, and is the first attempt to gain a very specific understanding of financial practices rural and semi-rural areas across the country. Under UNDP/CDF supervision, the survey was designed by an international consultant and administered by a Lao consulting firm². It developed a panoramic picture of a financial (and microfinancial) sector still in a rudimentary stage of development.

Through the information provided about microfinance supply and demand in areas removed from the major population centres of the country (see map for surveyed areas in Appendix A-3), the survey has given insights into how rural households conduct their financial affairs. This provides an important step toward understanding opportunities for the development of microfinance services to meet local needs. By furnishing qualitative and quantitative data and information about at sector that is still at an early stage of development, the survey also provides baseline data that can be used to establish monitoring and evaluation indicators for microfinance projects, and the sector as a whole.

The preliminary results of the survey (a draft version of this report) were presented at two “Roundtables” held in Vientiane during 1996 for planning purposes³, with the Government of Lao PDR and with the international donor and NGO communities active in the country. The views of these key actors are summarised in Section III, the “Executive Summary”, under the heading “Conclusions and Next Steps”.

The information in this section pertains to the “demand side” of the survey, while further information on the supply of credit, savings, and the availability of microfinance services can be found in Section IV.

² See below for survey methodology, appendix A3 for additional methodological details

³ Government of Laos -UNDP/CDF Microfinance Roundtable, 22 August 1996; Donor Microfinance Roundtable, 12 November 1996. See Section IV for further details.

Survey Methodology

Thirty-five Lao enumerators conducted interviews of 2,961 households in 120 randomly selected rural and peri-urban villages over a period of two months. The enumerators worked in teams of eight, with one supervisor each. Five days of training were provided to the enumerators, including the use of questionnaires, role plays, field testing, and problem solving. Questionnaires were administered to the following populations:

- Rural households
- Informal suppliers of finance
- The leaders of informal financial groups
- The leaders of village-based organisations operating credit schemes
- Formal financial institutions, and
- International donors and non-governmental organisations (NGOs).

The selections of survey areas were based on four pre-determined strata derived from demographic and geographic characteristics⁴. These were:

- Peri-urban villages: rural and semi-rural areas near the four largest cities
- Provincial capital-area villages: rural areas in proximity to the smaller cities and towns
- Villages in or near the Mekong River Valley
- Other rural villages not in the three above-listed areas, including upland villages and comprising the rest of rural Lao PDR

For the convenience of the reader, these four area-based categories are consistently named and maintained *in italics* throughout the remainder of the Profile: *peri-urban*, *provincial capital*, *rural Mekong*, and *other rural*.

This Hmong village from the "other rural" area in Oudomxay Province is over two walking days away from the nearest bank



⁴ Household populations in areas determined for the survey's purposes are as follows: "*peri-urban*" (comprising 64,601 households in 483 bans near one of the four major cities of Vientiane, Savannakhet, Luang Prabang and Pakse); "*provincial capital*" (comprising 71,768 households in 1,292 bans in and near the provincial capitals other than the four major cities); "*rural Mekong*" (comprising 201,512 households in 2,434 bans located in rural areas bordering the Mekong River); and "*other rural*" (comprising 328,654 households from 6,983 bans in rural areas not bordering the Mekong River). *Peri-urban* households account for 9.7 percent of total households in the survey areas, *provincial capital* households for 10.8 percent, *rural Mekong* households for 30.2 percent and *other rural* households for 49.3 percent.

Selecting the Samples

It should be noted that these villages do not conform to any previous selection criteria, but were devised for the purposes of the survey in order to i) cover villages throughout rural Lao PDR; ii) enable the desegregation of findings for areas likely to engage in differing economic activities; and iii) to cover areas likely to have different levels of access to depository and/or credit facilities.

The total area of the rural household survey contained 11,192 villages (called *bans*) with an estimated 666,535 households, forming the total population from which the sample was derived. All provinces except Attapeu and Xaysomboun (Special Administrative District) were covered. The samples were randomly selected from non-urban villages, based on the 1995 census. Samples were chosen randomly within the four strata delineated by the rural survey areas, but the number of *ban* in each area was pre-selected and was not proportional to total population or the total number of *ban*. This decision was made because it was anticipated that some of the variables being measured would have more highly skewed distribution patterns in *peri-urban* and *provincial capital* areas, while less skewing was anticipated in *rural Mekong* and *other rural* areas.

In each village, there was a further random selection of 25 households. Interviews of 747 households in 30 *peri-urban* villages were conducted; 734 in 39 *provincial capital* villages, 982 in 40 *rural Mekong* villages, and 498 in 20 *other rural* villages. For further information on sample weighting, extrapolation, and a break-down by province, see appendix A-3.

Regarding the supply side, information was collected from the Agricultural Promotion Bank (APB), four state-owned commercial banks with branches in peri-urban and rural areas⁵ (see section 4), and from donors and NGOs that were providing financial services (see section 4); enumerators also interviewed 30 leaders of informal financial groups and village revolving funds (VRFs) in the villages covered by the survey.



The Mekong river is a major artery for trade in the region
Luang Prabang province

Survey Strengths and Weaknesses

The Rural Household Finance Survey was an ambitious exercise done within a limited time frame. With GOL concurrence and assistance, UNDP/CDF determined that to gauge sector needs, a view of the overall performance and capacity of the Lao financial sector throughout rural areas was required, and not just of activities in one or two provinces. This ambition carried costs, including the large number of enumerators, the large task of co-ordination, and the difficulty encountered by each enumerator in finding ways to translate concepts, that were at times alien, into the vernacular.

Invariably, such large household surveys encounter methodological, implementation and analytical problems. This survey was no exception, and some of the results have been approached cautiously. Some questions on which considerable data were collected were reckoned too indeterminate for the results to have been included. Nonetheless, there is ample reason for a comfortable degree of confidence in the key results obtained, in their ability to convey a realistic appraisal of the Lao rural financial sector, and in their ability to be utilised to form preliminary conclusions. The sampling frame and methodology was rigorous and had its logical reasoning for its area-based demarcation into four rural typologies based on geography and demography - although, in hindsight, it would have been appropriate to give more sampling coverage to what has been referred to as the “*other rural*” areas, which represent about half the overall rural population. Despite these limitations, the household survey is a significant first step towards understanding basic household financial practices, knowledge of basic financial concepts, and the nature of currently available services and credit and savings practices in Lao PDR.

⁵ Arounmay Bank, Lanexang Bank, Lao May Bank, Phaktai Bank and Sethathirath Bank

ECONOMIC CHARACTERISTICS OF RURAL HOUSEHOLDS

The Household Economy

The survey showed that, on average, 18 percent of all households were engaged in more than one business activity (see table 1); usually, this meant at least one activity in addition to agriculture. This was somewhat more common in *provincial capital* and *other rural* areas than in *peri-urban* areas around the principal cities and main agricultural areas of the *rural Mekong*. It is believed, however, that omission of part-time income generating activities was common among the respondents. The data suggest that loan products focusing primarily or exclusively on the agricultural sector, even in the rural areas, may miss a potential market.

The average number of workers per household in all areas was 2.6 and showed little variation between the survey areas.

Key Economic Characteristics of the Rural Household Surveyed

Characteristic	Peri-urban	Provincial capital	Rural Mekong	Other rural	Average
Multifunctional households (%)	11	17	11	20	18
Agriculture as primary activity (%)	72	95	93	97	94
Years engaged in activity:					
Agriculture	16	18	17	15	16
Industry	9	4	4	3	4
Service	7	6	7	3	4
Average number of workers	2.7	2.7	2.8	2.6	2.6
Average physical asset value (,000 Kip)	5,993	2,591	3,393	2,473	3,105

Source: UNDP/CDF Microfinance Survey, 1996

Key characteristics of rural household economies may be summarised as follows.

The primary activity of 94 percent of all households was agriculture. In the *peri-urban* area, 72 percent of households were primarily engaged in agriculture, reflecting the greater diversity of employment and income opportunities closer to the four larger cities.

Agricultural vocations had been pursued for similar periods of time in all areas, with an average of 16 years. The average age of industrial ventures and businesses decreased from *peri-urban* areas to *other rural* areas, which may indicate the more recent emergence of alternative livelihoods in rural areas. Service businesses were on average newer in the *rural Mekong* and *other rural* area, perhaps again an indicator of the earlier emergence of service activities in areas near towns and cities and in the *rural Mekong* area.



Weaving provides significant income for women and their household - Champassak province

Household Assets

Major assets were land and livestock. These accounted for roughly 57 percent of total assets in the *peri-urban* and *rural Mekong* areas, 6 percent in the *provincial capital* areas and 65 percent in *other rural* areas.

Land and livestock asset similarities between *peri-urban* and *rural Mekong* households are misleading. In fact, in *peri-urban* areas land values are more than double those in other areas surveyed areas. Livestock asset values in *peri-urban* areas are correspondingly lower, on average between 50 and 60 percent of those in the other household types, presumably based on a lower level of livestock ownership.

Key asset value findings based on estimates by the respondents were as follows:

Average reported household physical assets were about Kip 3.1 million (US \$3,357). Households in *other rural* areas estimated they had the least physical capital at about kip 2.5 million (US \$2,673), while *peri-urban* households estimated that they had the greatest assets, at about Kip 6.0 million (US \$6,479).

Household Financial Managers

The survey identified a “financial manager” in each household interviewed as the key person making decisions about the household’s allocation of resources. The main characteristics of the financial managers are summarised in the following table.

Age, Education, and Gender of Surveyed “Household Financial Managers”

Age, Education, and Gender	Peri-urban	Provincial capital	Rural Mekong	Other Rural	Average
Average age (years)	41	41	41	40	40
Level of Education (% of “financial managers”)					
Illiterate	28	49	35	46	43
Medium level	63	49	62	53	55
Higher level	9	2	3	1	2
Gender (% female)	61	39	64	37	47

Source: UNDP/CDF Microfinance Survey, 1996

The average age of the household financial managers was 40, with no significant difference among the four types of areas surveyed. *Peri-urban* household financial managers had a higher level of education than the managers for the other types of household, while illiteracy was most prevalent in the *provincial capital* and *other rural* areas.

Women were the financial managers in 61 percent of *peri-urban* and 64 percent of *rural Mekong* households. Men were the financial managers in 39 percent of *provincial capital* and 37 percent of *other rural* households. Without generalizing, it may be possible to infer that the gender distinction between “household financial managers” in the surveyed areas reflects the differences between some tendencies toward matriarchal practices among the lowland Lao Leum groups that predominate in *peri-urban* and *rural Mekong* areas, and the patriarchal societies that are more common in the ethnic groups of the upland areas.

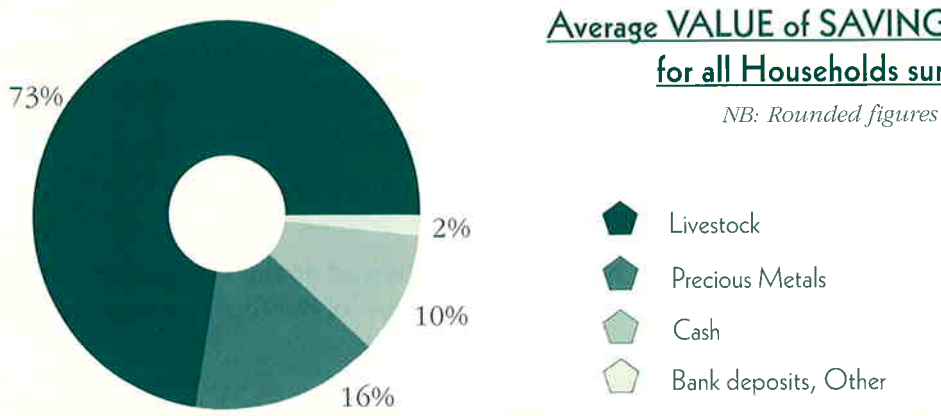


In many areas of Lao PDR, women manage the household finances

HOUSEHOLD SAVINGS⁶

Financial & Non-Financial Savings

A critical finding of the survey was the distribution of savings throughout the rural and semi-rural Lao population. This should have a substantial impact on the establishment of strategic parameters for microfinance intervention in the future. It shows the capacity and habit among the general population to set aside even very small amounts of excess resources on a regular basis. Overall, 97 percent of all households have either financial or non-financial savings, and in most cases both types of savings were reported.



- On average, 91.1 percent of all households have *financial savings* and 91.5 percent of all households have *non-financial savings*.
- *Non-financial savings* are almost exclusively in precious metals and livestock. However, it is important to note that the survey did not account for options such as tradable stocks (e.g. rice).
- *Precious metals* provide a hedge against inflation and can be readily converted to a cash value. While this form of savings is not uncommon among people isolated from financial systems, it offers no significant investment income.
- *Livestock* are a more risky form of investment and saving because of the potential for disease, but they are also a productive asset. While some livestock are undoubtedly kept strictly for productive intentions, they represent a form of savings because they can be sold at market for money. Within the survey, individuals were asked to count only those livestock that are *not used* for direct productive uses, i.e. ploughing, hauling, etc. These additional cattle were counted as a form of savings.

The findings have also confirmed a very low level of depository mobilisation (see below) by both the formal and informal sectors. The majority of households with financial savings keep them in cash, and only 0.6 percent of households have depository savings accounts with banks. Informal group savings were found among 0.4 percent of households.

Non-financial savings were almost exclusively in precious metals or livestock, which are readily convertible to cash at markets.



⁶ See End Table 1 for summary details of the household saving data from the survey.

Average Financial Savings by Households in Surveyed Areas

Average financial savings per household are estimated at Kip 69,181 (about US \$75).

The total value of financial savings in *peri-urban* and *provincial capital* areas are more than one and-a-half times those in the *rural Mekong* area and more than twice those in *other rural* areas.

The amounts of cash holdings within the different survey areas were less variable, with these differences being mainly accounted for by a higher level of bank deposits in *peri-urban* and *provincial capital* areas (see below).

Average total savings (financial and non-financial) were about Kip 596,500 (US \$645) with *rural Mekong* and *other rural* households holding about this value. *Provincial capital* households averaged higher savings, valued at an average Kip 788,000 (US \$853). *Peri-urban* households were found to have the lowest average total savings, at Kip 437,600 (US \$474).

Deposit Mobilisation

The overall level of deposit mobilisation is very low. On average, 0.6 percent of all surveyed households held bank deposits. In addition, 0.4 percent held savings with informal groups.

While still minimal, the depository savings level is higher in *peri-urban* areas where 2.3 percent of households have bank deposits and 1.1 percent save with an informal group. In areas around the *provincial capitals*, 1.6 percent of households have bank deposits and 0.1 percent save informally. In both cases, these somewhat higher figures are probably related, in part, to the relative proximity of depository services and cash income options.

In the *rural Mekong* areas, the proportion of households with bank deposits falls to 0.6 percent, while 0.8 percent have deposits with informal groups. No households with either formal or informal deposits were found by the survey in the areas classified as *other rural*.

That figure of zero is all the more remarkable when compared to lending activity (see below). In these most isolated areas, findings indicate that the majority of loans probably stem from rural credit programs; follow-up survey work would be required to confirm this or to determine whether there is a missing connection between these two findings. However, if this is confirmed, it suggests that efforts to provide rural credit have missed an opportunity to link these activities with savings mobilisation.

The distinction in savings deposits between the *peri-urban* and the *other rural* areas indicates the limited outreach of the banks, whose branches are mostly located in the four main cities and in the provincial capitals (see map following appendices); however, it also reflects the lack of intermediate rural finance institutions. Deposits held with informal groups in the *rural Mekong* area may reflect cultural differences in informal savings and loan systems between the Lao Leum (lowlanders) and other ethnic groups.

Amounts and Forms of Savings

For all four survey areas, the distribution of savings show a high level of livestock holdings in comparison to other forms of savings, and a very low level of depository savings. Among the total surveyed population, livestock represented 73 percent of all savings. Bank deposits were only 1.3 percent of savings, with deposits in informal groups adding another 0.4 percent to deposited savings. Cash holdings comprised 9.9 percent of savings, but were exceeded by savings in precious metals, at 16 percent.

Peri-urban households have a total estimated amount of savings of Kip 28.3 billion (US \$30.6 million). While they hold the highest percentage of savings in bank deposits among the surveyed areas, this figure still is limited to 7 percent; an additional 1 percent is held in informal group deposits. The highest percentage of savings is livestock holdings, where 48 percent of savings value is found, though this is the lowest proportion of net savings value in livestock among the four areas surveyed. Next come precious metals, with 27 percent of *peri-urban* savings. Cash savings represent 17 percent of total savings among these households.

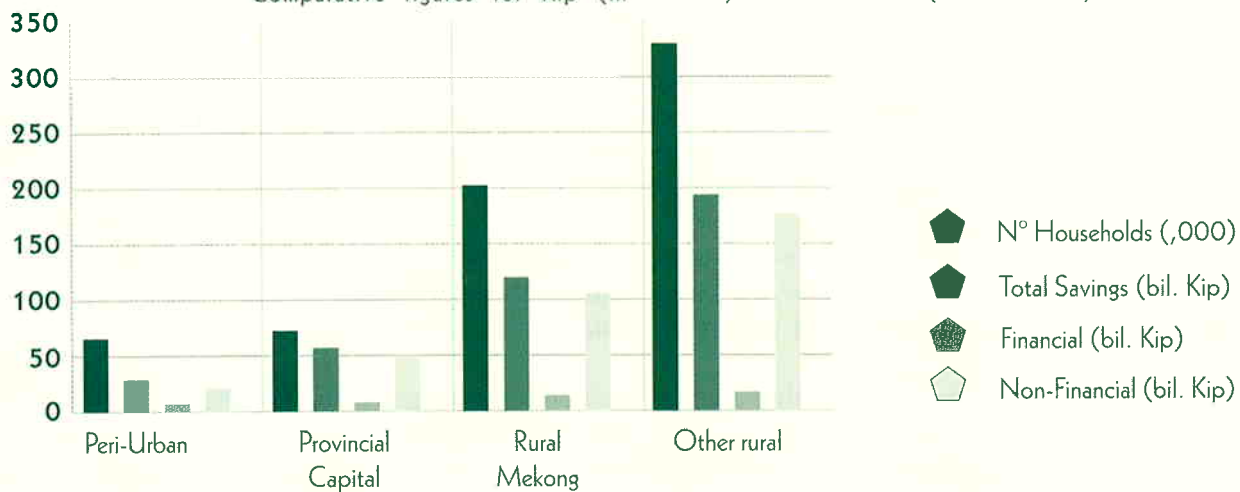
Provincial capital households have a total estimated amount of savings of Kip 56.6 billion (US \$61.1 million). Savings in bank deposits are lower than in *peri-urban* households, at 5 percent. While the distinction is not enormous in an overall rural population that rarely converts savings to deposits, it probably does indicate the relatively thinner reach of banks into the provincial capitals, as compared to rural households living nearer to the larger cities. Less than one percent of savings value is held through informal groups. These households hold 18 percent of total savings in precious metals, and nine percent is held in cash. The largest total value proportion of their savings is held in livestock, at 68 percent.

Next, *Rural Mekong* households have a total estimated amount of savings of Kip 119.3 billion (US \$129 million) of which less than one percent is held in bank deposits, and one percent is held in informal group deposits. 11 percent is held in cash, 14 percent is held in precious metals, and the net value of livestock as a proportion of savings is 74 percent.

Other rural households have a total estimated amount of savings of Kip 193.4 billion (US \$209 million). Of this total savings, none were found with deposits in banks or other institutions. Nine percent of savings is held in cash, and 14 percent is held in precious metals. The percent value of livestock savings is on average the highest for households in this area, at 77 percent.

Total Savings and Population by Household in Surveyed Areas

Comparative figures for Kip (in billions) & households (in thousands)



The total value of estimated rural savings is Kip 397.6 billion/US \$429.8 million. For an average of all rural and semi-rural areas, only an estimated Kip 5 billion/US \$5.4 million is in bank accounts, Kip 1.6 billion/US \$1.7 million is deposited with informal groups, and Kip 39.5 billion/US \$42.7 million is held in cash. In total only 11.6 percent of all savings, or Kip 46.1 billion/US \$49.9 million, is held in the form of a monetary asset. In addition, Kip 62 billion/US 67 million is held in precious metals.



Livestock, like these buffaloes, is often used as "non financial saving"

These findings show that only 1 percent of all households held bank deposits. In contrast, savings mobilisation by the APB and the four SOCB's covered in the survey totalled about Kip 21.2 billion (US \$22.9 million). This was the equivalent of just one-fifth of rural households' estimated cash and precious metal holdings (which in surveys of this nature are usually underestimated).

These survey findings provide strong evidence of a large reservoir of untapped financial and non-financial savings - especially in *other rural* areas, and shows that minimal savings are being mobilised by either the formal or the informal sectors.

From public and Government perspectives, the conversion of existing cash and in-kind savings to a depository base would have clear benefits. It mobilises private sector resources and can contribute direct and indirect revenues, through taxation of private interest incomes and of savings institutions that invest the funds. These tactics would add momentum to the Government's Public Investment Program, and reduce foreign borrowing to support rural credit schemes and the PIP.

HOUSEHOLD DEBT⁷

Overall, just over one-tenth of the survey households were found to have incurred debt over the past twelve months. The average debt outstanding per household was 293,487 kip.

The survey asked households about borrowing for *fixed assets* and *working capital*. It is estimated that over the 12 months prior to the survey, approximately 53,800 loans for fixed assets were made, and about 87,500 loans for working capital were made. Some households, particularly in *peri-urban* areas, had more than one loan.

The survey identified the distribution of loan sources by family and friends, bank or Village Revolving Fund, supplier credit, and other sources (such as moneylenders, other households and informal groups). The findings that follow are derived from responses from the 10.9 percent households who reported some debts incurred over the previous last twelve months.

Fixed Asset Loans

The findings for *fixed asset loans* for the one year prior to the survey, as reported to the survey enumerators, revealed the following.

- Family and Friends. This source accounted for 42 percent of loans in *peri-urban* areas, 40 percent in *provincial capital* areas, 55 percent in *rural Mekong* areas, but only 8 percent in *other rural* areas. The reasons for such a low percentage in the latter area merit further investigation; see the note in "other source of credit" section.
- Banks and Village Revolving Funds. These were important sources in terms of total actual loans, accounting for 37 percent of loans in *peri-urban* areas, 45 percent in *provincial capital* areas, 23 percent in *rural Mekong* areas, and 24 percent in *other rural* areas. It is important to note that the questionnaires did not distinguish between banks and VRFs. It seems extremely likely, based on the associated evidence, that these figures primarily illustrate the significant role played by VRFs in providing credit in rural Lao PDR.
- Supplier credit⁸. This source was very slight, with no cases reported in *peri-urban*, *rural Mekong* and *other rural* areas, and only 7 percent of loans in *provincial capital* areas.
- Other sources of credit. Other sources of credit (moneylenders, households making small loans, and others) accounted for 21 percent in *peri-urban* areas, 8 percent in *provincial capital* areas, 21 percent in *rural Mekong* areas and 68 percent in *other rural* areas.

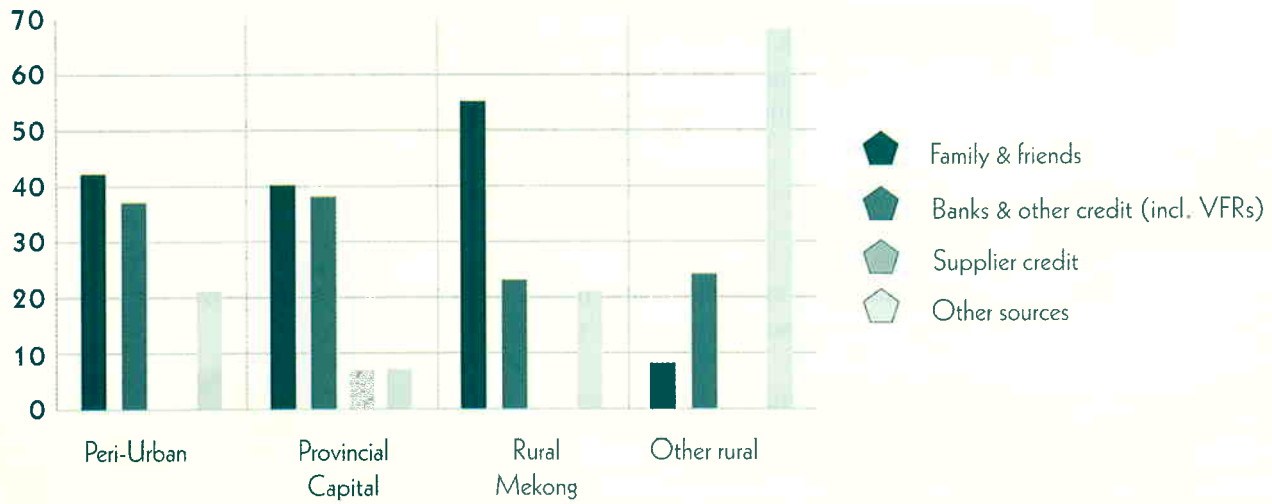


⁷ See End Table 2 for summary details of the household debt data the survey

⁸ Credit from the suppliers of capital items for fixed asset loans and raw material or other inputs (such as fertilisers) for working capital loans

The reason for the unusually high figure for “other sources of credit” in *other rural* areas are not known, and merits further investigation. A starting point might be activities such as livestock banks or other donor/NGO lending activities (forms of VRFs) whose functions and obligations may not have been clear to the respondents. If confirmed, this would bring the sources of fixed asset loans in closer conformity with the working capital loan findings (see below).

Sources of FIXED ASSET LOANS as percent of total by survey area



Working capital is in great demand for entrepreneurs involved in trading activities-Vientiane Province

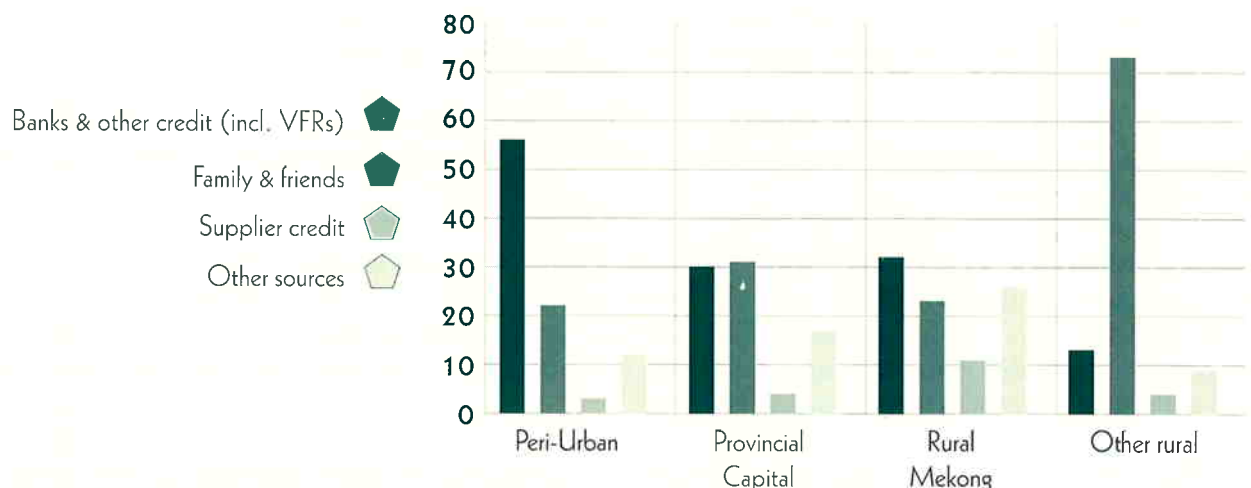
Working Capital Loans

The pattern of borrowing for *working capital loans* differs from fixed asset loans. The dominant source of borrowing was from banks or VRFs which accounted for 56 percent of loans in *peri-urban* areas, 48 percent in *provincial capital* areas, 31 percent in *rural Mekong* areas - but for an overwhelming 73 percent in *other rural* areas in the twelve months prior to the survey.

- Family and friends were an important source of this credit, accounting for 22 percent of loans in *peri-urban* areas, 31 percent in *provincial capital* areas, 32.5 percent in *rural Mekong* areas, and 13.5 percent in *other rural* areas.
- Supplier credit for working capital was more significant for fixed asset loans than for working capital, accounting for 3 percent of loans in *peri-urban* areas, 4 percent in *provincial capital* areas, 11 percent in *rural Mekong* (reflecting seasonal inputs for agricultural production), and 4 percent of loans in *other rural* areas.
- Other sources of credit (such as moneylenders, households making small loans and others) accounted for 19 percent in *peri-urban* areas, 17 percent in *provincial capital* areas, 25.5 percent in *rural Mekong* areas and 9.5 percent in *other rural* areas. The high figure for *rural Mekong* households probably relates to the area's higher level of household-to-household loan activity by lending households.

WORKING CAPITAL Loans for Surveyed Areas

Sources of Loans as percentage of Total



Findings: Debt Characteristics

In general these findings show that fewer households borrow for fixed assets than for working capital, and that family and friends are the main sources of fixed asset loans. Banks and village revolving funds are the main sources of loans for working capital, and this is overwhelmingly the case in the more isolated rural areas, classified as *other rural*, where half the rural population lives. Supplier credit accounts for a very small proportion of the total number of loans.

Some additional investigation of credit sources to confirm the survey findings may be required. Banks and village revolving loan funds were not differentiated by the questionnaire on loan sources. It seems probable, from data inference, that the primary source for working capital loans in the *other rural* areas was through village revolving funds supported by international donors and NGOs. This implies more than the significance of these funds in isolated areas; it also provides a strong loan market indicator. For more information on these projects, see Section VI and Appendix A-1.

Another key finding of the survey was the very limited role of moneylenders in rural areas, though moneylenders are reputed to be a major source of credit in urban areas of Lao PDR. Additional research could confirm or dispute this finding. If confirmed, this may imply a slight strategic difference between credit marketing tactics in rural Lao PDR and in many other countries. Rather than emphasising the competitive advantage of microfinance project loan rates and terms over moneylenders, introduction to the idea of ready access to appropriately designed loan products would be the stronger selling point.

At the time of the survey, there were an estimated total of about 72,600 households with a total of about 105,000 loans outstanding. Overall, 10.9 percent of all households reported debt. By area, households with current debt were found among 11.3 percent of *peri-urban* area households, 8.2 percent in *provincial capital* areas, 8.1 percent in *rural Mekong* areas, and 13.1 percent in *other rural* areas. The total outstanding debt on the basis of household declarations was estimated to be about 21.2 billion Kip (US \$22.9 million) at the time of the survey.

In the country as a whole, *other rural* area households are most indebted. This almost undoubtedly implies a commensurably high debt-to-income ratio among *other rural* households with debt. *Other rural* households comprise 49 percent of the total rural population, but account for 60 percent of total debt. *Provincial capital* households are next, comprising 11 percent of all households and accounting for 13 percent of debt. *Peri-urban* households, 10 percent of the total, account for 7 percent of debt. *Rural Mekong* households are the least indebted, accounting for 30 percent of households but only 19 percent of debt.

The proportion of the average value of loans outstanding to the average value of physical assets is low, at 9.5 percent, indicating little asset leveraging through credit. *Peri-urban* households have the lowest borrowings in relation to assets, with average loans outstanding at 3.4 percent of average physical assets. *Provincial capital* households have a higher proportion of debt at 18.4 percent. Loans represent 7.4 percent of borrowers' assets in *rural Mekong* areas and 12 percent in *other rural* areas.

Household Asset Loans

Many households make small loans to family, friends, and to others, though these do not constitute a money-lending business. Such loans are commonly in the form of cash or in-kind loans, as in rice or livestock; the in-kind asset loans may have been under-reported in the survey's responses.

In the *peri-urban* area 5.4 percent of surveyed households make such loans. In *provincial capital* areas the finding was three percent; in *rural Mekong* areas 3.7 percent; and in *other rural* areas, 3.8 percent of households were found to be lenders.

It is estimated that about 25,600 households are engaged in some lending activity, with 49 percent (about 12,500) of these households in *other rural* areas, about the same as the percent of rural households in that sample population. As for the volume of household loans, the survey results indicate that the number of such loans exceeds 90,000, with the *rural Mekong* area making up about 50 percent of actual loans extended though they comprise about 29 percent of the lending households.

The average outstanding value of asset loans in *provincial capital* areas was Kip 126,073 (US \$136), with average values of Kip 214,325 (US \$232) in *peri-urban* areas, Kip 326,783 (US \$353) in *rural Mekong* areas, and Kip 340,395 (US \$368) in *other rural* areas.

The average value outstanding per loan varied, from about Kip 42,000 (US \$45) in *provincial capital* areas, to about Kip 54,000 (US \$58) in *peri-urban* areas, Kip 54,500 (US \$59) in *rural Mekong* areas, and Kip 170,200 (US \$184) in *other rural* areas.

The total value of household asset loans outstanding is estimated to be Kip 26.9 billion (US \$29.1 million).

This type of lending is most prevalent in *rural Mekong* areas that account for 29 percent of all lending households, but 54 percent of the value of loans outstanding and half the volume of loans. It is least prevalent in *provincial capital* areas, whose 8 percent of total lending households account for only 3 percent of the value of loans outstanding. *Peri-urban* areas household account for 14 percent of lending households and 11 percent of loans outstanding, while *other rural* area households are 49 percent of the total, and account for 32 percent of household-to-household indebtedness.

The level of household-to-household asset loans and its impact on household economies was an important finding of the survey. Still, the specific figures for household asset loans need to be treated with caution: both the quantity and the value of loans exceed those recorded for household debt. This could be accounted for by a consistent under-reporting of household debt.

Loan Terms and Conditions

The survey found two primary forms of bank loans: to individuals and to groups. Individuals' loans often required collateral, and this is frequently based on the value of housing or land. Group loans are more often targeted to poorer households. These are usually provided to groups whose members are engaged in the same production activity, such as pig raising; this is a common form of lending for APB. It is important to keep in mind the distinction between *groups who share a source of financing* and the *individual loan recipients* who are often solely responsible for a particular loan, even if they are members of a group.

Loan terms and conditions among family and friends or in village revolving funds varied substantially. About 65 percent of loans from the informal sector, including all non-bank/non-VRF sources, carried zero percent interest. In the few reported cases where interest charges were reported from family and friends, it averaged 42 percent per year. Suppliers' loans, on average, charged annualised rates of 73 percent. Interest charged by village revolving fund loans was erratic, with rates ranging between 0 and 50 percent. In most cases reported by NGO and donor projects, annual interest rates were below 20 percent, a figure that implies generally negative VRF interest rates.

Loan sizes were smaller among the informal sector than for conventional loans, ranging from as little as Kip 5,000 (US \$5.40) to about Kip 150,000 (US \$162).

Only 8 percent of all loans required collateral; in most cases these were loans from banks. The dominant form of collateral was land or housing, followed by rice mills. Livestock were given as collateral in only about 2 percent of cases in rural areas, providing another indicator of the general lack of asset leveraging.

The survey recorded *no case of the use of precious metals as collateral*, despite their ubiquitous use as a means of saving. Independent from this survey, however, the common use of jewellery as collateral has been observed for merchandise purchases from Thai suppliers among traders situated near the Thai border.

Attitudes toward financial services

When asked if existing financial services met their effective demand for credit, 94 percent of households said they did not. Both the finding and the question should be approached with some caution, given the general low level of experience with credit. About 11 percent of households in *peri-urban* areas said their effective demand for credit was met, while in the rural areas less than 5 percent were satisfied.

The primary reason provided for taking a loan was to cover emergencies or unforeseen expenditure; business was the next most important reason.

"Household financial managers" (see above) were asked whom they would approach first for a loan. On average, 89.4 percent said they would approach a bank or a village revolving fund (VRF) and about 11 percent said they would approach family or friends. Only 0.2 percent said they would approach a moneylender.

The main reason provided for preferring family or friends was the absence of loan terms and conditions. When banks and village revolving funds were preferred, it was because they were considered accessible and reliable, despite the fact that real access to such loans may not be available for the majority of respondents. Among the very few who preferred moneylenders, convenience was cited as the main reason.

The survey asked about each household financial manager's attitudes toward financial services. As for any survey, answers to qualitative questions should be treated cautiously. The most common reasons given by all household types for holding savings were security and safety. Asked whether they attached more importance to access to deposit services or access to a loan, 68 percent of respondents said that access to deposit services was more important.

Households were about evenly divided on whether access to a loan was more important to them than the interest rate. 52 percent said that access was more important, while 48 percent said that the interest rate was more crucial.

PRELIMINARY CONCLUSIONS FROM THE RURAL HOUSEHOLD FINANCE SURVEY

The survey has identified a largely inert quantity of savings put aside by rural households, primarily to cover emergency needs. More than nine in every ten households have set aside some cash savings.

But the savings activity generally ends there, without moving on to additional advantages, such as deposits, conversion to loaned assets, etc. In a sense, this use of money may be compared to the use of a commodity, stored for a rainy day, with trading value, but non-performing in the meanwhile. Its storage is mirrored in its absence from national financial resources.

The storage of financial and non-financial savings among such a large proportion of the rural Lao population, in the form of live-stock above production needs, in cash, and in precious metals, is a strong indicator of a market for savings products. This hypothesis is strengthened by the interest expressed by respondents in access to deposit services, and the majority preference for deposit services over loans. This indicates a core strategy for the mobilisation of financial resources in rural Lao areas.

On the lending side, common sense is confirmed by the link between the location and activities of formal and informal institutional loan sources. As a result, the sources of loans becomes more independent from the formal financial system the farther they are removed from it. If domestic deposits can be increasingly mobilised, savings will help to capitalise loans, will provide collateral, and help to extend the reach of the nation's financial sector into areas where the majority of the potential market is located.

From the perspective of the Government and the economy as a whole, the development of rural savings has many advantages. It mobilises private sector resources. It can contribute directly and indirectly to revenues, directly through the taxation of the interest income of savers and indirectly through taxation of the savings institution that puts the funds to work. The Government revenues so obtained can contribute to the PIP and there provide a means to reduce foreign (and domestic) borrowing for the PIP and rural credit schemes.

VI. The Lao Financial Sector



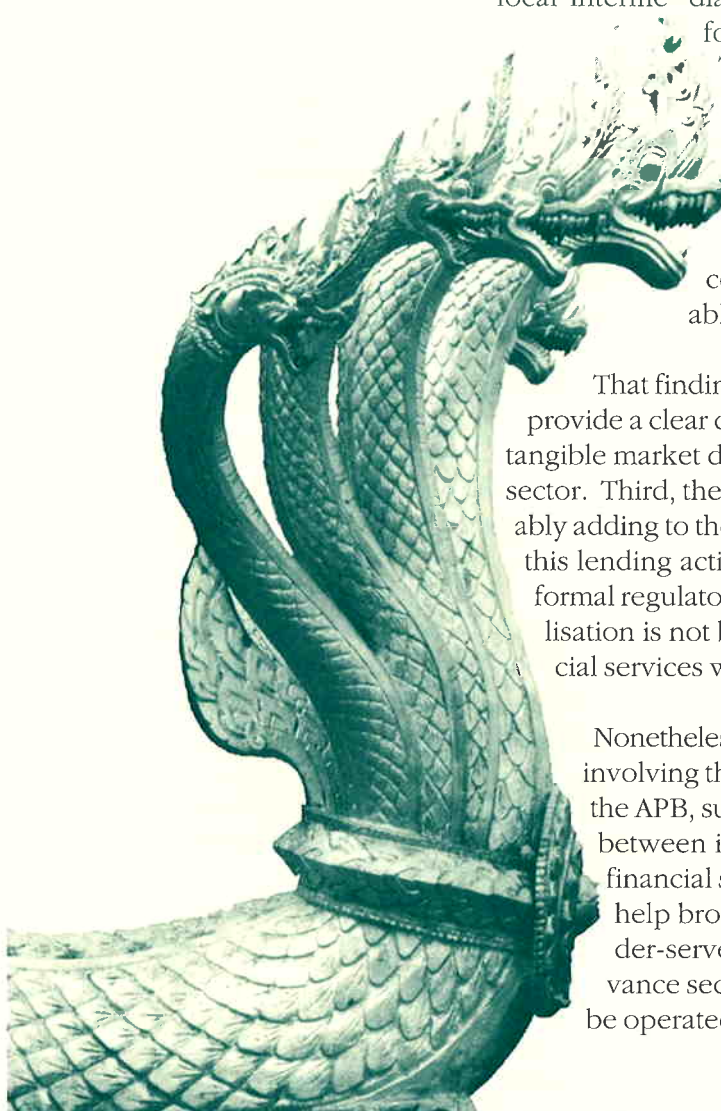
OVERVIEW

This section reviews the context of financial reform in the Lao PDR, surveys the activities and performance of the Lao formal financial sector, discusses findings on the informal financial sector primarily related to the activities of international donors and NGOs, and points to some potential lessons and directions for financial intervention in rural Lao PDR.

The Microfinance Profile put in light a very low supply of financial services in rural Lao sectors, but also identified likely demand indicators for both loans and deposits. Without the presence of an active formal financial sector in isolated rural communities, it appears that projects acting through local intermediaries are meeting only a small percentage of the demand for loans, and virtually none of the demand for savings. These projects are funded by international NGOs and by donors. Project-based interventions probably account for the finding that the most prevalent source of loans in *other rural* areas is not supplied by friends, families, moneylenders, banks, and so forth, but by an “other” source - indeed, this “other” source accounted for 73 percent of loans within the *other rural* sample area, considerably more than in the other three sample areas.

That finding leads to several possible conclusions. First, it seems to provide a clear demand indicator for credit. Second, it demonstrates that tangible market demand is not being met by the indigenous Lao financial sector. Third, the existing lending activities in rural areas are not appreciably adding to the capital resources of the formal financial sector. Fourth, this lending activity, particularly in *other rural* areas, is not covered by formal regulatory mechanisms. And fifth, the potential for savings mobilisation is not being met by institutions providing other, limited financial services within rural markets.

Nonetheless, through intermediate-based strategies (most commonly involving the Lao Women’s Union), and sometimes with linkages to the APB, such projects may help to provide more direct connections between informal local lending activities and the national formal financial sector. With time and by upscaling the projects, this may help broaden and deepen the financial sector’s contact with under-served populations. These activities may, in turn, help to advance sectoral objectives for strengthening and reform if they can be operated in concert with the formal financial sector.



THE FINANCIAL SYSTEM: MARKET-ORIENTED REFORM

In 1986, the Government introduced a set of reforms called the “New Economic Mechanism” (NEM), designed to gradually move the financial sector toward a market-based approach. Key aspects of the NEM include:

- Establishment of the Bank of the Lao PDR as the central bank, and spin-off of the former State Bank’s branches as commercial banks
- Formulation and implementation of a fiscal/monetary role for Bank of the Lao PDR (BoL), gradually reducing its micro-management of the financial sector
- Establishment of a prudential and supervisory capacity at BoL
- Establishment of a legal framework for the operation of BoL and the commercial banks
- Establishment and improvement of the legal framework for foreign investment, private property, contracts, insurance, inheritance, companies and accounting

While the Agricultural Promotion Bank’s (APB) loans to agriculture operate under government-prescribed rates, other interest rates have been gradually deregulated (see section on APB below)⁹. Since 1990, government bonds have been issued periodically, and BoL bonds have been issued since 1991. A BoL credit window for commercial banks has been operating since the beginning of 1992. Six of the state-owned commercial banks (SOCBs) were recapitalized in 1994, replacing non-performing loans with a cash injection and with treasury bills.

Further strengthening of the formal financial structure is planned through 1998. This includes measures to improve BoL’s supervisory authority and capacity, and introduces independent audits. SOCBs should gain from additional autonomy and shifts toward a more fully commercial outlook, including the development of business plans, review of the interest rate structure, campaigns for deposit mobilisation, introduction of financial reporting in conformity with IAS 30 standards, and autonomy of SOCB Boards of Directors.

The SOCBs will be consolidated with a view to more efficient competition, from seven to not more than four, and will benefit along with BoL from regular, formal training programmes. Planning is also underway to improve market infrastructure through establishment of a credit information bureau, development of the inter-bank market, instituting a protection plan for deposits, and introducing higher-denomination currency and widening the maturity options for T-bills.

Meanwhile, legislative action is anticipated to cover regulatory developments for debt recovery and security enforcement, establishment of a legal basis for bills of exchange and promissory notes, and the governance of leasing and pension fund operations.

Taken together, these reforms help build vital foundations that will be needed if a growing microfinancial sector is to take root. For an escalating system of rural deposit mobilisation and credit provision to occur, in particular based in the banking system but directly implemented by non-bank intermediaries, a strongly based, independent, prudent, and sound banking structure is of fundamental importance.

With significant progress made, the formal sector is still characterised by a concentration of assets in the state-owned commercial banks (SOCBs); relatively poor rural outreach; a limited range and depth of deposit, credit, and investment vehicles; and a preponderance of short-term lending.

⁹ BoL has progressively reduced controls on interest rates, removing controls on lending rates in 1995 and on minimum deposit rates during 1996

Structure

At the time of the mid-1996 survey, the formal financial system of the Lao PDR consisted of:

- The Bank of the Lao PDR (BoL)
- Seven State-Owned Commercial Banks (SOCBs)
- One specialised government-owned bank (Agricultural Promotion Bank)
- Two joint venture banks (Joint Development Bank and Vientiane Commercial Bank)
- Branches of several foreign banks, including six from Thailand and one from Malaysia

In addition to this banking network, there are about 20 non-bank foreign exchange bureaux, one insurance company, and one social security fund. There is only one registered credit co-operative, and no credit unions or village banks are now in existence; there have been difficulties with attempted credit co-operatives in the recent past that are still well-remembered, eliciting the need for a cautious approach to the vocabulary as well as the structure of small-scale credit planning.

The state-owned commercial banks (SOCBs) were created out of the former branch network of the State Bank. Nakhornluang Bank and Sethathirath Bank were created in 1988. BCEL was granted independence from the State Bank in 1989. Lao May Bank and Phaktai Bank were established in 1990, followed by Lanexang Bank and Arounmay Bank in 1991. The Joint Development Bank was established in 1989 and the Vientiane Commercial bank in 1995.



The Bank of Lao PDR headquarters in Vientiane

The Agricultural Promotion Bank (APB)

APB is the key actor in current Lao rural finance apart from bilateral, multilateral, and international NGO-funded projects. It is a specialised, government-owned bank, and reports that it serves 15 percent of all villages (about 3,000), containing 14 percent of all households (about 70,000).

APB was endowed with the rural credit portfolios of the other Lao banks upon its creation in June 1993 by the GOL. Its mandate is to fill the unmet needs for agricultural and rural finance through credit and, if needed, with state subsidies; the Bank is limited to a five percent spread over its refinancing costs. The Bank's capital was fixed at Kip 1 billion, with 80 percent now held by the state; the remainder has yet to be sold to the public. The Board of the Bank is chaired by the Governor of the Bank of Lao PDR (BoL), and is composed of representatives from the Ministry of Finance, the Ministry of Trade, the Ministry of Agriculture, and mass organisations.

Deposits. The depository base of the Bank is quite low, and most of the resources it on-lends (approximately 80 percent) are provided by BoL. Despite a high deposit rate structure (from 12 to 16 percent)¹⁰, and at 12,000 depositors accounting for 40 percent of all deposit accounts held in the SOCBs reported in this survey, APB's value share of the deposit market is slightly above two percent. Mobilised deposits in APB, then, are relatively small compared to other formal banking institutions. Given that the Bank's prime focus is credit, and despite the very small size of deposits, its large share of the raw number of total national deposits may be an indicator of incipient rural demand for these services.

Credit. The Bank's value share of the total credit market is about 15 percent. The low deposit base creates a heavy dependence on BoL and other sources (mainly, donor credit lines) for its refinancing. These two sources account for 92.4 percent of APB liabilities and capital, and make up 64.6 percent of total liabilities and capital for the SOCBs surveyed.

APB's total outstanding loans account for nearly 44 percent of the number of loans outstanding from the five banks, at \$18.7 million. APB also had by far the largest number of loan accounts, at about 27,400 constituting nearly 79 percent of all loans made by the surveyed banks. Average individual loan balances at APB were about \$400, but it should be remembered that these loans are, in fact, frequently made to groups. Partly in response to recent high levels of inflation, lending rates have been gradually been deregulated, apart from the Bank's lending to agriculture. This still represents the main financial product provided by APB.

While APB's credit reach extends farther than the other banks and the Bank asserts that it reaches 15 percent of the population, its agricultural credit coverage is not evenly spread. The Rural Finance Survey found no APB borrowers within the areas defined as *other rural*.

Terms and conditions. The Bank extends short-term credit at 10 percent, medium-term at 8 percent, and long-term at 7 percent for its agricultural loans. With long-term credit loaned at lower rates than less risky, shorter term credit, this inverse yield curve demonstrates the priority given to efforts to encourage long-term capital investment (despite whether this is the most efficient way to achieve that goal). Real loan rates, covering inflation and operational costs, may have been above 20 percent at the time of the survey.



A client being served at the Sayaboury branch of the APB

¹⁰ BoL imposes a floor on savings rates to all banks

APB reportedly uses a form of group lending techniques to extend loans in rural areas, with groups made up of from 5 to 7 people who work in the same trade. Bank staff are used to maintain the groups and collect the loan payments; each manages groups located in fifteen villages.

The interest rate structure of APB prevents it from moving forward with a strong deposit mobilisation strategy, partly because the rate it pays on depository liabilities exceeds the rate paid on loan assets, in turn determined by Government policy to support the Bank's special role as an agricultural lending institution. Without addressing this interest rate structure, the Bank will continue to be dependent on government resources rather than attracting the assets held in cash and non-financial savings in rural areas. In turn, this will likely delay market adjustment in the terms of trade for the agricultural sector.

Schedule of Lending Interest Rates

Bank & Loan Sector	Short-term loans (less than 1 year)	Medium-term loans (1 - 3 years)	Long-term loans (more than 3 years)
Agricultural Promotion Bank			
Agriculture	10%	8%	7%
Industry	-	-	-
Services	-	-	-
Lanexang Bank			
Agriculture	10%	8%	7%
Industry	24%	22%	20%
Services	28%	24%	22%
Phakthai Bank			
Agriculture	10%	8%	7%
Industry	22-24%	19-20%	17-18%
Services	24%	22%	18%
Lao May Bank			
Agriculture	18%	20%	21%
Industry	24-25%	25-26%	26%
Services	27%	27%	27%
Arounmay Bank			
Agriculture	10%	8%	7%
Industry	27%	26%	25%
Services	27%	26%	25%

Sources: UNDP/CDF Microfinance Survey, 1996; Bank of Lao PDR, 1996

Branch Coverage

APB's branch network extends to every province with the exception of Vientiane Municipality, where its head office is located. Its branch network has grown, in part through taking over branches formerly allocated to other SOCBs.

The two joint venture banks, the branch offices of the foreign banks, and Nakhornluang Bank have offices only in Vientiane. Banque pour le Commerce Extérieur Lao, an SOCB not covered by this survey, is based in Vientiane with branches in Pakse and Savannakhet.

Arounmay Bank is based in Xiengkhouang and has one branch in Samneua. Lanexang Bank has its headquarters in Luang Prabang and a branch network that covers Bokeo, Luang Namtha, Oudomxay, Phongsaly and Sayaboury. Lao May Bank in Savannakhet has a branch office in Khammouane. Phaktai Bank, based in Champasak, has branches at Attopeu, Saravane and Sekong. Sethathirath Bank in Vientiane has a branch in Bolikhamxay.

While the banking network extends to the large and mid-sized towns and cities, the large majority of rural Lao are without access to these formal lending or depository facilities.



The director of the Lane Xang Bank branch in Oudomxay Province

A Lane Xang Branch in Houn District Oudomxay Province



Bank Liabilities and Capital

As part of the microfinance survey, balance sheet information for 31 December 1995 was collected from APB and four of the seven state-owned commercial banks¹¹⁻¹². The composition of liabilities and capital shows that Arounmay Bank, Lanexang Bank and Lao May Bank have been somewhat successful in mobilising corporate and retail deposits, while Phaktai Bank has been much less successful. Overall for these banks, deposits make up only 22 percent of total liabilities and capital.

Agricultural Promotion Bank (APB), the bank with the greatest rural penetration, has a very small deposit base comprising only 4.3 percent of total liabilities and capital. Although APB has the most extensive outreach, expansion of its depository remains constrained by the limitations imposed through its rate structure, as discussed above. APB is heavily dependent on Bank of Lao PDR credits, which make up 43.2 percent of its liabilities and capital and other sources of funds - particularly, credit lines from donors at concessionary rates.

Table IV - 1: Bank Liabilities, capital, and depository bases for surveyed SOCBs

Bank	Total deposits (billion kip / million dollars)	Depositors	Average depository account	Total deposits, as per cent of total liabilities & capital
APB	Kip 1.67 B US \$1.8 M	11,200	Kip 149,000 US \$ 161	4.3
Arounmay	Kip 1.75 B US \$1.9 M	2,400	Kip 717,000 US \$ 775	36.3
Lao May	Kip 8.7 B US \$8.7 M	5,500	Kip 1,475,000 US \$ 1,595	45.2
Lanexang	Kip 7 B US \$7.5 M	2,900	Kip 2,363,000 US \$ 2,555	45.0
Phaktai	Kip 2.7 B US \$3 M	5,800	Kip 475,000 US \$ 513	14.1

Deposits in current accounts in these five banks were about Kip 9.2 billion (US \$9.9 million) at the end of 1995; total deposits were about Kip 21.2 billion (US \$22.9 million). In value terms, Lao May Bank was the most successful with deposits of Kip 8.1 billion (US \$8.7 million), and the lowest value was found at APB, with Kip 1.67 billion (US \$1.8 million).

In contrast, APB had the largest number of depositors (about 11,200), nearly twice as many as any of the other banks and accounting for 40 percent of the total of all deposit accounts in the banks reporting, though the size of the accounts was quite small. The Phaktai Bank, where deposits are a small percentage of total liabilities, had also been comparatively successful in terms of the number of depositors. In total, there were about 28,000 depository accounts in the five banks.

The relatively low ratio of deposits to total liabilities and capital for APB and Phaktai Bank, despite their larger number of depositors, is explained by the small average size of deposits. In all banks except Lanexang Bank, the average deposit size was significantly less than the average loan size.

The problem of low deposit mobilisation among the banks is not limited to APB, and requires a national strategy. The finding of a minimal level of deposit mobilisation by the banks is strongly confirmed by the findings at the household level. There is heavy dependence on the Bank of Lao PDR and other sources (mainly donor credit lines) for funding. These two sources make up 64.6 percent of total liabilities and capital for the five banks; in APB, they account for 92.4 percent of liabilities and capital.

¹¹ Agricultural Promotion Bank (APB), Arounmay Bank, Phaktai Bank, Lanexang Bank, and Lao May Bank. Balance sheet information for Sethathirath Bank which has branches in Vientiane and Savannakhet was requested but not provided. Balance sheet information for Nakhornluang Bank and BCEL was not requested.

¹² See End Table 4 for details of the liabilities and capital of the five banks

A variety of factors can explain the general low level of deposit mobilisation. Among these are a lack of fully developed market infrastructure; high transaction costs for financial institutional and depositors/clients; low interest rates on savings accounts; mistrust of the formal banking sector; and cultural habits such as “mattress savings” or burying silver coins. An expanded microfinancial approach, with its emphasis on the linkages among appropriate savings and loan products and on intermediary facilitation between the formal banking and village levels, may hold a key to overcoming these factors and encouraging sustainable and sound practices among the commercial banking sector.

Bank Assets

The composition of assets shows that Arounmay and Lanexang banks were quite liquid at 31 December 1995, with more than 20 percent of assets held as cash and in deposits with the Bank of Lao PDR. Lao May Bank had about 11 percent of its resources in cash and BoL deposits, while Phaktai Bank and APB were the least liquid, each with around 3 percent of total assets in cash or BoL deposits.

Table IV - 2: Bank Asset Characteristics

Bank	Outstanding loans, total	Outstanding loans, average	Number of loan accounts	Ratio of loans to deposits
APB *	Kip 17.3 B US \$18.7 M	Kip 373,200 US \$403	27,400	10.4 : 1
Arounmay	Kip 2.1 B US \$2.3 M	Kip 2,073,300 US \$2,241	1,000	1.2 : 1
Lao May	Kip 7.2 B US \$7.7 M	Kip 13,776,500 US \$14,894	519	0.88 : 1
Lanexang	Kip 6.4 B US \$6.9 M	Kip 2,991,100 US \$3,234	2,100	0.91 : 1
Phaktai	Kip 6.6 B US \$7.2 M	Kip 1,748,100 US \$3,234	3,800	2.4 : 1

* Presumably, loan information from APB includes aggregated group loan data, reflecting single Bank loans to groups of 5 to 7 members; disaggregation of these data is not reflected here. Group loans should be considered in particular in terms of average loan size and the number of loan accounts.

On average, loan portfolios accounted for about 41 percent of total assets in the five banks. The smallest loan portfolio share was in Phaktai Bank, at 34 percent. The largest loan portfolio share was in APB, at 45 percent.

Foreign exchange holdings were small in all banks except Lao May, where they accounted for 11.4 percent of total assets. Government securities accounted for between 11 and 14 percent in all banks, except APB where they were 1.8 percent of total assets.

Total loans outstanding were greatest in APB at Kip 17.3 billion (US \$18.7 million), accounting for nearly 44 percent of all loans outstanding from the five banks. Arounmay Bank had the smallest portfolio of Kip 2.1 billion (US \$2.3 million). Among them, the five banks had a total of Kip 39.6 billion (US \$42.8 million) in loans outstanding compared to total deposits of Kip 21.2 billion (US \$22.9 million).

Reflecting the extent of its outreach, APB also had the largest total number of loans, about 27,400; this constituted nearly 79 percent of all loans made by the five banks. Lao May Bank had the least number of loans at 519, making up only 1.5 percent of the total number.

Banking Laws & Regulations

The financial sector's legal framework has been improved and made more comprehensive, providing a sound basis for the future operation of the central bank, commercial banks, and non-bank financial institutions. Details on legal and regulatory developments may be found in the appendices.

Of special interest to microfinance planning, credit co-operatives are covered by an independent set of BoL regulations¹³. These regulations cover the objectives and functions of credit co-operatives, including the types of business they may undertake; the conditions of their establishment; capital requirements; organisation; rights and duties of a general assembly; the functions of their administrative councils and boards of directors; deposit mobilisation, statutory reserves, and lending; accounting; audit and financial reporting; profit distribution; and their dissolution and procedures for amendment of their regulations. According to BoL, there is currently one registered credit co-operative in operation.

Other than the special regulations on credit co-operatives, there are no regulations pertaining to other non-bank financial institutions. Accordingly, they are prohibited from taking deposits from the public and may raise funds only through the sale of shares or bonds. In due course, it may be appropriate to broaden the decree or the regulations to cover some or all of the other non-bank financial institutions so that they can be used effectively to mobilise domestic resources and can be effectively supervised. Where deposits are taken from the public, the regulations will need to address the prudent placement of those deposits in order to protect the depositors' interests. In addition, it will be useful to add model by-laws to existing or new regulations for non-bank financial institutions to provide guidelines for their governance.

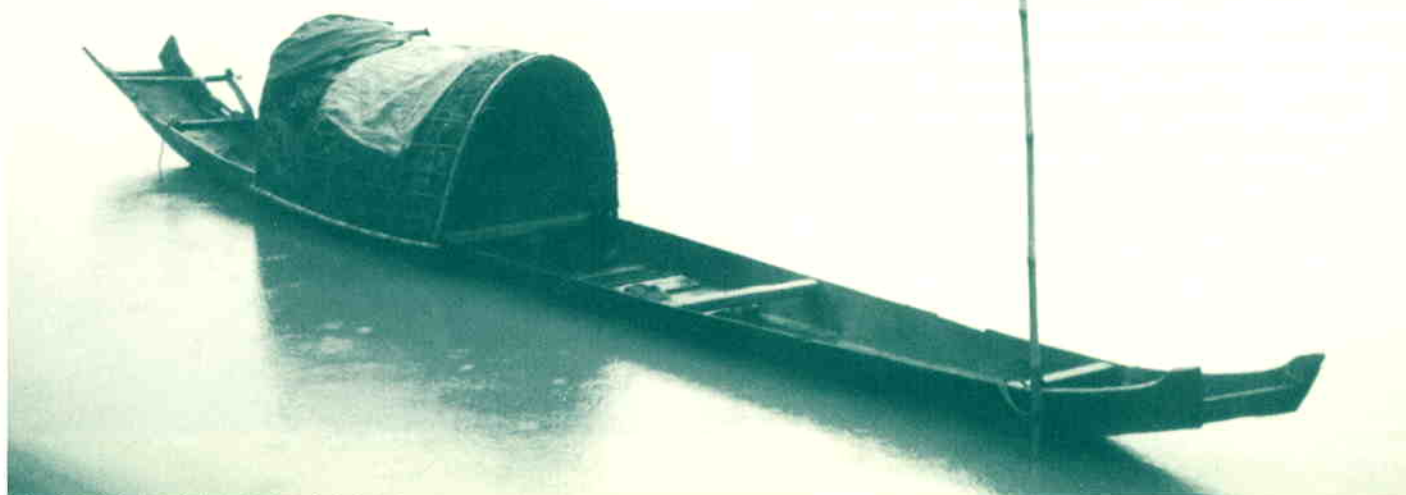
Business Conduct & Contract Enforcement

A land law covering rights of ownership and usage and transfers of those rights, supported by a cadastral system (i.e. formal land registry to determine the property tax base), is currently under development, and will, when approved, allow for collateralisation of land.

The present laws provide the basis for most savings and loan contracts, and other financial transactions. In cases of litigation, particularly in connection with non-repayment of loans, helpful steps would be taken, including assurance of judicial procedures in place for the rapid hearing of such cases, protecting the interests of the lenders and encouraging credit discipline; as well as measures to protect deposi-

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and other financial transactions. In cases of litigation, particularly in connection with non-repayment of loans, helpful steps would be taken, including assurance of judicial procedures in place for the rapid hearing of such cases, protecting the interests of the lenders and encouraging credit discipline; as well as measures to protect deposi-



¹³ Regulations on Credit Co-operatives, 19 November 1994

THE COMMERCIAL BANKING SECTOR IN RURAL AREAS¹⁴

The APB was established in 1993 to serve the agricultural sector, and as discussed, has much better geographical coverage than the other SOCBs, with 18 branches and some field agents. It has achieved a certain penetration into rural villages and maintains that it reaches more than a quarter of them, containing 14 percent of rural households. However, the Rural Household Finance Survey (Section III) did not indicate this rate of penetration in its random survey of villages. At least in part, an under-count of APB's penetration may be explained if a significant percentage of APB loans were not made to households which were considered "rural" under the survey's methodology.

APB has been able to attract depositors, with more than 11,000 accounts at the end of 1995, though the total value of these was only Kip 1.67 billion (US \$1.8 million). It had about 27,435 loan accounts - more than the other four banks combined - and outstanding loans of Kip 17.3 billion (US \$18.7 million). Because many of these loans are actually to groups, the actual number of individuals end-using these loans is presumably much higher. Still, the loan-to-deposit ratio of APB of more than 10:1 illustrates APB's current limitations as a full-service financial intermediary.

There are indications that APB's subsidised interest rates for agricultural loans are currently under discussion by the government. Until APB's interest rates are structurally rationalised, it will continue to be dependent on government resources, rather than employing the unused assets that are held in cash and non-cash savings in rural areas. In addition, resources will continue to be used for potentially non-viable agricultural activities, will perpetuate false expectations about the future cost of finance among rural borrowers, and prolong uncompetitive practices in the provision of rural credit through the availability of subsidised interest. The subsidies effected through the APB interest rate will also delay market adjustment in the terms of trade within the agricultural sector.

Other SOCBs in the commercial banking sector are providing an increasing range of financial services to their customers. However, poor geographical coverage restricts operations in the rural areas, especially in remote areas where many of the poorest households are located. The four non-specialist SOCBs reporting in the survey¹⁵ that operate in rural areas have only 14 branches among them. These are mostly located in provincial capitals or larger towns. As of 31 December 1995 they had combined deposits of about Kip 19.54 billion (US \$21.13 million) and combined loans of about Kip 22.31 billion (US \$24.12 million). Their outreach was limited, with a combined total number of depositors at about 16,600, and a combined number of outstanding loan accounts at just 7,475.

Lanexang Bank has the lowest average loan size, at Kip 1.1 million (US \$1,200). In Lao May Bank the average loan size is Kip 19.1 million (US \$20,680). The commercial outlook of bank management, with limited resources available for lending, is geared toward the economy of scale achieved through larger loan sizes. The easy attraction to larger loans that can be collateralised, and inevitable losses from agricultural lending at negative rates, combine to discourage commercial banks from entering the rural and microfinance markets.

As yet there is little opportunity to link the commercial banks with a system of village-level intermediaries. While these intermediaries are needed on a number of levels in order to reach the rural poor (to facilitate marketing, outreach, and monitoring, and to lower transaction costs), these intermediaries have only begun to emerge, largely through the efforts of international organisations.



*Lane Xang Bank Branch in Phiang District
Sayaboury*

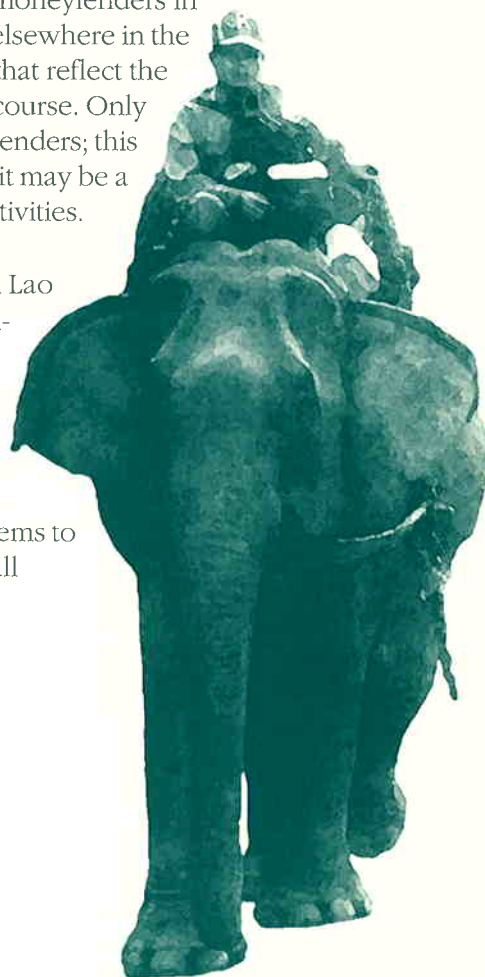
¹⁴ See End Tables for comparative details of financial intermediaries covered in the UNDP / CDF Microfinance Survey

¹⁵ Arounmay, Phaktai, Lanexang and Lao May Banks.

Informal finance is believed to be widespread in rural Lao PDR, but there are few details known about the types of financial services offered, and this study concludes that substantial questions remain to be answered. The fact that more than two-thirds of the *other rural* households borrowing fixed assets claimed to have got their loans from sources other than family, friends, banks, or VRFs, suggests that more probing is needed to understand these informal sources. Still, it remains probable that VRF loans were under-reported through misunderstandings by respondents of the role, nature, function, or obligations pertaining to these village-implemented projects.

Apart from VRFs, the other major forms of informal finance in rural areas are summarised below.

- *Rotating Fund Groups.* It appears that the traditional *houay* (informal, rotating credit and savings groups) are much more an urban than a rural phenomenon, as little evidence of their existence was found in this survey or in other independent studies in rural areas. *Houay* operate on the basis of members contributing a regular monthly sum, and the auction of the each month's "pot" to the bidder who pledges the highest interest payment, with repayment of the principal and interest over time.
- *Household to Household Loans.* The survey found that large numbers of loans in Lao PDR were also made as small transactions between households. It is estimated that at any one time more than 25,000 rural households will have small loans due from family, friends, neighbours and others. Generally, these loans are in the form of hard assets and non-cash commodities. At an estimated value of Kip 26.9 billion (US \$29.2 million), these loans exceed APB's lending by nearly 40 percent, and account for more than 50 percent of all recorded household debt. This is a powerful direct indicator of a latent demand for credit in Lao PDR that is not filled by conventional lending. Only a small percentage of these loans charge interest; in the cases where they do, these rates average 42 percent. More information on these loan sources is contained in Section IV, under "Household Asset Loans."
- *Moneylenders.* Although more work may be needed on the question of money-lending, the UNDP/CDF rural household survey estimates that there are about 1,000 moneylenders in rural areas. Moneylenders operate on the same principles as elsewhere in the world, providing ready access to credit at high interest rates that reflect the risks inherent in uncollateralised lending and limited legal recourse. Only one percent of respondents reported borrowing from moneylenders; this may indicate a very low level of activity by moneylenders, or it may be a result of the respondents' reticence to discuss moneylender activities.
- *Suppliers.* Suppliers are not a major source of rural credit in Lao PDR. Long-term credit for fixed assets purchased from suppliers is almost non-existent. Short-term facilities are available, mainly for agricultural inputs, but are less common than other types of informal credit. However, supplier credit along the Mekong Valley, with its substantial informal trade relations with Thailand, may merit special study. In some areas, jewellery, pledged against merchandise purchases, seems to play an important role in establishing relations between small traders and Thai suppliers.



VILLAGE REVOLVING FUNDS (VRFs)

There are a variety of credit schemes and revolving funds based at the village level, which this study generically calls village revolving funds (VRFs); this or any other term, however, should not be employed to conflate a wide range of models and the practices they encompass. As importantly, they should not be confused with rotating pots of cash operated by small independent groups, called *bouay* in Laos, but not substantively different from other mutually-funded voluntary groups around the world that pool limited cash assets through scheduled use of the sum by each member. However, the *bouay* deal in cash; the “credit schemes” that comprise the VRFs very often do not.

Established through international donor or NGO efforts in support of specific developmental goals, VRFs inhabit a region between the social and the financial. As locally managed groups that help to determine the distribution of funds addressing the needs of the poor or needy, they support the development of local cohesion, organisational capacity, and end-

use control over disbursement decisions. Meanwhile, proceeds of credit initiatives serve to support local chapters of mass organisations (primarily, chapters of the LWU) that serve as intermediaries between the village-based groups and larger institutions. As a general rule, while critical findings can be identified in terms of VRFs as groups for *financial* organisation, their role as effective groups for *social* organisation cannot be discounted. Still, they do appear to serve a key, incipient financial role by introducing people at the local level to institutional actors, carrying them beyond the “traditional” circuit of primary resources, i.e. friends and family.



There are over 1,600 revolving funds in Lao PDR. Here, the UNCDF Nam Tan revolving fund, organized with the Lao Women's Union - Sayaboury Province

It is estimated that there are about 1,650 VRFs of various types in the villages of Lao PDR, and their various models have grown rapidly from a small base, to reach about 15 percent of all rural villages in about 6 years. In common, these locally-implemented funds are rooted in some form of financial or commodity (non-financial) lending with a plan for repayment, and support either income generation or improved production for consumption or sale.

VRFs are generally financed from the resources of donors or NGOs and are indirectly managed [for details on these projects, see Section VI below, and the appendices on donor and NGO projects]. They include more than 1,000 so-called “rice banks,” the majority of which have been financed with World Food Programme resources channelled through international NGOs and the Government. There are also many “livestock banks”, and revolving credit funds that loan money, established under integrated development projects.

It is important to emphasise that the direct connection between a VRF's lending activities and the concept of credit may often be loosely drawn. In the case of "rice banks" and "livestock banks," the loan is in the form of rice or livestock, and repayment is in the form of cash, yield, or calves; repayment may be on the full "principal," it may be partial, or may be forgiven for exogenous reasons like a poor harvest or cattle disease. While assistance is certainly being provided, and something is given and something paid back, it may begin to stretch the term beyond clear meaning to always call this "credit." However, parallel reasoning allows the use of this term, in the same sense that extra cattle may be defined as a form of savings.

The delivery mechanisms vary, but in general for NGO programmes, credit funds (either for lower-level distribution or for purchases in the case of commodity credit) are provided as a grant to the Lao Government at the provincial level. The provincial authorities transfer funds to the district level, from which grants or loans to individual VRFs are made. Sometimes disbursement regulations are pre-set, but often the local village group is free to establish criteria, such as interest rates. The government organisations involved in administering VRF funds at the provincial and district levels include the Department of Social Welfare, Lao Women's Union, and the Youth Union. Lao Women's Union is the most frequently used intermediary by the international donor and NGO community

Usually linked as a component within larger programmes that may be undertaking a number of activities, the main, and usually only, financial service provided by the funds is some form of loan¹⁶. However, GTZ, SIDA, World Bank, and UNDP/CDF projects have or soon plan to include savings services. Total credit outstanding was estimated at about Kip 4.6 billion (US \$4.97 million) at the time of the Microfinance Survey. VRF loans are characterised by small size (Kip 5,000 - 120,000) and by a relatively short term, generally less than one year or linked to harvests. Interest rates range from 0 to 25 percent per year; most often, they are below commercial lending rates. Loans are usually for productive purposes, although "rice banks" and "medicine banks" provide consumption loans.

VRFs are often not conceived or established as self-sustaining commercial finance institutions; they operate under social and economic objectives that generally have not fully considered financial durability. Many have established their own loan policies at the village level by voting on borrower and loan eligibility criteria, loan size, interest rates, loan repayment and frequencies, collateral requirements, and debt forgiveness guidelines, without prior guidance concerning the requirements and principles of financial viability.

Although they have assisted community development, VRFs do not provide the financial intermediation necessary to mobilise domestic resources. There is negligible financial reporting. Negative interest rates, averaging about 10 percent in 1995-96, and a lack of management tools and training, in addition to essential structural problems, make VRFs financially unsustainable in their present form. Deterioration in their financial positions occurs from asset atrophy, in part because interest rates are below inflation and do not cover all costs. Capital deterioration will be faster if credit discipline breaks down. The lack of financial reporting and monitoring of VRF financial performance mean that remedial action will be difficult, because potential losses will not be detected early enough.

Some major donors and NGOs supporting village revolving funds, such as SIDA, are evaluating their programmes because of increasing concern that sustainability of these funds should receive priority. At the Donor Microfinance Roundtable in Vientiane in November, 1996, there was general agreement that VRFs should be upgraded into a system of sustainable financial institutions.

¹⁶ There are savings components in some associations established by CAA and ZOA programmes and in the World Bank Lao Upland Agricultural Development Project and the EC project in Luang Namtha.

Overview of Donor & NGO Projects

International donors and NGOs are major actors within the rural Lao financial sector, though they do not share any single set of policies or guidelines. Although a fair amount of data on specific projects were unavailable, a reasonable estimate would be that, at the very least, these projects have outstanding or committed loans in primarily rural areas that are at least a third the size of the five surveyed Lao SOCBs' portfolios, apart from APB. However, they proceed on multi-year bases and cannot be directly compared to annual bank loan activity. For specific details on donor and NGO project activities in credit, savings, and the development of microfinancial approaches, see the table below and appendix A-1.

Bilateral, multilateral, and international NGOs largely provide rural Lao financial services through village revolving fund (VRF) credit components. They operate in areas not reached by banks, including the APB. The Rural Household Finance Survey found strong evidence that in areas that are commonly the most isolated from banks (especially the *other rural* areas), the VRFs may account for a majority of all credit (see Section IV under fixed asset and working capital loans).

In many places, these projects are the only available option for credit apart from friends, family members, and lending households. The projects represent a critical volume of locally-based experience, from which information on attitudes toward credit, innovative strategies, and lessons on a programmatic level can be derived. Unfortunately, much of this information remains locked at the project level. Co-operative efforts stemming from the Donor Microfinance Roundtable may, it is hoped, begin to yield more common approaches and the sharing of useful information.

At the time of the UNDP/CDF survey, there were 31 donor and NGO efforts identified for the provision of rural credit, being implemented in 17 provinces of the country (only Attapeu was excepted). Sixteen were funded by bilateral and multilateral donors, and fifteen by international NGOs. However, the total reach of the NGO - supported VRFs is much broader than donor - supported VRFs, and the value of their outstanding loans far larger at the time this survey's figures were gathered. This ratio will begin to change, however, as a UNDP/CDF microfinance project is implemented in the provinces of Sayaboury and Oudomxay with capital and technical assistance totalling close to US \$6 million, and as other new donor projects are formulated and implemented.

Credit efforts supported by NGOs at the village level - i.e., the various types of VRF's - were found to have 1,617 geographic outlets; donor-supported outlets for credit activities had 29. The value of the average of total loans that were outstanding per loan outlet site was larger at donor-supported projects, averaging Kip 4.083 million (US \$4,414), compared to the average value of total outstanding loans at NGO-supported village credit outlets of Kip 2.769 million (US \$2,994).

Credit facilities operated by NGOs had loan size limits that averaged, broadly speaking, from Kip 5,000 to 120,000 (from about US \$5.5 to \$130). The loan limits in donor projects were not similarly available to provide a comparative estimate.

Most of the NGOs began their credit or quasi-credit activities between 1994 and 1996, and more plan to start up lending projects in 1997. Several bi- and multi-lateral donors expect to fund new projects that will offer both loan and deposit services over the next few years.

Main Characteristics

As discussed in Section V, with a few exceptions these projects should not be literally referred to as “microfinance” schemes. Most lack one or more key features of a microfinancial approach, such as savings components, internal mechanisms for cost-recovery, or training and capacity-building for intermediaries or the end-borrowers and their village-based management groups. Isolated exceptions to this general rule can, however, be found.

Commodity-based lending in which “inputs” are temporarily provided and repaid in a form of “output” are common among the donor and NGO-funded projects. “Rice banks” and “buffalo banks” are prime examples, as are most other input-based agriculture loans. Moreover, in the cases where loans are in the form of rice and livestock, and these are the predominating loan products, questions of “principal,” “interest,” and “risk” are difficult to translate directly into quantifiable credit practices and outcomes.

Some main characteristics of the projects can be identified. Among these are:

- Widely varying interest rates between similar projects, within projects, and between cash, asset, and production loan projects
- A very frequent lack of savings components
- Difficulties in ascertaining loan performance (repayment rates), whether through the lack of monitoring and evaluation systems or due to recent operational start-ups
- The difficulty of monitoring on the large physical scale of many project areas, impeding the derivation of lessons and the ability to plan for sustainability
- The outstanding need for basic training in the theory and in the implementation of small-loan schemes, and in key finance concepts

Modifications are underway in some projects, including in the areas of monitoring, evaluation, and general loan policies. These have been based on learning curves in projects that have been operational for several years.

Repayment levels are linked to specific projects or locations, rather than to the loan products in common among the projects (cash, rice banks, livestock banks, etc.). The limited experience with cash loans has generally shown evidence of higher repayment rates, while repayment rates for the non-cash loans range from near 10 percent to near 100 percent. However, more than half of interviewed projects could not provide repayment rates.

A Key Intermediary: The Lao Women’s Union (LWU)

Lao Women’s Union was established in 1955, and is a mass organisation with a reported membership of approximately 650,000. Its main mission is to implement programmes of assistance to women, generally in areas of health, nutrition, and family planning, as well as community development, income generation, and the provision of training, information, and extension services. There are district, provincial and national levels of the LWU, and its president holds a position equal to a minister.

LWU is said to operate in every village in the country, and was active in about one-third of all the projects identified by this survey. Its roles were as an intermediary, an organiser, and a Lao Government partner. It represents the largest single body of organisational experience in credit or credit-like projects in Lao PDR. Because of its reach into the villages, LWU will continue to be an implementing agent or partner in future credit, savings, and localised capacity-building efforts.

LWU’s institutional experience is broadly dispersed by geography, ethnic group, loan products, repayment rates, and implementation strategies. However, any comparative lessons that stem from this knowledge and experience have not been derived or disseminated. Study of the LWU experience to date is warranted, both by the Women’s Union itself and by outside actors. This should specifically focus on identifying areas of support LWU may need in its aggregated role as a central player in microfinance development in the country and assist it to draw critical lessons up from the local chapters. This potential has been considered in the project design of the proposed UNDP/UNCDF microfinance project in Oudomxay and Sayaboury provinces.

Deriving Lessons

The divergence of both the intentions and the approaches to lending (and sometimes, savings) makes the derivation of common lessons difficult. Because the projects have historically reflected much clearer social objectives than overt financial objectives, there has not yet been a strong attempt to unify practices and policies. The Microfinance Donor Roundtable, the findings of this Profile and additional studies, and the development of national policies on microfinance have offered opportunities for more common approaches and the induction of microfinance “best practices”, in Lao PDR and from other successful microfinance strategies in other low-income countries.

A critical problem that was identified in some detail by this survey is the unmonetised status of a large bulk of the rural poor in Lao PDR, i.e., savings that remain in an inert state without being transformed into deposits. This problem, affecting the ability of the economy to convert the country’s widely distributed savings into ready capital, has not been addressed by the large majority of projects that lack deposit mobilisation strategies. While it may not be applicable in every instance, such an approach would complement other project goals, such as providing a level of security to meet basic needs.

On the lending side, several concerns can be raised that may point toward new directions for projects engaged in loan strategies. First, the common use of concessionary, subsidised lending terms may foster the development of unrealistic expectations about the cost of money. This experience could stand in the way of future steps, whether toward increased commercialisation of the financial sector in rural areas or in the direction of developing and implementing market-rationalised and sustainable project guidelines.

There is also an apparent reluctance to utilise the savings of the rural poor as a base for financial expansion. This may be rooted in misconceptions about the ability of the poor to save. Internationally, this assumption has been proved wrong by a host of successful savings mobilisations by projects and institutions. Within Lao PDR, the assumption is proved inaccurate by the findings of this survey and by such specific project experience as the UNCDF Sihom project and the EC Luang Namtha savings component, in which even the poorest participants provide some monetary deposits.

There is an evident need to prioritise and choose among immediate social and financial objectives for the VRFs that implement credit and savings projects in Lao PDR. Linked to this point is an apparent misunderstanding in the general terminology that may confuse the relationship between grants and subsidies in revolving loan funds in general. It appears that many revolving loan funds operated by donors and NGOs are thought of as “subsidised,” when in reality they are donated funds with a below-market interest rate. If these rates were actually subsidised, replacement funds would flow in from an outside source to recapture losses and provide a bridge to durability. But this does not occur. Instead, due to the inability of artificially low interest rates (and high defaults) to replace losses and maintain stable capital, these funds tend to “revolve to zero” over time.

Sustainable approaches in the experience of successful microfinance schemes elsewhere, supported by recent experiences in Lao PDR, are rooted in localised systems of accountability and control. A high degree of responsibility has been given in a large number of Lao lending projects to village-based institutions. This responsibility has too often not been matched with an appropriate level of training and technical assistance. The implication is that the donors and NGOs need to be more accountable to the successful mechanisms of process-based project objectives that call for participatory, self-maintaining village groups. Without stronger support (and more resources) to improve local institutional capacity, achievement of these objectives will be elusive.

A partial attribution of these problems can be found in the view, common among donor and NGO projects, that credit (and/or savings) is a component in broader projects that have a range of social and economic objectives. These objectives are obviously justifiable, concentrating on definite local needs like food security, income generation, health and nutrition, sustainable land use, and improving women’s socio-economic status. But the confinement of savings and credit components within these larger objectives requires a set of priorities and indicators of impact that may not relate at all to the sustainability of a given microfinancial component. In these cases, the general project objectives can be met even though the financial component fails.

It is important, then, to look at the key performance factors in these financial components and to incorporate sustainability mechanisms at the large and small institutional levels involving cost coverage, interest rates, terms and conditions, and training at the village, intermediary, and district levels. These require a measure of independence from other related or associated project components. On a larger scale, this effort is connected to national objectives, including legal developments to secure debts and identify collateral, and regulatory innovations.

New Directions

An evaluation of the UNCDF Sihom Credit and Savings project, as this document was being finalised, found the repayment rate at 100 percent. GTZ, meanwhile, has begun to move toward a deposit mobilisation strategy. In the EC's Luang Namtha project, savings deposits are a requirement for certain loans, and the project anticipates training to help villages set realistic interest rates. There has been progress made and demonstrable commitment by international donors and NGOs to improve their systems of design and delivery. This is clearly demonstrated in new projects begun or planned in Lao PDR.

A Donor Microfinance Roundtable, organised by UNDP/CDF, was held in Vientiane in November 1996. The multilateral agencies in attendance were: Asian Development Bank, the European Commission, FAO/Rome, the IMF, UNDP and UNCDF, UNICEF, WHO, and the World Bank. The bilateral representatives were, Caisse Française de Développement, as well as the embassies of China, Germany, India, Japan, Malaysia, Thailand, and the United States. NGO's in attendance were: Adventist Development Relief Agency, CARE, Cooperation Internationale pour le Développement et la Solidarite, Concern/Lao PDR, Consortium, CUSO, ESF, Gret/CCL/IRAM, Mennonite Central Committee, Norwegian Church Aid, Oxfam Solidarity/Belgium, PACT, Quaker Service/Laos, Save the Children/Australia, World Concern, and ZOA Refugee Care.

A main goal of the Donor Roundtable was to share experience in order to capitalise on the potential for microfinance in Lao PDR, a potential that had been explored and confirmed by the preliminary findings of this study. Presentation of key findings from the national microfinance profile encouraged debate about the role and direction of the various lending and savings projects operating within the country. This was followed by presentations and discussions on "best practice" experiences, derived over time from project operations abroad, including a review of recommendations from the CGAP donor co-ordinating group (Consultative Group to Assist the Poorest). There was general agreement that sustainability standards where needed, and should be embodied in new projects.

Working groups at the Roundtable met to discuss efficiency, sustainability, and the institutional roles of finance projects, and arrived at some common conclusions. These included the need for a new emphasis on deposit mobilisation to move the systems toward sustainability; that projects plans should be partly based in locally specific conditions, requiring some design flexibility; that considerable training was needed, in particular at the village level where the primary beneficiaries and participants reside; and that there was a continued need to provide complementary skills, such as microenterprise training.

There was also common agreement that the current Lao banking system could not reach into each rural areas, and that credit co-operatives, credit unions and other non-banking institutions were necessary to provide this access. The need for institutional linkages was stressed, between non-bank institutions and the banking system, as was the need to design national regulations and guidelines for such activities to enable the operation of village banks and credit unions. The role of international NGOs in the provision of critical technical assistance and training was highlighted by the Roundtable participants, with donors continuing to provide capital and additional technical assistance.

Donor and International NGO Projects

On the following page is found a table showing the total loan amounts of international donor organisations (*committed or already supplied*) and of non-governmental organisations (*loans supplied*) to projects with credit and other financial components; maps are provided in rear of the report's appendices. The list may not be exhaustive, and is based on findings of the UNDP/CDF survey, including more recent updates. Due to the difficulty to gather accurate information on funds committed, the figures remain indicative. For details on the projects named, see Appendix A-1.

Donor & International NGO Commitments for Credit in Lao PDR

Source	Project	Locations by Province	\$US Loans
B i - and M u l t i - l a t e r a l O r g a n i s a t i o n s			
ADB	Tree Plantation Project	no specific location not disbursed	6,000,000 Committed,
CFD	Boloven Plateau Development Project		250,000 Planned, 1997
CFD	Phongsaly Rural Development Project	Phongsaly	250,000 9/96
CFD	Aides aux Initiatives Productrices de Base	Luang Prabang, Savannakhet, Sayaboury, Vientiane Munic., Vientiane Prov., Xekong	250,000 starting 9/96
EC	Integrated Rural Development Programme in Luang Namtha	Luang Namtha	ECU 140,000 6 years
EC	Micro-Projects(Luang Prabang)	Luang Prabang	650,000
EC	Luang Namtha Rural Integrated Rural Development Project	Luang Namtha	14,000
EC	Small and Medium Enterprise Development Project	Vientiane, Luang Prabang & Champasak	4,000,000 Proposed
EC	Lower Nam Ngum Basin Sustainable Integrated Rural Development		180-450,000 Proposed
EC	Project for Forestry Conservation Development	Phongsaly Province	appr. 680,000 Proposed, 7 years
EC	Strengthening Livestock Services & Extension Activities	Luang Prabang, Luang Namtha	appr. 180,000 Proposed
GTZ	Development Project in Xiengkhuang	Xiengkhuang	4,000
IFAD	Xiengkhouang Agricultural Development Project	Xiengkhuang	1,750,000
SIDA	Lao-Swedish Forestry Programme	Savannakhet, Sayaboury	360,000
UNCDF	Small Scale Irrigation Schemes in Oudomxay and Luang Namtha	Oudomxay	45,000
UNDCP	Drug Supply & Demand Reduction in Border Areas of North-western Laos	Bokeo, Luang Namtha	See NGOs (NCA)
UNDP/UNCDF	Nam Tan Perimeter Rehabilitation Project	Sayaboury	12,000.
UNDP/UNCDF	Sihom Rehabilitation Project	Vientiane (Sihom)	30,000
UNDP/UNESCO	Informal Education Programme	Champasak, Khamouane, Luang Namtha, Luang Prabang, Saravane and Sayaboury, Vientiane Province	53,200
UNDP/UNV/DDS		Xaysomboun	100,597
UNHCR		See Concern, Consortium and ZOA	See NGOs
UNICEF	Lao Women's Union Project	Champasak, Huaphan, Khamouane, Savannakhet, Xiengkhuang	230,000
World Bank	Lao Upland Agriculture Development Project	Champasak, Saravane, Vientiane Municipality, Vientiane Province, Xekong	2,000,000 on going

I n t e r n a t i o n a l N o n - G o v e r n m e n t a l O r g a n i s a t i o n s (N G O s)

ADRA		Vientiane Municipality	594,080
CARE Int.	Specific project titles of NGO activities were generally not identified	Khamouane/Sayaboury	Rice 11,500T*
CAA		Saravane/Xekong	14,279
CIDSE		Bolikhamsay, Savannakhet	Not known
Concern		Bokeo, Champasak, Khamouane, Savannakhet	21,498
Consortium		Luang Prabang, Sayaboury, Vientiane Prov.	108,883
CUSO		Vientiane Province	12,718
Mennonite C.C.		Huaphan, Phongsaly	11,233
NCA		Bokeo, Luang Namtha, Savannakhet	11,740
OXFAM		Savannakhet, Vientiane, Xiengkhuang	32,923
Quaker S.L.		Luang Prabang, Oudomxay, Xiengkhuang	70,000
SCA	Bolikhamsay, Phongsaly, Sayaboury	194,000	
World Concern	Luang Namtha	30,000	
World Vision	Champasak, Huaphane, Luang Prabang, Saravane, Savannakhet, Xiengkhuang	Not available	
ZOA	Luang Namtha, Vientiane Municipality, Vientiane Province	98,134	

Total of known amounts from donors/NGOs

**Approximately
12,500,000****

* A rough approximation of the value of these tons of rice is probably around US \$2.5 million. However, the figures are left in the table as provided by the NGO, and a clear estimate of value requires more complete information.

** This an approximation based only on the available information contained in the table, and is not intended to provide an authoritative sum of donor/NGO loan projects in Lao PDR. It does not include the new UNDP/CDF microfinance project, which is worth \$ 7 million and started in June 1997.

VII. Conclusions & Next Steps

CONCLUSIONS

The UNDP/CDF *Microfinance in Rural Lao PDR: A National Profile*, has presented findings that help to frame the critical questions for future financially-based economic development strategies within Lao PDR. Fundamentally, the Profile has helped to identify existing demand for mixed financial services (most notably for access to deposit services and to small working capital loans) while pointing to the limitations by the formal financial sector and by most current donor and NGO projects to supply these services. By bridging this market gap through the transformation of mobilized savings into domestic loan capital to finance economic development rooted in small and diverse activities, people in the rural areas will be able to access wider economic opportunities beyond the prevailing subsistence lifestyle.

The survey reviewed the status of key stakeholders whose roles are vital to the evolution and expansion of rural financial services. Among the main findings with implications for microfinance challenges and opportunities in rural Lao PDR were the following:

- Rural households were found to be broadly engaged in a range of creative techniques for savings, but were virtually excluded from access to depository services. While over nine in ten rural households held some financial savings, only one percent were found to hold depository accounts, with none at all in the *other rural* areas that account for half the rural Lao population. Meanwhile, only 11 percent of rural households were engaged in any form of borrowing, despite evident needs for additional working capital.
- In the formal financial sector, the State Owned Commercial Banks were found neither extending large scale services into rural areas nor providing products appropriately scaled for a market of poor, rural clients. While the poor generally had some level of assets for collateral, activities to convert assets into loan security remain extremely limited, with the value of identified outstanding loans in rural areas averaging only ten percent of household physical asset values. Although the Agricultural Promotion Bank was providing rural loans to agriculture, it has not gained access to many remote areas. GOL interest rate policy has prevented the APB from expanding its depository services, whose market-rate interest payments would drain the proceeds from artificially low-return loans if they were significantly expanded. For both the APB and the SOCBs, the closed and cautious cycle of financial activities within minimally defined markets contributes to the immobilisation of Lao financial resources.
- Donors and NGOs were found to be practising a range of unsustainable financial activities, including a frequent lack of monitoring and information management systems for their portfolios, loan interest and default rates that deplete capital resources, only rare activities to generate local financial resources by encouraging financial savings deposits, and low levels of skills and accountability transfers to beneficiaries. Financial sustainability is too often viewed as being in conflict with or subservient to social goals, rather than as a means to achieve lasting socio-economic impact through sustainable livelihood development based on reliable financial service systems. However, a basic commitment to plan and implement more sustainable projects with systematic financial intervention methodologies is demonstrated both by a new generation of projects and by a high level of commitment to implement some of the conclusions of the Donor Microfinance Roundtable held in Vientiane in November 1996.

- The Lao Government continues to be reliant on external sources to relieve its budget deficit, but recognises that growth of the Lao financial sector provides an opportunity to generate domestic revenues for its Public Investment Programme and to gain improvements in rural people's living standards. To encourage these developments, the GOL will need to rationalise its financial market policies in general and agricultural interest rate policies in particular, and play a vigorous role with capacity support from the international aid community in co-ordinating sound expansion of the financial sector. A commitment to take on these functions has been demonstrated by the plan to establish a Government Microfinance Task Force following the GOL-UNDP/CDF Microfinance Roundtable in August 1996.

NEXT STEPS

The Government and the donor community have demonstrated their willingness and commitment to adapt their approaches to the rural financial sector, learning from national, international experiences. This has been strongly illustrated by the responses to the Microfinance Roundtables co-ordinated by UNDP/CDF for GOL officials and for international assistance organizations and by emerging projects that are engaged in earnest planning for long-term sustainability.

In August 1996, UNDP/CDF and the Government agreed to cooperate to establish a national Government Microfinance Task Force to make policy, regulatory and administrative recommendations for the Lao financial sector, to better co-ordinate formal and informal financial services throughout the country, and to promote financial sustainability within financial products provided in the context of development assistance.

Future steps need to be taken with a very clear view of the conclusions drawn from the Microfinance Roundtables, and be supported and followed through by the Microfinance Task Force. Among these are key points are:

- Promotion of financial sustainability through positive interest rates that cover real costs, appropriate training, efficient management and information systems, and realistic assessments of transactional costs;
- Prioritisation of savings mobilisation within non-bank projects as well as by the formal financial sector;
- Improvements in the regulatory environment for financial intermediaries and interactions between formal, informal, and public institutions serving financial functions; and
- Improved co-ordination and clearer objectives regarding the role and specific implementation of financial strategies for rural development, including the general adoption of "best practice" lessons learned at the national and international level.

UNDP/CDF is about to implement the first comprehensive microfinance project in the provinces of Sayaboury and Oudomxay that has been formulated with these conclusions in mind. The national component of the project takes into account the urgent need to consider policy issues at the macro level, including support to regulatory reform, microfinance training facilities, and co-ordination. The provincial component aims at supporting the creation of microfinance institutions by strengthening the Lao Women's Union or other potential intermediate implementation units, and will provide a large special line of credit for village based institutions and microenterprise tailored financial services.

The project design was strongly influenced by the findings of this Profile, by the recommendations and agreements generated at the Microfinance Roundtables, and by extensive field visits and interviews within the two targeted provinces. This project comes at a critical juncture for many development aid organizations, particularly those with direct experience in village revolving funds where basic questions of sustainable impact have been raised.

The initial experiences of the European Commission's Integrated Rural Development Project in Luang Namtha and the UNCDF funded SIPSACRES also show potential for testing ground for a new set of sustainable and rational microfinancial practices in Lao PDR. With proper co-ordination and dissemination of lessons learned, these projects and other new microfinancial initiatives will refine practices, provide on-the-ground training and capacity growth to Lao nationals, and help to translate "best practices" with proven track records into the Lao context.

To help develop more sustainable microfinance projects in the future, some of the basic principles that guided the design of the UNDP/CDF microfinance project for Sayaboury and Oudomxay are outlined below. Each of these should be strongly considered by the principal organizations and stakeholders involved in microfinance project planning in Lao PDR.

Microfinance and integrated development approaches. Microfinance, like any financial activity, is most safely approached as a stand-alone activity; nonetheless, it still stands as just one approach to poverty alleviation strategies. Area-based inputs that also support basic business skills, marketing, income generation training, and technical training should be viewed as a complementary to financial strategies, as in many cases should other inputs, such as basic infrastructure, health care provision, and education. While these approaches should be considered as complements to financial strategies (or vice-versa), they should not be directly tied to financial activities whose sustainability will be rooted in independence.

Institutional capacity building. Building strong local, mid-level, and national institutions active in providing of financial services is indispensable to the microfinancial approach. The institutional weaknesses seen in village revolving fund practices in Lao PDR has been a dominant limitation in local experience and strategic financial escalation. Training in rational interest rate policies, village committee management, data collection and monitoring, and the need for financially focused non-banking intermediaries are essential components to successful new approaches to microfinance interventions in Lao PDR. Specialised training products at the village, intermediate, and formal sector level are urgently needed.

Targeting diverse needs. There are two principal beneficiaries of sound microfinancial strategies. The first, and by far the largest group is the rural poor who have not yet diversified their agricultural activities or expanded to non-agricultural income supplements. This group generally lives in remote areas, with relatively low levels of assets for collateral. For these clients, village banking models based upon solidarity group provides an effective model to channel financial assistance. Unlike VRFs, loans in this model flow in cycles based on performance criteria to village groups and are centrally managed by a non-bank intermediary. It provides an effective method to lower transaction costs and to pool resources, risks, and training needs.

The second group is individuals who have established secondary small income sources or have a demonstrable capacity to establish a new microenterprise. Special financial services (including deposit services) are needed to enable these individuals to contribute to the growth of their businesses, thus benefiting the development of the communities to which they belong.

Informal and Formal Sector Linkages. The process of “financial deepening,” or the extension of financial services and practices into rural areas, must operate in tandem with capacity development in the formal financial sector. Banks provide the legal mechanism through which rural savings are converted into financial deposits, in turn providing a base of capital for investments. In time, it should be hoped that some of the non-banking institution beneficiaries will be able to “graduate” to direct client status with banks. Likewise, it remains an important objective for sustainable rural financial services that non-banking institutions will have life-spans determined by the ability of the banking sector to directly enter proven markets.



Access to small scale financial services is essential for micro-entrepreneurs like this weaver in Sayaboury Province

Support to non-bank intermediaries. So long as the formal banking system lacks the resources or incentives to enter directly into microfinance activities in isolated markets, non-banking institutions like the LWU and international NGOs will be the primary conduits for financial strategies in these areas. This requires clarification of legal mandates for service provision and formal sector linkages and a process of reform of current credit co-operative laws and regulations.

The UNDP/CDF microfinance project has recommended contracting a legal and financial expert to assist the Microfinance Task Force in pursuing this process of reform, strengthening opportunities for non-bank intermediaries to provide sound financial services and promoting close co-operation with the formal banking sector.

Recycling Rural Savings. The Microfinance Roundtables recognised the urgent need to transform and mobilise rural savings into bank deposits. This requires the development of strategies that specifically confront the obstacles that impede depository mobilisation. These include implicit transactional difficulties, the need to build confidence in unfamiliar savings mechanisms among rural people, the threat of high inflation rates to depress real returns to savings (although this is no less true of cash savings), the need to harmonise savings and loan interest rates, security guarantees for the deposits in Lao financial institutions, and above all effective methods to recirculate savings to satisfy rural credit needs through appropriate investments.

APPENDICES

A1

Pages 56-81

International Donor & NGO Projects

A2

Pages 82-84

Poverty in Lao PDR

A3

Pages 85-87

Survey Methodology

INTERNATIONAL DONOR AND NGO PROJECTS

This annex corresponds to a subsection of section VII. In that section, the key findings of the survey on donor and NGO activities in the provision of financial or proto-financial products are discussed. This Section also assesses a primary method of delivery engaged in by donors and NGOs, Village Revolving Funds (VRFs). This annex reviews the specific projects currently underway with savings or credit components or, in some cases, projects planned to begin soon in Lao PDR. While most donor support in Lao PDR includes some form of credit, no project currently has an exclusive focus on microfinance delivery.

The annex has two sections: first, bi-laterally and multi-laterally funded projects; and next, projects funded through international NGOs. The format for the information in these sections was collected differently, and the presentation of the sub-sections reflects this. A specific questionnaire was administered to international NGOs, and this was filled in by each group; this information has in some cases been abbreviated and edited. For the bilateral and multilateral donors, information was gained through interviews, review of reports, and follow-up confirmation where possible, but did not follow a similarly identical format. It should be noted that the specific titles of NGO projects involved in credit or savings were neither asked nor provided.

A1: Section 1

**Credit and Savings Projects
supported by Bilateral &
Multilateral Donor Agencies**

A1: Section 2

**Non Governmental
Organisations**

A1: Section 1

Credit and Savings Projects supported by Bilateral & Multilateral Donor Agencies

THE WORLD BANK

LAO UPLAND AGRICULTURE DEVELOPMENT PROJECT (LUADP)

This five-year project aims to support GOL efforts to reduce rural poverty, expand export earnings, improve food security, control soil erosion, and strengthen key agricultural institutions. It covers the southern provinces of Champasak, Saravane, and Sekong, as well as Vientiane Province & Municipality.

Credit is intended to promote cash-crop production through APB loans to farmer groups that are already involved in the cash economy. The LUADP credit component is valued at approximately US \$2 million, with credit delivery through the Agricultural Promotion Bank (APB).

The community development and extension component of the Project had experimented with forming savings groups at the village level, and members were required to save and deposit a minimum of 1,000 to 2,000 kip/month (about one or two US dollars) to the village saving committee. Loans were provided for one to three months. Loan size ranged from 3,000 to 10,000 kip. Information on the interest rate charged was not available.

The APB has disbursed the US \$1 million released to the rural credit pilot project. While the impact on farmers (especially coffee farmers in the south) was found to be positive, the Bank has concerns about the interest rate policy of the BoL and the management capacity of APB. The Government is aware of the Bank's concerns and concurs with a recommendation to cancel the balance of the credit component; the Bank plans to study these issues before committing additional resources. The savings portion of the project was deemed to have been successful, and to merit further research.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

XIENKHOANG AGRICULTURAL DEVELOPMENT PROJECT

The project has two credit components, for a cattle-bank heifer loan (i.e. young cows for breeding) and for irrigation loans.

Cattle Bank/Heifer loans. Repayment of the cattle banks' interest-free loans would be in-kind, at a five-year loan term. The loan portfolio is being managed by the Ministry of Agriculture and Forestry (MAF), with the Ministry acting as a non-bank financial institution. The head of the cattle bank is responsible for keeping records of the heifer loans. Technical assistance geared to minimise loan default is provided through advice on health and feeding, in part by the heads of the cattle banks.

Irrigation loans. The maximum loan size is US \$350 per hectare. Loans are repayable over ten years with a three-year grace period and a 7 percent interest rate per year. Responsibility for these loans and their repayment after the project period has yet to be resolved. The Provincial Irrigation Section has limited staff capacity for its implementation responsibilities. It is anticipated that the MAF loan portfolio will be given to the APB.

The APB is providing the credit to households who are members of groups at the terms and conditions set by the APB for short- and medium-term loans. The size of the credit component is approximately US \$1.75 million. It is estimated that the equivalent of about US \$500,000 in livestock will have been supplied in the form of livestock banks by the end of 1996 by the MAF, and that approximately US \$215,000 for irrigation infrastructure loans will have been supplied by the end of 1996 by the MAF. Agricultural credit estimated at approximately US \$410,000 will have been supplied by the end of 1996 by the APB. Information about how much of this represents IFAD credit through the Bank of Lao PDR (BoL) is unknown by this survey.

In addition, IFAD reports that it plans to fund microcredit activities in Sayaboury Province, though these activities may not begin before 1998. These activities will be planned in co-ordination with the comprehensive UNDP/CDF microfinance project.

ASIAN DEVELOPMENT BANK

ADB TREE PLANTATION PROJECT

The ADB Tree Plantation Project is part of support to Lao PDR's new forest resource management system. It aims to reforest degraded forests and denuded land with the assistance of private sector companies/enterprises and local farmer groups, and to increase the Government's capacity to earn foreign exchange. It also plans to develop institutional capacity in the public sector to manage commercialisation of the trees and the socio-economic, environmental, and marketing prospects in commercial tree planting areas.

The project has committed US \$6 million, though the funds are not yet disbursed. About 60 percent is channelled through the APB to provide loans for farmers and for farm enterprises. The project has four distinct components: a credit facility; a demonstration; an access road; and project management.

There are four sub-project areas: Vientiane Municipality (which extends into rural areas) and four districts in the Provinces of Borikhomsay and Savannakhet. These are located along the Mekong River facilitating transport to production facilities. Credit provision was underway by early 1997, with a target for the year of 1,000 hectares under management mainly by individual farmers, but also by enterprises.

Individual farmers do not post collateral and are formed into groups by the APB to facilitate the extension of services. In each group, a leader promotes production and serves as an intermediary between the group and the Bank. For the loans to farm enterprises, there has been an effort to gain commitments to use 20 percent of the loan to provide in-kind help to local farmers, in particular for assistance in providing joint market agreements that may be of mutual advantage.

Loans to individuals are at a term of eight years with a seven percent annual interest rate; these loans include a six-year grace period during which 60 percent of the interest payment is due. Thereafter, remaining principal and interest are due by the end of the term. The loan term for enterprises is twelve years, also with a six-year grace period and seven per cent interest rate. During the grace period, full interest payments are due, followed by six years of interest payments plus the principal.

SIDA

LAO SWEDISH FORESTRY PROGRAMME

LSFP initiated a village-based credit program during the last phase of the forestry programme. This was targeted to shifting cultivators to promote income-generating activities in agriculture, forestry, or home-based activities. The credit/income generating component was provided to support the Project's efforts to encourage more sustainable land use.

Approximately 290 million kip were supplied to the village credit initiatives. Under an assumption that 25 percent was used as grant funds, approximately US \$270,000 was supplied through the district government. The funds were seen as a tool for extension officers to support the goals of the Project.

Loans are allocated to targeted villages where they are controlled and managed by a village development committee, with interest rates ranging from 2 to 20 percent per year. Loans are extended to groups of producers involved in the same activity, with at least 25 percent loaned to women's producer groups. The type of activities financed include buffaloes, animal raising, land preparation, weaving, and others. Not more than 25 percent of capital was used as grant funds.

Ownership of the capital belongs to the District, and the village development committee is given an interest-free loan. The original capital funds may be withdrawn from the village by the district or provincial authorities if a village is determined to be sufficiently developed, or as having enough funds generated from the interest payments.

The credit aspects of the project were evaluated in 1996, determining that the credit activities offer a real opportunity for community development. But negative aspects of the evaluation included the lack of savings mobilisation; estimated repayment rates between 16 and 60 percent; extension officers acting as loan officers with conflict between sound lending and extension work to support Project goals; inadequate institution-building at the village level; inadequate training of village committees; and no established by-laws to operate the village credit association.

Phase 4 of the credit programme plans to deliver significant input to both the "Formal" (agreement with APB in discussion) and "Informal" sectors (revolving funds, savings groups). A credit budget of US \$400,000 is available for this new phase.

EUROPEAN COMMISSION: VARIOUS PROJECTS

EC MICRO-PROJECTS (LUANG PRABANG)

The EC Micro-Projects in Luang Prabang /Phase Two is currently operational. The project includes four districts of Luang Prabang Province, covering 417 villages with a population of 120,000. The Project is targeting the poorest villagers, with special focus on the Lao Theung. The broad objectives of the Project are sustainable and equitable economic growth, poverty alleviation, and the sustainable use of resources. The total budget, for a duration of 6 years, is for 13.7 million ECU (approximately US \$12.5 million).

The microfinance outputs include credit systems established in 50 percent of the villages, and the establishment of rice banks in villages with rice production deficits. In addition, the Project is preparing a credit scheme to support the Agricultural Promotion Bank's efforts to deliver credit to the four districts within the project area. The project should be able to provide more than US \$650,000 to the APB. Besides the availability of funds, the APB will receive support to open district-level branches.

The project proposes that access to the credit line be tied to some specific conditions. These include that access to the project credit line will only be granted to new APB customers; that 50 percent of the borrowers must be women; that 50 percent of the beneficiaries should be Lao Theung (uplanders); and that 50 percent of the villages involved in the scheme must be new villages that are not covered by other institutional credit services.

EC LUANG NAMTHA PROVINCE INTEGRATED RURAL DEVELOPMENT PROJECT

The Luang Namtha Area Development Project (1995-2000), funded by a European Commission grant, will finance community development and income-generating activities in the areas adjacent to the IDA-financed roads, and will support institutional strengthening for provincial planning and management. The project will comprise several components, with some already begun.

Women's Committees were established in April 1996 with savings and credit activities. Twelve village savings groups are made up of a maximum of 20 women, subdivided according to their activities. Each group has a savings account with the APB, and deposits savings before receiving a loan. Five percent of the savings are used to provide a small guarantee for non-performing debt. Despite the project's requirement for savings, individuals still retain control over withdrawals, with flexibility to save or withdraw on demand. Villages graduate to direct interaction with the APB, under supervisory monitoring by the LWU.

Four group loans have been discussed but not yet provided (February 1997) with loans in the form of a village fund that would include the "poorest women" and carry an interest rate between 6 and 10 percent per year, at rates and for activities determined by the villagers. A total of US \$14,000 (approximately Kip 13 million) are to be made available, with maximum loans of Kip 50,000. Villages receive assistance through field visits. Credit is supplied only after savings are established; five percent of these savings are also set aside to guarantee bad debt.

Enterprise groups are also being established with seed capital and an informal bank link, targeted to small entrepreneurial activities; to date, one loan and related training has been provided for one enterprise, as of February 1997. Groups gain shares in the enterprise with joint responsibilities and funds for these entrepreneurial loans are provided as village grants.

Relations with the APB do not yet comprise a uniform strategy in EC projects, but co-operative efforts are ongoing. These include US \$20,000 provided to the APB for credit in Luang Namtha; the requirement that each borrower open a savings account prior to receipt of a loan, with no minimum deposit requirement; and project targeting of the poorest, with a restriction on project loans for anyone who has received a prior loan from APB. To date, even the poorest project and group members have been able to save at least small amounts of money each week.

EC SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT (SME)

This project has been proposed, but has not yet started. The project intends to give support to Small and Medium Enterprises in 3 provinces (Luang Prabang, Champasak and Vientiane). The total budget is 6 million ECU (3.2 million for loans and guarantees, 0.8 million for training).

The First Phase of this project (already begun with a budget of 1 million ECU) is to take place in the Nam Ngum Irrigation Project and the Luang Prabang Rural Micro-projects Programme.

The Microfinance topics of the project are to give technical assistance to strengthen the capacity of entrepreneurs, banks, State officials; pay attention to basic needs of credit clients especially book-keeping; and to build up basic project appraisal capacities in banks and enterprises.

The Small Enterprise Support Unit (at the province level) will be divided into 2 sections: one to support Small Enterprise and the other to support Medium Enterprise.

EC PROJECT FOR FORESTRY CONSERVATION AND DEVELOPMENT IN PHONGSALY PROVINCE

An ECU 9.5 million project (US \$11.8 million approximate) over seven years includes ECU 750,000 for credit. Loans are delivered through the project directly and through the APB, and supports activities such as rice banks and handicraft production, as well as support to animal husbandry, chicken and fish raising, and regeneration of fruit trees. Start-up is projected for April 1997.

EC PROJECT FOR STRENGTHENING OF LIVESTOCK SERVICES AND EXTENSION ACTIVITIES

Formulated in 1996, project approval is slated for early to mid-1997. The project reportedly includes ECU 200,000 for credit for five years, from 1998 - 2002. Activities are planned to begin in Luang Prabang and Luang Namtha provinces and to expand to other provinces during the project's life.

EC LOWER NAM NGUM BASIN SUSTAINABLE INTEGRATED RURAL DEVELOPMENT PROJECT

An irrigation project including ECU 500,000 in credit has been proposed but not yet approved. Government has requested ECU 200,000 for credit to support agricultural services over a five year period, and has further asked that if the project is approved at an ECU 10 million level, the credit portion be increased to ECU 500,000.

GTZ (DEUTSCHE GESELLSCHAFT FÜR TECHNISCHE ZUSAMMENARBEIT) DEVELOPMENT PROJECT IN XIENGHOUANG

The project, from April 1995 to March 1997, has a budget of US \$500,000. In April 1996, the project provided US \$4,000 to start revolving funds in 8 villages. The funds are deposited in an APB account and allocated to the villages; borrowers need to save 2,000 Kip per year (US \$2) to be eligible for a loan.

The activities financed are: big livestock, and small livestock for women; crop production ; and handicrafts. The interest rate is generally 10 percent per year. The project is expecting to allocate funds to 8 more villages in 1997; the project anticipates reaching 66 villages over the next 3 years.

CAISSE FRANCAISE DE DEVELOPPEMENT (CFD): VARIOUS PROJECTS PHONGSALY RURAL DEVELOPMENT PROJECT

With a starting date in September 1996, the project plans a credit component valued at approximately US \$250,000 in a US \$6.1 million project, with a duration of five years. The credit component will provide loans of approximately US \$140,000 for animal banks and US \$110,000 for cash credit.

BOLOVEN PLATEAU DEVELOPMENT PROJECT

CFD also plans a project in southern provinces called the Boloven Plateau Development Project, in its pipeline for 1997 start-up. This project includes activities for mobilisation of savings deposits as part of a US \$250,000 community development credit and savings scheme targeting 140 villages.

CFD also intends to provide funds to establish a microfinance non-bank institution; terms of reference for a feasibility study were submitted to the Government in early 1997. The group has recently conducted an analysis of the APB, and is in discussion with the GOL for a project to strengthen and provide organisational assistance and training for bank management. Related to this APB support project is discussion of capitalising a credit link with long- and short-terms elements.

UNITED NATIONS: VARIOUS PROJECTS

UNCDF - SIHOM REHABILITATION PROJECT/SIHOM PROJECT SAVINGS AND CREDIT SCHEME/SIPSACRES

UNCDF's Sihom Project has an urban microfinance component in its seven villages (neighbourhoods) within urban Vientiane which has set aside US \$30,000 of funds through an Executive Committee for income generating activities. Members of the Sihom credit scheme save between US \$2 and 50 per month, and receive interest at an annual rate of 20 percent. Within less than one year, 57 savings groups were formed with a total of 270 members (169 women), and 33 members had received a loan. Members must save for six months before they are eligible for a loan, and a loan committee must approve the application (as of June 1996, no loan application had been refused). The scheme charges two percent interest per month on loans. Loans are often used for household expenses, but a survey in 1996 shows the need for more production loans (small business activities).

The beneficiaries have been the main actors in every step of the process, including design, implementation, monitoring, and evaluation, demonstrating the ability of people to manage their own well-being.

The Netherlands has approved an additional grant of US \$30,000, which will be used to expand the loan guarantee fund. The Project is expected to expand the schemes to other communities, and requires the legal sanction of the authorities and a mechanism to train project administrators.

UNDP/CDF will continue its support to SIPSACRES by integrating the successful scheme into the UNDP/CDF microfinance project. It will also finance the extension of the project to rural areas. A description of the new UNDP/CDF microfinance project is provided in the next step section of the conclusion.

UNDP/UNCDF - THE NAM TAN PERIMETER REHABILITATION PROJECT

The project initiated a Village Revolving Fund Sub-Project which started in early 1996. Six villages have received US \$12,000 interest free loans. Eventually, the Sub-project will involve an additional 8 villages. Some technical assistance was provided by Consortium, and the targeted clients are women who are members of the LWU. Loans are provided to production groups of 5-10 women with no joint liability.

Loan size and loan term varies by type of activity (50,000 to 100,000 kip). with terms of 6 or 12 months. Loans are unsecured, with an annual interest rate of 12 percent. Transaction costs for the village revolving fund committee amount to six per cent of each loan. Half the interest is provided to cover VRF costs. The remainder of the interest income is meant to cover the cost of funds (inflation premium), risk and growth of the loan funds. According to an evaluation undertaken in early 1997 the repayment to date has been 100 percent. New tranches of loans bear an interest rate above 20 percent and are improving their focus on the poorest. The new UNDP/CDF project will promote the graduation of the Nam Tan revolving fund into a sustainable institution.

UNDP/UNCDF SMALL SCALE IRRIGATION SCHEMES IN OUDOMXAY AND LUANG NAMTHA

The villages receiving credit between 1993 and 1996 are those involved in all of the larger irrigation sites that have received integrated project support and have year round access to banks (4 schemes). In one site, it was not possible to implement village credit schemes as the provincial bank is too far from the villages due to a lack of access during the rainy season.

Village credit committees decide on approval of credit requests made by villagers. The credit amount has been made available in the form of a revolving fund to be used by the beneficiaries of each irrigation scheme. One small scale credit fund has been provided to the provincial Lao Women's Union. LWU has been free in selecting villages eligible for credit. The short-term credit amount (1 year, less than 50,000 Kip) provided in 13 villages is 11.3 million Kip (approximately US \$12,000). The actual repayment up to June 1996 is 68 percent. The long-term credit amount (1-3 year, less than 300,000 Kip) provided in 6 villages is 9.4 million Kip (approximately US \$10,000). Small scale credit has been used mainly for weaving and sewing, small livestock (chicken, pig) and fish raising. The long-term credit has been mainly used for the purchase of buffaloes but also for barbed wire, and to meet the costs of land clearing and fish pond digging.

Rice banks have been set up at all project villages who have shown interest in its establishment and who could meet the requirement of village contribution and the set up of a committee. Since August 1995, the project has provided 73 tons of rice, for an amount of 12.8 millions Kip (approximately US \$14,000), in a total of 16 villages (668 families).

Buffalo banks have been provided to villagers of the isolated Long district instead of village credit. The total fund was sufficient to provide 50 percent of the villagers who had access to new irrigated land with a buffalo. The buffalo bank establishment was based on requests of the beneficiaries and discussed with them prior to implementation. Since June 1995, the project has provided 35 buffaloes, for a total amount of 8.4 millions Kip (approximately US \$9,000), in a total of 9 villages.

THE UNICEF/LAO WOMEN'S UNION (LWU) PROJECT

UNICEF is funding their Women in Development Program through the Lao Women's Union to extend capital to village credit groups, with the LWU acting as a government lending agency and a non-bank financial institution that provides financial services to women. The principal mission of the LWU is to implement policies and programs to assist women, including foci on health, nutrition, family planning and community development programs, income generation, and other non-financial assistance, such as training, information dissemination and extension services.

The LWU is a government organisation with approximately 650,000 members, with volunteers in every village. There are district, provincial and central levels of the LWU that resemble other government departments, and the President of the LWU holds a position equivalent to a government minister.

Since 1991, over US \$230,000 have been disbursed through an Integrated Village Development Program to five provinces and 489 villages. Loans granted under this scheme through Lao Village Credit Association (VRFs) range from 20,000 to 50,000 kip depending upon the type of activity, which include chicken raising, weaving, fish raising, handicrafts and cattle banks. The loans are given interest rates ranging from 3 to 10 percent per year, for one year. No collateral is required. Loan policy is determined by the VRFs and village members. The Program claims a repayment rate of over 80 percent.

Loan funds are controlled by the district LWU through an interest free loan to the VRF. Loans are given to individuals who are part of a group; there is no joint liability among the members of the group. The target population is women; if there is credit rationing, the poorest of the poor are to come first, with others needs-based. The targeted villages are not necessarily the poorest.

UNHCR

UNHCR is funding several international NGO projects in Lao PDR, with a small portion of total funding going to support credit activities. The exact amount of funds that have been earmarked for credit is unavailable. For project details, see the section on NGOs found below, under projects funded by Concern, Consortium, and ZOA.

UNDP/UNESCO - INFORMAL EDUCATION PROGRAM

Women's Literacy and Basic Skills Training was launched in 1993 by the GOL with the support of UNESCO/NORAD and the technical assistance of the NGO, Ecoles Sans Frontières. Project completion is due at the end of 1997. The Department of Non-Formal Education, within the Ministry of Education, is responsible for the project's implementation.

Activities focus on literacy, numeracy, and functional and vocational education for ethnic peoples, especially women. The general objectives of the project are to more fully integrate all ethnic groups into the social life of the country; help improve the well-being of mothers and children; introduce village women to basic elements of the market economy; participate in women in development programmes and help bridge the illiteracy gap between men and women; improve the efficiency of the literacy programme and its retention rate; and to participate in the drafting of the non-formal education curriculum, and prepare it for mass distribution to disadvantaged and ethnic people. Within the project's framework, funds are provided to students who have completed the literacy curriculum and submitted a project proposal for income generation activity (examples are sewing, weaving, poultry or pig raising, small agriculture activities, roadside soup shops, etc.). The funds are allocated as a revolving loan fund. Loans are US \$65 per woman with a 3-year term at no interest and with no collateral.

Project teachers at 23 learning centres in seven provinces (Luang Prabang, Vientiane, Khammouane, Luang Namtha, Champassak, Saravane, and Sayaboury) are acting as revolving fund officers on behalf of the Ministry of Education, and under the supervision of provincial administrative officials. The learning centres have no organised collection effort. According to the Department of Non-formal Education, there is approximately Kip 57 million outstanding and no precise information about repayment. The MOE identified the project's revolving fund strategy.

Non Formal Education for Ethnic Minorities was funded by UNDP in 1993 with technical support services from UNESCO and technical assistance from Ecoles sans Frontières, and will be completed at the end of 1997. The Department of Non-Formal Education in the Ministry of Education is responsible for implementation. The project seeks to provide a practical model for the education of children and adults with a focus on their developmental needs.

Revolving loan funds are provided to establish rice banks or drug banks at the village level, and on an individual basis to families for income generation activities. These may include cow, buffalo, chicken, pig, and fish raising; weaving; blacksmithing; hairdressing; etc. The size of the revolving loan fund varies from Kip 20,000 to Kip 600,000 per family with a 3-year term, no interest, and no systematic collateral; however, families may be asked to provide a "counterpart warranty," such as land, housing, etc.

With the assistance of project teachers, heads of project village committees in 7 villages in 2 provinces (Oudomxay and Sekong) act as revolving fund officers on behalf of the Ministry of Education, under the supervision of provincial administrative officials. The village committees have no organised collection effort. According to the Department of Non-Formal Education, there is approximately Kip 11 million outstanding in Oudomxay with an approximate repayment rate of 9 percent, and Kip 9 million in Sekong with no repayment at all (February, 1997). The MOE identified the revolving fund strategy.

Following a mid-term consultation and Tripartite Review Meeting, new guidelines and work plans have been set up for the project. There will be no new revolving loan fund established during the last year of project implementation and training for management of revolving loan funds will be provided to teachers and people responsible for village and province project committees.

UNDCP - DRUG SUPPLY AND DEMAND REDUCTION IN BORDER AREAS OF NORTH-WESTERN LAOS

UNDCP is funding Norwegian Church Aid, which is reported to have a credit component in its integrated village development projects but no information is available on these initiatives. The Ministry of Agriculture and Forestry is the Government Implementing Agency and NCA is the external executing agency. The total project budget is approximately US \$1.7 million. Credit schemes include village training and the establishment of rice banks, live-stock banks, and revolving credit development funds generated by villagers' contributions. NCA will provide US \$21,000 for credit schemes and revolving funds, and UNDCP is providing US \$10,000 for the establishment of 250 rice banks. Total funding is US \$31,000 for credit and for rice banks.

UNDP/UNV DOMESTIC DEVELOPMENT SERVICE (DDS)

Domestic Development Service has set up village credit initiatives and rice banks in 14 villages in Xaysomboun Special Zone. Rice banks have been operational since March 1996, and the village credit associations since early 1996. The value of capital supplied to rice banks in the form of rice is approximately US \$94,800. Capital for the revolving funds amounts to US \$5,797. Loans are tied to specific activities. Seed capital is being provided to the village committees for both rice banks and village credit associations. The rice bank appears to be the more organised effort, with established by-laws. Interest rates for the rice banks varied between 10 and 20 percent with term dependent on the harvest.

WORLD FOOD PROGRAM (WFP)

WFP provides capital to NGOs (CARE, ADRA, ZOA) and DDS, who in turn, establish rice banks. The total funds provided by the WFP to capitalise rice banks from 1994-1996 (estimated) is US \$4.48 million. For more information, see the section on NGOs below.

A1: Section 2

Non Governmental Organisations

ADRA (ADVENTIST DEVELOPMENT RELIEF AGENCY)

RICE BANKS

Organisational Overview: The Adventist Development and Relief Agency (ADRA) is an international agency established by the Seven-day Adventist Church implementing community based development to help disadvantaged people improve their quality of life and achieve self-reliance; assisting in the development of health, educational and vocational institutions which deliver essential services in areas where they are inadequate or non-existent; and providing appropriate and timely responses to human suffering in times of crisis when there is acute distress and life is threatened.

ADRA has been involved in Lao PDR since 1991, focusing on water supply projects.

Goal of Loan Component: Rice banks for food security.

Funding Sources: World Food Program

Institutional Outreach: Vientiane Municipality - 112 villages (1996)

Loan Outreach: US \$594,080 in loans outstanding. The estimated number of rural households who received a rice loan is 6,136, averaging about US \$97 per loan.

Type Of Activity: Rice Banks

Governance Structure: Local officials pushed for the establishment of rice banks. Initially ADRA, with the agreement of WFP, left that decision to the villages. Initial villages preferred not to become involved in rice banks, but at the insistence of district governments, villages were told that rice would be distributed only through these banks. Villages have ownership of the rice, and by-laws have reportedly been established. While guidelines for these by-laws were provided, there not been follow-up. Loan terms are decided by the village committee, and the district government is responsible for supervision.

Financial Products: The interest rate was set at 10 percent in most villages. The term of the loan term is determined by the harvest schedule.

Financial Performance: No repayment figures are available: loans had not come due at the time of this survey.

Membership Eligibility: Limited to people who had lost 100 percent of crop in floods of 1995.

Village Eligibility: Determined by the District accordingly to the level of loss from the floods.

Training: Discussions about repayment plans were conducted with villagers, but were not extensive.

Organisational Background: The mission of the NGO is to provide the means for sustainable self-help in communities of lesser developed countries. CARE works through community-based projects channelled through co-operation with host government agencies and mass peoples' organisations in Laos, and seeks to strengthen these in the process. CARE's operations in Laos began in 1992.

Goal of Loan Component: Rice banks for food security.

Funding Sources: World Food Program and European Union.

Institutional Outreach: Sayaboury Province, 149 villages (1994); and Khammouane Province, over 500 villages (1995-96).

Loan Outreach: Loans were in-kind: 2,900 tons of rice in Sayaboury, 8,600 tons in Khammouane. An approximate estimate of the value of the loans at the time of distribution would be around US \$2,500,000.

Type of Activities Supported: Rice banks

Governance Structure: The rice bank is owned by the village. Every village is given a copy of standard by laws. Supervision of the village rice banks is the responsibility of the district agriculture and forestry services office. All rice is given out immediately to households on an approved list of needy people. The rice bank is capitalised by people's in-kind repayment of rice, after the first good harvest.

Financial Products: Guidelines are presented for discussion at the village level, with the villagers determining the interest rate; it is usually 15 percent per year. The loan term extends until the next good harvest over the following 3 years. No loan repayment is expected if there is a bad harvest, and debts are forgiven after three bad harvests.

Financial Performance: Estimated repayments from 255 villages in Khammouane Province were between 5 and 10 percent for 1995, mainly due to flooding in 1995. In Sayaboury, where harvests have been good since 1994, the repayment rate was about 70 percent for 1995.

Village Eligibility: Targeted villages were selected by the District Labour And Social Welfare Departments, based on flood losses.

Membership Eligibility: Based on rice needs. Vulnerable groups do not have to repay.

Training: There has been no formal training, but informative handouts and a ledger book were provided for accounting assistance. Training at the village level took the form of a discussion before supplying the rice.



- Organisational Background: CIDSE is an international working group of autonomous national Catholic development agencies. The aim of CIDSE/Laos is to improve the quality of life by promoting integrated, sustainable, appropriate, and participatory human development in agriculture, irrigation, health, education, and for women. CIDSE seeks to ensure people's dignity and self-development.
Credit involvement in Lao PDR began in 1990 with rice banks, followed by buffalo banks in 1991-92, expanding to medical drug revolving funds and poultry in 1993.
- Goal of Loan Component: To promote community solidarity through supply of financial services.
- Funding Sources: Private donations from individuals in the CIDSE member countries. The European Community has co-financed a number of projects.
- Institutional Outreach: The programme's first phase covered two provinces (Savannakhet and Borikhamsay) with a total of nearly 50 villages. CIDSE has begun the second phase of its operations in eight villages (four villages in Savannakhet, and four in Borikhamsay), starting with a few villages for the purposes of efficient monitoring. Coverage of around 100 villages is anticipated.
- Type of Activities: Current activities are rice banks, buffalo banks, a medical drug revolving fund, and chicken-raising in one village. In 1997, CIDSE is interested in cash credit; the type of activities to be funded will be decided by a loan committee (presumably at the village level).
- Governance Structure: A district team is monitoring the VRFs. Supervision by the team and CIDSE. Planning for the delivery of financial services is based on a village bank model, including the anticipated program to promote savings.
- Financial Products: Rice banks charge interest of between 15-25 percent per year. Loans for female buffalo (valued at about Kip 170,000/US \$180) are returned within 4 years; repayment is in the form of the original female if not too old, or a new one, plus an offspring if the original female has produced two calves. The heifer and the offspring can then assist another household. The medicine revolving fund (deposit of Kip 50,000/US \$54 in each village) generally is an interest-free loan. Poultry loans are Kip 20,000/US \$21.60 with an interest rate of 20 percent per year.
- Membership Eligibility: The targeted group is the poorest of the poor, chosen by the village committee and following a wealth ranking survey done by CIDSE. Every villager can have access to the rice bank, but only the poorest people have access to the medicine revolving funds. In each village, five to seven of the poorest families can receive a buffalo loan. Loans for chicken-raising are available for Women's Groups.
- Village Eligibility: The target villages are selected in conjunction with government officials at the province and district levels.
- Financial Performance: Evaluation of Phase I of the operations was recently completed. While the evaluation did not focus on the quality of technical assistance or the financial performance of the VRFs, the loan performance in the buffalo banks appeared to be over 90 percent. For the rice bank component, there were problems due to flooding.
- Training: At the district level, training is based on a document with a list of problems for each kind of credit and ways to resolve them. Training at the village level involves presentations and discussions of the lending rules, along with the document used at the district level.

COMMUNITY AID ABROAD (CAA)

LOANS FOR COMMUNITY AND WOMEN'S DEVELOPMENT

- Organisational Background: An independent Australian aid development agency, CAA supports development projects in all sectors which can lead to permanent self-sustainable change. Projects should involve and be supported by the people of the communities assisted, assist the poorest section of a community, include minority groups and women, be environmentally sustainable, and require minimal reliance on outside personnel or equipment. The focus of the Lao programme is poverty alleviation and promotion of sustainable economic and social development in rural communities. CAA began with small-scale irrigation in Lao PDR in October 1988. In 1991 activities were extended; current assistance is for sustainable integrated agricultural development and women's projects.
- Goal Of The Loan Component: To promote income generation and support strengthening of community solidarity through integrated, sustainable agricultural development, with a special focus on community development and women.
- Funding Sources: Private donations, and AIDAB (AusAID)
- Institutional Outreach: Saravane Province, 4 villages (1996); Sekong Province, 2 villages (1995); and Vientiane Province, 14 villages (1992).
- Loan Outreach: Total loan amount disbursed was US \$14,279: in Saravane, US \$1400; Sekong, US \$890; and Vientiane, US \$11989.
- Type of Activities Financed: Weaving, small animal-raising, other agricultural activities in support of an integrated agricultural approach, and rice banks.
- Governance Structure: Loans are implemented through the district level LWU; the Department of Agriculture and Forestry; and at the village level through a development committee. Interest rates are determined by the village members. Interest-free loans were provided to the village from the district government for three years, and to rice banks for four years. Supervision of the Village Development Committee revolving funds and rice banks is under the district government. There are written by-laws for each Village Development Committee. Interest pays for village committee administrative costs; the remainder goes back to the loan fund.
- Financial Products: Rice banks charge an interest of between 20 and 24 percent per year, with the term of the loan established by the next harvest. Weaving loans are charged 8 percent for six months. Loan size ranges from 15,000 to 30,000 kip. Agriculture loans are charged 12 percent for one year. Loan sizes range from 15,000-30,000 kip for small animal raising, and up to 60,000 for other activities associated with adopting a more integrated agricultural approach. Villagers are requested to pay back 50 percent of the land clearing cost (1 hectare maximum which is equivalent to 450,000 kip). Loan terms for the various products are: rice bank, 3-4 years; fish raising, 1 year; weaving, 6 months; buffalo bank, 3 years; integrated farming, 3 years; and pig raising, 3 years.
- Financial Performance: An evaluation takes place annually for Microcredit at the district level. And CAA conducts an evaluation every 6 months. Village Committees make a report to the district committee. In Saravane and Sekong, the projects are too recent for a performance review.
- Membership Eligibility: The village committee and village members decide on borrowers. There was no explicit targeting of women except for the weaving loans.

<u>Village Eligibility:</u>	Discussions between the district government and CAA are held to determine the villages. CAA guidelines target villages with ethnic minorities, low levels of economic development and community solidarity.
<u>Training:</u>	Technical training is provided in integrated agricultural practices - diversity, chicken and pig raising, weaving, and veterinary services.

CONCERN - LAO PDR

LOANS FOR REPATRIATION AND RESETTLEMENT

<u>Organisational Background:</u>	This Irish NGO is devoted to relief, and development of peoples in need in less developed countries, and seeks to involve the programme participants actively in the design and implementation of activities. CONCERN has been active since 1992 in Lao PDR.
<u>Goal of Loan Component:</u>	Provide the basis for economic development for the Lao returnees and the poor of surrounding villages through the promotion of income generating activities associated with other multi-sectoral rural development activities: agriculture, water, sanitation, and irrigation. The microfinance component is only one part of the overall CONCERN development programme in Lao PDR.
<u>Funding Sources:</u>	Public donations of the people of the Republic of Ireland, UNHCR
<u>Institutional Outreach:</u>	Khammouane Province, 11 villages (1993-95) and 5 villages (1995-97); Savannakhet, 13 villages (1992-95); Champasak, 4 villages (1993-95); and Bokeo, 5 villages (1993-95) and 11 in 1995-97.
<u>Loan Outreach:</u>	The total loan amount disbursed was US \$21,498: Khammouane, US \$2993; Savannakhet, US \$3238; Champasak, US \$2917; and Bokeo, US \$12,350.
<u>Type of Activities Financed:</u>	Vegetable production, chicken raising, fish sauce production, weaving, peanut production, buffalo and rice banks.
<u>Governance Structure:</u>	The district government provides a grant to the village. By-laws for each credit scheme are established at the district level. The district LWU, together with CONCERN, is responsible for starting and monitoring the credit activities. The district agriculture and forestry service office is involved in monitoring rice and buffalo banks together with the LWU. The interest rates on loans is determined by the village MEMBERS. Selection of members is done by the village committee. Interest and principal repaid is used to: provide further loans for income generation activities, emergency loans, village administration, and per diem for district staff fund.
<u>Financial Products:</u>	Interest rates on financial loans range from zero to 20 percent per year, with terms from one to two years. Loan size per family for chicken raising is 15,000 kip, for weaving is 20,000 kip, and for vegetable production is 3-5,000 kip. Buffalo loans are repaid within three years with an offspring; this offspring goes back to the village buffalo bank and can then assist another household.
<u>Membership Eligibility:</u>	People in the project village within the target policy of CONCERN, supervised and implemented by the LWU.
<u>Village Eligibility:</u>	Repatriation villages and villages surrounding the repatriation villages.
<u>Training:</u>	Technical training is provided in the areas of vegetable production, chicken raising, fish sauce, weaving, peanut production, buffalo raising, rice banks, and management.

- Organisational background: CONSORTIUM combines the expertise and services of three US based international voluntary agencies: World Learning, Inc., World Education, and Save the Children-USA. These agencies formed the CONSORTIUM in 1979 in response to the needs of Indochinese refugees and the governments who offered them asylum. This objective has since been expanded to include assistance to refugees seeking to resettle in their countries of origin as well as *other rural* development activities focused on local capacity building. The major goals have been to assist the repatriates in achieving basic economic security and social integration, and strengthen the capacity of Lao agencies to identify and manage sustainable community projects. Training of villagers and local officials is a cornerstone of program activities in agriculture, education, health, and women's income generation. In October 1992, CONSORTIUM established a presence in Lao PDR as an implementing partner with UNHCR for refugee repatriation activities (community development training and services). In 1995 CONSORTIUM began implementing *other rural* development projects.
- Goal of Loan Component: To promote women's empowerment through income generation activities that help raise additional income for their families, and boost their self-esteem, and improve the economic conditions in the community. Started in 1994, the Revolving Fund Program was designed to promote income generation among women in resettlement and neighbouring villages by providing easy access to low-interest loans.
- Funding Sources: UNHCR, EC, USAID, private donations.
- Institutional and : Sayaboury, 22 villages, total disbursements at US \$42,639; Luang Prabang, 14 villages,
- Loan Outreach (1994 - 1996): Total disbursements at US \$38,637; Vientiane, 8 villages, total disbursements at US \$27,607; for a total of 44 villages and US \$108,883 disbursed.
- Type of Activities: Small animal raising, cash crops (watermelon and peanuts), handicrafts (weaving, quilting, silversmithing), trade and animal banks (pigs, chickens and cows).
- Governance Structure: The district government provides a grant to the VRF. The arrangement is different for animal bank VRFs. For the enforcement of loan contracts, there is a contract for loan repayment on animal bank VRFs, between the district and the village after everyone who wants a loan has received a loan. If an animal dies (for whatever reason), the debt is forgiven. Supervision responsibilities for revolving funds is the LWU and for the animal banks it is the Department of Agriculture. By-laws are established before money is provided in the revolving funds. For the animal banks, a contract is drawn up between the district and the group. Decisions on loan terms for the revolving fund is made by the village. Loans in the revolving fund go to individuals and in the animal banks to groups. After the first round of loans have been repaid, each project village holds a meeting to reconsider the loan amount and interest rate that is best suited to their needs. The majority of the project villages have increased the maximum loan amount and interest rate, and set aside funds to pay the services of the village revolving fund committee members.
- Loan Products: Loan size is from 10,000 to 120,000 Kip per person. Loan term is either six or twelve months. Interest rates vary from 4 to 15 percent per year. Loan size is a number of animals provided to groups of households (5-10 members) for a specific type of animal. Loan repayment is an offspring. Term is one to three years.

<u>Membership Eligibility:</u>	Women, the poor, repatriated households, and completion of required training is the basis for membership eligibility. Animal bank-VRFs include men.
<u>Village Eligibility:</u>	Repatriate and surrounding villages.
<u>Financial Performance:</u>	Loan repayment during the first year has been 95 percent.
<u>Training:</u>	All borrowers must attend technical training on the preparation of small business feasibility studies and on the types of income generation activities being promoted. Village leaders and district LWU officials have been taken on study tours to assess the current local market demands and supplies and learn from the experience of successful businessmen/farmers. Agriculture village volunteers receive 3-4 training a year for 4-5 days in the areas of veterinary services, animal husbandry, horticulture. The VRF management committee receives training on management - responsibilities, loan application, screening, and bookkeeping. Training is also being provided to the management committees.



- Organisational Background: CUSO is a Canadian organisation which supports alliances for global social justice, by sharing information, human and material resources, and by promoting policies for developing global sustainability. In Asia, CUSO's focus is on Sustainable Rural Development, including sustainable agriculture, community-based natural resource management strategies, participatory extension approaches, gender equality, networking, and media development. Within this context the CUSO Lao program places special emphasis on human resource development, training, information sharing and institutional strengthening.
- Goal of Loan Component: Loans support activities promoted by the extension workers and the Project. Initially, CUSO did not want to become involved in developing a credit program. It was only at the Government's insistence that CUSO became involved in development finance.
- Funding Sources: The CUSO program in Lao PDR is financed from core funds provided by the Canadian government (CIDA) and from other sources including a NOVIB (Netherlands) partnership, UNOPS and Diakonia (Sweden), including various project grants and private donations.
- Institutional Outreach: 2 villages in Vientiane Province (1994)
- Loan Outreach: The total loan amount disbursed is US \$12,718.
- Types of Activities Financed: Pig raising, chickens, fish, gardens, fruit trees, land clearing
- Governance Structure: The village committee determines the selection of borrowers in conjunction with CUSO. The village committee is responsible for monitoring and management. The village committee received 50 percent of the interest income and the remainder went into the loan funds.
- Financial Product: The first four "model farmers" were given 50 percent grants with the other half as an interest free loan for two years; the next four farmers were given an interest free loan for two years; and the last nine farmers were given a loan at 10 percent per year for two years. Loan size varied, based on the plans submitted by the borrower: chicken raising, 25,000 kip; one pair of pigs, 50,000. The largest loan was for 385,000 kip and the smallest for 30,000 kip (for a combination of loans, usually chicken and pig raising together). In the second village where the project was implemented, the interest rate was 5 percent for two years, with no collateral.
- Membership Eligibility: The targeted borrowers are hard-working, "good citizens," middle class, interested in improving their farming systems, and have a good plan. Implicitly, they are considering repayment capacity, but not necessarily risk-adjusted repayment capacity.
- Village Eligibility: The district government chose the villages. CUSO provided their guidelines and the district government works closely with CUSO to ensure these guidelines are followed.
- Financial Performance: Loan repayment was 57 percent for the first eight borrowers.
- Training: Training has been provided to the agriculture extension agency and the farmers in the form of study trips, farmer to farmer visits, and technical training such as mushroom production, chicken and fish raising and fruit tree planting and propagation.

MENNONITE CENTRAL COMMITTEE (MCC)

RICE BANKS, SMALL ANIMAL, WEAVING, AND PISCICULTURE LOANS

<u>Organisational Background:</u>	<p>MCC is the umbrella agency for relief and development programs of Mennonite Churches in North America. MCC programs try to reflect a spirit of understanding and reconciliation between peoples of the developed and developing world. In places of conflict MCC attempts to be a witness for non-violence, and has tried to help the Lao people recover from the devastation of the war, including continued assistance to unexploded ordinance clean-up.</p> <p>MCC has been working in Lao PDR since 1975; from 1993, MCC's involvement has mainly been to provide assistance to integrated development projects. MCC has also</p>
<u>Goal of Loan Component:</u>	Promote income generation for the poor.
<u>Funding Sources:</u>	Primarily from the Mennonite constituency in Canada and the USA Additional donations and grants from other individuals, churches, agencies, and foundations.
<u>Institutional Outreach:</u>	12 villages in Phongsali Province (May District) and 12 villages in Houaphan Province (Viengsay District).
<u>Loan Outreach:</u>	The total loan amount disbursed is US \$11,233.
<u>Type of Activities Financed:</u>	Rice banks, poultry, pigs, fish ponds and weaving.
<u>Governance Structure:</u>	Loans are provided to the villages from the district government, and village development committees manage the credit funds. Interest rates and other loan conditions for the credit fund are determined by MCC and the district government, while other aspects of loan policy are decided by the villagers. There are no specific by-laws for the VRF. The rice banks have separate committees, but the village leader is a member of both. Loan policies for the rice banks are decided by the villagers. Loans for weaving are provided to women through the LWU, although their specific governance role was not ascertained.
<u>Financial Products:</u>	For the rice banks, interest rates are 10-25 percent; poultry, fish and pigs loan sizes are 15,000 kip, with 10 percent interest at a one year term; weaving loans for women groups through the LWU have loan sizes of 20-25,000, with 10 percent interest and terms of one to two years. Loans are provided to members; there is also one loan to a youth association for a fish pond.
<u>Membership Eligibility:</u>	The targeted clients are the poor. Women are specifically targeted for weaving loans, but other than that, there is no gender targeting. Even though borrowers are selected by the village committee, it is in consultation with MCC and the district government.
<u>Village Eligibility:</u>	The targeted villages are poor and have an ethnic minority population. Food-security must be of overriding concern.
<u>Financial Performance:</u>	Repayment of the loans is not available at this stage.
<u>Training:</u>	Accounting training is conducted by two village development workers; the village development workers receive no compensation or assistance. The LWU and district level teams are provided DSA by MCC. MCC has no professional trainers on its staff.

NORWEGIAN CHURCH AID (NCA)

RICE BANKS, WATER, BUFFALO, CHICKEN, MEDICINE, WEAVING, AND CATTLE VACCINATION LOANS

- Organisational Background: NCA is a Church-based development and emergency assistance organisation working through both multilateral and bilateral channels, and with Church-related and secular partners. Its main aims in south-east Asia are organisational and institutional development, strengthening of human resources, management of natural resources, and sustainable livelihoods emphasising long-term development designed in close co-operation with target groups, mainly marginalised underprivileged rural populations. Major policy concerns are prioritising and targeting the underprivileged/marginalised sections of villages through a community approach; applying participatory methods in planning, implementation, follow-up, and evaluation; and sustainable solutions through contributions by target population and local government. NCA adopts a facilitation rather than operational role in the project partnerships. NCA started its co-operation with Lao central and provincial levels in 1988, through an integrated rural development project in Nong District, Savannakhet Province, supervised from Bangkok. In 1993 an office was set up in Vientiane, and the same year a tripartite co-operation involving Lao Government (LCDC) and UNDCP was launched in the two northern provinces of Luang Namtha and Bokeo. In Savannakhet province new projects were added in ophthalmic and AIDS-prevention. A possible co-operation with Attopeu province is being negotiated.
- Funding Sources: NCA operations are mainly funded by private contributions/subscriptions and by the Norwegian Government at an approximate ratio of 30 : 70 percent.
- Institutional Outreach: Credit is extended to selected families in target villages in Bokeo, Luang Namtha and Savannakhet provinces.
- Loan Outreach: Total credit extended in Bokeo: rice banks, US \$2000; gravity water systems, US \$1900; chicken revolving fund, US \$730; for a provincial total of US \$4630. Total credit extended in Luang Namtha: rice banks, US \$3400; chicken revolving funds, US \$260; buffalo banks, US \$2400; gravity water systems, US \$1050; for a provincial total of US \$7110.
- Type of Activities Supported: Rice banks, gravity water systems, buffalo banks, chicken revolving funds, medicine revolving funds, cattle vaccination revolving funds, and weaving credit.
- Governance Structure: The credit is extended directly to district services or villages through the responsible village committees. Bookkeeping and follow up is the responsibility of the district services / village committees.
- Financial Products: Gravity water systems: repayment over 3 years (50 percent of extended sum). Rice banks: repayment of borrowed quantity within one year.
- Financial Performance: Repayment rates have not yet been monitored: under review.

- Organisational Background: OXFAM Solidarity-Belgium is a non-profit organisation not linked to a religion or any political party, with the following aims: to alleviate poverty by supporting initiatives of local organisations in "developing countries;" to relate the problems of underdevelopment to the present situation in "developed countries;" to promote solidarity between people in developing and developed countries as a crucial pre-condition to defeating poverty; and to promote respect for others and their environment and build solidarity with distressed communities. To achieve these aims, OXFAM-Belgium supports development projects in developing countries. OXFAM also conducts information and education campaigns for the Belgian and EC public and undertakes lobbying activities with European Government and other public authorities.
Since 1993, OXFAM has focused its long term development assistance in Lao PDR mainly on the agricultural sector.
- Goal of the Loan Component: Increase the number of cattle, generate income and increase self reliance in the village.
- Funding Sources: Contributions and funds are granted from the Belgian individuals, the Belgian Government and the EC.
- Institutional Outreach: Vientiane Province, 2 villages; Xiengkhouang Province, 2 villages (1993-1996); and Savannakhet Province, 4 villages.
- Loan Outreach: The total loan amount disbursed in 1995 are: Xiengkhouang Province, US \$8500; Savannakhet Province, US \$16,423; and Vientiane Province, US \$8,000 (budgeted for 1996 but not released yet).
- Type of Activities Financed: Cattle banks in Xiengkhouang and Savannakhet; land clearing of unexploded ordnance in Savannakhet; and weaving activities in Vientiane Province.
- Governance Structure: The village owns the resources provided. In Xiengkhouang, the loan policy was drawn up by the LWU and villages. In Savannakhet, the ownership of the cattle is with the two villages. For the land clearing, the fund is owned by the district and paid back by the villagers to the district.
- Financial Products: The borrowers are supposed to repay the value of the cattle supplied in three years. For the land clearing, the term is five years. For weaving loans, the repayment takes place after 1 year. Interest rate for land clearing and weaving is 10 percent per year. Villagers are requested to pay back 50 percent of the land clearing cost at a 1 hectare maximum, which is equivalent to 450,000 kip.
- Membership Eligibility: For the cattle banks, the targeted clients are those without cattle; for land clearing, upland cultivators; and for weaving, women who show interest and have formed a group.
- Village Eligibility: Based on the initiative of the villages in which OSB is already involved, in strong co-ordination with the district government.
- Financial Performance: Preliminary results are expected by end 1996 (not available for the survey)
- Training: Group accounting and management, pricing, marketing and quality management training was provided to weaving groups.

QUAKER SERVICE LAOS (QSL - AMERICAN FRIENDS SERVICE COMMITTEE)

ANIMAL BANKS, RICE BANKS, AND REVOLVING FUNDS

- Organisational Background: As an independent Quaker organisation, the AFSC carries on its programs as an expression of the belief in the dignity and worth of each individual and in the power of love and non-violence to bring about social justice and change. The work is supported by individuals and organisations of different persuasions who care about service, development, social justice, equality, and peace. Activities in Lao PDR began in 1973 with assistance to the people affected by the Indochina war. QSL began with relief and reconstruction and made a gradual shift to community development. Currently, QSL is working in three northern provinces in order to focus efforts on increasing the participation of the poorest of the poor. QSL also provides technical support for programs in irrigation and veterinary services and other activities at the national, provincial, and local levels.
- Goal of Loan Component: Promote income generation.
- Funding Sources: AFSC (personal donations); Heifer Project International (USA); Danchurchaid (Denmark); Diakonia (Sweden); EZE (Germany); International Coordination Committee for Development Projects (ICCO, Holland); and Quakerhilfe (German Quakers).
- Institutional Outreach: Xiengkhouang, Oudomxay and Luang Prabang Provinces.
- Loan Outreach: Xiengkhouang, US \$20,000; Oudomxay, US \$30,000; Luang Prabang, US \$20,000 for revolving funds since 1994.
- Types of Activities: Animal banks, rice banks and revolving funds.
- Governance Structure: Quakers Service Lao have counterparts at the provincial, district and village levels. Funds are disbursed to village groups through the Community Development Committee, in co-ordination with QSL staff. The village owns the fund and establishes loan policy. After the village has used the funds, the district committee, the Province, and QSL can select a new village. The monitoring and supervision responsibility rests with the district government. When problems cannot be resolved at district level, the Province and QSL get involved.
- Financial Products: Loan size varies depending on the activity being financed. For example, in one province livestock loans have a term of three years with repayment of the female cow and one offspring. Terms vary by province. Rice loans are for one year at 20 percent interest. Weaving loans are for one year, with three equal payments at interest rates between 5 - 20 percent per year.
- Membership Eligibility: All households in a village can be eligible to receive a loan, but priority is given to the poorest household of the community; this can promote the participation of women and ethnic minorities).
- Village Eligibility: Ethnic minority population and poor villages with no other active aid organisations involved.
- Financial Performance: In Luang Prabang there has been 100 percent repayment for the revolving fund, rice banks, and pig banks.
- Training: The district, province, and village governments receive training in accounting.

SAVE THE CHILDREN-AUSTRALIA (SCA)

RICE BANKS, ANIMAL BANKS, AND LOANS FOR FRUIT TREES, ANIMAL HUSBANDRY, AND WEAVING

<u>Organisational Background:</u>	SCA is a secular organisation committed to addressing the needs of children and women through development strategies and programs with direct impact on their communities. SCA has as its guiding principle the Declaration of the Rights of the Child and is a member of the International Save the Children Fund Alliance. SCA has focused its development assistance program primarily to the health and village development sectors, in partnership with the Ministry of Health and Lao Women's Union.
<u>Goal of Loan Component:</u>	The objectives of the Microcredit Project are to stimulate income generation and to improve food security. Lack of credit was viewed as the primary constraint towards stimulating production and, therefore, income generation.
<u>Funding Sources:</u>	SCA receives donations from the Australian public and grants from the Australian Agency for International Development (AusAID).
<u>Institutional Outreach:</u>	Sayaboury Province, 57 villages; Phongsaly Province, 11 villages; Bolikhamxay Province, 78 villages.
<u>Loan Outreach:</u>	Sayaboury Province, US \$96,000; Phongsaly Province, US \$20,000, and Bolikhamsay province, US \$78,000 for the second phase (1995-97). Loans were also made in the first phase of Sayaboury & Bolikhamsay projects.
<u>Type of Activities Financed:</u>	Community rice banks, livestock banks, small animal husbandry, fruit trees, and weaving.
<u>Governance Structure:</u>	Funds are provided through the provincial LWU to the district LWU & then to the revolving loan fund groups. Each activity group has a leader, a secretary, and treasurer; funds are given as loans. Loans are supplied to individuals in the activity group with no joint liability. The District Lao Women's Union (PMT: Program Management Team) sets the interest rate in consultation with members of the revolving loan fund group.
<u>Financial Products:</u>	The terms and conditions of loans vary from village to village and by activity. Community rice banks charge 30 percent interest per year, while the livestock bank charges 3 - 15 percent interest per year with a loan term of up to five years. Small animal loans have an interest rate of 10 percent per year. Usually, cash production loans are for 20 percent per year with a loan term of three years, and weaving loans have an interest rate of 10 percent per year for three years. There is no collateral requirement. Small animal loan size is between 15-30,000 kip per borrower; and weaving loan size is between 30-35,000 kip per borrower.
<u>Membership Eligibility:</u>	The targeted clients are women.
<u>Village Eligibility:</u>	According to the project guidelines, which target poorer villages.
<u>Financial Performance:</u>	This had not been collated at the time of the survey.
<u>Training:</u>	SCA has a partnership with the LWU at all levels. One of their activities is LWU institution-building. This component addresses the training needs of the LWU PMT, provincial/district administration personnel, technicians, cluster development workers and key SCA staff so that they have the skills, tools and knowledge to facilitate, plan and manage community development and effectively monitor /evaluate project outcomes. The component also ensures that the LWU PMT has the infrastructure/institutional capacity to manage and sustain the project. The integrated village development approach provides training and assistance to each village in a wide number of activities.

WORLD CONCERN

LOANS FOR AGRICULTURE, PISCICULTURE, SMALL ANIMAL RAISING AND LAND CLEARANCE

- Organisational Background: World Concern is an independent Christian humanitarian agency with a concern for the needy people of the world. World Concern specialises in self-help development, health care, and emergency relief and rehabilitation programs in developing countries. World Concern strives to work as a funding and resource agency to enable the recipients in the Third World countries to achieve self-sufficiency and economic independence through integrated community development. World Concern has been involved in the Lao PDR through a variety of development projects since May 1981. World Concern has been involved in agriculture under the Ministry of Agriculture and is concentrating on integrated rural development at the village level.
- Goal of Loan Component: Promotion of new occupations for farmers involved in slash-and-burn agriculture.
- Funding Sources: Funds to support these projects come primarily from donations of churches, individuals, foundations, and other organisations. Tear Fund and OREBRO (Sweden) are the primary sources of funds for the Microfinance programs.
- Institutional Outreach: Luang Namtha Province (3 villages).
- Loan Outreach: Luang Namtha Province (US \$30,000).
- Type of Activities Financed: Fishponds, crop production, small animal raising, dry season cropping, trading, expanding the size of rice fields, gardening, and opening up new rice fields.
- Governance Structure: Funds provided by World Concern are owned by the district government and the village. After five years, 40 percent of the original funds provided are returned to the district (interest free loan). Currently, the Project is managing the funds, but training is on-going to transfer this responsibility to the village revolving fund association. By-laws do not exist as the VRFs have not become fully operational. Loans are given to groups who secure loans by compensating balances (forced savings element), and joint-liability. Savings are being held at the Lanexang Bank. Group size averages between 4 and 8 people; members do not have to be involved in the same activity. Compensation for the VRFs and district government amounts to 60 percent of the interest income. The remaining 40 percent goes into the loan funds.
- Financial Products: For fishponds, crop production, chicken, and other small animal raising, trading, the term is 12 months with a 7 percent interest rate; there is no maximum or minimum loan sizes, but they are usually between 40-50,000 kip. For building small fishponds, expanding rice fields, and larger animals, the term is 12 - 36 months with an interest rate of 5 percent, no maximum loan size up to 100,000 kip. For gardens, large fishponds, and opening up new paddy land, the term is 3 - 5 years with an interest rate of 3 percent; loan size is up to 500,000 kip. Interestingly, there is a requirement for an 50 percent equity contribution or a down-payment from the borrower when financing rice mills and large fish ponds. This program is one of a few that has a savings program, which is linked with the Lanexang Bank. Borrower groups must hold compensating balances in the bank. Monthly contributions vary but the compensating balance is approximately 5 percent of the loan amount provided.
- Membership Eligibility: Membership is not restricted by gender or wealth.
- Village Eligibility: The focus of World Concern is on upland villages, but the final determination is by the district governments.

Financial Performance:

The program is still in its start-up phase, with many loans just issued for the growing season just prior to the survey.

Training:

Training is being provided for accounting systems. Future training involves strengthening of district government in project monitoring and supervision. The financial services program is part of an integrated village development approach, including agriculture, health, infrastructure (access roads, electrification), and education.



- Organisational Background: World Vision is a Christian international relief and development agency operating in over 100 countries. World Vision Lao PDR (WVL) in collaboration with local partners releases the potential of poor and marginalised people, empowering them to improve their social and economic conditions through an integrated community development approach.
- History of Involvement: Since 1991 assistance has been expanded to Savannakhet, Champasak, Vientiane, Huaphan, and Luang Prabang provinces and Xiengkouang special district, through relief and community development projects. WVL has 27 projects with US \$1.5 million annually.
- Funding Sources: 12 funding sources including multilateral (The World Food Program), various governments (USAID, AusAID, ODA), private donors and churches.
- Institutional Outreach: 5 provinces are involved in microfinance projects: Champasak, 6 projects; Huaphan, 2 projects; Luang Prabang, 3 projects; Saravane, 1 project; and Savannakhet, 2 projects
- Loan Outreach: Not available.
- Type of Activities Financed: Buffalo banks, seed and rice banks, and small-scale income generation (weaving, fruit trees, garlic production). World Vision seeks to emphasise community development projects using an integrated approach, including health, education and agriculture.
- Governance Structure: The district government monitors and supervises the Project. A grant is provided by the district government to the VRF. The VRF management committee determines loan policy.
- Financial Products: Loans from buffalo banks is in-kind and repayment is in cash or in kind. Loan terms range from one to three years. Repayment in kind is a three year-old buffalo, or the value of a three year-old buffalo. Rice seed loans come with an interest rate of 15 - 18 percent. The loan term is established by the next good harvest. Loans can be rescheduled for up to two years, and can then be forgiven. Repayment is either in-cash or in-kind. Weaving loans are for women, with interest rates between 7 and 10 percent, and a loan term of one year. Loan size ranges from US \$40 to US \$50. Garlic loan size is US \$100, with an interest rate of 7 to 10 percent per year and a loan term of one year. There are no collateral requirements to receive a loan.
- Membership Eligibility: Targeted borrowers have two criteria: sufficient capacity and reliability to pay back the loan.
- Village Eligibility: Villages targeted for integrated rural development project, based on need and the priorities of district and provincial government.
- Financial Performance: Not available.
- Training: Training is provided in the areas of accounting / bookkeeping and agricultural extension, and in areas of technical expertise for which the loans have been provided (e.g. agriculture, weaving, and cash crop training).

ZOA - LAO PDR

RICE BANKS, PIGS, BUFFALO, FISH, LAND PREPARATION, AND HANDICRAFTS

- Organisational Background: ZOA Refugee Care (ZOA) is a Christian agency, providing assistance to refugees, displaced persons, and victims of natural disasters. ZOA works regardless race, sex, religion or politics. Programs of ZOA are conducted in close co-operation with UNHCR, local government and other NGOs. In the Lao PDR the aim of ZOA is to support the repatriation and especially the reintegration of Lao refugees. ZOA has always aimed to maximise the capacities of the people involved in projects. High value is given to participation of the target group, both repatriates and surrounding people. The ultimate goal is to bring people to an acceptable level of self-sufficiency. ZOA has gradually developed its program in Lao PDR in the direction of rural development activities and income-generating activities. Some projects are carried out as an implementing Partner of UNHCR. The activities concentrate on training for development, training for specific techniques, organisation of the community and provision of credit or other resources.
- Goal of Loan Component: The goal of the project is to establish sustainable village credit associations (groups), that can be profitable and are managed by the villagers themselves.
- Funding Sources: The budget for ZOA is generated from private donors, schools, churches, institutions, and the Dutch Government. For some activities UNHCR and WFP are providing funds.
- Institutional and Loan Outreach: Luang Namtha, 11 villages, US \$43,186; Vientiane Province, 122 villages, US \$1,014,701; Vientiane Municipality, 3 villages, US \$25,000; Xiengkhuang, 7 villages, US \$15,250; for a total of 143 villages and US \$1,098,134 in loans.
- Type of Activities Financed: Rice banks, pigs, buffalo, fish, land preparation, and handicrafts.
- Governance Structure: ZOA supplies, in co-operation with the district government, an interest-free loan to the loan groups. The loan policy for loan groups is determined by the villagers, the district and ZOA. The loan policy for rice bank is determined by the village.
- Financial Products: Loan size varies by the type of activity: US \$38 for pigs loans, US \$22 for handicraft loans, and between US \$183 and US \$329 for buffalo. Interest rates range from 10-12 percent for pig and handicraft loans, to 5 percent for buffalo loans. Loan terms range from 6 months for pig and handicraft loans to two years for buffalo loans. Rice loan size is based on repayment capacity (not risk-adjusted). Rice loans come with an interest rate of 20 percent and a forced savings of 10 percent of the rice borrowed in areas of rice self-sufficiency.
- Membership Eligibility: Repatriates and women for the village bank initiative.
- Village Eligibility: Repatriation villages and surrounding villages.
- Financial Performance: The delinquent rate for the 2 village banks is four percent.
- Training: Training is provided on the principals of a rice bank.

ZOA's Village Bank Model includes the following major points and restrictions:

- Only women, targeted activities to be funded, and the heterogeneity of the village group with respect to income and assets-low, group loans and not individual loans;
- Group leader is responsible for solving every problem;
- Compensating balance of 10 percent;
- Maximum loan size is 70,000 kip
- Term is six months, and the interest is 5 percent per month, including 2 percent saving.
- 40 percent of interest income goes into an emergency fund; 12 percent goes for the cost of funds, inflation premium; 36 percent of interest income goes into staff (per diem for committee and one district staff) and administrative costs; and 12 percent is considered profit.



No official poverty line exists for the Lao PDR. The World Bank has undertaken an analysis of poverty incidence¹⁷. The findings, summarised here, are based on an expenditure and consumption survey carried out by the Lao National Statistical Centre for 1992-93¹⁸.

Poverty lines, based on monthly consumption expenditure, are derived for three regions of the country: north, centre and south¹⁹, and for urban and rural areas within the regions. Two poverty ceilings are constructed: a poverty line based on a food bundle of purchases that yields 2,100 calories per person per day and is typical of the consumption patterns of the poor in Lao PDR (referred to as the “lower poverty line”); and a higher poverty line that contains an allowance for non-food consumption, typical of households that are close to the food poverty line. Table A1.1 sets out the poverty lines derived.



¹⁷ Published in “Lao PDR Social Development Assessment and Strategy”, August 1995

¹⁸ Published in “Lao PDR Household Expenditure and Consumption Survey”, 1993

¹⁹ The north region comprises the provinces of Phongsaly, Luang Namtha, Oudomxay, Bokeo, Luang Prabang, Houaphanh and Xayaburi; the centre region comprises Vientiane municipality, Xieng Khouang, Vientiane, Bolikhamsay, Khammouane and Savannakhet; the south region comprises Saravane, Sekong, Champasak and Attapeu

Table A2.1: Lower and Higher Poverty Lines and Average Consumption Expenditure 1992-93 (1993 Kip per capita per month)

Region	Lower Poverty Line			Higher Poverty Line			Avg. Consumption Expenditure		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
North	8,990	7,045	7,045	9,299	9,299	9,299	10,285	16,448	11,347
Centre	7,045	10,449	9,436	12,047	13,782	12,577	14,520	23,335	17,214
South	8,860	8,860	8,860	12,289	12,289	12,289	11,945	23,549	13,939
All	8,288	9,431	8,558	11,145	12,562	11,472	12,504	21,762	14,696

Source: World Bank, 1995

The analysis concludes that the average monthly consumption expenditure per capita was Kip 14,696 (about US \$20.50 at the then-prevailing exchange rate of Kip 716 to the dollar) with wide disparities between rural and urban areas. For example, average urban consumption expenditure at Kip 21,762 was 74 percent greater than average rural consumption expenditure. Average urban consumption expenditure at Kip 21,762 was 73 percent above the higher poverty line, but average rural consumption expenditure at Kip 12,504 was only 12 percent above the higher poverty line. In rural areas in the south region, average rural consumption expenditure at Kip 11,945 was actually below the higher poverty line of Kip 12,289.

At the time of the survey, 46.1 percent of the Lao PDR population fell below the higher poverty line. 21.6 percent had per capita expenditures that fell below the lower poverty line. In rural areas, 53 percent of the population fell below the higher poverty line compared to 23.9 percent in urban areas. The south region had the highest incidence of poverty at 59.8 percent, the centre the lowest at 40.4 percent. The distribution of poverty by region is summarised in Table A1.2.

Table A2.2: Regional Composition of Poverty 1992-93 (for the Higher Poverty Line)

Region	Population in Region	Percent of Total Population	Number of Poor in Region	Percent of Poor in Regional Population	Percent of All Poor
Rural					
North	1,176,929	26.5	620,724	52.7	30.3
Centre	1,495,244	33.6	701,585	46.9	34.2
South	720,106	16.2	476,831	66.2	23.3
Subtotal Rural	3,392,279	76.3	1,799,140	53.0	87.8
Urban					
North	245,187	5.5	39,277	16.0	1.9
Centre	658,160	14.8	169,097	25.7	8.2
South	149,407	3.4	43,088	28.8	2.1
Subtotal Urban	1,052,754	23.7	251,462	23.9	12.2
Totals	4,445,033	100.0	2,050,602	46.1	100.0

Source: World Bank, 1995

The poverty gap, the amount by which the incomes of the poor fall below the poverty line on average, was found to be 14.4 percent in rural areas and 4.5 percent in urban areas. The poverty gap in the south was 18.8 percent compared to 10 percent in the centre. Measurement of the severity of poverty, the extent to which poverty exists below the average poverty gap, showed the most severe poverty to exist in the south.

Further analysis showed that the higher the level of education of the household head, the lower the incidence of poverty. Poverty declines with the age of the household head and poverty in female-headed households was less than in male-headed households. The findings on poverty related to occupation are striking and show that the incidence of poverty among farming households was greatest (with 52.5 percent of people below the higher poverty line); followed by wage labour in the private sector (40.7 percent of people) followed by the elderly; retired and infirm (24.6 percent of people); and those in government employment (24.5 percent of people). Among those in self-employment or working as unpaid family labour only 14 percent were below the higher poverty line. These findings are summarised in Table A1.3.

Table A2.3: Poverty Incidence by Educational Level, Age, and Occupation 1992-93 (for the Higher Poverty Line)

Educational Attainment of Household Head	% of Population below Poverty Line	Age of Household Head (years)	% of Population Below Poverty Line	Occupation of Head of Household	% of Population Below Poverty Line
No formal education	57.3	15-30	52.5	Farming	52.4
P1-5	42.0	31-45	49.4	Self-employed	14.0
M1-3	33.8	46-60	41.5	Government	24.5
O1-3	15.1	Over 60	33.1	Private sector	40.7
Technical College	26.3	Female head	38.6	Retired	24.6
University	0.0	Male head	46.5	Other	2.1

Source: World Bank, 1995

In summary the findings are that there is significantly more poverty in rural than in urban areas. Poverty is most accentuated in the south. Poverty is found more frequently where the household head has a low level of formal education. Poverty incidence is higher where the head of the household is young and in households where the primary occupation is farming.

The World Bank report concludes that in many areas the integration of rural people into the market economy is marginal, and that there are limited opportunities for diversification. Improving the standard of living for the rural population requires the development of rural infrastructure, particularly access roads; increased public sector investment to support agricultural development; and actions to foster rural factor market development.

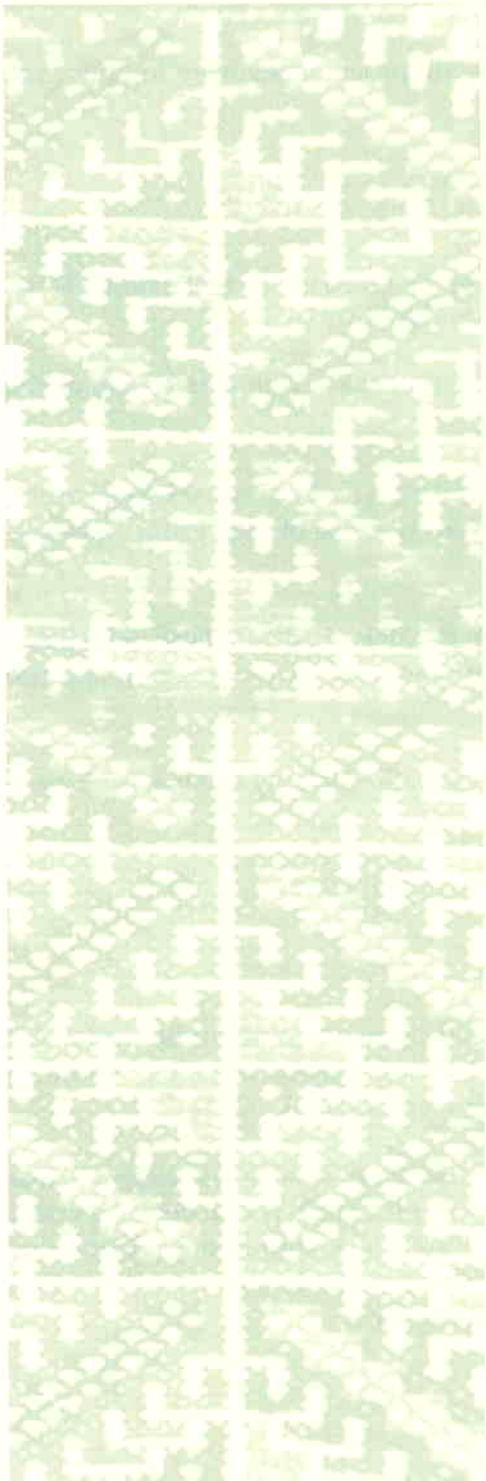
In connection with the development of the rural factor market, the report reached the following conclusions.

- Lifting the remaining restrictions on the free movement of people within Lao PDR will be an essential step in developing efficient rural labour markets. This will contribute to poverty reduction if migration from resource-poor areas to areas with better employment opportunities and resources is allowed to take place.
- Implementation of enforceable tenure rights for land and forest resources is critical to protect those who have traditionally used these resources, and can facilitate either the sale or transfer of land to other users or the use of land as collateral for credit.
- There is an essential need to develop rural financial markets through savings and credit facilities for resource mobilisation, to finance investments in agricultural sector modernisation and non-farm income-generating activities.

The report specifically recommends that the Government should encourage financial institutions to extend credit in rural areas by liberalising interest rates; eliminating the Government's monopoly on provision of rural financial services; encouraging innovative mechanisms such as group-based lending; and developing linkages between village-based savings and lending groups and formal institutions to provide mechanisms for the poor to gain access to financial resources.

These conclusions are supported by the findings of the UNDP/CDF microfinance profile, and are reflected in the recommendations of the Sixth Party Congress.

SURVEY QUESTIONNAIRES



The survey used six questionnaires. A Rural Household questionnaire was used to collect information from households. It consisted of 30 questions concerning basic characteristics for the rural household, the financial manager, the financial manager's attitudes towards financial assets and liabilities, and the rural household's financial and non-financial asset portfolio and financial liabilities.

- A Credit House questionnaire was used to collect information from moneylenders who were identified in the villages selected for the survey. Each moneylender identified by the Village Committee was interviewed. The questionnaire had five questions concerning credit rationing, loan portfolio and terms and conditions of loans made by type of loan.
- An Informal Financial Group questionnaire was used to collect information from the leaders of informal financial groups in the survey villages. Every informal financial group that was identified by the Village Committee was interviewed. The questionnaire contained seven questions concerning the composition of the informal financial group, the number of members and gender composition, frequency of meetings, size of contributions, length of existence and if emergency loans were provided.
- A Formal Financial Institutions questionnaire was used to collect information from the Agricultural Promotion Bank and four SOCBs. The survey team supervisors visited bank branches in Vientiane and province. Information was collected concerning outreach, loans, savings, and the overall structure of assets and liabilities. Supplementary information on APB and the four SOCBs was provided by the Bank of Lao PDR.
- A Rice Bank, Livestock Bank and Revolving Fund questionnaire was used to collect information from the leaders of these village based organisations. The leader of each organisation was identified by the Village Committee in the villages surveyed was interviewed. The questionnaire covered the existing number of borrowers, loans outstanding, loans overdue and the terms and conditions of the two most recent loans supplied.

NGOs involved in VRFs were also interviewed. The NGO questionnaire covered NGO objectives, outreach, institutional structures, types of loans, their terms and conditions, and monitoring procedures for credit funds. Donors were not administered formal questionnaires, and the information provided was based on a series of interviews from the summer of 1996 through April 1997.

SELECTING THE SAMPLES

Sampling depended on the unit of observation. For sampling rural households, the list of bans (villages) from the 1995 Census was used as the sampling frame. Some 11,192 bans in all 18 provinces were deemed to be non-urban. These bans made up the sampling frame. They were divided into four strata, and a predetermined number of bans was randomly selected from each strata. A total of 120 bans were randomly selected. In each selected ban, enumerators attempted to interview 25 randomly selected households.

For moneylenders and informal financial groups, enumerators attempted to interview every moneylender and the leader of every informal financial group identified by the Village Committee in all villages sampled.

For the formal financial institutions, APB and the five SOCBs that have operations in rural areas were approached and their provincial branches visited. Moderately complete reporting was received from APB, Arounmay Bank, Lanexang Bank, Lao May Bank and Phaktai Bank. Incomplete reporting was received from Sethathirath Bank. Balance sheet information provided by the Bank of the Lao PDR excluded Sethathirath Bank.

For NGOs, initial telephone interviews established if savings or credit programmes were in operation. Where they were, a follow-up questionnaire was administered.

STRATIFICATION

For this survey, four strata were defined and each of the 11,192 non-urban bans assigned to one of the strata. These strata defined the area definitions used within the body of the Profile, and are as follows.

- *“Peri-urban”*: 483 bans that are not urban but are near one of the four cities: Vientiane, Savannakhet, Luang Prabang and Pakse;
- *“Provincial Capital”*: 1,292 bans that are in or near the provincial capitals, these areas being considered distinct from the peri-urban areas around the four main cities because of their lesser economic importance;
- *“Rural Mekong”*: 2,434 bans located in rural districts bordering the Mekong River, these areas being considered distinct from *other rural* areas because they are more integrated into the economy because of river and road connections: and
- *“Other rural”*: 6,983 bans located in rural districts that do not border the Mekong and that have more limited access to markets.

SAMPLE SELECTION

Within each stratum a predetermined number of bans were randomly selected. In peri-urban areas, 6.2 percent of bans were selected. Three percent of bans in provincial capital areas were selected. Sampling was much less intensive in the rural Mekong (1.6 percent of bans) and rural areas (0.3 percent of bans).

Disproportionate sampling was used because in the peri-urban and provincial strata it was expected that some of the variable being measured would have a highly skewed distribution which might not be detected with a small sample. Less intensive sampling in the rural Mekong and *other rural* areas was carried out because less variance was expected within these areas. In each selected ban, 25 households were randomly selected for interview. Table A2.1 summarises sampling by province and Table A2.2 sampling by strata.

EXTRAPOLATION OF RESULTS

The results of the Rural Household Finance Survey are extrapolated to the national level by applying weightings to each survey area (the survey population strata). The weightings are calculated by dividing the number of households in each of the four defined rural and semi-rural areas by the total number of households from which the sample population is derived. The following weightings have been applied throughout the survey. Occasionally, marginal differences arise in the report due to rounding.

<i>Peri-urban Households:</i>	$64,601/666,535 = 0.097$
<i>Provincial Capital Households:</i>	$71,768/666,535 = 0.108$
<i>Rural Mekong Households:</i>	$201,512/666,535 = 0.302$
<i>Other Rural Area Households:</i>	$328,654/666,535 = 0.493$

TABLE A3.1: SAMPLE BY PROVINCE

Province	Villages		Households	
	Total	Sample	Total	Sample
Vientiane Municipality	483	18	86,923	450
Phongsaly	664	4	25,862	90
Luang Namtha	484	2	20,620	47
Oudomxay	913	7	32,564	162
Bokeo	373	5	17,558	125
Luang Prabang	1,213	13	58,877	322
Huaphan	937	5	34,622	125
Sayaboury	360	7	35,384	175
Xieng Khouang	516	3	28,912	75
Vientiane	575	6	52,258	150
Bolikhamxay	485	4	27,817	100
Khammouane	912	8	49,343	199
Savannakhet	1,574	16	108,455	395
Saravane	742	8	41,645	199
Sekong	337	1	10,146	22
Champasak	899	13	84,395	325
Total	11,367	120	715,381	2,961

Source: UNDP/CDF Microfinance Survey

TABLE A3.2 : SAMPLE BY STRATA

Province	Villages		Households	
	Total	Sample	Total	Sample
<i>Peri-urban</i>	483	30	64,601	747
<i>Provincial Capital</i>	1,292	39	71,768	734
<i>Rural Mekong</i>	2,434	40	201,512	982
<i>Other rural</i>	6,983	20	328,654	498
Total	11,192	120	666,535	2,961

Source: UNDP/CDF Microfinance Survey

END TABLES

End Table 1: Household Savings Structure

Type of Savings	Peri-urban	Provincial Capital	Rural Mekong	Other Rural	Averages and Totals
Number of Households	64,601	71,768	201,512	328,654	666,535
Estimated Number of Households with Savings held in...					
Bank deposits	1,486	1,148	1,209	0	3,843
Deposits with informal groups	711	72	1,612	0	2,394
Cash	61,565	63,443	193,855	269,825	588,687
<i>Total with financial savings</i>	61,629	63,658	193,855	288,230	607,372
<i>Total with non-financial savings</i>	53,877	67,175	189,220	299,732	610,004
<i>Total with savings</i>	63,632	70,404	199,698	312,879	646,613
Percentage of Households with Savings held in...					
Bank deposits	2.3	1.6	0.6	0.0	0.6
Deposits with informal groups	1.1	0.1	0.8	0.0	0.4
Cash	95.3	88.4	96.2	82.1	88.3
<i>Total financial savings</i>	95.4	88.7	96.2	87.7	91.1
<i>Total non-financial savings</i>	83.4	93.6	93.9	91.2	91.5
<i>Total</i>	98.5	98.1	99.1	95.2	97.0
Average Total Savings Amounts per Household (Kip) held in...					
Bank deposits	31,352	41,190	125	0	7,512
Deposits with informal groups	4,487	3,678	5,141	0	2,385
Cash	72,706	67,992	62,972	52,484	59,285
Precious metals	116,441	142,742	85,803	81,844	92,951
Livestock	212,625	532,436	438,158	454,172	434,347
<i>Total financial savings</i>	108,545	112,860	68,238	52,484	69,181
<i>Total non-financial savings</i>	329,066	675,178	523,961	536,016	527,298
<i>Total</i>	437,611	788,038	592,199	588,500	596,479
Estimated Total Savings (million Kip) held in...					
Bank deposits	2,025	2,956	25	0	5,007
Deposits with informal groups	290	264	1,036	0	1,590
Cash	4,697	4,880	12,690	17,249	39,515
Precious metals	7,522	10,244	17,290	26,898	61,955
Livestock	13,736	38,212	88,294	149,265	289,507
<i>Total financial savings</i>	7,012	8,100	13,751	17,249	46,112
<i>Total non-financial savings</i>	21,258	48,456	105,584	176,164	351,462
<i>Total</i>	28,270	56,556	119,335	193,413	397,574
Distribution of Savings (Percent)					
Bank deposits	7.2	5.2	0.0	0.0	1.3
Deposits with informal groups	1.0	0.5	0.9	0.0	0.4
Cash	16.6	8.6	10.6	8.9	9.9
Precious metals	26.6	18.1	14.5	13.9	15.6
Livestock	48.6	67.6	74.0	77.2	72.8
<i>Total financial savings</i>	24.8	14.3	11.5	8.9	11.6
<i>Total non-financial savings</i>	75.2	85.7	88.5	91.1	88.4
<i>Total</i>	100.00	100.00	100.00	100.00	100.00

Source: UNDP/UNCDF Microfinance Survey, 1996

End Table 2: Household Debt

Source of Finance	Peri-urban	Provincial Capital	Rural Mekong	Other Rural	Totals & Averages
Number of households borrowing to finance fixed assets during the prior twelve months from...					
Family or friends	2,067	1,651	10,882	1,972	16,571
Bank or VRF	1,809	1,866	4,635	5,916	14,225
Supplier credit	0	287	0	0	287
Other sources	1,034	359	4,232	17 090	22,714
Percentage of households borrowing to finance fixed assets in last 12 months from...					
Family or friends	3.2	2.3	5.4	0.6	2.5
Bank or VRF	2.8	2.6	2.3	1.8	2.1
Supplier credit	0.0	0.4	0.0	0.0	0.04
Other sources	1.6	0.5	2.1	5.2	3.4
Number of Households borrowing to finance working capital in last 12 months from...					
Family or friends	1,873	2,081	7,657	6,573	18,185
Bank or VRF	4,780	3,230	7,254	35,495	50,759
Supplier credit	258	287	2,620	1,972	5,137
Other sources	1,615	1,148	6,045	4,601	13,410
Percentage of households borrowing to finance working capital in last 12 months from...					
Family or friends	2.9	2.9	3.8	2.0	2.7
Bank or VRF	7.4	4.5	3.6	10.8	7.6
Supplier credit	0.4	0.4	1.3	0.6	0.77
Other sources	2.5	1.6	3.0	1.4	2.0
Household debt indicators:					
Number of households with debt	7,300	5,885	16,322	43,054	72,561
Estimated number of outstanding loans	11,680	6,473	17,955	68,886	104,994
Households with debt (percent)	11.3	8.2	8.1	13.1	10.9
Total debt outstanding (million Kip)	1,476	2,801	4,094	12,820	21,190
Debt outstanding (percent of total)	7.0	13.2	19.3	60.5	100.0
Average debt of indebted households (Kip)	202,226	475,947	250,791	297,760	293,487
Average value of total physical assets (Kip)	5,993,477	2,591,244	3,393,126	2,473,123	3,105,179
Average loans to average assets (%)	3.4	18.4	7.4	12.0	9.5
Distribution of collateral origin for loans in last 12 months (percent of those loans where collateral given):					
House	42.9	26.2	45.5	28.8	
Land	40.0	66.7	45.4	69.3	
Rice mill	17.1	7.1	9.1	0.0	
Livestock	0.0	0.0	0.0	1.9	
Total	100.0	100.0	100.0	100.0	

Source: UNDP/UNCDF Microfinance Survey, 1996

End Table 3: Household Asset Loans

Source of Finance	Peri-urban	Provincial Capital	Rural Mekong	Other Rural	Totals & Averages
Total Number of Households	64,601	71,768	201,512	328,654	666,535
Asset Loan Indicators					
Households making loans (Percent)	54	30	37	38	38
Number of loans per household	4	3	6	2	4
Households making loans	3,488	2,153	7,456	12,489	25,586
Estimated total number of loans	13,954	6,459	44,736	24,978	90,126
Average loans outstanding (Kip)	214,325	126,073	326,783	340,395	298,760
Total debt outstanding (million Kip)	2,991	814	14,619	8,502	26,926
Debt outstanding (Percent of total)	111	30	543	316	1000

Source: UNDP/UNCDF Microfinance Survey, 1996

End Table 4: Bank Liabilities and Capital Structure at 31 December 1995

	APB	Arounmay	Phaktai	Lanexang	Lao May	Totals & Averages
Value of Liabilities and Capital (million Kip)						
Total liabilities	37,389	4,537	17,766	12,975	15,905	88,572
Current deposits	1,330	536	576	3,046	3,705	9,193
Term and savings deposits	340	1,211	2,166	3,917	4,384	12,018
Government deposits	87	774	944	781	2,659	5,245
BOL credits	16,676	310	2,066	2,256	2,443	23,751
Others	18,956	1,706	12,014	2,975	2,714	38,365
Total capital	1,175	273	1,705	2,506	1,980	7,639
Total liabilities and capital	38,564	4,810	19,471	15,481	17,885	96,211
Distribution of Liabilities and Capital (Percent)						
Total liabilities	97.0	94.3	91.2	83.8	88.9	92.1
Current deposits	3.4	11.1	3.0	19.7	20.7	9.6
Term and savings deposits	0.9	25.2	11.1	25.3	24.5	12.5
Government deposits	0.2	16.1	4.8	5.0	14.9	5.5
BOL credits	43.2	6.4	10.6	14.6	13.7	24.7
Others	49.2	35.5	61.7	19.2	15.2	39.9
Total capital	3.0	5.7	8.8	16.2	11.1	7.9
Total liabilities and capital	100.0	100.0	100.0	100.0	100.0	100.0
Deposits						
Total deposits (million Kip)	1,670	1,747	2,742	6,963	8,089	21,211
Deposits percentage of total	43	363	141	450	452	220
Number of deposit accounts	11,191	2,437	5,770	2,947	5,484	27,829
Average deposit (Kip)	149,227	716,865	475,217	2,362,742	1,475,018	762,191

Source: UNDP/NCDF Microfinance Survey, 1996

End Table 5: Bank Asset Structure at 31 December 1995

	APB	Arounmay	Phaktai	Lanexang	Lao May	Totals and Averages
Value of Assets (million Kip)						
Total assets	38,564	4,810	19,471	15,481	17,885	96,211
Cash and deposits with BOL	1,045	1,087	644	3,256	1,976	8,008
Loans outstanding	17,302	2,092	6,662	6,389	7,150	39,595
Foreign exchange	49	106	1,014	450	2,042	3,661
Government securities	700	630	2,685	2,134	2,046	8,195
Others	19,468	895	8,466	3,252	4,671	36,752
Distribution of Assets (Percent)						
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Cash and deposits with BOL	2.7	22.6	3.3	21.0	11.0	8.3
Loans outstanding	44.9	43.5	34.2	41.3	40.0	41.2
Foreign exchange	0.1	2.2	5.2	2.9	11.4	3.8
Government securities	1.8	13.1	13.8	13.8	11.4	8.5
Others	50.5	18.6	43.5	21.0	26.1	38.2
Loans						
Total loans (million Kip)	17,302	2,092	6,662	6,389	7,150	39,595
Loan percentage of total	449	435	342	413	400	412
Number of loan accounts	27,435	1,009	3,811	2,136	519	34,910
Average loan outstanding (Kip)	373,173	2,073,340	1,748,098	2,991,105	13,776,493	1,134,202

Source: UNDP/UNCDF Microfinance Survey, 1996

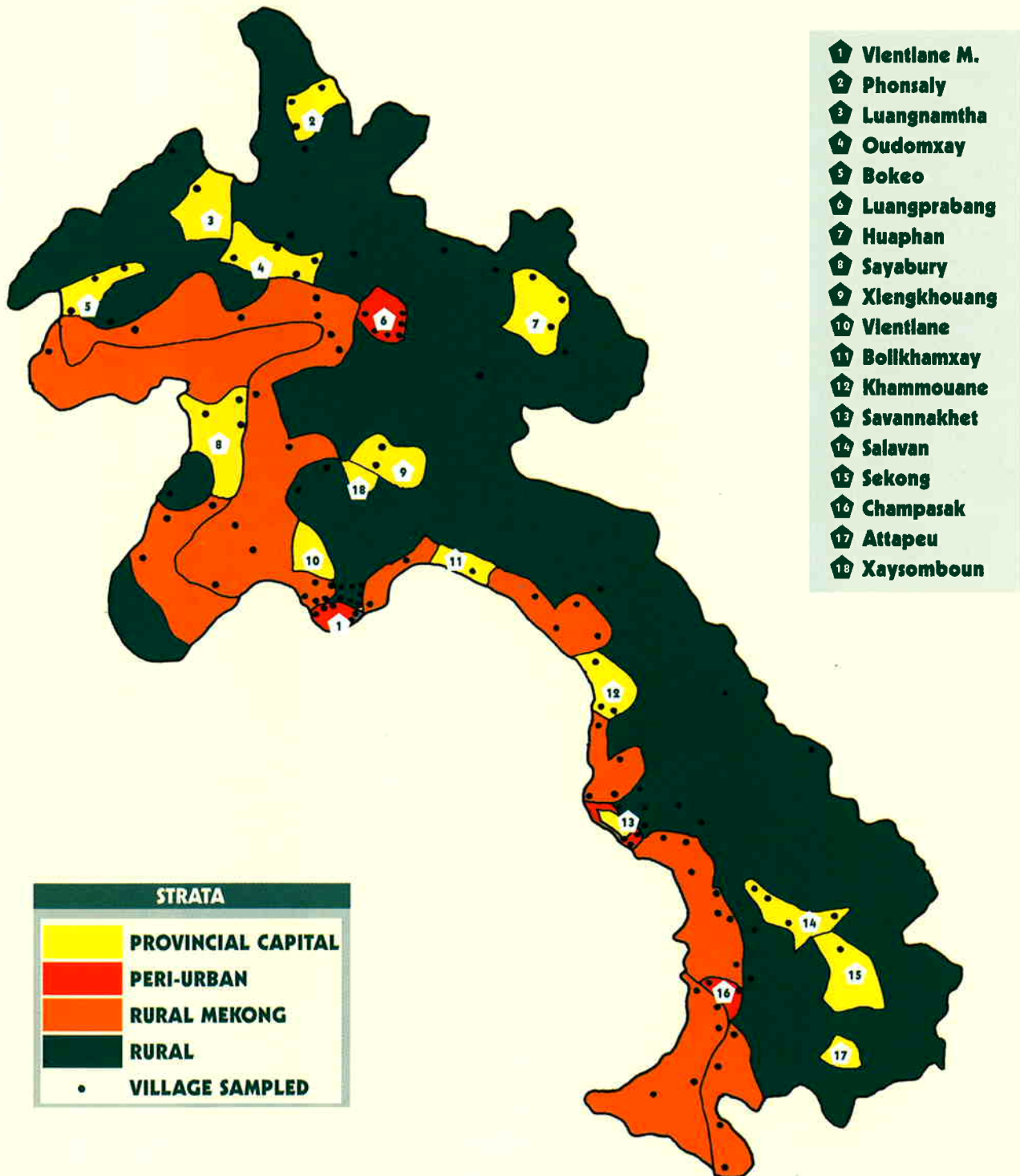
Note: Number of loan accounts and average loan outstanding figures for APB exclude Vientiane and Savannakhet city branches for which data is not available

End Table 6: Comparative Characteristics of Credit Sources

Credit Sources :	APB	Arounmay	Phaktai	Lanexang	Lao May	Moneylenders	Households making Informal Loans	Village Revolving Funds (NGO-supported)	Village Revolving Funds (donor-supported)
Loan Outlets, Loans Outstanding, and Average Loan Sizes									
Number of outlets	18	2	4	6	2	1,033	25,586	1,617	29
Average loans outstanding (,000 Kip)	961,222	1,046,000	1,665,500	1,064,833	3,575,000	2,803	298	2,769	4,083
Estimated total loans outstanding (,000 Kip)	17,302,000	2,092,000	6,662,000	6,389,000	7,150,000	2,895,499	26,926,000	4,478,045	118,400
Average loan size	1,121,207	5,302,627	5,035,193	1,111,352	19,128,969	116,792	NA	5,000-120,000	NA
Loan Terms and Conditions									
Minimum loan size (Kip)	10,000	200,000	50,000	80,000	200,000	none	none	variable 0-25	variable 7-20
Interest Rates (%)	7-10	7-27	7-24	7-28	18-27	NA	0-33	0-25	7-20
Agriculture									
Less than 1 year	10	10	10	10	18	-	-	-	-
1-3 years	8	8	8	8	20	-	-	-	-
Over 3 years	7	7	7	7	21	-	-	-	-
Industry									
Less than 1 year	-	27	22-24	24	24-25	-	-	-	-
1-3 years	-	26	19-20	22	25-26	-	-	-	-
Over 3 years	-	25	17-18	20	27	-	-	-	-
Services									
Less than 1 year	-	27	24	28	27	-	-	-	-
1-3 years	-	26	22	24	27	-	-	-	-
Over 3 years	-	25	18	22	27	-	-	-	-
Loan duration									
	up to 7 years	up to 5 years	up to 5 years	up to 5 years	up to 5 years	short-term	variable: normally/less than 1 year	variable: normally/less than 1 year	variable: up to 7 years

MAPS

GEOGRAPHICAL COVERAGE MAP BY STRATA



GEOGRAPHICAL COVERAGE MAP

Vientiane M
 1 APB Head Quarter
 ADRA
 UNDP/UNCDF
 ZOA
 WB

Phonsaly
 2 Lanexang bank
 MCC
 SCFA

Luangnamtha
 3 APB
 Lanexang Bank
 World Concern
 ZOA
 UNESCO
 EU Area Development Project
 UNDCP/NCA

Oudomxay
 4 APB
 Lanexang Bank
 UNDP/UNCDF Project
 QSL

Bokeo
 5 APB
 Lanexang Bank
 Concern
 UNDCP/NCA

Luang Prabang
 6 APB
 Lanexang Bank
 Consortium
 EU Micro-Projects II
 QSL
 World Vision

Huaphang
 7 APB
 Aroun May Bank
 MCC
 World Vision
 UNICEF/LWU

Sayabury
 8 APB
 Lanexang Bank
 Consortium
 CARE
 SCFA
 UNCDF/UNDP
 UNDP/UNESCO

Xiengkhouang
 9 APB
 Aroun May Bank
 OXFAM/Belgium
 QSL
 World Vision
 GTZ
 IFAD
 UNICEF/LWU

Vientiane
 10 APB
 Sethatirath Bank
 Consortium
 CUSO
 WB
 CAA
 ZOA
 OXFAM/BELL

Bolikhambxay
 11 APB
 Sethatirath Bank
 CIDSE
 SCA

Saravan
 14 APB
 Paktai Bank
 CAA
 UNESCO

Khammouane
 12 APB
 Lao May Bank
 CARE
 Concern
 UNICEF/LZU
 UNDP/UNESCO

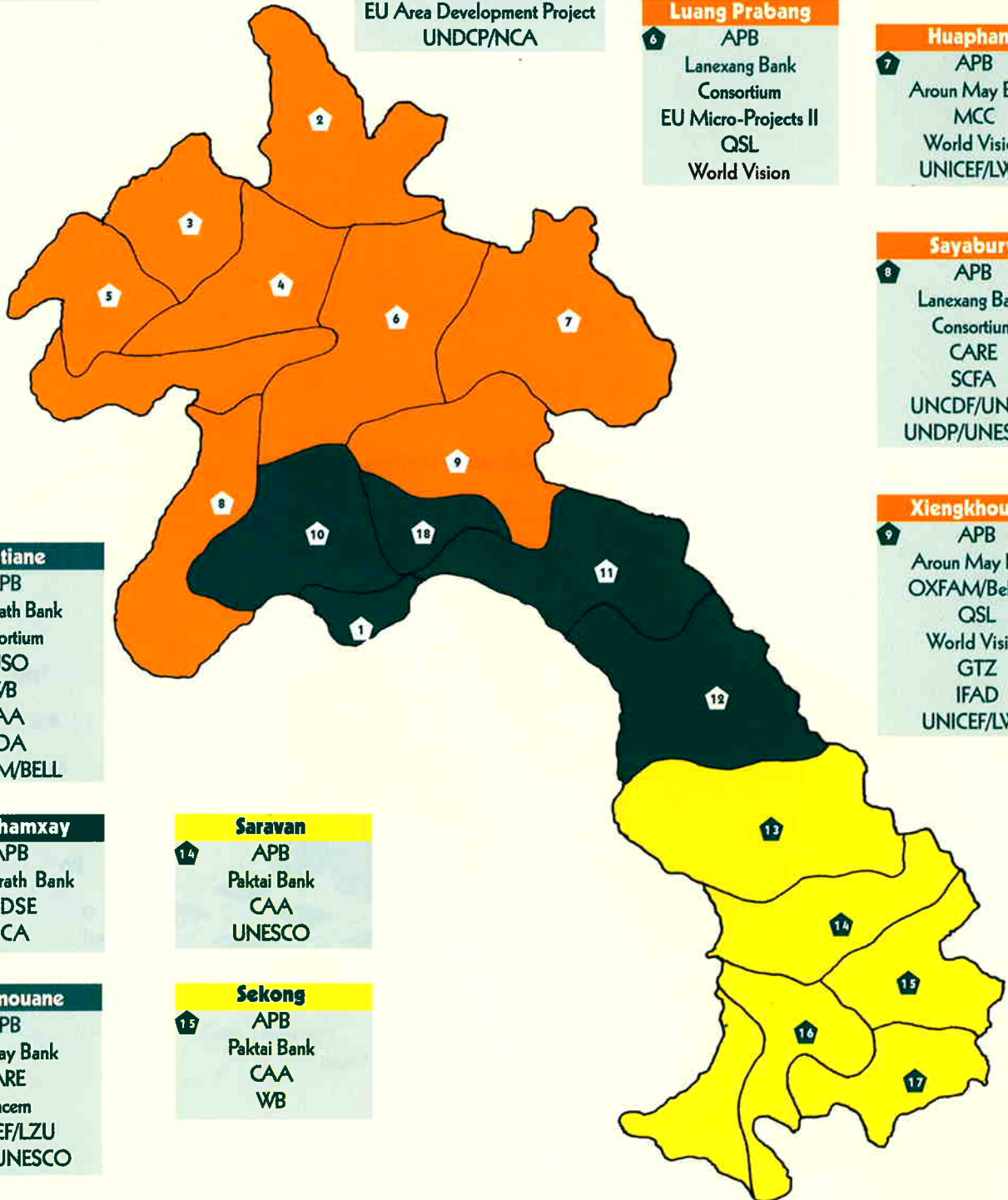
Sekong
 15 APB
 Paktai Bank
 CAA
 WB

Savannakhet
 13 APB
 Lao May Bank
 CONCERN
 CIDSE
 OXFAM/Belgium
 UNICEF/LWU
 SIDA

Champasak
 16 APB
 Paktai Bank
 CONCERN
 UNESCO
 World Vision
 WB
 UNICEF/LWU

Attopeu
 17 APB
 Paktai Bank

Kaysomboun
 18 APB
 UNDP/DDS



FIGURES

Figure 1 Households with savings (percent)

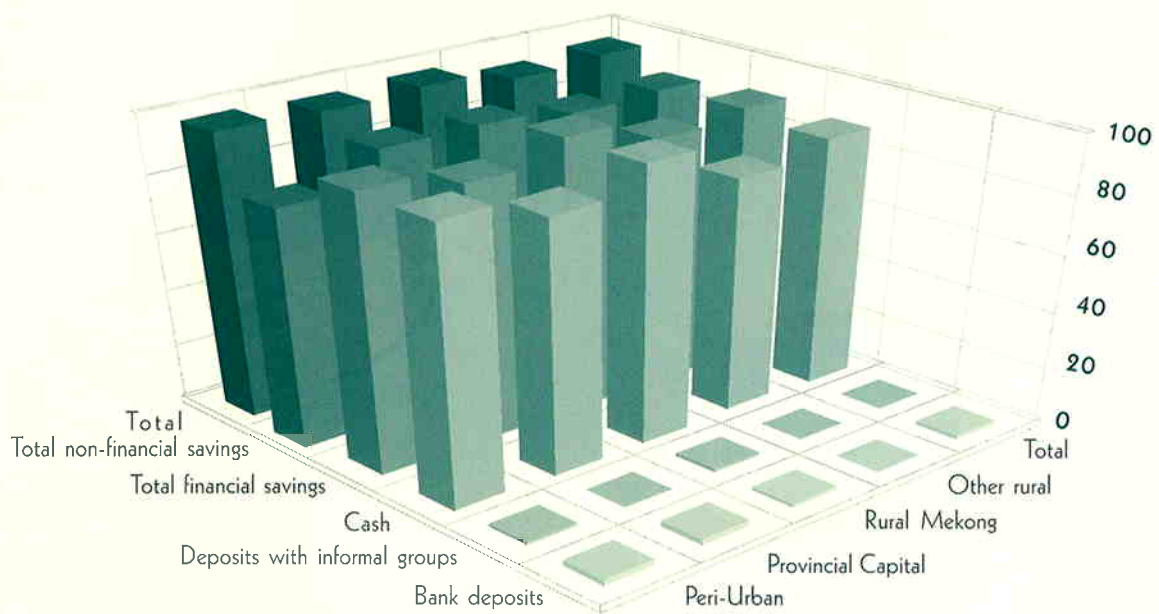


Figure 2 Savings Distribution of Peri-Urban Households

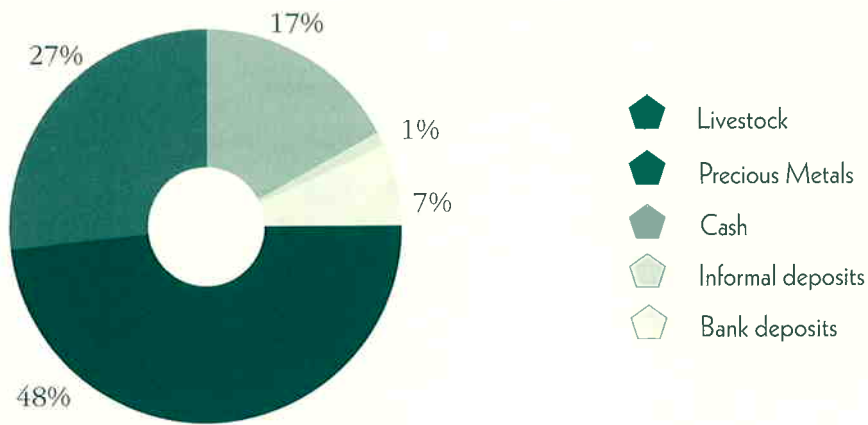


Figure 3 Savings Distribution for Provincial Capital Households

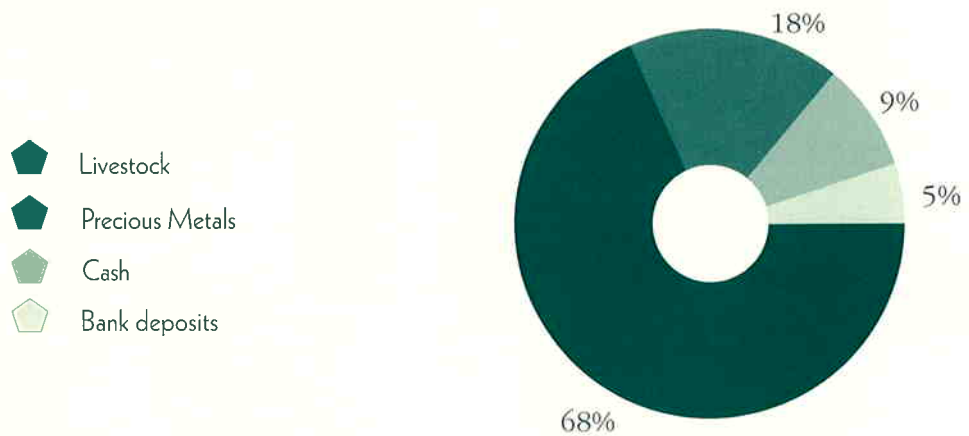


Figure 4 Savings Distribution for Rural Mekong Households

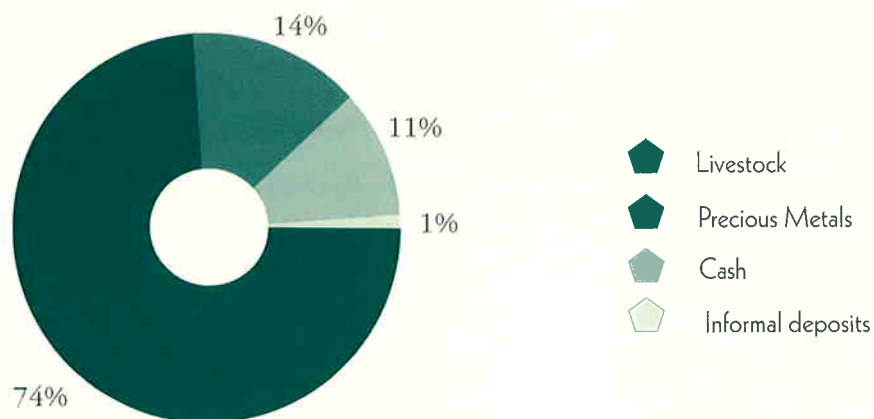


Figure 5 Savings Distribution for Other Rural Households

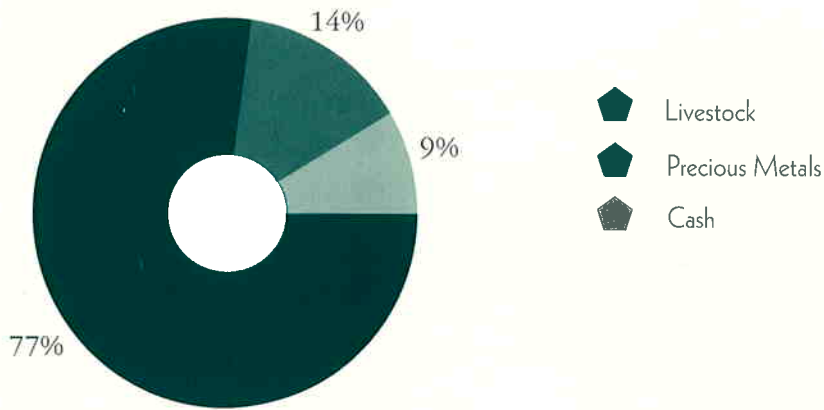


Figure 6 Households with Debt & Number of Loans

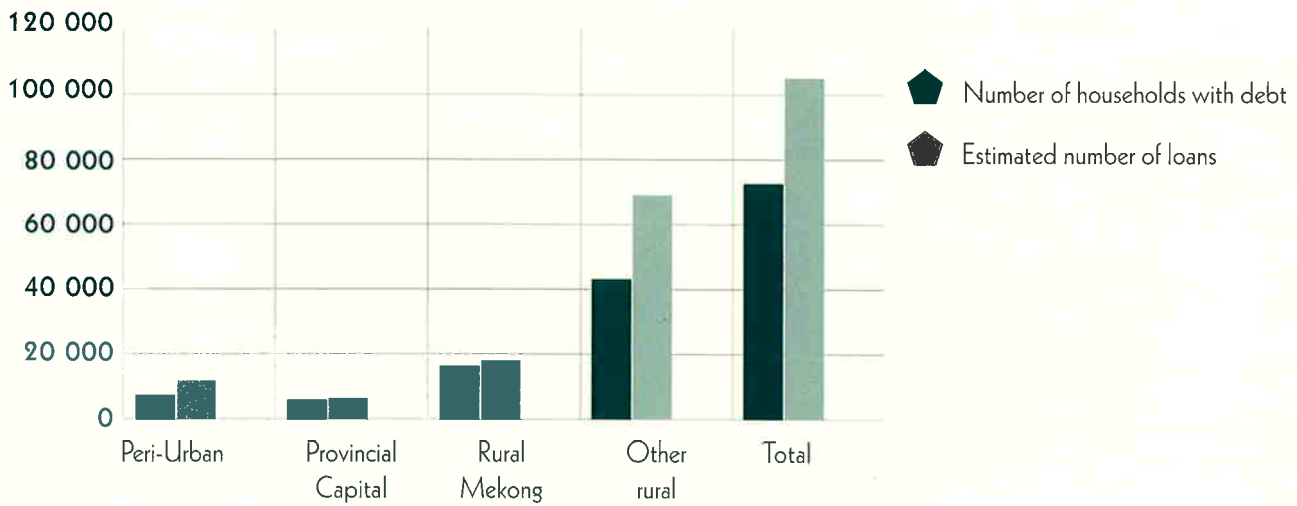


Figure 7 Number of Households

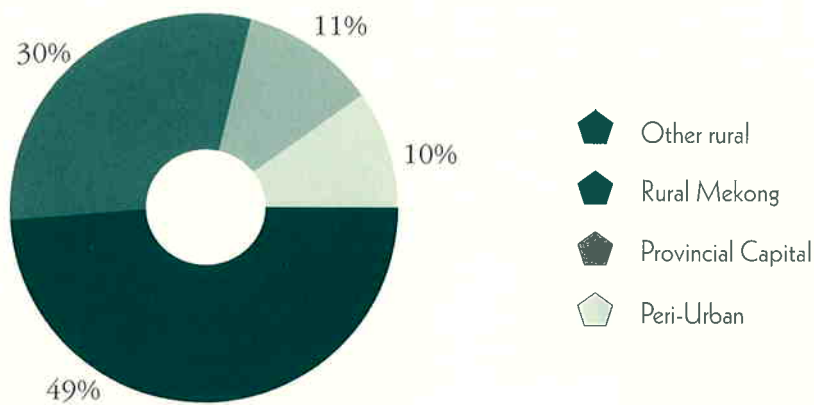


Figure 8 Total Debt Outstanding

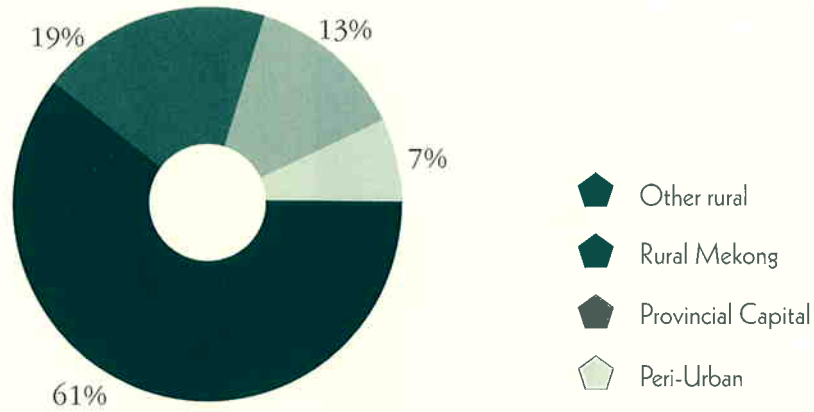


Figure 9 Average Loans & Physical Assets

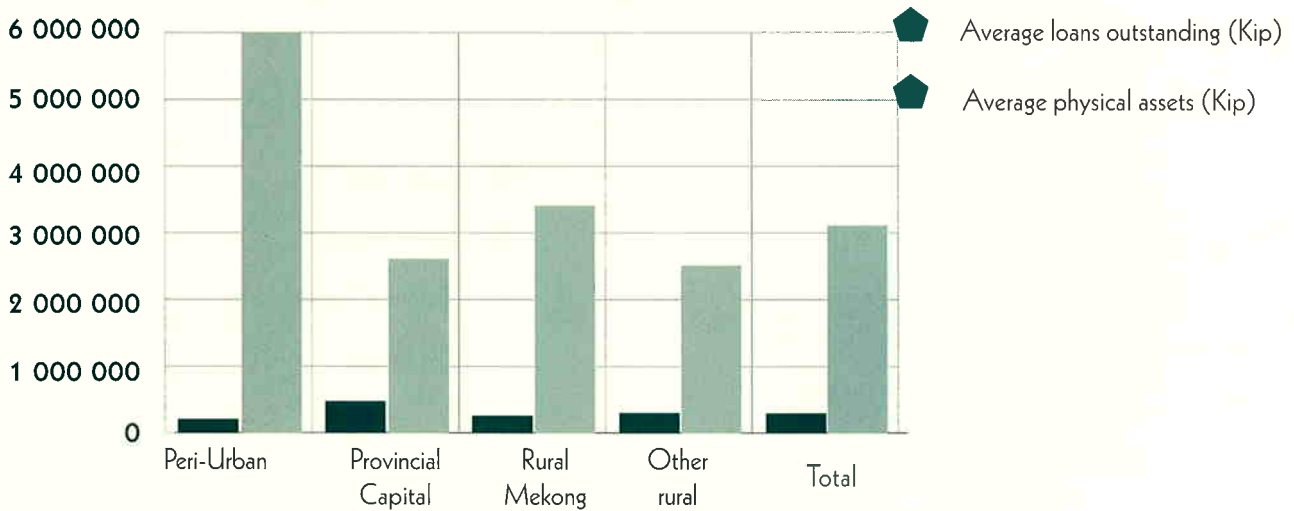


Figure 10 Debt as Proportion of Physical Assets

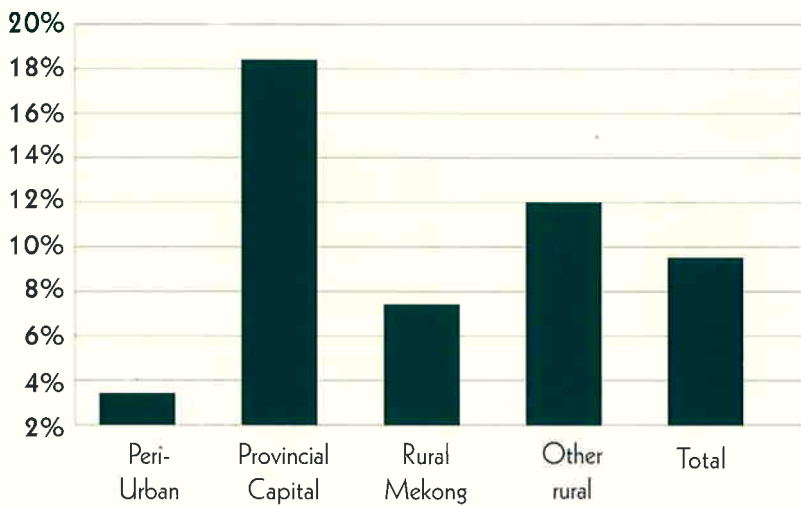


Figure 11 Distribution of Collateral Types for Loans where Collateral is given

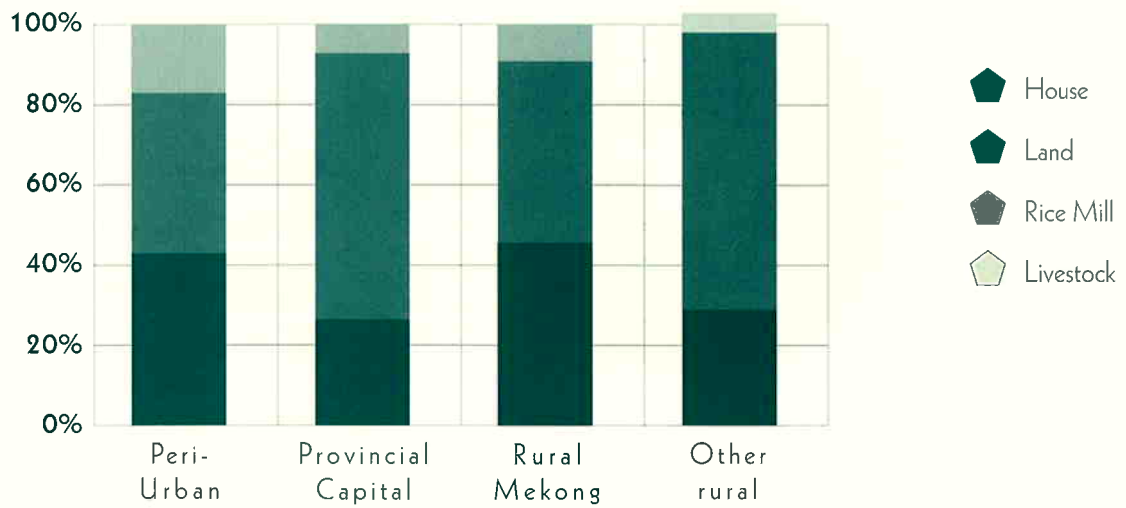


Figure 12 Distribution of Households Making Informal Loans

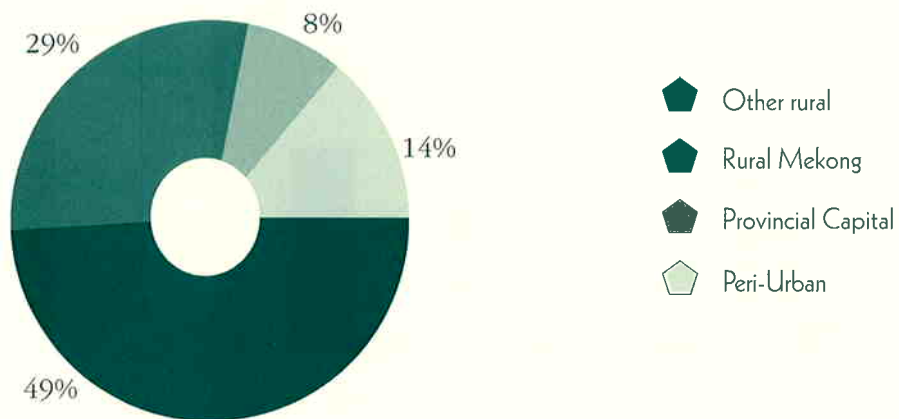


Figure 13 Total Informal Loans Outstanding

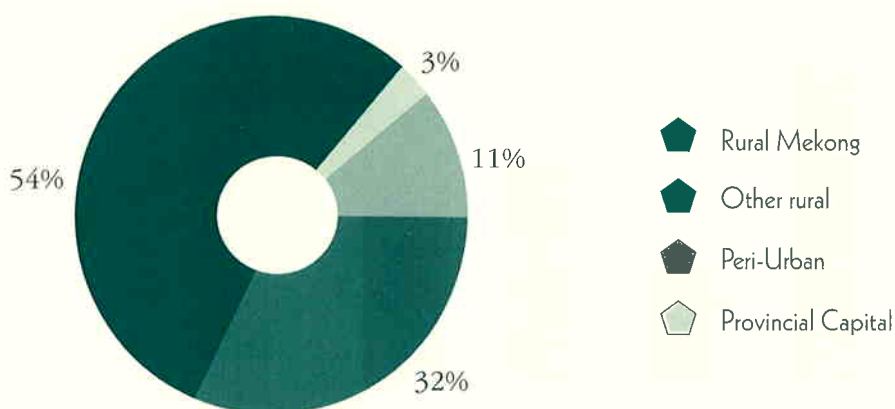


Figure 14 Total Deposits at 31 December 1995

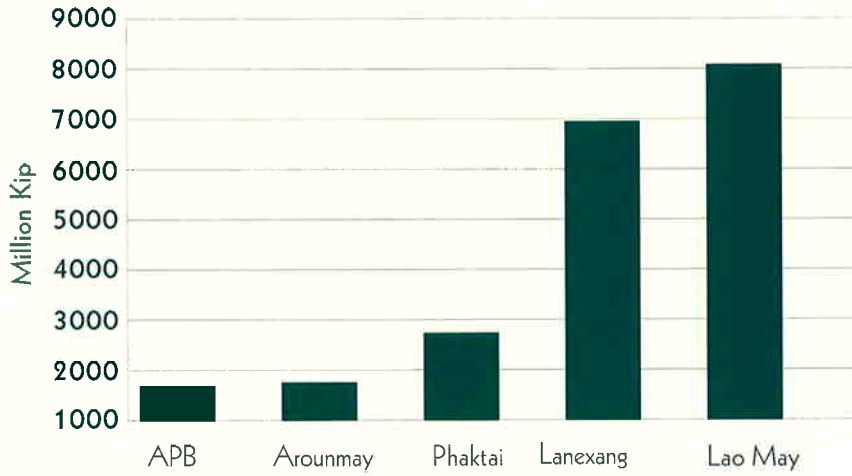


Figure 15 Numbers of Deposits Accounts at 31 December 1995

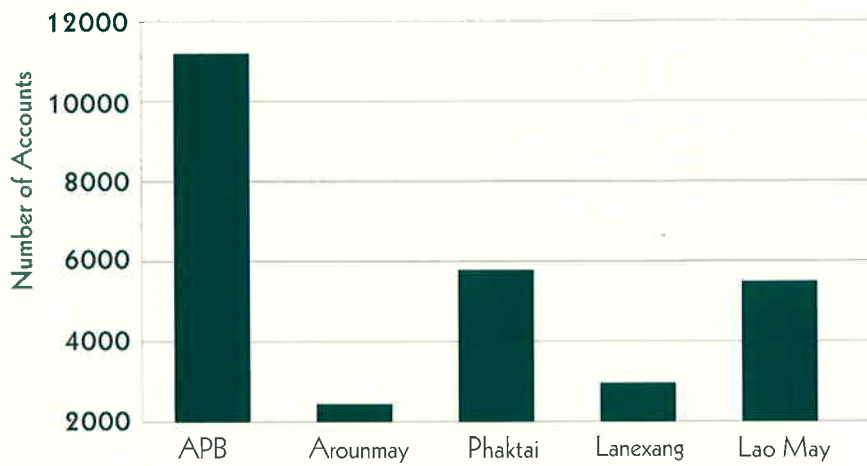


Figure 16 Average Size of Deposit at 31 December 1995

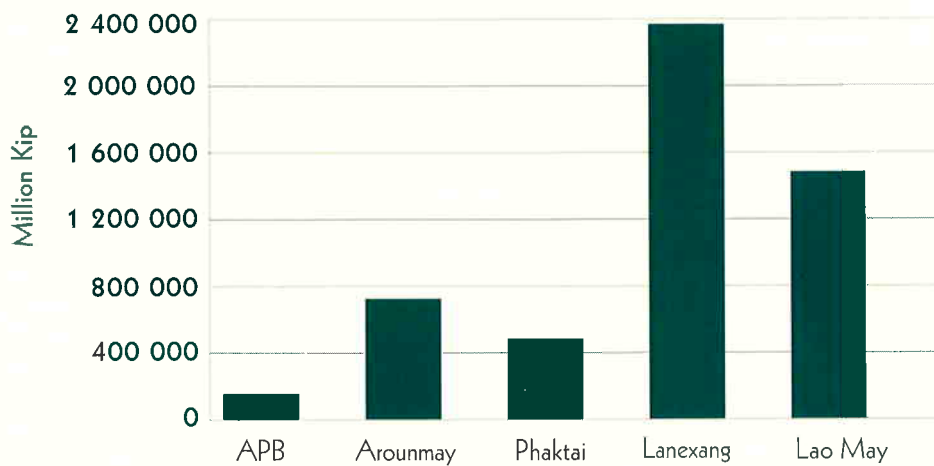


Figure 17 Structure of Bank's Assets at 31 December 1995

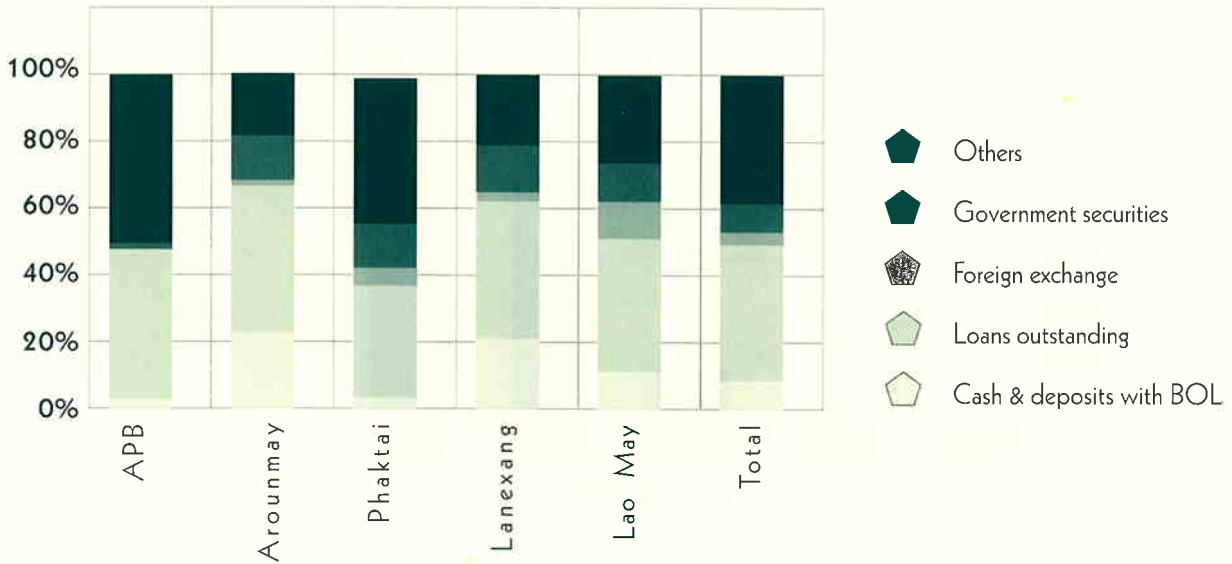


Figure 18 Total Loans Outstanding at 31 December 1995

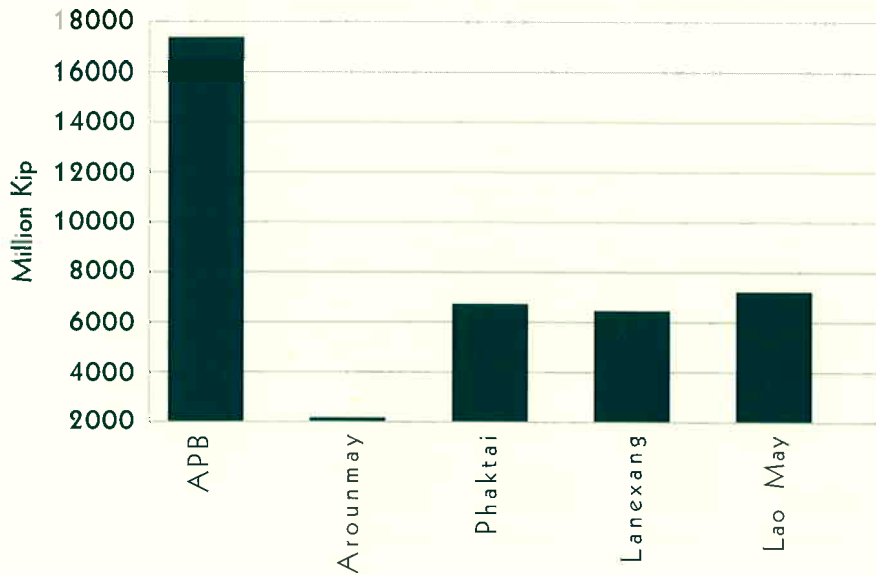
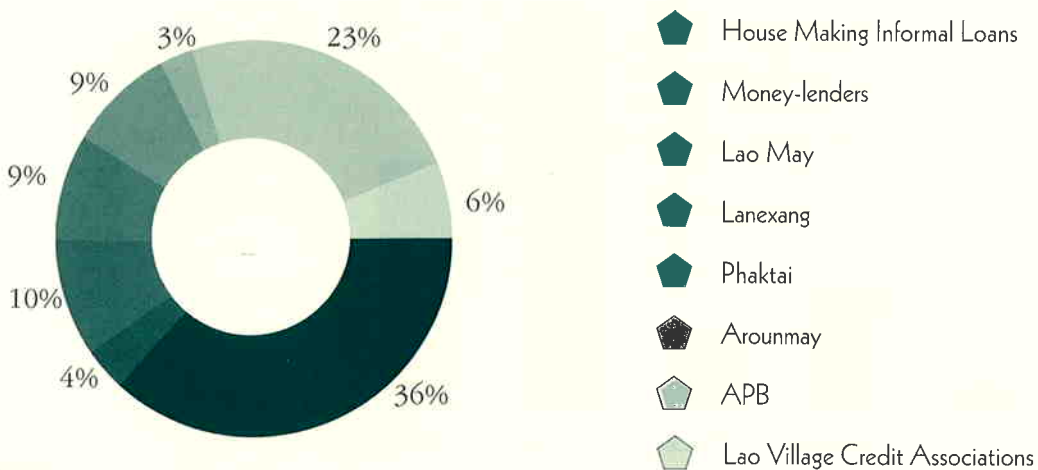


Figure 19 Distribution of Estimated Total Loans Outstanding



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Phonkheng Road

PO BOX 345

Vientiane

LAO PDR