

Linking microfinance to biogas in Lao PDR

An assessment



November 2006



Microfinance Training Center

Linking microfinance to biogas in Lao PDR
An assessment

Somphone Sisenglath: Team Leader
Tom Morgan: Consultant
Somsack Senthavisouk: Field Manager
Anousy Chindamany: Field Survey Supervisor

Conducted for SNV Netherlands Development Organisation by

Microfinance Training Center
093/5 SapanthongNeua, Sisattanak District,
Vientiane Lao PDR
Tel 856 (0) 21 262 916
Fax 856 (0) 21 262 916
Email mfc@mfcclao.com

Abbreviations and acronyms

ADB	Asian Development Bank
APB	Agricultural Promotion Bank
BCEL	Banque pour le Commerce Exterieur Lao
BOL	Bank of Lao PDR
BPO	Biogas Project Office
CCSP	Credit Cooperative for Promotion of Small Producers
DLF	Department for Livestock and Fisheries
EMI	Ekphatthana Microfinance Institution
FIAM	Fund for Integrated Agricultural Management
FC	Fonds Cooperatif
FMO	Netherlands Development Finance Company
GOL	Government of Lao PDR
INGO	International Non-Governmental Organisation
LWU	Lao Women's Union
MAF	Ministry of Agriculture and Forestry
MFI	Microfinance Institution
RDC	Naixathong Rural Development Cooperative
SCU	Savings and credit union
SNV	Netherlands Development Organisation
SOB	State Owned Bank
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
VRF	Village Revolving Fund
WOCCU	(World Council of Credit Unions)

Acknowledgements

The consultants would like to acknowledge the support of several staff at SNV Netherlands Development Organisation: Auke Koopmans, Phouthanouthong Xaysombat, Nicolette Matthijssen and Phillip Smith. Thanks are also due to the numerous government staff who assisted our research, the MFI and bank staff we interviewed, and the members of the research team itself.

Notes

Exchange rate

The exchange rate used in this report is 10,000 kip/US dollar.

Contents

1 EXECUTIVE SUMMARY	8
2 INTRODUCTION	12
2.1 STUDY OBJECTIVES AND TERMS OF REFERENCE.....	12
2.1.1 Study components	12
2.1.2 Research questions.....	12
2.1.3 Terms of Reference.....	12
2.1.4 SNV Biogas Programme.....	13
2 HOUSEHOLD SURVEY	14
2.1 INTRODUCTION.....	14
2.1.1 Purpose.....	14
2.1.2 Methodology and selection of the sample	14
2.2 SURVEY RESULTS.....	15
2.2.1 Economic characteristics of households	15
2.2.2 Household assets	16
2.2.3 Household income and expenditure.....	18
2.2.4 Household expenditure	20
2.2.5 Household savings	21
2.2.6 Household Debt	21
2.2.7 Contributions towards cost of biogas plant construction.....	23
2.2.8 Contributions as part of full cost of biogas plant construction	23
2.2.9 Attitude towards financing.....	23
2.3 DEMAND FOR BIOGAS.....	24
2.3.1 Household fuel utilisation	24
2.3.2 Estimation of demand for finance.....	25
3 BANKING AND MICROFINANCE IN LAO PDR.....	27
3.1 CHARACTERISTICS OF THE SECTOR	27
3.1.1 Formal sector	27
3.1.2 Semi-formal sector.....	27
3.1.3 Informal sector	28
3.1.4 Microfinance initiatives in Lao PDR	28
3.1.5 Recent developments within the Lao microfinance sector	29
4 FINANCIAL PROVIDER SURVEYS.....	30
4.1 INTRODUCTION.....	30
4.1.1 Purpose.....	30
4.1.2 Methodology and selection of the sample	30
4.2 SURVEY RESULTS.....	31
4.2.1 Structure for management of funds from wholesale capital provider.....	31
4.2.2 Financial institutions interested in both wholesale and retail	32
4.2.3 Possible participation - retail only	33
5 LEGAL FRAMEWORK	34
5.1 BANKING LAW	34
6.2 MICROFINANCE REGULATION.....	34
6 CONCLUSIONS AND RECOMMENDATIONS	36
6.1 RECOMMENDATIONS RELATED TO POTENTIAL BIOGAS USERS.....	36
6.2 RECOMMENDATIONS RELATED TO FINANCIAL INSTITUTIONS.....	36
6.2.1 Fund Manager (wholesaler of loan from wholesale capital provider).....	36

6.2.2 Microfinance providers (retailers of loan from wholesale capital provider):	37
ANNEX 1: HOUSEHOLD SURVEY QUESTIONNAIRE.....	38
ANNEX 2: MICROFINANCE REGULATION	49
ANNEX 3: TERMS OF REFERENCE LOT 1: Assessment of linking microfinance to biogas constructors in Lao PDR	62
ANNEX 4: TERMS OF REFERENCE LOT 2: Assessment of linking wholesale financial institutions with local microfinance providers in Lao PDR.....	66
ANNEX 5: MFI PROFILES	70
ANNEX 6: LIST OF KEY PERSONS MET.....	81
ANNEX 7: ‘BANK LAWS TO BE AMENDED’ (ARTICLE FROM VIENTIANE TIMES 24.11.06).....	82

TABLES

Table 1: Samples for the Household surveys.....	15
Table 2: Household Financial Manager.....	16
Table 3: Household assets including livestock.....	17
Table 4: Primary and secondary sources of income.....	18
Table 5: Sources of income per province (average, in Kip).....	19
Table 6: Household Expenditure.....	20
Table 7: Household savings.....	21
Table 8: Contributions to biogas plant construction.....	23
Table 9 : contributions as part of full cost.....	23
Table 10: Preferred sources of finance.....	23
Table 11: Preferred terms and conditions.....	24
Table 12: Household fuel utilisation.....	24
Table 13: Use of dung from livestock.....	25
Table 14: Estimation of demand for finance.....	26
Table 15: Microfinance initiatives in Lao PDR.....	29
Table 16: Financial institutions surveyed.....	30
Table 17: Summary of organisations interested in both wholesale and retail.....	33
Table 18: Summary of organisations interested in retail only.....	33

FIGURES

Figure 1: Proposed structure for financing of biogas programme.....	31
Figure 2: Proposed interest rate.....	37

1 EXECUTIVE SUMMARY

Introduction

Access to finance will be a vital component of SNV's biogas programme, crucial to the viability of biogas in Lao PDR. A household biogas plant costs about 320 Euros, and extra kitchen, toilet or stable renovations may double this investment. The limited options for small loans currently available in Lao PDR have unfavourable conditions (high interest rates and short repayment durations) and as a result households who need to borrow money to install biogas may be reluctant or unable to buy a biogas plant.

Therefore it is necessary to develop a strategy to address this issue. This study examines the options for financing biogas in a way that will increase dissemination and enable a greater number of low-income households to purchase biogas plants.

Study objectives and components

The objective of this study is to assess the opportunity of providing finance to potential biogas users by linking banks with biogas constructors or microfinance institutions.

However, since the biogas sector in Laos is in its infancy, no biogas constructors actually exist at this point and therefore it is not possible to use them to as a source of finance for potential biogas users.

This study has two components:

A Household Survey, which was used to collect data on household characteristics, financial management, assets and liabilities, and attitudes.

A Rural Financial Services Survey, which was conducted amongst banks and MFIs to establish what services are available, their outreach and the terms offered for savings and credit.

Household survey

The study was carried out in October and November 2006. It covered Vientiane Capital and three provinces: Vientiane, Savannakhet and Xieng Khouang.

Two teams (consisting of two enumerators and one supervisor) carried out face-to-face interviews, with each team completing an average of 15 questionnaires or two villages per day. The total sample was 227 households in 16 villages of 8 districts – see Table 1 below for further detail.

The most recent list of households in each district was obtained from the National Statistics Center. After narrowing the list in each village to households owning at least five pigs, samples were then randomly selected from the list provided by the chief of the village. The head of the household was then interviewed.

Almost three quarters of households interviewed identified a male as being in charge of household finance. Since only those households owning at least five pigs were interviewed, this meant that the sample is in most cases wealthier than would otherwise have been the case. In terms of livestock, the households interviewed invest most in cattle followed by pigs, fish and buffalo.

All households sampled earn their living from farming and livestock husbandry, but most households have more than one source of income. Due to the sample selection criteria, raising pigs is the main source of income for a third of respondents, and is the secondary source of income for another third.

Most households prefer to keep their savings as cash that they keep in their homes or on their person. This is largely because of difficulty in accessing basic financial services such as savings and credit facilities as these institutions are not represented at the village level. On average, 36% of households interviewed had borrowed money over the previous 12 months. The money was most commonly borrowed by the spouse of the household financial manager. The APB was the main source of these loans.

83% of household financial managers said that if in future they installed biogas in their home, they could contribute cash – on average 1,509,251 kip (or \$150.90). The rate of interest considered affordable by respondents in different provinces differs according to rates offered by existing sources of finance in each province, but the average rate is 2.55%.

It was found that almost three quarters of respondents used firewood for fuel, 53.70% of whom were self sufficient (able to source firewood themselves without paying for it). Our research shows that if the sample households installed biogas, many of them would save money they currently spend on purchasing fuel, as many of them are not self sufficient in firewood or charcoal. This saving can be offset against the costs of installing biogas. The other substantial saving would be in terms of the time households spend on collecting firewood and/or making charcoal – a major benefit of biogas.

Estimating the exact demand for biogas would involve analysing several factors including terms of borrowing, access to finance, access to institutions, savings, credit needs for other priority activities, and so on. In view of the limited time available to the consultants a simpler approach was decided on – to ask households if they wished to build a biogas plant, and if so, how much they could afford to contribute towards its cost. Respondents indicating a contribution less than the full cost would be very likely to want borrow the part of the cost not covered by the subsidy provided by the Biogas Pilot Programme.

23 % of the sample said they had previously heard about biogas. After the survey teams showed the brochure and explained about biogas, 83% of the sample said they would be interested in installing biogas in their homes – although most said they wanted to see a pilot biogas plant in operation first. The average loan required is 1,490,749 kip (\$149.07).

Banking and microfinance in Lao PDR

The formal microfinance sector is dominated by the state-owned commercial banks (SOCBs), however they are not active in rural areas, nor do they provide microfinance services. The main institutional source of rural finance is the Agricultural Promotion Bank (APB). APB's records show that in October 2006 the bank had 130,000 clients (consisting of 100,000 borrowers and 130,000 depositors – most clients fall into both categories since you must open an account in order to borrow money), which represents about 13% of rural households. Another 4% are estimated to have access to savings and credit services in the semi-formal sector (primarily project initiatives). The remaining 83% of rural households either do not have access to any financial services or rely on the informal sector - friends, family, or moneylenders. Interest rates charged by moneylenders can reach 20% per month.

Lao PDR's first microfinance initiatives were launched in 1997, so the sector is still at an early stage of development. That said, it is expected that the microfinance activities will grow

substantially over the coming few years and that the new microfinance regulations (adopted by the government in 2005) will support the sustainable development of the sector.

Financial provider surveys

A Rural Financial Services Survey was conducted amongst banks and MFIs to establish what services are available, their outreach and the terms offered for savings and credit. Banks, MFIs and Cooperatives were all interviewed at head office level. Since there are a limited number of financial providers in Lao PDR, the team were able to interview at least 80 per cent of the main financial providers in the country:

Legal framework

There is nothing explicitly noted in the banking law about banks making wholesale loans to microfinance institutions, but reform of the Microfinance Regulation is underway with support from the ADB.

Recommendations related to potential biogas users

The majority of respondents were interested in building biogas plants in their homes, but said they would like to see actual biogas plants in operation first.

The majority of the respondents indicated they would be able to contribute up to 1,509,251 kip towards the construction costs - more than half of the required total. The recommendation of the consultants is to make borrowing the remainder as attractive as possible, by making long term loans available - we suggest a term of up to 24 months. We recommend that the interest rate on the loans should be a flat rate¹ in line with the average rate considered affordable in each province (an average of 2.55% overall).

Recommendations related to financial institutions

The recommendation of the consultants is that one bank or MFI is chosen as an apex body that would provide wholesale loans to microfinance institutions as illustrated below. It is the view of the consultants that this option is the most practical and feasible. Without an apex body, the wholesale capital provider would have to deal directly with several banks or MFIs, whilst to create a new organisation (to serve as a purpose made apex body) would be costly, time consuming and unnecessary.

There are three financial institutions interested in becoming both a wholesaler (ie acting as an apex body) and a retailer, and two other financial institutions interested in becoming a retailer only. It should be noted that all these institutions expressed an interest but were not able to commit themselves to involvement at the time of the interviews. A number of details would need to be worked out and agreed before a final commitment could be given.

In terms of the recommended interest rate, the loan term to MFIs should allow them enough spread to cover their operating costs, loan loss reserve, cost of fund and inflation.

There is also an opportunity for the wholesale capital provider to provide wholesale loans for other purposes outside the biogas programme. Since, MFIs are facing refinancing problem to finance the high demand for credit.

¹ With this flat rate will allow MFI to cover all costs.

Although four MFIs indicated their interest in participating in the program it is important to note that most of them have limited outreach.

2 INTRODUCTION

2.1 STUDY OBJECTIVES AND TERMS OF REFERENCE

The objective of this study is to assess the opportunity of providing finance to potential biogas users by linking banks with biogas constructors or microfinance institutions.

However, since the biogas sector in Lao PDR is in its infancy, no biogas constructors actually exist at this point and therefore it is not possible to use them to as a source of finance for potential biogas users.

2.1.1 Study components

This study has two components:

1. A Household Survey, which was used to collect data on household characteristics, financial management, assets and liabilities, and attitudes.
2. A Rural Financial Services Survey, which was conducted amongst banks and MFIs to establish what services are available, their outreach and the terms offered for savings and credit.

2.1.2 Research questions

This study sets out to answer the following questions:

National level:

1. What are the legal rules and regulations concerning biogas-construction-enterprises offering loans to clients?

Household level:

2. Are potential biogas plant users interested in receiving microfinance?
3. How many potential biogas plant users are interested in receiving microfinance?

Biogas plant constructors

4. Are biogas plant constructors interested to be an intermediary for microfinance?

Provincial level:

5. Which financial institutions are interested in financing the costs of biogas plants?
6. What are the conditions potential biogas plant users or constructors would get from these financial institutions?

2.1.3 Terms of Reference

(For the full Terms of Reference please see Annexes 3 and 4).

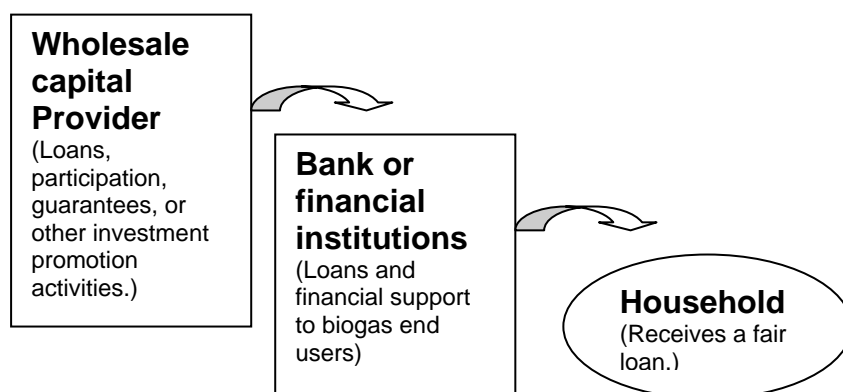
Access to finance will be a vital component of SNV's biogas programme, crucial to the viability of biogas in Lao PDR. A household biogas plant costs about 320 Euros, and extra kitchen, toilet or stable renovations may double this investment. The limited options for small loans currently available in Lao PDR have unfavourable conditions (high interest rates

and short repayment durations) and as a result households who need to borrow money to install biogas may be reluctant or unable to buy a biogas plant.

Therefore it is necessary to develop a strategy to address this issue. This study examines the options for financing biogas in a way that will increase dissemination and enable a greater number of low-income households to purchase biogas plants.

The following chart summarises SNV's intentions:

Figure 1: overview of finance for biogas programme



2.1.4 SNV Biogas Programme

Encouraged by the results of the biogas projects in Nepal and Vietnam and in view of the potential for domestic biogas in Lao PDR, SNV has signed a Memorandum of Understanding with the Department of Livestock and Fisheries of the Ministry of Agriculture and Forestry (MAF/DLF) to develop and manage a joint biogas pilot project.

This pilot project aims to support construction of 6,600 domestic biogas plants in Lao PDR over a period of 4 years (2006-2009). It seeks to develop a biogas sector by creating a lasting consumer demand for domestic biogas plants and through encouraging high quality services to meet this demand.

The overall goal of the project is to improve the livelihoods and quality of life of rural farmers in Lao PDR through exploiting the economic and non-economic benefits of domestic biogas., through the creation of a commercially viable domestic biogas sector.

1.1 million Euros (roughly 14 billion kip) is being provided by the Netherlands government as funding for implementation.

The main implementing actors are:

- The Biogas Supervisory/Steering Committee, with representatives of relevant organisations, guiding and coordinating the project;
- The MAF - Department for Livestock and Fisheries (DLF), as the key partner organisation for implementation of the project;
- The Biogas Project Office (BPO), planned to be established under the DLF, for the implementation of the project;
- SNV Lao PDR, providing technical assistance.

At provincial and district level, the project cooperates through the provincial network with the private construction teams and other service providers.

2 HOUSEHOLD SURVEY

2.1 INTRODUCTION

2.1.1 Purpose

The main objectives of the survey were:

- To identify the level of household demand for biogas
- To identify recommendations on how to proceed, in particular regarding how to increase access to finance for poorer households interested in setting up biogas in their homes.

2.1.2 Methodology and selection of the sample

The study was carried out in October and November 2006. It covered Vientiane Capital and three provinces: Vientiane, Savannakhet and Xieng Khouang.

The three provinces of Vientiane, Xieng Khouang and Savannakhet were selected as they represent the northern, central and southern areas of Lao PDR and also because the latter two fit within the portfolio structure of SNV. Vientiane capital was included because it has been proposed to establish the biogas pilot there, and because there is already some existing biogas activity in Pak Ngum district.

Districts were limited to two per province due to limited time and resources. Districts were selected within the province on the basis that they were generally representative of the province's other districts in terms of socio-economic conditions and animal husbandry.

Two teams (consisting of two enumerators and one supervisor) carried out face-to-face interviews, with each team completing an average of 15 questionnaires or two villages per day. The total sample was 227 households in 16 villages of 8 districts – see Table 1 below for further detail.

The original sample target was 300 households, however, it was not possible to achieve this for two reasons: i) It was harvest season at the time of this study and households were only available for interview in the evenings, limiting the number of interviews possible in the time available, ii) In some villages it was difficult to find 15 households with more than five pigs (part of the selection criteria – see below).

The most recent list of households in each district was obtained from the National Statistics Center. After narrowing the list in each village to households owning at least five pigs, samples were then randomly selected from the list provided by the chief of the village. The head of the household was then interviewed.

Livestock requirements

The version of this study conducted in Vietnam observes that most Vietnamese households with biogas use pig's dung rather than dung from other livestock (pigs are mainly kept in pens, making it easier to collect the dung). For this reason the survey teams in Vietnam interviewed households with a minimum of five pigs. To keep in line with that report, this survey has done the same.

The questionnaire (see Annex 2) collected the following data:

- Basic household characteristics
- Household economic status (income and expenditure)
- Household assets
- Household debt and attitude towards access to loans
- Household behaviour and demand for biogas plants

Table 1: Samples for the Household surveys

Sample	Number of sample villages per district	Total number of villages sampled
Vientiane Province		
1. Phonehong District	2	30
2. Keo Udom District	2	30
Vientiane Capital		
4. Naxaithong District	2	26
5. PakNgum District	2	18
Savannakhet Province		
6. Outhoumphone District (Seno)	2	31
7. Kaysone District	2	32
Xiengkouang Province		
8. Pek	2	32
9. Kham	2	32
Total	16	227

2.2 SURVEY RESULTS

2.2.1 Economic characteristics of households

Almost three quarters of households interviewed identified a male as being in charge of household finance. The average age of the 'household financial manager' was just over 46. Only one in five of these managers (either male or female) had received any education higher than lower secondary.

Table 2: Household Financial Manager

Characteristics	
Average Age	46.15 years
Average years lived at this address	25.86 years
Sex (%)	
Male	73.4
Female	26.6
Education (%)	
No School	12.65
Below School Age	3.49
Primary	39.30
Lower Secondary	22.27
Upper Secondary	10.04
Vocational	9.61
University / Institute	2.62
Marital Status (%)	
Never married	5.26
Married	88.21
Divorced	1.31
Widowed	5.24

2.2.2 Household assets

It should be noted that, as described above, only those households owning at least five pigs were interviewed. This meant that the sample is in most cases wealthier than would otherwise have been the case. In terms of livestock, the households interviewed invest most in cattle followed by pigs, fish and buffalo. See table 3 overleaf for further information.

Table 3: Household assets including livestock

Code	Category	Average Value (KIP)
Fixed Assets (Land and Buildings)		
1	Residential Land including Garden	39,898,398.68
2	Irrigated Farm Land	18,450,000.00
3	Non-Irrigated Farm Land	35,289,665.20
4	Commercial Land	636,123.35
5	Buildings (home)	48,356,828.19
6	Buildings (agricultural)	982,819.38
7	Buildings (business)	292,555.07
Sub total		143,906,389.87
Fixed Assets (Vehicles)		
8	Vehicles (Car, Pick-up, Van, Bus)	9,594,493.39
9	Motorcycle	4,037,885.46
10	Bicycle	127,026.43
11	Tuk-tuk	483,700.44
Sub total		14,243,105.73
Fixed Assets (Agricultural Machinery and Equipment)		
12	Tractor	3,544,977.97
13	Ox Cart	10,748.90
14	Rice Husking Machine	1,674,361.23
15	Fishing Boat	25,330.40
16	Fishing Net	33,986.78
17	Other	31,365.64
Sub total		5,320,770.93
Fixed Assets (Other Household Assets)		
18	Telephone	638,537.44
19	TV	674,228.24
20	Radio	40,158.59
21	Other Home Entertainment Equipment	526,277.53
22	Refrigerator	487,022.03
23	Housing Materials (including Lumber)	631,629.96
24	Precious Metals and Jewellery	3,973,400.88
25	Other	205,286.34
Sub total		7,176,541.01
Live stock		
		Average quantity
26	Buffalo	1.2
27	Cows	4.07
28	Goats	0.4
29	Pigs	9.2
30	Poultry (Ducks and Chickens)	37.8
31	Fish	
Total livestock (average)		17,397,476.99
Total Assets (average)		188,044,284.52

2.2.3 Household income and expenditure

All households sampled earn their living from farming and livestock husbandry, but most households have more than one source of income. Due to the sample selection criteria, raising pigs is the main source of income for a third of respondents, and is the secondary source of income for another third. The second most common primary income source (although for only 15% of the sample) is rice production, but the rice grown by most households is for personal consumption rather than for sale.

Methodology for deriving income and expenses:

Cash income is calculated as a household's cash inflow from selling produce on the market. It excludes the value of products (e.g. rice, maize, vegetables, fruit, egg, chicken etc), which households keep for their own consumption.

Cash expenditure is calculated as cash outflow that households spend for their everyday needs (e.g. school tuition, health care, food, clothes, electricity etc) production inputs (fertiliser, animal feed, piglets, calves etc), and other household expenses. It does not include the value of inputs that households consume themselves.

Most households are involved in several kinds of income generating activities, for instance growing rice and raising several kinds of livestock simultaneously. Other than trading (usually small shops operated from their homes) very few households are involved in non-agricultural activities to earn a living. None reported any industrial activity although a small percentage were involved in production of handicrafts such as weaving.

The survey team found that in Xieng Khouang some households do not keep their pigs in pens, rather their pigs are allowed to forage around the village. However this practise is in decline and is not expected to affect dung collection for most households.

Table 4: Primary and secondary sources of income

Code	Activity	Income Generating Activities (% of all respondents)	Primary Activity	Secondary Activity
1	Rice Production	82.20	15.35	17.54
2	Other Crop Production	46.50	0.44	0.44
3	Buffalo Raising	36.40	7.02	8.77
4	Cow Raising	58.30	13.60	12.28
5	Goat Raising	8.80	0.44	0.88
6	Pig Raising	97.80	34.65	33.33
7	Poultry (Ducks and Chickens)	93.30	0.44	0.88
8	Fishing	18.40	0.44	0.44
9	Forestry (Timber)	5.70	0.44	0.44
10	Non-Timber Forest Products	0.00	0.44	0.00
11	Construction Business	0.40	0.00	0.00
12	Industrial Business	0.00	0.00	0.00
13	Handicraft Business	7.80	1.32	1.32
14	Wholesale / Retail Trading	18.90	7.46	3.95
15	Service (eg restaurant)	4.80	1.75	3.51
16	Transport Business	10.50	1.32	0.88
17	Other - Local whisky producer	32.5	14.91	15.30

The average income from 'business' is quite high as many of the households with more than five pigs also operate a business making local whisky (this does not apply in Vientiane Capital). The waste products from making whisky are given to the pigs as feed so it makes sense to be involved in both activities.

Table 5: Sources of income per province (average, in Kip)

	Source of income	Vientiane Capital	Vientiane Province	Xieng Khouang	Savannakhet	Total
Agricultural products	Sticky rice	3,707,221	815,833	837,000	1,416,921	1,694,244
	Rice	1,805,105	217,500	80,933	422,669	631,552
	Maize	-	-	277,883	-	69,471
	Vegetable	292,188	27,267	226,317	1,596,157	535,482
	Peanut	-	-	28,083	-	7,021
	Banana	-	-	156,367	-	39,092
	Other	183,333	-	61,500	670,370	228,801
	Average Income	5,987,846	1,060,600	1,668,083	4,106,118	3,205,662
Livestock	Pig	7,039,310	12,967,000	2,457,300	5,661,421	7,031,258
	Buffalo	148,276	223,333	1,076,667	170,000	404,569
	Cows	845,267	676,667	814,983	928,614	816,383
	Goats	-	-	-	99,536	24,884
	Horse	-	-	-	22,222	5,556
	Poultry	446,125	385,783	598,583	734,474	541,241
	Average Income	8,478,977	14,252,783	4,947,533	7,616,266	8,823,890
Aquaculture	Fish	430,000	12,500	218,900	1,144,364	451,441
	Other	33,500	-	-	-	8,375
	Average Income	463,500	12,500	218,900	1,144,364	459,816
Other income	Salary	10,805,600	8,694,400	6,104,308	11,053,565	9,164,468
	Pension		7,176,000	5,615,833	2,820,000	5,203,944
	Business	31,480,313	40,060,686	30,098,394	31,137,171	33,194,141
	Labour service	8,900,000			6,700,000	7,800,000
	Average Income	51,185,913	55,931,086	41,818,535	51,710,736	55,362,554
	Total Average Income	66,116,236	71,256,969	48,653,052	64,577,483	67,851,921

2.2.4 Household expenditure

Table 6: Household Expenditure

	Vientiane Capital	Vientiane Province	Xieng Khouang	Savannakhet
Rice	218,182	930,125	654,786	4,672,111
Foodstuff	5,862,273	9,587,917	3,945,000	7,538,651
Other	11,182	-	-	8,730
Electricity	422,909	1,127,733	131,295	2,995,111
Fuel	6,190,614	7,420,483	3,301,417	4,541,270
Cloth	1,044,318	892,500	758,917	893,810
Healthcare	1,589,318	1,046,100	566,333	879,048
Education	1,478,727	1,765,417	1,168,808	988,667
Production investment	3,102,045	20,292,667	12,172,003	7,936,402
Total Expenses	19,919,568	43,062,942	22,698,560	30,453,799

2.2.5 Household savings

Most households prefer to keep their savings as cash that they keep in their homes or on their person. This is largely because of difficulty in accessing basic financial services such as savings and credit facilities as these institutions are not represented at the village level. About a third of respondents keep a limited proportion of their money in a village savings and credit group or savings and credit union.

Table 7: Household savings

Code	Savings Vehicle	Average current value of savings (Kip)	Percentage of sample using each savings vehicle
1	Cash 'in hand' (not kept in any financial institution, including all cash kept in the household by household members)	2,559,403	98.7
2	Bank Current Account Deposits (where no interest is paid)	7,080	0.88
3	Bank Savings Deposits (where interest is paid)	557,522	2.19
4	Bank Term Deposits (<6 months)	22,124	0.88
5	Bank Term Deposits (6 months><1yr)	300,221	3.07
6	Bank deposits (>1yr)	95,177	3.5
7	Savings held in <i>Houay</i> (rotating fund or 'roska')	413,407	6.5
8	Cash held in Village Savings and Credit Group	685,792	32.89
9	Cash held in Savings and Credit Unions	221	1.75
10	MFI	5,664	0.4

2.2.6 Household Debt

On average, 36% of households interviewed had borrowed money over the previous 12 months. The money was most commonly borrowed by the spouse of the household financial manager. The APB was the main source of these loans. The money was mainly borrowed to increase rice production (Vientiane capital) or to purchase pigs as livestock (Vientiane Province, Xieng Khouang).

Table 7: Household debt

	Vientiane Capita	Vientiane Province	Xiengkhouang	Savanakhet	Average
% of households who borrowed money	31.80	55.00	45.00	14.30	36.53
Name of borrower					
1 = Household Financial Manager	9.10	23.30	20.00	-	13.10
2 = Spouse	25.00	30.00	20.00	12.70	21.93
Source of loan					
1= Supplier Credit	-	6.70	3.30	-	2.50
2 = Friend or Family	2.30	-	-	3.20	1.38
3 = Informal Moneylender	-	1.70	-	1.60	0.83
4 = Houay	-	-	-	-	-
5 = MFI	-	-	-	-	-
6 = APB	18.20	36.70	4.00	4.80	15.93
7 = BCEL	-	3.30	-	-	3.30
8 = LDB	-	1.70	-	-	0.43
9 = Village Savings and Credit Group	11.40	5.00	1.70	4.80	5.73
10 = Village Revolving Fund	2.30	-	-	1.60	0.98
11 = Savings and Credit Union	-	-	-	-	-
Loan Purpose					
Rice Production	22.70	1.70	-	4.80	7.30
Other Crop Production	-	-	-	3.20	0.80
Pig Raising	6.80	31.70	38.30	1.60	19.60
Forestry (Timber)	-	-	-	1.60	0.40
Industry	-	1.70	-	-	0.43
Handicraft	-	5.00	-	-	1.25
Wholesale and Retail Trade	-	6.70	3.30	-	2.50
Services	-	3.30	-	-	0.83
House Construction	-	-	-	1.60	0.40
Domestic Consumption Goods	2.30	-	1.70	-	1.00
Health / Medicines	2.30	-	-	-	0.58
Other	-	5.00	1.70	1.60	2.08

2.2.7 Contributions towards cost of biogas plant construction

79% of household financial managers said that if in future they installed biogas in their home, they could contribute cash – on average 1,509,251 Kip. In terms of what else they could contribute, 70% said building material and 78% said their own labour.

Table 8: Contributions to biogas plant construction

Contribution	Percentage of the respondents	Average expected contribution (kip)
Cash	79%	1,509,251
Building Material	70%	NA
Own labour	78%	NA

2.2.8 Contributions as part of full cost of biogas plant construction

On average, respondents stated that they could contribute about 1.5 million kip towards the cost of constructing a biogas plant in their homes. However, if they have access to loans with attractive terms they may decide to borrow a greater part of the full cost and retain their cash savings for other purposes.

Table 9 : contributions as part of full cost

Component	Estimated value (kip)
Estimated total cost of each biogas plant	4,000,000
Estimated subsidy	1,000,000
Estimated average contribution from user	1,509,251

2.2.9 Attitude towards financing

Households were asked to indicate the first three sources of finance they would approach if they needed a loan.

Informal borrowing through friends and family is most preferred option (stated by just over a third of respondents). Borrowing from the APB is a close second choice (26%). There is only a small level of borrowing from MFIs or credit unions because of their limited outreach.

Table 10: Preferred sources of finance

Preferred source	1st Preference	2nd preference	3rd Preference
Supplier Credit	0.90	1.30	0.90
Friends and family	35.00	38.00	6.60
Informal moneylender	1.30	3.50	1.40
Houay	0.90	0.40	1.30
MFI	0.40	0.40	0.90
APB	26.00	14.10	6.20
Other Commercial Bank	4.80	4.00	2.20
VSCG	11.50	7.00	1.80
VRF	7.00	2.60	0.90

Preferred source	1st Preference	2nd preference	3rd Preference
SCU	1.30	1.30	0.40
Other	6.20	9.30	4.80

The rate of interest considered affordable by respondents in different provinces differs according to rates offered by existing sources of finance in each province. Therefore respondents in Savannakhet make a comparison with the rate available from Village Savings and Credit Groups, but in Xieng Khouang no such groups exist so respondents usually state that they want to borrow at as low an interest rate as possible. Respondents in Vientiane capital and Vientiane province made a comparison with the usual market price for loans taken out for income generating activities (4-5%).

Table 11: Preferred terms and conditions

Province	% requiring loan from MFI/Bank	Average amount	Preferred loan duration (months)	Preferred loan repayment method		Average Affordable Interest rate
				% requiring repayment of principle and rate	% requiring repayment of interest only	
Vientiane Capital	25	1,345,455	6.90	100.00	-	2.6
Vientiane Province	40	2,400,000	9.42	13.00	87.00	2.56
XiengKhouang	52	2,161,290	11.10	6.45	93.54	1.65
Savannakhet	18	2,136,364	20.45	72.72	27.27	3.39
Total Average						2.55

2.3 DEMAND FOR BIOGAS

2.3.1 Household fuel utilisation

Note that it was not possible to collect data for electricity use since it was not possible for respondents to separate electricity costs for cooking and electricity costs for other uses. The table below presents data based on multiple choice questions – showing that some households use a combination of fuels. It was found that almost three quarters of respondents used firewood for fuel, 53.70% of whom were self sufficient (able to source firewood themselves without paying for it). Just over half the sample used charcoal whilst less than 2% used gas, all of whom purchased it.

Table 12: Household fuel utilisation

Kind of Fuel	Households using the fuel	Self-sufficient	Purchase	Cost per month
Fire wood	71.80%	53.70%	46.30%	24,000
Charcoal	54.20%	33.33%	66.67%	48,177
Electricity	NA	NA	NA	NA
Gas	1.80%	0.00	100%	30,000

The table shows that if the sample households installed biogas, many of them would save money they currently spend on purchasing fuel, as many of them are not self sufficient in

firewood or charcoal nor is the opportunity costs of time taken to collect fuels taken into consideration. This saving can be offset against the costs of installing biogas. The current uses of dung collected from livestock are noted below. The majority is used as fertiliser (either in paddy fields or vegetable gardens). If the sample households installed biogas they would be able to use the leftover by-product from the biogas plants for the same purpose, with greater effect since this by-product is a more powerful fertiliser than dung in its natural state. Where dung is sold the price is 2,615 Kip per bag. The bags used are 50kg fertiliser bags although the weight of dung in the bag will obviously differ depending on the moisture level. Only 14 households in the survey reported selling the dung, most of those in Vientiane Province.

Table 13: Use of dung from livestock

Use	Percentage
Rice field	75.3
Vegetable Garden	54.4
Sell the dung	5.3
Feed Fish	13.2
Throw away	16.3

2.3.2 Estimation of demand for finance

Estimating the exact demand for biogas would involve analysing several factors including terms of borrowing, access to finance, access to institutions, savings, credit needs for other priority activities, and so on. In view of the limited time available to the consultants a simpler approach was decided on – to ask households if they wished to build a biogas plant, and if so, how much they could afford to contribute towards its cost. Respondents indicating a contribution less than the full cost would be very likely to want borrow the part of the cost not covered by the subsidy provided by the Biogas Pilot Programme.

23 % of the sample said they had previously heard about biogas. After the survey teams showed the brochure and explained about biogas, 83% of the sample said they would be interested in installing biogas in their homes – although most said they wanted to see a pilot biogas plant in operation first.

Whilst the average loan required to finance construction of a biogas plant is 1.5 million kip, respondents sometimes stated that they wished to borrow greater sums than this. In some cases this was because respondents could not be sure that their financial situation (and therefore their cash reserves) would be the same in the future as at the current time.

Table 14: Estimation of demand for finance

Province	Average annual household income (Kip)	% of households who wish to build biogas plant	Cash contribution (Kip)	% of households who wish to borrow full cost	% of households who wish to borrow part of cost	Average loan required (Kip)
Vientiane Capital	66,116,236	93.2	1,292,857	0.0	100	1,345,455
Vientiane Province	71,256,969	86.7	1,774,038	54.2	54.8	2,400,000
Xieng Khouang	48,653,052	93.3	1,764,706	25.0	75	2,161,290
Savannakhet	64,577,483	61.5	1,205,405	45.5	54.5	2,136,364
Average	62,650,935	83.5	1,509,251	31.18	71.08	2,010,777

3 BANKING AND MICROFINANCE IN LAO PDR

3.1 CHARACTERISTICS OF THE SECTOR

The formal microfinance sector is dominated by the state-owned commercial banks (SOCBs), however they are not active in rural areas, nor do they provide microfinance services. The main institutional source of rural finance is the Agricultural Promotion Bank (APB). APB's records show that in October 2006 the bank had 130,000 clients (consisting of 100,000 borrowers and 130,000 depositors – most clients fall into both categories since you must open an account in order to borrow money), which represents about 13% of rural households. Another 4% are estimated to have access to savings and credit services in the semi-formal sector (primarily project initiatives). The remaining 83% of rural households either do not have access to any financial services or rely on the informal sector - friends, family, or moneylenders. Moneylender interest rates can reach 20% per month.

3.1.1 Formal sector

The formal microfinance sector includes state-owned banks that are supervised by the Bank of Lao (BOL) and governed by the Credit and Savings Regulations. The main state-owned banks are the Banque pour le Commerce Extérieur Lao (BCEL) and Lao Development Bank (LDB), however both of these have limited microfinance activities. The main providers of formal microfinance are therefore:

- Agricultural Promotion Bank: The APB has a microfinance programme, which also includes group lending. The APB is currently undergoing a restructuring process (2003 – 2006) with the support of the Asian Development Bank (ADB), which intends to introduce a more commercial approach. As a result it could be that the APB's subsidised loan programme will discontinue in its current form. It should be noted that in 2002, a diagnostic study that included the first external audit of APB found that 88% of its loans were non-performing (see section 4.2.2 and Annex 5 for more information).
- Commercial banks (such as Bangkok Bank and Siam Commercial Bank): have very limited microfinance activities.

3.1.2 Semi-formal sector

Semi-formal institutions are recognised by the government and are regulated to some extent, either by the BOL or by other authorities (see section 5.1.4 for more detail on developments in the Lao microfinance sector). Providers of semi-formal microfinance are:

- Mass organisations: primarily the Lao Women's Union (LWU), a state controlled organisation present at every administrative level which has a membership of one million. Besides the LWU's usual work related to social policy, the organisation sometimes also provides credit, manages credit programmes for INGO's or forms credit groups for formal financial institutions like the APB. These programmes are not always successful or sustainable, partly because the LWU's staff often has only limited financial knowledge.
- Savings and Credit Unions (SCU's): The SCU's are pilot initiatives established by the APB and ADB in three provinces. They are private institutions intended to provide sustainable, commercial operations and are managed by an elected steering committee. They provide basic banking services to members, who number approximately 450 per

Union. If the SCU's prove to operate a sustainable portfolio, it is envisaged that the model could be replicated to other provinces in Lao PDR. The existing SCU's have expressed an interest in obtaining external funding.

- Donors and INGO's: often use existing networks like the LWU. The largest players in this field are:
 - Concern Worldwide
 - European Union (EU)
 - FIAM (Foundation for Integrated Agricultural Management)
 - World Vision

3.1.3 Informal sector

The informal sector comprises all sources of loans (such as money-lenders, traders, relatives and friends) that are neither recognised, legally regulated nor supervised by the state or any of its offices. It is estimated that the informal sector provides more than 50% of microcredit in rural Lao PDR, however this figure is expected to decline as credit sources from the formal and semi-formal sectors expand.

3.1.4 Microfinance initiatives in Lao PDR

Microfinance initiatives were first established in Lao PDR in 1996, and at the current time eight initiatives (including MFIs) have been established:

1. **Fonds Cooperative** which is an APEX body for the network of Cooperative de Credit de Soutien aux Producteurs (CCSP) established in 1996
2. **The United Nations Capital Development Fund (UNCDF) and United Nations Development Program (UNDP) Microfinance Project**, launched in late 1997 and transferred in 2002 to Ministry of Finance, which continues to manage the project (now known as the "Microfinance Office" in Xayaboury and Oudomxai Province);
3. **The Rural Development Cooperative (RDC)** started in August 2001;
4. **Three savings and credit unions**, which were started by the ADB in 2003 in three provinces: Luang Prabang, Vientiane Province and Savannakhet Province.
5. **Ekphathana Microfinance Institution (EMI)** started in 2006, which operated in Vientiane Capital and peri-urban;
6. **Institute Financier de Development De Phongsaly (IFDP)** was started as a Village Bank in 1998 and became a Microfinance Institution in 2006.

Table 15: Microfinance initiatives in Lao PDR

Name of Organisation	Location	
	Province	District
FC/CCSP	Vientiane Cap	Saysetha, Naxaithong, Hong Ngoa, Chanthaboury
FC/CCSP	Xieng Khuang	Pek
FC/CCSP	Vientiane Province	Vangvieng, Kasi,
FC/CCSP	Champasack	Paksong
FC/CCSP	Saravanh	Nateuy, Khongxedone
FC/CCSP	Sekong	Thateng
FC/CCSP	Luang Prabang	Luang Prabang
Microfinance Office (Oudomxai)	Oudomxai	Xai
Microfinance Office (Xayaboury)	Xayaboury	Xayaboury, Pieng, Paklai
Rural Development Cooperative	Vientiane Capital, Vientiane Province	Naxaithong
Ekphathana Microfinance Institution (EMI)	Vientiane Capital	Xaysetha, Chanthaboury, Sikhothabong, Sisathanak, Saythany and Pakngum
Luang Prabang Savings and Credit Union	Luang Prabang	Luang Prabang
Vientiane Savings and Credit Union	Vientiane Province	Phonehong
Seno Savings and Credit Union	Savannakhet	Outhoumphone
Institute Financier de Development De Phongsaly	Phongsaly	Phongsaly

3.1.5 Recent developments within the Lao microfinance sector

An important development in 2005 was the government's acceptance of the Microfinance Regulations (see section 6.2 and Annex 2). MFI's are required to register as either a 'Deposit Taking Microfinance Institution' or a 'Registered Microfinance Institution' (non-deposit taking) and adhere to the appropriate regulations, for instance regarding reporting, fund management and handling of savings.

While designed to support sustainable development of the microfinance sector, the Regulations also pose challenges, including those related to:

- Lack of financial knowledge among microfinance practitioners
- Possible reluctance to issue/extend licenses to MFI's
- More commercially oriented MFI's possibly serving the poor less effectively
- Requirement for MFI's to have stable administrative and control mechanisms
- Difficulty to attract savings or external funds
- Continuation of subsidised credits, which would hamper the more commercially oriented MFI's

Lao PDR's first microfinance initiatives were launched in 1997, so the sector is still at an early stage of development. That said, it is expected that the microfinance activities will grow substantially over the coming few years and that the new microfinance regulations will support the sustainable development of the sector.

4 FINANCIAL PROVIDER SURVEYS

4.1 INTRODUCTION

A Rural Financial Services Survey was conducted amongst banks and MFIs to establish what services are available, their outreach and the terms offered for savings and credit.

4.1.1 Purpose

The main objectives of the survey were to collect the following data:

Banks:

- Current status (client base, loan product, organisation)
- Are there existing lines of wholesale credit available to the MFI's? What are they, and what are the conditions?
- Can the bank act as apex body (or similar) that could facilitate disbursement of wholesale capital funds to MFI's and provide ongoing support?

MFIs/Cooperatives:

- What experiences have the MFI's had with developing and implementing products for directed use? (ie loans awarded for a fixed purpose)
- What support would they need to develop a product for financing biogas units?
- What are the conditions of wholesale loans acceptable to the MFI? (Interest rate, loan terms)
- What are the immediate and predicted needs for MFI's to provide wholesale funding to meet demand for biogas financing?

4.1.2 Methodology and selection of the sample

Face-to-face interviews were carried out using structured questions.

Banks, MFIs and Cooperatives were all interviewed at head office level. Since there are a limited number of financial providers in Lao PDR, the team were able to interview at least 80 per cent of the main financial providers in the country:

Table 16: Financial institutions surveyed

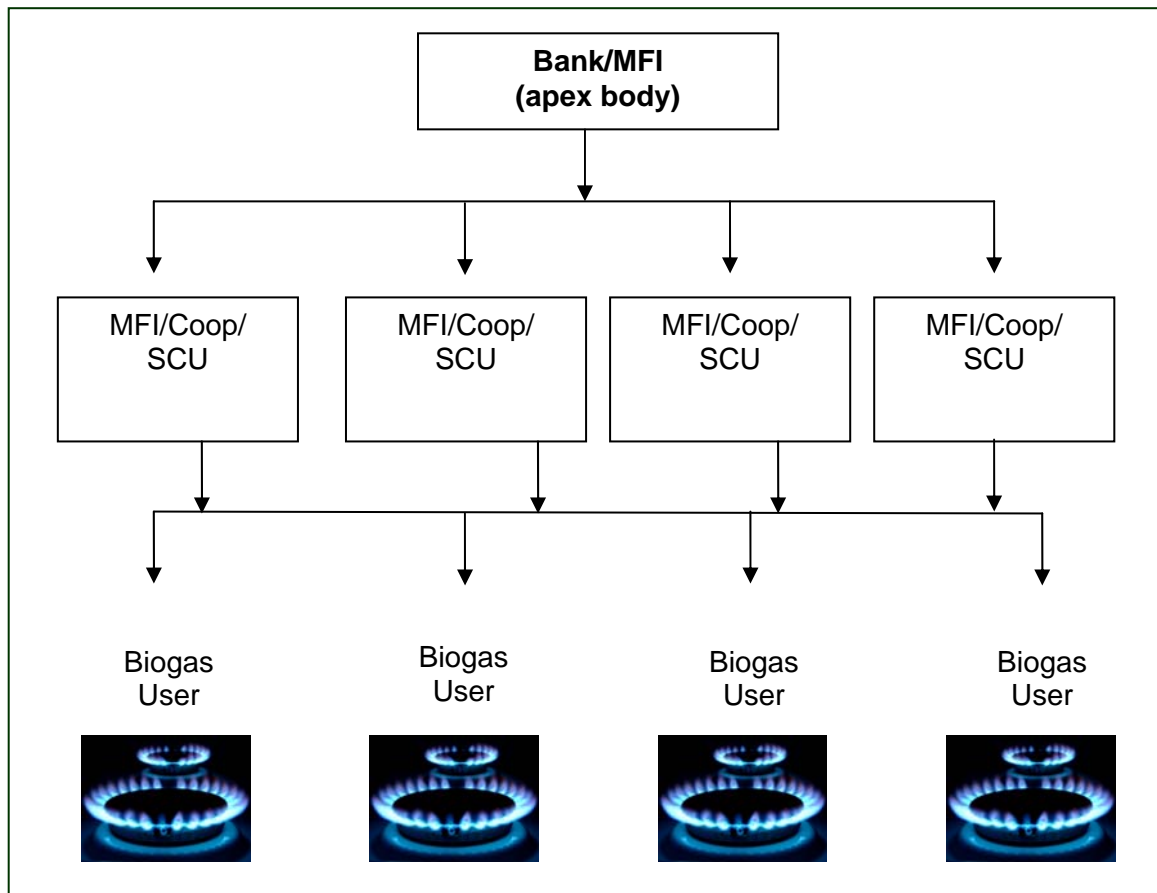
	Name of the financial institution	Type
1.	Agricultural Promotion Bank	Bank
2.	Lao Development Bank	Commercial Bank
3.	Vientiane Savings and Credit Union	Savings and Credit Union
4.	Seno Savings and Credit Union	Savings and Credit Union
5.	Ekphaththana Microfinance Institution (EMI)	MFI
6.	Fond de Cooperative	Cooperative
7.	Naxaithong Rural Development Cooperative	Cooperative

4.2 SURVEY RESULTS

4.2.1 Structure for management of funds from wholesale capital provider

The recommendation of the consultants is that one bank or MFI is chosen as an apex body that would manage the funds from the wholesale capital provider, providing wholesale loans to microfinance institutions as illustrated below. It is the view of the consultants that this option is the most practical and feasible. Without an apex body the wholesale capital provider would have to deal directly with several banks or MFIs, whilst to create a new organisation to serve as a purpose made apex body would be time consuming and unnecessary.

Figure 1: Proposed structure for financing of biogas programme



There are three financial institutions interested in becoming both a wholesaler (ie acting as an apex body) and a retailer, and two other financial institutions interested in becoming a retailer only. It should be noted that all these institutions expressed an interest but were not able to commit themselves to involvement at the time of the interviews.

Below is an overview of the relevant institutions. More detailed information on each of them can be found in Annex 5.

4.2.2 Financial institutions interested in both wholesale and retail

- a) The **Agricultural Promotion Bank (APB)** indicated an interest in managing the fund as Fund Manager to provide the wholesale loans to MFIs. However, the APB would require further information on the value of the loan fund and wholesale capital provider's interest rate before making a decision. The Agriculture Promotion Bank was established in 1993 as a state-owned policy bank, focusing on the agricultural sector.

APB is the main public instrument for rural finance, with 50% of total lending directed towards policy lending. Since its creation, APB has effectively never been supervised or regulated by the central bank. In 2002, a diagnostic study that included the first external audit of APB found that 88% of its loans were non-performing. This situation resulted from a lack of profit orientation, poor lending mechanisms, and weak provisioning. APB began a formal phase of restructuring in 2003, including phasing out of policy and subsidised lending, adoption of market-based principles, improvement of lending policies, recapitalisation and strengthening of information systems and management capabilities.

- b) **Fond de Cooperative (FC):** The FC also indicated an interest in managing the fund for both wholesale and retail, but needs more information before making a decision. During the course of this study the chairman of the FC was not available for interview. FC is a cooperative created in January 2002, registered by the Committee for Planning and Cooperation, and the Bank of Lao (BOL).

The FC operates as an apex body to support a network of credit cooperatives (CCSP: Coopérative de Crédit pour le Soutien aux Petites unités de production, or Credit Cooperative for Promotion of Small Producers in English) and to directly finance small enterprises. The first CCSP was created in Vientiane in October 1996, as an independent mutual cooperative, registered by BOL, with \$3,000 in capital.

FC was created after a study recommended setting up an umbrella organisation. The individual CCSPs were not able to cope with the high demand for credit, as they lacked financial and human resource capacity, and their legal status was not adapted to the extension of the network.

- c) **Ekphattana Microfinance Institution (EMI):** EMI also indicated an interest in managing the fund for both wholesale and retail. EMI began operations in February 2006, as the first licensed Microfinance Institution (MFI) under the new Microfinance regulation, issued in 2005. MFI's vision is to contribute to the economic development of the country in order to offering better living conditions of the people. This will be achieved by providing appropriate financial services to their clients that help ensure sustainability and growth of their activities. EMI had a start- up capital of US\$ 100,000 raised by ten shareholders.

EMI offers two savings products - passbook savings and fixed term deposits. A member can open a passbook account with a minimum balance of 10,000 Kip (US\$ 1). The interest rate per annum is 1% higher than at the commercial bank. The client can withdraw money anytime (minimum balance for a term deposit is US\$ 10). The interest rate is fixed over the term (3, 6, 9, 12, 18 or 24 months). If the client withdraws their money prior to the end of the fixed term, they will earn interest at the passbook savings rate.

Table 17: Summary of organisations interested in both wholesale and retail

Description	APB	FC	EMI
Year started	1993	2002	2006
Type	Bank	Cooperative	Deposit-Taking MFI
Ownership	SOB	Members	Private
Registered Capital	1 billion kip ²	5 billion	1 billion
No of Branches	16	12 CCSP	1
Loan Size	2 million – 10 billion	1-10 million	0.5 - 20 million
Loan Term	12 months	1-12 months	1-12 months
Interest rate per month	1.5-2%	3%	4%
Active borrowers	100,000	1,300	502
Total loan Portfolio	350 billion kip	5.3 billion kip	1.2 billion kip

4.2.3 Possible participation - retail only

- a) **The Rural Development Cooperative (RDC):** RCD was founded in 2001, and operates in Vientiane Capital and Vientiane Province. It was started with just 23 million kip, but now generates a net profit of over 100 million kip per annum. Of its 18 founders, the primary shareholder is an ex-ABP credit manager. It has benefited from a 128 million kip loan from Vientiane municipality at a subsidised rate of 3%, which has been fully repaid. Further expansion is limited by its ability to raise funds, although it is likely to be eligible for the ADB microfinance fund, which will be administered by the Bank of Lao.
- b) **Seno Savings and Credit Union:** is one of the three ADB sponsored credit union under the draft savings and credit union regulation. It is a membership organisation, which included members of the provincial government who were the official recipients of ADB support. It is receiving technical support from SNV and will be eligible for more ADB funds (a cooperative loan fund) administered by the Bank of Lao. The current structure, designed by WOCCU (World Council of Credit Unions), does not have loan officers, rather it relies on board members to find loans, analyse and approve them.

Table 18: Summary of organisations interested in retail only

Description	RDC	Seno
Year started	2001	2004
Type	Cooperative	Savings and Credit Union
Ownership	Members	Members
Registered Capital	200 million	81.6 million
No of Branches	2	1
Loan Size (Maximum)	10.000.000 (individuals)	5.000.000
Loan Term	1-12	6-12 months
Interest rate per month	5-6%	4%
Active borrowers	1,300	271
Total loan Portfolio	2.3 billion	544 million

² APB will be recapitalised by using a Program loan from Asian Development Bank.

5 LEGAL FRAMEWORK

5.1 BANKING LAW

There is nothing explicitly noted in the current banking law about banks making wholesale loans to microfinance institutions. Therefore technically there is nothing to stop them from engaging in this activity. However, it is expected that the revision of the Microfinance Regulation (see 6.2 below) will provide increased regulatory support within the sector.

6.2 MICROFINANCE REGULATION

Below are the sections of the Microfinance regulation related to loans from MFIs (see Annex 2 for the complete regulation). The Microfinance Regulation is being revised by the Bank of Lao PDR, with technical assistance from the ADB worth US\$ 400,000. The objective of this technical assistance is to assist the Government to (i) coordinate and integrate rural and microfinance policy reforms and program implementation, (ii) carry through the policy lending phaseout plan and performance-based recapitalisation of the Agricultural Promotion Bank (APB) to ensure its full transition to a commercially-oriented operations within three years; and (iii) formulate and document a simplified mechanism, policies and procedures for residual on-budget policy lending; and (iv) assist APB to build capacity in its human resources management.³

See also Annex 7 (article from Vientiane Times newspaper, 24 November 2006 - Bank laws to be amended) which reports that the government is reforming banking laws to meet international standards.

Executive Decree of The Lao People's Democratic Republic (Lao PDR) on the Establishment and Operations of Microfinance Institutions in Lao PDR

Article 4 Scope of Activities of Microfinance Institutions

Microfinance Institutions shall be entitled to:

- (i) mobilise capital in the form of loans or grants, from Lao and/or foreign organisations or legal entities;
- (ii) extend Micro-loans;
- (iii) extend other loans the principal amount of which shall not exceed 58 million Kip (equivalent to approximately USD5,000) or any other amount as may be determined from time to time by the Bank of Lao PDR, the aggregate amount of which shall not exceed 20% of the gross loan portfolio;
- (iv) open accounts and deposit funds with the Bank of Lao PDR, or with any commercial banks;
- (v) if Deposit-Taking Microfinance Institutions, receive Voluntary and Compulsory deposits from the general public;

³ Institutional Strengthening for Rural Finance Lao PDR- ADB_org.htm

- (vi) if Registered Microfinance Institutions, receive only Compulsory Deposits and if specifically authorised to do so, Voluntary Deposits not exceeding the limit set out by the Bank of Lao PDR;
- (vii) provide financial services, including sale of insurance as an insurance agent, payment services and money transfer services; and
- (viii) provide other financial services as may be permitted from time to time by the Bank of Lao PDR.

Deposit-Taking Microfinance Institutions and Registered Microfinance Institutions shall not:

- (i) carry out leasing;
 - (ii) deal in gold, precious metals, raw materials and commodities;
 - (iii) provide payment services through checking accounts;
 - (iv) carry out swap or foreign exchange business;
 - (v) provide insurance services as a broker;
 - (vi) hold, deal or trade in real estate except for their own use;
 - (vii) hold, deal or trade in derivatives;
 - (viii) place their funds in the form of deposits with another microfinance institution;
- and/or
- (ix) carry out business activities other than those specified above and in their Licence or Certificate of Registration.

Part IV Restrictions on Certain Transactions for Deposit- Taking Microfinance Institutions and Corporate Governance Issues

Article 21 Prohibitions on Insider Lending

A Deposit-Taking Microfinance Institution shall not be permitted to make loans to:

- (i) members of its board of directors, and managers;
- (ii) persons in charge of loan appraisal and approval;
- (iii) persons directly connected by blood or marriage to the members of its board of directors or managers.

Article 22 Credit Restrictions

For the purpose of this Article, related parties are defined as follows:

- (i) auditing organisations, or auditors carrying out the audit of the Microfinance Institution;
- (ii) any person holding directly or indirectly more than 10% of the capital or voting rights of the Deposit-Taking Microfinance Institution;
- (iii) enterprises in which 10% of the capital is owned directly or indirectly individually or in aggregate by one or more persons specified in Article 21.

Loans to related parties shall be made under normal conditions of duration, interest rate, collateral and repayment schedule. Normal conditions are understood as the conditions that would be made to any other non-related customer in similar circumstances. The total amount of outstanding loans made to related parties shall not exceed 5% of the net worth of the Deposit-Taking Microfinance Institution, with the total amount of any one loan limited to 1% of the net worth.

6 CONCLUSIONS AND RECOMMENDATIONS

The recommendations of this study are divided into those related to potential household biogas users and those related to financial institutions.

6.1 RECOMMENDATIONS RELATED TO POTENTIAL BIOGAS USERS

- Most of the respondents are interested in building biogas plants in their homes, but said they would like to see actual biogas plants in operation first. As biogas is a new technology in Lao PDR, the pilot scheme will be invaluable for demonstrating and promoting its benefits. The proposal to start the pilot in Vientiane Capital (Naxaithong and Pakngum districts) makes good sense as the survey found that 93.2 percent of the respondents in those districts are interested in installing biogas in their homes. It is our recommendation that a video (showing the pilot plants in operation) is made as a promotional tool that can help potential biogas users visualise what is entailed.

The majority of the respondents indicated they would be able to contribute up to 1,509,251 kip towards the construction costs. The recommendation of the consultants is to make borrowing the remainder as attractive as possible, by making long term loans available - we suggest a term of up to 24 months. After taking into account the expected subsidy (one million kip per biogas plant), on average biogas users will need to borrow 1,490,749 kip (\$149.07) from a financial institution.

We recommend that the interest rate on the loans should be a flat rate in line with the average rate considered affordable in each province (an average of 2.55% overall). However the rate should also be close to the market rate, to avoid a distortion effect, so this could be moved to 3%. From the experience of the consultants, the critical factor will be actually providing access to finance rather than the interest rate itself.

6.2 RECOMMENDATIONS RELATED TO FINANCIAL INSTITUTIONS

6.2.1 Fund Manager (wholesaler of loan from wholesale capital provider)

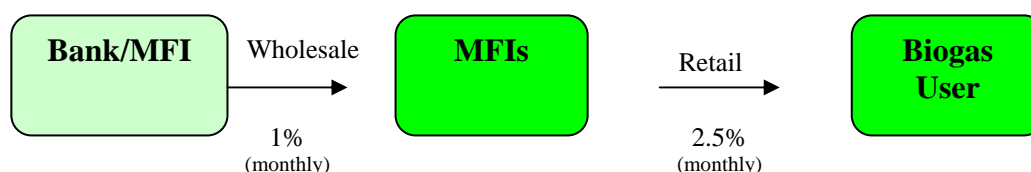
- The recommendation of the consultants is that one bank or MFI is chosen as an apex body that would manage the funds from the wholesale capital provider, providing wholesale loans to microfinance institutions as illustrated below. It is the view of the consultants that this option is the most practical and feasible. Without an apex body the wholesale capital provider would have to deal directly with several banks or MFIs, whilst to create a new organisation (to serve as a purpose made apex body) would be costly, time consuming and unnecessary.

There are three financial institutions interested in becoming both a wholesaler (ie acting as an apex body) and a retailer, and two other financial institutions interested in becoming a retailer only. It should be noted that all these institutions expressed an interest but were not able to commit themselves to involvement at the time of the interviews. A number of details would need to be worked out and agreed before a final commitment could be given.

- The amount of wholesale loan required will very much depend on the demand for biogas generated by the pilot programme; it may take some time for the pilot to convince potential biogas users.

There is also an opportunity for the wholesale capital provider to provide wholesale loans for other purposes outside the biogas programme. Most of the MFIs in Lao operate on a small scale, and therefore may not meet the criteria to borrow bigger loans from a wholesale capital provider. MFIs such as RDC, EMI, and the Savings and Credit Unions are finding it difficult to refinance to meet the high demand for credit. If MFIs are not able to expand their services, this may limit their capacity to improve their outreach to areas of Lao PDR where there is the demand for biogas. It may not be attractive (or viable) for MFIs to expand their services only for the biogas programme.

Figure 2: Proposed interest rate⁴



6.2.2 Microfinance providers (retailers of loan from wholesale capital provider):

- In terms of the recommended interest rate, the loan term to MFIs should allow them enough spread to cover their operating costs, loan loss reserve, cost of funds and inflation. In addition, the loan term should be longer than the term on the wholesale loan. The average market rate in Lao PDR for loans used for income generating activities is 4-5 percent per month. This would allow MFIs a spread of about 2.5-3.5 percent per month. The current cost of funds in Lao PDR for MFIs is about 1.5 to 2 percent per month in local currency (Kip).
- Although four MFIs indicated their interest in participating in the program, most of them have limited outreach. The MFI with the biggest network is Fonds Cooperative (FC) which supports 12 Credit Cooperatives (CCSPs) in different provinces. The Rural Development Cooperative (DRC) has only two branches, whilst the other two MFIs only have one branch. If a financial institution is appointed as Fund Manager, it needs to be able to provide a very attractive package in order to encourage more MFIs to participate. Since most MFIs are small, they would also benefit from assistance from the biogas programme regarding promotion materials such as videos, posters and so on.
- The pilot program could be started with one or two MFIs who already have clients with at least five pigs. RDC currently has 32 clients who meet this requirement, and is very interested in being involved in the pilot.

⁴ The proposed interest rate should be calculated on a flat rate basis, depending on the rate from the wholesale capital provider, who is expected to require a 5 - 7% spread.

ANNEX 1: HOUSEHOLD SURVEY QUESTIONNAIRE

BIOGAS SURVEY

Questionnaire for Households

Questionnaire Identification		Code
Province		
District		
Village		
Household No		
Head of Household		

Staff Identification		Code
Date of Interview		
Interviewer Name		
Supervisor Name		
Date Checked		

Enumerator and Supervisor Comments Regarding this Interview

Introduction

We are conducting a survey of rural and microfinance on behalf of SNV biogas project. We are asking individuals household to provide us with information.

We are here today to ask you some questions about your household's activities and present use of formal financial services, your use of informal lending services, and your opinions on these services.

All of the information you provide us with will be strictly confidential, will be used for aggregation purposes only, and will not be disclosed to any other party.

Your co-operation is greatly appreciated, and I thank you for taking the time to answer the questions.

Throughout this questionnaire use the exchange rates 1 Baht = 270 Kip and 1 USD = 10,000 Kip if respondents give information in these currencies.

Areas of land and property are to be entered in square metres. Where respondents give an area of land in Lai convert to square metres using 1 Lai = 1,600 square metres.

Section 1: Demographics

1 Is the Household Financial Manager present during this interview?

You must obtain the name of the Household Financial Manager

No **Yes**
Name:

How long has the Household Financial Manager lived at this address? **Years**

2 Please complete the following table on your household members. Household members include all persons who usually live and eat together at this house.

Do not read aloud the code keys. Record all of the household members as they are related to the Household Financial Manager.

Age (yrs)	Sex (m/f)	Marital Status	Education	Occupation
	1=M 2=F	1 = Never Married 2 = Married 3 = Divorced 4 = Separated 5 = Widowed	1 = No School Age 2 = Below School 3 = Primary 4 = Lower Secondary 5 = Upper Secondary 6 = Vocational 7 = University /Institute 8= Other	1 = Self Employed or Employed in Farming / Fishing / Forestry (including NTFP) 2= Owner of a Private Business (excluding 1 above) 3 = Employee in Private Business (excluding 1 above) 4 = Government Employee 5 = Below School Age 6 = Student 7 = Home-maker 8 = Retired 9 = Unemployed

Section 2: Household Activities

- 3 This question is about the activities of your household where one or more household members are self-employed in farming / fishing / forestry or one or more members are owners of a private business.**

Please say which of the following income generating activities your household is involved in. Income means income in cash and income in kind.

Read the activity categories aloud and tick all that apply.

Please say which of these activities generates the largest amount of income for your household and which generates second largest amount of income. Please also state the year in which your household started these activities.

Then tick one primary and one secondary activity only. You should include all activities carried out within the last 12 months, even if the activity is currently not carried out.

Code	Activity	Income Generating Activities (Tick all that apply)	Primary Activity (Tick one)	Year Primary Activity Started (yyyy)	Secondary Activity (Tick one)	Year Secondary Activity Started (yyyy)
1	Rice Production					
2	Other Crop Production					
3	Buffalo Raising					
4	Cow Raising					
5	Goat Raising					
6	Pig Raising					
7	Poultry (Ducks and Chickens)					
8	Fishing					
9	Forestry (Timber)					
10	Non-Timber Forest Products					
11	Construction Business					
12	Industrial Business					
13	Handicraft Business					
14	Wholesale and Retail Trading (specify) _____					
15	Service Business (specify) _____					
16	Transport Business					
17	Other (Specify)					

Section 3: Household Assets

4 How many of the non-financial assets listed below does your household possess, and what is current value of these?

Read the categories aloud one group at a time.

Code	Category	Quantity (Specify Units as Required)	Value if Sold Today (Kip)
Fixed Assets (Land and Buildings)			
1	Residential Land including Garden	sq m	
2	Irrigated Farm Land	sq m	
3	Non-Irrigated Farm Land	sq m	
4	Commercial Land	sq m	
5	Buildings – Home		
6	Buildings – Agricultural		
7	Buildings – Business		
Fixed Assets (Vehicles)			
8	Vehicles (Car, Pick-up Truck, Van, Bus)		
9	Motorcycle		
10	Bicycle		
11	Tuk-tuk		
Fixed Assets (Agricultural Machinery and Equipment)			
12	Tractor		
13	Ox Cart		
14	Rice Husking Machine		
15	Fishing Boat		
16	Fishing Net		
17	Other(specify) _____		
Fixed Assets (Other Household Assets)			
18	Telephone		
19	TV		
20	Radio		
21	Other Home Entertainment Equipment		
22	Refrigerator		
23	Housing Materials (including Lumber)		
24	Precious Metals and Jewellery		
25	Other(specify) _____		
Live stock			
26	Buffalo		
27	Cow		
28	Goat		
29	Pig		
30	Poultry (Ducks and Chickens)		
31	Fish raising		
32	Other		

Section 4: Household Income and Expenditure

5 Please can you tell us about your household income in the last 12 months, their value, and your income from them?

Categories	Products	Areas/head	Quantity	Quantity for sales	Price (Kip 1,000)	Amounts (Kip 1,000)
Agriculture	Rice					
	Maize					
	Bean					
	Vegetable					
	Peanut					
	Banana					
	NTFP					
	Other _____					
Livestock	Pig					
	Buffalos					
	Cows					
	Goats					
	Horse					
	Poultry					
	Other _____					
Aquaculture	Fish					
	Others					
Other source	Pension					
	Business					
	Labor service					
	Other _____					
Total						

6 Please can you tell us about your household expenditure the last 12 months?

Categories		Unit	Quantity	Price (Kip 1,000)	Amount (Kip 1,000)
Food	Rice				
	Food stuff				
	Other				
Electricity					
Fuel					
Cloth					
Health Care					
Education					
Production investment					
Total					

Section 5: Household Savings

7 What is the current value of each of your household's financial assets found below and how much income do you get from them? Please also tell us how much your savings increased or decreased over the last 12 months.

Code	Savings Vehicle	Current Value of Savings (Kip)	Interest Rate (% per Month) OR Amount per Month if Return is Paid as a Dividend or a Lumpsum (Kip)	How much has your amount of savings changed over the last 12 months? (Kip)	
				Increased	Decreased
1	Cash in Hand (including all cash kept in the household by household members)				
2	Bank Current Deposits (with no interest is paid to you)				
3	Bank Savings Deposits (interest paid to you)				
4	Bank Term Deposits (<6 months)				
5	Bank Term Deposits (6 months><1yr)				
6	Bank Deposits (>1yr)				
7	Savings in Houay				
8	Cash Held in Village Savings and Credit Group				
9	Cash Held in Savings and Credit Unions				
10	MFI				

Section 6: Household Borrowing

8 Has your household received loans during the last 12 months? Yes No

9 Please provide details about the loans received by your household in the last 12 months

Loan	Named Borrower	Source of Loan	Purpose of Loan Use the Codes Below	Interest rate	Overdue loan
	1 = Household Financial Manager 2 = Spouse 3 = Child 4 = Parent 5 = Grandparent 6 = Grandchild 7 = Aunt 8 = Uncle 9 = Son's Spouse 10 = Daughter's Spouse 11 = Other (specify)	1= Supplier Credit 2 = Friend or Family 3 = Informal Moneylender 4 = Houay 5 = MFI 6 = APB 7 = BCEL 8 = LDB 9 = Village Savings and Credit Group 10 = Village Revolving Fund 11 = Savings and Credit Union 12 = Other (specify)			
1					
2					
3					
4					
5					

1	Rice Production	13	Handicraft
2	Other Crop Production	14	Wholesale and Retail Trade (specify) _____
3	Buffalo Raising	15	Services (specify) - _____
4	Cow Raising	16	Transport / Communication
5	Goat Raising	17	House Construction
6	Pig Raising	18	Domestic Consumption Goods
7	Poultry (Ducks and Chickens)	19	Health / Medicines
8	Fishing	20	Education
9	Forestry (Timber)	21	Marriage
10	Non-Timber Forest Products	22	Funeral
11	Construction Business	23	Other (specify) _____
12	Industry		

Section 7: Attitudes to Financing

10 If your household needed a loan, please indicate the first three sources of finance you would approach in order of preference?

Complete the last column on access to sources for all sources even if they are not a preferred source

Code	Source of Credit	Preference 1 = First 2 = Second 3 = Third	Reason (Tick all that apply, using the codes below)									Do you have access to this source? (Tick if "Yes")
			1	2	3	4	5	6	7	8	9	
1	Supplier Credit											
2	Friend or Family											
3	Informal Moneylender											
4	Houay											
5	MFI											
6	Agricultural Promotion Bank											
7	Other Commercial Bank											
8	Village Savings and Credit Group											
9	Village Revolving Fund											
10	Savings and Credit Union											
11	Other (specify) _____											

- 1 = Interest Rate
 2 = Short time taken/short distance to Loan Provider
 3 = Confidence that a loan will be made
 4 = Flexible repayment terms (ease of changing amounts and timing of repayments)

- 5 = Friendliness of person or staff making the loan
 6 = Low collateral requirements
 7 = Simple loan procedures (low amount of paperwork)
 8 = Long loan term
 9 = Other (specify) _____

Section 8. Biogas Plant demand

11 . Fuel Utilization of household

Kind of Fuel	Self-sufficient	Purchase	Cost per month
Fire wood			
Charcoal			
Electricity			
Gas			
Other			

12. Attitude toward biogas plant

A. What do you do with Animal dung?

Rice field

Vegetable Garden

Sell the dung

How much per bag full?

Feed Fish

Throw away

B. Have you heard about Biogas? Yes No (If not, the Enumerator will explain about the biogas plant by showing the picture and brochure. Approximately Enumerator will explain about 3-5 minutes)

C. Are willing to build one? Yes No

D. How much will you be able to pay?

Cash

How much?

Building Material

Own labor

E. If you don't have enough money to cover all cost, which source finance you are looking for

Source of fund	Amount	Loan term		Affordable Interest rate
		Duration	Repayment	

Loan from the MFI/Bank

Other source _____

F. In your opinion, is it acceptable to use gas connects from toilet?

Yes, go to

No,

Explain _____

Conclusion

Thank you very much for your kind assistance with this survey. Your answers will be kept confidential and used for aggregation purposes only.

ANNEX 2: MICROFINANCE REGULATION

Executive Decree¹ of The Lao People's Democratic Republic (Lao PDR) – No [] on the Establishment and Operations of Microfinance Institutions in the Lao PDR

Based on the Law No 5 on the Bank of Lao PDR, dated 14 October 1995 as amended on 14 October 1999. Referring to the proposal of the Governor of the Bank of Lao PDR, dated [].

Part I General Provisions

Article 1 Scope of Application

This Decree regulates the establishment and operations of Microfinance Institutions conducting Microfinance Activities within the territory of Lao PDR that are not commercial banks, credit cooperatives, or savings and credit unions which are governed by their respective regulations.

Article 2 Interpretation of Terms

In this Decree, the following terms shall have the meaning ascribed to them hereunder:

- “*Certificate of Registration*” means a certificate issued to a Registered Microfinance Institution under Part V of this Decree.
- “*Compulsory Deposit*” means a sum of money that is required to be deposited by a borrower of a Microfinance Institution as a condition for receiving a loan or as collateral for a loan either as a percentage of the loan or as a nominal amount. Such sum shall not be used for on-lending and may be withdrawn by the borrower immediately upon repayment of the loan.
- “*Deposit-Taking Microfinance Institution*” means a microfinance institution, which has been granted a Licence by the Bank of Lao PDR in accordance with the provisions of this Decree.
- “*Kip*” means the lawful currency of the Lao PDR.
- “*Lao PDR*” means the Lao People's Democratic Republic.
- “*Licence*” means a licence granted to a Deposit-Taking Microfinance Institution under Part II of this Decree.

1 The law on the Bank of Lao PDR grants the right for the Bank of Lao to issue authorisations to “domestically incorporated banks, branch of a foreign bank and financial institutions” and empowers the Government to issue implementing regulations. It appears that Decree 03 on Commercial Banks and Financial Institutions, dated January 1992 has been superseded, in its totality by Executive Decree 01, dated 11 March 1997 and subsequently by Executive Decree on Commercial Banks 02, dated 22 March 2000. This has been, orally, confirmed by the Ministry of Justice. Therefore, this regulation is drafted as a Prime Minister's Decree.

Final Draft of the Microfinance Regulation for the Lao PDR

2

“*Licensing Body*” means the Bank of Lao PDR, or its provincial branches or any other duly authorised organisations as stipulated in Article 6.

“*Microfinance Activities*” means the provision of financial services by a Microfinance Institution, such as Micro-loans, receipt of Compulsory and Voluntary Deposits, and other financial services subject to Article 4 of this Decree and subject to the terms and conditions applicable to a Deposit-Taking Microfinance Institution or to a Registered Microfinance Institution.

“*Microfinance Institution*” means an entity, which is neither a commercial bank nor a credit cooperative as defined respectively in the Decree on Commercial Banks, No 02, dated 22 March 2000, and the Bank of Lao Regulation on Credit Cooperatives, No 02/SB, dated 19 November 1994, and which:

- (i) primarily carries out Microfinance Activities;
- (ii) maintains at least 80% of gross loan portfolio as Micro-loans; and

(iii) has either been granted a Licence or a Certificate of Registration in accordance with this Decree. “Micro-loan” means a loan with or without collateral, the maximum principal of which shall not exceed 5,700,000 Kip² or such other amount as the Bank of Lao PDR may determined from time to time.

“Registered Microfinance Institution” means a microfinance institution that has been issued a Certificate of Registration in accordance with the provisions of this Decree.

“US\$” means the lawful currency of the United States of America; and

“Voluntary Deposit” means the deposit of a sum of money repayable on demand or at a time or under circumstances agreed by the depositor, accepted by a microfinance institution for the purpose of on-lending.

Article 3 Establishment of Microfinance Institutions

Any institution that intends to carry out Microfinance Activities including the mobilisation of Voluntary Deposits from the general public for the purpose of onlending shall apply for a Licence to the Bank of Lao PDR in accordance with the provisions of this Decree. Such institution shall be referred to as a “Deposit-Taking Microfinance Institution” and shall be considered as a type of financial institution.

All other institutions that intend to carry out Microfinance Activities excluding the mobilisation of Voluntary Deposits, such as non-governmental organisations, associations, village funds, village banks and other entities engaged in credit-only activities, shall register with the relevant registration body in accordance with Part V of this Decree. Such institution shall be referred to as a “Registered Microfinance Institution”. Upon request, the Bank of Lao PDR may permit a Registered Microfinance Institution that operates in remote areas where no other banking services are available, to mobilise small Voluntary Deposits, the amount of which shall be determined from time to time by the Bank of Lao PDR. A Registered Microfinance Institution that intends to accept Voluntary Deposits or that raises an amount of Voluntary Deposits that exceeds the limit fixed by the Bank

² Equivalent to approximately USD500.

Final Draft of the Microfinance Regulation for the Lao PDR

3

of Lao PDR shall be obliged to convert itself into a “Deposit-Taking Microfinance Institution” and comply with the requirements as set forth under the present Decree, or into a credit cooperative or a savings and credit union in accordance with the relevant regulations, , or into any other form as may be authorised in the future.

Article 4 Scope of Activities of Microfinance Institutions

Microfinance Institutions shall be entitled to:

(i) mobilise capital in the form of loans or grants, from Lao and/or foreign organisations or legal entities;

(ii) extend Micro-loans;

(iii) extend other loans the principal amount of which shall not exceed [58 million Kip]³ or any other amount as may be determined from time to time by the Bank of Lao PDR, the aggregate amount of which shall not exceed 20% of the gross loan portfolio;

(iv) open accounts and deposit funds with the Bank of Lao PDR, or with any commercial banks;

(v) if Deposit-Taking Microfinance Institutions, receive Voluntary and Compulsory deposits from the general public;

(vi) if Registered Microfinance Institutions, receive only Compulsory Deposits and if specifically authorised to do so, Voluntary Deposits not exceeding the limit set out by the Bank of Lao PDR;

(vii) provide financial services, including sale of insurance as an insurance agent, payment services and money transfer services; and

(viii) provide other financial services as may be permitted from time to time by the Bank of Lao PDR. Deposit-Taking Microfinance Institutions and Registered Microfinance Institutions shall not:

(i) carry out leasing;

- (ii) deal in gold, precious metals, raw materials and commodities;
 - (iii) provide payment services through checking accounts;
 - (iv) carry out swap or foreign exchange business;
 - (v) provide insurance services as a broker;
 - (vi) hold, deal or trade in real estate except for their own use;
 - (vii) hold, deal or trade in derivatives;
 - (viii) place their funds in the form of deposits with another microfinance institution;
- and/or

³ Equivalent to approximately USD5,000.

Final Draft of the Microfinance Regulation for the Lao PDR

4

(ix) carry out business activities other than those specified above and in their Licence or Certificate of Registration.

Article 5 Interest Rates

Interest rates shall be determined by the Microfinance Institution itself and shall be at such level as to cover cost of funds, administrative costs, taxes, loan loss provisions, and profits.

Part II Licensing Procedure for Deposit-Taking Microfinance Institutions

Article 6 Licensing Body

The Bank of Lao PDR shall be the body authorised to issue a Licence to a Deposit - Taking Microfinance Institution. The Bank of Lao PDR may authorise its provincial branches or other organisations to issue such Licence.

Article 7 Applicant

An institution applying to become a Deposit-Taking Microfinance Institution shall apply to the Licensing Body to obtain a Licence.

Article 8 Application Conditions

An applicant for a Licence shall:

- (i) be incorporated under the Laws of Lao PDR as a limited liability company⁴, or a public limited company⁵, or an enterprise with state ownership⁶ and may be Lao-owned or foreign-owned or both. Foreign entities applying for a Licence for the establishment of a Deposit-Taking Microfinance Institution shall comply with the Law on the Promotion and Management of Foreign Investment in Lao PDR and its implementing regulations⁷;
- (ii) have a minimum paid up capital of not less than USD100,000 (one hundred thousand) for foreign investment enterprises or the Kip equivalent for local enterprises or such higher amount as the Bank of Lao PDR may determine from time to time;
- (iii) have members of the board of directors, managers, and shareholders holding more than [10%] of the capital or voting rights familiar with banking or

⁴ A limited liability company has between 1 and 20 shareholders and a minimum registered capital of 5 million Kip, for which 50% has to be paid up upon registration and has to be fully paid within 2 years.

One or more managers, chosen by a general shareholders meeting, may manage the company.

⁵ A public limited company has at least 7 shareholders and a minimum registered capital of 50 million Kip. 25% of the registered capital has to be paid upon registration, the balance has to be contributed within 3 years. Management of a public company must be conducted by a board of directors comprised of 5 to 17 directors appointed by the shareholders.

⁶ The legal structure of such enterprises resembles that of a limited or public company. However, they are generally managed by a board of directors appointed (or nominated, as the case may be) by the Lao Minister of Finance. Further, the rules for transferring shares held by the State are to be determined

by the State rather than by reference to the other shareholders.

7 INGOs should be considered as foreign investors. This is the case in Cambodia where INGOs are shareholders in MFI. The fact that they receive dividends from these operations should not be considered as being inconsistent with their NGO status, provided they use these profits within their mandate.

Final Draft of the Microfinance Regulation for the Lao PDR

5

microfinance operations in accordance with the criteria specified in Schedule A of this Decree;
(iv) have a business plan demonstrating the viability of the planned operations; and
(v) have either itself or through its shareholders a proven local or international track record in microfinance or banking activities of at least [two] years ⁸.

Article 9 Application File

The application file for a Licence to be submitted to the Licensing body shall comprise the following original documents:

- (i) an application in accordance with the format to be provided by the Bank of Lao PDR;
- (ii) the articles of association with a clear expression of the commitment of the applicant to Microfinance Activities;
- (iii) documentary evidence of the availability of the required minimum capital free from any encumbrance;
- (iv) the information necessary to assess the source, the adequacy of the financial resources, and the background of the shareholders or founders who hold more than [10%] of the capital or voting rights as detailed in Schedule B;
- (v) reports on the financial status of the applicant for the last [two years] including copy of independently audited financial statements, if any; and
- (vi) a business plan covering the first five years of operation.

Article 10 Licensing Process

The Licensing Body shall within sixty (60) days upon receipt of the full application file issue the Licence, if it is satisfied that:

- (i) all the requirements specified in Articles 8 and 9 have been complied with;
- (ii) the Deposit-Taking Microfinance Institution is or will be in a position to meet its liabilities to present or future customers in full as and when such liabilities accrue;
- (iii) the affairs of the Deposit-Taking Microfinance Institution are not being or are not likely to be conducted in a manner that is detrimental to the interests of its creditors and depositors.

A Licence shall not be issued to the applicant if:

- (i) the applicant is participating or plans to participate in illegal activities;

⁸ In Lao PDR, the microfinance sector is in its nascent stage of development and it may be premature to allow deposit status microfinance institutions to be established without any microfinance track record. It is important that existing microfinance providers demonstrate that they can manage their lending profitably enough to pay for and protect the deposits they intend to mobilise. Such track record should also be required from foreign participants.

Final Draft of the Microfinance Regulation for the Lao PDR

6

- (ii) there is a court decision prohibiting the applicant or one of its shareholders, managers or directors from engaging in Microfinance Activities or banking;
- (iii) the conditions set out in Article 8 above are not complied with;
- (iv) unreliable information is discovered in the documentation submitted by the applicant;
- (v) the business plan is not viable in the judgement of the Bank of the Lao PDR.

In the case of refusal of a Licence, the Licensing Body shall, within ten (10) days, provide a written statement of the reasons for refusal and shall return all submitted documentation.

The applicant may address the reasons given for refusal by the Licensing Body, and subject to all of the said reasons being addressed in a manner that satisfies the licensing requirements may re-submit an application for licensing at any time. The Licensing Body shall, within thirty (30) days upon receipt of the file issue its decision to either issue or not the Licence.

Article 11 Licensing Fee and Duration of the Licence

Upon receipt of the Licence, the Deposit-Taking Microfinance Institution shall pay a licensing fee of [] Kip or such other amount as the Bank of Lao PDR may determine from time to time.

Unless, withdrawn earlier by the Bank of Lao PDR in accordance with Article 33 of this Decree, the Licence shall remain valid for the life of the Deposit-Taking Microfinance Institution.

Article 12 Changes in Ownership and Management

Any existing or new shareholder acquiring more than [10%] of the capital or voting rights of a Deposit-Taking Microfinance Institution shall be subject to the prior approval of the Licensing Body based on the criteria set out in Schedule B. The Licensing Body shall issue its decision within thirty (30) days upon receipt of the request from the Deposit-Taking Microfinance Institution.

Any changes to the board of directors, or managers shall be notified to the Licensing Body. In the absence of any objection within twenty (20) days upon notification to the Licensing Body, such changes shall be deemed approved. The professional suitability of the above persons shall be assessed by the Licensing Body based on the criteria set out in Schedule A.

Article 13 Annual Fee

All Deposit-Taking Microfinance Institutions shall pay an annual fee⁹ of [] Kip¹⁰ before January 15 of each year. If established during the year, the licence fee shall be calculated on a pro rata basis for the period remaining to the end of the calendar year.

⁹ In Cambodia, for example, the annual fee amounts to 260 USD.

¹⁰ Annual fee may be a percentage based on the amount of loans provided over the course of the year, payable in quarters. In Lao PDR, commercial banks pay an annual fee of 1,000,000 Kip for using BOL as a check clearing centre and 1,000,000 Kip for using BOL as an information centre.

Final Draft of the Microfinance Regulation for the Lao PDR

7

Article 14 Post-licensing Formalities for a Deposit-Taking Microfinance Institution to Commence Operations

Upon receipt of the Licence from the Licensing Body, a Deposit-Taking Microfinance Institution shall be permitted to conduct its operations provided it has complied with the post-licensing registration requirements with the relevant government body, which currently include the following:

- (i) registering of its articles of association with the Ministry of Commerce or with the Provincial, Municipality or Special Zone Department of Commerce and be issued with the relevant enterprise registration certificate within 30 days; and
- (ii) registering with the Tax Department of the Ministry of Finance, or with the Provincial, Municipality or Special Zone Tax Department in accordance with the regulations of the Ministry of Finance and be issued with the tax registration within 30 days.

Article 15 Early Expiry of a Licence

The Licence shall automatically expire if the Deposit-Taking Microfinance Institution has not commenced its operations within twelve months from the date of the Licence.

Part III Operational and Prudential Rules for Deposit-Taking Microfinance Institutions

Article 16 Name

In order to inform the general public a licensed Microfinance Institution shall use in its name the words “Deposit-Taking Microfinance Institution”.

Article 17 Area of Operation of a Deposit-Taking Microfinance Institutions and Branches

A Deposit-Taking Microfinance Institution shall be allowed to operate on a nationwide basis and shall be permitted to operate branches in the Lao PDR.

Article 18 Compliance Requirements

A Deposit-Taking Microfinance Institution shall carry out its Microfinance Activities in accordance with the relevant laws of the Lao PDR, the terms and conditions of its Licence and shall comply with the prudential rules as described in Article 19.

Article 19 Compliance with Prudential Rules to Ensure the Safe Operations of Deposit-Taking Microfinance Institutions

A Deposit-Taking Microfinance Institution shall comply with the financial ratios and regulations as shall be issued from time to time by the Bank of Lao PDR relating to:

- (i) capital adequacy;
 - (ii) liquidity ratios;
 - (iii) loan classification and loan loss provisioning;
 - (iv) large exposures, related party lending and foreign currency limits; and
- Final Draft of the Microfinance Regulation for the Lao PDR**

8

- (v) any other prudential regulation that may be issued by the Bank of Lao PDR.

Article 20 Payment of Dividends

A Deposit-Taking Microfinance Institution, having a post-tax net income shall not pay a dividend or other income to its shareholders unless it has made adequate provision for loan losses and any other provisions or reserves in accordance with the prudential regulations applicable to Deposit-Taking Microfinance Institutions.

Part IV Restrictions on Certain Transactions for Deposit-Taking Microfinance Institutions and Corporate Governance Issues

Article 21 Prohibitions on Insider Lending

A Deposit-Taking Microfinance Institution shall not be permitted to make loans to:

- (i) members of its board of directors, and managers;
- (ii) persons in charge of loan appraisal and approval;
- (iii) persons directly connected by blood or marriage to the members of its board

of directors or managers.

Article 22 Credit Restrictions

For the purpose of this Article, related parties are defined as follows:

- (i) auditing organisations, or auditors carrying out the audit of the Microfinance Institution;
- (ii) any person holding directly or indirectly more than 10% of the capital or voting rights of the Deposit-Taking Microfinance Institution;
- (iii) enterprises in which 10% of the capital is owned directly or indirectly individually or in aggregate by one or more persons specified in Article 21.

Loans to related parties shall be made under normal conditions of duration, interest rate, collateral and repayment schedule. Normal conditions are understood as the conditions that would be made to any other non-related customer in similar circumstances. The total amount of outstanding loans made to related parties shall not exceed 5% of the net worth of the Deposit-Taking Microfinance Institution, with the total amount of any one loan limited to 1% of the net worth.

Article 23 Responsibilities of the Management Body

The board of directors and/or the manager(s) of a Deposit-Taking Microfinance Institution shall be responsible for:

- (i) good corporate governance and business performance of the institution and maintaining full control over the business affairs of the institution;
- (ii) managing the operations of the institution on the basis of sustainability, prudence and integrity; and

Final Draft of the Microfinance Regulation for the Lao PDR

9

- (iii) ensuring and reporting to the shareholders at the annual general meeting that the internal controls and systems, and management information systems of the Deposit-Taking Microfinance Institution provide reasonable assurance as to the integrity and reliability of the financial statements of the institution, and adequately verify, safeguard and maintain accountability of its assets.

Members of the board of directors and managers shall:

- (i) act honestly and in good faith;
- (ii) act independently, free from undue influence of any person; and
- (iii) act in the best interests and for the benefit of the Deposit-Taking Microfinance Institution.

Part V Registration Procedure for Registered Microfinance Institutions

Article 24 Registration Procedure

The applicant shall submit the registration form in accordance with the format to be provided by the Bank of Lao PDR to the following registration bodies:

- (i) the Planning Department [or the Rural Development Department] of the province, if the applicant operates within the province;
- (ii) the Planning Department [or the Rural Development Department] of the district, if the applicant operates within the district; or
- (iii) the village chief, if the applicant operates within a village.

Article 25 Certificate of Registration

Within [10] days upon receipt of the registration form, the relevant registration body shall issue a Certificate of Registration.

Article 26 Withdrawal of Certificate of Registration

The Certificate of Registration shall be withdrawn by the registration body if the Registered Microfinance Institution is prohibited by a court decision from engaging in Microfinance Activities.

Article 27 Operational Rules - Restrictions

Registered Microfinance Institutions shall comply with all laws and regulations applicable to their business operations and shall carry out their Microfinance Activities on the basis of good governance, financial soundness, institutional integrity, responsibility and transparency.

Registered Microfinance Institutions shall not accept and receive Voluntary Deposits except where they have been specifically authorised to do so by the Bank of Lao PDR as specified in Article 3 above.

Registered Microfinance Institutions shall not be allowed to use in their name the words "Deposit-Taking Microfinance Institution".

Final Draft of the Microfinance Regulation for the Lao PDR

10

Part VI Financial Reporting, Audits and Supervision

Article 28 Accounting Obligations

All Microfinance Institutions shall prepare a balance sheet, income statement and cash flow statement in accordance with International Financial Reporting Standards. The accounting year for Microfinance Institutions shall start on January 1 and end on December 31 of each year.

Final Draft of the Microfinance Regulation for the Lao PDR

11

Article 29 Financial Reporting for Registered Microfinance Institutions

Every year, Registered Microfinance Institutions shall submit within 60 days of the end of each year a report in a format to be provided by the Bank of Lao PDR to the relevant registration body including the following information:

- (i) breakdown of deposits by category (Voluntary deposits, if authorised to mobilise them, and Compulsory deposits);
- (ii) number of depositors;
- (iii) loan breakdown by category;
- (iv) loan classification and delinquency ratio; and
- (v) network of offices.

Article 30 Audit and Financial Reporting for Deposit-Taking Microfinance Institutions

An independent external auditor shall audit the Deposit-Taking Microfinance Institution on an annual basis. Each annual audit shall meet the requirements of a full scope audit as prescribed by the International Financial Reporting Standards.

The Deposit-taking Microfinance Institution shall be required to change external auditors at least every three years.

Within 90 days of the end of the accounting year, the Deposit-Taking Microfinance Institution shall:

- (i) submit the audited financial statements to the Bank of Lao PDR and to the tax authorities;
- (ii) prepare and submit an annual financial report.

Article 31 Reporting Obligation

In addition to the submission of the above reports, Microfinance Institutions shall promptly report to the Bank of Lao PDR any circumstances or events that may materially or adversely affect their activities.

Article 32 Inspection and Supervision

The Bank of Lao PDR shall exercise its inspection and supervisory rights in accordance with the relevant regulations¹¹.

Part VII Revocation, Liquidation, Dissolution and Bankruptcy of Deposit-Taking Microfinance Institutions

¹¹ Draft supervisory regulation that would be applicable to both savings and credit unions and microfinance institutions has been prepared under this TA.

Final Draft of the Microfinance Regulation for the Lao PDR

12

Article 33 Revocation of Licence

The Bank of Lao PDR shall have the right to suspend a licence for a period of up to six months for a Deposit-Taking Microfinance Institution that has previously received written supervisory warnings if the Deposit-Taking Microfinance Institution has not implemented corrective measures and adhered to sanctions as prescribed by the Bank of Lao PDR in such warnings and within the timeframe allowed. The Licence shall be restored upon implementation of the corrective measures and adherence to the sanctions.

The Bank of Lao PDR may revoke the Licence of a Microfinance Institution in the following cases:

- (i) a Deposit-Taking Microfinance Institution does not implement the prescribed corrective measures and/or fails to adhere to sanctions in the prescribed time frame after a licence has been suspended;
- (ii) Non-performance of any requirements established as part of the Licence or under this Decree; or

The Bank of Lao PDR shall, with immediate effect, revoke the Licence of a Deposit-Taking Microfinance Institution in the following cases:

- (i) a Deposit-Taking Microfinance Institution discontinues its operations; or
- (ii) a Deposit-Taking Microfinance Institution is prohibited by a court decision from engaging in Microfinance Activities or banking activities.

In the event of suspension or revocation of a Licence under this Article, the Deposit-Taking Microfinance Institution shall immediately cease to transact any business and shall be liquidated in accordance with the provisions of Article 35.

Article 34 Voluntary Liquidation

A voluntary liquidation shall occur only when the Deposit-Taking Microfinance Institution has the ability to meet its obligations to creditors and depositors.

The voluntary liquidation process shall be carried out as follows:

- (i) The board of directors or the manager shall notify the shareholders of the proposed liquidation.
- (ii) The proposal to liquidate shall be submitted to a special meeting of the

shareholders for approval by a majority of two-thirds of the shareholders present.

(iii) Upon decision to liquidate by the shareholders, a liquidating agent, being either an entity or an individual, shall be appointed by the shareholders.

(iv) The liquidating agent shall develop a liquidation plan providing for the liquidation of assets and payment of creditors and depositors within twelve months of the proposed liquidation date.

(v) The plan shall be submitted to a special meeting of the shareholders for approval by a majority of two-thirds of the shareholders present. Upon approval of the plan, the Deposit-Taking Microfinance Institution shall cease

Final Draft of the Microfinance Regulation for the Lao PDR

13

accepting Voluntary Deposits, stop withdrawals, and stop granting loans. The collection of loans and interest and payment of necessary expenses will continue.

(vi) The Deposit-Taking Microfinance Institution shall submit a formal request to the Bank of Lao PDR for approval for voluntary liquidation together with the resolution of the special meeting of the shareholders, including reasons for the liquidation, the financial statements as of the date of the formal request, the name of the liquidating agent and the approved liquidation plan.

(vii) The Bank of Lao PDR shall issue its decision within 30 days of receiving the request. If necessary, the Bank of Lao PDR may require the Deposit-Taking Microfinance Institution to revise the liquidation plan or request additional documentation or information.

(viii) Upon receipt of the Bank of Lao PDR's permission for voluntary liquidation, the Deposit-Taking Microfinance Institution shall publish the decision in a local, widely read newspaper. The publication shall also contain the addresses of the places where creditors have the right to present their claims.

(ix) Upon completion of the liquidation, all reports and the Deposit-Taking liquidation balance sheet shall be submitted to the Bank of Lao PDR.

Article 35 Involuntary Liquidation

An involuntary liquidation order shall be issued by the Bank of Lao PDR in the event the Licence of the Deposit-Taking Microfinance Institution has been revoked by the Bank of Lao PDR as stipulated in Article 33 above.

Within five days after the Bank of Lao PDR's decision to liquidate a Deposit-Taking Microfinance Institution, a Liquidating Agent shall be appointed by the Bank of Lao PDR. The liquidating agent shall assume complete authority with respect to the liquidation decision made by the Bank of Lao PDR.

From the date of the Bank of Lao PDR's involuntary liquidation order until the completion of the liquidation process, the following restrictions shall apply:

(i) the powers of the general shareholders meeting, appointed members of the board of directors or managers, shall be suspended, including power over property and repayment obligations, as well as the Deposit-Taking Microfinance Institution's management rights;

(ii) all lending and deposit-taking activities shall cease;

(iii) actions made by or on behalf of a liquidating Deposit-Taking Microfinance Institution shall not have legal effect unless they are made by the liquidating agent;

(iv) the terms of all the Deposit-Taking Microfinance Institution debt commitments shall be considered expired;

(v) accruing penalties and interest with respect to all types of the Deposit-Taking Microfinance Institution's indebtedness shall be suspended; and
Final Draft of the Microfinance Regulation for the Lao PDR

14

(vi) all demands or request for payment by the Deposit-Taking Microfinance Institution or on the Deposit-Taking Microfinance Institution shall be made only through the Liquidating Agent.

Payments made, or other use of the Deposit-Taking Microfinance Institution's assets, during the three months prior to the appointment of the liquidating agent to a creditor or any related parties of the Deposit-Taking Microfinance Institution may be deemed invalid by the Liquidating Agent if there is evidence of impropriety or preferential treatment.

Article 36 Bankruptcy

The bankruptcy of a Deposit-Taking Microfinance Institution shall be implemented in accordance with the Enterprise Bankruptcy Law.

Part VIII Measures For The Encouragement Of Microfinance Activities

Article 37 Taxes

Microfinance Institutions shall be subject to taxes in accordance with the relevant tax regulations issued by the Ministry of Finance¹².

Article 38 Exemption from Notarisation

Micro-loans shall be exempt from rules stipulated in the Notary Law, No 04/NA, dated 3 April 1992 and the Notary Decree, No 021/PM, dated 23 March 1999.

Article 39 Security and Collateral Requirements

The requirements for security or collateral for Micro-loans shall be determined in accordance with the credit policy of each Microfinance Institutions.

Article 40 Microfinance Forum

In order to promote the development of microfinance, a microfinance forum shall be established under a Prime Minister Decision. Representatives from different government bodies and agencies shall be members. Practitioners from the private sector, mass organisations, Microfinance Institutions, international non-governmental organisations, donors and other legitimate stakeholders shall, on a voluntary basis, become members.

Such microfinance forum shall be non-governmental and non-political and shall hold a meeting at least every six (6) months.

Part IX Responsibilities And Coordination Of State Administrative Bodies

Article 41 Responsibilities of State Administrative Bodies

The Planning Department of the province [or Rural Development Department], of the district and the village chief shall be responsible for issuing Certificate of Registration
¹² Considering that MFI will be operating in remote areas, we will propose that MOF provides as an incentive to this sector a reduced profit tax rate at 10% with an exemption for the first 2 years.

Final Draft of the Microfinance Regulation for the Lao PDR

to Microfinance Institutions operating within their respective authority in accordance with the provisions of this Decree.

Article 42 Coordination of State Administrative Bodies

The Planning Department of the province [or Rural Development Department], of the district and the village chief shall be responsible for sending to the Bank of Lao PDR the following documents:

- (i) copies of the Certificate of Registration issued to Registered Microfinance Institutions within 15 days of issuance;
- (ii) copies of the annual reports and the financial statements referred to in Article 29 within 15 days of receipt.

In addition to the submission of the above copies, the Planning Department [or the Rural Department] of the province, of the district and the village chief, shall promptly report to the Bank of Lao PDR in writing any circumstances or events that may materially affect the operations of Registered Microfinance Institutions.

Part X Implementing Provisions

Article 43 Transitional Provisions

All existing institutions carrying out Microfinance Activities and falling under the provisions of this Decree shall have twelve months from the effective date of this Decree to comply with these provisions and obtain all relevant Licence or Certificate of Registration.

Article 44 Date of Effectiveness

This decree shall become effective as from the date of its signature.

Vientiane, _____ 2003

Final Draft of the Microfinance Regulation for the Lao PDR

Schedule A

The criteria for determining whether a person is fit and proper to become a member of the board of directors, a manager, a director or a shareholder (holding more than 10% of the capital or voting rights) of a Deposit-Taking Microfinance Institution.

In order to determine, for the purpose of Article 10, the professional suitability of persons proposed to become a member of the board of directors, manager or a substantial shareholder of a Deposit-taking Microfinance Institution, the Bank of Lao PDR shall have regard to the following matters, in so far as they are reasonably determinable, of the person concerned:

- (i) educational background in finance and banking; and
 - (ii) microfinance and/or relevant financial sector institution experience.
- A person or entity shall be disqualified from holding the position of board of director's membership, manager, director or substantial shareholder if such person/entity:
- (i) has been convicted of the offence of fraud or has been subject to an investigation of a professional, administrative or judicial proceeding of a material nature;
 - (ii) has contravened the provisions of any laws or regulations designed for the protection of members of the public against financial loss due to dishonesty or incompetence of, or malpractices by, persons engaged in the provision of

banking, insurance, investment or other financial services;
(iii) was a director of an institution that has been liquidated or is under liquidation or management of the Bank of Lao PDR or under receivership;
(iv) has taken part in any business practices that in the opinion of the Bank of Lao PDR, were fraudulent, prejudicial or otherwise improper whether unlawful or not or which otherwise discredited his or her methods of conducting business;
(v) has taken part or been associated with any other business practices as would, or has otherwise conducted himself or herself in such manner as to, cast doubt on his or her competence and soundness of judgement;
(vi) has been declared insolvent; or
(vii) is involved either as an employee, shareholder, or manager in other microfinance institutions in such a way as there may be a potential conflict of interest.

The curriculum vitae of each proposed member of the board of directors, manager or director shall be submitted with the application file.

Final Draft of the Microfinance Regulation for the Lao PDR

17

Schedule B

Information required for shareholders or founders holding or acquiring more than 10% of the capital or voting rights of a Deposit-taking Microfinance Institution

- (i) Identity of the shareholder, capital contributor. In the case of a legal entity, the business name, name of the shareholders holding more than 5% of the capital or voting rights, legal form, name of the key managers, address of headquarters, and articles of association. In the case of an individual, his/her full name, date and place of birth, domicile and ID number and his/her curriculum vitae. An indication whether this person is to be appointed one of the members of the board of directors, managers or directors of the Deposit-taking Microfinance Institution.
- (ii) The amount and percentage of the proposed contribution and its equivalent in voting rights.
- (iii) Details of the activities of the capital contributor. If the capital contributor is part of a group, a description of the main entities of the said group together with an organisation chart. Details of whether the capital contributor has significant participation in other microfinance and/or financial institutions. Details of whether the group to which the capital contributor itself belongs has significant participation in other microfinance and/or financial institutions.
- (iv) Details of the internal and external audit procedures of the capital contributor.
- (v) Details of whether the capital contributor has ever been the subject of an investigation or of a professional, administrative or judicial proceeding of a material nature.
- (vi) Details of whether there is significant business between the capital contributor and the Deposit-Taking Microfinance Institution and how these relations are likely to develop in the future.

ANNEX 3: TERMS OF REFERENCE LOT 1: Assessment of linking microfinance to biogas constructors in Lao PDR

0. Introduction

This ToR is about assessing opportunities to provide micro finance to potential biogasplant users. In section 1 a brief description is given of the proposed biogas pilot project. Section 2 explains in more detail the project and its need for micro finance. Section 3 regards the research questions for the assignment. Section 4 focusses on more practical issues like the requirements for the consultants.

1. Project environment and aim

Encouraged by the results of the biogas projects in Nepal and Vietnam and in view of the potential for domestic biogas in Lao PDR, SNV⁵ has approached the Department of Livestock and Fisheries of the Ministry of Agriculture and Forestry (MAF/DLF) to develop and manage a joint biogas pilot project.

This pilot project aims to support construction of 6,600 domestic biogas plants in Lao PDR over a period of 4 years (2006-2009). The pilot project is expected to start early 2006 and seeks to develop a biogas sector by igniting a lasting consumer demand for domestic biogas plants and to encourage high quality services to meet this demand.

The overall goal of the project is to improve the livelihoods and quality of life of rural farmers in Lao PDR through exploiting the economic and non-economic benefits of domestic biogas. An additional purpose of the project is to develop a commercially viable domestic biogas sector.

The main implementing actors are:

- The Biogas Supervisory/Steering Committee, with representatives of relevant organizations, guiding and coordinating the project;
- The MAF - Department for Livestock and Fisheries (DLF), as the key partner organization for implementation of the project;
- The Biogas Project Office (BPO), planned to be established under the DLF, for the implementation of the project;
- SNV Lao PDR, providing technical assistance.

At provincial and district level, the project cooperates through the provincial network with the private construction teams and other service providers.

2. Assessment of the Finance Strategy for the Biogas Pilot Project

2a. Background of the biogas pilot project

⁵ SNV is a Netherlands-based, international development organisation that provides advisory services to nearly 1800 local organisations in over 30 developing countries to support their fight against poverty. See <http://www.snvworld.org>.

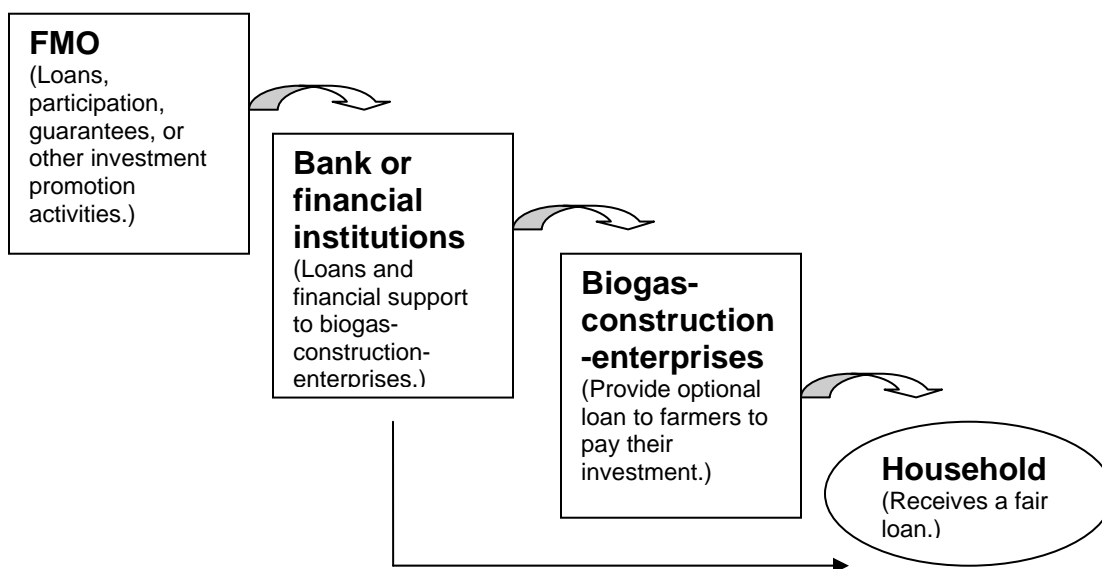
A household biogas plant costs about 320 Euro and extra kitchen-, toilet- and stable renovation or other house improvements may double this investment. While in the early stages of the pilot project most of the users are expected to fund the biogas plant themselves by using their own financial resources it is expected that in the near future, in particular for low income groups, it is foreseen that access to financial resources will become an important issue in the decision to purchase a biogas plant. Current conditions under which financial institutions offer this kind of small loans are not favourable (high interest rate and short duration) and as a result may make households reluctant to buy a biogas plant.

Therefore a strategy has to come in place to address this problem and increase access of potential biogas-plant users to micro credit. An option is to have private biogas plant builders provide these kinds of loans to their own clients. By offering this package of both building and financing biogas plants, dissemination is expected to increase. It is also expected that more low-income households can purchase biogas plants.

However, these biogas plant-constructors often have only limited financial means. The solution to this challenge could be to have financial institutions provide finance to the biogas constructors. In turn, the constructors pass on the credit to their clients. The advantage for the constructors is that they can construct more plants, whereas the advantage for the financial institution is that they can increase their outreach.

In anticipation to this, on December 13 2005 FMO⁶ had a meeting with SNV to discuss the biogas programme in general and the possibility to link finance to biogas-users. It was expressed that FMO could possibly finance interested financial institutions which, in turn, would finance either the biogas-end-users or the biogas plant constructors.

The following chart summarizes our intentions:



⁶ FMO supports private sector development in Asia, Africa and Latin America by loans, activation and guarantees. See more info: www.fmo.nl.

2b. Micro finance and biogas

One of the aspects that have to be dealt with is to provide an enabling environment in which sound financial mechanisms allow (poorer) households to get the needed funds to buy a biogas plant.

If the conditions allow, for the short term a pilot will take place in one area in which biogas-construction-enterprises will not only build biogas plants, but at the same time offer their clients optional loans to prefinance the biogas plant (see section 2a on the previous page) against reasonable conditions. Before this pilot can start, several issues have to be clarified, these issues form the basis of the research and are explained in more detail in section 3 below.

3. Method used for the assignment

3a. Research questions

National level:

7. What are the legal rules and regulations concerning biogas-construction-enterprises offering loans to clients?

Household level:

8. Are potential biogas plant users interested in receiving micro finance?

9. Estimation of how many biogas plant users are interested in receiving micro finance (in a specific area)

Biogas plant constructors

10. Are biogas plant constructors interested to be an intermediary for micro finance?

Provincial level:

11. Which financial institutions are interested to finance the costs of biogas plants, either directly or through biogas plant constructors?

12. What are the conditions potential biogas plant users or constructors would get from these financial institutions?

13. What role could FMO play in financing these loans? (Also for the national level)

The results of the study are to be used by FMO, SNV and BPO to develop their policy regarding linking (micro)-finance to biogas. The consultant will conduct an assessment in three designated provinces

The consultant will write a short and reader-friendly report. The report will include a section containing advice on how to proceed and what strategy should be adopted to increase financial accessibility for poorer households that are interested in buying biogas plants.

Prior to the research an inception report will be written in which its approach, methodology, reporting structure and planning are made clear. This will be submitted to SNV for approval.

Note that a similar research will be conducted in Vietnam and Cambodia. We prefer that one member of the research team for Vietnam will also be part of the research team for the other two countries. It is further foreseen that a similar research method is used.

Additionally, also a study regarding linking micro finance to wholesale finance will be conducted in Vietnam and Lao PDR (please refer to the separate ToR's). Some of the research questions are overlapping and will therefore be conducted for both researches at the same time. It is foreseen that the other research is conducted during the same period, that the researchers use a similar set-up and that they use each others' findings.

The main reason to split both researches is that combined they would become a very large study, which might hamper clarity.

4. Requirements

4a. Requirements for the consultants

Two consultants are foreseen. For both team members the following requirements apply:

- Academic background or thinking level
- Good command of English and Lao (at least one team member)
- Experience in micro credit and financial issues is an advantage
- Proven skills in conducting interviews and assessments
- Knowledge of energy, biogas and poverty issues is an advantage
- Willingness to travel

4b. Conditions and further information

The assignment will take up to 20 working days. The start of the assignment is expected in October 2006, the final report is expected by mid November 2006.

For more information please contact:

Mr. Auke Koopmans, SNV advisor Renewable Energy (RE): akoopmans@snvworld.org

Mr. Phouthanathong Xaysombath SNV advisor RE pxaysombath@snvworld.org

Mr. Philip Smith, Rural Micro Finance Advisor, psmith@snvworld.org

ANNEX 4: TERMS OF REFERENCE LOT 2: Assessment of linking wholesale financial institutions with local microfinance providers in Lao PDR

0. Introduction

This terms of reference is about assessing opportunities to link wholesale micro finance institutions with local micro finance providers. The research is commissioned by FMO and SNV. In section 1, a brief description is given of both organisations. Section 2 explains in some detail the micro finance sector in Lao PDR. Section 3 regards the research questions for the assignment. Sections 4 and 5 focus on practical issues like the requirements for the consultants.

1. Aims of FMO and SNV

1a. FMO's mission: sustainable development and healthy returns

FMO supports the private sector in developing countries and emerging markets. This is pursued with loans, participations, guarantees and other investment promotion activities. The goal is to contribute to sustainable economic growth and to obtain healthy returns. FMO builds bridges between entrepreneurs and capital, locally as well as across frontiers. For more information please refer to: www.fmo.nl.

1b. SNV's mission: people are free to pursue their own sustainable development

For general information about SNV, please refer to www.snvworld.org and www.snv.org.la. Regarding micro finance activities in Lao PDR, SNV provides advisory support to the Lao Women's Union at the national level in Vientiane and at the provincial level in Luang Prabang and Savannakhet provinces. SNV's support focuses on activities that build capacity at the provincial level to establish village savings and credit groups and income generation activities, in particular with female entrepreneurs. SNV also works with Savings and Credit Unions in Luang Prabang and Savannakhet provinces to assist in the development of their sustainable micro savings and credit portfolio's.

2. Background information on micro finance

2a. Background on micro finance in Lao PDR

The micro finance sector in Lao PDR can be divided into three parts:

- I) The formal sector
- II) The semi-formal sector
- III) The informal sector

Ad I) Formal sector

The formal microfinance sector includes state-owned banks that are governed by the Credit and Saving regulations and which are supervised by the Bank of Lao (BOL). The main state-owned banks are Banque pour le Commerce Extérieur Lao (BCEL) and Lao Development Bank (LDB). These banks have limited micro finance activities. Providers of formal micro finance are:

- Agricultural Promotion Bank: The APB has a micro finance programme, which also includes group lending. APB is currently undergoing a restructuring process with the support of the ADB (2003 – 2006), which intends to have it move towards a more commercial approach. It might be that as a result its subsidised loan programme will discontinue in its current form.
- Commercial banks (like Bangkok Bank and Siam Commercial Bank): it is difficult to estimate their micro finance activities.

Ad II) Semi formal sector

Semi-formal institutions are recognized by the government and to some extent regulated, either by the BOL or by other authorities (see MF developments section). Providers of semi-formal micro finance are:

- Mass organizations: mainly the Lao Women's Union (LWU: 1 million members), which is state controlled and present at every administrative level. Besides their normal social policy related work, they sometimes also provide credit, manage credit programmes for NGO's or form credit groups for formal financial institutions like the APB. These programmes are not always successful or sustainable, partly because the LWU's staff often has only limited financial knowledge.
- Savings and Credit Unions (SCU's): The SCU's are pilot initiatives established by the APB and Asian Development Bank (ADB) in three provinces. They are private institutions that are oriented towards sustainable, commercial operations and are managed by an elected steering committee. They provide basic banking services to members. Each SCU has approximately 450 members. If the SCU's prove to operate sustainably, it is envisaged that the model could be replicated to more provinces in Lao PDR. The existing SCU's have expressed interest in linking with external funding.
- Donor's & NGO's: they often use existing networks like the LWU. The largest players in this field are:
 - Concern Worldwide
 - European Union (EU)
 - FIAM
 - World Vision

Ad III) Informal sector

The informal sector comprises those that are neither recognized, legally regulated or supervised by the state or any of its offices, including money-lenders, traders, relatives and friends. It is estimated that the informal sector provides more than 50% of rural micro in Lao PDR, however this figure is expected to reduce as credit sources from the formal and semi-formal sectors expand.

2b. Micro finance developments within Lao PDR

An important recent development has been the acceptance of the micro finance regulation by the government in July 2005. MFI's will, in principle, be required to register as either a 'Deposit Taking Micro Finance Institution' or a 'Registered Micro Finance Institution' (non-deposit taking) and adhere to the appropriate regulations, for instance regarding reporting, fund management and handling of savings.

While designed to support sustainable development of the micro finance sector, the regulation is also expected to pose challenges, including:

- Lack of financial knowledge among micro finance practitioners
- Possible reluctance to issue/extend licenses to MFI's
- More commercially oriented MFI's might serve less the poor
- Requirement of stable administrative and control mechanisms
- Difficulty to attract savings or external funds
- Continuation of subsidized credits, this would hamper the more commercially oriented MFI's

With the Lao PDR's first microfinance initiatives launched in 1997, the industry is still at an early stage of development. That said, it is expected that the Lao micro finance industry will grow substantially over the coming period and that the new micro finance regulations will support a more sustainable development.

3. Method used for the assignment

3a. Research goal

To identify how financial institutions in Lao PDR could play a role in linking finance from organisations like FMO to poorer people.

3b. Research questions

The results of the study will be used by FMO to develop a strategy on how to link external resources with MFI's. Further, the results of the study will be used by SNV to link its current partners to resources (see also section 1b).

Legal perspective

- 1) Which regulations apply to lending from local banks/external funders to MFI's.

MFI perspective

- 2) Which MFI's would be interested to have access to commercial funds (either through existing banks in Lao PDR, or possibly directly from FMO).
- 3) Under what conditions would these MFI's be interested to use these funds (term, costs, repayment, security)

Bank perspective

- 4) Which banks (including existing FMO-partners) would be interested to finance MFI's
- 5) What conditions would these banks apply (term, costs, repayment, security)

Note that a similar research will be conducted in Vietnam. We prefer that one member of the research team for Vietnam will also be part of the research team for that country (see section 5a below). It is further foreseen that a similar research method is used.

Additionally, also a study regarding linking micro finance to potential biogas-users will be conducted in Vietnam, Lao PDR and Cambodia (please refer to the separate ToR's). Some of the research questions are overlapping and will therefore be conducted for both researches at the same time. It is foreseen that the biogas research is conducted during the same period, that the researchers use a similar set-up and that they use each others' findings.

The main reason to split both researches is that combined they would become a very large study, which might hamper clarity.

4. Output

Prior to the research, an short inception report will be written in which its approach, methodology, reporting structure and planning are explained. This will be submitted to SNV for approval.

Further, the draft report will be reviewed by FMO and SNV and should be precise, practical and readers-friendly. It should be written in both English and Lao and should cover:

- 1) brief description of the micro finance sector in Lao PDR
- 2) A brief description of the research method used
- 3) The results of the research
- 4) Recommendations

The output of the research will further consist of a focused workshop where the results of the research are discussed with involved organisations and other interested parties.

5. Conditions

5a. Requirements for the consultants

The team will consist of:

- One team leader
- One team member

For both positions knowledge of micro finance and concise writing skills are required Working experience in Lao PDR, knowledge of banking and of Lao language would be advantages. Also some experience with legal issues would be an advantage.

5b. Conditions and further information

The assignment will take up to 10 working days. The start of the assignment is expected in October 2006, the final report is expected by mid November 2006. For more information please contact Phillip Smith, SNV micro finance advisor, psmith@snvworld.org.

ANNEX 5: MFI PROFILES

Rural Development Cooperative (RDC)

Main office:	Naxaithong district, Vientiane Capital
Date started:	8/2001
Legal structure:	Cooperative
Provinces:	Vientiane Capital and Vientiane Province
Owner/Governing Body:	Member-owned, board elected by and from members

Philosophy, systems, characteristics

Mission:	The mission of RDC is to mobilise savings from members and provide loans to support production and trading activities
Vision:	To strengthen financial performance and increase outreach
Organisational Structure:	Operations are overseen by a board of directors elected by the members. The board elects the director (currently the primary founder of the organisation). All staff report to the director.
Fulltime staff members:	8 (including 4 loan officers)
Staff incentive schemes:	Every year the staff receive a bonus equal to one month's salary.
Management Information System:	RDC uses banking software called Bank 2000, developed by the Bank of Lao PDR.
Main strengths:	Experienced manager, profitable, pays dividends, transparency
Main weaknesses:	Market mistrust of cooperatives, insufficient savings mobilisation from members, limited capacity of loan officers.

Products

Primary loan product:	Two type of loans: group and individual loan.
Delivery mechanism:	Loans are delivered by loan officers

Loan Product:	Group	Individual
Loan Size (Max)	3.000.0000	10.000.000
Loan Term	4-5 months	
Payment Frequency	Seasonal	Repayments are set according to cash flow
Interest Rate (Monthly)	4-5%	5-6%
Fees	10,000	10,000
Collateral Requirements	Savings and equipment	Fixed Assets

Other products and services: RDC offers two types of savings products: passbook savings and time deposit savings (3, 6, 12 and 24 months, paying 9-15% p.a.)

Market

Number of borrowers: 1,300
Number of savers: 1,761
Number of villages: 46
Growth potential: High

Financial Performance

Donor funding: At the present there is no donor funding.

	As of October 2006
Operational Self-sufficiency	>100% (exact unknown)
Gross Loan Portfolio	2.3 billion
Total Savings	1.030.628.020
Average Outstanding Loan Size	3.157.266

Comments:

RDC is a business-oriented MFI. It now generates a net profit of over one hundred million kip per annum. Of its 18 founders, the primary shareholder is an ex-ABP manager. It has benefited from a 128 millions Kip loan from Vientiane municipality at a subsidised rate of 3%, which has been fully repaid. Its expansion is limited by its ability to raise funds. It will likely be eligible for the ADB Microfinance fund, which will be administered by the Bank of Lao.

Fonds Cooperatif

Main office: Vientiane Capital
Date started: 10/2003
Legal structure: Cooperative
Provinces: 8 provinces and Vientiane
Owner/Governing Body: 44% Owned by 12 credit cooperatives (CCSPs), SIDI, Aterfin, Rabobank, DGRV

Philosophy, systems, characteristics

Mission: To be an apex structures for MFIs in Laos, support small enterprises, and promote those enterprises that carry out economic activities respecting the natural and human environment.

Vision: [in the process of updating, but intend on expanding network beyond CCSPs by “adopting” other MFIs]

Fulltime staff members: 10 at FC (plus another 34 in the 12 CCSPs)

Staff incentive schemes: none

Management Information System: Microbanker (dos version), in process of implementing Microbanker Windows

Institutional systems: Annual audit, utilise banks for cash management, annual budget overseen by director, with finance manager and administrative support

Main strengths: Experience, backing of shareholders, vision, largest network

Main weaknesses: lack of experienced staff, weak internal controls/oversight, portfolio quality, insufficient deposits/funding for credit demand

Products

Primary loan product: individual loan
Delivery mechanism: delivered by loan officers at CCSP level, with on-site analysis of client

Loan Product:	Individual
Loan Size	K1.000.000 – 10.000.000
Loan Term	< 12 months
Payment Frequency	Monthly
Interest Rate	3% month
Fees	K6.000
Collateral Requirements	Home, land title, vehicle, solidarity group

Other products and services: Demand deposit, 1%/month paid.

Market

Number of borrowers:	1151
Number of Savers:	1738
Number of villages:	174
Growth Potential:	Moderate

Financial Performance

Donor funding:	DGRV, Misereor, Gilles, SCAC, CGMM, MPDF, CCFD, SIDI and Alterfin (loan)
-----------------------	--

	As of October 2006
Operational Self-sufficiency	99%
Gross Loan Portfolio	5.3 billion
Portfolio at Risk	Unknown
Total Savings	K1.247.978.705
Average Outstanding Loan Size	K3.701.361

Comments:

The first CCSP was founded in 1996, and by 2001 there were nine CCSP's. Together they decided to establish the shareholder company FC as an apex body to channel funding, provide mutual support and start new CCSPs. The shareholder company FC was founded by the CCSPs with significant support from donors/investors with 500 million kip. FC lends its capital to its CCSP partners at 18% p.a. It has started four new CCSPs, but three are facing possible shut down due to employee fraud. FC recognises that lack of control over its CCSP partners has been problematic since the majority of their funding is now from FC, rather than savers. CCSPs boards are weak and loan officers require more training. FC is now revising its vision and is considering become a more open network, providing funding to non-CCSPs.

Ekphaththana Microfinance Institute (EMI)

Main office: Vientiane Capital
Date started: 4/2006
Legal structure: Limited company, licensed deposit-taking MFI
Owner/Governing Body: Owned by private investors. Board of Directors appointed by owners

Philosophy, systems, characteristics

Mission: “To contribute to the economic development of the country in order to improve our clients’ living conditions”
Vision: “To provide reliable and appropriate financial services to our clients, while ensuring sustainability and growth”
Staff incentive schemes: Credit Officer receives bonus if they achieve targets. The incentive schemes are link to repayment and size of loan portfolio.
Management Info System: Microbanker software used to maintain accounting, loan, and savings.
 Daily reporting on portfolio and monthly performance monitoring reports.
Institutional systems: Operations are overseen by the Board of Directors. The BOD approves the policy, internal bylaw, regulation, strategic plan, business plan and makes key decisions. The Managing Director is in charge of day-to-day operations.
Main strengths: Experienced management, privately-owned, innovative
Main weaknesses: New, limited funding and deposit-base, untested legal structure

Products

Primary loan product: Group, Individual and Micro Enterprise loans. It also offers a loan for clients of placement firms (for employment overseas) to assist with agency and relocation fees.
Delivery mechanism: Loans are delivered through loan officers, but the loan release at the office.

Loan Product:	Group	Individual	Micro Enterprise Loan
Loan Size	500.000-1.500.000	1.500.000-5.000.000	5.000.000-20.000.000
Loan Term	6-12	6-12	6-12
Repayment Frequency	Monthly (Principal+ interest)	Monthly (Principal+ interest)	Monthly (Principal+ interest)
Interest Rate	4%	3-4%	4%
Fees	5.000	10.000	50.000
Collateral Requirements	Group	Savings, equipment, land and house, salary	Savings, equipment, land and house, salary

Other products and services: EMI also offers savings products for members and for the public (passbook and time deposit savings).

Savings Account Type	Annual Interest Rate	Minimum/Maximum Account Balance
General Savings	8%	5,000 minimum balance
Fixed Term Deposit		100,000 minimum balance
3 months	9%	
6 months	10%	
12 months	12%	
24 months	16%	

Market

Number of borrowers: 505
Number of Savers: 400
Number of villages: city only
Growth Potential: Moderate/High

Financial Performance

Donor funding: none

	As of October 2006
Operational Self-sufficiency	<100%
Gross Loan Portfolio	1.2 billion
Total Savings	495 million
Average Outstanding Loan Size	2.400.000

Notes:

EMI is the first private company licensed under the new MFI regulations. It was started by the founder the microfinance training center and ten Lao businessmen. The challenging is refinancing the high demand of the credit.

Seno Savings and Credit Union

Main office: Savannakhet Province
Date started: June 2004
Provinces: Savannakhet Province
Legal structure: Credit Union, member-owned
Owner/Governing Body: Seno SCU is managed by board of directors elected by and from their members. It includes representatives of the provincial government.

Philosophy, systems, characteristics

Mission: Helping its members and developing the community economy.
Organisational structure: Operations are overseen by a board of directors elected by the members. Directors must also be members themselves. The board provides guidelines for operations that are based on member's needs and the SCU's resources. The board is accountable to the membership for its actions.
Fulltime staff members: 4 (Director, teller, Cashier and accountant)
Staff incentive schemes: No
Management Information System: SSCU is using Micro banker Accounting software for accounting.
Institutional systems: SSCU was audited by PriceWaterHouseCoopers in 2005.
Main strengths: Clear legal structure, profitable, member-owned, funded through savings, MIS system
Main weaknesses: No professionally trained loan officers.

Products

Primary loan product: Individual loans
Delivery mechanism: Loans are promoted, analysed and approved by the board

Loan Product:	Individual
Loan Size (Max)	5.000.000
Loan Term	6
Payment Frequency	Monthly
Interest Rate (Monthly)	4%
Fees	10,000
Collateral Requirements	Savings, Land, house

Other products and services:

Savings Account Type	Annual Interest Rate	Minimum and Maximum Account Balance
General Savings	7%	1,000 minimum balance
Fixed Term Deposit		
3 months	8%	50,000 minimum balance
6 months	10%	
12 months	12%	
18 months	15%	

Market

Number of borrowers:	205
Number of savers:	303
Number of villages:	unknown
Growth potential:	Low

Financial Performance

Donor funding: This program received start up support from the Asian Development Bank

	As of October 2006
Operational self-sufficiency	>100%
Gross Loan Portfolio	544.000.000
Total Savings	199.000.000
Average Outstanding Loan Size	1.687.805

Comments:

SSCU is one of the three ADB-sponsored credit unions under the draft savings and credit union regulations. It is a membership organisation, which includes members of the provincial government who were the official recipients of ADB support. It is receiving technical support from SNV and will be eligible for more ADB funds (a cooperative loan fund) administered by the Bank of Lao. The current structure, designed by WOCCU, does not have loan officers, rather it relies on board members to find loans, analyse and approve them.

Agricultural Promotion Bank (APB)

Main office:	Vientiane
Date started:	1993
Provinces:	All
Legal structure:	State owned bank
Owner/Governing Body:	Bank of Lao

Philosophy, systems, characteristics

Vision: “The Agricultural Promotion Bank will be the premier provider of financial services in rural Lao PDR. It will operate in a market-oriented, financially self-sustainable way to contribute to poverty reduction and the economic growth and prosperity of Lao PDR. It will extend the outreach of financial services to rural people and rural enterprises, both directly and by fostering linkages with other financial institutions. APB is pledged to respond to customer needs, recognising that satisfaction of those needs will result in mutually profitable long-term business relationships.”

Organisational structure: The APB management structure is consist of Board of Director, Management Committee (Managing Directors, 3 Deputy Directors) Internal Audit, Credit Committee at Head Quarter level. The branched located at provincial level and district service unit.

Fulltime staff members: 700 staff

Staff incentive schemes: APB provides uniforms and other fringe benefit such as petrol, telephone.

Management Information System: APB uses banking software, which use all level. Head office will replicate the data from branch level by using telephone line. There are 20 staff working for IT and software division.

Institutional systems:

Main strengths: Largest network in the country, which cover every provinces in the country.

Main weaknesses: high rate of non-performing loans Highly subsidized by government

Products

Primary loan product:

Delivery mechanism:

Loan Product:	Individual
Loan Size (Max)	10 Billion
Loan Term	1 to 7 years, depend on the source of fund
Payment Frequency	
Interest Rate (Monthly)	1.5%-2% for commercial loan
Fees	vary
Collateral Requirements	Land, house

Other products and services:

Savings Account Type	Annual Interest Rate
General Savings	5%
Fixed Term Deposit	
3 months	6%
6 months	8%
12 months	10%

Market

Number of borrowers:	100,000
Number of savers:	130,000
Number of villages:	(approx 13% of all rural households)
Growth potential:	It depends on the APB reform program, which operate under many condition of ADB program

Financial Performance

Donor funding:	The bank has received support from donors including the Asian Development Bank, Government of Japan, IFAD, EU and GTZ
-----------------------	---

Operational self-sufficiency	<100%
Gross Loan Portfolio	350 Billion
Total Savings	NA
Average Outstanding Loan Size	NA

Comments:

The Agricultural Promotion Bank was established in 1993 as a state-owned policy bank, focusing on the agricultural sector.

APB is the main public instrument for rural finance, with 50% of total lending directed towards policy lending. Since its creation, APB has effectively never been supervised or regulated by the central bank. In 2002, a diagnostic study that included the first external audit of APB found that 88% of its loans were non-performing. This situation resulted from a lack of profit orientation, poor lending mechanisms, and weak provisioning. APB began a formal phase of restructuring in 2003, including phasing out of policy and subsidised lending, adoption of market-based principles, improvement of lending policies, recapitalisation and strengthening of information systems and management capabilities.

ANNEX 6: LIST OF KEY PERSONS MET

No.	Name and Surname	Position	Organization
1.	Mr. Phanthaboun Xayaphet	Deputy Director	APB
2.	Mr. Kongxay Southammavong	Director of Credit Department	Lao Development Bank
3.	Mr. Somchit Bouleun	Director	Rural Development Cooperative
4.	Mr. Rattapraseud Nhouyvanisvong	Director	FC
5.	Mr. Toumany	Manager	Seno SCUs
6.	Mr. Chantha Mingboupha	Deputy Managing Director	EMI
7.	Mr. Phouthanouthong Xaysombat	Advisor	SNV
8.	Ms. Nane	Technical Staff	Agriculture of Nasaythong District
9.	Mr. Sanekham KEOVONGDUEANE	Livestock Team Leader	Agriculture Dept. of Phonhong District
10.	Ms. Malaythong PHOSAVATH	Technical	Agriculture Dept. of Phonhong District
11.	Mr. Khemkham VANHTHANOUVONG	Livestock Team Leader	Agriculture Dept. of Keo Oudom District
12.	Ms. Sin PHOUTHAPANHYA	Livestock Team Leader	Agriculture Dept of Pek District
13.	Mr. Seulor LEEPHOUM	Technical Staff	Agriculture Dept.of Pek District
14.	Mr. Khamphane	Livestock Team Leader	Agriculture Dept. of Kham District
15.	Mr. Hongkham	Director	Livestock Center Xiengkhouang province
16.	Mr. Somboun LATHSAVONG	Livestock Team Leader	Agriculture Dept. of Kaisone District
17.	Ms. Tengouane WEANMAHAVONG	Technical Staff	Agriculture Dept. of Kaisone District
18.	Ms. Khamphang SENGMANYTHONG	Technical Staff	Kaisone District Office

ANNEX 7: 'BANK LAWS TO BE AMENDED' (ARTICLE FROM VIENTIANE TIMES 24.11.06)

Vientiane Times

Business

Bank laws to be amended

By SOUDALATH PHONPACHITH

THE Bank of the Lao PDR is amending legislation on foreign currencies, gems and precious metals to ensure such laws meet international standards.

At present Laos is preparing to join the WTO and the AFTA, so it is required to adopt new legislation to comply with international laws.

Deputy Governor of the Bank of the Lao PDR Mr Somphao Phaysith said Laos has had legislation on foreign currencies and valuable items since 2002.

But recent implementation has revealed that some articles do not meet the requirements of international organisations, and the government and the bank have announced that they will amend certain laws to meet international requirements.

Yesterday the bank held a seminar to mobilise officials and seek feedback on the pending amendments.

The seminar was attended by officials from commercial banks, ministries, international organisations such as the World Bank, the International Monetary Fund, the Asia Development Bank and the UN Development Programme, as well as representatives of the business sector and investors.

"In previous years, socio-economic policies followed the law step by step since the Lao president's announcement of the legislation in 2002," Mr Somphao said.

But recent implementation has increased business activity and is encouraging commercial and service sector investments between Laos and foreign countries.

The amendments will bring financial stability to strengthen and stabilise the kip, driving continued economic growth.

To ensure the legislation meets international standards, the amendments will be approved by the International Finance Cooperation, following the research and cooperation of officials and experts.



Deputy Governor of the Bank of the Lao PDR Mr Somphao Phaysith (left), and a representative from IFC-MPDF, Mr Charles Schneider.