

MICROFINANCE REGIONAL WORKSHOP

Sharing Microfinance Resources and Knowledge in the Mekong Region

Microfinance Innovations and Challenges: Perspective of Lao PDR

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Presentation Outline

- **Microfinance Scenario in Lao PDR**
- **Microfinance Innovation and Current Challenges**
- **Recent initiatives to overcome these challenges**

Microfinance Scenario in Lao PDR : 1

When it was started ?

- Since 1997, the government along with several development projects, have been implementing the broad approach of microfinance.

Who are services provider ?

- The state owned banks (e.g. Agricultural Promotion Bank, APB)
- Semi-formal structures (e.g. Credit Unions and Co-operatives)
- Project initiatives (e.g. bilateral or multilateral projects and INGOs projects)
- The informal sector (e.g. neighbours, friends, traders etc).

Microfinance Scenario in Lao PDR :2

In terms of practitioners:

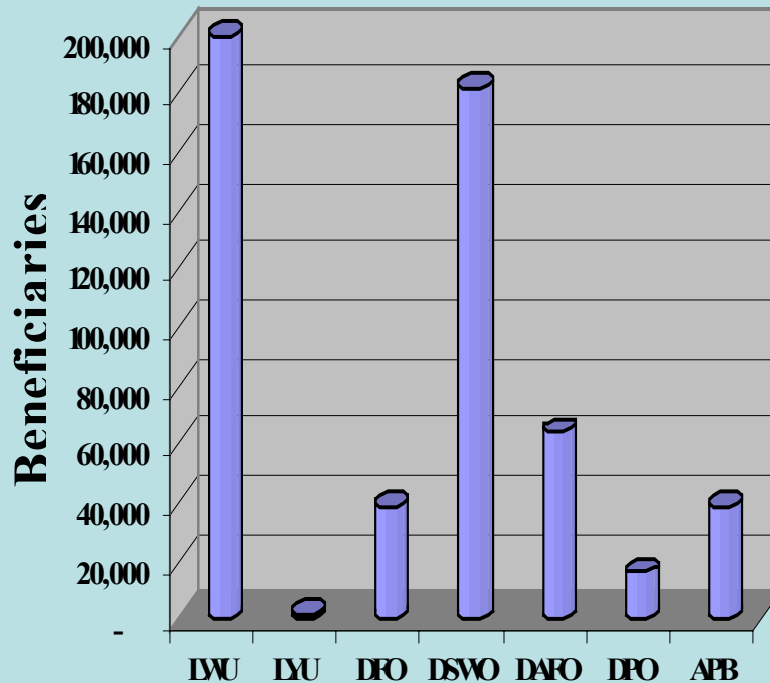
- Non-financial agencies (e.g. government line ministries and mass organisations) covered 79 % of total
- Financial institute (Banks) 15% served
- Semi-financial institute (Credit Cooperatives & Credit Unions) covered by 1%
- Others served by 5%

Common microfinance approaches or methodologies in Lao PDR:

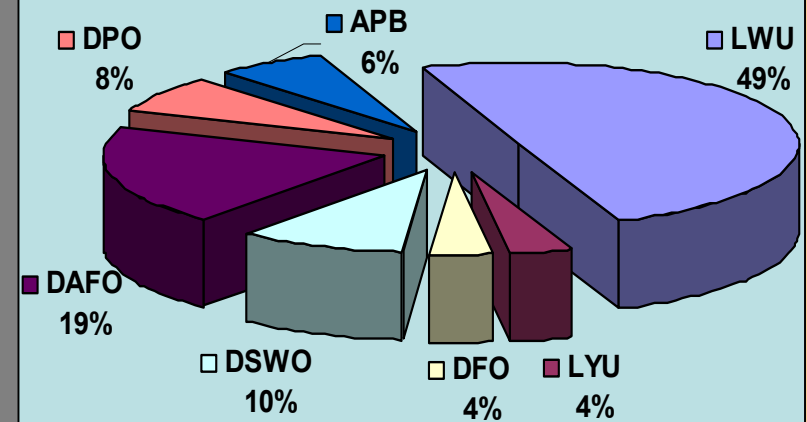
- Solidarity Group
- Self-Help Group
- Village Banking
- Cooperatives/Credit Unions
- Rotary /Savings and Credit Association
- Revolving Loan Fund/Village Fund

Microfinance Scenario: 3

Coverage in terms of clients/beneficiaries



Coverage in terms of village



In terms of Innovation in Lao Context

Strengthens	Weaknesses	Opportunities
<ul style="list-style-type: none"> • Target peoples are divers ethnic minorities • Works at remote area • Most of the clients are women • Flexibility and tailoring classical methodologies or approaches to meeting the clients needs 	<ul style="list-style-type: none"> • Weak record keeping system • Absent of vision and governance structure • Most of the service delivery mechanisms are supply driven • Lack of proper and appropriate monitoring system thus expect to have high risk • Lack of skilled human resources • Most project partners are non-financial agencies (Sustainability is critical issue) 	<ul style="list-style-type: none"> • Potentially to increase outreach /coverage • To become a sustainable institution • Openness to learn • To some extend it has proven experiences and recognition from all stakeholders • Networking for experience sharing and exchange knowledge

Basic Principle for Innovation

Practitioners are practicing following Six Principles in terms of innovation:

- 1. Client Demand Driven Products and Services Development**
- 2. Proper understand the Context**
- 3. Clearly Defined Results/Impact**
- 4. Focus on Changes/Flexibility**
- 5. Cost Effectiveness**
- 6. Accountability**

However Common Mistakes are:-1

Before design a microfinance programme

STEP 1: Is the **economic environment** conducive to the stability and growth of Small Economic Activities (SEAs)?

STEP 2: Are there **enough small economic activities** operating in a targeted geographical area?

STEP 3: Do adequate **markets** exist and do targeted participants have adequate access to them?

STEP 4: Is the **policy environment** conducive to the stability and growth of SEAs?

STEP 5: Do existing **informal** sources provide support for the development of SEAs under acceptable conditions and on a sustainable basis?

STEP 6: Are targeted participants **able to access financial services through** and are these services appropriate for the development of SEAs?

Common Mistakes are:-2

During the programme implementation

STEP 1: Is the financial services and products responds to the **demand of targeted participants?** (savings & loan amount, duration and loan cost)

STEP 2: Are there **enough feasibility studies conducted** before selecting SEAs?

STEP 3: Do **adequate awareness raising and capacity building initiatives** were conducted for targeted participants?

STEP 4: Is there **policy for staff development** to cater the needs of the targeted participants?

STEP 5: Is the programme introduced **user friendly, easy, flexible, cost effective but transparent and accountable** systems, policy and procedure?

STEP 6: Do programme **defined vision to focus on sustainability issue** or to **continue services** while project is phase out?

Current Challenges

In terms of the overall sector:

- Lack of capacity and initiatives to fulfil the un-met demand;
- Lack of or poorly designed programme and implementation;
- Absence of a focal point for sharing experiences and information;
- Lack of vision for the sector and clear policy direction;
- Lack of project exit options.

Current Challenges:2

In terms of practice:

- **Sustainability and targeting**
- **Programme design and implementation**
- **Lack of skilled and motivated staff**
- **Lack of policy or regulation**
- **Non monetised economy**
- **Low population density**
- **Poor infrastructure - in accessibility of market or small market opportunity**
- **Low diversity of micro-entrepreneurial activity**
- **Highly dependency on subsistence agriculture**
- **Cultural and language diversity**
- **Very low literacy rate**

Recent strategies of the GoL for promoting the sector:1

- In 2002, the government established a multi-ministerial committee under the central bank. Rural and Microfinance Committee (RMFC) chaired by BOL and the other members of this committee's are NERI/CPI, MOF, PMO, APB, CLCRDO and MAF.**
- The main objective of RMFC is to draft a Policy Statement on Rural Microfinance to create a conducive environment for the growth of rural microfinance.**

Recent actions taken by the Government :2

- **The Prime Minister Office approved the Policy Statement Strategies and Action Plan for Microfinance; with the assistance from the World Bank, Asian Development Bank and Concern Worldwide.**
- **Microfinance Law and Regulation has been drafted**
- **Several Consultative workshops, seminars and meetings were held at the Provincial and Central to create conducive environment**
- **Establishment of a functioning National Microfinance Resources Centre within NERI;**
- **Government with the assistance from Asian Development Bank and Concern Worldwide under takes several initiatives to build capacity of NERI, BOL, RMFC, APB and PMO staff.**

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