

An aerial photograph of a rural village in Laos. The scene is dominated by lush green rice fields in the foreground and middle ground. A river or stream flows through the lower part of the image. In the background, there are several small, traditional houses with thatched roofs, nestled among dense green trees and hills. The overall atmosphere is peaceful and rural.

# Micro-finance Innovations in Lao PDR

*An example of  
Rural Financial Services (RFS)  
in OCISP, Oudomxay Province, Lao PDR*

*Micro-finance Regional Workshop*

*08-09 December, 2004*

*Phnom Penh, Cambodia*

# Introduction - OCISP

- Co-financed by IFAD, Luxembourg and World Food Program
- Total budget: \$ 21 million
- has 5 major components:
  1. Community Development
  2. Agriculture & Natural Resource Management
  3. Rural Financial Services (RFS)
  4. Rural Infrastructure Development
  5. Institutional Development

# Introduction - RFS

- Financed by Luxembourg Ministry of Finance as a grant of € 1,751,500
- February 2004 - RFS component launched strategy: set up sustainable village-based, member-managed savings & credit schemes (VSCS).
- Implementation phases:
  - ✓ Preparatory phase: preparation of materials and training of counterpart staff.
  - ✓ Pilot phase: implementation in 2 villages per District (total 14).
  - ✓ Expansion phase:
    - i). Additional 3 villages per District (total 21).
    - ii). Additional 4 villages per District (total 28).
  - ✓ Total: 63 villages (5 years)

# Objectives of the RFS Component

Overall objective - provide access to savings and credit services for the rural population in the OCISP target areas.

Includes specifically:

- Increased awareness on the financial (cash) economy.
- Village-based savings facility, allowing secure savings in cash and compensating for inflation.
- Village-based credit facility, allowing access to credit for productive activities.
- Fully autonomous village-level management, including all aspects such as interest rates, term, loan use, etc).
- Long-term creation of bankable clients.

# Lessons from other Projects

## Problems

- Inadequate training of VSCS Management Committees.
- Premature delegation of responsibility.
- Low interest rates and low repayment of loans.
- Community development staff given RFS tasks without sufficient understanding.
- Conflicting objectives: poverty reduction vs. sustainable rural finance.
- Lack of a post-project strategy for institutionalization and technical support.

# Lessons from other Projects

## Solutions

- Staff dedicated specifically to RFS and trained intensively.
- VSCS Management Committee members trained to have a good understanding of issues affecting the sustainability of VSCS.
- Gradual and guided delegation of responsibilities to VSCS Management Committee up to full autonomy.
- Loan terms and conditions matched to the credit activity.
- Loan interest rate covering the rate of inflation, loan loss, management costs and running expenses.
- Transparent VSCS accounting system allowing members and outsiders to determine the financial situation of the scheme.
- Adequate arrangements to ensure post-project technical support to VSCS (not all will become sustainable within the project period).

# VSCS Model

## Why VSCS?

- Appropriate to the context of remote villages with difficult access.
- Suitable for target groups with a low education level;
- Includes significant awareness raising and capacity building elements;
- Empowerment and own responsibility for target population;
- Proven approach in Lao PDR.

# VSCS Model

## Process of Establishing VSCS:

Stage 1: Awareness-raising on VSCS purpose and operation and establishment of VSCS (1-3 months).

Stage 2: Savings - at least nine months to accumulate funds and establish discipline (9-18 months).

Stage 3: Continued savings and start of credit - project conditions and supervision (12-24 months).

Stage 4: Continued savings and credit - village conditions with project support (12-36 months).

Stage 5: Autonomous VSCS

# VSCS Model

## VSCS Structure:

### VSCS Annual General Assembly

*Task: Strategic decision making, election of VSCS Management Committee and Supervisory Committee.*

***Who: All members of the scheme***

### VSCS Management Committee

*Task: Day-to-day decision making, approval of loans, disbursement of dividends.*

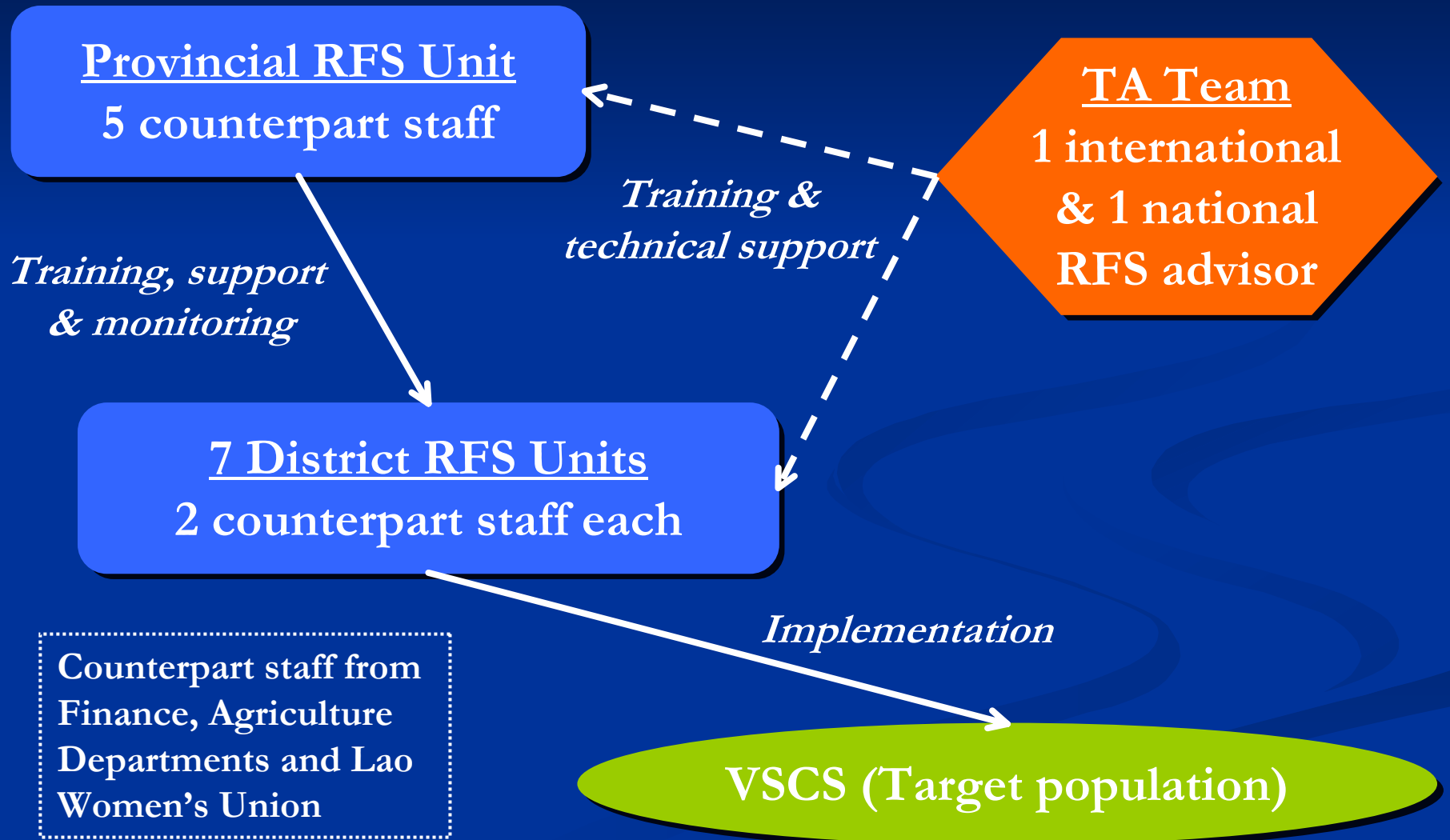
*Who: 4 elected officers*

### VSCS Supervisory Committee

*Tasks: Auditing; power to call a general assembly to elect a new management committee.*

*Who: 3 elected officers*

# Implementation Structure



# Implementation Progress

Status as at November 2004:

Number of villages	7
Total nr. of members	498
Of which female	469
Total savings (\$)	663
Ave. savings per member (\$)	1.33
Project contribution (\$) (calculated)	5970

# Savings Conditions



# Savings Conditions

- Eligibility - any village household, represented by one member.
- Frequency - monthly or quarterly (decided by VSCS members).
- Amount - decided by all members according to savings capacity (minimum 5 000 kip or \$0.5 per quarter).
- Withdrawals - only savings in excess of the minimum amount can be withdrawn (or savings in excess of 10% of loan amount if members borrow from VSCS).
- Dividend - distributed among VSCS members every year from surplus loan interest income.
- Disqualification - any member who did not save for 3 quarters.

# Savings Conditions

## Project support:

- Grant capital contribution
  - project will contribute 9 times amount of incremental savings as VSCS capital.
  - incentive to save and help to build up sufficient loan funds to meet credit demand.
- Interest
  - project will pay bank rate of interest on first-year savings.
  - initially no VSCS interest income to pay dividend to members.

# Credit Conditions

- Eligibility - any VSCS member who has saved for at least 3 quarters.
- Loan Application & Approval - pre-approval by joint liability groups, then written application to VSCS Management Committee.
- Loan Amount – according to the proposed credit activity.
  - *initially, 50,000 kip – 500,000 kip (5 – 50 \$).*
- Loan Duration - depends on the proposed credit activity.
  - *initially maximum is 12 months.*
- Interest Rate - loan interest shall cover at least inflation, management costs and loan loss provision; gradually include technical support costs (initially 18% pa).

# Credit Conditions

- Loan Security - loans are secured by material collateral or through joint liability groups, consisting of 5 to 10 “credit partners” freely chosen by members.
- Loan Purpose - in principle all productive activities eligible for credit, according to following criteria:
  - proven return on investment;
  - market for the output;
  - no harmful ecological or other effects;
  - no illegal activity (e.g. growing opium);
  - necessary technical ability of the borrower (supported by technical agencies if required).
- Repayment - loan interest quarterly; capital in a lump sum payment.
- Penalty Interest - in case of late repayment, 4% per late month.

# Constraints and Solutions

## Constraints:

- Lack of qualified RFS staff at concerned line agencies, especially at district level.
- Target population often lacks necessary technical knowledge and skills to use credit effectively.
- Lack of understanding by government officials of best practices in rural finance; pressure to accelerate implementation.

# Constraints and Solutions

## Solutions

- ✓ Continue capacity building of RFS staff, especially practical training during village level implementation.
- ✓ Work closely with other project components, especially Agriculture to ensure necessary training and technical support for IGAs.
- ✓ Arrange seminars and study tours to other projects with good experience.

# Sustainability Issues

## Long-Term Technical Support

### Options:

- Specialized team of Government staff
- State-owned enterprise, providing support upon payment
- Private sector company, providing support upon payment (*e.g. PDDP/ CCL Project in Phongsaly*)

# Sustainability Issues

## Long-Term Institutionalization

### Options:

- Creation of second-tier institution
  - representatives from individual VSCS
  - functions include technical support, experience exchange, monitoring, representation & advocacy
- Consolidation with other project schemes
  - numerous projects follow similar models
  - ADB considering this as part of its rural finance promotion strategy

*Thank you !*

