

## Bank of Laos

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### **Brief presentation**

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A banking law enacted in June 1990 established the Bank of Lao PDR (BOL) as the central bank, granting it licensing, supervision, and prudential regulatory powers over financial formal institutions within a two tier banking system. The Bank of Lao PDR is the country's central bank and is also the bank of last resort, responsible for control of the money supply, managing reserves, and supervision of commercial banks.

Central bank and commercial bank functions are separated. Policy decisions on financial regulations and deregulations are influenced by the government institutions, corresponding to a variety of interests in addition to those of the financial system. A Banking Training Centre outside Vientiane was also set up in 1980 and re-open in 1985. The training centre was closed each time after a year of operation when funds provided by the Government ran out. The Banking Training Centre opened for the third time in 1993 with the aid of an Asian Development Bank's (ADB) grant. When the grant expired, the Bank of Lao PDR took over the role of supporting the centre. Albeit shortcomings in autonomy and experience, as well as the problems faced, the BOL has been relatively successful in shaping the monetary policy framework of the emerging market economy.

### **Involvement in microfinance**

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The central bank as the regulatory authority has an overall responsibility for the development of microfinance.

In 2002, the government set up an inter-ministerial committee, chaired by the central bank, the "Rural and Micro Finance Committee" (RMFC) to prepare a national policy and action plan to develop a conducive environment to the growth of the microfinance sector. The committee was established on the foundation of a consultative committee inherited from the UNCDF microfinance project. The committee is a consultative body, with limited decision-making capabilities.

A national policy statement was recently approved by the office of the Prime Minister, with support from the World Bank, ADB and the NERI-Concern Worldwide microfinance project.

The general policy statement states that "Sustainable rural and micro finance can be effective tools for poverty reduction, which can help Lao PDR to emerge from Least Developed Country status by 2020. The GOL reform program in rural and micro finance will enable the sector to expand significantly, with diversity, security and future sustainability."

The action plan to implement the Rural and Microfinance Sector (RMF) reform promulgated in the policy statement consist of three main areas:

1. Build common understanding and consensus on government's policy and vision of the RMF reform
2. Strengthen existing RMF initiatives and institutions to ensure their sustainability and their contribution to poverty alleviation (currently the majority of RMF initiatives are unsustainable)

3. Develop enabling legal and policy environment for the establishment and development of diverse MFIs. (Currently the majority of RMF initiatives are operated by the public agents)

The national policy has not yet be widely disseminated and acted upon, therefore there is still no widely shared and agreed microfinance policy among government programs and agencies and mass organisations. These organisations continue to provide subsidized lending, which negatively impact the development of alternative microfinance organisations.

### **Regulatory framework**

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The lack of regulatory framework for microfinance does not allow microfinance providers to build strong institutions free from government interference, to set market-based interest rates, and to enforce loan contracts. Current regulations cover only credit cooperatives. These regulations cover the objectives and functions of credit co-operatives, including the types of business they may undertake: the conditions of their establishment; capital requirements; organisation; rights and duties of a general assembly and so on. However, these regulations do not cover issues such as governance, financial systems and auditing, risk and liquidity management.

The ADB financing package includes support to Bank of Lao for the creation of an enabling policy framework and a national policy statement for microfinance. Under the draft microfinance law, large MFIs would need to be licensed, while smaller MFIs and CBOs would only to be registered.

### **Distinctive features**

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The development of the microfinance sector has been supported recently by a group of donors "First Initiative" funding US\$4 million worth of technical assistance, which also include the setting up of a a microfinance unit in the Bank of Lao PDR.

### **Sources**

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- *'Microfinance in Rural LAO PDR A national Profile'*, UNDP
- *'The challenges of Microfinancing in Southeast Asia'*, John D. Conroy, FDC.
- ADB project documents