



Photo: © GIZ/Rene Roesler

# Microfinance in Rural Areas – Access to Finance for the Poor (AFP)

Fostering local economic development through financial inclusion in rural Laos



## Background

Laos, a sparsely populated country in south-east Asia, is categorised by the United Nations as one of the world's least developed countries. More than two-thirds of its 6.5 million citizens live in rural areas and have limited access to basic infrastructure services, education and formal markets.

Despite the country's progress in providing pro-poor financial services, only a few commercial banks and microfinance institutions operate outside the urban centres. Access to formal financial services is therefore severely limited for the rural poor, and this remains a major challenge for both the Lao economy and individual households. People living in rural areas generally have limited financial resources and often lack the necessary reserves to cope with emergencies. Furthermore, they are not able to expand their businesses by taking out loans and cannot deposit their money safely because there are no banks within their reach.

## What we aim for

At the national level, the project is working with the Bank of the Lao PDR (BoL) to improve conditions for the provision of sustainable financial services and to establish core strategies in the fields of financial literacy and consumer protection. Together with the Lao Microfinance Association it also aims to develop the capacity of stakeholders in the Lao microfinance sector.

At the provincial level, the project has set up and is actively supporting seven microfinance institutions in their role as network support organisations for local village bank networks. These organisations provide their members, the village banks, with regular on-site technical assistance, including on-the-job coaching and training on bookkeeping and credit management.



On the micro level, AFP has helped to set up more than 550 village banks with almost 100,000 members. Through these village banks, access to inclusive and people-centred sustainable financial services for the rural population is facilitated.

The project's work on improving access to finance is complemented by targeted financial literacy courses to the rural population, which help building financial knowledge and skills and enable informed decision-making on financial questions.

## Gender and microfinance

Women's economic empowerment is a special focus of the AFP project and involves measures to strengthen women's access to economic opportunities and their power to make and act on economic decisions.



A female member deposits monthly savings with her village bank.  
Photo: © GIZ/Andreas Hub



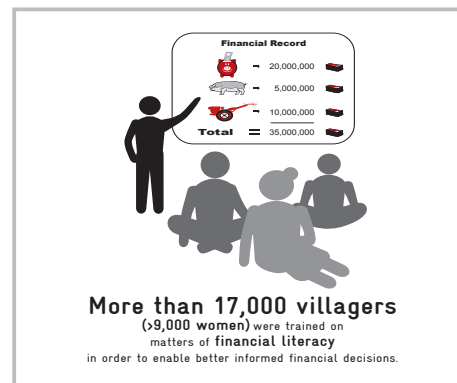
Project staff explains village bank procedures to members during their annual meeting.  
Photo: © GIZ/ Rene Roesler

In village banks, women represent more than half of the total membership and, as most accounts are held jointly by spouses, women have access to 83% of accounts. Furthermore, about half of those participating in financial literacy trainings are women.

Another outcome of the project is that increasing numbers of women are securing decision-making positions in the village banks. More than a third of all leadership positions in village banks are now held by women, who have stated that they feel well integrated and have a substantial influence.

## Results achieved so far

The project supported the Laotian central bank in the formulation of the new Prime Ministerial Decree on Microfinance Institutions and its accompanying Implementation Guidelines, which came into force in November 2012 and May 2016 respectively. AFC Consultants International supported the project by installing supervision software in the central bank's Financial Institution Supervision Department. The project also played a lead role in establishing the Lao Microfinance Association (MFA). The MFA supports organisations working in the microfinance sector, encourages them to provide input, when requested, for the development of new regulations, and builds the capacities of the sector's workforce through its Microfinance Management Certificate course.



Seven network support organisations currently provide assistance to local village banks in 23 target districts. Three of the organisations are already generating enough operating income to cover their expenditure, proving that the concept is financially viable. By January 2017, the project had facilitated the formation of more than 550 village banks, which manage more than 62,000 active accounts. While most of these are family accounts, women hold 54% of the individually held accounts.

The combined value of the savings held in these banks already exceeds LAK 117 billion (EUR 13.9 million). The outstanding portfolio comprises 19,200 loans with a total volume of LAK 105 billion (EUR 12.5 million) with a considerably low Portfolio at Risk value of 3.82%. This model responds to the demand for secure saving and accessible loan facilities. Its success can be seen in the growing number of people taking advantage of the financial services offered.

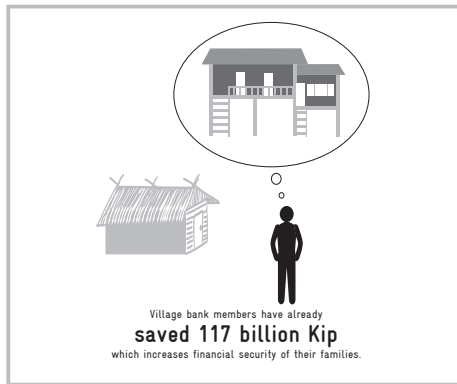
Financial literacy trainings have reached more than 17,000 people in the target villages. In a cooperation with GIZ's vocational education project in Laos, AFP has provided training to teachers in 17 rural vocational schools, enabling them to pass on financial knowledge to their students.



Village bank committee conducting banking day in Phonhai village.  
Photo: © GIZ/ Andreas Hub



Female participants during financial literacy activity in Phoulom village.  
Photo: © GIZ/ Rene Roesler



## GIZ Laos's engagement in financial systems development in Laos

We enhance access to financial services for rural people by supporting the establishment of community-based village banks on behalf of the Laotian, Australian and German governments. The goal is to enable rural households and individuals to deposit their money safely and take out small loans to expand their businesses or to cope with emergency situations. Tailored financial literacy trainings complement the physical access to financial services in order to promote responsible usage of products and improve financial management on the household level. Gender equality and inclusive access are fundamental principles that guide all project activities.

The project receives financial contributions from the Government of Germany through the Federal Ministry of Economic Cooperation and Development (BMZ), the Australian Government through DFAT/ Australian Aid and MMG/Lane Xang Minerals Ltd.

## About GIZ Laos

GIZ, as part of the German Development Cooperation, has been active in Laos since 1993 and is currently implementing projects in two priority areas: rural development and economic development. Moreover, GIZ engages in good governance and participates in regional programmes for example with the Mekong River Commission.

Please visit [www.giz.de/laos](http://www.giz.de/laos) for further information on GIZ's work in Laos and worldwide.

Published by: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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Layout: PR Unit, GIZ Office Laos  
As at: May 2017