Demand for Microfinance in Laos

An Assessment of the Current Clients and the Future Potential of Microfinance in Rural Areas
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Key Facts:

- Operates on three Levels: Village Banks, Network Support Organizations and advice to Bank of Lao PDR
- Supports more than 260 Village Banks in remote and rural Laos
- Operates in 4 provinces / 14 districts
- Offers financial services to more than 30,000 households in rural Laos
- Budget of 3.75 m EUR for 2011-14
- Started in 2009
1. Access to Finance for the Poor

Village Bank Characteristics (average values):

- Opens once a month
- Run by 4-5 committee members
- 60 members per VB (range 20 to 400)
- 28 m Kip accumulated savings
- 33 m Kip loan portfolio (ø loan size 1.7 m Kip)
- Interest rates for loans: 1% to 4% p. M.
2. Basics of Demand Assessment

Selected Sample for the Demand Assessment:

- Interviews in 52 villages with low (13), medium (20) and high (19) economic potential
- Altogether 224 households were interviewed (5 per village)
- Focus on Village Bank members, but also 38 potential future clients
- Interviews were conducted orally
- Questionnaire consisted of questions to income, savings and loans of the villagers (up to 150 questions)

Survey yielded a total of 39,000 data points
3. Who are our Clients?

Annual Household Income of the Villagers

Average Household Income
= 22.5 m Kip p.a.

3.75 m Kip p. person p.a.
= 10.000 Kip per day
= 1.25 USD
= Poverty Line

* Graph represents income of big majority of respondents (83%)
3. Who are our Clients?

Sources of Villagers’ Income

- **Cash crops**
  - 5.9 m Kip (26%)
- **Animal selling**
  - 2.8 m Kip (12%)
- **Other Income**
  - 13.9 m Kip (62%)
4. Financial Assets of our Clients

Average accumulated Savings 18.3 m Kip

Large Cash and Gold amounts and still potential for Village Bank savings acquisition

* Graph represents financial assets big majority of respondents (82%)
4. Financial Assets of our Clients

Distribution of Financial Assets and Income

- High Value of Financial Assets And Low Income
- High Value of Financial Assets And High Income
- Low Value of Financial Assets And Low Income
- Low Value of Financial Assets And High Income

Financial Assets (m Kip) vs. Income (m Kip)
4. Financial Assets of our Clients

Depending on the ethnic background of the villagers, saving patterns differ!
5. Financial Liabilities of our Clients

Number of Respondents’ Credit Sources

- Village Bank: 78
- Nayoby Bank: 21
- APB: 11
- Other: 6 (Trader: 4)
- LDB: 1
- From family: 22

Total Loan Amounts by Credit Source (m Kip)

- Village Bank: 141.8m
- Nayoby Bank: 165.0m
- APB: 175.2m
- LDB: 100.0m
- Trader: 65.5m
- Other: 13.0m
- From family: 76.2m

Average Loan Amount of the Village Banks is comparably small, but it reaches a lot of costumers.
6. Further Microfinance Demand?

The potential credit demand is nine times the amount of currently outstanding credit amount and also 1.6 times the amount of total savings of the villagers. Desired individual loan amounts in some cases exceeds the defined microfinance limitations.

Anyhow, the expressed potential Microfinance Amount is very high and seems exaggerated!
In order to get an idea of the financing capacity of different rural villagers we calculated a credit-to-savings ratio for each investment idea based on the respondents’ hypothetical loan request and total financial assets owned.

Approximately half of the investment ideas are at or below a 200% credit-to-savings ratio.
6. Further Microfinance Demand?

Depending on the specifics of the region the potential rural loan demand is:
- nearly 50% for agriculture investments
- another quarter for trading activities or to build up shops
- rest for long term assets like houses and rice mills or other
7. Conclusions

Conclusions for Access to Finance for the Poor

- Huge amounts of financial assets not invested in flexible and income bearing asset accounts

- Offer additional savings products to meet the villagers’ needs even better

- Increase the minimum monthly savings rate to encourage more savings

- Link VB with excess liquidity to commercial banks to link VB to the formal financial sector

- Open the village bank more often to increase visibility and flexibility of the village bank
7. Conclusions

Conclusions for Access to Finance for the Poor

➢ Further demand for Loan Investments in rural Laos

- Further trainings on delinquent loans

Consult VB on nearly every VB day

Approve and disburse “oversized” loans in NSO

Focus on enhanced credit approval process

Marketing / Announcement of products available

Credit Approval Process

Frontoffice and Backoffice

Credit Decision

Administration

Contract(s) and Payout

Following up amount due / paid

Collection of Interest / Principal

Delinquency process as described in separate credit policy

see annex 5 of this policy

For delinquent loans only

Evaluation of demand/ decision regarding prolongation

For loans paid back
Thank you very much for your attention!