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

## Fostering local economic development through financial inclusion in rural Laos

### Context

The Lao People’s Democratic Republic (PDR) is categorised by the United Nations as one of the world’s least developed countries. More than two-thirds of its 7 million citizens live in rural areas and have only limited access to basic financial services, education and markets.

Despite the country’s progress in providing pro-poor financial services, only a few commercial banks and microfinance institutions operate outside of the urban centres. Access to formal financial services for the rural poor is therefore severely limited, 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. Combined with this, many of the rural poor do not have experience and lack skills in managing their financial affairs.

### Objective

Women and men in rural areas increasingly benefit from financial services through more stable institutions, better financial education and an improved legal framework. Therefore, the project aims to strengthen the supervision in the Network Support Organizations (NSOs) by unifying their structures, standardising their internal policies and ensuring a thorough law enforcement.



Financial & business literacy training, Champasak Province  
 Photo: © GIZ/Maxly Inthaxai

<b>Project name</b>	Microfinance in Rural Areas V Access to Finance for the Poor (AFP V)
<b>Commissioned by</b>	German Federal Ministry for Economic Cooperation and Development (BMZ), co-financed by the Australia Federal Department of Foreign Affairs and Trade (DFAT)
<b>Project region</b>	Attapeu, Champasak, Luang Namtha, Saravan, Savannakhet, Sayaboury Province, and Vientiane Capital
<b>Lead executing agency</b>	Bank of Lao PDR (BoL)
<b>Duration</b>	2019 - 2021

Additionally, the project strengthens the Lao Microfinance Association (LMFA) in becoming the key national support institution to provide technical and legal assistance to the NSOs and to the Bank of the Lao PDR (BoL).

In achieving this, the project is supported by the Australian Ministry of Foreign Affairs and Trade (DFAT) and German Federal Ministry for Economic Cooperation and Development (BMZ).

### Approach

Village Banks supported through Network Support Organizations (NSOs) have been identified as a sustainable and cost-efficient model to reach the rural population.

Therefore, the project is providing intensive capacity development to NSOs. The employees of the NSOs are enabled to provide high-quality technical and financial services to the community-managed village banks.

Furthermore, the Boards of Directors who are the representatives of the village banks are trained to effectively audit and control the management of the NSOs to ensure that they are working in line with the law and in the interest of the village banks.

At macro level, the project supports BoL in comprehensively embedding the village bank approach into the Lao legal framework.

## Impact

The project supported BoL in the formulation of the Prime Ministerial Decree on Microfinance Institutions and its accompanying implementation guidelines, which came into force in November 2012 and May 2016 respectively.

Seven project-initiated Network Support Organizations currently provide assistance to more than 800 village banks in 27 target districts (including Samueay). By December 2020, up to 831 village banks have reached more than 192,000 members.

The combined value of the savings held in these village banks exceeds 436 billion Lao Kip (38.4 million Euros) underlining the huge importance and responsibility to protect these poor household life savings. The outstanding portfolio comprises more than 39,000 loans with a total volume of 352.9 billion Kip (31 million Euros). These high numbers show that the model responds to the demand for savings and loan facilities in these remote rural areas.



Financial & business literacy training, Savannakhet Province.  
Photo: © GIZ/Maxly Inthaxai

However, the long-term sustainability of this approach can only be ensured through strong supervision in which the law fits to the operating environment and in which illegal behaviour is prosecuted through strict law enforcement.

Financial and business literacy training have reached more than 70,000 people in the target villages, with the majority of the participants being women. In cooperation with the GIZ-supported project Vocational Education in Laos (VELA), the project has provided training to the teachers of 17 rural vocational schools, enabling them to pass on such knowledge to their students.

## 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.

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 80% 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 40% 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.

### About GIZ Laos

GIZ, as part of German Development Cooperation, has been active in Laos since 1993 and is currently supporting numerous projects in 2 priority areas: a) sustainable economic development and b) rural development in poor regions. Moreover, GIZ Laos engages in good governance and participates in regional programmes, e.g., with the Mekong River Commission and ASEAN.

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

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Lao Security Exchange Building, 7th floor,  
Kampheng Mueang Road, Saysetha District,  
Vientiane Capital, Lao PDR  
P.O. Box 563  
T: +856 21 419 201  
F: +856 21 419 203  
[www.giz.de/laos](http://www.giz.de/laos) (EN); [www.giz.de/laos-la](http://www.giz.de/laos-la) (LA)

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Photo credits GIZ/Maxly Inthaxai  
Text Rene Roesler  
Contact person Doris Nueckel  
([doris.nueckel@giz.de](mailto:doris.nueckel@giz.de))  
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