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Microfinance In Laos: A Case for Women's Banking?

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**MICROFINANCE IN LAOS:
A Case for Women's Banking?**

by

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&

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MICROFINANCE IN LAOS:

A Case for Women's Banking?

Abstract

During the last ten years, the Government of The Lao PDR, a communist country, has taken bold steps towards a market economy, creating a policy environment for the emergence of a demand-driven system of microfinance. Such a system should be based on the cultural traditions of Laos where community solidarity is strong and women play a crucial role in microfinance. It is suggested that an evolving Laotian system of microfinance might comprise the following components:

- (1) A microfinance section in the central bank to provide an appropriate policy, legal and supervisory framework;
- (2) Commercial banks as microfinance wholesalers and retailers - to be reformed through five strategies:
 - (a) an *incentive strategy*: converting branches or sub-branches into profit centers which mobilize their own resources and provide credit at their own risk;
 - (b) a *sound banking strategy*: geared to institutional viability and sustainable financial services;
 - (c) a *linkage strategy*: linking banks with non-formal financial institutions/financial SHGs;
 - (d) an *outreach strategy*: extending the banking services to increasing numbers of women and men, including the poor; and
 - (e) a *transformation strategy*: transforming branches or sub-branches into autonomous financial institutions owned and managed by local people;
- (3) A network of semiformal, and eventually formal, women's village banks for both women and men; and
- (4) Savings and credit associations functioning as informal self-help banks of microbusinesswomen.

Based on deeply entrenched cultural traditions, women have the potential of becoming the microfinance bankers of Laos, building viable institutions with sustainable financial services, for all segments of the population, including women and the poor.

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1. The Search for a Laotian System of Microfinance

Laos needs a system of microfinance that offers three types of services: microsavings deposit facilities, microinsurance, and access to microcredit. Policymakers, institutional decision-makers and local people now face the challenge of building a range of viable microfinance institutions that offer these services in a sustainable way to all segments of the population.

Four types of institutions are instrumental in that process, two of which fall into the formal and two into the nonformal financial sector:

- the central bank as regulatory authority with overall responsibility for the development of microfinance;
- the state commercial banks as retailers and wholesalers of microfinance;
- the Lao Women's Union in cooperation with international NGOs and donors which has the potential of extending a network of women's village banks as part of the semiformal financial sector into every community;
- informal savings and credit groups which might have the potential of evolving into the microbusinesswomen's informal self-help banks in urban areas.

The potential of each of these institutions needs to be explored; and ways have to be found to fully activate that potential.

One of the most striking aspects of the emerging landscape of microfinance in Laos is the key role of women within the cultural traditions of Laos. They produce cash crops; they are the small traders and microentrepreneurs; they hold the family purse; they are in charge of saving for investments and emergencies; they are the moneylenders; they are the innovators in urban informal finance; and they have organized in women's groups which have started to lay the foundation for a network of microfinance institutions throughout the country. What is thus their function in building the future system of microfinance in Laos? Will their role be confined to that of recipients of savings, credit and insurance services? Or will they also be among the providers of microfinance services to both men and women, as owners and managers of local financial institutions? And within the Laotian solidarity of the sexes, will they decide to be co-owners and co-managers together with their men, or will they stick to the tradition of women's trusteeship over money? And finally, what kind of support will be needed to activate their potential for the benefit of all segments of society?

2. The Background of Microfinance: Society and Economy of Laos

Population: Laos is a small, sparsely populated country of 4.6 million people, with an average population density of 19 persons/km². They live in 11,640 communities with less than 400 inhabitants on average. 92% of the communities are rural (*see Table 2*). Two thirds of the population are engaged in subsistence agriculture outside the market economy.

Quality of life: Measured in terms of social indicators, Laos ranks among the lowest in Asia. Poor sanitation and nutrition in most of rural Laos lead to poor health, low life expectancy and high levels of infant and maternal mortality. School enrollment and literacy rates are low. (*Annex 1*)

Poverty: 46% of the people of Laos are poor, comprising 1.8 million rural and 0.25 million urban poor. Opportunities for diversification and market integration are limited.

Politics and administration: After a prolonged liberation struggle, the Lao People's Revolutionary Party, LPRP, proclaimed the Lao PDR in 1975 and established today's system of communist one-party rule. In recent years, political stability and economic liberalization became the two main pillars on which modern Laos is to be built. Policymakers now face two major challenges: one is effective administrative penetration and decentralization; the other one is a balance of policymaking at the top and bottom-up participation.

Social organization: There are about 65 ethnic groups in Laos. The dominant group is that of the lowland Lao Loum who grow paddy in the Mekong river valley, comprising 68% of the population. The upland Lao Theung, about 22% of the population, practice slash-and-burn agriculture in the hills and on the mountain slopes. The Lao Soung, among them the Hmong, about 10% of the population, live in remote mountain areas and are politically least integrated. For the majority of Laotians, the village is the center of human relations where people are socialized into solidarity and harmony. The political system of the village is basically democratic, built on consensus rather than majority rule. Household, kinship, neighborhood, self-help groups and village community are the basic units around which village life revolves.

Economy: With a per capita income of US\$355, Laos is one of the least developed countries. In recent years, GDP has been growing consistently at rates above 5%. But little of that growth has been felt in most rural areas. Agriculture accounts for 55% of GDP and 89% of employment. Crop failures and food shortages are frequent. Through foreign exchange and trade reforms, the Government has enhanced the country's new outward orientation and opened up export markets, particularly for electricity, garments and timber. However, rapid expansion is impeded by constraints in the social and physical infrastructure. (*Annex 2*)

Structural adjustment and reform: After ten years of socialist central planning and economic decline, the Government, in 1986, boldly decided to embark on the making of a market economy. Through NEM, the *New Economic Mechanism*, a series of reform measures were introduced, substituting competitive market forces for the command economy. Among the crucial new measures were the privatization of land use rights and public enterprises and the liberalization of prices. Assisted by structural adjustment credits, the Government successfully initiated macroeconomic reforms, with dramatic results in terms of GDP growth, stable exchange rates, fiscal constraints, a drastic decline of the inflation rate and export diversification. Since 1990, the Government has substantially reformed the financial sector. It converted the former State Bank into a central bank and a number of state commercial banks, recapitalized them, admitted private sector banks and gradually liberalized interest rates. Further progress has been impeded by the reluctance of administrative and institutional decisionmakers to fully implement national policy decisions at the local level.

Currency, public finance and economic stability: The decade before 1987 was characterized by the free fall of the national currency, the kip; the decade since 1987 by the determined fight for economic stability. In 1987, with the onset of liberalization, the Government initiated a policy of inflation control by abandoning multiple exchange rates and by drastically devaluing the kip. Since then, the Government weathered two inflationary storms and gained increasing competence over destabilizing forces. When salary and price hikes contributed to an inflationary increase in the money supply, the Government, with international backing, reversed the process. Until 1994, the inflation rate stayed below 10%. In early 1995, the demand-pull of rapid liquidity and credit expansion again led to price instability. Through a policy of tight money and related measures, imports became more expensive and exporting more attractive. The current account deficit fell, and so did the inflation rate. Both the Bank of the Lao PDR and the IMF agree that prudent monetary and credit policies seem to work in Laos.

Table 1: Inflation rates (CPI) in percent and official exchange rates (kip/US\$), 1990-1995 (annual averages, except March 1996)

<i>Year</i>	<i>Inflation rate</i>	<i>Exchange rate</i>
1990	40.4	709
1991	13.5	702
1992	9.9	715
1993	6.3	716
1994	6.8	718
1995	19.4	815
March 1996		925

Development assistance and coordination: In recent years, the budget deficit has been fully financed by donor grants and loans amounting to US\$ 232.5 million in 1995. Both the composition and the management of foreign assistance have been erratic. Through informal gatherings, UNDP has made some attempts at coordinating external assistance.

3. The regulatory environment of microfinance

The monetary policy framework: Since its enactment as a central bank in 1990, the Bank of Lao PDR, BOL, has pursued a policy of gradual deregulation and prudential intervention. Despite shortcomings in autonomy and experience, BOL has been remarkably successful in shaping the monetary policy framework of the emerging market economy.

The interest rate regime: In order to provide incentives for the mobilization of savings and the effective allocation of scarce resources, BOL has gradually deregulated interest rates. The floor on deposit rates has recently been raised from 12% to 16%, while the ceiling on lending rates has been lifted. However, the state banks which are dominant in rural and microfinance appear to act as administrative bodies supplying preferential credit to target beneficiaries, rather than financial intermediaries between savers and borrowers. Under political and administrative influence, their market rates do not exceed 28% per year, while semiformal exchange houses and informal credit houses charge *real market rates* of 5-20% per month. In actual fact, the interest rate structure of the Agricultural Promotion Bank, APB, the largest provider of microfinance, remains inverted, with average deposit rates exceeding its lending rates. Under such conditions, banks refrain from mobilizing savings and restrict their lending. Instead, they continue to depend on government and donor funds. For deregulation to be fully effective, the volume of subsidized credit programs needs to be drastically curtailed. At the same time, banks must be free to charge whatever interest rates are needed to cover their costs, including the costs of special services to remote areas and to the informal microeconomy.

The legal framework: The legal foundations of the present banking structure are laid down in the banking law of June 1990, which separated central and commercial banking functions. Financial institutions, comprising BOL, commercial banks including private banks and foreign bank branches, non-bank financial institutions and credit cooperatives, were regulated by decree in January 1992. The mandate for rural and microfinance practically lies with the state commercial banks. They alone have rural branches. After the collapse of the former state cooperatives, a new network of credit cooperatives has not yet emerged. There is no other legislation that would permit the establishment of

small local financial institutions owned by shareholders, communities or corporate bodies. Nor is there any form of official recognition for self-help groups or informal financial institutions. What is needed is a recognized system of microfinance that permits the simultaneous existence, and the gradual transformation, of informal, semiformal and formal microfinance institutions.

Guidance and supervision: The formal financial sector is supervised by BOL. As a new institution, it lacks the experience of effective supervision over institutional viability and sustainability. Supervision and guidance of the nonformal financial sector is missing, resulting in a complete absence of any standards of financial management and sound practices. To promote the establishment of competing types of local microfinance institutions and provide adequate guidance and supervision, second-tier regulatory authorities are needed, which in turn are to be supervised by BOL.

4. The market for microfinance

Market segmentation: Financial markets in Laos are segmented into a nonmonetized rural subsistence economy, an undermonetized microeconomy of mostly informal microenterprises, and a small formal sector of government agencies and larger enterprises. The potential market of microfinance comprises over 90% of the adult population, half of them poor. This includes a labor force of about two million, half of them women; some 700,000 households; 11,000 small communities; and 150,000 microenterprises, with over 100,000 of them spread all over rural Laos and only 13% in the inner urban areas (Table 2).

Table 2: Small and microenterprises by market segment, 1995

<i>Market segment</i>	<i>No. of enterprises</i>	<i>Employment</i>	<i>Population</i>	<i>Density per 1000</i>	<i>Ann. revenue in mn. Kip**)</i>
Rural non-Mekong	69,724	125,859	2,378,181	29	2.2
Rural Mekong	43,138	71,234	1,647,313	26	2.3
Semi-urban	14,403	25,350	301,168	48	2.0
Urban non-market	9,709	20,954	315,523	58	10.7
Urban markets	8,748	14,456	*)	*)	6.3
Urban industrial	305	725	12,084	25	12.9
Total	146,028	258,577	4,654,269	31	

*) Enterprises and inhabitants in the urban markets are included in the urban (*non-market*) figures

***) Mean annual revenue of small and microenterprises in million kip

Source: GTZ-MIH 1996

The demand for microfinance: In a largely nonmonetized subsistence economy, demand for financial services is an elusive concept. Governments and donors vastly exaggerate the demand for credit. In practice, though not in theory, rural savings, hitherto *the forgotten half of rural finance*, are neglected. Experience from other countries indicates that, with equal access to both deposit and credit facilities, savers tend to outnumber borrowers by a ratio of 5:1, or, if they are poor, of 10:1 and above. The demand for microinsurance, *the forgotten third of microfinance*, is generally ignored.

Microsavings: Laotians tend to be risk-averse and savings-oriented. Historically, women are in charge of the family purse and of savings. According to the UNDP/UNCDF rural microfinance survey of

1996, 91% of households hold financial savings, mostly in cash, averaging US\$87. 91% also hold nonfinancial savings amounting to \$565: 82% held in livestock and 18% in gold and silver (*Table 3*).

Table 3: Financial and nonfinancial savings among rural households in Laos, 1996

<i>Type of savings</i>	<i>Percent of households</i>	<i>Average amount in kip</i>
<i>Financial savings:</i>		
Bank deposits	90.8	80,498
Informal group deposits	0.5	7,578
Cash	0.3	2,387
Asset loans supplied	87.9	59,068
	4.4	8,253
<i>Nonfinancial savings:</i>	91.3	525,696
Precious metals		92,725
Livestock		432,971
<i>Total savings</i>	96.6	606,195

Source: UNDP/UNCDF 1996

There is surprisingly little difference between upland households and those in the Mekong valley (*Table 4*):

Table 4: Financial and nonfinancial savings by market segment among rural and semiurban households in Laos (in percent), 1996

<i>Form of savings</i>	<i>Rural upland</i>	<i>Rural Mekong</i>	<i>Provinc'l capital</i>	<i>Semi urban</i>	<i>All</i>
Bank deposits	-	-	5	7	1
Informal deposits	-	1	-	1	0.5
Cash	9	11	9	17	10
Precious metals	14	14	18	27	16
Livestock	77	74	68	48	73
Total	100	100	100	100	100

Source: UNDP/UNCDF 1996

173,000 kip (\$186) of savings are in liquid form or gold and silver. If we tentatively assume that, with savings deposit facilities offered, 30% of that amount would be monetized and deposited during the first year and that this demand would grow at an annual rate of 15%, then, at the end of the fifth year, the actual demand for depositing savings would amount to kip 91,000 kip per household, 5.9 million kip per community, 530 million kip per district and 66 billion kip nationwide. Approximately half of that demand would come from the microenterprise sector. (*Table 5*)

Table 5: Rough estimates of the demand for depositing savings among rural and semiurban households in Laos (in kip)

<i>Level</i>	<i>1st year</i>	<i>5th year</i>
Household	51,900	91,000
Community of 65 households	3.4 million	5.9 million
District of 90 communities	306 million	530 million

National	37.5 billion	66 billion
Probable range		33-131 billion
Small and microenterprises only	18 billion	32 billion
Probable range		16-64 billion

Source: Own estimates

Microcredit: According to the microfinance survey, 11.5% of rural households are indebted in cash. The average loan outstanding is about 300,000 kip. 4% of the households were found to supply credit informally to an average of three borrowers (UNDP/UNCDF 1996).

In the microenterprise survey, it was found that credit is not an important source of microenterprise finance. 30% had loans outstanding, averaging 200,000 kip, more than half of this from family members. Only about 5% had a loan from formal or informal institutional sources. Almost 75% reported finance as a major start-up problem. Among the current problems of established enterprises, marketing ranks first. (*Table 6*)

The actual demand of households for credit hinges on their ability to save, invest and repay. It will grow with the emergence of markets, financial intermediaries and internal resource mobilization, which in turn grow with access to credit. Given the dearth of formal and informal financial institutions, there is only little scope for the articulation of the demand for credit. Therefore, quantitative estimates are problematic. Most average loan sizes in NGO programs range from 10,000 kip to 50,000 kip and in some cases up to 120,000 kip. Given a savings-driven approach to financial institution-building, the overall demand for credit should stay close to the demand for depositing savings as estimated above.

Box 1: Portrait of a well-to-do farmer

Mr. Sadome is a moderately well-to-do farmer who lives in a small village in Vientiane Province about 60 km from the city. During our visit to a sub-branch of the Agricultural Promotion Bank on October 1, 1996, we met him in the front-yard of his house.

Mr. Sadome produces most of what is needed for the subsistence of his family on his own farm. Living in the more monetized center of the country, he is also part of the emerging market economy. He has four ha of land: three ha for sticky rice cultivation and one ha of fruit trees. He grows bananas, coconuts and fruits. He also does some fish farming and raises cows and chicken for sale.

Mr. Sadome has been a customer of APB since the bank opened its sub-branch in 1993. In 1995, he took a subsidized loan from APB to buy chicken feed for his chicken farm of about 100 chicken. This was his first bank loan. The loan period was eight months. It was repaid on time without any delay.

On May 1, 1996, Mr. Sadome obtained a three-year tractor loan of one million kip from APB at 8% interest p.a. The principal is to be paid back in six-months instalments; interest payments are due monthly. So far Mr. Sadome has met his obligations on time. As they are not channeled through groups, tractor loans were not among the five agricultural loan products mentioned during the meeting at the sub-branch.

The price of the hand-tractor was 2.7 million kip. This was financed through an APB loan of 1.0 million kip and own savings of 1.7 million kip. Mr. Sadome had accumulated the 1.7 million kip, which he used for the self-financed part of the tractor purchase, over a period of two years in an APB savings account. Mr. Sadome's present savings deposits with APB amount to 300,000 kip. He keeps his savings, with a nominal yield of 10%, with APB; other banks that would pay a higher interest rate are too far away. Voluntary passbook savings were not among the financial products mentioned at the APB sub-branch.

The tractor is driven by Mr. Sadome's son. He uses it to transport produce to the market and to plow rice fields. It is also rented out and generates cash income. Mr. Sadome calculates that gross earnings from the tractor amount to about 600,000 kip per year and costs to about 150,000 kip, leaving a profit of about 450,000 to which the value of the produce sold in the market has to be added. It appears that Mr. Sadome has forgotten to calculate his interest payments are part of the costs; nor has he made provision for the annual depreciation.

Mr. Sadome is a small farmer. He is also a microentrepreneur offering transportation and ploughing services. Mr. Sadome has profited from the savings deposit facilities offered by APB and from access to subsidized program loans. The savings account has enabled him to accumulate savings for the self-financed part of the tractor purchase that might otherwise have been wasted. The tractor loan has enabled him to finance the remaining portion of the investment that might otherwise have been beyond his capacity. Given the low real returns on his savings, Mr. Sadome had not earned much from his earlier savings. At the given inflation rate which is above his interest earnings, he presently even loses part of the value of his savings. However, at the same time he benefits from the low interest rates offered by APB, which are far below the real value of the loans. It is not clear whether he could have afforded the tractor at genuine rural market rates of interest.

Table 6: Current liabilities among microentrepreneurs in Laos, 1995

<i>Source</i>	<i>Percent with liability</i>	<i>Average value of liability Amount</i>	<i>Percent</i>
Supplier	19.9	30,804	15.6
Family	8.2	103,088	52.2
Friends	2.0	20,193	10.2
Moneylenders	4.7	8,038	4.1
Banks	3.6	35,252	17.9
Total % with liabilities	29.9	197,375	100.0

Source: GTZ/MIH 1996:40

In qualitative terms, a large proportion of the population has a demand for microsavings as a source of self-financing; only few have a demand for microcredit. Initial credit demand is for small loan sizes, short loan periods and brief installment periods. The demand grows with the enterprise, resulting in a need for repeat loans of increasing size. At the same time, the self-financing capacity grows, creating a demand for combined savings and installment collection services.

Microinsurance: In the subsistence economy, insurance needs are covered by reciprocal exchange relations and mutual obligations, which escape quantification. Based on experience elsewhere, we might expect that the demand for microinsurance will evolve through the following stages: the demand for self-help groups to respond to social obligations and emergencies; the demand for nonformal and formal local savings institutions providing immediate access to savings as need arises; and the demand for loan protection through life, health and livestock insurance as part of credit risk management. Microresources may be first mobilized through ad-hoc contributions in the neighborhood and allocated on the basis of reciprocity; then through regular contributions and allocated in fixed amounts by self-help groups; then through regular contributions to informal institutions and allocated in the form of interest-free loans; and finally through regular contributions and interest payments, to be allocated in the form of interest-bearing loans.

Institutions involved may gradually progress from informal and semiformal to formal. They would eventually offer all three services: microsavings, microcredit and microinsurance, with linkages between them.

5. The institutional infrastructure of microfinance

5.1 Formal finance

The banking sector: The banking sector comprises BOL as the central bank, eight state-owned deposit money banks with a total of 17 branches, two joint venture banks, seven foreign bank branches and a representative office of Standard Chartered Bank. In 1994 the Government relieved the state banks of their inherited bad debts and established an adequate

Table 7: Assets of the banking sector, 1990-1995 (in billion kip)

<i>Institution</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>*1995</i>
Bank of Lao PDR	99.0	120.9	149.1	170.7	184.6	n.a.
<i>State-owned banks:</i>	91.9	102.1	130.2	176.5	201.8	n.a.
Nakhomluang Bank		31.5	31.4	33.2	15.4	n.a.
Settathirath Bank		9.5	11.4	15.3	22.7	n.a.
Phaktay Bank		11.6	16.0	14.3	18.4	20.4
Lao May Bank		6.3	7.6	14.6	17.9	19.9
Lanexang Bank		5.8	7.7	10.2	11.5	18.9
Aroune May Bank		1.7	2.3	2.9	3.4	n.a.
Agricultural Promotion Bank		6.9	16.1	39.6		
Banque du Commerce Ext. Lao		35.7	53.9	79.1	96.5	n.a.
<i>Private banks:</i>	3.2	5.1	13.4	57.3	78.9	n.a.
Joint Development Bank	3.2	5.1	9.1	14.1	18.6	
Vientiane Commercial Bank			4.2	9.0	8.8	
Muen Lao Bank				n.a.	4.0	
Bangkok Bank				6.0	13.1	
Krung Thai Bank				4.6	6.6	
Siam Commercial Bank				9.7	11.7	
Thai Farmers Bank				5.4	7.2	
Thai Military Bank				8.5	9.1	
Total gross assets	194.1	228.1	292.6	404.4	465.3	
<i>Growth rates in percent:</i>						
State-owned banks	89.8	11.1	27.5	35.6	14.4	
Private banks	81.0	62.2	160.4	328.2	37.7	

Source for 1990-1994: ADB 1996:59

*Figures start with the first year of operation. In the absence of international accounting and reporting standards, they frequently differ between sources.

Figures for 1995, from unofficial reports, are either not available or provisional.

Capital base. The banking sector has seen a complete reversal of its portfolio structure, with private sector loans as a proportion of total domestic credit reaching 82% in 1995. Most banks have emerged during the past five years, after the mono-tier banking system of the previous centrally planned economy was abolished. (*Table 7*) From the former State Bank, the state commercial banks have inherited two weaknesses: the lack of experience in sound banking; and an aversity to resource mobilization.

Rural finance: The rural banking sector is dominated by six government-owned banks: APB, established in 1993 as the prime agricultural lender with a national outreach; and five regional banks, which grew out of departments of the former State Bank in 1990 and 1991. Only they are authorized to collect rural savings. The delivery structure of APB comprises 16 branches and 90 sub-branches for a total of 18 provinces and 133 districts. The five regional banks add another twelve branches. Regarding outreach, there is agreement that not more than 15% of all households in Laos have access to formal finance; that women, who play a focal role in nonformal finance, are mainly involved as keepers of the family purse; that access to savings deposit facilities is far more restricted than access to credit; and

that those households with access to formal finance are far from having all their financial needs covered.

Table 8: Selected balance sheet data from four state-owned commercial banks, December 1995 (in million kip)

	<i>APB</i>	<i>Lanexang</i>	<i>Paktai</i>	<i>Laomay</i>
<i>Assets:</i>				
Reserves	1045	3256	644	1976
Cash	727	267	465	610
BOL deposits	319	2990	179	1367
Loans outstanding	17302	6389	6662	7150
Foreign	49	450	1014	2042
Government securities	700	2134	2685	2046
Other	19467	3415	8742	4747
<i>Total</i>	<i>39609</i>	<i>18901</i>	<i>20391</i>	<i>19938</i>
<i>Liabilities:</i>				
Current deposits	1330	3046	576	3705
Term & savings deposits	340	3917	2166	4384
Government deposits	87	781	944	2659
Credit f. monetary auth's	16676	2256	2066	2443
Other	18956	295	12014	2714
<i>Capital:</i>	<i>1175</i>	<i>2506</i>	<i>1705</i>	<i>1980</i>
Capital and reserves	988	964	1042	1010
Provisions, profit & loss	187	1542	663	970

Source: Consultancy reports. The data, which are based on bank and BOL reports, are to be considered as indicative only. Data from different sources vary widely.

Box 2: Microfinance in a sub-branch of the Agricultural Promotion Bank (Oct. 1, 1996)

The sub-branch, at a distance of approximately 60 km from Vientiane, was opened in August 1993. It has a staff of six, including two women who work as accountants and three loan officers who go out to the field on their own motorcycles. The sub-branch is not a profit unit. It prepares no balance sheet nor a profit and loss statement. Data on financial transactions by the sub-branch are entered into handwritten ledgers. There is no systematic monitoring at this level. All important information is kept either in the branch or in the headoffice. The manager has no information on arrears.

Banking at the sub-branch level is comprised of program activities for defined purposes and target groups. The sub-branch acts as a credit channel and not as a financial intermediary between savers and borrowers. Loan funds are supplied by the headoffice. The contingent for the sub-branch is 300 million kip. There is no information on the actual amount of loans outstanding.

The sub-branch mobilizes resources through compulsory deposits of 10% deducted from each loan. The total volume of deposits is 15 million kip, which corresponds to 5% of the sub-branch's total lending volume. According to the manager, interest rates on savings deposits are 10% p.a. If correct, this would be in contradiction to the central bank regulation of a 16% floor on deposit rates. Others have also reported on discrepancies of vital information between different levels of the hierarchy. One of the major problems of the sub-branch is seen in the shortage of loanable funds. The manager says he finds it exceedingly difficult to attract additional savings with the interest rate of 10% offered by APB while other banks offer 15-18% p.a. on fixed deposits.

There is no retail lending at the sub-branch level. The sub-branch only lends through groups, which have a minimum size of seven and a maximum of fifteen members. At present there are 403 informal groups with a total of 2800 members, about 140 of them female heads of households. The average group size is seven.

All credit at the sub-branch is agricultural and small-scale. There are five credit products of a rationed volume, three short-term and two medium-term, which are channeled through groups:

- Yellow rice and sticky rice loans of 300,000 kip per end-user, amounting to a total of 206 million kip. The loan period is 8 months, the annual effective interest rate 10%. Principal and interest are paid back in total upon the maturity of the loan
- Cash-crop loans of 100,000 kip for tobacco, beans and corn, amounting to 74 million kip. The loan period is six months, the interest rate 10%. Principal and interest are payable at maturity
- Animal loans of 300,000 kip for pigs, turkeys and chicken, amounting to 5 million kip. The loan period is one year, the interest rate 10%, payable every month. The principal is due upon maturity.
- Buffalo loans of 500,000 kip, amounting to 5 million kip. The loan period is three years, the interest rate 8%. Interest is due monthly, the principal upon maturity.
- Land preparation loans of 500,000 kip, amounting to 10 million kip. The loan period is three years, the interest rate 8%.

In addition, there is one retail credit product offered to individuals at branch level: tractor loans of one million kip each. Twelve loans were granted during the past year in seven villages within the area of the sub-branch, amounting to 12 million kip. The loan period is two years, the interest rate 8% p.a. The principal is to be repaid in semiannual installments; interest payments are due monthly.

All six banks depend heavily on external resources. Overall deposits make up only 22% of total liabilities and capital. With 92%, this proportion is highest in APB. On the whole, deposit facilities are

restricted, deposit collection services none. The total number of depositors reported by the six banks in 1995 is 28,000, or one in every 27 households.

The loan portfolio accounts for about 41% of their assets. The total number of loan accounts (not customers!) reported is about 35,000, or one in every 21 households. There is no reliable information on portfolio quality. Some experts claim that massive defaulting is to be expected in the future. There appears to be little sense of urgency to improve outreach, internal resource mobilization and institutional viability. (Table 7)

Bank training is provided by the Banking Training Centre of BOL, the University and in-house by the private banks. The Centre presently emphasizes the training of trainers. Microfinance and rural banking are not among the fields of training foreseen; nor are there any training services for institutions and programs outside the formal banking sector.

5.2 Semiformal finance

Lao Village Credit Associations (LVCAs): The semiformal financial sector comprises those institutions, programs and projects which are officially recognized but do not fall under the banking law, ranging from credit cooperatives to revolving funds. In Laos, semiformal finance is in an incipient phase, below the stage of actual institution-building. It largely rests on the cooperation of two types of partners: international donor agencies, which may be multilateral, bilateral and nongovernmental, on one side; and the Laos Women's Union, LWU, with its local women's groups on the other side. As a result of this cooperation, some 1650 LVCAs with a focus on women and the poor, have come into existence. They are set up in target villages selected by local government at provincial and district levels in cooperation with the donor. Joint ownership of the LVCAs lies with the village, the government and the donor. They are managed by a village committee and supervised by local government committees together with the donor agency. In most cases, the microfinance activities are in the form of a revolving fund attached to some other, overriding concern, such as health, education and training, or livestock raising. Each program falls under the supervision of the respective ministry in charge.

The Lao Women's Union (LWU): LWU is the official mass organization of women with 650,000 members, which comprises over half of the adult female population. Since 1989, it has addressed the needs of poor women. In recent years it has increasingly focused on households where the roles of women and men are intertwined. Its main fields of concentration are education and training, health and child care, legal rights information, and income-generating activities. Improving access to credit is among its main objectives for the year 2000. Over the last six years, its projects have extended to 3,620 villages in virtually all provinces and districts, amounting to 1.8 billion kip. LWU has a unique delivery structure, extending from national, provincial and district levels, with a staff that numbered 20,000 women in 1990, all the way down, with volunteers in virtually all villages of Laos. All donor-funded women's projects are handled by LWU, which closely cooperates with the various line ministries. LWU is regarded as the best organized and most effective development organization in Laos with the widest delivery network. Major weaknesses are found in the lack of technical skills. In the field of microfinance, there is a severe lack of competence in financial management, intermediation between savers and borrowers, and sound practices. LWH has helped to deliver credit; it has not helped women to mobilize savings and build viable financial institutions at the local level. (Annex 3)

Donor projects: There are over thirteen projects of international NGOs with LVCAs and at least four projects of multilateral organizations, with an outreach to about 14% of all villages in Laos. Total funds disbursed since 1992 amount to over US\$ 6 million. It is estimated that about 80% of this amount was provided by the World Food Program to establish rice banks. The flow of funds is normally from donor

agency to the Government of Lao PDR and from there through local government to the village. The emphasis is mostly on credit, rarely on savings. General loan terms and target beneficiaries are determined through an assessment of the donor agency and local government staff. Beneficiaries may be individuals, groups or communities. The final decisions over loan terms and appraisals of end-users are made by the village committee. Most loans are in the range of approximately US\$10-100. Examples of loan purposes are livestock and looms. Most interest rates range from zero to 30% p.a. The average is around 10%, roughly equivalent to the preferential rates of the state commercial banks. (*Annex 4*)

Box 3: The piggy bank - A microfinance-in-kind institution

Most microfinance institutions promoted by NGOs are revolving funds; and most of the loans are in kind. One of the NGOs, the Quaker Service Laos (QSL), has been working in Laos since 1973. From 1993 onwards it has focused on small-scale irrigation and community development projects. QSL has provided revolving funds for rice mills, rice banks, buffalo banks, pig banks and chicken banks.

The villagers start by setting up a group of some twenty participants. Every member receives a loan valued at 66.000 kip for a pig. The loan period is two years, including a grace period of one year. The interest rate is 8% p.a. Repayment during the second year is in three-monthly instalments. Relying on peer pressure, a new loan is contingent upon full repayment of the old loan. If a member encounters a repayment problem, he brings it before the group which tries to find an acceptable solution: usually by granting an extension.

The microfinance component of most donor projects consists of a rapidly decapitalizing revolving fund for the delivery of preferential credit in cash or kind to beneficiary groups for specific project activities. There are notable exceptions, among them the Sihom Project Saving and Credit Scheme of UNCHS, which includes a substantial savings component; and a project by ZOA (Netherlands) to provide equity for the establishment of so-called village banks in Vientiane Municipality which then mobilize their own resources. The donor-funded excursions into microfinance show considerable courage and promise. However, there is little awareness of sound microfinance principles such as mobilizing your own resources, covering your costs from the margin, ensuring timely repayment, and building a viable institution. There is no financial management training to transmit the required skills; nor is there a monitoring system to generate information on the results of financial operations. Sharing of emerging best practices, capacity and financial institution-building are among the biggest needs.

Building a system of microfinance: With well-designed donor support, LWU might develop the capacity of vitally contributing to the making of a system of microfinance institutions, which build on the traditional roles of women in Laos as prudent microentrepreneurs, conscientious savers and reliable managers of household finances.

5.3 Informal finance

Informal financial institutions do not appear as an important part of the social fabric of Laos. Their place is largely taken by small local networks of reciprocal relations and mutual obligations among *relatives, friends and neighbors*. There is a small number of *moneylenders* who provide microloans at around 20% interest per month. This is supplemented by a very limited volume of supplier credit. Moneylending seems to be a female domain.

Rotating and nonrotating savings and credit associations, which are so widespread in other parts of Asia, are in their incipient stage. Known as *Houey*, *Lin Huey* or *Lin Ngeun*, they seem to be a recent phenomenon emerging in urban market places. The rotation is daily, weekly or monthly, the membership frequently around 30. Examples of contributions found in the field, particularly among traders, are 1000 kip (\$1) per day, 5,000 Baht (\$200) per week and 10,000 Baht (\$400) per month. Fund allocation tends to be through secret bidding. Recipients are compensated for allocations that come late in the cycle through interest payments of the earlier beneficiaries. Given the prominent role played by women in these associations, they may be called the *small businesswoman's self-help bank*.

Box 4: *Lin Huey*

Daily Lin Huey: There may be around thirty participants in a daily ROSCA, each contributing about 1000 kip. The first round goes to the head and organizer; the subsequent allocations are determined by the head of the Lin Huey. Once a participant has received the total amount, he subsequently has to pay an extra 200 kip to each additional recipient of the total amount as a compensation. The amount received thus increases with every round.

Weekly or monthly Lin Huey: Contributions in weekly and monthly Lin Huey, with a life cycle far beyond that of a daily Lin Huey, are made in Baht, the Thai currency, which is considered a hard currency. Contributions per person range from about 5,000 to 10,000 Baht. The head and organizer either receives the first pot; or he gets a share (usually around 5%) of each round. The order of subsequent rounds is determined by secret bidding. The person with the highest bid gets the total, until every participant has received the total once. A bidder who wins a round is obligated to pay his proportional share of that amount in all subsequent rounds as a compensation in all subsequent rounds.

If the experience from other countries can be generalized, great benefit could be derived from increasing the outreach of these institutions, particularly in the microenterprise sector and among women; spreading their best practices; opening up avenues for their upgrading; and providing an adequate form of official recognition.

6. Women in microfinance - a special case?

There are numerous microfinance projects in developing countries where women are largely ignored, particularly in *small farmer development projects*. There are others where they are the sole participants, as in the Grameen Bank and its replications. In Laos, microfinance is in its incipient stage. Neither formal nor informal structures of finance seem to impose restrictions on the future evolution of finance. Everything appears wide-open. Given the cultural setting and the overall economic situation, one may thus rather freely pose such questions as, Do women need financial institutions of their own? Should banks open special windows for women? Should institutions, if owned and managed by women, be restricted to women, or should they be open to male savers and borrowers?

The cultural setting: Women in Laos are in an extreme position: on the one hand, many are illiterate; few have access to modern health care; they have large numbers of children (up to ten on average in

some provinces); they are at high risks at their many deliveries; and nutritional standards are low. On the other hand, they play a prominent role in the household economy, particularly as microentrepreneurs and financial managers; and they are equal before the law. Among the Lao Loum which account for 68% of the population, women are embedded into a matrilineal culture. With inheritance in the female line and residency after marriage within the woman's family, women are ensured of considerable social and economic status, particularly in the framework of the rice-based farming system in the Mekong valley. The division of labor between the sexes is not rigid. In contrast, the Lao Theung and Lao Soung are patrilocal and patrilineal and emphasize male control over the means of production. Women are more confined to household work and microenterprise activities in the house. In all ethnic groups, women tend to be in charge of cash crops and marketing. This reinforces their role as family financiers, a function which they are expected to carry out in harmony with their husband. With modernization, two opposing trends can be observed: in the informal village system, women possess equality if not authority; in public life, however, they are very much left behind, except in the LWU as their own domain. *Men run the country, but women manage the economy and the welfare of the country* (Manivone 1994:7).

Women in the economy: Women play a major role in the economy and tend to have their own economic sphere. They constitute 60% of the labor force in agriculture; between 60% and 73% in handicrafts; 50% each in trade, public health and education; 25% in the public sector; and 20% in industry. 63% of microenterprises are run by women. Over 60% of them are home-based. The average employment size is 1.8 including the owner. On the whole, differences between women's and men's enterprises are not pronounced in Laos, except for a predominance of women in trade and crafts. In agriculture, men are more likely to perform the heavier and women the more tedious tasks. Men are in charge of subsistence production, while women produce the cash crops and sell any surplus on the market.

Box 5: The role of women in microfinance

"Money seldom stays in the pockets of men for long, it has a way of disappearing much more quickly than if it was kept by women. Maybe men like to spend their money on cigarettes and drinks or other types of entertainment whereas women think more about the needs of the family and children." Mr. Bounbung, Village Chief, Xiengkeo Village, Xieng Khouang Province, quoted in UNICEF 1995: 84)

"Women are generally good at financial management and accounting because of their social and economic experience in managing the household finances and the local economy: they are the sellers, buyers, traders, middle-women and entrepreneurs." (Schenk-Sandbergen & Choulamany-Khamphoui 1995: 91)

"Men never take part in Lin Huey (an informal rotating savings and credit association)." (From a conversation on the Morning Market in Vientiane)

Before their formalization nearly all currency exchange shops were owned and managed by women, with daily transactions between US\$ 5-20,000. These women-bankers had access to the formal banking services and, in turn, provided financial services to the public. Sizes of loans granted by these women reportedly ranged from \$500 to \$40,000 at interest rates of 5-7% per month and in some cases up to 5% per week. (Viravong 1994: 8)

When attending a meeting of a loan officer, a proverbially barefoot banker, of the Agricultural Promotion Bank with 82 loan applicants in a small village in Vientiane Province, it was noted that the majority of participants were women; while, according to the records of the sub-branch, 95% of program loans go to male group members in their role as household heads.

Demand for microfinance: In the cultural tradition of Laos money is usually entrusted to women, not men. Women are responsible for cash income and expenditure within the family. As family bankers, they are in charge of saving and the self-financing of microenterprises. They are also in charge of loan repayment, even though men may be the legal borrowers. Women are more reluctant than men to take loans; and they are also more likely to be barred from access to loans. Women's first need is for convenient savings deposit facilities. There is a limited need for small loans with short maturities and regular installments. With the growth of their income-generating activities and their repayment capacity, the demand for loans of increasing size and duration is likely to increase. Combined collection services for savings and loan installments would greatly enhance their financial capacities.

Supply of microfinance: Women form about half the labor force in the expanding banking sector, though mostly in lower positions. Yet they are poorly served by the banks. Banks fail to provide the much-needed deposit facilities and practically exclude women from access to credit in many spheres, including most preferential credit programs. Most currency exchange shops, which until 1994 belonged to the nonformal financial sector, are owned and run by women; they also lend to women entrepreneurs at real market rates of interest, ranging from 5-20% per month. The semiformal financial sector is dominated by women, who form the bulk of the membership of the 1650 Lao Village Credit Associations. With support from numerous donors, most of them were set up through local women's groups under the LWU, which is considered the best organized development organization with the widest delivery network in Laos. What might be emerging here is an infrastructure of women's microfinance institutions, which so far have been administered by a hierarchy of local government and

village committees. In informal finance, women play an almost exclusive role. There is a small number of moneylenders who are mostly women. In the urban microeconomy women have been the financial innovators in recent years, setting up rotating and nonrotating savings and credit associations: *the microbusinesswoman's informal self-help bank*.

Assessment: On the demand side, microfinance in Laos is largely a women's affair. It is women who are in charge of cash crop production and market sales. Women are the family bankers, holding the family purse, doing the saving and repaying any loans. There is a widespread cultural pattern in Laos that money can be entrusted to women, not men.

On the supply side, there is a wide discrepancy in terms of women's involvement between formal and nonformal finance, which are both at the beginning of a phase of rapid expansion. The formal financial institutions, among them the state-owned banks with their preferential credit programs, are run by men and cater to a mainly male market segment. They largely ignore the demand of either men or women for deposit facilities. Their potential for linkages with the emerging groups and institutions in the nonformal financial sector is yet to be explored.

The nonformal financial sector is firmly in women's hands. There is an incipient semiformal financial sector, comprising 1650 Lao Village Credit Associations of mostly women's groups under the LWU, which works closely with government and donor agencies. They are still in a rudimentary state, serving as revolving fund channels for specific program activities. With proper capacity building inputs and the establishment of their own regulatory authority, they might evolve into a network of semiformal local financial intermediaries. Owned and managed by women, they might mobilize their own resource and finance part of their own expansion. The emphasis would thus be on institution-building, not credit-channeling.

Informal finance, comprising moneylenders and a small but growing number of urban savings and credit associations, has been a women's domain. With some assistance, they might spread rapidly as the microbusinesswomen's informal self-help bank. After some improvements in the legal environment, they might eventually be upgraded to the level of credit cooperatives, finance companies or local shareholders' banks. The emphasis would thus be on institution-building and not primarily on bank linkages with the objective of credit channeling.

7. Conclusions and Recommendations

The search for a uniquely Laotian system of microfinance: Every country needs its own system of microfinance, comprising two types of institutions: networks of viable local microfinance institutions with sustainable microsavings, microcredit and microinsurance services for all segments of the population; and national or regional banks, either as retailers with their own competing microfinance services, or as wholesalers providing deposit facilities and access to refinance to local microfinance institutions. Depending on the state of development of a country, such institutions may fall into the formal, semiformal or informal financial sector. Laos, like every other country, has its own cultural, socioeconomic and political background. Therefore, the system of microfinance cannot be simply transferred from abroad; nor is it feasible to directly replicate any project design or approach, no matter how successful it might have been elsewhere.

Limitations and opportunities of microfinance in Laos: Laos is a sparsely populated small country. Its population is dispersed over a large number of tiny villages. Dependency on subsistence agriculture,

poor social and physical infrastructure, lack of market integration and widespread poverty are among the factors that set the *limits* within which the system of microfinance might develop. The role of women as family bankers, a strong sense of solidarity within the community and the traditional practice of participatory decision-making at the grassroots level are among the factors that create *opportunities* for an evolving system of microfinance.

A savings-driven system of microfinance built on solidarity: In this setting, what most people need more than anything else are facilities to accumulate savings in financial and nonfinancial form. They will use these savings to self-finance household needs and income-generating activities, and to provide for social obligations and emergencies. The savings may also be used for small loans within the community. What might emerge here is a savings-driven system of microfinance with basic microsavings, microinsurance and microcredit services. If the cultural traditions of Laos are to be respected, women will play a decisive role in microfinance; decisions over microfinance strategies and institutions will be reached participatively at the local level; and microfinance services will reinforce the existing networks of solidarity. This system can be strengthened from inside and supported from outside; but in the foreseeable future it cannot be supplanted, neither by banks nor by NGO projects.

Creating a demand-oriented policy and legal environment: Within the last ten years, the Government, with support from the Communist party, has taken bold steps to transform the former command economy into a market economy. Retaining its political stability, it abolished price controls in favor of market prices; deregulated trade, foreign exchange and interest rates; created a banking system; provided a new legal framework including a banking law and, more recently, a law for credit cooperatives; tightened the budget and stabilized the national currency. This has created a policy environment for a system of microfinance which is driven by market forces and the demand of the people rather than administrative imposition.

With policy decisions made in a top-down fashion, there have been delays and shortcomings in their implementation at the administrative, institutional and local level. E.g., while lending rates of interest have been freed by the central bank, state banks have hesitated to charge interest rates that cover their costs, resulting in heavy losses, failure to mobilize their own resources and continued dependency on state funding. There are also imperfections in the legal framework, which has yet to offer of full range of forms of legal status for competing microfinance institutions, such as village or shareholding banks and finance companies in addition to credit cooperatives. There is also no system of guidance and supervision for the emerging microfinance projects and institutions.

Box 6: Undermining APB's viability with cheap credit

A sub-branch of the Agricultural Promotion Bank (*see Box 2*) has no benefit from the business relationship with a small farmer like Mr. Sadome (*see Box 1*). As the costs of its loans are far above the revenue earned from interest payments, it loses money with every transaction. At the same time, there is no incentive to raise its own funds, as the costs of mobilizing savings are above the income from loans. One of the results is that the sub-branch cannot afford to offer savings collection services. Instead, it relies on the allocation of government and donor funds through its headoffice. In the end, its services remain restricted. Mr. Sadome does not receive the full range of services he would require, such as savings collection services at doorsteps and access to a range of loans for any profitable investment, while most people in the area have no access whatsoever to banking services. The result: savings go uncollected, loans remain undelivered, investments are missed. The market remains constrained; growth is impeded.

Building a system of viable financial institutions with sustainable services for all: What is needed in Laos is not a myriad of credit-driven projects and programs as they may ultimately prevent the emergence of self-sustained local financial intermediaries. Instead, a system of microfinance needs to be put in place, comprising viable microfinance institutions with sustainable financial services for all segments of the population including the poor. On the basis of our discussions and observations in Laos, we tentatively conclude that such a system might consist of the following components.

(1) Establishing a microfinance section in the central bank:

At the central bank level, BOL might set up a microfinance section with the following tasks:

- establishing a policy dialogue with governmental and nongovernmental agencies, and, with bottom-up participation,
- creating an appropriate policy and legal framework for microfinance;
- introducing sound microfinance practices and microfinance institution-building as a new subject in its training of trainers program, and
- opening its Bank Training Centre to participants from LWU, donor projects and NGOs; finally,
- establishing second-tier regulatory authorities that will be in charge of guidance and supervision of competing networks of microfinance institutions.

(2) Strengthening commercial banks as retailers and wholesalers of microfinance:

The state commercial banks, particularly APB, may play an important but limited role as retailers, and a larger role as wholesalers, of microfinance services. Five strategies may be examined that might greatly enhance their effectiveness:

- *an incentives strategy* geared at institutional viability:
converting branches and sub-branches into profit centers that mobilize their own resources and provide credit at their own risk; with personal incentives to management and staff that optimize their motivation; with business-oriented women in leadership positions; and with incentives to borrowers for timely repayment;
- *a sound banking strategy* geared at the sustainability of financial services:
offering attractive savings products; providing credit products with appropriately short maturities and instalment periods; determining lending rates of interest to cover the costs of each product from the margin; offering microinsurance as part of their resource mobilization and loan protection; offering reciprocal products with a savings, credit and insurance components and tied doorstep collection services;
- *a linkage strategy* geared at microfinance wholesaling and networking:
providing deposit facilities and refinance to self-help groups and nonformal financial institutions; collaborating with local groups and institutions as agents collecting savings and instalments on their behalf;
- *an outreach strategy* geared at economies of scale:
extending the banks' services to women according to their share in the economy; and to more men as heads of households and microentrepreneurs - in each case according to their capacity to save, borrow, invest and repay;
- *a transformation strategy* geared at decentralization:
converting selected sub-branches into autonomous financial institutions owned and managed by local women and men.

In each case, one or several branches or sub-branches may be selected to first test the strategy and then serve as an exposure training site for other branches and institutions. At this

point there is no indication that the private and foreign banks might play a significant role in microfinance.

(3) Establishing a network of women's village banks for all:

The semiformal financial sector in Laos is dominated by women organized in the LWU, which comprises over half the adult female population and disposes of a mobilization and delivery network reaching effectively down into every village. LWU is considered the best-organized development organization in Laos. In close cooperation with donors, government agencies and international NGOs, it has been instrumental in establishing most of the 1,650 existing Lao Village Credit Associations, LVCA. So far the LVCA's have served as revolving funds channels for a variety of program purposes; they have not functioned as financial intermediaries. LWU now faces a double challenge:

- first, of converting the financial activities of its local women's groups into *self-reliant, viable informal financial intermediaries* with sustainable financial services to the community; and,
- second, at a later point in time, of upgrading them to the level of *semiformal financial institutions* with an appropriate legal status.

In this vein, LWU is the only organization that has the potential of spreading a network of autonomous local financial institutions all over Laos. Given its status as an official mass organization, it may also obtain the mandate to vigorously pursue this course. LWU may thus play a crucial role in the emergence of the system of microfinance in Laos. However, LWU is not anything like a financial institution. It completely lacks the required technical competence and financial management skills. A massive capacity-building input would be required to enable LWU to effectively approach this task. Two operational strategies towards this goal may be examined:

- the *establishment of a subsidiary* which would be solely in charge of local financial institution-building;
- and the establishment of close *collaboration with a bilateral association or international network* experienced in the building of local financial institutions and their networks, including the establishment of its own autonomous regulatory authority.

Similarly, the local women's groups lack the expertise of running a financial institution. Three operational steps might be required:

- first, establishing a separate financial institution at the village level, with a membership that differs from that of the women's group;
- second, transferring all financial decision-making authority from the village committee to the management and staff of the financial institution (thus separating the political and community development concerns of the village committee from the institution's concern for its financial viability and sustainability);
- third, training the institution's personnel in financial management.

Given the traditional role of women as family bankers and their prominent place in informal finance, these institutions might, on principle, be entrusted to the ownership and management of local women. Depending on the local situation in terms of solidarity of the sexes within the family and the village community and in terms of sexual labor division, which puts men in charge of subsistence production and women in charge of cash crops and finance, men may be included as owners and managers of the emerging village banks. It is expected that men will have access to these village banks as customers. Within this subsystem of microfinance, the main function of men might be that of facilitators in the national and administrative hierarchy.

Donor contributions to the development of microfinance in Laos may be particularly effective in the following ways:

- as technical assistance for training and capacity-building of LWU, its financial institutions subsidiary and its regional and local institutions;
- as financial assistance in the form of equity contributions (not revolving funds!) to the emerging local financial intermediaries.

(4) Spreading microbusinesswomen's informal self-help banks:

Informal financial institutions are just emerging in Laos. They are mainly of two types: individual moneylenders, found in small numbers throughout the country, and savings and credit associations which are presently spreading in the urban informal economy. Both institutions seem to be firmly in the hands of women. The rotating and nonrotating savings and credit associations have the potential of growing into the *microbusinesswomen's informal self-help bank*. With some technical assistance to increase their outreach and spread their best practices, many women and men in the microenterprise sector may greatly benefit from their financial services. Some form of voluntary registration might pave the way for official recognition, linkages with other financial institutions and, eventually, for the acquisition of an appropriate legal status.

Women - the community bankers of Laos? Outside the formal sector, women play a prominent role in microfinance in Laos. This is based on deeply entrenched cultural traditions: Women are in charge of cash crops and market sales; they finance their own microenterprises; they are the holders of the family purse, do the saving and repay any loans; and they are prominent in the few existing informal financial institutions. Money is entrusted to women, not men. Most adult women in Laos are organized in the LWU, which has the potential of establishing a system of local microfinance institutions throughout the country. All the evidence thus points in one direction: that women have the potential of becoming the country's community bankers, owning and managing the emerging local financial institutions. Within the cultural tradition of harmony and solidarity, the decision is of course left, in each community, to women in dialogue with their men and those in power to decide whether men are accepted among the owners and managers of an institution; that men may deposit their savings there; and at what terms and conditions they may have access to loans.

Shaping the system of microfinance for all: What is presently emerging in Laos is a differentiated system of microfinance: with banks run by men, providing credit to a predominantly male clientele - with the potential of extending their outreach to women; and with small local financial institutions in the hands of women, providing microfinancial services to all segments of the population. It is up to the policymakers and the results of their dialogue with the women and men at the local level to decide which course the system of microfinance is to take in the future.

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Annex 1: Social Indicators, Lao PDR

Indicator	Comparator Years			Earlier	Middle	Latest
1. Demographic						
Annual Average Population Growth (%)	1980-85		1885-95	2.5		2.4
Children (< 15 years) to Total Population (%)		1985	1993		44.2	45.4
Crude Birth Rate (births per 1,000 population)	1970	1985	1994	44	46	43
Crude Death Rate (deaths per 1,000 population)	1970	1985	1994	23	17	15
Total Fertility Rate (average children per woman)	1970	1985	1993	6.1	6.4	6.8 ^c
Age Dependency Ratio (per 100 population)	1960	1985	1994	80.0	93.3	92.7
2. Health and Nutrition						
Life Expectancy at Birth (years)	1982	1987	1992	43.0	48.0	51.0
Female	1982	1987	1992	45.0	50.0	52.5
Male	1982	1987	1992	42.0	47.0	49.5
Infant Mortality Rate (per 1,000 live births)	1970		1993	146		125
Infants with low Birth Weight (% < 2.5 kg.)			1990			18
Under - 5 Mortality Rate	1982		1993	184		182
Malnourished Under - 5s (%)	1984		1994	35		40
Maternal Mortality Rate (per 100,000 live births)			1993			656
Per Capita Daily Calorie Supply			1992			2,259
Population with Access to Health Services (%)		1985-87	1988-93		67	67
Public Health Expenditure (as per cent of GDP)	1960		1990	0.5		1.0
3. Education						
Adult Literacy Rate (%)						
Female	1970		1992	33.0		53.5
Primary School Net Enrollment Ratio (%)	1970		1992	28.0		40.9
Primary School Gross Enrollment Ratio(%)	1980	1990	1993	54.0	64.3	69.9
Female	1980	1990	1993	104.0	104.8	110.4
Secondary School Gross Enrollment Ratio		1990	1993		93.3	97.8
Female	1980	1985	1993	17.7	19.2	23.0
Mean Years of Schooling (age > 25 years)	1980	1985	1993	13.7	16.4	18.2
Female	1980		1992	2.5		2.9
Male	1980		1992	1.9		2.1
Public Expenditure on Education	1980		1992	3.1		3.6
as per cent of GDP						
as per cent of Total Public Expenditure	1988	1990	1994	1.3	1.4	2.2
	1988	1990	1994	4.4	5.9	9.4
4. Socioeconomic and Environment.						
Context						
Per Capita GDP (\$)		1989	1994		179	336
Real Per Capita GDP (PPP\$)	1987	1989	1992	1000	1025	1760
Poverty incidence (% of total population)			1992/93			46.0
Labor Force Participation Rate (% of 16-60 years old)	1985	1990	1992	89.7	91.2	91.5
Female	1985	1990	1992	90.2	92.2	92.6
Unemployment Rate		1985	1992		3.0	3.0
Population Density (persons per km ²)	1980	1985	1995	14	15	19
Population with Access to Safe Water Supply (%)		1985-87	1988-93		21	36
Urban			1988-93		28	54
Rural			1988-93		20	33
Population with Access to Sanitation (%)		1985-87	1988-93		10	21
Urban			1988-93		28	97
Rural			1988-93		6	8
Annual Deforestation Rate (%)			1980-90			0.9

Source: ADB 1996: 41

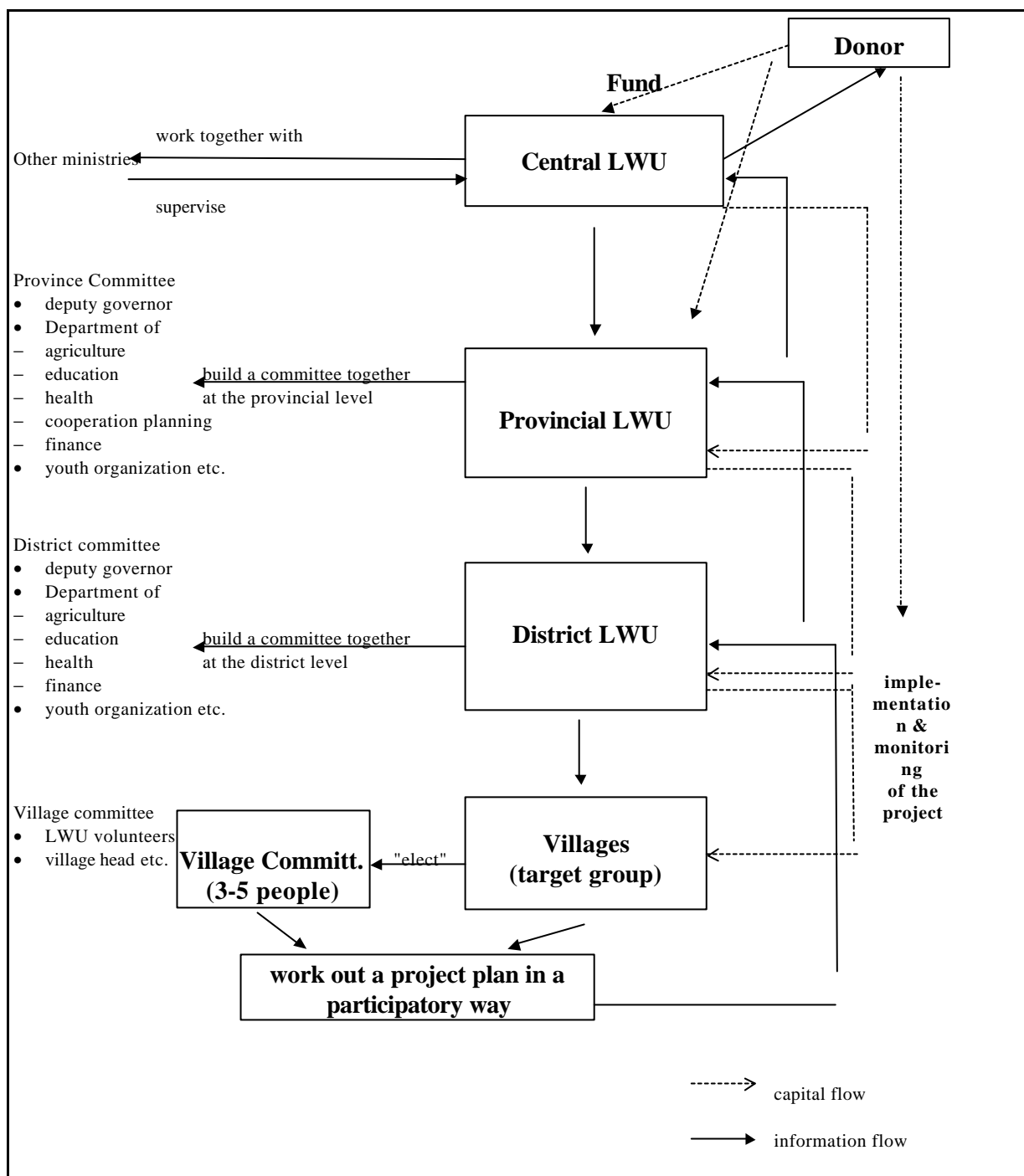
Annex 2: Economic Indicators, Lao PDR

Indicators	1990	1991	1992	1993	1994	1995
Real GDP Growth Rate (in %)	6.7	4.0	7.0	5.9	8.1	7.1
Nominal GDP (in B Kip)	612.7	722.0	844.3	951.0	1,109	1,395.0
Nominal GDP (in M US\$)	851	1,003	1,172	1,321	1,540	1,516
Nominal GDP per capita (in US\$)	200	216	250	290	335	350
Inflation Rate (end-year)	17.7	10.4	6.0	9.0	6.7	25.7
Liquidity (end-year, in B Kip)	46.9	51.3	76.5	125.8	166.0	193.3
Money	27.5	28.2	35.2	52.2	61.3	67.2
Quasi-money	19.4	23.1	41.3	73.6	104.7	126.1
Liquidity Growth (end-year, in %)	14.4	9.4	49.1	64.4	32.0	16.4
Money	9.6	2.5	24.8	48.3	17.4	9.6
Quasi-money	21.2	19.1	78.8	78.2	42.3	20.4
Exchange Rate (end-year, buy., Kip per \$)						
Parallel Market	698	727	720	720	726	936
Official Market	695	711	715	716	718	920
Net Foreign Capital Inflow (in M US\$)	55.8	9.6	56.2	111.5	106.6	203.3
Long-term loans	49.8	35.1	62.1	69.5	55.7	109.2
Short-term loans	-	-33.5	-14.9	-35.8	7.5	10.2
Foreign investment	6.0	8.0	9.0	77.8	43.4	83.9
External Assistance Inflow (in M US\$)	175	132.6	134.0	181.3	188.7	232.5
Long-term loans		47.1	71.1	77.8	64.0	123.2
Grants		85.5	62.9	103.5	124.7	109.3
Foreign Investment Approved (in M US\$)	58	1,586	328	355	2,598	615
Government Expenditure						
(in M US\$)	199.2	209.9	266.8	236.8	359.5	319.6
(in B Kip)	143.4	151.1	192.1	170.5	266.7	294.0
Government Revenue (in B Kip)	61.0	74.7	93.5	113.3	143.6	165.7
Budget Deficit, excluding grants (in B Kip)	82.4	76.4	98.6	72.9	123.1	128.3
As % of GDP	13.4	10.6	11.7	7.7	11.1	9.2
Outstanding Off. Ext. Debt (end-year, M US\$)	1,043	1,078	1,148	1,202	1,393	1,236
Debt Service Ratio ¹ (in %)	10.3	11.2	6.3	4.6	4.5	4.7
Gross International Reserves (end-year, M \$)	64.8	57.2	81.2	150.9	158.2	191.1
BOP Current Deficit (in M US\$)						
Including Official Transfers	78.1	25.0	41.1	42.6	106.3	91.7
Excluding Official Transfers	101.5	110.5	104.0	146.1	231.0	201.0
As % of GDP	11.8	11.0	8.9	11.0	15.0	13.3
Imports (in million US\$)	202	215	265	432	564	587
Export (in million US\$)	79	97	133	240	300	348

¹ Debt service payments as proportion of exports of goods and non-factor services

Source: Reyes 1996: 13

Annex 3: Structure and Project Implementation Strategy of the Lao Women's Union



Annex 4: Outreach of Donor-financed Projects to Lao Village Credit Associations

NGO	Area	No. of villages	Total loans in US\$ '000
<i>Nongovernmental Organizations</i>			
ADRA	Vientiane Municipality	112	325
CARE	Khammouane	500	2,270
	Sayaboury	149	765
CAA	Vientiane Province	14	12
	Saravane	4	1
	Sekong	2	1
Concern	Champassak	4	3
	Bokeo	5	12
	Xieng Khouang	11	3
	Savannakhet	13	3
Consortium	Sayaboury	26	25
	Vientiane Province	15	3
	Luang Prabang	29	49
CUSO	Vientiane Province	2	13
Oxfam Belgium	Savannakhet	4	8
	Xieng Khouang	2	9
MCC	Phongsaly	26	11
QSL	Luang Prabang	n.a.	n.a.
	Oudomsay	n.a.	n.a.
	Xieng Khouang	n.a.	n.a.
SCFA	Bolikhamsai	30 ¹	n.a.
	Sayaboury	51	86
World Concern	Luang Namtha	3	30
World Vision	Champassak	20	n.a.
	Xieng Khouang	6	n.a.
ZOA	Vientiane Municipality	2	5
	Luang Namtha	11	43
	Xieng Khouang	7	11 ²
<i>Multilateral Organizations</i>			
DDS	Saysoboum	14	100
IFAD	Xieng Khouang	n.a.	715
UNCDF	Sayaboury	6	12
	Oudomsay	9	16
UNICEF	Champassak	91	44
	Khammouane	85	64
	Savannakhet	117	42
	Xieng Khouang	92	45
	Houaphan	104	42

Source: UNDP/UNCDF 1996

¹ Data according to the Bolikhamsai IVD Project Jan-June 1996 Report (Draft) of SCFA (1996b).

² The Data for Xieng Khouang are for 1995 (cf. ZOA 1994).