



Rural Finance in Laos

GIZ Experience in Remote Rural Areas

**Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH**

Project

Microfinance in Rural Areas – Access to Finance for the Poor

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ACRONYMS

AFP	Access to Finance for the Poor
BOL	Bank of Lao P.D.R.
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
KIP	Currency of Laos P.D.R.
LDB	Lao Development Bank
NSO	Network Support Organization
PaR	Portfolio at Risk
VB	Village Bank



Introduction: Challenges of Rural Finance in Laos

Laos is primarily an agricultural based society with approximately 80% of the population living in rural areas. The landlocked landscape consists of thick forests, rugged mountains and fast flowing rivers making physical and economic connectivity between communities difficult. Small-scale subsistence agriculture in the countryside accounts for more than 30% of GDP¹ and employs 70% of the population².

In rural upland areas the poverty rate is as high as 43% compared with about 28% in the lowlands³. The World Bank's Global Financial Inclusion Database indicates that a mere 20% of the population in the lower 40% income segment have an account with a formal financial institution.

Accurate data on the supply of pro-poor financial services across the country is still hard to come by even though there has been significant progress. GIZ has published two surveys on all semi-formal and formal providers of microfinance in Laos, the latest one in 2012⁴. The data in the report paints a clear picture of access to finance in rural areas; None of the Deposit-Taking Microfinance Institutions in Laos operate outside of urban areas and only 30% of the small Savings and Credit Unions are located in rural areas. The presence of commercial banks in rural areas is patchy at best. Dominant providers of financial services in rural areas are the semi-formal Village Banks, which play a key role for poor people in rural areas due to lack of

alternatives. The severely limited access to formal financial services for the rural poor remains one of the biggest challenges within the Laotian economy.

In addition to the traditional developing country challenges of poor infrastructure, low levels of financial education and lack of formal markets, Laos is exceptionally ethnically and culturally diverse. A joint study⁵ by the Lao Front for National Construction⁶ and Asian Development Bank identified 160 ethnic groups (42 major ones), which speak a total of 82 distinctly different languages⁷. That combined with the inter-play of various respective spiritual and religious beliefs and the pervasive workings of the "Black Ghost" makes for an extraordinarily demanding operating environment.

This report provides insight into nearly ten years of GIZ's experience in supporting the provision of rural microfinance in remote areas of Laos. The first section of this report describes GIZ's approach to working with Village Banks and Village Bank Network Support Organizations. The second section analyzes household data of GIZ Village Bank clients collected in 2011 and also examines data about the financial inclusion of women. We analyzed the financial decision making process in the village households as well as women's participation in the elected Village Bank Committees. The data gives a unique insight into who our clients are and their financial profiles. This analysis has pivotal implications for financial service providers intending to crack the nut of rural microfinance in Laos.

¹ World Bank Country Indicators - <http://data.worldbank.org/>

² "Challenges and Opportunities for Lao PDR's Small and Medium Forest Enterprises" Report by the Food and Agriculture Organization of the UN 2009.

³ "Rural poverty in Lao P.D.R." UNDP poverty report Feb 2012

⁴ "Microfinance in Lao P.D.R 2012"; GIZ, NERI.

⁵ "Indigenous Peoples Development Planning Document", ADB 2006

⁶ The Lao Front for National Construction (LFNC) is a Laotian popular front founded in 1979, and led by the Lao People's Revolutionary Party. Its task is to organize Laotian mass organizations, including religious affairs and certain ethnic minority affairs as well as other socio-political organizations.

⁷ "Ethnologue: Languages of the World" M. Paul Lewis



Chapter 1: GIZ's Support for Rural Microfinance in Laos

GIZ currently operates the project *Microfinance in Rural Areas - Access to Finance for the Poor* with the Bank of Lao (BoL) as a government counterpart. Its overall objective is to improve the framework for sustainable financial services and access to financial services for poor households and micro, small, and medium enterprises. The current project is a spin-off of a previous rural development project⁸ and has been an independent operation since 2009. The project provides macro-level policy advice to the Bank of Lao and works towards increasing access to financial services in remote rural areas. It does so through an ecosystem of community-managed financial institutions or Village Banks (VB), which are supported by provincial Network Support Organizations (NSO).

1.1 Village Banks

Village Banks are the base of GIZ's rural microfinance ecosystem. Currently GIZ supports 260 Village Banks in 13 districts of the four provinces Sayaboury, Luang Namtha, Savannakhet and Attapeu. The project explicitly focuses on poor districts as defined by the *National Growth and Poverty Eradication Strategy (NGPES)* of the Government of Laos, which identifies 72 of the total 141 districts in the country as poor and 40 out of these 72 districts as very poor.

GIZ's Village Banks are member-based organizations that operate in a specific village with an average of 75 members. Village Banks are authorized by the provincial authorities and recognized by the district village authorities, which gives them a semi-formal status. Members must

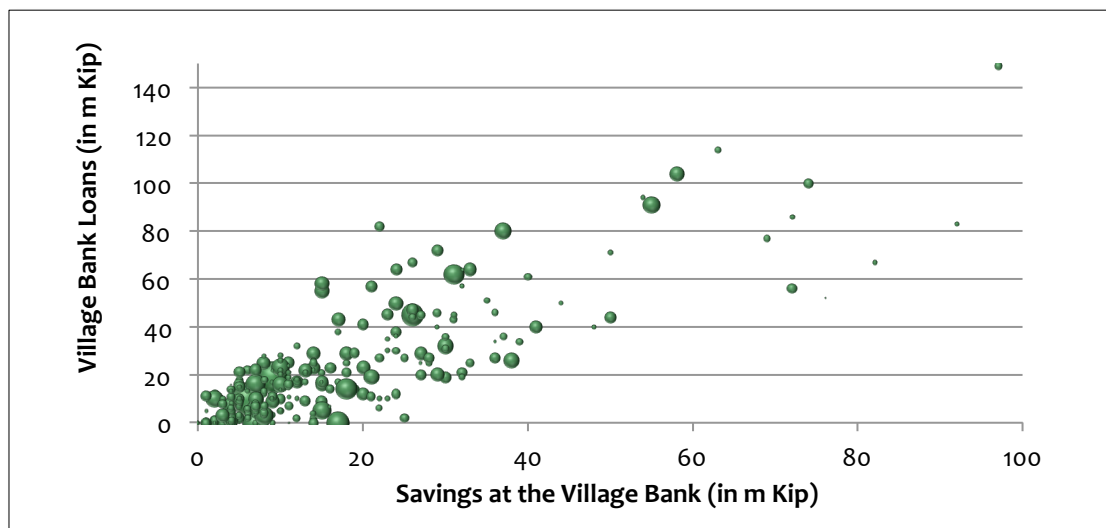
save a compulsory minimum ranging from 2,000 to 10,000 kip every month. Voluntary member savings are usually considerably higher. The saved funds are then used to provide loans to the community for emergencies, consumption, production, and trade activities. Village Banks are semi-autonomously managed. Revenues are generated through interest payments of up to 3% per month, which cover loan-loss provisions and minimal operating expenses. Surplus interest incomes stay in the village and are distributed annually back to Village Bank members. Village Banks conduct transaction days once a month during which members can deposit their savings, make interest payments and payoff loans. The collected liquidity is then used to provide new loans.

An elected committee is responsible for running the Village Banks. Their duties comprise the decision on new credit applications, record keeping, updating of member passbooks, accounting for cash and accounts administration. The committee is remunerated with 15% of the annual net surplus of the Village Bank.

Figure 1 illustrates the distribution of GIZ Village Banks according to total loan portfolio and total accumulated savings. Each bubble represents a Village Bank. Its size indicates the amount of members. The ten biggest Village Banks (with up to 400 million kip in savings and portfolio) did not fit into this graphic.

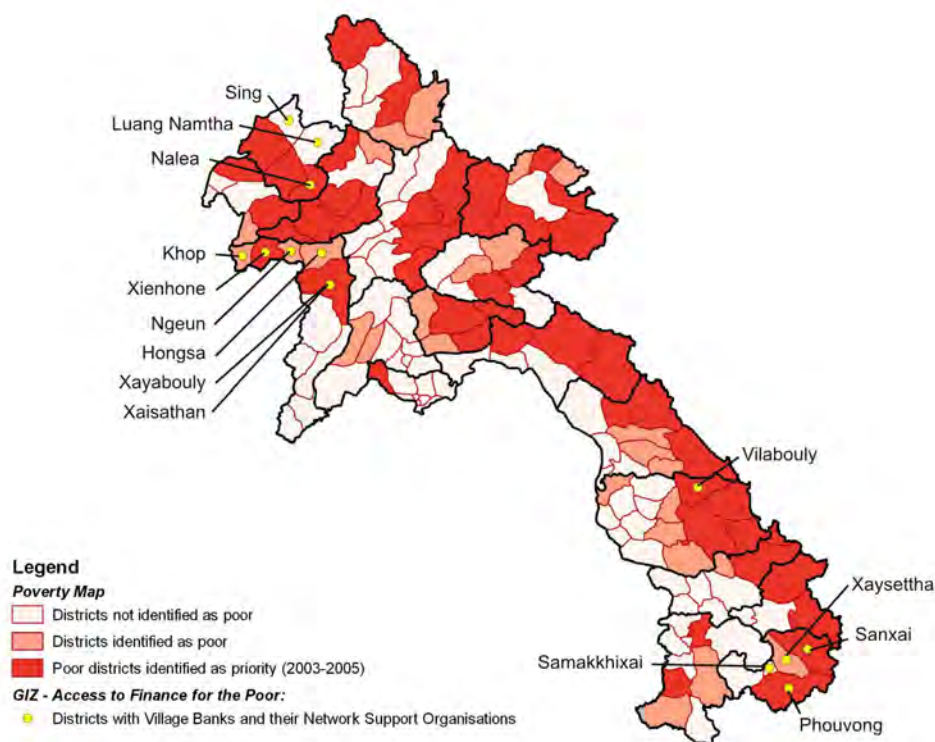
⁸Integrated Rural Development in Mountainous Areas in Laos
PDR

Figure 1 - Savings, Loans and Members of GIZ Village Banks (in millions of KIP)



GIZ supports rural microfinance in six of the poorest districts, namely in Phouvong and Sanxi (Attapeu), Nalae (Luang Namtha), Xienghoun and Saisathan (Sayaboury) and Vilabouly (Savannakhet). Furthermore it serves four of the districts classified as poor, namely Hongsa, Ngeun and Khop (Sayaboury) and Xaisettha (Attapeu). GIZ Village Banks in districts that do not fall under the poverty classification are: Luang Namtha district and Sing (Luang Namtha), Samakhhixai (Attapeu) and Sayaboury district (Sayaboury). Figure 2 illustrates the geographic location of GIZ Village Banks and the poverty rating of the respective districts.

Figure 2 - Poverty Map



1.2 Identifying and Managing Credit Risk in Village Banks

Cultural differences between communities where Village Banks operate cannot be ignored when comparing risk and return of rural credit portfolios. Village Banks are not homogenous enterprises; traditional payback expectations can vary for similar sized loans, although monthly interest rates on loans generally hover around 3%. Village Banks are community managed and sensitivity to ethnic and traditional notions of borrowing and lending must be considered on a case-by-case basis. While some communities distrust the monetary system and shy away from engaging with Village Banks, others are more entrepreneurial.

In 2009 the project started without any reliable data about the PaR of the Village Banks. During the first project phase GIZ introduced a more reliable management information system, which now provides monthly data on the risk of the credit portfolio in every single Village Bank. The consolidated PaR in the relatively new project provinces of Attapeu and Savannakhet lie within an acceptable range. In the provinces of Luang Namtha and Sayaboury PaR is relatively high as Village Banks have been in existence for many years and are not allowed to write-off bad loans. They are kept on the books to set a standard that does not encourage irresponsible loan write-offs. GIZ is committed to bringing down the Portfolio at Risk (PaR) in the more problematic provinces.

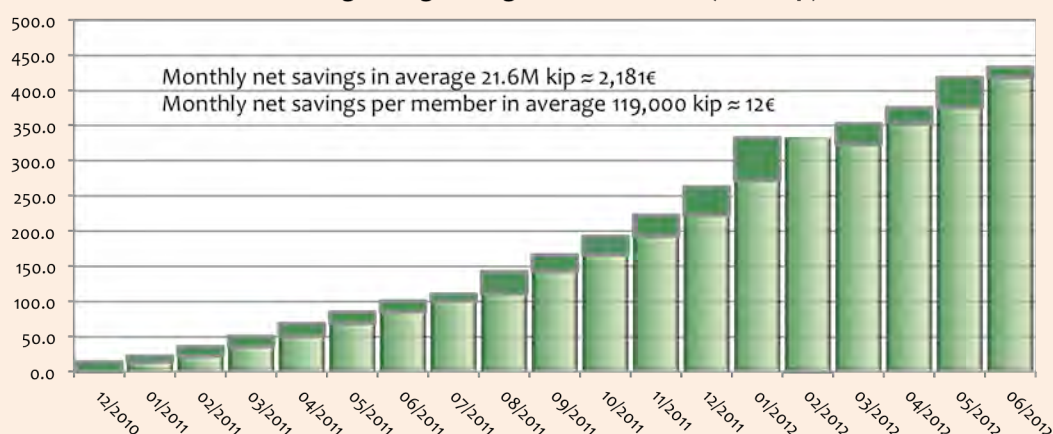


BOX 1

Village Bank Ban Pung in Luang Namtha District

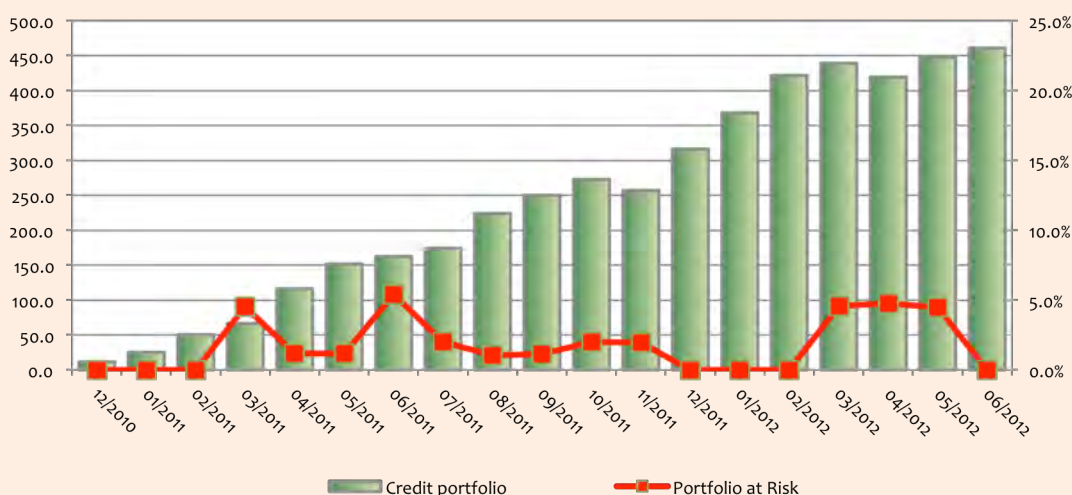
Ban Pung is an example of a well-functioning Village Bank. Its vicinity to the city of Luang Namtha offers access to market and employment opportunities. The Village Bank has 247 members and has been steadily growing since its creation. Average monthly savings per member is 119,000kip (12 EUR). The total accumulated savings so far are 400 million kip (40,000 EUR).

**Net monthly and accumulated savings
Village Pung, Luang Namtha District (in M Kip)**



Additionally, village demand for credit surpasses savings accumulation. The Village Bank has applied for wholesale funding with the NSO in Luang Namtha. The total loan portfolio is 420 million kip. The PaR is consistently well below 5%. In 2011 the Village Bank reported return on assets of 17%, which translated into a net profit of 17 million kip (1,700 EUR).

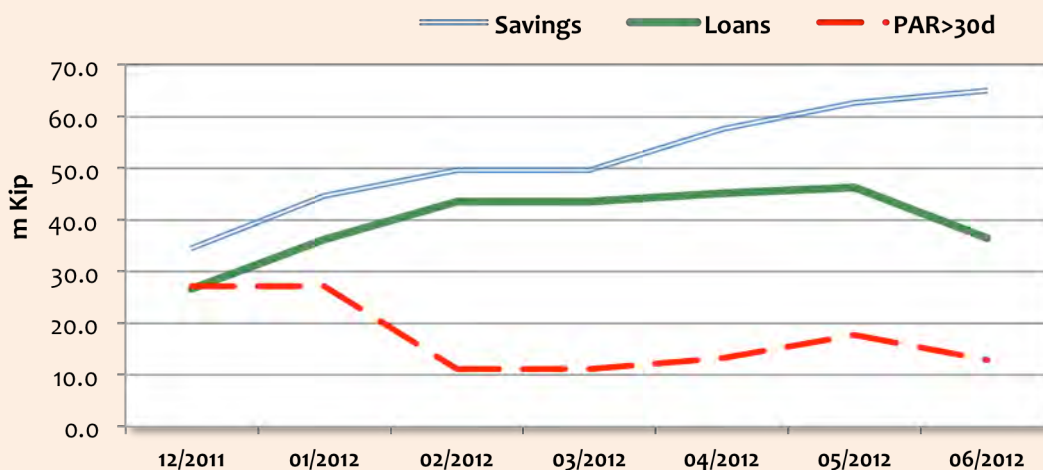
Credit portfolio and Portfolio at Risk (in m KIP)



BOX 2

Village Bank Hadchala in Nalae District

Ban Hadchala is a good example of how to turn around a Village Bank in one of the poorest districts. Ban Hadchala is located in the remote district of Nalae in the Province of Luang Namtha. It consists of 69 families, of whom nearly 80% are members of the Village Bank, which was founded in 2004. During the first six months of 2012 monthly savings per member averaged 95,000kip (9.50 EUR), a substantially large portion of monthly income. Total accumulated savings of the Village Bank equaled 65 million kip (6,500 EUR).

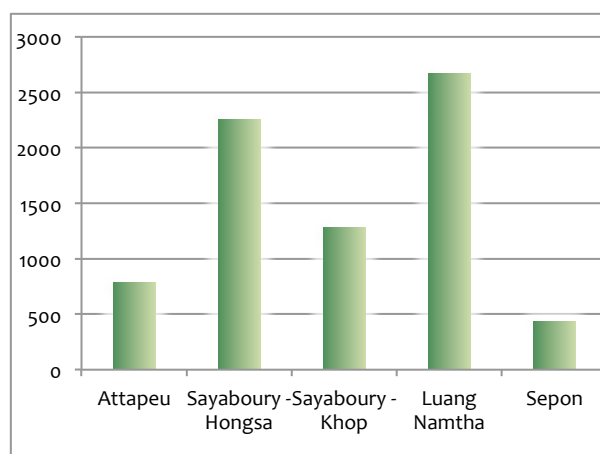


As illustrated on the graph, the Village Bank loan portfolio historically underperformed; at the end of 2011 all loans of the village bank were overdue. However, at an annual meeting held in December of 2011, Village Bank members were able to agree on specific savings targets and a large reduction of the overdue loans was negotiated, improving the PaR significantly. During the six-month period highlighted above, the Village Bank reduced the ratio of problem loans from 100% to about 30% and continues to improve with support from the Luang Namtha Network Support Organization.

1.3 Network Support Organizations

Network Support Organizations (NSOs) provide technical assistance in the form of financial education, book keeping and procedural guidance to Village Banks and also act as financial intermediaries. GIZ presently supports five NSOs in the locations Hongsa (Sayaboury), Khop (Sayaboury), Luang Namtha, Attapeu and Vilabouly (Savannakhet). All NSOs are registered as Non-Deposit Taking Microfinance Institutions by the Bank of Lao and have business licenses to operate as Limited Liability Companies according to Lao Company Law. The five NSOs are at different stages of maturity due to their varying dates of creation.

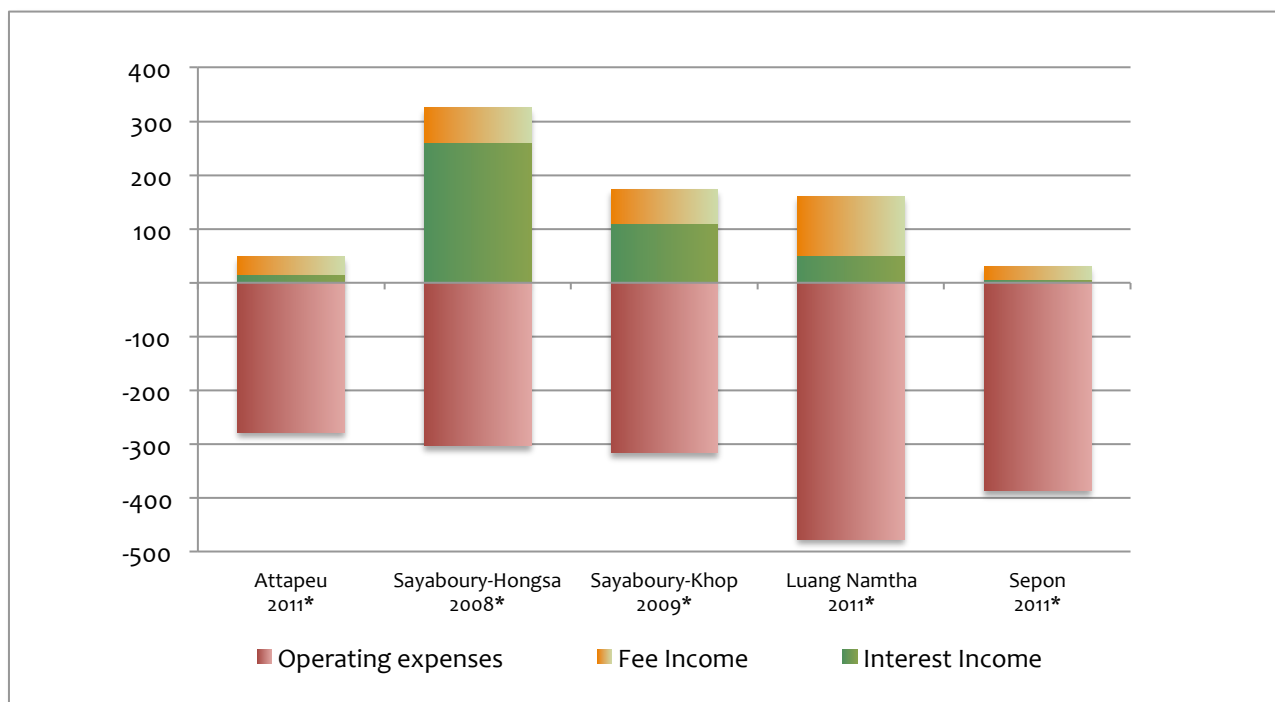
Figure 3 - Loan Portfolio of Village Banks in NSO Service Areas (in millions of Kip)



“With these loan products NSOs generate revenue that will allow them to become financially self-sufficient.”

NSOs charge a fee for their monthly services on the Village Bank transaction day. NSOs have recently started with wholesale lending activities to Village Banks that are in need of more liquidity for their clients. To a lesser extent NSOs provide retail clients with loans that are too big for a Village Bank to handle. With these loan products NSOs generate revenue that will allow them to become financially self-sufficient. The most mature NSO in Hongsa currently reaches operational self-sufficiency.

Figure 4 – Annual Income and Expenses of GIZ NSOs 2012 (in million Kip)



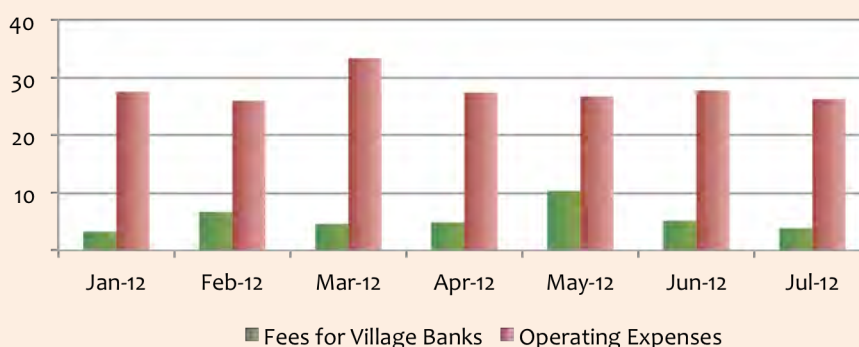
*NSO's year of foundation

BOX 3

Profile of a successful Network Support Organization

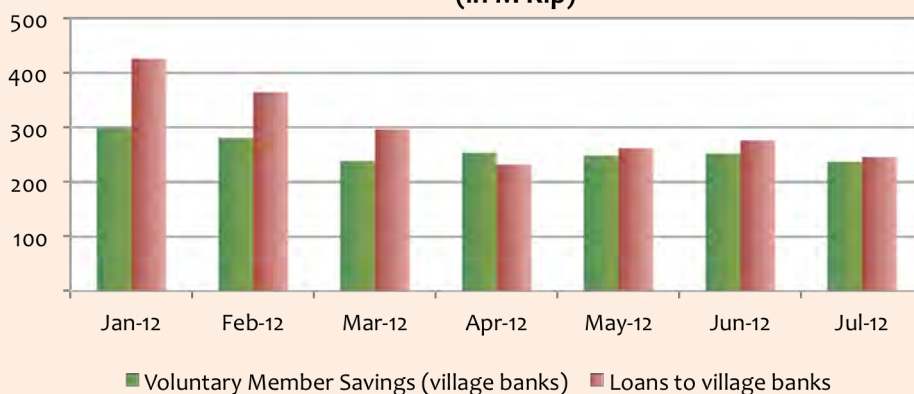
The NSO in Hongsa (in the province of Sayaboury) was founded in 2007. With only six staff it services 45 village banks in 4 districts with nearly 5,000 clients. The respective village banks pay a service fee to the NSO of 0.42% of their outstanding credit portfolio per month. In the following graph you can see collection of the service fees is variable month to month, reasons include varying performance at village banks and different fee payment arrangements, i.e. monthly, semi-annually and annually. For the first 6 months in 2012 service fees collected covered approximately 20% of the total operating expenses of the NSO.

Hongsa NSO Fee Revenue vs Expense (in M Kip)



In addition to technical assistance for the village banks the NSO offers a liquidity management service. Village Banks with a surplus in savings funds can deposit their money with the NSO at an interest rate of 12% per annum. The NSO in turn uses these funds to finance its credit lending activities to other village banks that may be in need of funds. The following chart shows that the Hongsa NSO on average covers 90% of its wholesale lending activity with Village Bank surplus savings. This highlights the healthy relationship between Village Banks and their NSO.

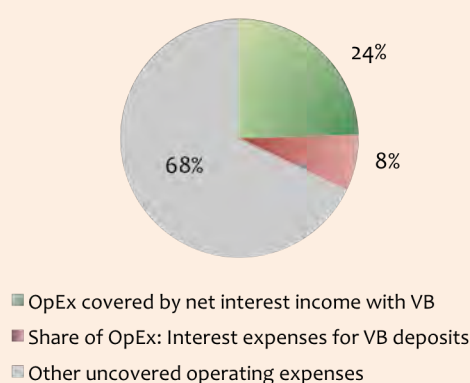
Liquidity Mgmt: Hongsa savings and credit portfolio with VBs (in M Kip)



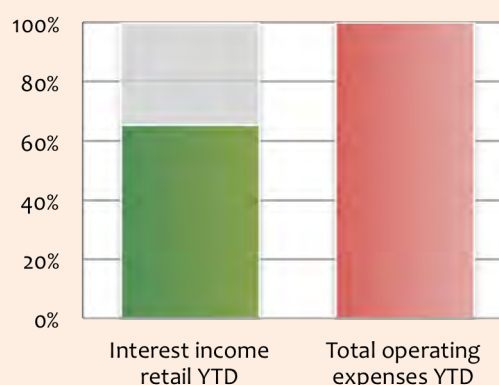
BOX 3 (...continued)

Income from financial services provided to village banks is a crucial backbone of the NSO's strategy towards financial self-sustainability. Gross income from loans to Village Banks currently covers about 32% of the NSOs total operating expenses. After deducting the interest expense paid to Village Banks for use of their surplus funds, the net interest income from these services covers 24% of total operating expenses. The NSO loans wholesale funds to Village Banks at competitive rates so that they can attract clients in the villages. For most Village Banks this is usually the only option to gain additional funds.

Interest Income from Wholesale Loans



Interest Income from Retail Loans

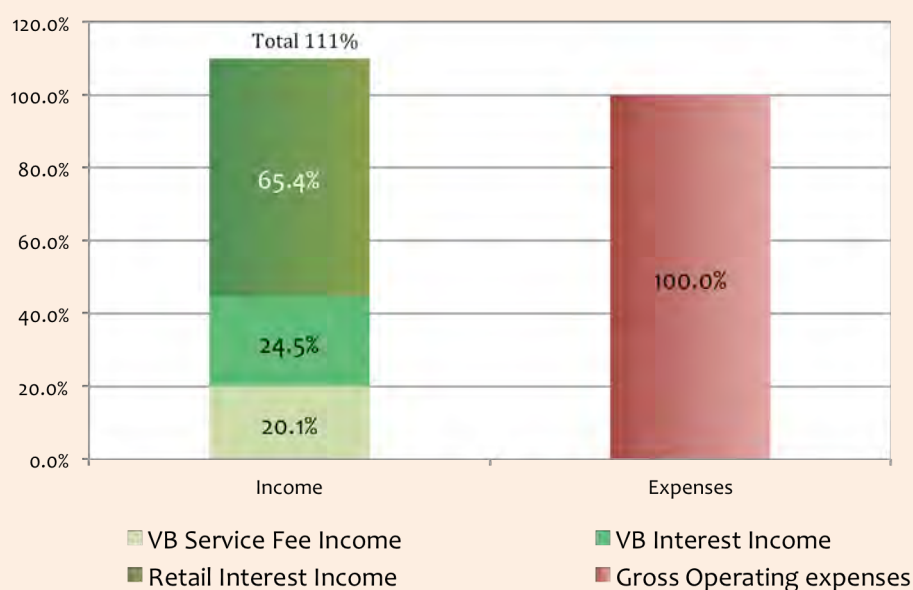


Operations in remote rural areas are costly. In the short-term NSO's are not expected to be able to cover all operational expenses through only technical and financial services to Village Banks. The AFP Project provides a grant to the Hongsa NSO that is used as a revolving credit fund. These funds are used in cases when excess village funds are not enough to satisfy wholesale demand or when retail clients need to borrow amounts that exceed the Village Bank credit ceiling. Additionally, clients that are in urban areas in the province of Sayaboury that are not served by rural Village Banks can borrow directly from the NSO. Retail loans are strategically limited to 30% of the total outstanding credit portfolio to maintain focus on lower income rural clients. The Hongsa NSO operates this retail segment of their activities with notable success. Income from these retail loans covers 65% of total operating expenses. The Portfolio at Risk (PaR) is the one of the lowest (currently around 4%) and the necessary provisioning for potential loan losses is regularly made according to the rules of Bank of Lao PDR (BoL).



BOX 3 (...continued)

Hongsa NSO Total Income vs. Expense



Overall, the Hongsa NSO successfully operates at a sustainability rate of 111% - meaning that it is able to not only cover all of its expenses but also build up reserves. The NSO is committed to set up sustainable long-term operations with affordable products that meet the demand of its clientele and is a model of success for future and current NSOs.

Chapter 2: Demand Assessment of GIZ Village Banks

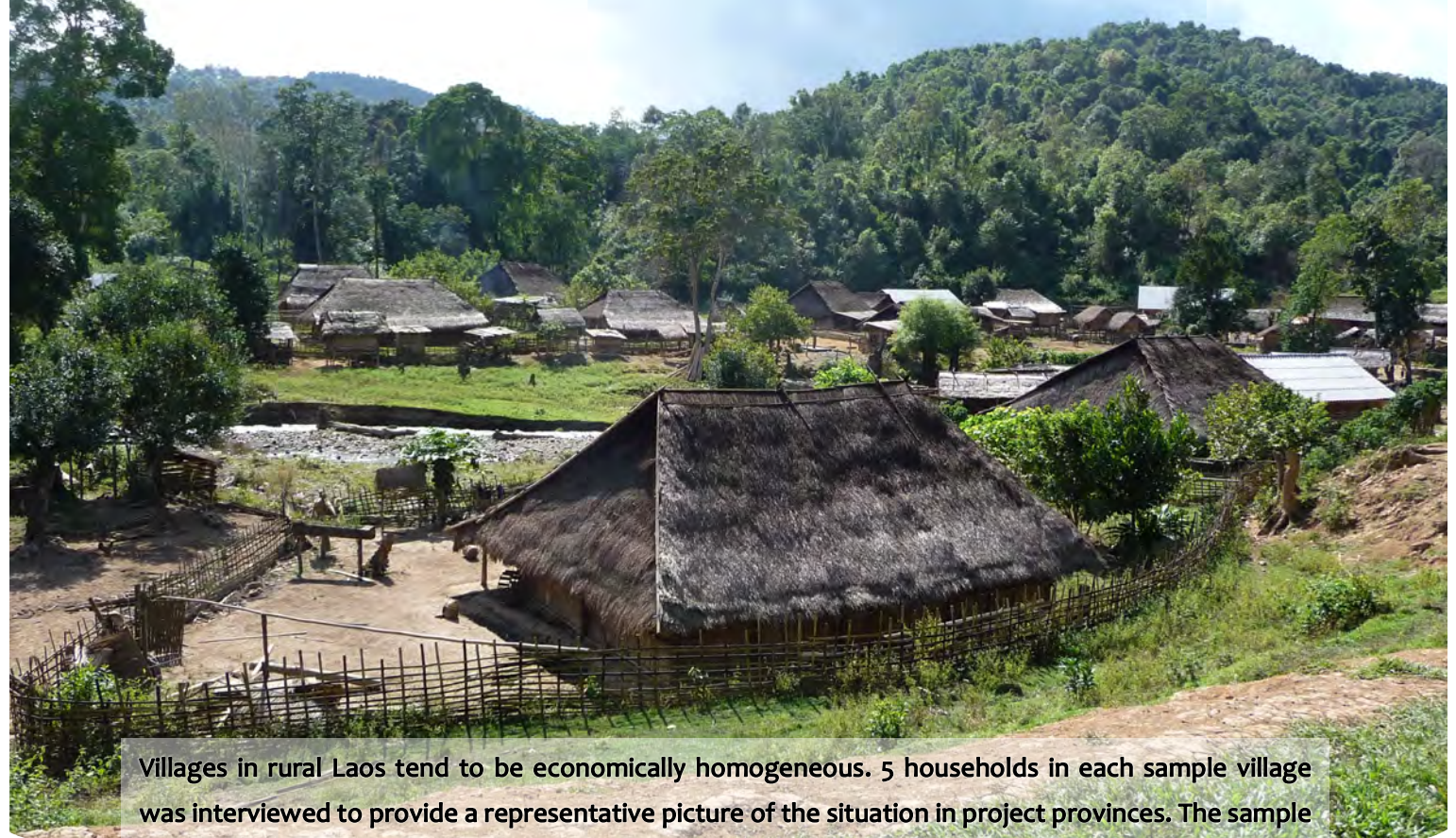
At the end of 2011 GIZ conducted a household survey in the four project provinces. Until then demand for financial services had been assumed by the project. This assessment was an attempt to quantify the demand for savings and credit by collecting more information about the customers of the Village Banks. There were four main reasons to conduct the demand assessment:

- 1) Check on the appropriateness of the current financial products and get ideas for the design of additional products by NSOs and Village Banks.
- 2) Get information on the major problems of Village Banks. (Talking to villagers was an opportunity to learn about their perspective on major issues and problems of their Village Banks).
- 3) Support the business planning of the NSOs. (A well-informed perspective on demand of

villagers and Village Banks is necessary in order to have a reliable basis for the business plans).

- 4) Find out more about gender issues: Interviewing female Village Bank customers and management committee members should nuance our understanding about the economic position of women and how Village Banks could best cater to their specific needs.

The sample comprised a total of 52 villages (between 9 to 14 villages for each NSO) and aimed to represent villages of low, medium and high economic potential. The economic potential was assessed through in-depth uniform interviews with their respective village chiefs and publicly available data by the district government. The sample includes 19 villages with high economic potential, 20 villages with medium economic potential and 13 with low economic potential.



Villages in rural Laos tend to be economically homogeneous. 5 households in each sample village was interviewed to provide a representative picture of the situation in project provinces. The sample focused primarily on Village Bank members, but also included 38 people who were not members of Village Banks, representing potential future clients. All interviews were conducted orally, answers are likely to be approximations or best guesses by the interviewee.

The demand assessment consisted of four different questionnaires: for households, village authorities, female members of Village Banks, and female management committee members of Village Banks. The demand assessment was designed on a household-level basis, since most of the information on current savings, current loans, and current income is usually only available for a household as unit and not on individual level.

The household questionnaire was the most extensive one and included over 150 questions posed to a total of 226 households. The questions covered the following topics:

- a) **General feedback on the Village Bank:** This part investigated benefits and problems that customers have with their Village Bank.
- b) **Income:** The questionnaire asked detailed questions regarding the villagers' finances including amount and sources of income as well as expenses.
- c) **Savings:** These questions researched amount and type of current savings and the potential savings capacity. They also included hypothetical scenarios like a villager's reaction to changing interest rates or their preference for more or less transaction days⁹.
- d) **Credit:** Questions focused on various sources of credit, motivations for choosing the respective source and credit conditions. They also inquired about villagers' investment plans and their expressed demand for credit.

Altogether the survey yielded a total of 39,000 data points. The following chapters attempt to analyze these data points for the benefit of a wide audience. The analysis provides insight into the economic and financial lives of poor people in remote rural areas in Laos.

⁹ Our experience was that it was very difficult to get meaningful responses to hypothetical questions from the target group.

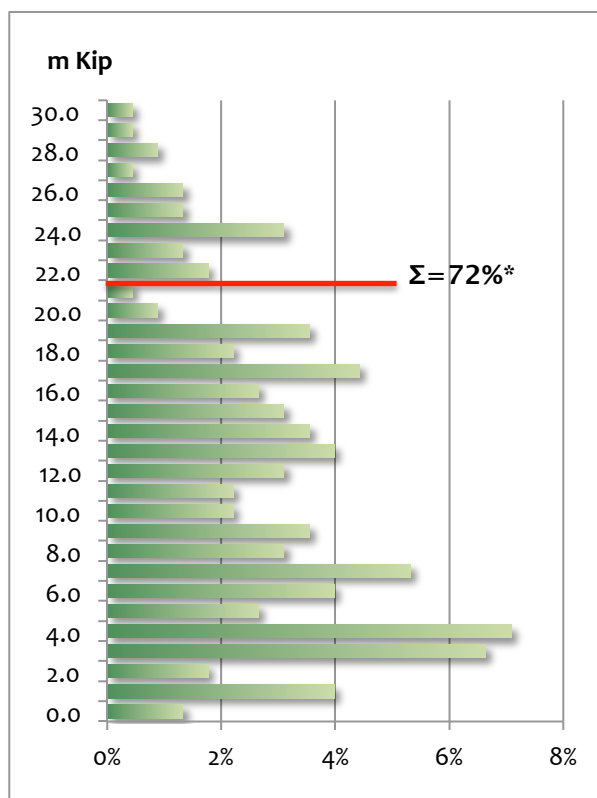


Chapter 3: Income Activities of Rural Clients

3.1 Income and Poverty Level

The household survey shows that the interviewees have an average annual household income of 22.5 m kip (2,250 EUR). Trying to gather income information on an individual level generally makes little sense in rural areas in Laos as families earn their household income communally. Figure 5 below depicts the distribution of all the respondents' household income.

Figure 5 - Distribution of Respondents' Annual Household Income around the Poverty Line



A simple back of the envelope calculation can give insight into the poverty level of our Village Bank clients: On average a woman in Laos has 3.9 children¹⁰, justified by our impression that in rural areas the average may be a bit higher we'll assume conservatively that every household in the survey consists of about two adults and four children, then dividing the average annual household income by six, each person has to live on 3.75m Kip per year or just slightly above 10,000 Kip per day. This comes extremely close to match the poverty line of 1.25 USD (9,950 Kip) per day, which was established by the World Bank's World Development Report in 2009¹¹.

When comparing the annual household income against the World Bank poverty line depicted in figure 5 we see that more than 70% of the respondents (or 162 out of 226) live below the poverty line. We acknowledge that it is controversial and possibly problematic to use this monetary indicator to measure and compare the actual poverty of people, however for our purposes the result indicates that GIZ Village Bank serve the lowest possible end of the market. It is conclusive proof that the project is on track with its mission to provide access to finance for poor people in rural areas of Laos.

* The red line indicates the poverty line of 1.25 USD a day. Note: What is not shown in the graph is that 15% of the respondents earn more than 30m Kip. The maximum earner is 240m Kip.

¹⁰Socio Economic Atlas of Lao PDR (2005), Ministry of Planning and Investment Lao PDR.

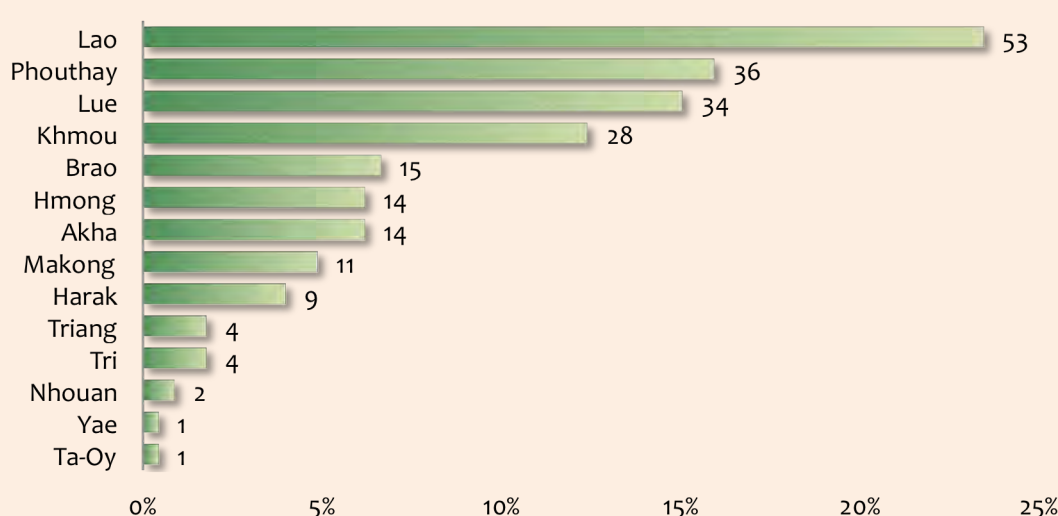
¹¹ Originally the poverty line was defined at 1 USD per day by the "World Development Report: Poverty" by World Bank (1990). In 2009 it was adapted to 1.25 USD per day by the World Bank Development Research Group in "A dollar a day revisited", written by Martin Ravallion, Shaohua Chen, Prem Sangraula

BOX 4

Ethnic Diversity in Rural Laos

Supporting Village Banks in ethnic minority villages is particularly challenging. Many of these villages are situated in the most remote locations throughout Laos and cannot be reached easily. This is aggravated during the rainy season, when travel by road becomes unreliable. Generally remoteness increases the difficulty of reaching markets. Literacy and numeracy skills or general knowledge and experiences with financial systems are often lower than that of the average population. Due to the dominance of subsistence economy, monetary income streams are often low. As a result, many ethnic minorities face considerable disadvantages, which translate into economic marginalization and financial exclusion. Often it is difficult to provide training to these communities because few speak the national language. General education levels are perceived to be lower than in Lao villages and it is harder to find villagers who are able to maintain Village Bank book keeping and governance.

Composition of the Sample with regards to Ethnicity



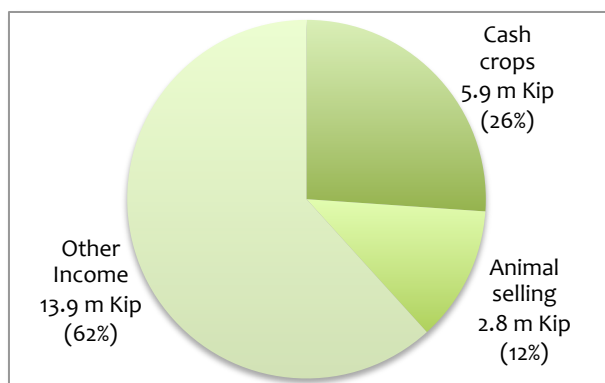
The figure above shows the composition of the household questionnaire with regards to ethnicity. “Lao” is the largest group included in this sample – but they account for less than one quarter of the total. The ethnic “Lao” in the sample also indicates a higher level of urbanization than for other population groups. This is relevant in terms of financial inclusion as a higher level of urbanization facilitates participation in economic processes and increases access to infrastructure such as financial services, education, roads and information and communication technologies.

Almost 80% of GIZ Village Banks serve an ethnicity that is not Lao. As these groups have considerably lower incomes than the nation-wide average, this demonstrates that ethnic minorities are de facto the major targets in GIZ’s mission of providing sustainable financial services for poor strata in rural areas.

3.2 Sources of Villagers Income

The survey included several questions on the source of the interviewees’ income. The graph below depicts the average income sources and amounts of the sample households. 40% of their yearly income is derived from agriculture, namely crops and animals. It is important to note that this data only includes agricultural products that are sold for income generation. It does not, per definition, include subsistence farming for family/individual consumption. Since large parts of the population in rural areas still rely on subsistence farming we can safely assume that total agricultural output by the respondents is significantly higher.

Figure 6 - Sources of Average Annual Household Income



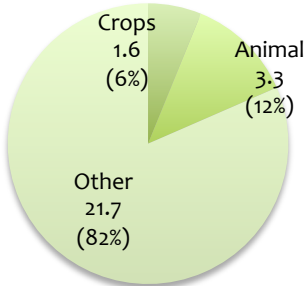
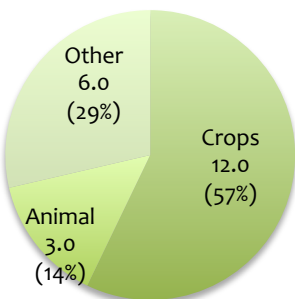
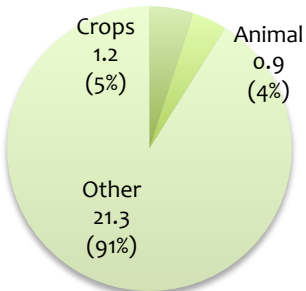
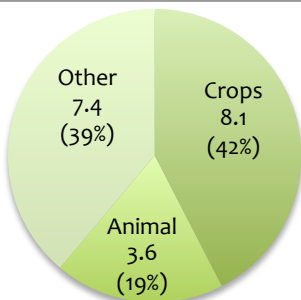
The most popular cash crops reported were rice, sugarcane, job tear, rubber and corn. The most frequently mentioned animals were cows, buffaloes and pigs. “Other income” mostly referred to a salary jobs, short-term work, small-scale trading, and the sale of timber.

Figure 7 shows that the average annual household income did not vary much between our four

provinces. Attapeu has the highest average income with 26.7 million kip, which is roughly a third higher than Sayaboury, the province with the lowest average income. The income sources, however, vary significantly amongst provinces. It is striking that 91% of household incomes in Savannakhet come from activities that are not related to agriculture. The explanation for this extraordinary high figure is that GIZ implements Village Banks for LXML/MMG Gold and Copper mine in Vilabouly district. Most of the villagers there have a salaried job with the mine. In Attapeu household income comes mainly from “Other” sources, including finding and cutting of precious woods (Mai Kha Njoung) from the forest and selling to illegal traders at relatively high prices (other families collect and buy wood from wood cutters, then selling to illegal international traders to gain profit). This activity is not considered part of the formal timber industry in Laos. Attapeu province is also known as ‘the land of gold’. A common activity among many villagers and ethnic minorities is going to mining areas in order to search for remaining gold pieces in the holes dug by mining companies, or wash gold from the rivers.



Figure 7 - Annual Household Income Source by Province

Income Sources (in million Kip)			
Attapeu 		Main Cash Crops: Rice 2% Bean 1% Sugarcane 1%	Main Animals: Cow 4% Pig 3% Buffalo 3%
		Main Other Income: Small Trading 29% Salary 11% Day labor 11%	
		Average Income: 26.7 m KIP The most dominant activities are cutting precious wood (Mai Kha Njoung) from the forest and selling it to illegal (often Vietnamese or Chinese) traders. Many people also engage in manually searching for gold with traditional methods.	
Luang Namtha 		Main Cash Crop: Sugarcane 21% Rubber 16% Rice 11%	Main Animals: Buffalo 7% Pig 2% Poultry 2%
		Main Other Income: Small Trading 9% Remittances 8% Day labor 4%	
		Average Income: 21 m KIP The mild climate in Luang Namtha is favorable for growing cash crops. Sugarcane and rice have been grown for many decades. Rubber tree plantations started 10 years ago and are continuously gaining importance.	
Savannakhet 		Main Cash Crops: Vegetables 4%	Main Animals: Cow 2%
		Main Other Income: Day labor 47% Sale wood 15% Small trading 14%	
		Average Income: 23.4 m KIP GIZ implements Village Banks for LXML/MMG Gold and Copper mine in Vilabouly district. Most of the villagers there have a salaried job with the mine which doesn't leave much time for agricultural activities.	
Sayaboury 		Main Cash Crops: Job tear 21% Corn 10% Rice 9%	Main Animals: Cow 10% Pig 4% Buffalo 4%
		Main Other Income: Sale wood 9% Day labor 6% Transportation 6%	
		Average Income: 19.1 m KIP Sayaboury has the lowest income level of the assessed provinces. It is a large agricultural area with close proximity to Thai markets. The soil is especially fertile here and cash crops such as corn, sesame, job tear can grow very well. There is also notable logging activity here.	

The average household income varies much stronger between districts. Figure 8 below shows the average household income by districts. The highest average household income in the Samakhixai district is more than ten times higher than the lowest average income in the Phouvong district. Interestingly, both districts are located in the province of Attapeu. There is no necessary correlation between the source and amount of income. A strong reliance on cash crops can lead to high income as in Luang Namtha or low income as in the district of Khop.

Figure 8 - Ranking of Average Annual Household Income by Districts (in million Kip)

Rank	District (Province)	Cash Crops		Animal Selling		Other Sources		Total Income
1	Samakixay (Attapeu)	0	(0%)	6.2	(9%)	58.8	(91%)	65.0
2	Hongsa (Sayaboury)	5.8	(15%)	3.2	(9%)	28.5	(76%)	37.5
3	Luang Namtha	18.2	(67%)	1.9	(7%)	7	(26%)	27.0
4	Sing (Luang Namtha)	17.1	(63%)	1	(4%)	8.7	(33%)	26.7
5	Xaysettha (Attapeu)	3.4	(13%)	3.3	(13%)	19.0	(74%)	25.7
6	Vilabouly (Savannakhet)	1.2	(5%)	0.9	(4%)	21.3	(91%)	23.4
7	Xanxay (Attapeu)	0.9	(4%)	3.1	(13%)	19.1	(83%)	23.1
8	Xienghone (Sayaboury)	12.5	(58%)	3.8	(18%)	5.1	(24%)	21.3
9	Sayaboury (Sayaboury)	3.8	(23%)	8.1	(49%)	4.6	(28%)	16.5
10	Ngeune (Sayaboury)	5.3	(34%)	2.1	(14%)	8.3	(52%)	15.8
11	Khop (Sayaboury)	10.2	(78%)	1.3	(10%)	1.5	(12%)	13.0
12	Nalae (Luang Namtha)	2.5	(23%)	5.8	(54%)	2.4	(23%)	10.8
13	Phouvong (Attapeu)	1.1	(19%)	1.5	(25%)	3.4	(56%)	6.0

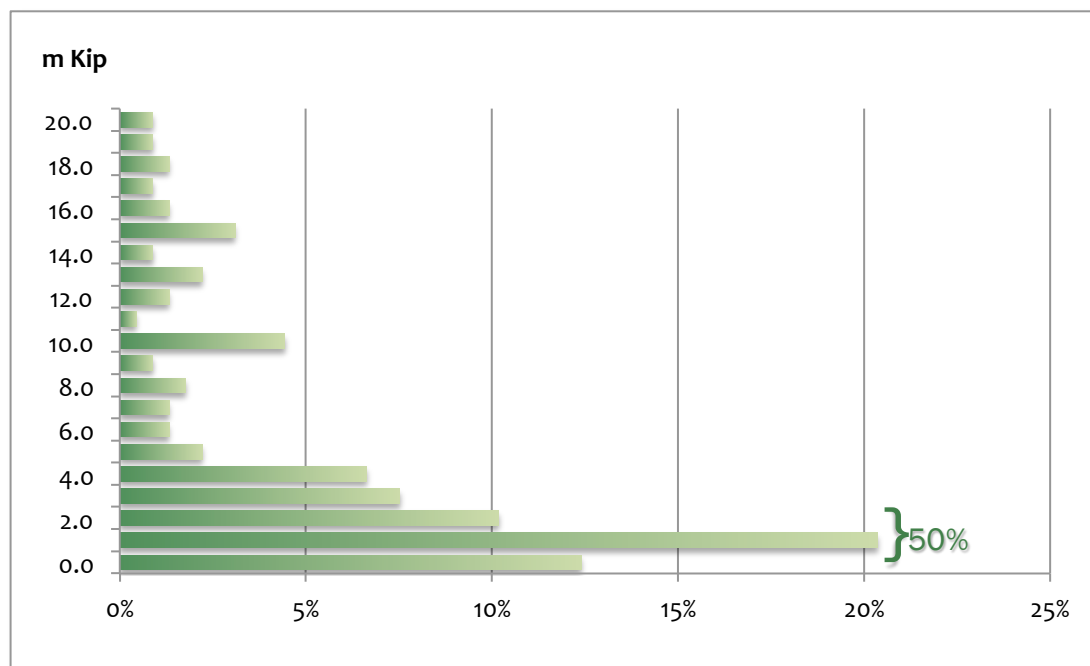
Chapter 4: Financial Assets of Rural Clients

The next section of the questionnaire investigated the accumulation of financial assets. The subsequent data presented on savings refers to savings of households. The average total *accumulated* savings is 18.3m Kip (1,839 EUR), this figure amounts to a bit less than the average *annual* household income. Figure 9 below shows the distribution of household savings of the entire sample of interviewees. The distribution shows a much stronger concentration at the lower savings end than the income distribution in Figure 5. This means that most of the people living in rural Laos actually have less than average savings. The top 10% of the respondents account for 2/3 of all savings (incidentally, this is very similar to the wealth distribution in Germany¹²).

It is striking to see that 50% of the households surveyed have savings of less than 3.5m Kip (350 EUR). This once more confirms that GIZ is reaching the very poorest in rural Laos.

¹² German Institute for Economic Research (DIW, 2007): SOEP-Papers on Multidisciplinary Panel Data, Research 19, „Zur Erfassung von Einkommen und Vermögen in Haushaltssurveys: Hocheinkommensstichprobe und Vermögensbilanz im SOEP“, Joachim R. Frick, Jan Goebel, Markus M. Grabka, Olaf Groh-Samberg, Gert G. Wagner

Figure 9 - Distribution of Total Accumulated Household Savings at Lower-End



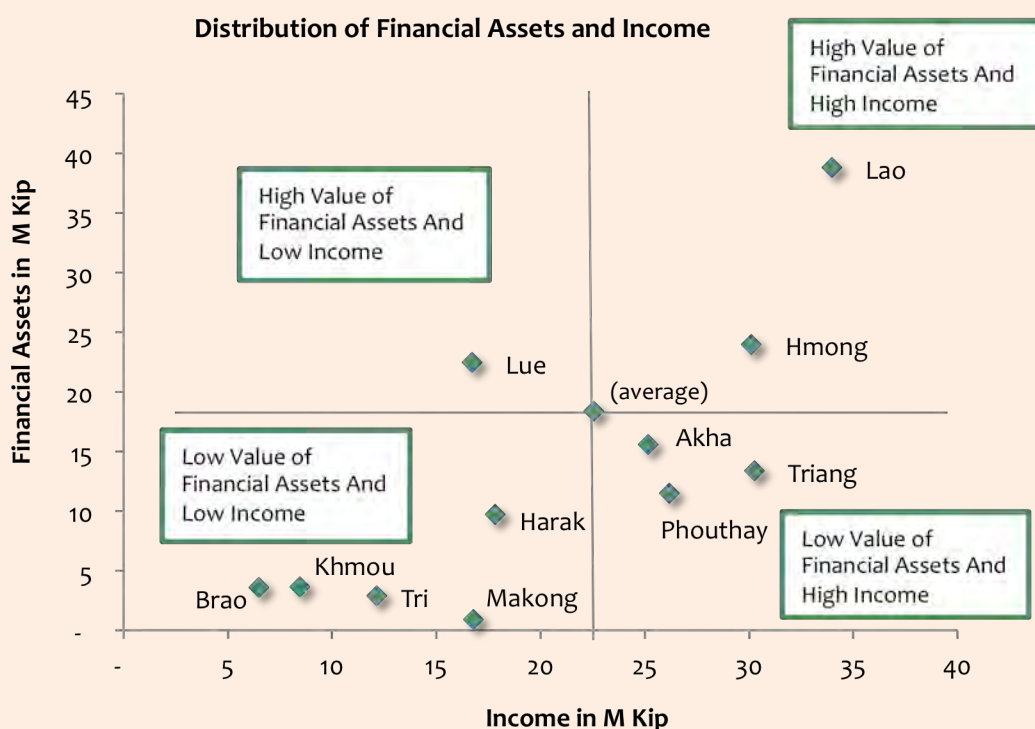
“It is striking to see that 50% of the households surveyed have savings of less than 3.5m Kip (350 EUR). This once more confirms that GIZ is reaching the very poorest in rural Laos.”



BOX 5

Ethnicity, Income and Accumulation of Financial Assets

When analyzing annual income and financial assets by ethnicity, the distinguished position of ethnic Lao becomes even more visible: they accumulate more than 35% of the combined total income from all population groups in our sample. On average, ethnic Lao annual income is more than five times higher than that of Brao and three times higher than that of the combined three ethnic groups at the bottom end of the scale – the Lue, Khmou, and Brao. This reflects the primary source of economic activity for non-Lao ethnic populations, which is subsistence agriculture.



Plotting the financial wealth of different population groups in the figure above illustrates that the major share of wealth is concentrated among three ethnicities: Ethnic Lao, Hmong and Lue. Ethnic Lao alone account for more than half of the sample's total accumulated financial assets.

4.1 Forms of Savings

Analysis of asset data provides insight into where and how villagers keep their savings. Figure 10 gives an overview of how the average survey respondent keeps their household savings. There is no doubt that the formal financial system has not yet fully permeated rural Laos with sufficient savings options. Many villages in Laos are located in isolated areas often several hours drive from the nearest banking institution. On average only 5% of savings are ever deposited into a bank.

95% of all savings are kept informally. Amongst the informal choices cash is still king making up 43% of household savings. Gold and silver take second and third place with 33% and 14% respectively. Precious metals have relatively stable value and have a particular importance for some ethnic minorities, who keep part of their savings in traditional jewelry.

Figure 10 - Average Household Savings by Source

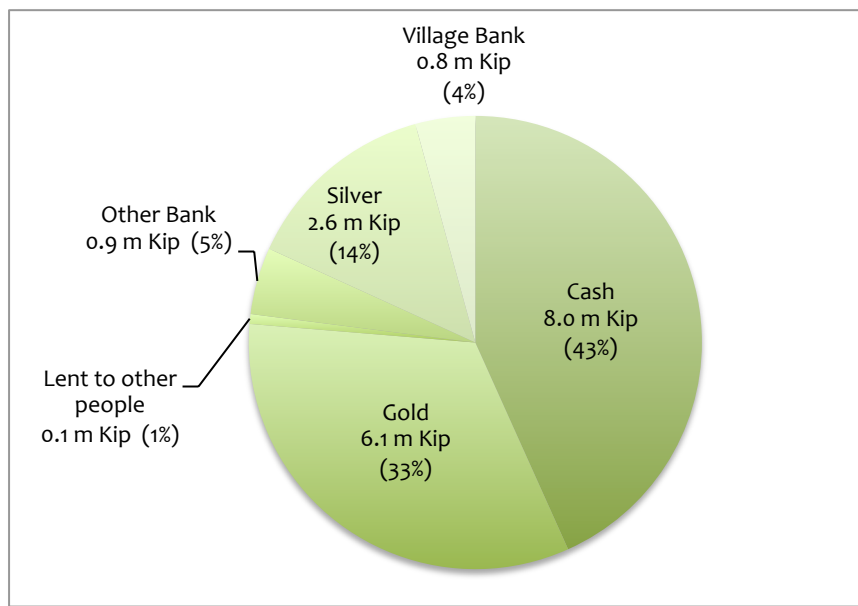
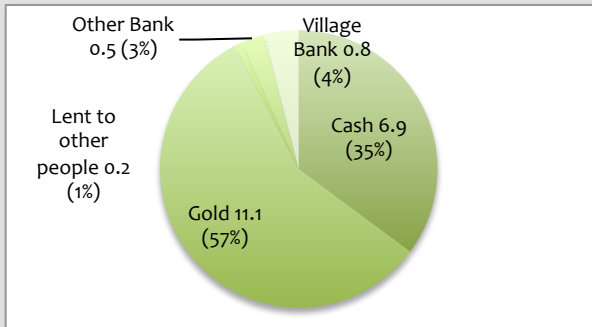
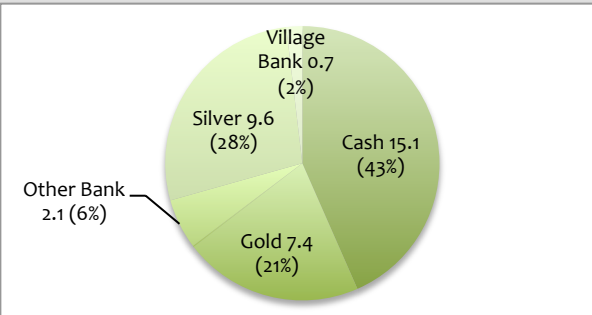
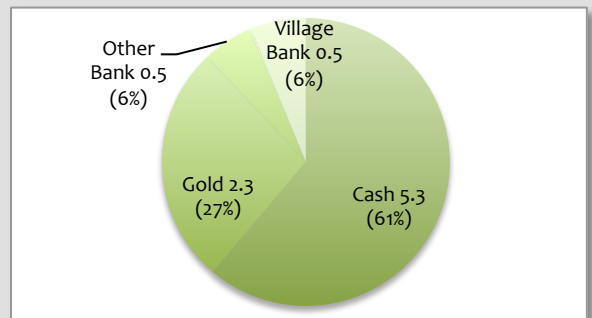
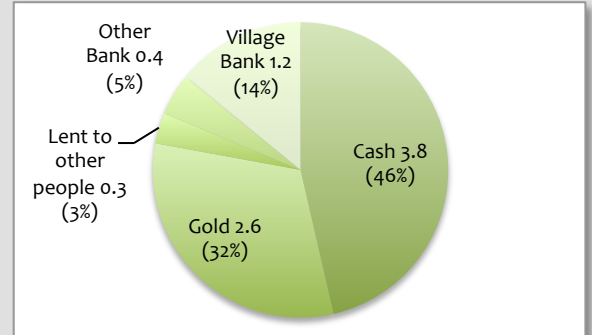


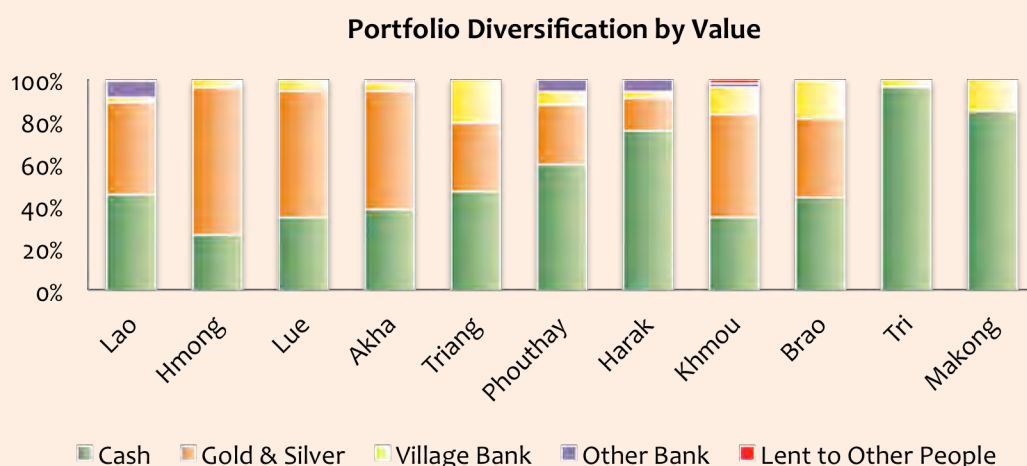
Figure 11 - Average Household Savings by Source and Province

Attapeu <table><tr><th>Source</th><th>Amount (m Kip)</th><th>Percentage</th></tr><tr><td>Gold</td><td>11.1</td><td>57%</td></tr><tr><td>Cash</td><td>6.9</td><td>35%</td></tr><tr><td>Village Bank</td><td>0.8</td><td>4%</td></tr><tr><td>Other Bank</td><td>0.5</td><td>3%</td></tr><tr><td>Lent to other people</td><td>0.2</td><td>1%</td></tr></table>	Source	Amount (m Kip)	Percentage	Gold	11.1	57%	Cash	6.9	35%	Village Bank	0.8	4%	Other Bank	0.5	3%	Lent to other people	0.2	1%	Average Savings per Household are 19.5 m Kip Due to the large amount of gold prospecting from the rivers (e.g. Xekong) and closed mines much of the Attapeu respondents' earnings and savings are often in the form of gold.
Source	Amount (m Kip)	Percentage																	
Gold	11.1	57%																	
Cash	6.9	35%																	
Village Bank	0.8	4%																	
Other Bank	0.5	3%																	
Lent to other people	0.2	1%																	
Luang Namtha <table><tr><th>Source</th><th>Amount (m Kip)</th><th>Percentage</th></tr><tr><td>Cash</td><td>15.1</td><td>43%</td></tr><tr><td>Silver</td><td>9.6</td><td>28%</td></tr><tr><td>Gold</td><td>7.4</td><td>21%</td></tr><tr><td>Other Bank</td><td>2.1</td><td>6%</td></tr><tr><td>Village Bank</td><td>0.7</td><td>2%</td></tr></table>	Source	Amount (m Kip)	Percentage	Cash	15.1	43%	Silver	9.6	28%	Gold	7.4	21%	Other Bank	2.1	6%	Village Bank	0.7	2%	Average Savings per Household are 34.9 m Kip The very high savings in Silver can be explained by habit of the Akha and Khmou to save in Silver, e.g. in the district of Nalae (mainly Khmu) 64% of savings are invested in silver jewelry. The relatively high amount of savings can be explained by higher savings ability of the Non-Poor-Districts Luang Namtha (69 m Kip) and Muang Sing (29 m Kip).
Source	Amount (m Kip)	Percentage																	
Cash	15.1	43%																	
Silver	9.6	28%																	
Gold	7.4	21%																	
Other Bank	2.1	6%																	
Village Bank	0.7	2%																	
Savannakhet <table><tr><th>Source</th><th>Amount (m Kip)</th><th>Percentage</th></tr><tr><td>Cash</td><td>5.3</td><td>61%</td></tr><tr><td>Gold</td><td>2.3</td><td>27%</td></tr><tr><td>Other Bank</td><td>0.5</td><td>6%</td></tr><tr><td>Village Bank</td><td>0.5</td><td>6%</td></tr></table>	Source	Amount (m Kip)	Percentage	Cash	5.3	61%	Gold	2.3	27%	Other Bank	0.5	6%	Village Bank	0.5	6%	Average Savings per Household are 8.7 m Kip The prevalence of cash in this province is largely due to the MMG mining company where a majority of respondents earn all their income from salary jobs.			
Source	Amount (m Kip)	Percentage																	
Cash	5.3	61%																	
Gold	2.3	27%																	
Other Bank	0.5	6%																	
Village Bank	0.5	6%																	
Sayaboury <table><tr><th>Source</th><th>Amount (m Kip)</th><th>Percentage</th></tr><tr><td>Cash</td><td>3.8</td><td>46%</td></tr><tr><td>Gold</td><td>2.6</td><td>32%</td></tr><tr><td>Village Bank</td><td>1.2</td><td>14%</td></tr><tr><td>Other Bank</td><td>0.4</td><td>5%</td></tr><tr><td>Lent to other people</td><td>0.3</td><td>3%</td></tr></table>	Source	Amount (m Kip)	Percentage	Cash	3.8	46%	Gold	2.6	32%	Village Bank	1.2	14%	Other Bank	0.4	5%	Lent to other people	0.3	3%	Average Savings per Household are 8.2 m Kip Sayaboury, being one of the poorest provinces has the lowest overall savings, but due to the longer history of Village Bank implementation, a larger share of savings are held at local Village Banks.
Source	Amount (m Kip)	Percentage																	
Cash	3.8	46%																	
Gold	2.6	32%																	
Village Bank	1.2	14%																	
Other Bank	0.4	5%																	
Lent to other people	0.3	3%																	

BOX 6

Forms of Savings by Ethnicity

An interesting aspect concerning financial inclusion becomes visible when examining portfolio diversification; overall, the sample demonstrates how little most ethnicities use financial service providers: they rely strongly on traditional ways for accumulating financial wealth. In general, there is a strong focus on maintaining wealth at home, primarily in the form of gold and silver and cash in hand.



The main reason for maintaining precious metals as the dominant way of keeping financial assets is the cultural traditions inherited by different population groups. Thus, gold and silver could be considered financial assets of last resort as they represent cultural artifacts and family heirlooms to which strong emotions are attached. Historically a very large emphasis on gold and silver exists among Akha, Khmu, Hmong, Ta-oy and Lue. It is remarkable that only three population groups do not possess any gold or silver assets, namely the Nhouan, Tri and Makong. Those three ethnicities also belong to the population groups with the lowest rates of annual income to accumulated assets.

Despite the attraction of earning dividends in Village Banks, all population groups favor the possession of financial liquidity in the form of cash. However, relatively high parts of accumulated wealth are deposited by the Triang (21%), Nhouan (17%), Brao (18%), Makong (15%), and Khmou (13%). The three latter ones are the poorest population groups in the sample. In other words, Village Banks are well accepted and used by relatively large parts of the sample but absolute amounts deposited, and overall financial assets possessed, are often simply very small. The fact that Village Banks are particularly popular for the poorest groups supports the mission of GIZ's access to finance for the poor.

4.2 Willingness to Save

Analysis of the questionnaire showed that only 4% of the respondents keep their savings in local Village Banks. This was somewhat surprising since Village Banks are generally convenient to the villagers surveyed and offer dividends on savings. Respondents also indicated in the survey that for the most part they trust the Village Banks. Only 7% of the villagers said they were “afraid” of losing their deposits at a Village Banks and 8% were “a little afraid”.

On average, villagers that keep deposits at Village Banks only keep about 10% of their total cash savings there, the rest is generally kept at home. A few responses mentioned that some people don't want to save in the village bank because they don't want anyone to know how much money they have and how much they save.

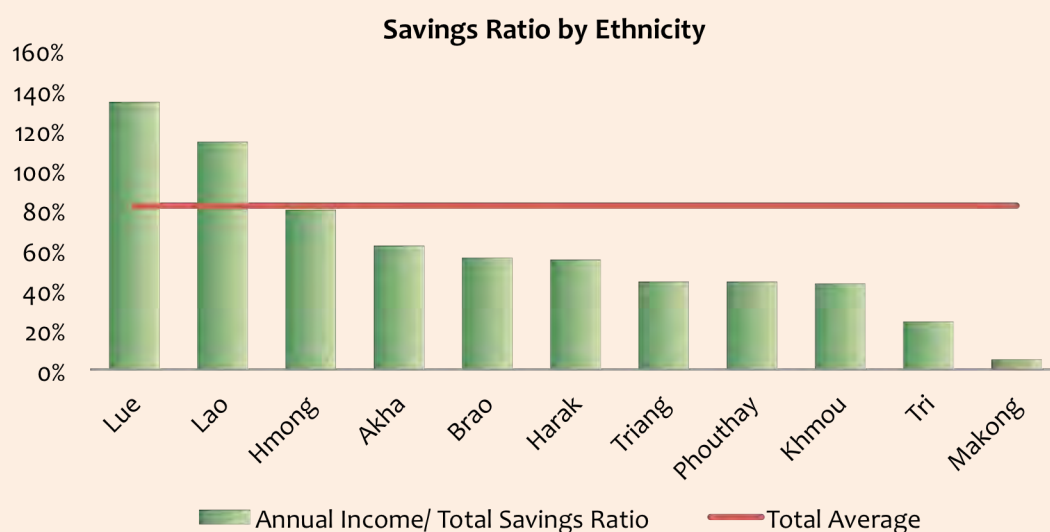
This analysis has revealed that there is a large potential of untapped cash savings in rural villages. While it makes little sense for Village Banks to compete with savings in gold and silver, Village Banks must find ways to attract more of the cash savings of their customers into their system. GIZ is currently preparing a savings mobilization campaign in tandem with additional activities in the area of financial literacy to increase the share village banks capture of total savings.

BOX 7

How Ethnic Groups Save

Higher incomes positively correlate with the accumulation of financial assets: when individuals do not have to focus on vital necessities such as food and shelter, larger shares of income are freed and can be saved. This can be observed when looking at the absolute savings of the different ethnic groups: the ethnic Lao and Hmong, who are among the population groups with the highest annual average income, have also accumulated the highest wealth in financial assets. On the other end, the Makong, Khmou and Brao – all of them earning well below the sample's average income – have very little financial reserves available: they represent almost one quarter of the sample but possess only 4% of accumulated wealth.

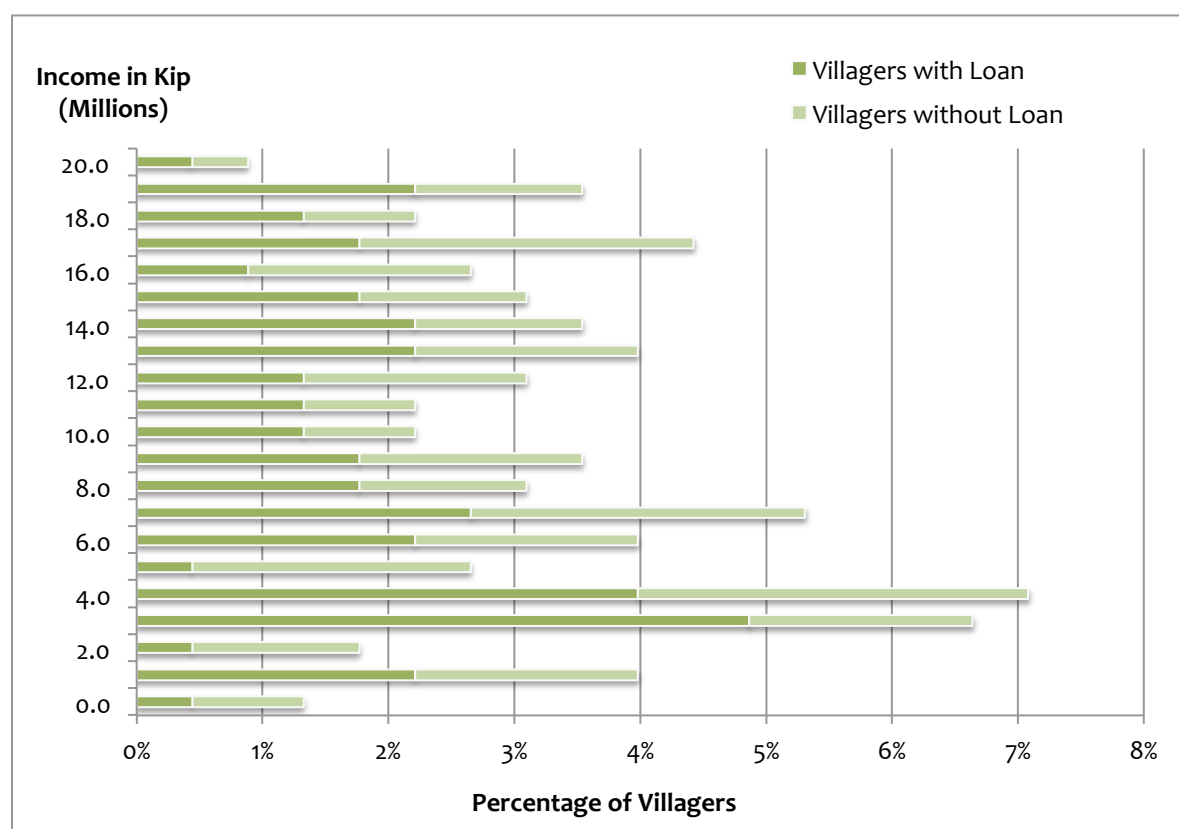
However, annual-income levels are not the sole explanation for the accumulation of financial assets. Some population groups seem to be more prone to save, as expressed in the ratio of annual income and accumulated financial assets shown in the figure below. For example, the Lue annual income remains about 25% below the average but accumulated wealth stands about 22% over the sample's average. While ethnic Lao have also accumulated relatively high values of financial wealth, other high-income earners – such as Akha, Phouthay or Nhouan – possess less than the average. Last ranked are Makong, both in terms of absolute financial-asset value and relatively to income. Although earning almost 2.5 times more than the Brao (who represent the lowest income-earners), their accumulated financial wealth remains very low.



Chapter 5: Financial Liabilities of Rural Clients

This section will analyze the credit part of the survey. Who actually can get a loan? What are the sources of credit? What loan amounts are available to villagers?

Figure 12 - Distribution of Average Annual Household Income and Credit below the Poverty Line



Of the total 226 respondents, 114 claimed to have debt. Some of them had loans with different sources at the same time. The 114 villagers report to have taken 143 different loans from various sources.

Village Banks currently serve the majority of respondents' credit demand. Other sources noted were informal borrowing from family members (around 15% of respondents), and loans from the state-owned Nayoby Bank (also around 15%). Only 8% of the borrowers in the villages have a loan from the Agriculture Promotion Bank (APB). Other sources, of which we have only a few data points, are traders and the Lao Development Bank (LDB), which are not accessed so often.

The overall average indebtedness per person is 6.5 m Kip. 80% of the villagers have a loan (or loans) of less than 7.5 m Kip, which underlines that this is truly in the realm of microfinance. It is interesting to see, that the villagers having two or more loans have a total indebtedness of 7.0 m Kip, which is only slightly above the overall average.

Figures 13 and 14 below show a breakdown of the respondents' credit sources and loan amounts. Although not indicated by absolute values of credit provided, the most important source of credit for rural clients is the village bank. The reason for village banks' small share of overall credit outstanding is that loans provided are significantly smaller than from competitors, however in terms of number of loans, the four provinces in which GIZ operates village banks represent the largest source of credit for all ethnic minorities across the board in rural areas. Furthermore, the small loans provided by village funds are supported by GIZ's focus on poor strata in rural areas, and the specific design of a community-managed approach.

Figure 13 –Respondents' Credit Sources

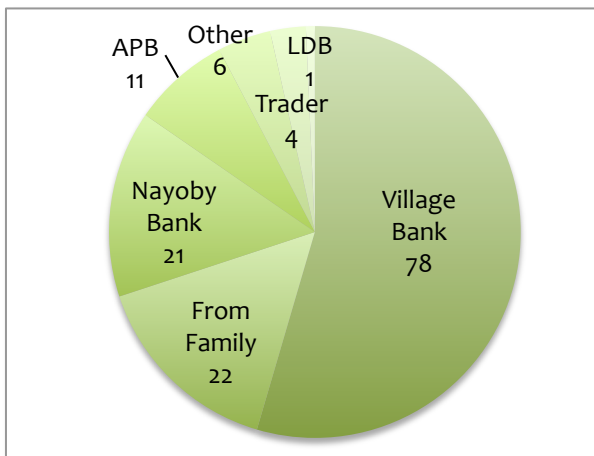
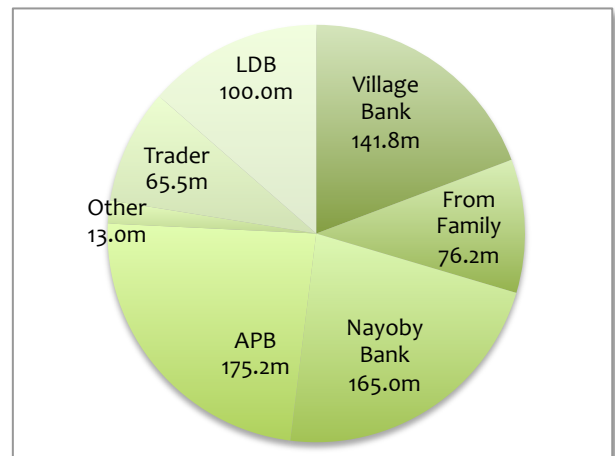
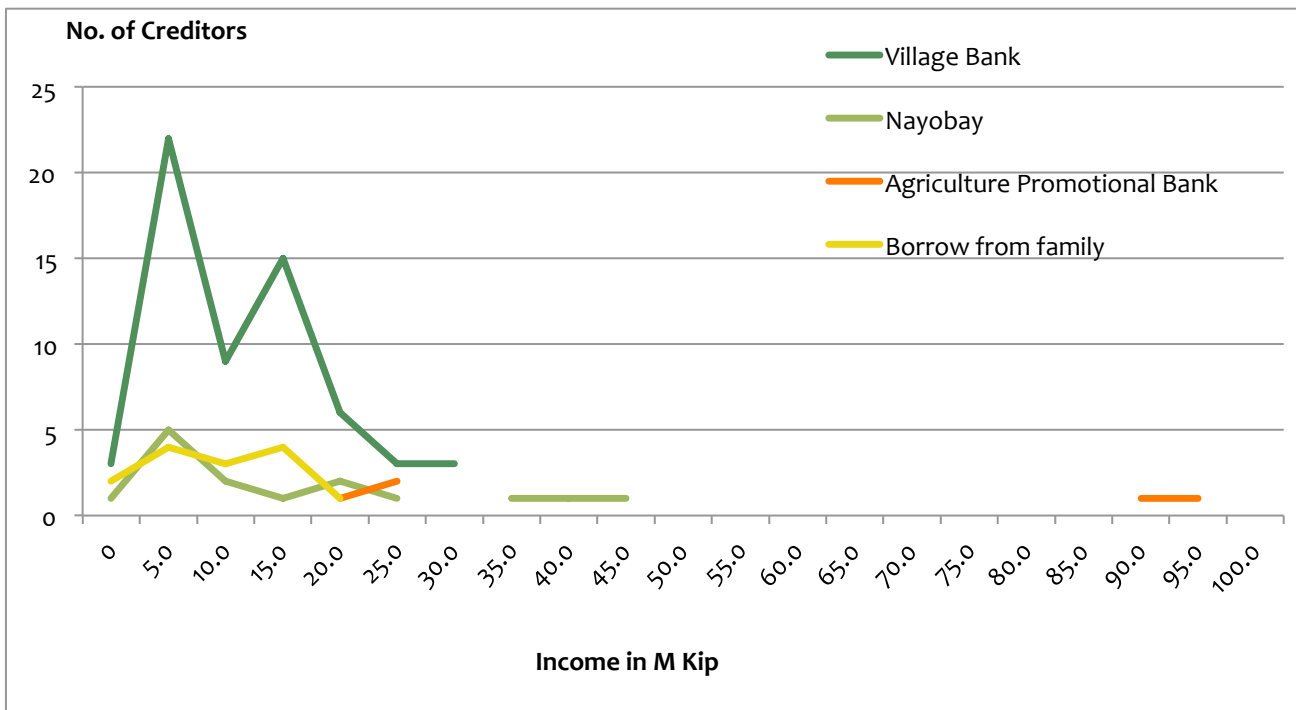


Figure 14 –Total Loan Amounts by Credit Source (in million Kip)



In the next analysis (see figure 15 below) we plot income level of respondents against credit sources utilized by respondents. The results of this clearly show that Village Banks are the preferred credit vehicle for low income villagers. It should be noted that this is consistent with the observation that Village Banks usually charge higher interest rates (between 1%-4% per month) than established banks (around 1%-2% per month) because of the riskier pool of low income clients they do business with.

Figure 15 - Income level of Creditors

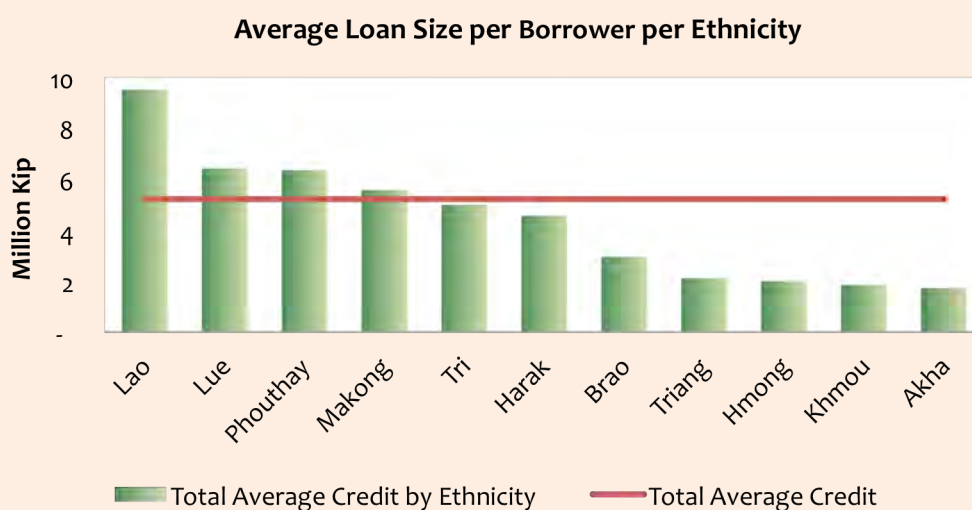


BOX 8

Liabilities and Credit Patterns of Ethnic Groups

A consequence of historically limited availability of credit in rural Laos is the low level of indebtedness – an issue imposing significant challenges on poor borrowers in other developing countries.

As a result, almost all ethnicities maintain on average a very favorable debt-to-asset ratio, even when accumulated gold and silver assets are excluded from calculations. There are only three cases in which debt exceed accumulated ‘more liquid’ assets, namely among the Makong, Brao and Tri. Together with the Khmou, whose ratio is almost balanced, these three population groups have the lowest income and smallest savings in the sample.



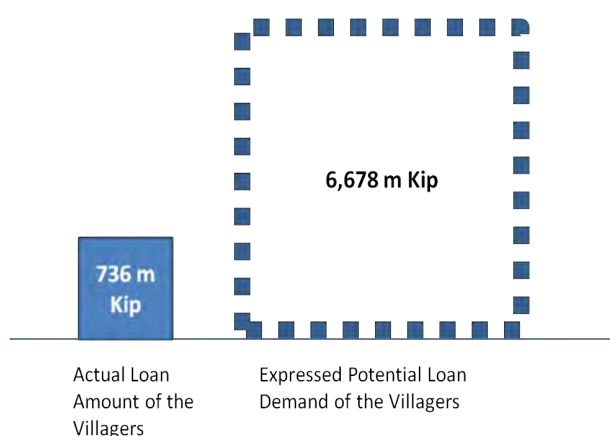
The scarcity of formal financial service providers in many places lead to the existence of loans from outside the formal financial system such as village banks, family and traders among ethnic communities. As demonstrated in chapter 5, the largest sources for credit in Laos by value are, Lao Development Bank and Agricultural Promotion Bank. Overall loans from these sources are comparatively high and combined, account for 60% of all credit by value, of which 77% are provided to ethnic Lao. Nayoby Bank has a larger outreach by clients than all sources stated above but still only reaches some 70% of the ethnicities included in the sample, and average loan amounts totally are just below 8m Kip.



Chapter 6: How much Credit Demand is Still Uncovered?

To get a better picture of the potential amount of credit demand in rural Laos, we asked the villagers about their potential investment ideas. We wanted to know their potential investment opportunities, which they couldn't realize due to absent financing. We also asked them how much additional credit they needed (in addition to their own equity) to realize these ideas.

Figure 16 – Outstanding Credit vs. Demand for Credit



The results showed an overwhelming amount of potential demand for 6.7 bn. Kip (670,000 EUR) of investment funding, which is nine times the amount of the currently outstanding credit. It is also 1.6 times the amount of the total savings of the villagers. This would mean that every villager would be willing to invest all respective financial assets and apply for an even bigger loan to realize their investment ideas. This result looks very promising

for investors in rural finance; but perhaps this picture is not realistic.

Figure 17 segregates this potential investment into categories for closer analysis; Nearly 50% of the potential loan demand would be invested in agriculture (like cash crops and animal raising and selling). Another quarter would go to trading activities or to build up shops and retail endeavors. The rest of demand would be invested in long term assets like houses and rice mills or other investment opportunities. But of course this distribution differs from province to province; for example in Luang Namtha, where there is a lot of agricultural activity, about 2/3 of the loans would be invested in agriculture. In Attapeu the potential lies in the trading activities, which are currently the biggest sources of income.

Figure 17 – Areas of Potential Credit Investment

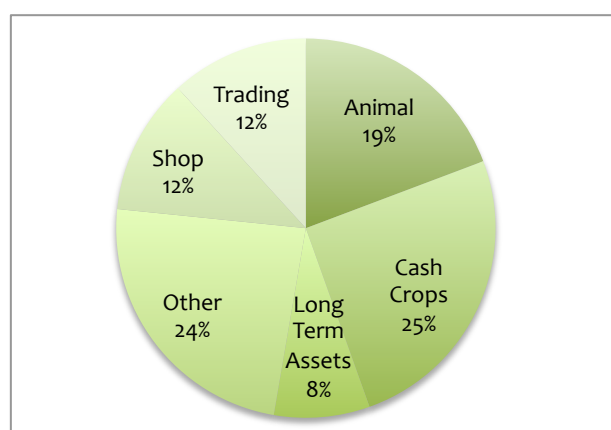


Figure 18 - Potential Investments by Credit-to-Savings-Ratio

Credit-to-equity-ratio	0% ¹³	50%	100%	150%	200%	250%	300%	350%	400%	450%	500%	550%	600%	650%	700%	750%	800%	>800%	Total
No. of potential investment ideas	32	37	18	18	12	9	5	6	6	6	3	7	5	3	3	6	1	49	226

50%

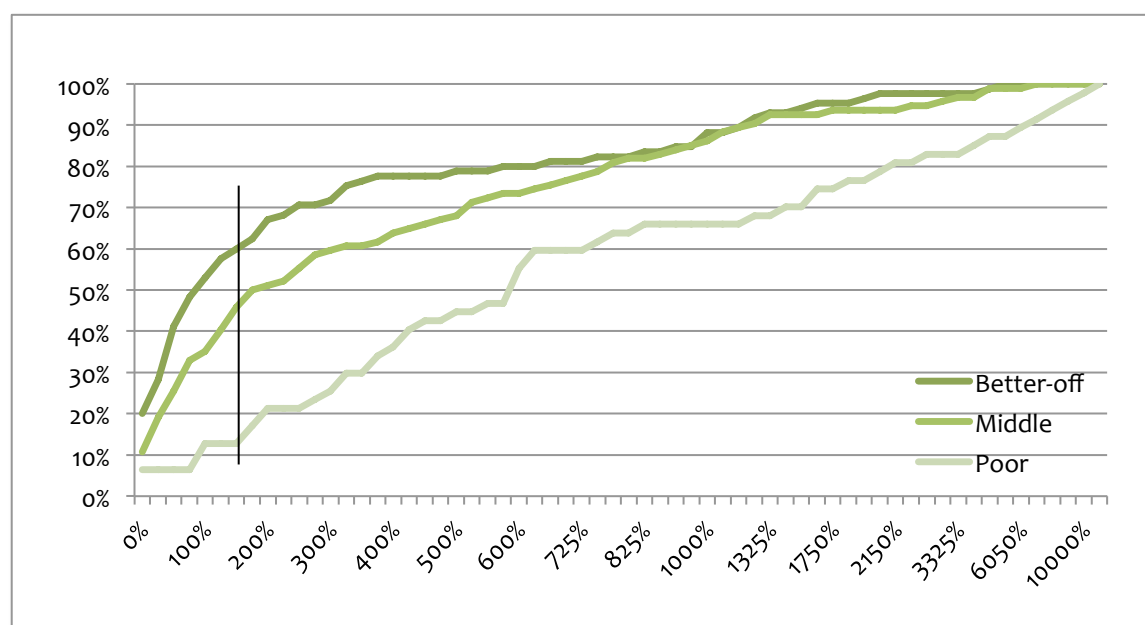
¹³ As the credit-to-equity-ratios are grouped in 50%-steps, a ratio of 0% includes all "reasonable" investments, which can be realized with a loan of 1% to 24% of the existing equity.

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 actual assets (including deposits at VB, deposits at other banks, cash on hand and/or cash loaned out, and precious metals/jewelry). Industry credit-to-savings ratios range considerably depending on the risk appetite of investors and is a subject of discussion outside the scope of this paper, however we can identify from figure 18 that approximately half of the investment ideas are at or below a 200% credit-to-savings ratio.

To explore the realizability of the potential investments further we clustered the villagers by income level and existing financial assets in three groups¹⁴ and interpreted the previous table from above in graph form with a line representing each poverty cluster (see figure 19).

As we would expect for the “better-off” group relatively larger nominal investments with the same credit-to-savings-ratio could be realized. The more wealthy villagers have bigger nominal investments in mind (35 m Kip), than the middle class (17 m Kip) and lower class (12 m Kip). Interpreting these results as an aggregated percentage of feasible projects in relation to the credit-to-savings-ratio shows an interesting phenomenon;

Figure 19 - Aggregated % of Feasible Projects by Credit-to-Savings-Ratio



The projects with a credit-to-savings-ratio of up to 200% of the rich cluster make up the majority (67%) of the proposed investments. But when we consider the proposed projects of the poorest cluster, only 21% fall within the 200% credit-to-savings ratio. These results indicate that the majority of poorer respondents have expressed desire to take out loans that far exceed their current assets. This could be due to a lack of financial literacy or a more desperate need for capital.

Whatever the reasons, we can infer that rural financing demand is certainly higher than what is actually available, but the overall credit demand in the poorest income levels is largely high risk and one has to carefully consider a strong credit approval process for this group.

¹⁴ The three clusters show the following yearly income and accumulated financial assets: Better-of Cluster (34.8 m Kip income, 39.6 m Kip assets), Middle Cluster (19.8 m Kip income, 7.6 m Kip assets), Poor (5.9m Kip income, 1.6 m Kip assets)

BOX 9

Animism, the Phi Dam and effects on Microfinance Operations

While Theravada Buddhism dominates the religious landscape in Laos, it would be wrong to neglect the widespread belief in spirits which is still practiced, particularly among ethnic minorities in rural areas. Lao spirits (phi) are amorphous, and can be both, good or bad in nature. Different types exist, including ancestral spirits (phi me), nature spirits (e.g. heaven spirits (phi fa)) and territorial spirits such as guardian spirits of a village (phi ban).



Since ancient times, the Black Ghost (Phi Dam) is deemed to be a very influential territorial spirit in Southern Laos. Practicing Phi Dam is officially forbidden but still present in many local communities. It is exercised by fortune tellers, who apply a special plant (Wanh) for summoning the Phi Dam. The Phi Dam can be summoned either for protection (Khuang Lang Khong Khang) against physical wounds and evil, or for cursing others (Sai Khong or Mon Dum). The 'good Phi Dam' can also be evoked by Buddhist Monks, demonstrating the co-existence of traditional and Buddhist beliefs in rural Laos.

Depending on the strength of a curse, symptoms supposedly range from short malaise to painful death. General / Western medicine is said not help, as causes of discomfort cannot be detected by x-rays, blood tests or other ways. Treatment is allegedly only possible by fortune tellers who can either heal the victim or send the curse back to the person who had initiated this. The latter is often the start of a vicious cycle. Prices range from 300,000 Kip to 3,000,000 Kip and depend on the severity of the treatment or curse. If the healing fortune teller is a Buddhist monk, it may be necessary to go for some time into the temple.

People try to protect themselves against Phi Dam, for example with the help of golden jewelry, amulets, or long teeth of wild pigs (Keo Mutan). Buddhists may also protect themselves by wearing a Buddha image around their neck. It is important to know that Phi Dam affects people differently. Foreigners (Falangs) cannot be cursed with the Phi Dam, but literally every national Lao can become victim: external governors who have been assigned to Southern Laos with whom staff were not satisfied with, the father-in-law by the disliked son-in-law, and so forth.

Being cursed by the Phi Dam has real effects on Village Bank operations and the servicing of Village Bank by staff: When Village Bank members default, neither staff nor Village Bank Committee members feel safe approaching the delinquent members due to fears of being cursed. Consequently, it is considered important that defaulting members do not lose face in front of others as this would increase the potential revenge by a defaulting client which puts committee members and staff at risk of being cursed. At the Attapeu, the practice of Phi Dam prevails particularly among ethnic minorities in the districts of Phouvong, Xanxai, and, to a lesser degree, in Xaisetha.



Chapter 7: Financial Inclusion of Women in Rural Laos

While academic and professional literature has identified considerable benefits from the financial inclusion of women,¹ scholars continue to stress that “gender and rural gaps are persistent in all developing economies” (Klapper 2012, 2). Availability and quality of data is often lacking. This chapter will contribute to the general sphere of knowledge around female clients and their role as financial decision-makers in the context of the GIZ’s experience in rural Laos.

7.1 Methodology

This chapter builds on a large number of qualitative interviews, which were conducted with individual women in private face-to-face settings.

Analysis consists of two parts; first we concentrate on the Village Bank’s clientele and assess the status quo of female financial inclusion. This part rests on determining the financial inclusion of females as a group, in households and in institutional settings of the Village Banks. The sample on which data presentation and analysis is based includes 141 women, representing 15 different ethnicities in the provinces GIZ operates in.

Then in the second part we explore the role of women who hold positions in the decision-making structures of their respective Village Bank committees. A separate sample forms the basis for this undertaking, where a total of 43 female committee members were interviewed.

7.2 Female Village Bank Clients

Responses from our interviewees suggest that women are well integrated in financial decision-making processes at home. As figure 21 indicates, financial decision-making is predominantly carried-out jointly in household settings, either with the husband or other family members. Only one out of ten women decided alone, and just over one percent felt excluded from decision-making.

¹ These can range from kick-starting and expanding income-generating activities; women are often better financial managers with a stronger focus on family matters; institutions gain from wider spectrums of creativity, talent, diversity as well as new and additional valuable perspectives on assets, needs and challenges. Overall, this offers the potential to contribute to wider spill-overs which translate into better macroeconomic and social performances by contributing to overall poverty reduction, financial sustainability and commencing ‘virtuous spirals’ of economic, social and political empowerment.

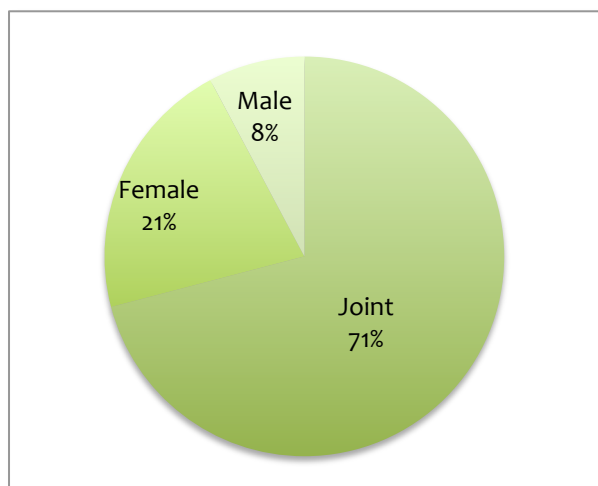
² <http://microfinance.cgap.org/2012/04/25/two-persistent-divides-in-financial-inclusion-gender-and-rural/>

Figure 21 - Female Inclusion at Household Financial Decision Making

	% whose household maintains ... at their village bank	Share of women who have [...] agreed to depositing / borrowing			Share of Women who participated in the preceding financial planning process		
		Partly	Fully	Not	Alone	Jointly	Excluded
Saving Product	99%	2%	98%	0%	10%	87%	3%
Loan Product	60%	9%	90%	1%	6%	94%	0%

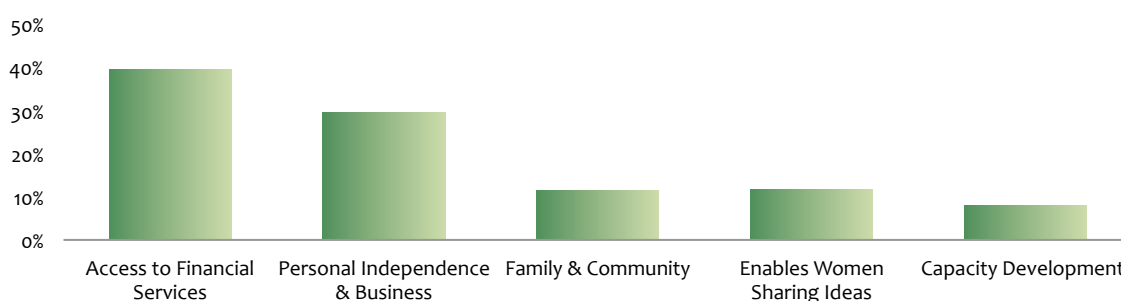
Village Banks are well participated in by women and female financial inclusion is considerably strong among interviewees. Overall, a total of 92% of the interviewed women have access to an account at their Village Bank, either individually (21%) or jointly with their husbands (71%). Consequently, only 8% of the female interviewees have no formalized access to a village-bank account.

Figure 22 - Gender of Account Holders



Three in four interviewees ascribe considerable benefits to the presence of Village Banks in their rural communities for women. Highest ranked is access to financing, especially the availability of credit and saving facilities, and dividend income. Although financial decision-making is predominantly a joint process within household settings, many women emphasize the benefits of having an account in their own name. Respondents noted that this allowed them to be financially independent from their husbands and other family members when withdrawing or depositing money, and this provided advantages for operating their own businesses. Another important aspect the women have highlighted is the dividend income on savings allows them to increase their household's purchasing power and better feed their families and provide education for their children.

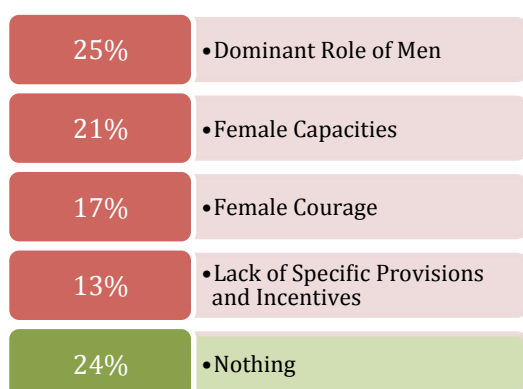
Figure 23 - Perceived Benefits of Village Banks for Women



Many women emphasized that village banks not only provide access to financial services but also provide an important community forum for discussions and on-the-job training which help women acquire technical skills and basic financial literacy. This in turn has been identified as raising their confidence in subsequent meetings and enables women to 'dare to speak out'. The positive educational and social influences of the Village Bank's

presence in rural communities and their importance as vehicles for advancing gender equality is apparent, however, full financial inclusion of women in rural Laos is still a long way off. Many of the women interviewed pointed towards a still prevailing dominance of men in village bank operations. It is apparent that men primarily participate in meetings, advance ideas, and make decisions. A number of women pointed out that they were directly excluded from important meetings and instead were sent ‘working in the fields’. At home, husbands often do not bother to share the content of Village Bank meetings. As a consequence, many women feel left out with little knowledge about Village Bank operations, management or financial developments.

Figure 24 - Main Issues for Women



Many women also state female capacities and confidence as major obstacles in the processes towards full female financial inclusion. As several interviewees emphasize, women often do not benefit adequately from formal education and those who are better educated often leave the villages and move to urban areas. ‘Education’ should be seen here in a wider sense as it includes not only literacy or numeracy but also language skills: the predominant part of all interviewees belongs to one or another ethnic minority and many women do not speak the national language Lao.

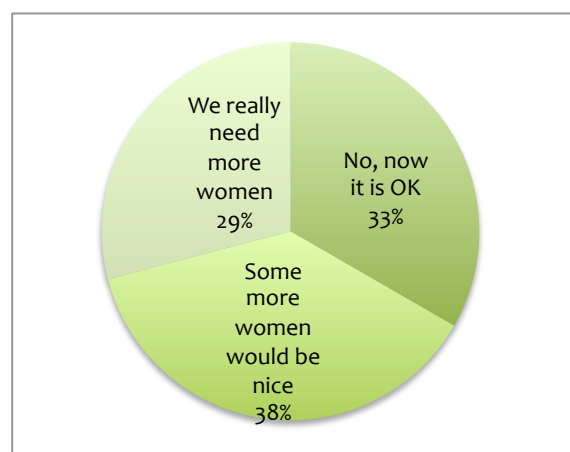
As a consequence of the language divide, the better education of men, and the perceived prevailing male dominance in village bank operations, many women remain absent from the meetings. Those who do attend often have not the heart to speak out and express their views. Several interviewees stated that many Lao women are simply too shy and remain disempowered.

A few approaches that would strengthen the position of women in their respective village banks were suggested during the interviews; One was to offer special products and differentiated services to target female inclusion in micro finance operations. Another was to improve the institutional setting of Village Bank management. Overall, two out of three women would like to see more female representatives on village bank committees.

7.2.1 Differences Between Fully Included and Excluded Women

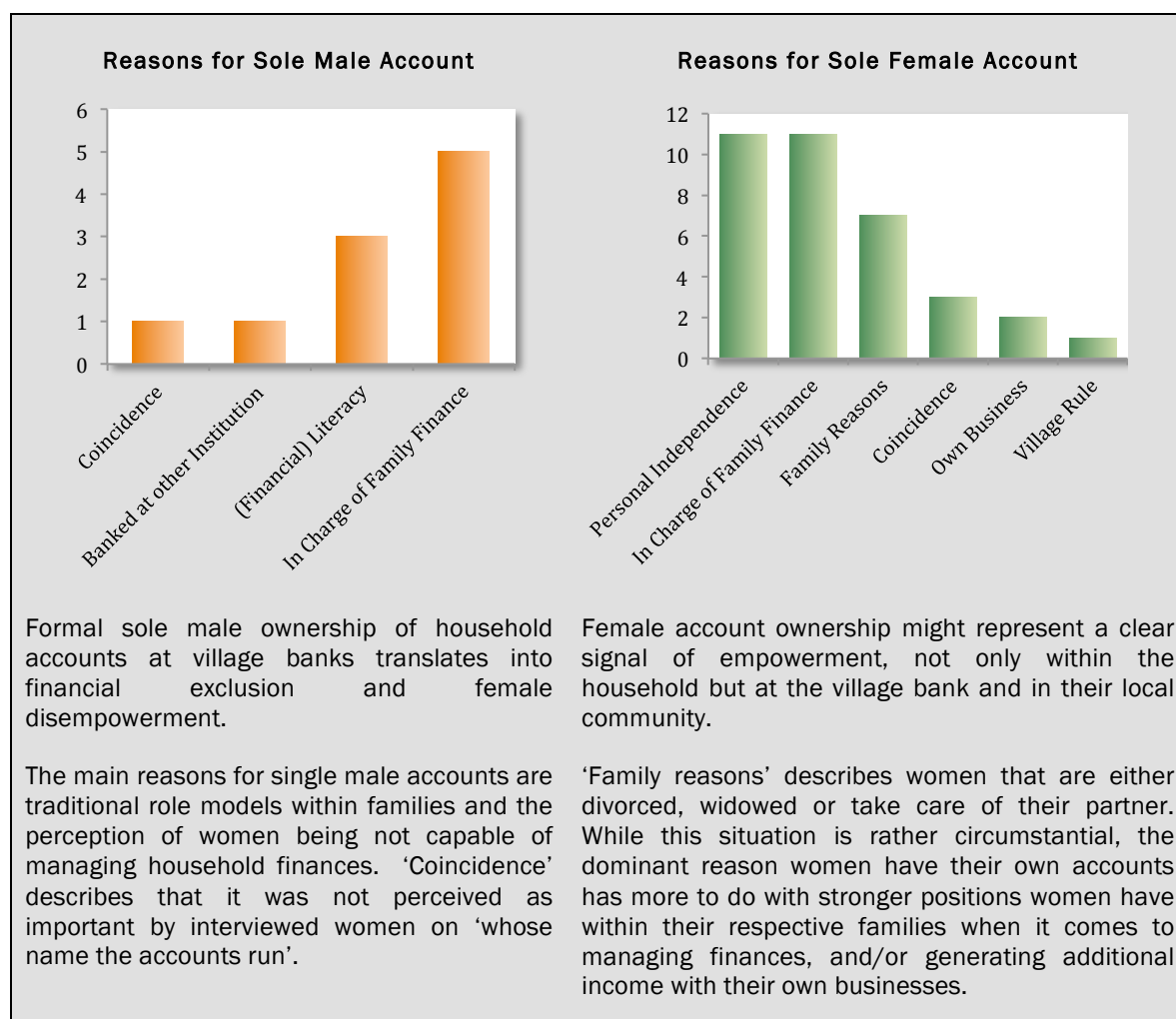
It has been observed that financial decisions are primarily met jointly, and only seldom are women the sole decision-makers or completely excluded. However, individual accounts do exist. This section looks into the specifics of differing account ownership, and visible differences between those women who enjoy strong financial integration and own an account at their Village Bank, and those who do not have these benefits.

Figure 25 - Demand for more Women in Village Fund Committees



This situation of differing account ownership is promoted by both certain institutional settings and individual (household) decisions. From an institutional perspective two elements seem to be foremost important; First, a large share of joint accounts stems from the implementation of institutional policies which target risk-mitigation for the village banks by encouraging joint responsibility as well as female empowerment. Second, the majority of female accounts are regionally located in Savannakhet province. The reason for this is that village banks were inherited from a former project initiated by the Lao Women Union that focused completely on female account ownership.

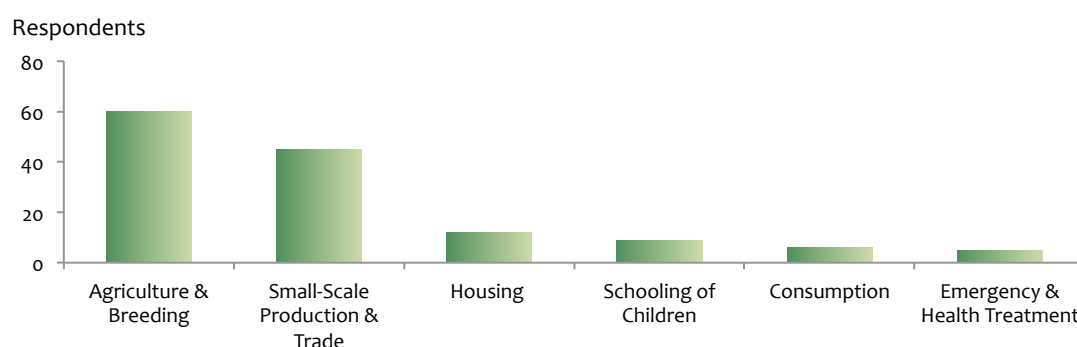
Figure 26 - Reasons for Individual Account Ownership (by female respondents)



Although it has been demonstrated that financial decisions are usually made together and only a small number of women remain completely excluded from financial decisions, account ownership does play a role for financial planning within the families: All women had supported the decision to deposit savings with a Village Bank and only 3% of women were not consulted before-hand. Similarly, when looking at existing loans the importance of joint decision making becomes visible: with the exception of five women who have individual accounts and made the credit decision alone, all decisions were made jointly within family settings. Only one woman with a joint account did not agree on taking out a loan. Not surprisingly, none of the women who had no formal account status at the Village Bank questioned credit decisions made by their husband.

Two out of three women expressed interest in taking individual loans. The female demand for credit was explained by investment for income-generating activities (77%), education (6%), and improvements of the housing situation (9%). Another 4% emphasized demand for health and emergency purposes and only 4% was interested in an individual loan for consumption. Overall, it appears credit demand of women is quite conservative and sensible.

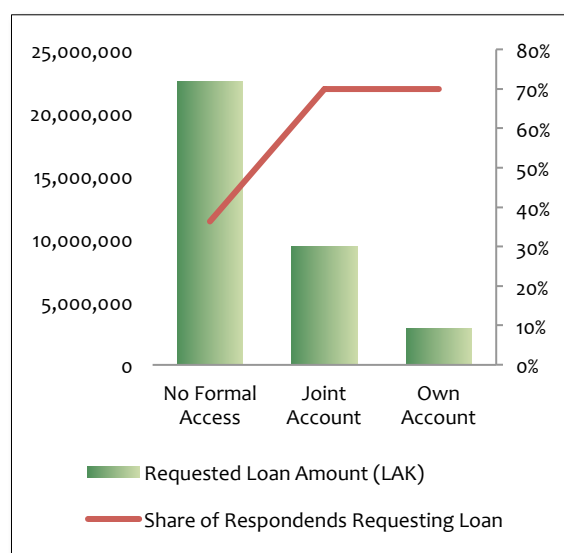
Figure 27 - Purpose of an Individual Loan



While the credit purpose does not significantly differ across the sample, considerable differences emerge when disaggregating the women requesting a loan and the requested loan amounts by formal account status the Village Banks. It becomes immediately clear that women without any formal access to financial services are more hesitant towards expressing demand for an individual loan: only 36% of women without formal access to a village bank account expressed such demand. This share is about half as high as demand voiced by women with access to a bank account at the village bank, either jointly or individually.

A possible explanation of this trend might have to do with the lack of experience in handling of financial matters by women who have no formal access to their local Village Bank. Without the ability to calculate, knowledge about prices, costs or repayment plans, the numbers provided in the survey may be made up without any adequate basis. However, observations cannot be accurately explained without additional research.

Figure 28 - Expressed Loan Demand



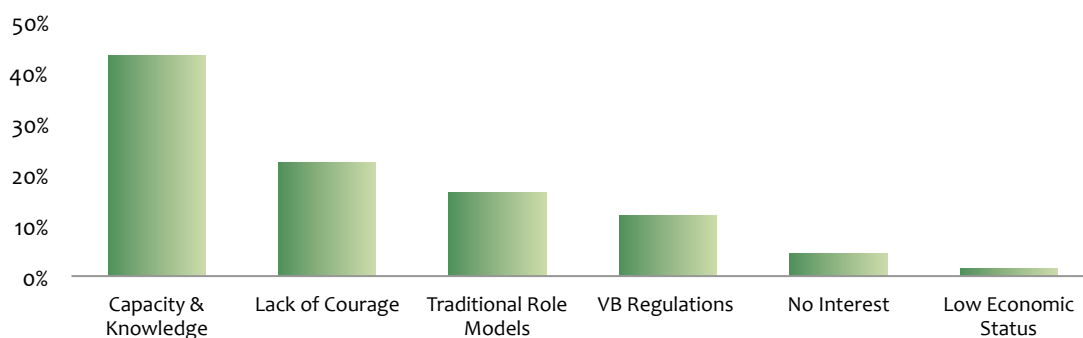
Interestingly though, when women without formalized access to a bank account expressed demand for an individual loan, the requested loan amount was almost 8 times higher than that of women who hold individual accounts. Expressed demand of women who have a joint account is more than 3 times higher than that of women with individual accounts.



7.3 Female Village Bank Committee Members

43 female Village Bank Committee (VBC) members were interviewed in order to determine their position and standing within the decision-making structures of their respective Village Banks. 8 female VBC members hold the position of Village Bank Head, the remaining 35 serve as Deputies. The predominant position is 'cashier', which 29 women hold; followed by savings officer (7), loan book accountant (5) and ledger accountant (2). Overall, female VBC members appear quite ambitious, with 74.4% being interested in becoming an NSO board member.

Figure 29 - Reasons for Lack of Women in VBCs

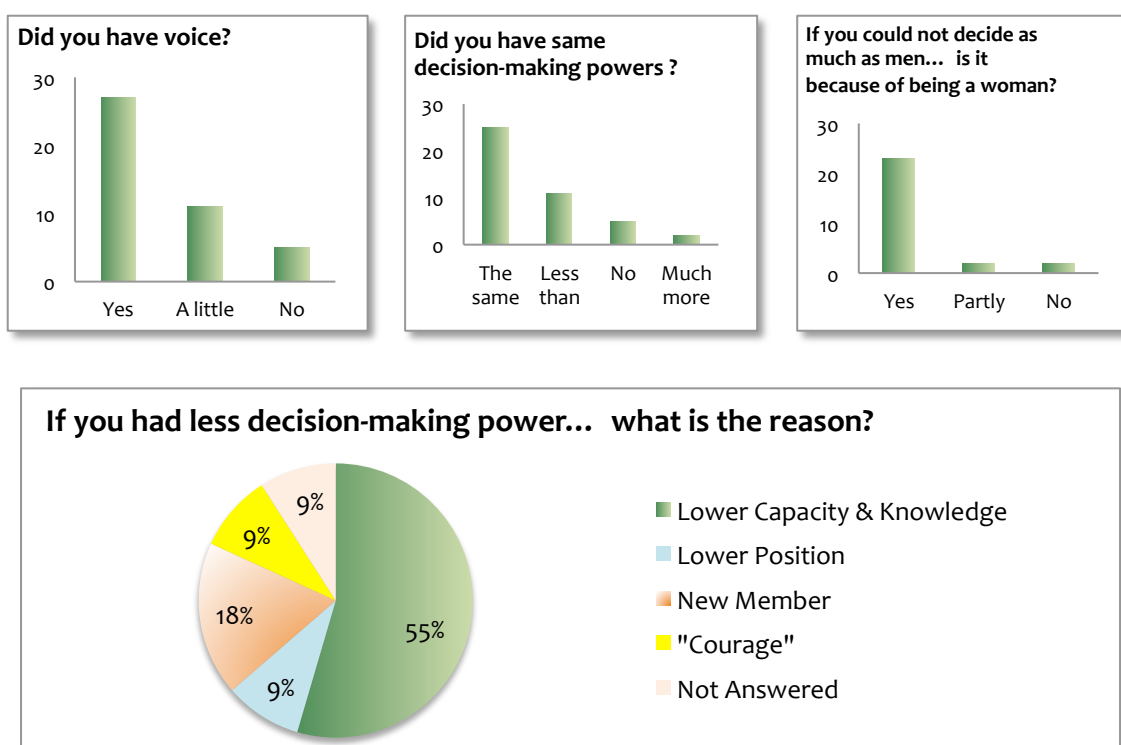


Although 67% of interviewed women have voiced demand for more female VBC members, most female VBC members themselves do not see many prospects for rapid change. Several factors seem to be at play and preventing progress. One decisive reason is that some Village Banks have a quota for the number of females on VBCs. Consequently, as the demanded number of female VBC members is often already reached, further accession of women is unlikely and requires amendment of by-laws.

Even though women are included in the VBCs, many female members feel disadvantaged in decision-making process. Social aspects such as position and tenure were noted as areas of concern, but the analysis of survey results clearly shows that lack of courage, capacity and technical knowledge are the biggest perceived obstacles holding women back in Village Bank Committees. This important observation highlights a need and demand for special training and skills development programs to aid in the empowerment of women.

Female VBC members also emphasize the importance of encouraging women to fully participate in Village Bank meetings, thus raising awareness of Village Bank operations and gender issues. Many female VBC members had noted the importance of their role and the necessity of role models for women in their villages.

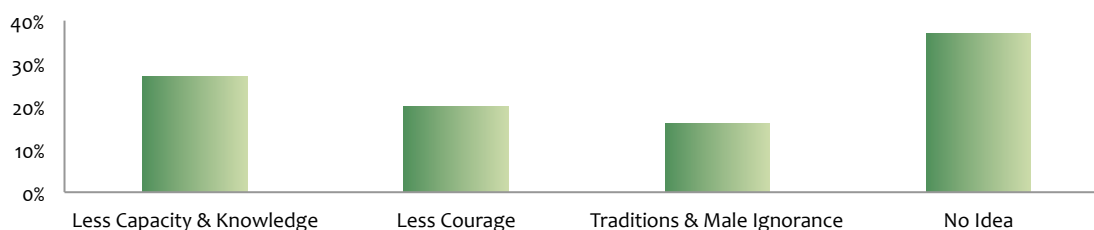
Figure 30 – Responses to Interview Questions





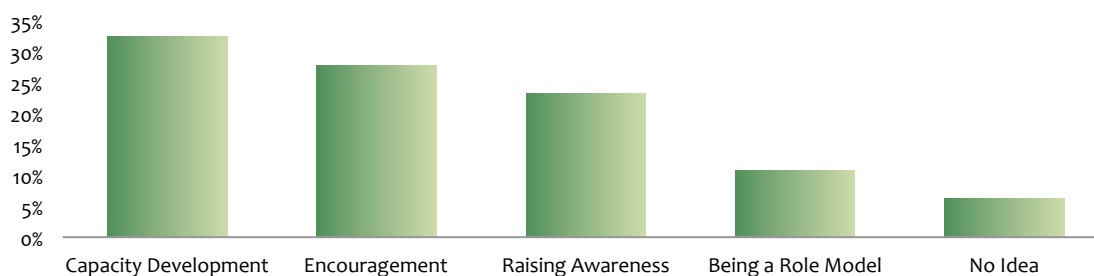
Specific reasons regarding shy or unassertive behavior during committee meetings were identified as: lack of technical/business knowledge (55%), being a new member on the committee (18%) and having a low position on the committee (9%). Lack of courage (9%) is likely related to lack of capacity and thus further reinforces the point the respondents are not adequately trained. Interestingly, these results appears largely similar with the assessment of “how female are disadvantaged in relation to men when it comes to village-bank operations”.

Figure 31 - How Women are Disadvantaged in Relation to Men



Not surprisingly, measures proposed by respondents for strengthening the position of women in Village Banks, and particularly in their committees, target capacity development and a stronger encouragement of women so that they feel more comfortable applying for such positions (see figure 32). Female VBC members also expressed the necessity of educating all members about gender topics and highlighted the importance of role models for other women in their communities.

Figure 32 - Empowering Women in Village Banks



Chapter 8: Next steps

This Demand Assessment has highlighted many important matters with regards to our mission of increasing access to finance for the poor. We saw in the savings analysis that there are huge amounts of financial assets not invested in a flexible and income bearing asset accounts. In response to this we are planning to offer a new interest bearing savings product in 2013 to meet the villagers' needs. In addition to increasing financial products we are advising Village Bank Committees to increase the minimum monthly savings rate to encourage more savings at the Village Bank and also encourage the village banks to open more often than once a month to increase the visibility and the flexibility of Village Bank products.

On the credit side we recognized further demand for investment in rural Laos. The success of the Village Banking model is recognized and more will be founded in 2013. However, although there is much loan potential out there our analysis indicates that some of the ideas are highly risky, and so we will focus on strengthening the credit approval processes. In addition to improving the quality of future loans we are committed to reducing the current PaR-ratios and to make sure that the repayment quality of current loans will improve too. For this reason we have implemented further training of our microfinance field advisors on delinquent loans to specifically address non-performing loans. Going forward, AFP will introduce dedicated training faculty to further meet these needs of our staff. On the Village Bank side we are also explicitly addressing the handling of overdue loans at regular Village Bank Committee meetings.

Our 10 years of microfinance experience in the rural setting of Laos has shown successful adoption of Village Banks by the rural poor. In a land where the proverbial "mattress" is still the main saving vehicle, these isolated semi-formal Village Banks on the fringe of the modern economy are the key to potential economic growth and well-being while unlocking future credit demand. The effects of increased financial literacy and social progression that come with these rural micro finance operations are observed to be improving the lot for women and ethnic minorities throughout rural Laos. GIZ continues to be an important partner with the Bank of Lao and is committed to increase transparency for other microfinance endeavors in Lao so that everyone can benefit from our on-the-ground perspective and experience.



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