



MFA Newsletter

6th Issue, December 2015

EDITORIAL

Dear Readers,

This 6th edition of the MFA Newsletter highlights two topics which are important for the relations of the MFIs with their clients: the Code of Conduct for MFA members and the issue of high interest rate levels in the Lao microfinance sector.

The short article on the MFA Code of Conduct describes the purpose of this tool and provides a brief overview of its content, which primarily focuses on the client protection principles. It also explains how the MFA intends to monitor the endorser's compliance with the commitments they have made.

The second article tackles the thorny issue of interest rates. It compares interest rate levels in Laos with those of other countries and tries to explain why these levels are significantly higher in Laos than in other Asian countries and worldwide. In addition, the article proposes a few measures that could be taken by different stakeholders to help bring down these rates.

And as always, the Newsletter brings you the latest news from the MFA and from our members.

I would like to thank all those who have contributed to this edition and to encourage you, dear readers, to send us any comments and suggestions you may have.

Sincerely yours,

Pamouane Phetthany
MFA Executive Director

CONTENT

Code of Conduct will improve social performance of members	p. 2
Interest rates in the Lao MF sector: Why are they so high?	p. 3
News from our members	p. 5
News from the MFA	p. 6

UPCOMING EVENTS

2 nd , 3 rd , 4 th batches of Microfinance Certificate Course	Jan-Jun 2016
Smart Campaign/ SPI Social Audits workshops	Feb 2016



Code of Conduct will Improve Social Performance of Members

Back in 2012, the Board of the MFA had decided that the organization should develop a Code of Conduct (CoC) for its members once it obtained its license as a Non Profit Association. Therefore, in early 2014, the MFA secretariat drafted such a code which was then approved by the Board in March 2014 and declared mandatory for both new and existing members.

CoC good for clients, MFIs, and the sector as a whole

The CoC for MFA member organizations¹ aims to ensure that members adhere to common principles of good microfinance practice and responsible finance. The Code seeks above all to promote and enhance client protection but also to foster transparency towards the MFA and the microfinance sector as a whole and to promote ethical behavior of MFIs towards their employees and other MFIs.

What is a Code of Conduct?

A Code of Conduct (CoC) is a set of values, principles or behaviors that are considered binding on any person or organization which adheres to it. It is an effort at self-regulation in the absence of formal (government) regulations or in order to complement or reinforce existing formal regulations in the sector concerned.

As a result, the CoC should not only contribute to improving the position of MFI clients, but is also expected to benefit the MFI itself, since it enhances customer trust and loyalty and may improve the reputation of the MFI with clients and funders. In addition, it is beneficial for the sector as a whole, because it encourages greater transparency and may prevent exaggerations and subsequent crises (as for example in India).

Principles on client protection at the forefront

The MFA Code of Conduct basically consists of the following 3 parts:

1. Core values
2. Principles & Standards
3. Commitment Statement

The core values are those basic values of the MFWG/MFA that were adopted by members when approving the Strategic & Business Plan 2012-2014; they were reaffirmed in the Strategic Plan 2015-2017. They encompass: Inclusion, Commitment, Accountability, Transparency, and Social Orientation.

The centerpiece of the MFA Code are the Principles on Client Protection. These are the 7 principles and 30 standards that are at the heart of the so-called "Smart Campaign" (see also article in MFA Newsletter #4: [download](#)). Moreover, the CoC comprises a certain number of principles & standards regarding the relations with employees, the MFA and other stakeholders. These relate e.g. to a socially responsible treatment of employees or to transparency towards and sharing of information with the MFA.

Monitoring of compliance: a "light" version

All existing MFA members were asked to present the CoC to their Boards requesting them to approve the endorsement of the Code. All MFIs that wish to become a member of the MFA will have to endorse the Code as a precondition for membership.

Given its limited human resources, the MFA is not in a position to carry out a "proactive" monitoring of the member MFIs' compliance with the CoC. Therefore, the MFA management team will request members to fill in a simple, standardized questionnaire, a sort of "annual monitoring report", which will allow the MFA to get a general overview of members' compliance with the Code. The questionnaire covers the following issues: progress in implementing the CoC, difficulties encountered and measures to be taken to improve the shortcomings.

100% of members formally endorsed CoC

The Code of Conduct for MFA members, which was approved by the MFA Board in June 2015, has been formally endorsed so far by 48 members. Out of all endorsers, 38 are existing members and 10 new ones. The Code encompasses primarily the principles & standards on client protection, but also includes some principles regarding relations with employees, the MFA and other stakeholders.

¹MFA Code of Conduct [\[download pdf\]](#)



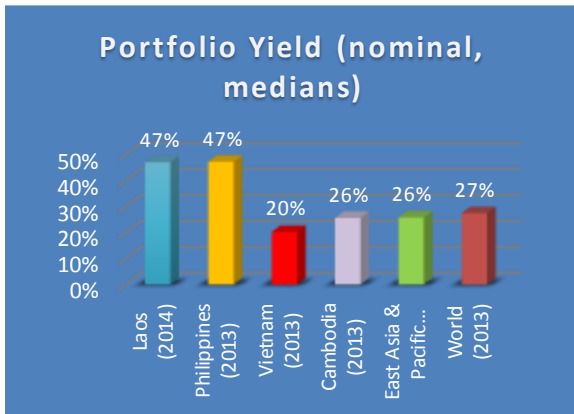
Interest Rates in the Lao MF Sector: Why are they so high?

Many observers of the Lao microfinance sector share the view that interest rates are too high and that efforts should be undertaken to bring them down. Even in some political circles, high lending rates have become an issue ahead of the establishment of the Asean Economic Community (AEC).² But how high are interest rates in the sector in comparison with other countries and how could they be reduced?

High rates compared to other countries

If portfolio yield is used as a proxy for effective interest rates paid by borrowers, an international comparison (using median values) indicates that levels in Laos³ are substantially higher than those in neighbouring countries, in a peer group of East Asia & Pacific small scale MFIs, and indeed also compared to the worldwide average. The difference to the other countries amounts to more than 20 percentage points, with the noteworthy exception of the Philippines (see figure 1 below).

Figure 1



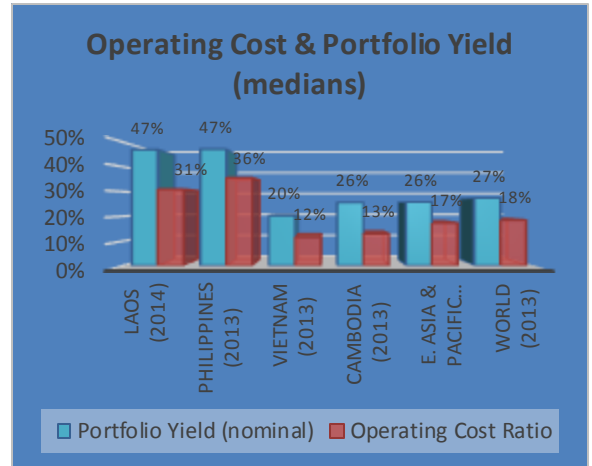
Source: MFA calculations, based on MixMarket data

Main driver: high operating costs

Operating costs are the main determinant of interest rates in the microfinance sector. In the Lao case, operating expenses “eat up” on average two thirds of portfolio yield. The operating cost ratio in Laos is 70%

higher than the worldwide average and more than double the values of Vietnam or Cambodia (Figure 2).

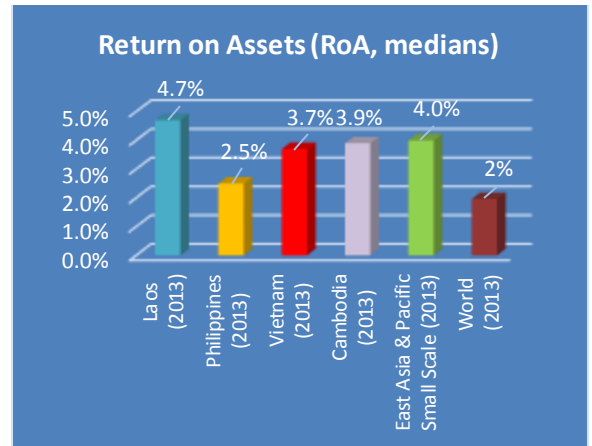
Figure 2



Source: MFA calculations, based on MixMarket data

In the case of Laos, another important determinant of the interest rate level seem to be the relatively high profit rates, whereas cost of funds and provisioning expenses do not seem to play a greater role than in other countries (Figure 3).

Figure 3



Source: MFA calculations, based on MixMarket data

Apart from direct cost elements, other likely reasons for the high interest rates in Laos are a lack of transparency and competition, as well as financial illiteracy of clients. A lack of competition in some regions and market segments is likely to reduce pressure on MFIs

² See article in the VT of 21st July 2014: “Law makers demand low lending rates”

³ All figures for Laos are based on a set of 24 MFIs reporting to the MFA which represent over 90% of total GLP, total savings or total number of active borrowers.



to lower interest rates. On the other hand, insufficient transparency – e.g. the failure of many MFIs to disclose the real cost for borrowers or to publicly display prices of their products – prevents clients from comparing prices and putting pressure on MFIs. Moreover, the financial illiteracy of many clients reduces their ability to fully understand products, compare them and negotiate.

How to bring interest rates down?

The high level of operating costs in Lao MFIs would suggest that in order to enable MFIs to lower their interest rates, one has to act first and foremost on the efficiency and staff productivity of the institution. However, there is no magic bullet with which the problem could be fixed. A broad array of measures on different fronts are required, among others improving capacities and skills of MFI managers and staff; enhancing access to foreign equity / loans and other refinancing sources; improving sector transparency and making the regulatory environment more conducive for sector growth; and improving financial literacy of (potential) clients.

The MFIs have to step up to the plate

The MFIs as the main actors of the sector should lead the way and consider taking or reinforcing the following measures:

- ✓ Promote and incentivize training and capacity building of management & staff in order to enhance their productivity;
- ✓ Explore possibilities for merging small SCUs and NDTMFIs or creating apexes to counteract the high fragmentation of the sector;
- ✓ Improve their social performance so that the interests of clients are put first;
- ✓ Bring profit rates into line with productivity and efficiency and not pass inefficiencies on to clients;
- ✓ Improve financial management and reporting (including carrying out external audits) and make efforts at attracting external funding at favorable conditions;
- ✓ Conduct rigorous loan delinquency management;
- ✓ Enhance (cost) transparency towards clients and engage in their financial education.

The role of regulator to bring interest rates down

The role of the regulatory and supervisory authority in influencing interest rates is also important as it defines the regulatory environment in which the MFIs act and can steer the development and growth of the sector and thus allow for economies of scale. The regulator could contribute to the efforts made by the MFIs through the following measures:

- ✓ Promote transparency: process, analyze and publish sector performance data;
- ✓ Allow foreign equity investment in MFIs of at least 49% of total capital;
- ✓ Increase minimum registration capital for (new) NDTMFIs and SCUs in order to ration the number of MFIs to be supervised and to prevent further fragmentation of the sector;
- ✓ Apply a more risk-based rather than compliance-based approach to regulation & supervision and refrain from applying prudential regulation & supervision to NDTMFIs, as these will not be allowed to receive any savings anymore.

A supporting role for the MFA

As the sector's umbrella organization, the MFA should support the other stakeholders by:

- ✓ Broadening and deepening its training and capacity building offer for Boards, management and staff of member MFIs to help them improve their productivity and efficiency;
- ✓ Encouraging a discussion on potential mergers of SCUs/NDTMFIs or the creation of apexes;
- ✓ Seriously monitoring the implementation of the Code of Conduct for MFIs and holding members accountable for it;
- ✓ Helping member MFIs to improve financial reporting and facilitating independent external audits (e.g. by negotiating special rates with audit firms);
- ✓ Assisting member MFIs in accessing external funding (e.g. from social investors);
- ✓ Promoting sector transparency and discussing with GOL / the regulator about how to make the legal and regulatory environment more conducive.



News from our Members

Hongsa - Ngeun NDTMFI Expanded new branch at Ngeung district, Saiyabouly Province

On 25th June 2015 Hongsa-Ngeun NDTMFI had the official opening ceremony of the new branch at Ngeun district. The chairperson of the ceremony was Mr Bounsod Inthapany, deputy chief of Ngeun district, gathering together with 48 participants which came from related sectors, villagers, board of directors and staff. According to the strategy plan for 2014-2015, the new branch has funds in amount of 1,3 Billion Kip to provide services.



New Branch opening Ceremony in Ngeun Distirct.

Mr. Bounheuang Duangphachanh, Minister for Government's Office visited DTMFI Development

On 15th June 2015, Mr. Somchit Bounleume, Chair of DTMFI Development (DMID) warmly welcome Mr. Bounheuang Duangphachanh, Minister of Government's Office, at the DMID office. Mr. Somchith briefly reported about the background of DMID. The Minister said that he has followed up this institution and he appreciates that the Board of DMID has good intentions, the institution has grown continually and gets trust from people and that the operations comply with government policies. The Minister also said that the Government Office and National Committee for Rural Development and Poverty Eradication agree that DTMFI Development makes a presentation at the Asean Microfinance Meeting in Lao PDR.



Mr. Bounheuang Duangphachanh, Minister for Government's Office visited DTMFI Development

Xainiyiom NDTMFI (XMI) held annual Center Assistant Meeting

On 16th May 2015 Xainiyiom NDTMFI held the annual Assistant Center Meeting at Namtha branch at the provincial meeting hall in Namtha province. Mr Khanthaly Sanvilaivong, Board member and director of XMI, chaired the meeting. There were 106 participants, of which 80 were representatives of XMI's member in 74 centers of 41 villages, XMI's staff and 2 experts from CARD and UNCDF Micro-Lead. The meeting is usually held every year. The center assistants, the head of the centers, the cashier of the centers and good members are invited to join and get an update of the performance, good and bad aspects, discuss problems, collect comments of every center and find solutions. And it is also a good opportunity for participants to talk together and exchange experiences



Annual Center Assistants Meeting in Namtha branch, XMI NDTMFI



News from the MFA

Microfinance Management Certificate Course (MFMCC)

The managers of licensed Microfinance Institutions (MFIs) and Savings and Credit Unions (SCUs) have the possibility to build their capacities through a tailored-made management course. This certificate, which is recognized by the Bank of Lao, will help professionalize the microfinance sector in Lao PDR.

This unique course will strengthen the capacities of the leaders of licensed Microfinance Institutions (MFIs) and will help to professionalize microfinance operations. This will have a stabilizing impact both on institutions and on the financial sector in the Lao PDR.

The training will be facilitated by the MFMCC local trainer's team, who were certified in early September 2015.

The 1st batch of the long awaited course of 29 days was delivered from the 21st to the 25th September at the Lao Plaza and will be provided throughout the year. The Course is composed of 8 modules: Basics of Microfinance, Business & Strategic Planning, Human Resource Management & Leadership, Credit & Delinquency Management, MFI Management & Governance, Financial & Social Performance Management, Product Development and Compliance & Internal Control. At the end of the course the participants have to pass the test with a grade of at least 70 percent to comply with regulations and internal control.

The Design & Development and Training of Trainers were financially supported by the NGO ADA Luxembourg. The translation of training materials and training deliveries are supported by UNCDF-MAFIPP and the German Government through GIZ-AFP.

MFA in partnership with Bank of Laos and support from ADA, UNCDF-MAFIPP and GIZ AFP will provide 5 training batches in 2016. By the end of the year 2016 we expect to have certified 120 managers/non manager of MFIs/SCUs.

19 different trainings/coaching conducted

In 2015, the MFA has substantially sped up the pace of training events offered to members. No less than 11 training courses, 5 TOT and 3 on coaching members were conducted. The courses were Credit and Delinquency Management, Business Planning, Marketing, Human Resources Management, Corporate Governance and Management Certificate Course. Training of trainers on Business and Portfolio Planning and Management Certificate Courses. During the year, the MFA team managed to visit 3 member MFIs on side to coach the management and staff of 2MFIs/1 SCU upon their requests.

Participation at the BOL Annual Stakeholder Meetings

The MFA Chairperson, Ms Vansy Chindavong, and the Executive Director Ms Pamouane Phetthany participated in the annual meeting of DTMFI, NDTMFI and SCU which was organized by the Financial Institution Supervision Department, Bank of Lao PDR.

4 member meetings with different focus topics

During the year under review, 4 member meetings were held. The focus topics highlighted at the member meetings were: Extension of MFI's business, Interest rates in the Lao MF sector: Why are they so high?, Techniques of access to external Fund, Credit and Delinquency Management and How to become member of BOL Credit Bueo.

Participation in International Annual Meetings

3 Representatives from MFA, the Chairwoman, the Executive Director and the Capacity Building/Advocacy Officer attended the SPTF annual Meeting in Siem Reap, Cambodia on June 8-12, 2015. The meeting focused on three questions: 1. How can Social performance management (SPM) help financial institutions address common operational challenges?, 2. How can SPM contribute to responsible and transparent financial markets, 3. How can our industry better measure and report the outcomes of our work. 2 Representatives from MFA were also attended the Asia-Pacific Financial Inclusion Summit 2015, 27-29 Manila. The Financial inclusion has been recognized as one of the most powerful tools in the fight against poverty.



Useful Microfinance Websites:

- Banking With The Poor Network (BWTP):
www.bwtp.org
- Social Performance Task Force (SPTF):
www.sptf.info
- Consultative Group to Assist the Poor (CGAP):
www.cgap.org
- Microfinance Information Exchange (MIX):
www.mixmarket.org
- Microfinance Gateway:
www.microfinancegateway.org
- SEEP Network:
www.seepnetwork.org
- World Bank Data - Global Findex:
<http://datatopics.worldbank.org/financialinclusion/country/lao-pdr>
- Microfinance Transparency:
www.mftransparency.org



Published by:

Microfinance Association

Unit 13, Simeuang Village, Sisattanak District

Vientiane Capital, Lao P.D.R

Email: mfa@laomfa.org

Web: www.laomfa.org

Tel: +856 21 226018/+856 30 948 1265

Fax: +856 21 226019

Office Opening Hours: Monday-Friday 8-12am, 1-5pm

Sponsored by: ADA

MFA Members: 66