



# MFA Newsletter

7<sup>th</sup> Issue, August 2016

## EDITORIAL

Dear Readers,

This 7<sup>th</sup> edition of the MFA Newsletter highlights two topics which are important for the relations of the MFIs with their clients: New Microfinance Implementation Guidelines and Financial education

The short article on the new Microfinance Implementation Guidelines for microfinance institutions, which were officially approved by the Bank of the Lao PDR (BoL) on 19<sup>th</sup> April 2016. The new regulation specifies and elaborates on some of the more general provisions contained in the Microfinance Decree which has been in force since 2012. The Guidelines replace the former regulations for Deposit-taking MFIs and Non Deposit-taking MFIs approved in 2008.

The second article on the Financial Education, which helps poor households better manage their scarce resources and be better prepared for external shocks or other crises and brings at the same time the benefits to microfinance institutions (MFIs). In addition, the article introduces Financial literacy modules, which will be provided by MFA.

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

|                                   |      |
|-----------------------------------|------|
| New MFI Implementation Guidelines | p. 2 |
| Financial education               | p. 3 |
| News from our members             | p. 4 |
| News from the MFA                 | p. 5 |

## UPCOMING EVENTS

- MFMCC Evaluation workshop batches 1-5 and Technical member meeting, Aug-Sep 2016
- Microfinance Management Certificate Course batch 6, Sep - Nov 2016
- Business planning training for entrepreneurs, clients of 6 pilot MFIs, Sep- December 2016
- Social audit for 1 MFI



## New Implementation Guidelines Bring more Clarity

*After an extended preparatory period, the new Implementation Guidelines for microfinance institutions were officially approved by the Bank of the Lao PDR (BoL) on 19<sup>th</sup> April 2016. The new regulation specifies and elaborates on some of the more general provisions contained in the Microfinance Decree which has been in force since 2012. The Guidelines replace the former regulations for Deposit-taking MFIs and Non Deposit-taking MFIs approved in 2008. Savings and Credit Unions (SCU) is regulated by separate guidelines issued by Bank of Laos. The MFA and its member organizations were able to contribute their ideas to a previous version of these guidelines leading up to the final version. In the following paragraphs we will highlight some of the most noteworthy provisions of the new Guidelines.*

### New definition of Microfinance loan (Art. 15)

A microfinance loan is now defined as a loan not in excess of 50,000,000 Kip (previously: 10,000,000 Kip). This is a welcome development as it gives the MFIs more flexibility and allows them to serve bigger clients. This should help to reduce their operating costs as a smaller number of larger loans reduces the cost per loan. The provision that not less than 80% of the total loan portfolio must be constituted by microfinance loans is being maintained.

### Foreign investment in DTMFIs and NDTMFIs (Art. 8 and 25)

The new Guidelines allow for foreign investment in a Lao DTMFI or NDTMFI up to a maximum of 30% of total capital (minimum: 10%). The BoL can adjust these proportions from time to time. This is a welcome clause as the 30% proportion could be low for some investors, particularly with regard to NDTMFIs whose capital is often quite small. Foreign investors that acquire shares of an MFI must comply with the Lao investment law, and for all investments a written information to the BoL is required.

DTMFIs with “financial stability” can receive loans (refinancing funds) from domestic or international funders of up to 30% of their total loan portfolio. For loans in foreign currency a written approval from the BoL is required.

### Interest rates and service fees (Art. 16)

Savings and lending interest rates as well as service fees can be defined by the MFIs according to market mechanisms or according to specific provisions issued by the BoL. Thus the Guidelines do not define any interest rate ceilings, a move which is in line with CGAP key principles of microfinance and has been welcomed by MFA members.

Regarding the calculation of interest rates, for loans up to 5,000,000 Kip MFIs can apply the flat rate calculation method, for loans in excess of this amount they are obliged to use the declining balance method.

### Capital requirement for NDTMFIs (Art. 24)

According to the new Guidelines, the minimum registration capital for NDTMFIs of 200,000,000 Kip<sup>1</sup> remains unchanged. The MFA is of the opinion that a minimum capital threshold of 200 million Kip is too low and will lead to further fragmentation of the sector. In addition, the Guidelines stipulate that a NDTMFI which has assets of over three billion Kip can convert to a DTMFI. However, this provision is not of much consequence as a NDTMFI needs to have three billion worth of *registration capital* to be able to transform into a DTMFI. On the other hand, there is no mention in the Guidelines of a maximum amount of (voluntary) deposits a NDTMFI can receive. However, this point was clarified by a specific instruction issued by the BoL in 2015 to the effect that a NDTMFI was not entitled to receive any deposits at all.

### External financing for NDTMFIs

Apart from (foreign or domestic) equity investment, NDTMFIs can take loans or receive grant assistance from international or domestic funders. Loans from foreign funders must not exceed 30% of total gross loan portfolio. Moreover, both domestic and foreign loans as well as grants require written approval from the BoL.

<sup>1</sup> This converts to roughly 25,000 US\$.



## Financial Education Expected to Boost financial Inclusion

*In many poor countries the majority of the population, in particular in rural areas, is excluded from formal financial services. This also holds true for Laos. One of the reasons is that people do not understand the products and services banks or MFIs have on offer. And what they don't understand they don't trust. So they prefer to keep their money under the mattress or to use informal financial services they are familiar with. Experience suggests that financial education programs help people make sound financial choices and can encourage them to take up formal financial products.*

Financial education is not only about transmitting knowledge. It is about learning new skills, for example how to make a budget, and shifting towards new behaviors. Many poor people apply high-cost “reactive” strategies when faced with a crisis: They sell part of their assets or borrow money from a money lender. Financial education introduces them to “protection” or “proactive” strategies such as savings or microinsurance.

### Financial literacy and financial education

**Financial literacy** is the ability to make informed financial decisions. This includes understanding financial choices, spending money wisely, plan for the future and save for unexpected emergencies.

**Financial education** is the path to financial literacy. It builds the knowledge, skills and attitudes required for responsible earning, spending, saving, borrowing, and investing and broadens people's understanding for financial principles and options.

Financial education does not only target the “banked”, i.e. the customers of financial institutions. It is useful to any poor household that has to manage financial resources, which can also come from remittances or public cash transfer programs.

The most common topics of financial education are budgeting, savings and debt management. However, other more specific themes can be included in a training, such as use of banks, remittances, risk management and insurance, housing, consumer protection, etc.

### MFA's manual on financial education

The MFA has designed a training manual on financial education for MFI clients which encompasses the following 5 modules:

1. What is Financial Education?
2. Money and cash flow management
3. Accessing financial products & services
4. Managing a business
5. Behavior Change

The manual covers the basic topics of financial education: assessing the financial situation (income and expenses); distinguishing between needs and wants; setting financial goals; making a financial plan for the household and towards economic security; savings and credit: things to know before taking out a loan and consequences of loan default; financing sources for investments; building self-esteem and confidence; shifting from reactive to pro-active decisions. It also includes



Picture 1: My financial goals



some topics related to business management, like the 8 Ps Marketing Mix.

The manual will be used both for training of trainers (ToT) and direct training of MFI clients and possibly a wider public. For the ToT, a separate session guide in Lao language will be crafted. The training course will last 2 days and will be provided by MFI loan officers, whereby the first delivery will be supervised by master trainers from MFA / EDC (Enterprise & Development Consultants).

## Delivery matters

The ways and means messages are delivered to the target groups are as important as the content itself. In financial education there are basically three delivery mechanisms: face-to-face training, mass media, and tools. Face-to-face, group-based training is the most effective way to convey more in-depth content and to promote behavior change in the target group. However, this method proves to be expensive if the objective is to go to scale.

Tools, such as brochures, posters, training videos/DVDs or games can potentially reach large numbers of people while reducing per person cost of delivering financial education. One of the great challenges of financial education is to tailor content and delivery mechanisms to varying levels of literacy among the target groups.

## News from our Members

### Phongsaly Development Microfinance Institution received a license to operate as DTMFI and expanding its services to 4 sites

In the morning of 1<sup>st</sup> July 2016, Phongsaly Development DTMFI organized a handing over ceremony of license for business operation as DTMFI and expanding its services to 4 sites: Boun Nuea District, Yot Ou District, Boun Tai District and Mai District. The ceremony was organized at the Meeting Hall of Phongsaly province. It was honorably chaired by Mr. Khamphoy Vannasane, the Provincial Vice-Governor of Phongsaly Province, who is responsible for the economic development of the province and also a chair of the BoD of the Phongsaly Development DTMFI. The ceremony was also participated by Mr. Bounthai Souphatthone, Director General of the Northern Region Branch of the Bank of Lao PDR based in Oudomxay Province, Mr. Souvantha Deovanh, the Director of Phongsaly

Development DTMFI, Vice-District Governors from 7 districts, Director of Provincial Departments, Chiefs of Villages from 9 clusters of villages and relevant stakeholders. There were 136 participants (45 women) took part in the event.



Handing over ceremony of license to operate as DTMFI

### Oudomxay Development NDTMFI organised a meeting with clients

On 1st March 2016, Oudomxay Development NDTMFI organised an event to return the profit to its clients and also to meet with the clients/members in order to promote and disseminate the products and services of the institution to the public in the target villages. In the event, the rewards were provided to the members who have been very well performed and also an amount of 2,000,000 Kip was provided to each village located in the cluster of villages that hosted the meeting. The total costs of the meeting was 80,000,000 Kip.



Clients participated in the meeting, Oudomxay Development NDTMFI





**Champalao DTMFI, Luangphrabang Province received a license to be a formal agent for “Community Money Express (BCOME)” from BCEL**

On 18<sup>th</sup> March 2016, at the office of Champalao DTMFI there was a handing over ceremony of a license to be a formal agent for community quick money transfer or so called BCOME from BCEL that was provided to Champalao DTMFI. The main objective of the service is to implement the policies of the party-state that promotes the access to financial services for the rural remote population in Lao PDR and also to expand the service networks to the communities that can not access to the BCEL service units in order to provide a quick and safe services for the local population in terms of easier money transfer and other financial services.



During the 1<sup>st</sup> and 2<sup>nd</sup> quarters this year, MFA has completed the 3 batches of the training under MFMCC. In each batch, many MFIs were interested in and sent their representatives to participate in. The participants include managers and members of the BoD. The total number of participants was 63 people who came from DTMFI, NDTMFI, SCUs and the technical officials from the Department of Financial Institution Supervision of BoL and the microfinance teachers from Banking Institute and individuals who are interested in microfinance. So far, MFA has issued the certificate to the 61 trainees who have passed the exams. Under the training course, there were 8 modules and took 20 days of training, and 1 days for taking exams including certificate handing over. The exam was used online system called **software: [www.edmodo.com](http://www.edmodo.com)** which helps the exam taker knows the results of the exam immediately. For the mean of the score, the exam committee was responsible for the calculation.

The representative of the trainees was interviewed by the TV reporter on the 3<sup>rd</sup> batch certificate handing over ceremony and s/he mentioned that so far s/he has participated in the sub-topics training so s/he has not received the information continuously. However, after participating in MFMCC, s/he can understand and recognize the importance of each tasks in managing MFI.

## News from the MFA

### Microfinance Management Certificate Course (MFMCC)

This unique course will help to strengthen the capacity of managers of formal MFIs and SCUs and will also improve the effectiveness and efficiency of microfinance sector's operations that will ensure the sustainability of MFIs and microfinance sector in Lao PDR as well.





For the year 2016, MFMCC will be continued with additional 2 batches until the end of the year and it is expected that the number of participants will be constantly increased.

#### 4 different trainings/coaching conducted

During the first 6 months of the year 2016, MFA has provided 3 topics of the training for its members which includes credit and delinquency management; client protection principles and financial performance indicator analysis. In addition, the ToT training on market planning for micro-entrepreneurs was organized and participated by 74 people. Moreover, MFA has conducted the coaching sessions for Vientiane SCU and also provided continuous technical support and advisory services to the members upon their request.



**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, SCU and the first annual meeting of Leasing Company which was organized by the Financial Institution Supervision Department, Bank of Lao PDR.



#### One Member's meeting organised with different topics

The technical meeting for the MFA's members was organized one time in the 1<sup>st</sup> quarter of the year. In the meeting, there were some important topics discussed such as the ways on how to deal with the challenges and maintain the clients after the commercial banks reduce interest rates; micro loans services provided by some commercial banks; presentation on tools for assessing the members of BoD and managers automatically. The presentation focused on the participants' recognition on the importance and benefits of the assessment in order to help the managers of MFIs review and improve the management of their MFIs.







## Useful Microfinance Websites:

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



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