



Completion Report

Project Number: 33357
Loan Number 2252/2253
October 2013

Lao People's Democratic Republic: Rural Finance Sector Development Program

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – kip (KN)

		At Appraisal 17 July 2006	At Project Completion 12 October 2012
KN1.00	=	\$0.0001	\$ 0.0001
\$1.00	=	KN10,142	KN8,004

ABBREVIATIONS

ADB	-	Asian Development Bank
APB	-	Agriculture Promotion Bank
BOL	-	Bank of Lao PDR
BSRPL	-	banking sector reform program loan
DMF	-	design and monitoring framework
EA	-	Executing Agency
IAS	-	International Accounting Standards
ICT	-	information and communications technology
IFRS	-	international financial reporting standards
JFICT	-	Japan Fund for Information and Communication Technology
JFPR	-	Japan Fund for Poverty Reduction
JICA	-	Japan International Cooperation Agency
Lao PDR	-	Lao People's Democratic Republic
MF	-	microfinance fund
MFFMU	-	Microfinance Fund Management Unit
MFI	-	microfinance institution
MFWG	-	Microfinance Working Group
MIS	-	management information system
MOF	-	Ministry of Finance
NPL	-	nonperforming loan
PIU	-	Project Implementation Unit
PMO	-	Prime Minister's Office
PSC	-	program steering committee
RFSDP	-	Rural Finance Sector Development Program
RMFC	-	Rural and Microfinance Committee
SCU	-	savings and credit union
TA	-	technical assistance

NOTES

- (i) The fiscal year (FY) of the government and its agencies ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 31 December 2009.
- (ii) In this report, "\$" refers to US dollars.

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BASIC DATA

A. Loan Identification

1.	Country	Lao People's Democratic Republic
2.	Program and Loan Number	2252-LAO(SF) and 2253-LAO(SF)
3.	Project Title	Rural Finance Sector Development Program
4.	Borrower	Lao People's Democratic Republic
5.	Executing Agency	Bank of Lao PDR
6.	Amount of Loans	
	(a) Program – L2252	SDR5,143,000.00 (\$7.684 million)
	(b) Project – L2253	SDR1,550,000.00 (\$2.316 million)
7.	Project Completion Report Number	1427

B. Loan Data

1.	Appraisal		
	– Date Started	15 June 2004	
	– Date Completed	24 June 2004	
2.	Loan Negotiations		
	– Date Started	10 October 2005	
	– Date Completed	11 October 2005	
3.	Date of Board Approval	17 August 2006	
4.	Date of Loan Agreement	30 November 2006	
5.	Date of Loan Effectiveness		
	– In Loan Agreement	28 February 2007	
	– Actual	12 March 2007	
	– Number of Extensions	1	
6.	Closing Date	<u>Loan 2252</u>	<u>Loan 2253</u>
	– In Loan Agreement	30 September 2010	31 March 2011
	– Actual	29 July 2010	12 October 2012
	– Number of Extensions	0	2
7.	Terms of Loan	<u>Loan 2252</u>	<u>Loan 2253</u>
	– Interest Rate	1% grace period	1% grace period
		1.5% thereafter	1.5% thereafter
	– Maturity (number of years)	24 years	32 years
	– Grace Period (number of years)	8 years	8 years
8.	Terms of Relending (if any)	Not applicable	
	– Interest Rate		
	– Maturity (number of years)		
	– Grace Period (number of years)		
	– Second-Step Borrower		

9. Disbursements

Loan 2252

a(1). Dates

Initial Disbursement	Final Disbursement	Time Interval
14 June 2007	29 July 2010	37.5
Effective Date	Original Closing Date	Time Interval
12 March 2007	30 September 2010	42.5

Loan 2253

a(2). Dates

Initial Disbursement	Final Disbursement	Time Interval
12 December 2008	12 October 2012	46
Effective Date	Original Closing Date	Time Interval
12 March 2007	31 March 2011	48.5

b(1). Amount (\$'000) – L2252

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
1	2,725				2,725	
	2,500				2,500	
	2,604				2,604	
Total	7,828				7,828	

b(2). Amount (\$'000) – L2253

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
1 BOL Supervision						
Capacity Bldg	1,106	1,149	0	1,149	1,127	22
2 APB Capacity Bldg	5	5		5	2	3
3 ABP ICT	1,150	1,194		1,194	1,228	(34)
3a International consultants	900	931		931	1,154	(223)
3b Domestic consultants	250	263		263	74	189
4, Project Management	20	21		21		21
4A Local staff	6	6		6		6
4B Commu- cation	4	5		5		5

4C Office supplies	5	5	5	5
4D Reports	5	5	5	5
5 Local Travel	4	4	4	4
6 Interest	31	33	33	33
Total^a	2,316	2,406	0	2,406
				2,390
				16

APB = Agriculture Promotion Bank, BOL = Bank of Lao, ICT = information and communications technology, () = negative

^a The undisbursed amount in \$ is due to a difference in the \$-SDR exchange rate between appraisal and actual disbursement. The loan was fully disbursed in SDR with total disbursement of SDR of 1.550 million. The foreign exchange difference is between the revised allocation estimates and actual cost.

10. Local Costs (Financed)

- Amount (\$)	na
- Percent of Local Costs	na
- Percent of Total Cost	na

na = not applicable

C. Program Data

1. Program Cost (\$'000)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	7,684	7,828
Total	7,684	7,828

2. Financing Plan (\$'000)

Cost	Appraisal Estimate	Actual
Implementation Costs		
ADB Financed		
Three Tranches	7,684	7,828
Total	7,684	7,828

ADB = Asian Development Bank

3. Cost Breakdown by Program Component (\$'000)

Component	Appraisal Estimate	Actual
Three Tranches	7,684	7,828
Total	7,684	7,828

4. Program Schedule

Item	Appraisal Estimate	Actual
Other Milestones		
Three Tranches	7,684	7,828
Total	7,684	7,828

Project Data

1. Project Cost (\$'000)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	1,935	na
Local Currency Cost	876	na
Total	2,811	2,389

2. Financing Plan (\$'000)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower Financed	495	na
ADB Financed	2,316	na
Total	2,811	2,389

ADB = Asian Development Bank

3. Cost Breakdown by Project Component (\$'000)

Component	Appraisal Estimate	Actual
1. BOL MFI Supervision Capacity	308	1,126
2. APB Capacity Building	603	2
3. APB ICT Upgrade (turn key contract)	1,730	1,228
Total	2,740	2,357

APB = Agriculture Promotion Bank, BOL = Bank of Lao, ICT = information and communications technology

4. Project Schedule

Item	Appraisal Estimate	Actual
Date of Contract with Consultants ^a		
Contract for Consultant Services		20 August 2008
APB Upgrade of ICT & MIS Systems		16 October 2008

APB = Agriculture Promotion Bank, ICT = Information and Communications Technology, MIS = Management Information System

5. a. Program Performance Report Ratings – L2252-LAO

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 12 March 2007 to 31 December 2007	S	S
From 01 January 2008 to 31 December 2008	S	S
From 01 January 2009 to 31 December 2009	S	S
From 01 January 2010 to 29 July 2010	S	S

S = Satisfactory

5. b. Project Performance Report Ratings – Loan 2253-LAO

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 12 March 2007 to 31 December 2007	S	S
From 01 January 2008 to 31 December 2008	S	S
From 01 January 2009 to 31 December 2009	S	S
From 01 January 2010 to 31 December 2010	S	S
From 01 January 2011 to 31 December 2011	S	S
From 01 January 2012 to 12 October 2012	S	S

S = Satisfactory

D. Data on Asian Development Bank Missions

Name of Mission ^a	Date	No. of Persons	No. of Person-Days	Specialization of Members ^b
Processing				
Fact Finding	19 Apr–7 May 04	6	114	a,b,c,d,f
Pre-appraisal/Appraisal	15–24 June 04	2	20	a,b
Consultation	9–13 May 05	3	15	a,b
Contact/consultation	23–27 Jan 06	2	10	a,b
Program Loan 2252				
Review ^c	19–28 Nov 07	2	14	b
Review ^c	4–11 Mar 08	2	11	b
Review ^c	26 May–3 Jun 08	2	11	b
Review	7–11 July 08	2	10	b, e
Review ^c	19–23 Jan 09	2	7	b
Review ^c	8–15 Jul 09	2	11	b
Review	22–26 Feb 10	2	10	b
Project Loan 2253				
Review ^d	25 Jun–13 Jul 07	2	19	b,e
Review ^d	3–14 Nov 08	2	12	B
Review ^d	20–30 Apr 09	2	11	b
Review ^d	20–26 Oct 09	2	7	b
Review ^d	24–28 May 10	2	7	b
Review ^d	29 Jul–3 Aug 10	3	9	b,e
Review ^e	20–26 Oct 11	2	9	b
Review ^e	12–16 Mar 11	3	10	b,g
Review	27–31 Aug 12	3	15	b, g
Consultation	10–12 Dec 12	1	3	b
Project completion review	15–23 May 13	2	18	b, g

^a Includes identification, fact-finding, pre-appraisal, appraisal, project {program} inception, review, special loan administration, disbursement, project {program} review mission

^b a = microfinance specialist, b = financial specialist, c = counsel, d = social development specialist, e = economist, f = consultant, g = project analyst

^c In conjunction with CDTA 4827 review.

^d In conjunction with Japan Fund for Poverty Reduction (JFPR) 9095: Catalyzing Microfinance for the Poor Project and Japan Fund for Information and Communication Technology (JFICT) 9096: Project for Upgrading of ICT and Management Information Systems (MIS) at the Agriculture Promotion Bank review

^e In conjunction with Capacity Development Technical Assistance (CDTA) 7500: Lao PDR Enhancing Financial Sector Supervision review

I. PROGRAM AND PROJECT DESCRIPTION

A. Rationale

1. On 17 August 2006, the Board of Directors of the Asian Development Bank (ADB) approved the \$13.152 million Rural Finance Sector Development Program (RFSDP) for the Lao People's Democratic Republic (Lao PDR).¹ The goal of the program was to help the Government of Lao PDR reduce poverty and promote sustainable economic growth in rural areas through the development of a sustainable, market-oriented rural and microfinance sector that can improve the access of poor farmers, other rural households, and agribusinesses to reliable financial products and services. The program comprised five parts: (i) a program loan; (ii) a project loan; (iii) technical assistance (TA); (iv) a grant from the Japan Fund for Poverty Reduction (JFPR); and (v) a grant from the Japan Fund for Information and Communication Technology (JFICT).

2. The program loan, Loan 2252-LAO, aimed to support the government in promoting a sustainable, market-oriented rural and microfinance sector by (i) creating an enabling policy framework; (ii) creating a sound prudential regulatory and supervisory environment; (iii) transforming the Agriculture Promotion Bank (APB) into a financially sustainable, market-oriented rural finance institution; and (iv) creating a supportive non-prudential regulatory environment.

3. The project loan, Loan 2253-LAO, a project component of the RFSDP, was approved by the ADB Board on 17 August 2006, signed on 30 November 2006, and became effective on 12 March 2007. The loan (approximately \$2.3 million), completed in September 2012, aimed to promote a sustainable and market-oriented rural and microfinance sector. It sought to (i) build the microfinance institution (MFI) supervision capacity of the Bank of Lao PDR (BOL); (ii) build capacity in APB in regarding credit and risk management, accounting, and management information systems (MISs) in support of APB's restructuring plan; and (iii) upgrade APB's information and communications technology (ICT) system. A more efficient, diverse, competitive, and market-oriented rural finance system was expected to increase access to financial services and significantly expand income-generating opportunities, generate employment, and reduce poverty.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

4. The program loan and related project loan and TA were designed and formulated to address uneven growth in the country, a declining but still significant 32% poverty rate in 2002-2003, and a desire on the part of the government to implement ongoing and new initiatives to further liberalize the economy. In terms of rural finance in particular, during 2002-2003, the government carried out an extensive participatory process with key stakeholders to develop an enabling national policy on rural and microfinance. This policy replaced the overreliance on subsidized, directed credit channeled through APB and encourages the establishment and operation of alternative sources of rural finance, including microfinance. The process resulted in

¹ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Sector Development Program Loans, Technical Assistance Grant, and Administration of Grant Assistance from the Japan Fund for Poverty Reduction and the Japan Fund for Information and Communication Technology for the Rural Finance Development Program*. Manila.

the endorsement by the Prime Minister's Office (PMO) of the Policy Statement for the Development of Sustainable Rural and Micro Finance Sector in November 2003. The statement presented a vision that (i) the sector will expand significantly; (ii) the sector will include a diversity of independent MFIs, including private and/or public institutions with access to national and international public and private investors, including international donors and development partners; (iii) the sector will become sustainable, and interest rates will be set by MFI management, based on full cost recovery, profitability, and market demand; and (iv) the environment will ensure the depositor security, including implementation of an appropriate legal and regulatory framework and strengthened supervision of deposit-taking MFIs.

5. The program and related support were all relevant to the government's initiatives (as noted above) and to the key issues identified in the ADB sector assessment conducted in preparation for the program. In addition, in 2004 a comprehensive survey was conducted by ADB of 1,200 rural households, as well as all commercial banks and known microfinance initiatives.² The study found that the formal sector (banks) and semi-formal sector (microfinance initiatives) were not meeting the demand for financial services in the vast majority of rural households in the Lao PDR. The study also noted that the government's new market-oriented policy had the potential to have a positive impact on the sector. The initial reforms and initiatives undertaken by the government were important first steps in developing sustainable, market-oriented rural and microfinance that could help develop the potential for agricultural and rural enterprises. However, a large portion of poor households remained outside the reach of formal financial institutions. Development of a sustainable, market-oriented rural finance system that could contribute to poverty reduction and economic growth, required further strengthening of policy, infrastructure, governance, and institutional capacity, in both APB and the fledgling private MFIs. Improvements in the policy environment focused on fostering competition among and market access for new MFIs, as well as facilitating their sustainable operation in a conducive supervisory and regulatory framework. BOL's capacity to implement this framework needed to be strengthened.

6. **Project loan.** The project loan was developed in response to a request from the government of Lao PDR for ADB assistance in restructuring the APB, which was to include advanced capacity building, particularly in financial planning, human resource development, risk management, accounting and ICT. A Governance Agreement was drawn up in March 2007 (effective in April 2007) between the Ministry of Finance (MOF), the BOL, the board of directors and the management of APB providing a framework to support better governance in decision making, application of commercial principles in credit explanation, and private sector focus on strategies and operations.

B. Program and Project Outputs

Program Outputs

7. The policy initiatives for the program loan are described in the policy matrix of the report and recommendation of the President (footnote 1) and in the development policy letter (Appendix 2). The program loan had four components: (i) creating an enabling policy framework for public and private provision of rural and microfinance; (ii) creating a sound prudential regulatory and supervisory environment for public and private rural and microfinance

² Coleman, Brett E. and Wynne-Williams, Jon. and Asian Development Bank. and Asian Development Bank Institute. Rural finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability: Results of Household and Supplier Surveys / Asian Development Bank Metro Manila, Philippines 2006.

institutions; (iii) transforming APB into a financially self-sustainable, market-oriented rural finance institution; and (iv) creating a supportive non-prudential regulatory environment for rural and microfinance.

8. Specific program outputs achieved during the program period are reflected in the design and monitoring framework (DMF) (Appendix 1).

Project Outputs

9. The outputs expected under the project loan at appraisal were intended to strengthen BOL's supervision capacity, support APB's restructuring plan, and upgrade APB's ICT system. The outputs for the project loan were included in the DMF for the program loan (Appendix 1). All of the outputs were achieved, except for the completed upgrade of the APB ICT system.

C. Program and Project Costs

10. **Program cost.** ADB provided a program loan of approximately \$7.80 million from ADB's ordinary capital resources, which was disbursed in three tranches.

11. **Project cost.** The project cost was estimated at \$3.30 million equivalent, consisting of \$2.2 million (66% of the total) in foreign exchange and \$1.1 million equivalent (33%) in local currency cost. ADB was envisioned to finance about \$2.3 million, while the central government was envisioned to finance about \$1.1 million equivalent (99%) of the local currency cost. The borrower was the Government of the Lao PDR. The loan came from ADB Special Funds resources with a maturity of 32 years including a grace period of 8 years. The annual interest charged is 1.0% during the grace period and 1.5% thereafter. The loan was to be utilized over a 48-month period from loan effectiveness. The Financial Reform Strengthening Initiative financed \$0.281 million equivalent for the BOL MFI supervision strengthening component on a parallel grant co-financing basis. The government financed the balance of \$0.761 million equivalent, including \$0.265 million from APB. However, the project component for the APB ICT upgrade, which was only partially completed, experienced an overrun on the estimated government contribution of around 7%, because the consulting costs exceeded the budgeted amount by 30%.

D. Disbursements

12. The loans were approved on 17 August 2006 and became effective on 12 March 2007. The loans were disbursed in accordance with ADB guidelines.

13. **Program loan.** The loan disbursement for the program loan was for three tranches in SDR equivalent to \$7.828 million. The first tranche of \$2.725 million was disbursed on June 2007 while the second tranche of \$2.5 million was released September 2008. The final tranche of \$2.604 million was disbursed in July 2010, 22 months after the second tranche release, which was subject to full compliance by the government's with the tranche release conditions.

14. **Project loan.** The disbursement mechanism envisaged at appraisal followed ADB's standard loan agreement provisions, which supported the restructuring of APB, financing the consulting input costs for capacity building through a contract with SMEC³ and the turnkey contract for the ICT upgrade. The project design anticipated full loan disbursement over a period

³ SMEC is a consulting firm based in Australia.

of 36 months. However, during project implementation, the government requested a closing date extension of 18 months (to September 2012). The project experienced an initial 1-year delay in recruiting the International Banking Advisor team due to the new regulations on income taxation to international workers in Lao PDR. The extension compensated for the delayed start-up in loan implementation of about 1 year due to the new income tax policy enacted by the government in 2007.

E. Program and Project Schedule

15. **Program loan.** There were no significant delays related to the program loan.
16. **Project loan.** The project loan experienced significant delays due to the project design and difficulties in recruitment and performance of contractors as noted in para. 36.

F. Implementation Arrangements

17. **Program loan.** Implementation arrangements concerning the executing and implementing agencies of the program, including the project management organization, were unchanged between appraisal and implementation. The BOL was the executing agency for the RFSDP and oversaw compliance with the reform program, including the project components. BOL established a program management unit (PMU) and assigned a program director and two full-time counterpart staff. To ensure coordination of the reform program, a program steering committee (PSC), chaired by deputy governor of BOL, was established. The committee comprised senior representatives of PMO, MOF, Ministry of Foreign Affairs (Department of International Economic Cooperation), Ministry of Agriculture and Forestry, APB, and Ministry of Justice. Specifically, the Project Implementation Unit (PIU) in BOL implemented the MFI supervision component.

18. **Project loan.** Because of the significance of the APB reform program, APB was the implementing agency for the program and project components (i.e., APB restructuring, including implementing its obligations under the Governance Agreement and ICT upgrading). A separate PIU was established within APB with an assigned PIU director and four full-time counterpart staff tasked to coordinate the fielding and work of the consultants, including provision of adequate office space and, in the case of APB, the ICT turnkey contractor. The project and program loans had the same steering committee, which ensured that the project activities were undertaken according to the agreed timetable, and monitored progress.

G. Conditions and Covenants

19. **Program loan.** The conditions and covenants of the program loan were achieved overall, as detailed in Appendices 3 and 4.
20. **Project loan.** The conditions and covenants of the project loan were achieved except for the full implementation of the ICT upgrading of APB, as detailed in Appendix 5. The timely submission of the audited project accounts was fulfilled. Statements noted compliance with ADB-required assertions on the use of funds, imprest accounts, and statement of expenditure, and compliance with financial covenants as provided by the auditor on a yearly basis. The external auditors were KPMG and Ernst & Young. However, a number of issues were noted in the management letter and during the review of the financial performance by the project team. These issues were mostly accepted by APB management; however, while APB attempted to improve the issues based on recommendations by external auditors, the same issues were

raised in subsequent management letters. The most serious issue noted in 2010 was that APB lacked accounting systems that could prepare financial statements in accordance with international financial reporting standards (IFRS) and the MIS could not support disclosures for the notes to financial statements as required by IFRS 7 “Financial Disclosure,” concerning maturity analysis of assets and liabilities, interest rate risk exposure by each class of financial assets, and financial liabilities and disclosures on risk management policies. In 2010 the auditors recommended that APB establish a separate unit to study the application of IFRS financial statements without relying on the auditors and request TA from international experts to provide training to APB staff on IFRS methodologies regarding transfer from financial statements based on generally accepted accounting principles to IFRS financial statements. In 2011, APB developed its own IFRS Manual and received training from ADB consultants and will be expected to implement the IFRS by the year 2015. It is noted that the long delay in fully implementing the Kastle Core Banking ICT upgrade has contributed to this issue.

21. While capital adequacy ratios were below the minimum requirement of BOL (8%), APB met the Governance Agreement requirements based on weighted averages of its financial performance.

H. Related Grant and Technical Assistance

22. The program financed two TAs and two JFPR project grants.⁴ The letter of agreement for the associated TA was signed on 23 February 2007, with TA implementation commencing in July 2007; it was physically completed in July 2009. The letters of agreement for the JFPR and JFICT grants were signed on 6 March 2007, and implementation of both started in June 2007. The CDTA Enhancing Financial Sector Supervision, approved 5 February 2010, assisted BOL in (i) implementation of the government’s rural finance policy reform agenda and compliance with the program’s second tranche conditions; (ii) integration of a rural and microfinance strategy into the financial sector strategy; (iii) microfinance sector stakeholder consultations (July 2007–January 2009), and finalization of microfinance regulations in June 2008; and (iv) capacity building for onsite and offsite supervision of MFIs and savings and credit unions (SCUs) under the new microfinance regulations. The TA also assisted APB in (i) setting performance-related targets for recapitalization and implementing the Governance Agreement; (ii) preparing rolling out of corporate plans for 2008–2010 and 2009–2011; (iii) completing the policy lending phase-out plan and improvements in portfolio performance and credit policies and procedures; and (iv) adopting a rational organizational structure, and design and implementation of good practice human resources policies and procedures and training planning. The CDTA 4827: Institutional Strengthening for Rural Finance was rated “successful” because the TA was relevant, given the overall objectives of the RFSDP and the request of the government. Difficulties encountered in following elements of the Governance Agreement, delays in processing of regulations, and a lack of a full government commitment to refrain from policy lending through APB reduced some of the TA’s potential effectiveness; however, the overall outcome was in line with the objectives set out in the DMF.

23. The JFPR grant supported the development of diversified MFIs. In particular, it (i) provided matching grants for MFIs that focus on best practices, sustainability, and poverty

⁴ (i) Japan Fund for Poverty Reduction (JFPR) 9095: Catalyzing Microfinance for the Poor Project and Japan Fund for Information and Communication Technology, (ii) (JFICT) 9096: Project for Upgrading of ICT and Management Information Systems (MIS) at the Agriculture Promotion Bank, (iii) Capacity Development Technical Assistance (CDTA) 7500: Lao PDR Enhancing Financial Sector Supervision review, and (iv) Capacity Development Technical Assistance (CDTA) 4827: Lao PDR Institutional Strengthening for Rural Finance.

reduction; (ii) helped BOL strengthen its capacity in prudential monitoring and supervision of microfinance activities; and (iii) disseminated microfinance best practices through workshops and training activities for MFI practitioners and government officials. Between June 2007 and December 2010, the TA disbursed \$417,547 to 19 MFIs. As of the end of 2009, there were 15 MFIs (7 deposit-taking and 8 non-deposit-taking), and 11 registered SCUs (up from 4 in 2007). Over the course of the project, the total loan portfolios of 19 participating MFIs almost doubled from KN14.83 billion to KN29.35 billion, and the number of profitable MFIs increased from the original 6 to 10 of 19 participating MFIs (with 3 more at Operating Self-Sufficiency (OSS)>95%). Baseline and follow-up onsite assessments of MFI institutional capacity revealed that, on average, participating MFIs improved across all categories of institutional performance, moving from weak to fair. Despite strong and consistent improvements, much remains to be done to bring management capacity up to international standards, and governance remains weak.

24. A significant portion of grant resources was also used for capacity building, including (i) awareness-raising workshops for central and provincial government officials, providing information on best practices in microfinance, new microfinance regulations, and guidance on how they can facilitate the expansion of a private, competitive microfinance sector in the Lao PDR; (ii) training modules for MFIs on business planning and corporate governance, covering operational matters including projected portfolios, income statements, human resources, marketing, social performance, and financial management; (iii) day-to-day on-the-job training and mentoring of BOL's microfinance division staff; and (iv) a feasibility study of a nationwide apex institution to provide technical and funding support to MFIs and SCUs. In June 2009, the JFPR grant completed a midterm review, and the feedback from sector stakeholders was highly satisfactory; a subsequent review in May 2013 indicated the same. Administratively, however, the JFPR project grant experienced a long delay in financial closing of the imprest account due to the administrative backlog of the executing agency and the consulting firm.

25. The JFICT grant helped support implementation of the project loan. In particular, it helped APB to (i) plan and execute bidding, selecting, and contracting with suppliers for the supply, delivery, and installation of the ICT and MIS; (ii) strengthen APB's ICT human resources to manage the upgraded ICT systems; and (iii) plan and implement the rollout of the procured ICT and MIS. The implementation was completed in areas (i) and (ii). Under area (iii), the JFICT grant assisted APB in supervising the implementation of the contract with 3i Infotech Asia Pacific as well as completion of the gap analysis, software customization, user tests, and the first installation phase of the new ICT systems at headquarters and the Vientiane branches and service offices. The JFICT grant was expected to be completed in September 2010; however, due to a number of factors the grant was extended until September 2012, and the upgrade has yet to be rolled out to the entire APB network. Nonetheless, it was confirmed that the JFICT project completed on 30 September 2010 was perceived as a successful project by APB and the executing agency. Preliminary assessments found that the grant assistance was highly relevant in complementing APB's lack of ICT development management capacity, and effective in leading the MIS and ICT upgrading of APB in a competent manner.

I. Consultant Recruitment and Procurement

26. The project financed a team of implementation consultants, whose recruitment was delayed due to the executing agency's unfamiliarity with ADB procedures. It took about 12 months after the loan became effective in March 2007 before the consultants were mobilized. A total of 48 person-months of consultancy services were allocated during negotiation stage. After a delay of 15 months due to issues regarding a regulation issued by the Ministry of Finance on income tax collection, on 20 August 2008 the government signed a contract with the firm SMEC

to provide consulting services for APB capacity building. ADB approved the extension of capacity building for 18 months as a result. In addition, the International Banking Advisor was replaced after 12 months of project operation. Despite these delays, the international and national consultants were able to accomplish their workplan effectively. On 16 October 2008, the government signed a contract with 3i Infotech to provide core banking hardware and software for APB's IT and MIS upgrade on the turnkey contract basis, 10 months after the targeted start date. Because of the high criteria set by ADB for recruiting firms, (as noted in the government's Project Completion Report (PCR)) no company met the criteria during the initial bidding, and a second bidding process was required. 3i Infotech won the second bid for IT equipment and software, with \$1.1 million coming from ADB and \$0.3 million coming from the APB budget.

J. Performance of Consultants, Contractors, and Suppliers

27. Consultants—including the accounting specialists, banking advisor, MFI specialists, and financial assistants—engaged under the project loan received satisfactory evaluations. The performance of the firm hired for procurement of hardware and software related to the ICT upgrade and related implementation under the project loan was not satisfactory. The project cost more than what was budgeted and APB was required to contribute \$54,607.08 to cover the additional amount. The software and TA provider was unable to deliver the full system upgrade within the designated timeframe and was unable to provide technical service advisors of the required quality. Both issues contributed to a significant delay in finalizing the system upgrade, increased the initial cost of the new system, and presented a significant challenge to APB, which is currently running parallel systems. After ADB fully disbursed the project loan funds designated for the ICT upgrade, it attempted to resolve some issues by sending a letter to the service provider urging them to fulfill the terms of their contract with APB, which had taken on phase II of implementation on their own account. This resulted in a higher-level response by the service provider, but they remained unable to resolve the final implementation issues (implementation is still pending).

K. Performance of the Borrower and the Executing Agency

28. BOL, the executing agency (EA), performed satisfactorily in meeting their responsibilities, as assigned in the implementation plan, which included support for the program loan, project loan, and four TA grants. Periodic reviews and a final assessment conducted in May 2013, which included interviews with a range of microfinance service providers supervised by BOL, indicate BOL has improved its institutional capacity and performs its supervisory role effectively for the providers interviewed. Monthly monitoring of financial performance of regulated financial institutions is taking place and anomalies in reporting (e.g., higher delinquency or lower reserves) are flagged. Yearly audits (requiring 3–5 days) are conducted by a team of up to five BOL staff from the head office and provincial-level regulators. The visits are comprehensive and include a list of recommendations discussed with the board of the financial institutions. Follow-up on previous year's findings is specifically discussed. APB operates under the leadership of BOL, and was able to implement the project effectively. It collaborated closely with the consultants in performing assigned responsibilities and functions. The project was completed as agreed between ADB and BOL.

29. The proceeds of the project loan were used efficiently to build the capacity of APB, as noted from the number of policy papers and manuals provided to APB, and amount of training provided in the areas of overall bank management, asset liability management, improvement of credit practices, formulation of business plans, supervision of branch operations, resolution of

problem accounts and overall risk management. Following a decline in portfolio quality in 2011–2012, management addressed the issue of unprofitable branches, assigning more qualified officers to manage their operations, and even suspending lending operations and focusing on the collection of past dues and resolution of problem accounts. This decreased the drain on the bank's resources from NPLs. Transformation of the unprofitable branches into active deposit-taking platforms generated much-needed funds to support more profitable branches. Despite the difficulties in fully implementing the ICT upgrade, APB has made significant progress, and has introduced new products designed to cater to the growing needs of its customers, including revolving credits and letters of credit, with plans to soon offer ATM services.

L. Performance of the Asian Development Bank

30. ADB's performance is rated *satisfactory* for the program loan and *less than satisfactory* for the project loan. ADB conducted extensive research and preparation for the development of the RFSDP and related support. The program was designed to address key regulatory and institutional development weaknesses, which would in turn increase the provision of financial services to low income populations. ADB staff worked with their government counterparts at the BOL and APB on reform areas that were included in the policy matrix. During implementation, they worked together to ensure actions were accomplished effectively. ADB staff conducted appropriate periodic reviews of the program, beginning with the preparation of project bidding and continuing throughout the project. Semi-annual reviews were timely and provided valuable recommendations for improving implementation. For the project loan, issues related to delays in consultant availability and taxation disagreements were managed by ADB so that, despite the delays, the majority of project objectives could be achieved. A critical performance target affecting bank performance was delayed for two years and only half completed at the end of the project period. The difficulties encountered in upgrading the ICT system resulted in part from inaccurate budgeting of cost estimates, overly optimistic timeframes and overly stringent criteria for firm selection, as well as the low-quality outputs produced by the selected firm. The project exceeded the expected budget, requiring a higher-than-anticipated investment on the part of APB to complete the project, and a significant extension of the deadline.

III. EVALUATION OF PERFORMANCE

A. Relevance

Relevance of Design and Formulation

31. Both the program and project design were *highly relevant* to the government's reform agenda for rural finance. Both were also considered timely as they closely followed the same reform agenda, as detailed in the rationale section of this report.

32. The project loan was highly relevant to the government's plan to reform the APB into a market-oriented, independent financial institution.

B. Effectiveness in Achieving Outcome

33. **Program loan.** The program loan was *effective* as it met the principle objectives of the proposed program, which were to (i) create an enabling policy framework for public and private provision of rural and microfinance; (ii) create a sound prudential regulatory and supervisory environment for public and private rural and microfinance institutions; (iii) transform APB into a

financially self-sustainable, market-oriented rural finance institution; and (iv) create a supportive non-prudential regulatory environment for rural and microfinance.

34. The program loan was assessed as *efficient* in achieving outcome and outputs. BOL was efficient in meeting the outputs included in the policy matrix and ADB was efficient in its monitoring and evaluation and support.

35. **Project loan.** The project loan was *less than effective* because although the majority of objectives were achieved, serious delays in key activities impacted implementation effectiveness. Specifically, the formulation of a Corporate Governance Scorecard and the creation of committees at board and management levels improved governance practices by the board of directors and APB management, with a clear focus on overall governance, asset creation and management of liquidity and risks. The training provided on asset liability management at all levels resulted in more active management of the assets and liabilities, down to the level of the branches (Appendix 6). However, recurrent issues raised by auditors and the delay in implementation of the ICT upgrade for APB have negatively impacted APB. Regarding the ICT upgrade, APB was relying on the new system in improving the accuracy of their operations; standardizing data storage; and significantly improving capacity for credit information management, accounting, internal audit, management reporting and anti-money laundering monitoring. Running of parallel systems while the upgrade is completed has increased costs and demand on staff. The ultimate effectiveness of the new system (once fully implemented) remains uncertain.

36. The project loan was assessed *less than efficient* despite the fact that it achieved the primary desired outcome of the project. APB was efficient in engaging in a number of indicated reforms but was less efficient in parts of the implementation (i.e. carrying out regular board committee meetings, and moving quickly to address portfolio quality issues, and issues raised by external auditors). Some processes were not entirely in their control, such as the delay in fully implementing the ICT and MIS upgrade. ADB provided efficient monitoring and support of the executing and implementing authorities and consultants engaged in the project, and made recommendations throughout the project to increase the positive outcome.

C. Preliminary Assessment of Sustainability

37. **Program loan.** The program loan was assessed *likely to be sustainable*. A regulatory framework for rural and microfinance is in place; although it needs to be strengthened, it provides appropriate oversight of licensed microfinance providers. The microfinance association is awaiting a license, but is effectively serving as a platform for dialogue between microfinance providers and government. It also provides valuable information (both financial and qualitative data) on the sector to its members and the public.

38. **Project loan.** The project loan was assessed *less likely to be sustainable*. Under BOL, there has been ongoing policy and regulatory reform, as reflected in strategies adopted by government and the strengthening of supervisory monitoring functions. APB has made significant progress in restructuring the bank and improving financial performance during 2006–2012, including by increasing management quality, gaining a commitment from the various divisions to ensure that new skills are applied, and implementing best practices, such as the use of credit scoring, the application of cash flow-based lending, the regular monitoring of the operations of the various branches, and the continuous updating and monitoring of the 3-year rolling business plan. APB was successful in meeting performance indicators established in the Governance Agreement, which focused on the restructuring period. In addition, it is noted that

APB continued to undergo an external, independent auditor beyond the requirements of the Loan Covenant for Loan 2252-LAO. However, despite the significant improvement in the bank's financial situation, profits in 2011 and 2012 deteriorated as a result of increases in provisions for credit losses, particularly in the bigger branches of Nakhonluang and Savannakhet. This resulted from a number of large loans to construction businesses and the rapid expansion of lending to a greater number of smaller borrowers, which has led to a decrease in loan portfolio quality. While steps were taken to counteract poor branch operations—including training provided by the consultant team related to cash flow-based lending, the application of credit scoring to credit management, enhanced branch supervision, and appraisal of larger scale projects—it is unclear that the elements needed to prevent further loss or a sustained reversal are in place. Financial statements for the end of 2012 indicate an improvement, but further strengthening of the skills of APB officers in cash flow-based lending is needed, especially considering the changes in BOL rules for restructured loans. Approval of account restructuring now requires that corresponding cash flow projections be presented. In addition, some of the most critical issues raised by external auditors have yet to be seriously addressed. The factor most likely to affect the sustainability of APB is the high level of turnover among senior management. Much of the training and capacity building provided under the project loan was lost or had to be repeated due to continual turnover throughout the project. At the same time, sustainability is possible, because government has not indicated a desire to further refinance any losses beyond the restructuring period. Once the ICT upgrade is completely rolled out, there is a greater likelihood that improvements will become institutionalized, and monitoring and supervision can become more timely and efficient. Adding new products and services has the potential to increase competitiveness.

D. Impact

39. The program successfully contributed to the development, strengthening and gradual expansion of the microfinance sector in terms of both credit and savings. However, so far, formal MFIs have not been very successful as a rural microfinance provider. The regulations have been in effect for over 6 years, and there has been ample technical and financial assistance from international development organizations, but outreach from formal microfinance service providers, in terms of number of borrowers and savers, remains low (Appendix 7). Institutional strength is also low in terms of high delinquency and write-off, weak credit assessment, key-person risk, low efficiency and management skills, overstating income and general inability to deliver financial reports, including compulsory reporting to BOL. In addition, average interest rates are high: 2%–5% per month, calculated on a flat balance (Supplementary Appendix 1).

40. The project largely achieved the expected impact at APB. The number of borrowing accounts increased from 10,775 in 2007 to 26,158 in 2012, while the number of depositors increased from 99,086 in 2007 to 140,769 in 2011. There was also a marked improvement in APB's operational efficiency, with the ratio of operating expenses/gross loans decreasing from 12% in 2007 to 4% in 2012 (the Governance Agreement established a target of <5% for operational efficiency). An improvement was also noted in APB's management practices, with the members of the board of directors and the management committees having received adequate training. APB's planning officers are now able to properly formulate a continuing 3-year rolling business plan. There has also been a noted improvement in APB's credit culture, with upgraded credit policy and operations manuals in place and officers trained on the use of credit scoring and cash flow-based lending. The NPL ratio has been reduced from 31% in 2007 to 2.69% in 2012. The bank began to register positive net profits, and the capital adequacy ratio

increased to 3.09% in 2012, up from –53% in 2007, although this is still well below the level required under BOL6 of 8%.

41. The RFSDP was categorized as “gender equity theme” in design. While there was no clear gender strategy articulated in the program design, the DMF included one gender design measure, to increase the number of female borrowers (but without a target). In this regard the program appears to have been successful in terms of increasing the number of active borrowers by 11,141 from a baseline of 9,352.⁵ Women comprised 59% of the total active borrowers. As of the end of 2011, on average more than 66% of the clients of MFIs reporting to MIX Market were women (Appendix 8). Under the project completion report customer satisfaction survey (Supplementary Appendix 1), 79 out of 111 customers surveyed were women, reflecting the fact that women make up the large majority of MFI clients. In the future it is suggested that BOL commit to collecting data on clients (borrowers and depositors) that is disaggregated by gender, to make it possible to track the gender equality results, such as the number of male and female beneficiaries of financial services.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

42. The overall assessment of the RFSDP is *successful*.

43. **Program loan.** The program loan was implemented as initially designed and was successful with regard to the government’s strategy, ADB’s country strategy and program update, August 2005,⁶ and ADB’s strategic objectives at the time of program design and approval. The program loan was pivotal for putting in place a regulatory and supervisory framework for microfinance and for providing strategic capacity building for nascent and growing microfinance providers. Outreach to rural and microfinance borrowers and depositors has increased, albeit not significantly. The program was also successful in restructuring and reforming APB and in creating a more competitive environment for financial services for micro and small enterprises. According to the client survey conducted as part of the program review, clients noted positive changes in rural finance, indicating increased and improved access to and overall satisfaction with financial services provided.

44. **Project loan.** The project loan was assessed overall as successful, but weakly so. APB was able to expand the number of borrowers and depositors, achieve profitability (from an unprofitable start in 2006), achieve a positive capital adequacy ratio (from a negative initial ratio), realize a significant improvement in operating efficiency, and generally improve the management practices and credit culture. However, the sustainability of these successes is tentative, given (i) the high level of senior management and board turnover; (ii) the move towards approval of a smaller number of high-value loans in key branches, which contributed to a portfolio decline in 2011–2012⁷; (iii) the lack of clear commitment by management to addressing important concerns repeatedly expressed by the external auditors; and (iv) the incomplete implementation of the ICT upgrade.

⁵ Final Consultant Report. TA 4827: LAO - Catalyzing Microfinance for the Poor Program. February 2011.

⁶ Asian Development Bank Country Strategy and Program Update (2006-2008) Lao People’s Democratic Republic, August 2005.

⁷ It is noted that this also was a result of APB’s decision to focus on recovery of non-performing loans instead.

B. Lessons

1. Program related.

45. **Embed program support in a government strategy.** To increase ownership and long-term commitment to goals, it is important that program support be embedded in a government strategy. Extensive preparation was made for the RFSDP in terms of market assessment and dialogue with government. The program was successful due to the close alignment of government and program objectives.

46. **Understand client needs.** Considering the extensive nature of program preparation related to client demand, the monitoring and evaluation of the program should have included a periodic assessment of client satisfaction or interim impact of the program objectives on clients. The customer satisfaction survey conducted as part of the project completion report review indicated that clients have appreciated an improvement in access to finance and in services provided, but that there are some serious consumer protection issues that need to be addressed.

47. **Need for better understanding of definitions.** The reason why the program was not rated highly successful is because, despite the fact that the overall objectives were achieved (as defined in the DMF), the linkage of the program to ultimately reducing poverty is weak. There was no substantial increase in access to formal financial services to rural, low-income clients.

48. **Plan for follow-on technical assistance.** If success is likely at the midpoint of a TA, planning for follow-on support should then be undertaken. The outcome of the program could have been stronger with follow-on TA, particularly in the case of the Catalyzing Microfinance for the Poor TA. Feedback from a range of microfinance providers and stakeholders confirmed the need for follow-on support.

2. Project related.

49. **Better design of procurement proposal.** The criteria for selection of an ICT and MIS consulting firm was overly ambitious. Delays in implementation could have been avoided with more reasonable criteria.

50. **Translating training into institutionalized practice.** Despite intensive onsite TA, APB management placed inadequate focus on the development of its human resources and capacity building, which were needed to ensure long-term sustainability. A number of staff training programs designed by the consultants experienced delays. Implementation of recommended action steps (such as the monthly monitoring meetings suggested for the branches) were not given sufficient importance.

C. Recommendations

1. Program and Project Related

51. **Future monitoring and covenants.** It is recommended that the Governance Agreement with APB be continued in order to maintain the operations improvements and transparency, particularly the requirement for publishing of continuing independent IFRS annual audits. The Governance Agreement set the conditions and policy and management actions necessary for the APB restructuring during 1 January 2007–30 June 2010. Full compliance by APB with the

Governance Agreement was a major policy action included in the ADB policy matrix of the Rural Finance Sector Development Program (Program Loan 2252). During a review mission, APB and ADB agreed that the Governance Agreement, which contains performance indicators, can continue to be a good guideline for sustainable APB operations even after the restructuring period ends and the agreement ceases to be contractually binding. It was also agreed that the financial audit, which was required by the Governance Agreement for FY2006, FY2007, FY2008 and FY2009 (Section 5.10.3), be continued to be conducted by an international independent audit firm following IFRS.

52. **Simplify and harmonize compliance and reporting requirements.** There were a significant number of requirements stipulated in the numerous program and project-related documents including: (i) Governance Agreement, (ii) Loan Covenant for Program Loan 2252, (iii) Loan Covenant for Project Loan 2253 (which was very similar but slightly different to the agreement for Loan 2252), (iv) Design and Monitoring Framework (DMF) for Loan 2252, and (v) Conditions under the Policy Matrix for Loan 2252 which were required for the second and third tranche release. This does not include the requirements under the four related TAs and grants. Every component of a future assistance package should take into account all requirements expected of the EA and the IAs and should be clear, consistent and as uncomplicated as possible.

53. **Further action or follow-up.** No further action to complete project disbursement is needed. However, follow-up on progress towards completion of upgrade of ICT and MIS of APB is needed as well as continued monitoring of portfolio quality and conduct of annual IFRS audit.

54. **Additional assistance.** It is recommended that additional TA be considered under new financing arrangements to help (i) extend support similar to that provided under the Catalyzing Microfinance for the Poor Program (footnote 2); (ii) explore partnership with the German Agency for International Cooperation (GIZ) for expansion of village savings fund support to additional provinces (targeted rural finance); (iii) provide support for capacity building of BOL provincial branch supervisory offices; (iv) contribute to the Financial Inclusion Fund, initiated by the Australian Agency for International Development and the United Nations Capital Development Fund; (v) support consumer protection and market conduct awareness raising and phased implementation (Supplementary Appendix 1); and (vi) support transition of institutionalization of the National Rural Livelihoods Development Program into a licensed MFI. These steps would help improve the program and project performance and sustainability and continue ADB's longstanding support for rural and microfinance sector development.

55. **Timing of the project (program) performance evaluation report.** The program performance evaluation report may be prepared in 2017, when impact can be more reasonably assessed.

2. General

56. **Sustainability.** To ensure sustainability, APB needs to continue to adhere to the principles of the Governance Agreement established between MOF, BOL and APB under the program loan.

57. **Poverty reduction.** Over the course of the RFSDP, overall poverty rates dropped and the results are encouraging. While rural financial services through the program did not increase significantly, the support met an important need for access to financial services among urban populations and provided a framework for prudential supervision which can be expanded.

Creating linkages to village savings funds, upgraded rural livelihoods programs like the Northern Rural Sustainable Livelihoods Through Livestock Development Project (NRLDP),⁸ and social protection initiatives such as graduation model programs⁹ can expand financial inclusion and more sustainably reduce poverty throughout Lao PDR.

⁸ See <http://www.adb.org/projects/42203-022/main>

⁹ The Consultative Group to Assist the Poor (CGAP)-Ford Foundation Graduation Program is a global effort to understand how safety nets, livelihoods and access to finance can be sequenced to create sustainable pathways for the poorest out of extreme poverty.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets	Status
	Appraisal	
Impact To reduce poverty and promote sustainable growth in rural areas	<p>Increased investment in rural farming and non-farming income-generating activities and rural micro and small enterprises</p> <p>Increased income from rural investments</p> <p>Reduced poverty by half (MDGs)</p>	<p>451% increase in the number of microfinance clients reached during 2006–2011; ADB Rural Finance Survey (2006)^a and Microfinance in the Lao PDR 2012^b.</p> <p>Lao PDR's Second Nationwide Economic Survey, which commenced April 2013 and will be used in preparation of the Eighth National Socio-Economic Development Plan, will provide accurate data on rural income and investments.</p> <p>The poverty rate has declined: 45% in 1992, 39% in 1997, 34% in 2002, 28% in 2008,^c and 17% in 2013^d</p>
Outcome To promote a sustainable and market-oriented rural and microfinance sector	<p>An enabling policy framework for public and private provision of rural and microfinance (October 2003)</p> <p>A sound prudential regulatory and</p>	<p>The original RMFC mandate expired in mid-2005. BOL transferred RMFC's responsibilities to the RFSDP Project Steering Committee (Agreement Letter signed by the BOL's governor, No. 610/BOL, 16 September 2007). The Project Steering Committee organized four stakeholder consultation workshops: (i) 25–26 June 2007 to discuss the draft regulations for MFIs and SCUs, with 90 stakeholders, including central and provincial representatives, attending; (ii) 17 October 2007 to discuss the revised regulations for non deposit-taking MFIs and SCUs, with 40 stakeholders attending; (iii) 28 November 2007 to discuss the revised regulations for deposit-taking MFIs and SCUs, 40 participants attended; and (iv) 30 June 2008 to the approved regulations, chart of accounts, and implementing guidelines, 70 participants attended. The original Policy Statement and Action Plan 2003–2005 was updated for 2007–2010 and approved by the governor of BOL in November 2007 (No. 312/BOL, 12 November 2007). The updated Policy Statement and Action Plan 2007–2010 was submitted to the PMO on 30 May 2008 (BOL's letter No. 12/CO submitted 30 May 2008) and subsequently was approved by the PMO on 10 July 2008 (PMO Letter No 1224/GSC, 10 July 2008).</p> <p>2005 issued Regulation on the Establishment and Implementation of Microfinance Institutions</p>

Design Summary	Performance Targets	
	Appraisal	Status
	<p>supervisory environment for public and private rural and microfinance institutions (June 2005)</p> <p>A supportive non-prudential regulatory environment for rural and microfinance (August 2006)</p> <p>APB transformed into a self-sustainable, market-oriented rural finance institution (December 2008)</p> <p>BOL capacity enhanced to effectively apply the regulatory and supervisory regime to APB and MFIs (December 2007)</p> <p>A diverse, sustainable, competitive MFI sector</p>	<p>in Lao PDR (creating licensing structure)</p> <p>Series of Regulations issued in 2008: (i) No. 02/BOL on Non-Deposit-taking MFIs; (ii) No.03/BOL on SCUs; and (iii) No. 04/BOL on deposit-taking MFIs</p> <p>BOL established the Microfinance Institutions Division and a Financial Institution Department in 2004, which were transformed in 2010 to the Financial Institutions Supervision Department, which was in charge of supervising non-bank, non-insurance financial institutions including MFIs, the Lao Postal Savings Institution, leasing and finance companies, money transfer organizations, and pawn shops. Decree on Microfinance Institutions issued 3 October 2012</p> <p>APB is a financially independent institution. Policy-based, subsidized lending was transferred to Nayoby Bank in 2007. APB recorded a positive net profit for first time in 2008. In 2009 operational income exceeded operational expenses. In 2010 the capital adequacy ratio became positive, reaching 3.2% after a fund injection by MOF, agreed to among APB, BOL, and MOF in the Governance Agreement. The audited financial statements for 2007–2010 were published on the APB website in accordance with the Governance Agreement. APB introduced new products designed to cater to the growing needs of customers, including revolving credit and letters of credit. As of 2013 APB is launching ATM services. However, APB's financial turnaround (through 2010) was reversed in 2011–2012 as a result of a high NPL ratio; the ICT upgrade has also yet to be completed, and the recurrent critical issues raised by external auditors remain to be addressed by management.</p> <p>In late 2006, BOL instituted monthly offsite monitoring of APB and quarterly assessment of APB performance. BOL conducts offsite and onsite inspections using the Microfinance Supervision Manual approved by BOL in August 2007, which uses the CAMELS framework^e. As of 2013, based on interviews with a sample of MFIs, BOL is effectively conducting monthly and annual monitoring of MFIs according to regulations.</p> <p>Number of licensed MFIs increased from 26 in 2009 to 42 in 2011 (including deposit-taking</p>

Design Summary	Performance Targets	
	Appraisal	Status
	operational with appropriate support and incentives (December 2009)	and non-deposit taking MFIs and SCUs) Operational self-sufficiency ratio (income without grants/expenditure, after loan loss provisioning and before taxes) of MFIs was 109% (BOL Microfinance in the Lao PDR 2012)
Outputs		
Enabling policies and strategy for rural and microfinance	<p>An approved and adopted policy for the development of sustainable rural and microfinance (October 2003)</p> <p>An established formalized framework for consultation between Government and the microfinance industry (December 2006)</p> <p>An adopted financial sector strategy incorporating the adopted strategy for rural and microfinance (December 2007)</p>	<p>Policy Statement for the Development Of Sustainable Rural and Micro Finance Sector; drafted by the RMFC (BOL), approved in November 2003 by the PMO.</p> <p>MFWG created in May 2007, with license expected to be approved in 2013; it functions as a consulting platform between the microfinance industry and the government</p> <p>Following the adoption of the Policy Statement for the Development of Sustainable Rural and Micro Finance Sector (approved in 2003), an overall rural finance strategy was included in the Seventh Five-Year National Socio-Economic Development Plan (2011–2015), adopted in Vientiane in October 7, 2011.[†] A Draft Financial Sector Strategy 2020 was developed in 2008. A consultation workshop to discuss the draft strategy was held on 5 November 2008. The Finance Minister endorsed the draft strategy on 07 December 2008. The drafting committee incorporated the approved Policy Statement Action Plan 2007–2010 describing the government's commitment to establish a viable and sustainable rural microfinance sector into the Financial Sector Strategy 2020. BOL's governor approved the strategy on 23 February 2009 (Letter No. 05/BOL), and the Financial Sector Strategy 2020 was approved by the PMO at the Cabinet Meeting on 28 July 2009.</p>
Sound prudential regulations and supervisory regime for rural and microfinance institutions	BOL regulation that allows banks to make unsecured microfinance loans (December 2007)	This output target was partially achieved. BOL issued a notice on group guarantees to commercial banks to allow microloans backed by group guarantees (Notice No. 277/BOL, 16 October 2007.) The notice at the ministerial level the legal status of a regulation in the Lao judicial system and allows banks to make uncollateralized microloans backed by group guarantee. However, no specific regulation regarding individual loans was issued. An overall instruction (BOL, No: 111/ê'i, Vientiane,

Design Summary	Performance Targets	Status
	Appraisal	
	<p>Date: 28/ 04/ 2006) forbids banks to have a spread of over 5% between the interest rates on deposits and loans, and in effect does not allow for economically rational financial service delivery to the rural microfinance segment, limits outreach and discourages the development of specific products and distribution methodologies that are needed by low-income and rural households. State-owned financial service providers have little discretion to independently develop and implement a strategy aimed at becoming a sustainable rural microfinance provider. Product development and interest rate setting both depend on BOL's approval or instruction.</p> <p>APB compliant with loan classification and provisioning regulations and with other regulations, excluding capital adequacy and minimum capital (December 2005)</p> <p>According to a program review conducted in September 2010 in preparation for the third tranche release of the program loan, as well consultant reports, this target was achieved during the program loan period. However, the external audit report for FY2011 found a number of loans whose credit quality were not fully evaluated and provisioned under BOL06. The auditor's correction of the misclassification raised the NPL from 3.27% to 7%. Audited statements indicate capital adequacy ratios at negative levels for years 2007 to 2009 and positive for 2010-2012 but still below the requirement under per BOL6 of 8%.</p> <p>Adopted regulations, by-laws, guidelines, chart of account and accounting systems for SCUs and MFIs (December 2007)</p> <p>Chart of Accounts in accordance with International Accounting Standards (IAS) for SCUs and MFIs; Lao PDR TA for BOL MFI Supervision, February 2008 (Coffee International under ADB TA). Achieved according to the second tranche release progress report.⁹ Finalized draft regulations incorporating feedback from stakeholders approved 20 June, 2008.</p> <p>Implementation of monthly offsite monitoring and semi-annual onsite inspection of APB, SCUs, and MFIs (December 2005)</p> <p>In late 2006, BOL began conducting monthly offsite monitoring of APB and making quarterly assessments of its performance based on the reports. Beginning in September 2007 BOL conducted monthly offsite monitoring of the three pilot SCUs supported by ADB (in Seno, Vientiane, and Luang Prabang) using the Microfinance Supervision Manual approved by BOL in August 2007. A variety of sources indicate that subsequent monthly offsite monitoring and semi-annual onsite inspection of APB, SCUs, and MFIs is continuing, but could be strengthened. Interviews with MFIs confirm</p>	

Design Summary	Performance Targets	Status
	Appraisal	
	<p>the supervisory visits and indicate an appropriate level of surveillance and follow-up in most cases. Weaknesses still exist among provincial-level supervisors. (Sources: consultant reports, BTORs, interviews with range of microfinance providers conducted in 2013).</p> <p>APB IFRS financial statements published (October 2006; September 2007; September 2008)</p>	<p>KPMG has prepared annual audited APB IFRS reports; these are available on the APB website for 2007, 2008, 2009, 2010 (income statement and balance sheet). Published reports include only KPMG's logo on statements for 2008 and 2009, and statements are not signed by APB management or KPMG.</p>
Supportive non-prudential regulations for rural and microfinance	An investment environment exempting MFIs from interest rate ceilings for microfinance loans (August 2006)	<p>Lao PDR PMO, Decree Number 460/G, 03 October 2012, Decree On Microfinance Institutions:</p> <p>(i) Article 30 (Determination of Interest Rate and Service Fees) states that deposit-taking microfinance institutions will implement market interest rates and service fees in compliance with regulations periodically issued by BOL; and</p> <p>(ii) Article 57 (Scope of Operations) states that a non-deposit-taking microfinance institution may define its interest rates in accordance with market rate.</p>
APB restructured, restored to financial health, and operating on a commercial and autonomous basis with extended outreach	<p>APB's restructuring plan completed and terms of governance agreement, including achievement of performance indicators, adhered to (December 2008)</p> <p>Interest subsidies and policy lending phased out from APB and all of APB's lending carried out on a commercial basis (December 2007)</p> <p>APB progressively</p>	<p>APB restructuring plan completed and all components of the Governance Agreement have been accomplished. Although APB for the most part operates on a commercial and autonomous basis, credit assessment and risk management still require strengthening; complete independence from the government is needed to achieve full autonomy. While APB fell short in some areas of the Governance Agreement (i.e. capital adequacy requirements of 8% which APB was consistently below), APB was compliant with the overall Governance Agreement due to weighted averages of all performance areas.</p> <p>Interest subsidies have been effectively phased out according to consultant assessments. Policy lending was phased out and transferred to Nayoby Bank (a non-deposit taking policy bank) in 2007. However, a small number of large loans made to firms engaged in government contracts continue to contribute to portfolio declines in the largest branches.</p> <p>In 2010 the capital adequacy ratio (which was</p>

Design Summary	Performance Targets	
	Appraisal	Status
	<p>recapitalized per its governance agreement (June 2009)</p> <p>Composition of APB's Board and management strengthened (June 2007)</p> <p>APB's human resources strengthened through (i) performance standards and a performance assessment system, (ii) bonus scheme to reward performance, and (iii) training (June; December 2007)</p> <p>Formulation and implementation of APB credit and risk management strategies (June 2007)</p> <p>Improved accounting and MIS policies and procedures implemented (December 2007)</p> <p>APB's ICT and related management information and risk management systems upgraded and operational (June 2008)</p>	<p>negative) reached 3.2% after capitalization by MOF (KN87.52 billion) as agreed among APB, BOL, and MOF in the Governance Agreement.</p> <p>In 2009 APB formed a board secretariat with the following team groupings: (i) planning and strategy, (ii) product development and customer service, (iii) human capital development and management, (iv) risk management and controls, and (v) management.</p> <p>Information and technology orientation on the roles and participation of each team was conducted by consultants. In March 2009 consultants presented to the APB board a proposed corporate governance scorecard.</p> <p>A Management and Development Compensation Committee was created at the APB board level in 2008. Training was provided by consultants related to human resources strengthening. Activities conducted in 2008 include an employee assessment, preparation of a training calendar and budget, and succession planning, especially for critical positions.</p> <p>In early 2008, the APB board created the Audit, Risk Management and Prudential Compliance Committee and the Management, Development and Compensation Committee. In late 2008, an asset and liability management committee was activated with officers receiving briefings on agenda preparation, conference leadership, asset allocation model, liquidity gap analysis, and financial ratio analysis.</p> <p>In Q2 2009, the APB board approved recommended policy guidelines on information technology and risk management structures. In June 2010, the international accounting and MIS specialist completed and submitted documents on Accounting Policies and Standards, including: a Financial Accounting Manual, covering regulatory framework, CAMELS Rating System, IAS Background, IASs, IAS 32 and IAS 39, and BOL 6 vs. IAS 39.</p> <p>This target was not fully achieved as anticipated. As of end 2012, 50% of the branch and service unit network had been upgraded. Those that had been upgraded are running on a parallel system until the entire network upgrade</p>

Design Summary	Performance Targets	
	Appraisal	Status
	<p>Establishment of BOL microfinance supervision division with adequate staffing (August 2004)</p> <p>Supervision manuals, guidelines, and training materials (June 2007)</p> <p>Monthly off-site monitoring and semi-annual on-site supervision of MFIs (Beginning December 2005)</p> <p>Chart of accounts and financial reporting accounting standards for MFIs (June 2007)</p>	<p>is complete, expected by the end of 2013.</p> <p>BOL established a Microfinance Institutions Division and a Financial Institution Department in 2004, which were transformed in 2010 to the Financial Institutions Supervision Department in charge of supervising non-bank non-insurance financial institutions, including MFIs, the Lao Postal Savings Institution, leasing and finance companies, money transfer organizations, and pawn shops.</p> <p>In late 2006, BOL began conducting monthly offsite monitoring of APB and making quarterly assessments of its performance based on the reports. Beginning in September 2007 BOL conducted monthly offsite monitoring of the three pilot SCUs supported by ADB (in Seno, Vientiane, and Luang Prabang) using the Microfinance Supervision Manual approved by BOL in August 2007. A variety of sources indicate that subsequent monthly offsite monitoring and semi-annual onsite inspection of APB, SCUs, and MFIs is continuing, but could be strengthened. Interviews with MFIs confirm the supervisory visits and indicate an appropriate level of surveillance and follow-up in most cases. Weaknesses still exist among provincial-level supervisors. (Sources: consultant reports, BTORs, interviews with range of microfinance providers conducted in 2013).</p> <p>Chart of Accounts for SCUs and MFIs; Lao PDR TA for BOL MFI Supervision, February 2008 (Coffee International under ADB TA). Achieved according to the second tranche release report (footnote b). Finalized draft regulations incorporating feedback from stakeholders approved 20 June, 2008.</p>
A diverse, sustainable, competitive MFI sector with expanded outreach	<p>Established MFWG (April 2007)</p> <p>Development and implementation of sustainable systems and procedures in the MFF (accounting, MIS, standard contract, application and review procedures) (April 2007)</p>	<p>MFWG created in May 2007, with license expected to be approved in 2013; it functions as a consulting platform between the microfinance industry and the government</p> <p>Through the Catalyzing Microfinance for the Poor TA, during June 2007–December 2010 the project assisted BOL in establishing the Microfinance Fund Management Unit (MFFMU) and developed all operating procedures, manuals, and grant tracking, monitoring and reporting tools. Intensive on-the-job coaching enabled MFFMU staff to manage the grant fund</p>

Design Summary	Performance Targets	
	Appraisal	Status
	<p>Microfinance best practices disseminated to MFIs and local officials (December 2007)</p> <p>At least five sustainable MFIs established or expanded with MFF support, including establishment of appropriate accounting and MIS systems and credit procedures (December 2008)</p> <p>Increased number of clients (including poor clients, female clients, and ethnic group clients) served by MFIs (December 2008)</p> <p>Increased number of participating MFIs established in ethnic group areas (December 2008)</p>	<p>effectively.</p> <p>Formal training support to BOL comprised 18 workshops on a range of microfinance supervision related topics, totaling 73 training days, plus intensive on-the-job support to the five-person MFFMU in managing the grant fund and monitoring MFI fund usage and performance. In addition, a total of 181 government officials and sector stakeholders gained exposure to good microfinance practices through two awareness-raising workshops.</p> <p>A comprehensive operations manual was developed outlining procedures and processes, and including an information pack, eligibility criteria, application processes, application forms, grant contract templates, and an implementation plan. A management information system is in place and used to ensure effective disbursement of funds and monitoring of grant use.</p> <p>As of the end of 2010, 10 MFIs were sustainable (OSS>100%) out of 18 MFIs supported through grant fund (vs. baseline of 6 sustainable MFIs); 78% of participating MFIs were using MicroBanker as MIS (vs. baseline of 22%). By the end of the project, the average OSS of participating MFIs was 111%.</p> <p>Increase of 11,695 active borrowers. The number of pro-poor loans more than doubled from 9,352 (baseline) to 20,493 (September 2010), with 59% of active borrowers female (consistent with baseline). As of the end of 2011, 66.63% of active clients of MFIs reporting to MIX Market were female (Appendix 7). The percentage of clients from ethnic minorities increased from 18% in 2007 to 24% in 2010.</p> <p>As of end 2010, 10 of 18 (55%) of MFIs were operating in ethnic group areas, vs. a baseline of 44% in 2007.</p>

Activities with Milestones	Inputs
Create an enabling policy framework for public and private provision of rural and microfinance (for specific activities and milestones, see policy matrix in Appendix 4)	Program loan (\$7.7 million)
Create a sound prudential regulatory and supervisory environment for public and private rural and microfinance institutions (for specific activities and milestones, see policy matrix in Appendix 4)	Project loan (\$2.3 million) TA grant (\$0.7 million) FIRST grant (\$0.3 million)
Transform APB into a financially self-sustainable, market-oriented rural finance institution (for specific activities and milestones, see policy matrix in Appendix 4)	JFICT grant (\$0.472 million)
Create a supportive non-prudential regulatory environment for rural and microfinance (for specific activities and milestones, see policy matrix in Appendix 4)	JFPR grant (\$1.98 million)
Strengthen BOL's MFI supervision capacity (for specific activities and milestones, see implementation schedule in Appendix 8)	FIRST grant (\$0.3 million)
Build APB capacity in risk management, accounting and MIS, human resources management (for specific activities and milestones, see implementation schedules in Appendixes 8 and 11)	Project loan (\$1.2 million)
Upgrade APB ICT system (for specific activities and milestones, see implementation schedule in Appendixes 8 and 13)	TA grant (\$0.7 million) JFICT grant (\$0.472 million)
Catalyze investments in microfinance (for specific activities and milestones, see implementation schedule in Appendix 12)	Project Loan (\$1.1 million) JFPR grant (\$1.98 million)

ADB = Asian Development Bank, APB = Agriculture Promotion Bank, BOL = Bank of Lao PDR, FIRST = Financial Reform Strengthening Initiative, GDP = gross domestic product, IAS = International Accounting Standards, ICT = information and communication technology, IFRS = International Financial Reporting Standards, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, KPMG = , Lao PDR = Lao People's Democratic Republic, MDG = Millennium Development Goal, MFI = microfinance institution, MFF = microfinance fund, MFFMU = Microfinance Fund Management Unit, MFWG = Microfinance Working Group, MIS = management information systems, MOF = Ministry of Finance, NGOs = nongovernment organizations, OSS = operating self-sufficiency, RFSDP = Rural Finance Sector Development Program, RMFC = Rural and Microfinance Committee, SCU = savings and credit union, TA = technical assistance, TASF = technical assistance special fund.

^a Coleman, Brett E. and Wynne-Williams, Jon. and Asian Development Bank. and Asian Development Bank Institute. Rural finance in the Lao People's Democratic Republic: demand, supply, and sustainability: results of household and supplier surveys / Asian Development Bank Metro Manila, Philippines 2006.

^b Government of Lao PDR, Bank of Lao. 2012. Microfinance in The Lao PDR 2012.

^c United Nations Statistics Division. Department of Economic and Social Affairs. United Nations. Millennium Development Goals and Indicators. <http://unstats.un.org/unsd/mdg/Data.aspx> (accessed 5 August 2013).

^d Ministry of Planning and Investment midterm review of the 2011–2015 socioeconomic development plan

^e The CAMELS ratings or Camels rating is a supervisory rating system originally developed in the U.S. to classify a bank's overall condition. It's applied to every bank and credit union in the U.S. (approximately 8,000 institutions) and is also implemented outside the U.S. by various banking supervisory regulators. The ratings are assigned based on a ratio analysis of the financial statements, combined with on-site examinations made by a designated supervisory regulator. The components of a bank's condition that are assessed: (C)apital adequacy, (A)ssets, (M)anagement Capability, (E)arnings, (L)iquidity (also called asset liability management), and (S)ensitivity (sensitivity to market risk, especially interest rate risk).

^f The five-year plan aims to accelerate national economic growth (7.5% per year), move the country out of its least-developed country status by 2020, and to maintain the country's stability and security. It aims to bring about positive

changes, emphasizing on quality and the sustainability of the growth, accomplishing of the Millennium Development Goals (MDGs) by 2015, and building primary foundations for the future industrialization and modernization of the country.

⁹ ADB. 2008. *Progress Report on Tranche Release: Rural Finance Sector Development Program in Lao PDR*. Manila.



LAO PEOPLE'S DEMOCRATIC REPUBLIC
Peace Independence Democracy Unity Prosperity

MINISTRY OF FINANCE

1337
No. / MOF
19 JUN 2006

Vientiane, date :

DEVELOPMENT POLICY LETTER AND POLICY MATRIX

Mr. Haruhiko Koruda
President
Asian Development Bank
Metro Manila, Philippines

Dear Mr. President:

1. On behalf of the Government of the Lao PDR, I would like to thank the Asian Development Bank (ADB) for the assistance that it has provided to Lao PDR for many years, and with this letter we would like to request further assistance from ADB to support policy reforms under the Rural Finance Sector Development Program (RFSDP).

2. The Government is committed to poverty reduction as the primary objective in Lao PDR's development policy. This policy is manifested in our National Socio-Economic Development Plan, which emphasizes poverty reduction through sustained and equitable growth. In October 2003, the National Assembly approved our National Growth and Poverty Eradication Strategy (NGPES). The NGPES focuses on poverty reduction, macroeconomic stability, private sector development, and rural development, and it highlights the importance of developing a sustainable, market-oriented rural finance sector.

3. The main instrument of the Government's policy to extend rural finance has been the Agriculture Promotion Bank (APB), which was established in 1993 as a policy bank. It has primarily carried out policy lending by channeling Government and donor funds to targeted clients at subsidized interest rates. As a result, management autonomy and responsibility have been limited, and APB's financial performance has been poor. APB has incurred significant losses each year since its establishment, representing costs to the Government budget. Perhaps more importantly, APB's outreach has been limited because it has limited funds to grow: (i) its losses have prevented it from building up its own capital; (ii) Government and donor financing for APB are limited; and (iii) APB's weak financial condition has prevented it from mobilizing commercial funding. Transforming APB into a sustainable, market-oriented rural financial institution will assist to halt its loss-making activities, expand outreach, and free Government budgetary resources for better-targeted poverty reduction interventions.

4. Rural and microfinance institutions (MFIs) can be sustainable only if allowed to charge interest rates that fully cover costs. This will allow them to grow and expand outreach to more rural clients, including the poor. However, APB's subsidized interest rates have also crowded out potentially sustainable MFIs and contributed to unrealistic expectations regarding market interest rates. Moreover, the lack of a clear and supportive legal and regulatory framework has discouraged many microfinance practitioners from investing in the sector. Despite these constraints, about five microfinance initiatives have been established with the goal of long-term sustainability. These initiatives are demonstrating that sustainable microfinance is feasible in Lao PDR. However, they currently reach only 6,000 clients collectively. Hence, further support and encouragement for the sector is necessary if microfinance is to realize its potential in contributing to poverty reduction and economic growth in Lao PDR.

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The Rural Finance Sector Development Program

5. The objective of the Government's reform agenda is to promote a sustainable and market-oriented rural and microfinance sector. Achievement of this objective is important to the Government's long-term goal of reducing poverty and promoting sustainable growth in rural areas. Details of RFSDP are presented in the attached policy matrix. Below, I summarize the four thematic areas of RFSDP.

6. **Creating an enabling policy framework for public and private provision of rural and microfinance.** Throughout 2002 and 2003, the Government carried out an extensive participatory process with key stakeholders, including officials at the central and provincial levels, bankers, microfinance practitioners, microfinance clients and other villagers, and international donors and development partners, to develop a national policy on rural and microfinance. This process culminated in November 2003 when the Prime Minister's Office endorsed the "Policy Statement for the Development of Sustainable Rural and Micro Finance Sector". The Policy Statement presents a vision that (i) the sector will expand significantly; (ii) the sector will include a diversity of independent MFIs, including private and/or public institutions; (iii) the sector will become sustainable, and interest rates will be set by MFIs' management based on full cost recovery, profitability, and market demand; and (iv) the environment will ensure security for depositors, including implementation of an appropriate legal and regulatory framework and strengthening of supervision of deposit-taking MFIs.

7. We are now following up the development of the Policy Statement with a strategy for its implementation, as well as introducing enabling regulations to support and encourage development of the sector while protecting depositors. The regulations were approved in June 2005. To further ensure an enabling policy environment, we will initiate a process of regular consultations with microfinance stakeholders to conduct policy dialogue and to review progress in implementing the Policy Statement. Finally, in recognition of the fact that rural and microfinance is an integral part of the overall financial sector, we will incorporate rural finance in the financial sector strategy that we will prepare by December 2007.

8. **Creating a sound prudential regulatory and supervisory environment for public and private rural and microfinance institutions.** Because of APB's historical role as a policy bank, it has effectively gone unsupervised by the Bank of Lao PDR (BOL), thus putting depositors' savings at risk. With its transformation into a market-oriented rural finance institution, it will now be recognized and treated as a state-owned commercial bank (SOCB) and will be subject to the prudential regulations applicable to SOCBs. BOL will develop and implement a supervisory regime of regular off-site and on-site inspection of APB. APB will undergo annual external audits according to international financial reporting standards (IFRS) and, beginning in 2006, will publish its IFRS financial statements. To create an enabling legal, regulatory, and supervisory framework for microfinance, BOL will adopt and implement regulations, by-laws, guidelines, a chart of accounts, and accounting standards for MFIs based on best practice principles.

9. **Transforming APB into a financially self-sustainable, market-oriented rural finance institution.** APB's restructuring plan was prepared and adopted in 2002, and implementation of Phase I began in March 2003. Phase II of restructuring will continue under RFSDP, including: (i) the adoption and implementation of a governance agreement for APB, (ii) the phasing-out of policy lending and interest rate subsidies from APB, (iii) the progressive recapitalization of APB on a performance-related basis, (iv) the strengthening of APB's new organization through the appointment of qualified department heads, and (v) the upgrading of APB's ICT and related risk management and information systems.

10. APB's governance agreement will provide a framework to support better governance in management and decision making and improved application of credit policies. Some of the key

elements of the governance agreement include: (i) requiring APB to operate solely on a commercial basis, (ii) strengthening APB's institutional autonomy, (iii) writing off loss loans, (iv) strengthening APB's board and management and clarifying their roles, (v) adopting new organizational unit mandates and job descriptions, (vi) reorganizing the structure and staffing of APB, and (vii) building capacity in human resources, risk management, and accounting and management information systems.

11. **Creating a supportive non-prudential regulatory environment for rural and microfinance.** Creating a supportive non-prudential regulatory environment, which relates to the general conduct of business, is also crucial for rural and microfinance. To ensure a supportive environment, MFIs will be exempted from interest rate caps, the prohibition on the inclusion of interest in the principal, and the requirement that interest not exceed principal, which are covered under the current Contract Law.

12. The Government is committed to reducing poverty and promoting sustainable, equitable economic growth in Lao PDR. Development of a sustainable rural finance system, operating on market principles and implementing innovative methods to reduce transactions costs, is essential to providing the rural population with enhanced economic opportunities. Because some 90% of poverty in the country is rural, a sustainable rural finance system is a necessary element of the Government's National Growth and Poverty Eradication Strategy. Our proposed rural finance reform agenda is fully consistent with that strategy, and we are committed to its successful implementation. We welcome, and are grateful for, this assistance from ADB.

Yours truly,
Minister of Finance



Chansy PHOSIKHAM

LOAN 2252-LAO: RURAL FINANCIAL SECTOR DEVELOPMENT PROGRAM

STATUS OF COMPLIANCE WITH SECOND TRANCHE RELEASE CONDITIONS

No.	Tranche Condition	Status
Objective 1: Creating an enabling policy framework for public and private provision of rural and microfinance		
1.a	Rural and Microfinance Committee (RMFC) holds semi-annual consultations in the form of seminars or workshops with microfinance stakeholders, to review progress in implementing the Policy Statement and Action Plan, to identify implementation difficulties, and to propose remedial measures as necessary.	<p>Complied With</p> <p>The original RMFC's mandate expired in mid-2005. The Bank of Lao PDR (BOL) transferred RMFC's responsibilities to the Rural Finance Sector Development Program (RFSDP) Project Steering Committee (PSC) (Agreement Letter signed by the BOL's governor, No. 610/BOL, 16 September 2007).</p> <p>The PSC organized four stakeholder consultation workshops: (i) 25–26 June 2007 to discuss the draft regulations for Microfinance Institution (MFI) and Savings and Credit Union (SCU), attended by 90 stakeholders including central and provincial representatives; (ii) 17 October 2007 to discuss the revised regulations for non deposit-taking MFIs and SCUs, 40 stakeholders attended; (iii) 28 November 2007 to discuss the revised regulations for deposit-taking MFIs and SCUs, 40 participants attended; and (iv) 30 June 2008 to the approved regulations, chart of accounts, and implementing guidelines, 70 participants attended. The original Policy Statement and Action Plan (PSAP) 2003–2005 was updated for 2007–2010 and was approved by the governor of BOL in November 2007 (No. 312/BOL, 12 November 2007). The updated PSAP 2007–2010 was submitted to the Prime Minister's Office (PMO) on 30 May 2008 (BOL's letter No. 12/CO submitted to PMO, 30 May 2008) and subsequently was approved by the PMO on 10 July 2008 (PMO Letter No 1224/GSC, 10 July 2008).</p>
1.b	BOL shall have adopted a financial sector strategy covering 2007 to 2010, which incorporates the Government's approved Policy Statement and Action Plan for the development of sustainable rural and microfinance.	<p>Substantially Complied With (Condition shifted to third-tranche release)</p> <p>BOL drafted a Financial Sector Strategy 2007–2020 and planned to (i) complete the revisions in July; (ii) circulate for discussions and comments within BOL in August 2008; (iii) conduct inter-ministerial comments in October 2008; and (iv) submit for BOL governor's approval in December 2008. The draft Financial Sector Strategy (FSS) includes the PSAP describing the government's commitment to establish a viable and sustainable rural microfinance sector.</p> <p>However, because the scheduled approval of the FSS was under the arrangement for the third-tranche release of the Asian Development Bank (ADB)-financed Banking Sector Reform Program (BSRP) by the end of 2008, compliance for the RFSDP was not expected until then. Consequently, the government requested moving compliance of the condition to the third tranche release in 2010, reconfirming the incorporation of the PSAP 2007–2010 in the final FSS. Considering that RFSDP's responsibilities are limited to preparing the PSAP 2007–2010, which was satisfactorily completed, ADB concurred.</p>

No.	Tranche Condition	Status
Objective 2: Creating a sound prudential regulatory and supervisory environment for public and private rural and microfinance institutions		
2.a	BOL issues a regulation allowing banks to make microfinance Loans backed by group guarantees	Complied With The BOL issued a notice on group guarantees to commercial banks to allow microloans backed by group guarantees (Notice No. 277/BOL, 16 October 2007). A notice at the ministerial level carries equal legal status to a regulation in the Lao judicial system and allows banks to make uncollateralized microloans backed by a group guarantee. Commercial banks now can choose to use this lending modality.
2.b	APB publishes its audited financial statements for 2005 and 2006 prepared in accordance with International Financial Reporting Standards (IFRS).	Complied With Since 2005 APB has been conducting annual external audits of its year-end accounts in accordance with the International Financial Reporting Standards (IFRS). The 2005 and 2006 reports were initially not distributed. The government consulted with the ADB regarding restricted distribution to relevant government agencies and international institutions on the grounds that APB at the time was seriously negative and opening its accounts to the public might risk a run on the bank. Subsequently, in accordance with Ministry of Finance (MOF) instructions (MOF Instruction No 3225, 24 August 2007), APB distributed the 2006 report to MOF, the Ministry of Justice (MOJ), Ministry of Planning and Investment (MPI), BOL, and ADB. The 2007 external audit was completed in May 2008 and was approved by the APB Board on 30 June 2008. Copies of 2005, 2006, and 2007 audits are now available to the public upon request.
2.c	BOL conducts monthly off-site monitoring and at least three semi-annual on-site inspections of APB	Complied With Since late 2006, BOL started conducting monthly offsite monitoring of APB and making quarterly assessments of APB performance based on the monthly reports. BOL has quarterly reports for the fourth quarter (Q4) of 2006; Q1–Q4 2007; and Q1 2008. As of end December 2007 BOL had completed four onsite inspections of APB on 30 June 2006, 31 December 2006, 30 June 2007, and 31 December 2007. BOL conducts off- and onsite inspections using the Bank Supervision Manual issued by the International Monetary Fund (IMF).
2.d	BOL adopts and implements harmonized regulations, by-laws, guidelines, a chart of accounts, and accounting standards for the establishment, registration, licensing, operation, dissolution, and winding-up of SCUs	Complied With Following the three stakeholders consultation workshops in 2007, BOL finalized the draft regulations incorporating feedback from stakeholders, and on 20 June 2008 the governor of BOL approved the regulations. On 30 June 2008, BOL organized stakeholder consultation workshop to present the approved regulations, chart of accounts, and implementing guidelines; 70 stakeholders attended. The approved regulations provide a transitional implementation period of 1 year for all existing organizations engaged in microfinance activities to comply. The three pilot SCUs established with ADB assistance already operate with compliant by-laws and chart of accounts.

No.	Tranche Condition	Status
2.e	BOL conducts monthly off-site monitoring and at least three semi-annual on-site inspections of SCUs and MFIs that are subject to the prudential supervision regime	<p>Complied With</p> <p>Beginning in September 2007, BOL conducted monthly off-site monitoring of the three pilot SCUs (Seno, Vientiane, and Luangprabang) using the Microfinance Supervision Manual approved for testing by BOL in August 2007 and later approved for mandatory use in December 2007. As of end February 2008 BOL had reports for September, October, November, December 2007, January, February 2008, and was continuing the monthly monitoring exercise.</p> <p>BOL completed onsite inspections of the three pilot SCUs in September 2005, August 2007, and January–February 2008; the latter included 3 MFIs and 5 SCUs (3 pilot and 2 new SCUs). Further inspections were scheduled for July–August 2008.</p>
Objective 3: Transforming APB into a financially self-sustainable, market-oriented rural finance institution		
3.a	BOL ensures that an international banking advisor and two domestic banking advisors are engaged in APB for program duration	<p>Complied With</p> <p>The recruitment of international banking advisor (IBA), accounting and management information system (MIS) specialist, and two assistant banking advisors (ABAs) to be financed under Loan 2253-LAO was stalled in April 2007 due to MOF new tax regulations. ADB communicated with MOF about the tax exemption for consultants engaged under ADB-financed loans in accordance with the ADB Charter (ADB Letter to Finance Minister, 29 August 2007). BOL informed ADB that MOF confirmed the tax exemption for the international consultants (the IBA and Accounting and MIS Specialist) on 30 January 2008. On 15 February the government's Consultant Selection Committee (CSC) issued a request for proposals. Three firms submitted proposals.</p> <p>The CSC concluded the technical and financial evaluations of the received proposals in May and concluded contract negotiations with the highest-ranked firm in June 2008, with work scheduled to commence in August 2008.</p>
3.b	BOL, MOF, and APB ensure that the provisions of the governance agreement are adhered to	<p>Complied With</p> <p>The Governance Agreement was signed on 30 March 2007. The Governance Agreement sets out the rights, responsibilities, and time-bound actions of MOF, BOL, and APB Board and Management in implementing the APB restructuring program. MOF responsibilities focus on strengthening APB institutional autonomy, overall management structure, and capital base (Governance Agreement, Article 3, 3.1–3.8). BOL duties focus on prudential regulation and supervision and implementation oversight of APB operations as a commercial bank (Governance Agreement, Article 4, 4.1–.6). APB undertakes restructuring measures, focusing on institutional management, operations on best practices and procedures (credit policies, corporate plan, risk management, portfolio management, accounting and MIS, and human resources management) (Governance Agreement, Article 5, 5.1–.9). MOF, BOL, and APB submitted progress reports showing</p>

No.	Tranche Condition	Status
		achievements to date and commitment to completing APB reforms (MOF Progress Report, 24 June 2008; BOL Progress Report, 10 July 2008; APB Progress Report, 30 June 2008).
3.c	BOL, MOF, and APB review and update (i) the performance targets and other conditionality for recapitalization, and (ii) the governance agreement for such performance-based recapitalization	<p>Complied With</p> <p>APB's performance targets for 2007 were prepared by the Corporate Planning Team and approved by the APB Board on 25 December 2007, and by BOL and MOF in March 2008. APB updated performance targets for 2008–2010 and incorporated these in its draft corporate plan 2008–2010, using the 2007 external audit. These were approved by the APB Board on 30 June 2008, with subsequent concurrence by MOF on 11 July 2008 and by BOL on 14 July 2008 (for updating of the Governance Agreement).</p>
3.d	Subject to APB's compliance with its obligations under the governance agreement and achievement of its performance targets defined therein, MOF injects additional capital into APB in accordance with the governance agreement	<p>Complied With</p> <p>Under the Governance Agreement (Governance Agreement, 3.7), pending APB's compliance with its duties in the Governance Agreement (Article 5) and 2007 performance targets, MOF will inject 50% of the APB's negative capital at 31 December 2007 external audited accounts in the form of government securities.</p> <p>APB performance for recapitalization purposes is based on Annex D of the Governance Agreement. APB has complied with all of the requirements set out in Appendix D, section D1 of the Governance Agreement. According to the 2007 external audit, APB achieved 80% of the financial targets for 2007 (the target level is 75%). As of 31 December 2007, APB had the total equity of negative KN175 billion. Accordingly, the amount to be recapitalized is KN87.5 billion (about \$10 million).</p> <p>APB delivered its self-assessment to BOL and MOF on 3 July 2008. BOL concurred with the APB self-assessment and recommended the recapitalization take place. MOF reviewed APB's assessment and concurred with BOL's recommendation. The Finance Minister instructed the issuance of the recapitalization bonds in July 2008.</p>
3.e	APB updates and APB's Board approves rolling three-year corporate plan aligned with the restructuring plan and governance agreement	<p>Complied With</p> <p>APB's Corporate Planning Team prepared the 2007 performance targets and these were approved by the APB board of directors (BOD) on 25 December 2007 (BOD minutes of Meeting No.178/APB, 25 December 2007). The CPT prepared the 2008–2010 Corporate Plan in early 2008 based on the APB's 2007 draft accounts. The 2008–2010 Corporate Plan was approved by the APB BOD on 9 May 2008 (BOD Minutes of Meeting 04/08 convened on 09 May 2008) and later was updated using the final 2007 external audit and approved by the APB BOD on 30 June 2008 (BOD Minutes of Meeting 06/08, 30 June 2008).</p>
3.f	APB appoints qualified heads of all departments according to a predefined selection process that	<p>Complied With</p> <p>APB department mandates, job descriptions and staff selection process for appointment of heads of departments</p>

No.	Tranche Condition	Status
	includes the assessment of all candidates in relation to APB's departmental mandates and the specific qualifications and experience required by APB's job descriptions	were approved by the BOD meeting of 30 June 2008 (BOD Minutes of Meeting 06/08, 30 June 2008). A predefined selection process based on specific qualifications and experience was agreed upon. Training was provided in the use of the performance assessment system and directors and department heads underwent performance assessment. An analysis of job skill gaps was undertaken for directors and department heads using the approved departmental mandates and job descriptions. A training plan to address minor gaps in the required skills was prepared. Training activities took place in September 2008.
3.g	The Government completes phasing out of all policy lending from APB and ensures that (i) residual and future policy lending, if any, is placed in a nonbanking, non-deposit taking mechanism, (ii) all loss-graded loans remaining in APB's balance sheet are written off	<p>Complied With</p> <p>As of 18 September 2006, all APB domestically financed policy loans, including loss-graded loans, totaling KN53 billion, had been transferred to the Nayoby Bank (NBB). (BOL Approval No. 369/BOL, 18 September 2006).</p> <p>APB took two write-offs of non-performing loans (NPLs). The first—in January 2007, for KN17.3 billion of loss-graded loans as of 31 December 2003 accounts (BOL Confirmation Letter No. 05/IRD, 25 January 2007)—was a condition for the first tranche release in June 2007. On 15 October 2007, APB requested BOL to write off loss loans as of 31 December 2006 in the amount of KN52.23 billion, \$348,100, and B14,500,000 (APB Request No. 544/APB, 15 October 2007)). This request was granted by BOL on 13 November 2007 (BOL No-Objection Letter No. 466/BFSD, 13 November 2007). Upon receipt of BOL's approval, the APB BOD approved the write-off in their ordinary meeting on 15 December 2007 (APB BOD Approval No. 10/APB, 15 December 2006) and the write-off was concurred by the MOF on 13 March 2008 (MOF No-Objection Letter No. 0553/MOF, 13 March 2008). The transfers and write-offs were showed in APB accounts as of 12 December 2007, 8 January 2008, and 15 January 2008.</p> <p>The NBB was established on 29 January 2007 by a decision of the PMO (PMO Notice No. 1244/PMO, 25 August 2006). NBB is a non-profit financial institution to provide credit lines and soft loans from policy funds for poverty reduction in 47 poor districts as showed in NBB Charter, Article 2 (Charter of Nayoby Bank No. 03/NBB, 8 February 2007). NBB is a non-deposit taking institution (NBB Charter, Article 12.2) exempted from income taxes (PMO Notice No. 1244/PMO, 25 August 2006) and from stabilization regulatory measures of BOL (NBB Charter, Article 3).</p>

Source: ADB. September 2008. *Progress Report: Release of Second Tranche for Loan 2252-LAO: Rural Finance Sector Development Program*. Manila.

LOAN 2252-LAO: RURAL FINANCIAL SECTOR DEVELOPMENT PROGRAM

STATUS OF COMPLIANCE WITH THIRD TRANCHE RELEASE CONDITIONS

No.	Tranche Condition	Status
Objective 1: Creating an enabling policy framework for public and private provision of rural and microfinance		
1.a	The Rural and Microfinance Committee continues semiannual consultations with microfinance stakeholders.	Complied With Following the release of the second tranche on 24 September 2008, the program steering committee organized further semiannual stakeholder consultation workshops, on: (i) 19 January 2009 on the microfinance regulation revisions, which 80 stakeholders attended; (ii) 24 July 2009 to discuss the revised microfinance regulations and the draft paper by ADB on the rural and microfinance sector in the Lao PDR, which 50 stakeholders attended; and (iii) 24 December 2009 to discuss implementation issues arising from the microfinance regulations, in which 47 stakeholders participated.
1.b	BOL adopts a financial sector strategy covering 2007 to 2010, which incorporates the government's approved policy statement and action plan for the development of sustainable rural and microfinance.	Complied With The Financial Sector Strategy 2020 was approved by the Prime Minister on 22 September 2009. It has a section on the strategy for the sustainable development of the rural and microfinance sector and incorporates the updated policy statement and action plan. It is available on the BOL website.
Objective 2: Creating a sound prudential regulatory and supervisory environment for public and private rural and microfinance institutions		
2.a	APB publishes its audited financial statements for 2008, prepared in accordance with international financial reporting standards.	Complied With The APB 2008 financial audit was completed by KPMG, and the APB board approved the audit report on 30 July 2009. The audit report includes (i) a loan review report, (ii) financial statements, (iii) operation report, (iv) governance agreement compliance report, and (v) management letter. APB submitted the audit report to the Ministry of Finance on 2 September 2009 and was advised by the ministry to correct some phrases in section 5 and section 23 of the financial statements. In March 2010, APB submitted the corrected audit report to the Ministry of Finance for distribution in accordance with the governance agreement. A notice about the audit and key broad numbers from the audited financial statements is available on the APB website.
2.b	BOL conducts monthly off-site monitoring and at least three semiannual on-site inspections of APB.	Complied With The BOL has been conducting monthly off-site monitoring and consolidating quarterly offsite analysis of APB operations since late 2006. The latest offsite report was completed in December 2009. BOL completed seven semiannual onsite inspections of APB from H1 2006 to H2 2009.
2.c	BOL conducts monthly off-site monitoring and at least three semiannual on-site inspections of SCUs and MFIs that are subject to the prudential supervision	Complied With Beginning in September 2007, the microfinance unit under the Banks and Financial Institutions Supervision Department of BOL began conducting monthly offsite monitoring and semiannual onsite supervisions of deposit-taking MFIs and

No.	Tranche Condition	Status
	regime.	registered SCUs, using the microfinance supervision manual that was prepared with ADB assistance and approved by BOL in August 2007. BOL has continued this activity and has completed monthly offsite monitoring reports up to December 2009 and onsite supervision reports up to June 2009. The onsite supervision for H2 2009 was expected to be completed by June 2010. As of end 2009, of 26 MFIs and SCUs, 5 deposit-taking MFIs and 9 SCUs were under BOL supervision.
Objective 3: Transforming APB into a financially self-sustainable, market-oriented rural finance institution		
3.a	APB, BOL, and the Ministry of Finance ensure that the Provisions of the governance agreement are adhered to.	<p>Complied With</p> <p>Since the release of the second tranche, APB, BOL, and the Ministry of Finance submitted their semiannual progress report for H2 2008 on 8 April 2009, (No.0850/MOF/CO), 9 February 2008 (No.318/BOL), and 25 February 2009 (No.22/APB). BOL completed an H1 2009 progress report on 1 February 2010 and H2 2009 progress report on 18 March 2010. The Ministry of Finance provided ADB with the H2 2008 progress report and provided progress reports covering H1 and H2 2009 on 18 March 2010. APB submitted the H1 2009 report to the Ministry of Finance on 6 January 2010 and the H2 2009 progress report on 11 March 2010. Over 2005–2009, APB's performance improved in all major indicators. The nonperforming loan–net loan ratio dropped dramatically from about 65.0% in 2005 to about 21.0% in 2008 and 3.3% in 2009. Most impressively, for the first time in history, APB registered a positive net income of KN35.2 billion in 2008 and an estimated KN26.3 billion in 2009 against losses in the previous years. Also, as of end 2009, APB's unaudited accounts showed a positive equity level of nearly KN15.5 billion, which is also the first time in APB's history that this occurred. APB submitted to ADB its semiannual progress reports H2 2008 up to H2 2009. The 2008 KPMG external audit report concluded that APB complied with its governance agreement responsibilities.</p>
3.b	APB, BOL, and the Ministry of Finance review and update (i) the performance targets and other conditionality for recapitalization, and (ii) the governance agreement for such performance-based recapitalization.	<p>Complied With</p> <p>APB formed a corporate planning team of senior management and divisional heads, and the team prepared the 2009–2011 corporate plan. The 2009–2011 corporate plan performance targets were updated on 10 November 2009 incorporating the 2008 audited performance. The governance agreement was then updated accordingly. The updated 2009–2011 corporate plan will be used to assess APB's performance in 2009.</p>
3.c	Subject to APB's compliance with its obligations under the governance agreement and achievement of its performance targets defined therein, the Ministry of Finance injects additional capital into APB in accordance with the governance agreement.	<p>Complied With</p> <p>For the second recapitalization, APB is required to achieve at least 75% of each individual performance target and at least 100% of the overall qualitative and quantitative targets for 2008, as verified by the auditors (governance agreement, Annex D). According to the KPMG audit, these have been met (p.17). APB submitted its self-assessment report to the Ministry of Finance on 11 November 2009. According to the KPMG audit report, the capital level of APB was KN52.369 billion (approximately \$6 million) as of 31 December 2008. In accordance with the governance agreement, the ministry is to</p>

No.	Tranche Condition	Status
		recapitalize APB to bring APB's capital on its balance sheet to zero with an injection of capital amounting to 25%–30% of the shortfall in cash and the remaining amount in bonds. On 5 February 2010, BOL submitted to the Ministry of Finance a proposal regarding the recapitalization. On 5 April 2010, the ministry issued recapitalization of KN52.369 billion, of which 30% or KN15 billion was in cash and the rest or KN37.369 billion in treasury bonds.
3.d	APB updates and its board approves rolling 3-year corporate plans aligned with the restructuring plan and governance agreement.	Complied With APB's 2009–2011 corporate plan was finalized incorporating the 2008 audit report and was approved by its board on 10 November 2009. The draft 2010–2012 corporate plan was prepared using the data from the balance sheet of the 2009 unaudited accounts. The draft 2010–2012 corporate plan was approved by APB Board in March 2010.

ADB = Asian Development Bank, APB = Agriculture Promotion Bank, BOL = Bank of Lao PDR, H1 = first half, H2 = second half, Lao PDR = Lao People's Democratic Republic (Lao PDR), MFI = microfinance institution, SCU = savings and credit union.

Source: ADB. May 2010. *Progress Report: Release of Third Tranche for Loan 2252-LAO: Rural Finance Sector Development Program*. Manila.

LOAN 2252/2253-LAO: RURAL FINANCIAL SECTOR DEVELOPMENT PROGRAM

STATUS OF COMPLIANCE WITH LOAN COVENANTS

No.	Reference in Loan Agreement	Covenant	Remarks
1	Article IV Section 4.01	<u>Particular Covenants.</u> In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement	Complied with.
2	Section 4.02.	(a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.	Complied with.
3	Section 4.02.	(b) The Borrower shall enable, or cause to enable, ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Complied with.
4	Section 4.03.	As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly and all such other reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Complied with.
5	Schedule 5 Program Implementation and Other Matters	Implementation of Policy Letter 7. The Borrower shall ensure that the policies adopted and actions taken as described in the Policy Letter and Policy Matrix, prior to the date of this Loan Agreement shall continue in effect.	Complied with.
6	Schedule 5 (8) Program Implementation and Other Matters	The Borrower shall promptly adopt and implement the policies and program actions under the Program as specified in the Policy Letter and the Policy Matrix, in a timely manner and shall ensure that such policies and actions shall be sustained.	Implemented.
7	Schedule 5 (9) Program Implementation and Other Matters	Policy Dialogue The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, the progress made in carrying out the policies	Implemented.

No.	Reference in Loan Agreement	Covenant	Remarks
		and actions set out in the Policy Letter and the Policy Matrix.	
8	Schedule 5 (10) Program Implementation and Other Matters	The Borrower shall ensure continuous dialogue with ADB and shall promptly discuss with ADB problems and constraints encountered during implementation of the Program and appropriate measures to overcome or mitigate such problems and constraints.	Implemented.
9	Schedule 5 (11) Program Implementation and Other Matters	The Borrower shall: (a) keep ADB informed of relevant policy discussions about measures to ensure effective implementation of rural and microfinance sector reforms with stakeholders and other multilateral and bilateral agencies, and draft decrees and regulations that have implications for implementation of the Program, and (b) provide ADB with an opportunity to comment on any resulting policy proposals and draft legislation. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.	Implemented.
10	Schedule 5 (12) Program Implementation and Other Matters	Technical Assistance The Borrower, after consultation with ADB, shall take into account the recommendations proposed under the related technical assistance projects being undertaken in the carrying out of the Program	Implemented.
11	Schedule 5 (13) Program Implementation and Other Matters	Program Performance Management System The Borrower shall cause BOL to: (a) collect benchmark or baseline data at the start of the Program, as agreed with ADB, for specific Program performance indicators; (b) continually assess the Program impact; and (c) carry out monitoring and evaluation of the Program in accordance with agreements reached with ADB, including facilitating consultation with relevant central and provincial agencies, civil society, and other key stakeholders as appropriate.	Implemented.
12	Schedule 5 (14) Program Implementation and Other	Reviews At such time or times as the Borrower and ADB shall agree, joint annual reviews and a	Implemented.

No.	Reference in Loan Agreement	Covenant	Remarks
	Matters	comprehensive mid-term review shall be carried out concerning the Borrower's progress in implementing the policy reforms set out in the Policy Letter and Policy Matrix, including, in particular, the fulfillment of the conditions listed in Attachments 2, 3, and 4 to Schedule 3 to this Loan Agreement. To facilitate these reviews, BOL shall provide ADB with relevant information, in addition to the reports and information referred to in Section 4.03 of this Loan Agreement, in such detail as ADB may reasonably request. These reviews shall form the basis for discussions between the Borrower and ADB on: (a) further measures that may be considered necessary or desirable to promote the continued reforms; and (b) release of the Second and Third Tranches.	
13	Schedule 5 (15) Program Implementation and Other Matters	APB BOL shall ensure that: (a) APB has its financial accounts audited annually by independent and competent auditors acceptable to ADB, with signed audits submitted to ADB within six (6) months of the end of the financial year; and (b) APB's audited financial statements are in English and include details of income and expenditures, assets and liabilities, and cash flow, with the accompanying notes to the accounts.	Implemented.
14	Schedule 5 (16) Program Implementation and Other Matters	The Borrower shall ensure that ADB is promptly informed of any changes in the Board or senior management of APB and shall ensure that any such changes will be made in accordance with the provisions of the Governance Agreement and principles of good corporate governance.	Implemented.
15	Schedule 5 (17) Program Implementation and Other Matters	Social Safeguards The Borrower shall ensure, or shall cause the PMU and Implementing Agencies to undertake measures wherever possible, to promote the participation of women and ethnic groups in the Program and to ensure that equitable opportunities are provided to women and	Implemented.

No.	Reference in Loan Agreement	Covenant	Remarks
		indigenous peoples to undertake or be involved in activities conducted under the Program in accordance with ADB's <i>Policy on Gender and Development</i> (1998) and <i>Policy on Indigenous Peoples</i> (2003).	
16	Schedule 5 (18) Program Implementation and Other Matters	APB shall develop and implement public awareness campaigns and a participatory strategy to gain broad-based public support (including employees, unions, associations, stakeholders and other consumers and utilities) for the APB restructuring. In doing so, APB shall ensure that such participation includes information and feedback from all participants.	Implemented.
17	Schedule 5 (19) Program Implementation and Other Matters	In the event that during the restructuring of APB, bank staff are proposed to be retrenched, the Borrower shall ensure that: (a) BOL and APB adopt retrenchment plans and appropriate mitigation measures which comply with the Borrower's labor laws and are in accordance with the principles and objectives of ADB's Social Protection Strategy; and (b) BOL advises ADB of the actions undertaken during implementation of the retrenchment plans and mitigation measures, in a timely manner.	Implemented.

OVERVIEW OF THE FINANCIAL AND OPERATIONAL PERFORMANCE OF THE AGRICULTURE PROMOTION BANK

1. A comparison of the financial performance of the Agriculture Promotion Bank (APB) as of 31 December 2007 (prior to the start of the project) and 31 December 2012 is presented below.

Table A6.1: Financial Overview of the Agriculture Promotion Bank
(KN billion)

Item	Fiscal Year						%
	2007	2008 ^a	2009 ^b	2010 ^a	2011 ^c	2012 ^c	Change
INCOME STATEMENT							
Total assets	607	875	1,335	2,042	3,162	4,153	584%
Gross loans	319	611	1,015	1,661	2,635	3,356	952%
Net loans	224	554	990	1,614	2,546	3,301	1375%
Total liabilities	782	927	1,341	1,974	3,083	4,040	417%
Customer deposits	683	789	1004	1,346	1,749	2,313	239%
Total equity	(175)	(52)	(6)	68	79.5	114	(165%)
Total operating income	34	88	87	122	163	221	558%
Total operating expenses	(39)	(56)	(65)	(79)	(103)	(130)	236%
Provision for loan losses	(20)	(9)	(27)	(19)	(42)	(40)	100%
Net profit after tax	(14)	35	47	21	12	44	(408%)
FINANCIAL INDICATORS							
Net loans vs. gross loans (%)	70	91	98	97	97	98	40%
Net loans vs. total assets (%)	37	63	74	79	81	79	116%
Customer deposits vs. total liabilities (%)	87	85	75	68	57	57	(34%)
Gross loans vs. total deposits (%)	47	77	101	123	151	145	211%
Gross loans vs. total liabilities (%)	41	66	76	84	85	83	104%
Operating expenses vs. gross loans (%)	12	9	6	5	4	4	(68%)
Operating expenses vs. total operating income (%)	115	64	75	65	63	59	(49%)
Provisions vs. total operating income (%)	60	10	32	15	26	18	(70%)
Net profit after tax vs. total equity (%)	8	67	818	31	15	39	374%
Net profit after tax vs. total assets (%)	2	4	3	1	0.4	1	(55)%
Capital adequacy ratio (under Lao PDR GAAP) (%)	-52.74	-6.82	-0.47	3.73	2.84	3.09	106%
NPL vs. gross loans	30.81	10.35	3.5	3.79	4.23	2.69	91%

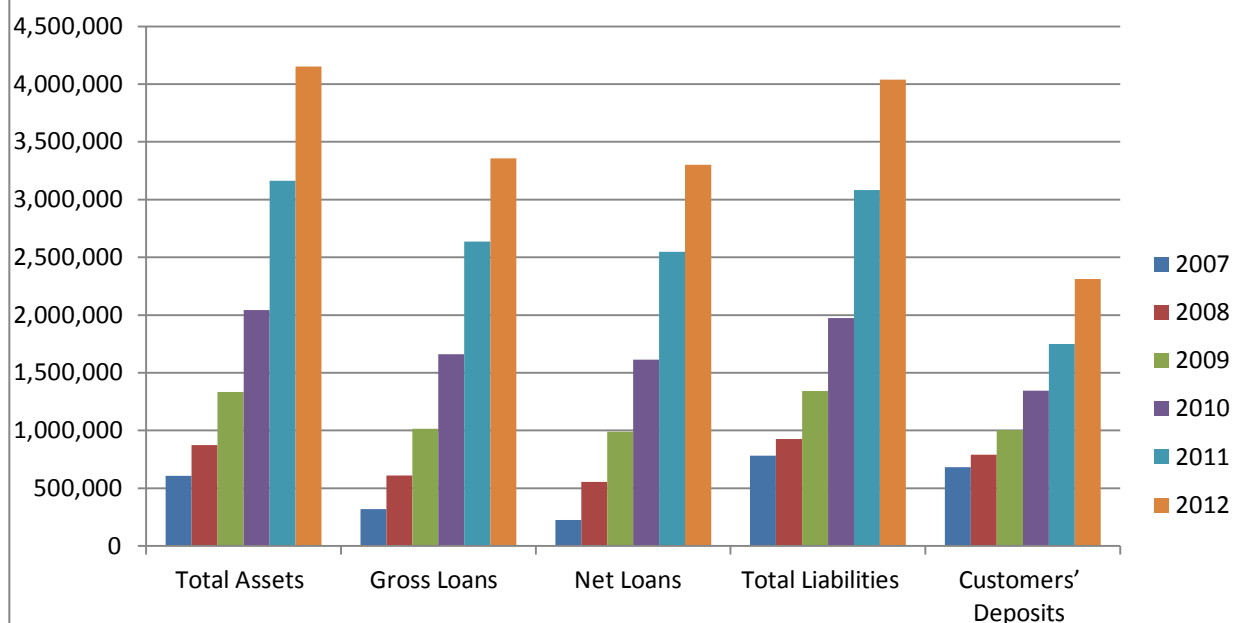
() = negative, APB = Agriculture Promotion Bank, GAAP = Generally Accepted Accounting Principles, IFRS = International Financial Reporting Standards, Lao PDR = Lao People's Democratic Republic, n.a. = not applicable, NPL = Non-performing loans

^a Non-disclaimer of audit opinion given

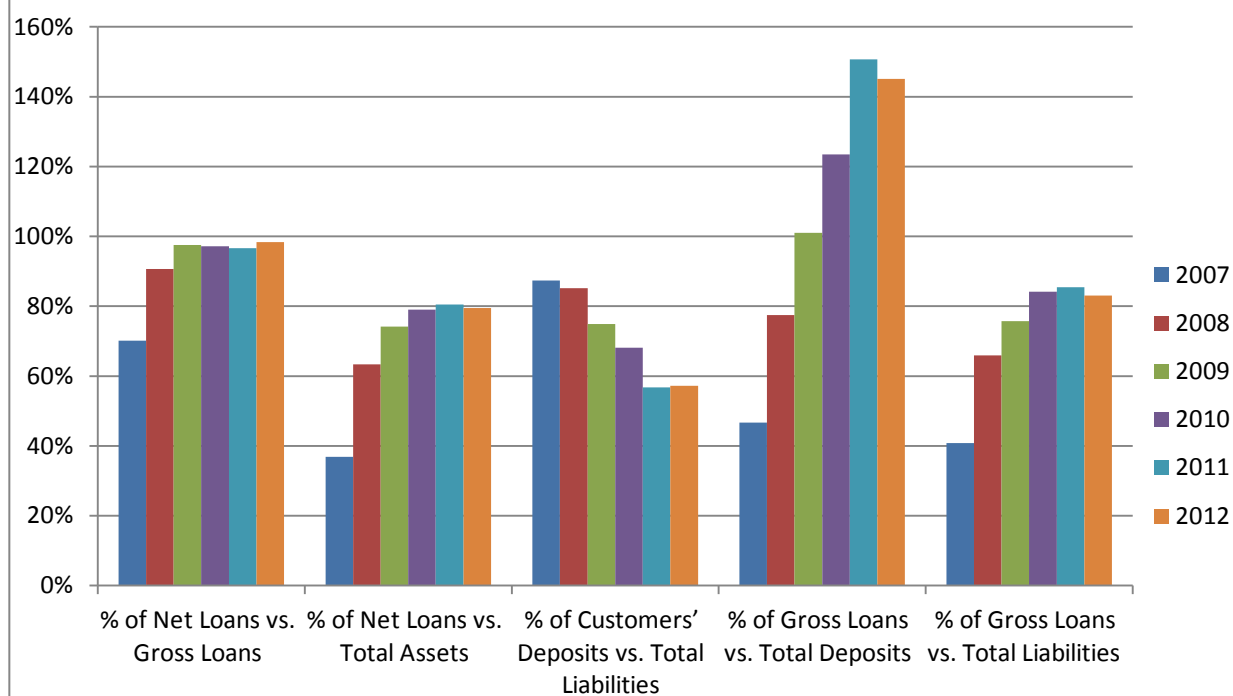
^b Adverse opinion

^c Qualified opinion

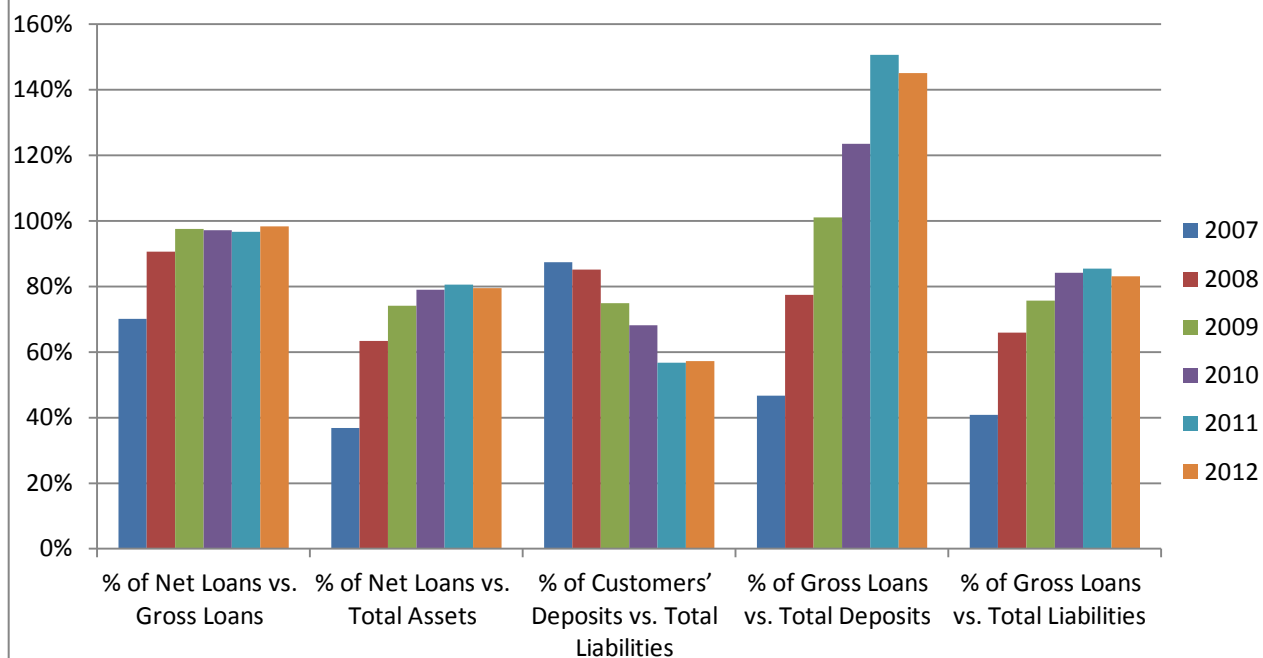
Source: APB IFRS Audited Financial Statements for FY2007, FY2008, FY2009, FY2010, FY2011, FY2012

Figure A6.1: Income Statement for APB 2007-2012

Source: APB Audited Financial Statements 2007-2012
 APB=Agriculture Promotion Bank
 Currency Unit – kip (KN)

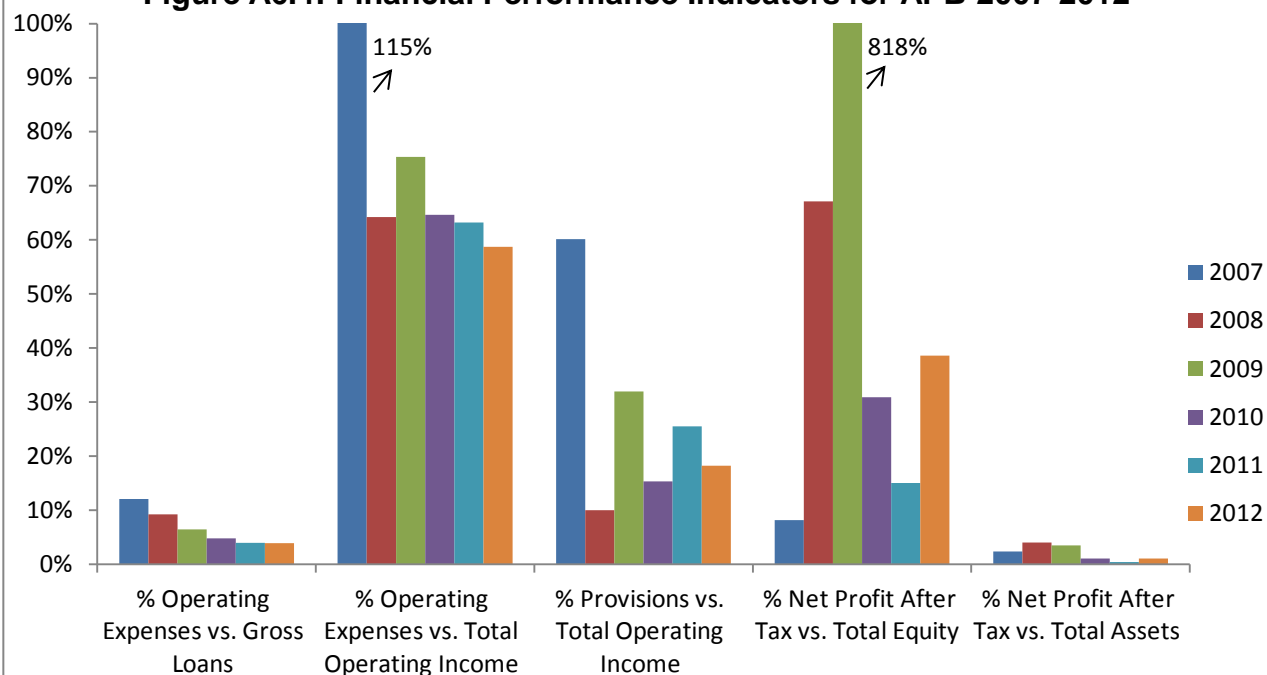
Figure A6.2: Financial Performance Indicators for APB 2007-2012

Source: APB Audited Financial Statements 2007-2012
 APB=Agriculture Promotion Bank

Figure A6.3: Financial Performance Indicators for APB 2007-2012

Source: APB Audited Financial Statements 2007-2012

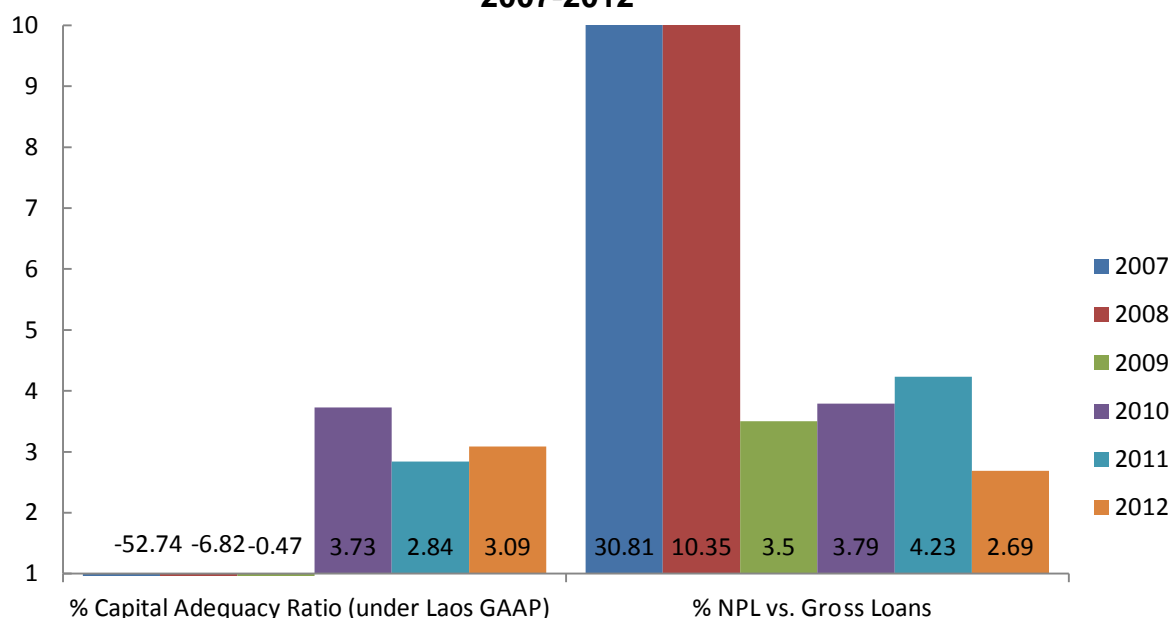
APB=Agriculture Promotion Bank

Figure A6.4: Financial Performance Indicators for APB 2007-2012

Source: APB Audited Financial Statements 2007-2012

APB=Agriculture Promotion Bank

**Figure A6.5: Financial Performance Indicators for APB
2007-2012**



Source: APB Audited Financial Statements 2007-2012
APB=Agriculture Promotion Bank

2. In terms of overall performance, from 2007 to 2012, assets increased by 584% while gross loans increased by 952%, whereas total liabilities increased by 417% over the same period, with deposits showing a 239% increase. Net loans accounted for 79% of total assets in 2012, up from 37% in 2007. On the other hand, the nonperforming loan (NPL) ratio declined from 30.81% of gross loans in 2007 to 3.09% in 2012. Over the same 6-year period, total operating income increased by 558%, while operating expenses increasing by only 236%, bringing a twenty-fold improvement in profits before provisions, and a reversal in net profits after taxes (from –KN14.2 billion in 2007 to KN43.8 billion in 2012). The loans–deposits ratio improved from 47% in 2007 to 145% in 2012; loans to total liabilities increased from 41% to 83% over the same period. Operating expenses declined from 12% of loans in 2007 to 4% in 2012. Operating expenses as a percentage of operating income decreased from 115% in 2007 to 59% in 2012. Positive returns on equity and on total assets were finally registered in 2011, from negative positions in 2007. The capital adequacy ratio likewise improved from a negative position in 2007 to a positive 2.69% in 2012 (while still below the 8% requirement under BOL6).

KEY MICROFINANCE INDICATORS FOR LAO PDR

Key Microfinance Indicators
(USD)

MFI name	Year	Average loan balance per borrower	Average loan balance per borrower / GNI per capita	Deposits	Gross Loan Portfolio	Number of active borrowers	Number of depositors	Percent of female borrowers	Portfolio at risk; 30 days	Profit margin
ACLEDA Lao	2012	5,209	459.35%	52,431,322	65,482,038	12,571	22,762	49.58%	0.00%	16.74%
CCSAH MFI	2011	1,554	137.06%		104,135	67	67	85.07%		
CCSAKX MFI	2011	886	78.12%		31,894	36		100.00%		
Champa Lao DTMFI ^a	2011	518	45.69%		299,492	578	2,261	60.90%		
Champa Lao DTMFI	2011	518	45.69%		299,492	578	2,261	60.90%		
EMI	2012	532	46.91%	2,406,544	2,126,219	3,997	10,596	83.29%	1.16%	10.82%
Hom NDT MFI	2011	216	19.06%		25,938	120	108	20.00%		
IFDP	2011	852	75.10%		732,361	860	1,988	19.30%		
Oudomxay Development NDMFI	2011	339	29.86%		256,983	759	2,533	86.96%		
SaSomSab	2011	195	17.20%		25,940	133	354	84.96%	0.00%	
Saynhai Samphanh DTMFI	2011	688	60.71%		2,424,816	3,522	4,363	28.02%		
SCU Houaseachalerm	2011	477	42.02%		140,100	294	785	39.12%		
SCU Huamchaiphathana	2012	220	19.37%	165,196	164,095	747	1,818	83.67%	9.43%	18.02%
SCU Luang Prabang	2012	496	43.78%	143,395	237,308	478	1,368	60.88%	2.08%	40.40%
SCU Songkone	2011	310	27.37%		114,198	368	1,291	79.89%		
Souykan Phathana NDMFI ^a	2011	507	44.67%		42,548	84	167	59.52%		
Souykan Phathana NDMFI	2011	507	44.67%		42,548	84	167	59.52%		
VBSC MFI	2011	599	52.81%		67,669	113	16	71.68%		
VDFAB MFI	2011	1,342	118.33%		34,890	26	19	57.69%	0.00%	
Vientiane SCU	2011	381	33.63%		28,985	76	532	47.37%		
WFDF	2012	324	28.58%	292,962	490,115	1,512	6,424	100.00%	0.52%	34.33%
XMI	2012	248	21.89%	528,860	1,185,500	4,775	7,570	100.00%	0.52%	37.34%

EMI = Ekphatthana Microfinance Institution, GNI = gross national income, MFI = microfinance institution, SCU = savings and credit union, VBSC = Village Bank Service Center

^a Quarterly figures, all others annual

Source: MIX Market, 2

LOAN 2252/2253-LAO: RURAL FINANCIAL SECTOR DEVELOPMENT PROGRAM GENDER AND DEVELOPMENT ACHIEVEMENTS

No.	Program Features and Targets	Achievements at Program Completion
Design and Monitoring Framework		
Output 1: A diverse, sustainable, competitive microfinance sector with expanded outreach		
1	Increased number of clients (including poor clients, female clients, and ethnic group clients) served by MFIs (December 2008)	Increase in 11,141 active borrowers: The number of pro-poor loans more than doubled from 9,352 (baseline) to 20,493 (Sep 2010), with 59% active female borrowers (consistent with the baseline). There was a 33% increase in the percentage of clients from ethnic minorities from 18 (2007) to 24% (2010). As of the end of 2011, average percentage of women clients of MFIs reporting to MIX Market was 66.63%.
2	Increased number of participating MFIs established in ethnic group areas (December 2008)	As of end 2010, 55% (10 out of 18) of MFIs were operating in ethnic group areas (vs. a baseline of 44% in 2007).
Loan Agreement Schedule 5 (17) Program Implementation and Other Matters	Social Safeguards The Borrower shall ensure, or shall cause the PMU and Implementing Agencies to undertake measures wherever possible, to promote the participation of women and ethnic groups in the program and to ensure that equitable opportunities are provided to women and indigenous peoples to undertake or be involved in activities conducted under the program in accordance with ADB's Policy on Gender and Development (1998) and Policy on Indigenous Peoples (2003).	APB has a very active group lending program, the beneficiaries of which are mostly women. Project consultants made great efforts to encourage APB to seriously consider an individual microfinance program in order to promote further development of women entrepreneurs from among the ranks of their successful group lending beneficiaries. However, this proposal was not taken up by the APB management or board.

ADB = Asian Development Bank, APB = Agriculture Promotion Bank, MFI = microfinance institution

Source: ADB

Agriculture Promotion Bank Portfolio Breakdown by Gender

Year	Number of Accounts	Number of Female Accounts	% of Female ^a	Amount In kip (KN)
2007	10,775	3,239	30.06%	319,138,829,566.48
2008	15,348	4,132	26.92%	611,079,983,609.84
2009	18,949	5,194	27.41%	1,014,735,595,881.38
2010	20,419	5,913	28.96%	1,661,422,402,687.40
2011	23,626	7,098	30.04%	2,635,182,326,827.75
2012	26,158	7,641	29.21%	3,356,407,702,812.34

^a Percentage reflects both group loans (which has a high female ratio) and individual loans (which has a lower female ratio)

Source: Agriculture Promotion Bank

1. The Rural Finance Sector Development Program¹⁰ was categorized as having a gender equity theme. While there was no clear gender strategy articulated in the program design, the

¹⁰ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Sector Development Program Loans, Technical Assistance Grant, and Administration of Grant Assistance from the Japan Fund for Poverty*

design and monitoring framework included one gender design measure, to increase the number of female borrowers (but without a specific target). The program appears to have been successful in terms of increasing the number of active borrowers by 11,141 from a baseline of 9,352. About 59% of the active borrowers are women.¹¹

Under the project completion report Customer Satisfaction Survey (Supplementary Appendix), 79 out of 111 customers surveyed were women, reflecting the fact that women make up the large majority of microfinance institution clients. The respondents expressed that the MFIs/Savings and Credit Union (SCU) are very easy to access, trustworthy, and very helpful for the people with low income and with no collateral. According to a 60-year old illiterate woman:

“We trust the officers, they wrote our payment on the loan record books and signed, we keep this book and all transactions with us. If we lose it we can report to them to make a new book for us, they told us not to worry about it, just come to their office anytime convenient to us. They also said if we are not happy with the services, to tell them or call their Manager, but we like all their services.”

In the future it is suggested that the Bank of Lao PDR commit to collecting data on clients (borrowers and depositors) disaggregated by sex in order to track gender equality results, such as the number of male and female beneficiaries of financial services.

Reduction and the Japan Fund for Information and Communication Technology for the Rural Finance Development Program. Manila.

¹¹ Final Consultant Report. TA 4827: LAO - Catalyzing Microfinance for the Poor Program. February 2011.

Agricultural Promotion Bank

INCOME STATEMENT
for the year ended 31 December 2007

	Notes	2007 LAKm	2006 restated LAKm
OPERATING INCOME			
Interest and similar income	3	47,438	45,104
Interest and similar expense	4	(18,572)	(20,758)
Net interest and similar income		28,866	24,346
Fees and commission income	5	4,390	3,547
Fees and commission expense	5	(1,151)	(726)
Net gain/(loss) from dealing in foreign currencies		81	(218)
Other operating income		1,391	2,484
TOTAL OPERATING INCOME		33,577	29,433
Recovery of bad debts written-off previously charged to the provision for impairment losses		8,208	7,594
Provision for impairment losses	11	(20,190)	(41,485)
NET OPERATING INCOME		21,595	(4,458)
OPERATING EXPENSES			
Personnel expenses		(17,756)	(17,585)
Depreciation and amortization charges		(3,319)	(2,536)
Other operating expenses	6	(17,492)	(16,138)
TOTAL OPERATING EXPENSES		(38,567)	(36,259)
LOSSES BEFORE TAXATION		(16,972)	(40,717)
Current income tax expense		-	(1,978)
Deferred income tax	20.3	2,745	-
NET LOSS FOR THE YEAR		(14,227)	(42,695)

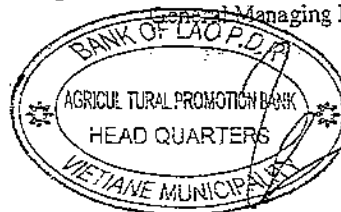
Prepared by:
Mr. Sithikone Khampounh
Accountant

Vientiane, Lao PDR

31 May 2008

Approved by:
Mrs. Somchanh Nanthavong
Chief Accountant

Approved by:
Mr. Bounvong Duangdocket
General Managing Director



Bounvong DUANGDOCKET

The attached notes 1 to 33 form part of these financial statements.

Agricultural Promotion Bank

BALANCE SHEET as at 31 December 2007

			as at 1 January 2007 of commercial banking segment ¹	
	Notes	2007 LAKm	2006 restated LAKm	LAKm
ASSETS				
Cash	7	65,054	36,276	36,276
Balances with the Bank of Lao PDR	8	199,199	86,454	86,371
Placements with and loans to other banks	9	4,953	4,373	4,373
Loans and advances to customers, net	10,11	223,821	203,957	149,547
Financial investments – held-to-maturity	12	12,922	14,662	14,662
Financial investments – available-for-sale	13	67,132	68,536	68,536
Property and equipment	14	21,542	15,632	15,133
Intangible assets and land use right		151	110	110
Deferred tax assets	20.3	2,745	-	-
Other assets	15	9,428	7,869	6,141
TOTAL ASSETS		606,947	437,869	381,149
LIABILITIES AND OWNER'S EQUITY				
LIABILITIES				
Term deposits and loans from other banks	16	16,294	10,126	30,221
Borrowings from the Bank of Lao PDR	17	64,324	63,377	63,377
Other borrowed funds	18	8,933	30,081	8,580
Customer deposits and other amounts due to customer	19	683,167	437,029	434,879
Enterprise income tax payable	20	-	1,846	1,846
Other liabilities	21	9,269	59,519	4,552
TOTAL LIABILITIES		781,987	601,978	543,455
OWNER'S EQUITY				
Issued capital	22	800	800	800
Statutory reserves	23	13,473	13,473	13,473
Available-for-sale reserves		-	(1,491)	(1,491)
Accumulated losses		(189,313)	(176,891)	(175,088)
TOTAL OWNER'S EQUITY		(175,040)	(164,109)	(162,306)
TOTAL LIABILITIES AND OWNER'S EQUITY		606,947	437,869	381,149

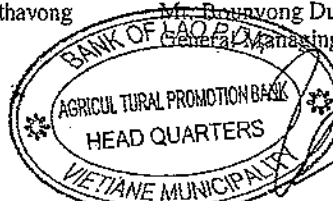
Prepared by:
Mr. Sithikone Khampounh
Accountant

Vientiane, Lao PDR

31 May 2008

Approved by:
Mrs. Somchanh Nanthavong
Chief Accountant

Approved by:
Mr. Bounvong Duangdockett
General Managing Director



The attached notes 1 to 33 form part of these financial statements.

Bounvong DUANGDOCKETT

¹ On 1 January 2007, the Bank transferred its policy banking segment to the Policy Bank in accordance with the decision of the Government of Lao P.D.R. and the Bank of Lao P.D.R. and this column represented the balance sheet as at 1 January 2007 of the Bank's commercial banking segment after the transfer.

Agricultural Promotion Bank

Balance sheet

As at 31 December 2008

	Note	2008 LAKm.	2007 LAKm
Assets			
Cash		66,335	65,054
Interbank and money market items	3		
Domestic items			
Non-interest bearing		58,518	138,596
Foreign items:			
Non-interest bearing		31,929	31,759
Total interbank and money market items		90,447	170,355
Statutory deposits with Bank of Lao PDR	4	27,416	33,797
Investments	5	97,329	80,054
Loans and accrued interest receivable	6		
Loans		611,080	319,138
Accrued interest receivable		6,234	3,009
Total loans and accrued interest receivable		617,314	322,147
Less: Allowance for doubtful loans		(63,234)	(98,326)
Total loans and accrued interest receivable, net		554,080	223,821
Property and equipment – net	7	25,534	21,542
Intangible assets and land use right	8	1,021	151
Deferred tax assets	9	6,466	2,745
Other assets	10	6,002	9,428
Total assets		874,630	606,947

Agricultural Promotion Bank

Balance sheet

As at 31 December 2008

	Note	2008 LAKm	2007 LAKm
Liabilities and Equity			
Liabilities			
Deposits from customers	11	789,175	683,167
Interbank and money market items	12		
Domestic items			
Non-interest bearing		21,473	13,852
Foreign items:			
Non-interest bearing		85	2,442
Total interbank and money market items		21,558	16,294
Borrowings from BoL	13	100,288	64,324
Other borrowings	14	11,105	8,933
Other liabilities	16	4,873	9,269
Total liabilities		926,999	781,987
Equity			
Bank capital	17	88,320	800
Other reserves	18	13,473	13,473
Accumulated losses		(154,162)	(189,313)
Total equity		(52,369)	(175,040)
Total Liabilities and Equity		874,630	606,947

The accompanying notes form part of these financial statements.

Approved by:



Mrs. Somchanh Nanthavong
Chief Accountant

30 July 2009



Mr. Bannvong Duangdolket
General Managing Director

30 July 2009

Agricultural Promotion Bank

Statement of income As at 31 December 2008

	Note	2008 LAKm	2007 LAKm
Interest income			
Loans and advances		59,648	34,516
Investments		9,744	12,922
		<u>69,392</u>	<u>47,438</u>
Interest expense			
Loans and advances		(25,289)	(17,690)
Borrowings		(2,859)	(882)
		<u>(28,148)</u>	<u>(18,572)</u>
Net interest income		<u>41,244</u>	<u>28,866</u>
Reversal/(Provision) for bad and doubtful loans and advances		8,789	(20,190)
Bad debts recovered		<u>20,430</u>	<u>8,208</u>
Net income from interest after doubtful accounts		<u>70,463</u>	<u>16,884</u>
Non-interest income			
Fee and commission income, net	19	12,544	3,239
(Loss)/Gain on exchange, net		(84)	81
Other income		<u>5,023</u>	<u>1,391</u>
		<u>87,946</u>	<u>21,595</u>
Non-interest expense			
Personnel expenses		(25,981)	(17,756)
Depreciation and amortization charges		(4,522)	(3,319)
Other expenses	20	(25,993)	(17,492)
Income/(Loss) before income tax		<u>31,450</u>	<u>(16,972)</u>
Income tax	21	<u>3,701</u>	<u>2,745</u>
Net income		<u>35,151</u>	<u>(14,227)</u>

The accompanying notes form part of these financial statements

Approved by:

Mrs. Somchanh Nanthavong
Chief Accountant
30 July 2009



Mr. Bounvong Duangdocket
General Managing Director
30 July 2009

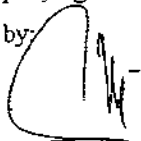
Agricultural Promotion Bank

Statement of financial position As at 31 December 2009

	Note	2009 LAKm	2008 LAKm
Assets			
Cash		82,130	66,335
Interbank and money market items	3	76,574	90,447
Statutory deposits with Bank of Lao PDR	4	33,590	27,416
Investments and accrued interest receivable	5	106,787	97,329
Loans and accrued interest receivable	6	989,683	554,080
Property and equipment	7	32,197	25,534
Intangible assets and land use right	8	1,051	1,021
Deferred tax assets	9	2,135	6,466
Other assets	10	10,668	6,002
Total assets		1,334,815	874,630
Liabilities			
Deposits from customers	11	1,004,087	789,175
Interbank and money market items	12	51,827	21,558
Borrowings from BoL and accrued interest payable	13	256,090	100,288
Other borrowings	14	20,309	11,105
Other liabilities	16	8,207	4,873
Total liabilities		1,340,520	926,999
Equity			
Capital	17	88,320	88,320
Reserves	18	21,382	13,473
Accumulated loss		(115,407)	(154,162)
Total equity		(5,705)	(52,369)
Total liabilities and equity		1,334,815	874,630

The accompanying notes form part of these financial statements.

Approved by:



Mrs. Somchanh Nanthavong
Chief of Accounting Division

25 Aug 2010



Mr. Banangeunh Phongsavath
General Managing Director

25 Aug 2010

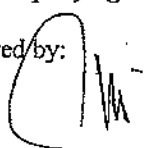
Agricultural Promotion Bank

Statement of comprehensive Income For the year ended 31 December 2009

	Note	2009 LAKm	2008 LAKm
Interest income			
Loans and advances		102,460	59,648
Investments		7,599	9,744
		<u>110,059</u>	<u>69,392</u>
Interest expense			
Deposits		(35,046)	(25,289)
Borrowings		(5,121)	(2,859)
		<u>(40,167)</u>	<u>(28,148)</u>
Net interest income		69,892	41,244
Reversal of provision for bad and doubtful loans and advances		27,738	8,789
Bad debts recovered		5,774	20,430
Net income from interest after doubtful accounts		103,404	70,463
Non-interest income			
Fee and commission income, net	19	11,684	12,544
Gain/(Loss) on exchange, net		821	(84)
Other income		4,922	5,023
		<u>120,831</u>	<u>87,946</u>
Non-interest expense			
Personnel expenses		(34,061)	(25,981)
Depreciation		(5,706)	(4,522)
Other expenses	20	(26,124)	(25,993)
Income before income tax		54,940	31,450
Income tax	21	(8,276)	3,701
Net income		<u>46,664</u>	<u>35,151</u>

The accompanying notes form part of these financial statements.

Approved by:



Mrs. Somchanh Nanthavong
Chief of Accounting Division
25 Aug 2010



Mr. Bouangeunh Phongsavath
General Managing Director
25 Aug 2010

Agricultural Promotion Bank

INCOME STATEMENT for the year ended 31 December 2010

	Notes	2010 LAKm	2009 LAKm
Interest and similar income	3	189,778	114,653
Interest and similar expense	4	(84,402)	(40,167)
Net interest and similar income		105,376	74,486
Fee and commission income		13,023	8,469
Fee and commission expense		(895)	(642)
Net fee and commission income	5	12,128	7,827
Net trading income	6	1,127	822
Other operating income	7	3,805	3,711
TOTAL OPERATING INCOME		122,436	86,846
Credit loss expenses	8	(18,766)	33,512
NET OPERATING INCOME		103,670	120,358
Personnel expenses	9	(42,924)	(34,061)
Depreciation and amortization		(7,146)	(5,706)
Other operating expenses	10	(29,038)	(25,651)
TOTAL OPERATING EXPENSES		(79,108)	(65,418)
PROFIT BEFORE TAX		24,562	54,940
Current enterprise income tax	25.1	(2,441)	(3,945)
Deferred enterprise income tax	25.2	(1,243)	(4,331)
PROFIT FOR THE YEAR		20,878	46,664

Approved by:



Mrs. Somchanh Nanthavong
Chief Accountant



Mr. Bouangeunh Phongsavath
General Managing Director

Vientiane, Lao PDR

31 March 2011

The accompanying notes from 1 to 38 form part of these financial statements

Agricultural Promotion Bank

STATEMENT OF FINANCIAL POSITION
as at 31 December 2010

	Notes	31 December 2010 LAKm	31 December 2009 LAKm
ASSETS			
Cash and cash equivalents on hand	11	84,595	82,130
Balances with the Bank of Lao PDR ("the BOL")	12	123,931	89,945
Due from banks	13	17,199	20,219
Loans and advances to customers	14,15	1,613,986	989,683
Financial investment – Available for sale		-	16,256
Financial investment – Held to maturity	16	128,460	90,531
Property and equipment	17	40,446	32,197
Intangible assets	18	2,849	1,051
Deferred tax asset	25.2	892	2,135
Other assets	19	29,309	10,668
TOTAL ASSETS		2,041,667	1,334,815
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	20	170,132	66,288
Borrowings from the BOL	21	398,611	256,090
Other borrowed funds	22	5,126	5,887
Due to customers	23	1,345,553	983,979
Issued papers	24	44,842	20,463
Current tax liabilities	25	-	1,545
Other liabilities	26	9,861	6,268
TOTAL LIABILITIES		1,974,125	1,340,520
EQUITY			
Paid-up capital	27	140,689	88,320
Statutory reserves	28	18,928	21,382
Accumulated losses		(92,075)	(115,407)
TOTAL EQUITY		67,542	(5,705)
TOTAL LIABILITIES AND EQUITY		2,041,667	1,334,815

Approved by:



Mrs Somchanh Nanthavong
Chief Accountant



Mr. Bouangeunh Phongsavath
General Managing Director

Vientiane, Lao PDR

31 March 2011

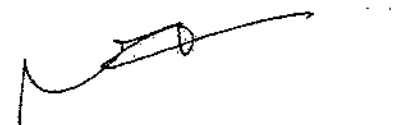
The accompanying notes from 1 to 38 form part of these financial statements

Agricultural Promotion Bank

INCOME STATEMENT
for the year ended 31 December 2011

	Notes	2011 LAKm	2010 LAKm
Interest and similar income	3	269,741	189,778
Interest and similar expense	4	(135,799)	(84,402)
Net interest and similar income		133,942	105,376
Fees and commission income	5	19,166	13,023
Fees and commission expense	5	(945)	(895)
Net fee and commission income		18,221	12,128
Net trading income	6	1,982	1,127
Other operating income	7	9,251	3,805
Total operating income		163,396	122,436
Credit loss expenses	8	(41,669)	(18,766)
NET OPERATING INCOME		121,727	103,670
Personnel expenses	9	(50,809)	(42,924)
Depreciation and amortization	16,17	(8,367)	(7,148)
Other operating expenses	10	(44,150)	(29,036)
TOTAL OPERATING EXPENSES		(103,326)	(79,108)
PROFIT BEFORE TAX		18,401	24,562
Income tax expense	24	(6,440)	(3,684)
PROFIT FOR THE YEAR		11,961	20,878

Approved by:



Mr. Osa Chansomphou
Chief Accountant

Vientiane, Lao P.D.R

31 March 2012

Approved by:



Mr. Somphone VONGSAVANH

Agricultural Promotion Bank

STATEMENT OF FINANCIAL POSITION
as at 31 December 2011

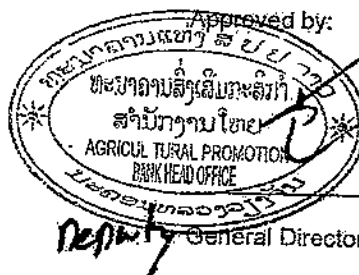
	Notes	31 December 2011 LAKm	31 December 2010 LAKm
ASSETS			
Cash and balances with the Bank of Lao P.D.R. ("the BOL")	11	325,219	208,526
Due from banks	12	12,949	17,199
Loans and advances to customers	13,14	2,546,451	1,613,986
Financial investments – Held-to-maturity	15	138,679	128,460
Property and equipment	16	73,670	40,446
Intangible assets	17	11,918	2,849
Deferred tax asset	24.2	9,755	892
Other assets	18	43,651	29,309
TOTAL ASSETS		3,162,292	2,041,667
LIABILITIES			
Due to banks	19	391,389	170,132
Due to customers	20	1,748,699	1,345,553
Issued papers	21	93,615	44,842
Borrowings from the BOL	22	825,750	398,611
Other borrowed funds	23	3,911	5,126
Current tax liabilities	24.1	9,271	-
Other liabilities	25	10,154	9,859
TOTAL LIABILITIES		3,082,789	1,974,123
EQUITY			
Paid-up capital	26	168,689	140,689
Reserves	27	22,256	18,928
Accumulated losses		(111,442)	(92,073)
TOTAL EQUITY		79,503	67,544
TOTAL LIABILITIES AND EQUITY		3,162,292	2,041,667

Approved by:

Mr. Osa Chansomphon
Chief Accountant

Vientiane, Lao P.D.R.

31 March 2012



Approved by:

Deputy General Director

Mr. Somphone VONGSAVANH

Agricultural Promotion Bank

INCOME STATEMENT
for the year ended 31 December 2012

		2012	2011 restated
	Notes	LAKm	LAKm
Interest and similar income	3	380,600	269,741
Interest and similar expense	4	(193,872)	(135,799)
Net interest and similar income		186,728	133,942
Fees and commission income	5	26,827	19,166
Fees and commission expense	5	(1,303)	(945)
Net fee and commission income		25,524	18,221
Net trading income	6	4,292	1,982
Other operating income	7	4,339	9,251
Operating income		220,883	163,396
Credit loss expense	8	(40,293)	(41,669)
NET OPERATING INCOME		180,590	121,727
Personnel expenses	9	(66,587)	(50,809)
Depreciation and amortization	16,17	(10,838)	(8,367)
Other operating expenses	10	(52,283)	(44,150)
Total operating expenses		(129,708)	(103,326)
PROFIT BEFORE TAX		50,882	18,401
Income tax expense	24	(7,109)	(15,303)
PROFIT FOR THE YEAR		43,773	3,098

Prepared by:

Mr. Ohsa Chanchomphou
Chief Accountant



Mr. Bouangeunh Phongsavath
General Director

Vientiane, Lao P.D.R

29 March 2013

Agricultural Promotion Bank

STATEMENT OF FINANCIAL POSITION as at 31 December 2012

		31 December 2012	31 December 2011 restated
	Notes	LAKm	LAKm
ASSETS			
Cash and balances with the Bank of Lao P.D.R ("the BOL")	11	433,811	325,219
Due from banks	12	11,399	12,949
Loans and advances to customers	13, 14	3,301,296	2,546,451
Financial investments – Held-to-maturity	15	211,524	138,679
Property and equipment	16	85,017	73,670
Intangible assets	17	12,066	11,918
Other assets	18	98,243	43,651
TOTAL ASSETS		4,153,356	3,152,537
LIABILITIES			
Due to banks	19	439,510	409,553
Due to customers	20	2,312,740	1,730,535
Issued papers	21	109,696	93,615
Borrowings from the BOL	22	1,085,400	825,750
Other borrowed funds	23	56,760	3,911
Current tax liabilities	24	10,096	9,271
Other liabilities	25	25,633	10,154
TOTAL LIABILITIES		4,039,835	3,082,789
EQUITY			
Paid-up capital	26	168,689	168,689
Reserves	27	34,126	22,256
Accumulated losses		(89,294)	(121,197)
TOTAL EQUITY		113,521	69,748
TOTAL LIABILITIES AND EQUITY		4,153,356	3,152,537

Prepared by:



Mr. Ohsa Chanchomphou
Chief Accountant



Mr. Bouangeunh Phongsavath
General Director

Vientiane, Lao P.D.R

29 March 2013



Technical Assistance Consultant's Report

Contract No. 107180-A79350
June 2013

LAO PDR: Client Satisfaction Survey ADB

Prepared by: Bouasavanh Khanthaphat
Indochina Research Laos
Vientiane, Lao PRD

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of {Day Month Year})

Currency Unit	–	Lao Kip (LAK)
LAK 7,750.00	=	\$ 1.00

ABBREVIATIONS

ADB	Asian Development Bank
APB	Agriculture Promotion Bank
BOL	Bank of Lao
DTMFI	Deposit taking Micro Finance Institute
FGD	Focus Discussion Group
GOL	Government of Laos
MFI	Micro Finance Institution
NTMFI	Non-Deposit-taking Micro Finance Institute
SCU	Saving and Credit Union
TA	Technical Assistance

NOTE

In this report, "\$" refers to US dollars.

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I. EXECUTIVE SUMMARY

1. In August 2006, the Board of Directors of the Asian Development Bank (ADB) approved the \$13,152 million Rural Finance Sector Development Program (RFSDP) for the Lao People Democratic Republic (Lao PDR). The Bank of Lao (BOL) was the executing agency for the program.
2. The goal of the program was to help the Government of Lao PDR reduce poverty and promote sustainable economic growth in rural areas through the development of a sustainable, market-oriented rural and microfinance sector that can improve the access of poor farmers, other rural households, and agribusinesses to reliable financial products and services.
3. The aim of this study is to collect a small sample of demand data to support an overall evaluation of the rural Finance Sector Development Program (Program Loan, Project Loan and Associated TAs).
4. This report presents the results of 14 focus group discussion conducted in 14 representative microfinance providers in 5 provinces: Luangprabang, Vientiane province, Vientiane capital, Savannakhet, Champasak and Salavan Province.
5. Target population by type:
 - 5 groups of Saving and Credit Union (SCU) Clients
 - 5 groups of Microfinance Institution (MFI) Clients
 - 4 groups of Agriculture Promotion Bank (APB) Clients
6. Most participants confirmed that they have better access to finance from 2004 until now and this access played a very important role in improving their livelihood. Some clients have built a new house, expanded their shop/business, and are able to give their children higher education.
7. Application procedures are simple and fast and there is no requirement for collateral for small loans of 1-5 million kip, not too many questions and no pressure to take loans, except for one provider for which processes were generally thought to be complicated and time-consuming and the cost of valuation of collateral was high.
8. The flexibility of repayment schedules and the possibility of early discharge of the loan were viewed positively by all.
9. Borrowers often had little knowledge of interest rates, but were very clear about the total amount of interest charged on their loans.
10. The service center meeting system did not suit a lot of working people, as they were not able to attend during the time the center was open.
11. The process of getting authorization from the village level of government was seen by many as an invasion of privacy, as the details of the loans sought quickly became common knowledge in the village.
12. Getting authorization from higher levels was expensive and time-consuming
13. Most people are more interested in loans than in savings.

II. PROJECT BACKGROUND

14. August 2006, ADB approved USD \$13,152 million Rural Finance Sector Development Program (RFSDP) for the Government of Lao PDR. The program comprised five parts:

- (i) Program Loan 2252-Lao;
- (ii) Project Loan 2253-Lao;
- (iii) Technical Assistance (TA) for Institutional Strengthening for Rural Finance TA 4827;
- (iv) Grant from the Japan Fund for Poverty Reduction for Catalyzing microfinance for the poor, Grant 9095 and
- (v) Grant for Japan Fund for upgrading of Information and Communication Technology, Grant 9096.

15. The Bank of Lao (BOL) was the executing Agency for the program. BOL's responsibilities included:

- (vi) Overseeing compliance with the reform initiatives
- (vii) Coordinating with other ministries, provincial authorities, and agencies through the program steering committee, comprising senior representative from APB, Ministry of Agriculture and forestry, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Justice and Prime Minister's Office
- (viii) Implementing policy reforms that fall within its authority for instance: policy framework, prudential regulatory, MFI supervision and promoting a diverse, competitive private sector.

16. APB was the implementing agency for APB restructuring activities, implementing its obligations under the governance agreement.

A. Project Objective and Aims

17. The program loan aimed to support the government of Lao in promoting a sustainable, market-orientated rural and microfinance sector by:

- ✧ Creating an enabling policy frame work
- ✧ Creating a sound prudential regulatory and supervisory environment
- ✧ Transforming the Agriculture promotion Bank (APB) into a financially sustainable, market-oriented rural finance institution
- ✧ Creating a supportive non-prudential regulatory environment

18. The project loan's objective was to promote a sustainable market-oriented rural finance sector. It was to:

- ✧ Build Bank of Lao's MFI supervision capacity;
- ✧ Build capacity in APB in the area of credit and risk management, accounting, management information system (MIS) in support of implementing its restructuring plan;
- ✧ Upgrade APB's information and communication technology (ICT) system.

B. Research Methodology

19. The client satisfaction/demand data collection was conducted in the form of Focus Group Discussions (FGDs) with 14 selected groups of clients of microfinance service providers including 10 financial institutions that received ADB support through RFSDP and four of which did not receive direct support. An additional two FGDs with 16 respondents were conducted as pilots at Sasomsap and Phatukham MFIs. Clients were selected by the MFIs, and FGDs were conducted outside to avoid disturbing MFI operations.

Table 1: Participating MFIs

Location	Name of participating MFIs	Number of Participants	Female Participants
Luangprabang	SCU Luangprabang - DTMFI	8	6
	Champa Laos - DTMFI	8	6
	Hounghiengsap - DTMFI	8	8
	APB - Luangprabang Branch	8	4
Vientiane Capital	Khoumvangmai - NDTMFI	8	4
	WFDF - DTMFI	8	8
	APB – DTMFI	8	2
Vientiane Province	Eakphattana- Phonghong Branch - DTMFI	8	8
	SCU Namlin - DTMFI	7	6
Savannakhet	SCU Seno - DTMFI	8	8
	Saynyaisamphan - DTMFI	8	6
	APB Savannakhet Branch	8	6
Champasak	SCU Huasae Chaleurn - DTMFI	8	4
Salavan	SCU Vanmai – DTMFI	8	3
	Total	111	79



FGDs (client permission given to publish photo)

III. KEY FINDINGS

A. Client Approach methodology

20. All respondents found that MFIs/SCU is very easy to access, friendly, trustworthy, and very helpful for the people with low income and no collateral.

21. Most respondents who participated in the discussion stated that they decided to use MFIs through friends or relatives who knew MFI staff. About 30 per cent of respondents said they received MFIs brochures and have met with the outreach staff. Most clients from one of the largest service providers who took large loans (500 million – 12 billion) knew someone working at the bank.

22. The interest rate, loan amounts and low value collateral requirements are the main issues that most respondents want to know about and use for making the decision to take the loan or not.

SCU Client:

“A friend of my husband is working at the SCU, I am selling foods at market, I have some difficulties with capital and didn’t know where can I borrow money, at that time I was joining daily credit and saving group at the market. I could not borrow money from village fund either as I am not the member, then my husband rang his friend who is working at SCU and he told us to come to the SCU, bring the family book, ID card. I could not ride a motorbike then my husband told his friend to come to our house so the next day he came with application forms and helped me to fill the form. Three days later he rang me to come to get money, I requested 10 million kip but received 6 million because I am a new client, this is my first loan taken from this bank.”

23. Acceptance of low value collateral, friendly service as client can call anytime and come to office in casual dress, flexibility for late payment and fast loan approval and reasonable interest rate charge; these are most conditions that make clients satisfied and decide to use MFI rather than banks.

MFI Client:

“I do not have a land title as I am renting a house but they still gave me a loan, I gave them my motor bike registration card, I received 2 million kip for the first loan and then 3 million kip. I cannot read and cannot write, my daughter read it for me and I signed using my thumb print. I don’t have to go to their office, the staff come to my house to collect it.”

24. Some respondents don’t like the way that MFIs/SCU used a flat interest calculation for small loan amount (<10million kip loan). Weekly payment is not suitable for agricultural clients as they don’t earn a consistent income. Some clients complained the valuation of their collateral is lower than its real value.

“I have to use my house as a collateral for 8 million kip loan, actually my car registration costs more than enough but they preferred house, so I gave it to them and I do not worry that I will lose it but my children were not happy with this.”

25. The process of getting the village authorization paper also often means that everyone in the village will know that they have applied for loans. *Clients in Savannakhet Province complained:*

“As we are GOL officers, we used our ATM card or bank book as collateral, every time when we applied for a loan we have to get 3 colleagues to sign as witnesses and our boss has to approve. We would like to cancel the use of colleagues as witnesses and use family members instead. We do not want our colleagues knowing that we are taking loans.”

B. Productivities

26. Most clients are interested in loans rather than saving as they do not have enough money for saving. About 50% of respondents do not have a savings account, and SCU clients have to buy at least one share to become a member otherwise they are not eligible to borrow money. Some MFIs deduct 5-10% of total loan amount to put in savings for bank guarantee only. About 80% of respondents could not remember how much the savings interest rate was.

[Did the field staff explain to you about the products available?]

A woman selling groceries at main market in Vientiane capital said:

“I knew this MFI because field staff went to the market and handed brochures to everybody near my shop, while he was explaining we were asking him lots of question about interest rates for borrowing and saving. I can’t remember how much they paid for saving but it’s higher than the big bank but I do not have enough money for saving.”

27. On the other hand all respondents remember the loan interest charged very well.

[Did the field staff explain to you about the products available?]

“Yes, the field staff explained everything but we cannot remember, first they handed out the brochures and pointed at the loan amounts with interest rate and the payment condition and then ask if we have questions and what we think about their productivities. We said yes to the 4% loan interest rate .”

1. Loans:

Type of MFIs	Loan amount LAK (kip)	Loan term (Month)	Interest rate (%/month)	Collateral	Repayment condition
SCU	Small- 1 – 5 million	3- 6months	4	Bike registration card & furniture,	Interest paid monthly and capital paid end of contract. Flat
	Large: 5- 10 million	3- 9months	3-3,5	Car registration, Land title	Weekly and monthly. Declining
MFI	1 – 10 million	10-25 weeks		Bike registration card, furniture, ATM card for GOL.	daily, weekly and monthly. Declining
	10- 20 million	20-40 weeks	2,5-3,5	Car registration, Land title	For GOL staff monthly
APB	3 – 10 million	6m – 1 year	12	Group guarantee	interest paid monthly and capital paid end of contract. Flat
	10 – 12 billion	1-3 years	14-15 per year	Land, house & Business license	

2. Saving:

Type of MFIs	Saving term	Interest rate (%/year)
SCU	Saving account Fixed a/c: 6-12 months Share member	6-8 12-13
MFI	Saving account Fixed a/c: 6-9-12 & 24 months	6-7 8-16
APB	Saving account Fixed a/c: 6,9,12,24 & 36 months	4-6 7-14

Source: The above figures are based on client reports and from MFI information.

C. Loan Assessment and Agreement

28. Most clients stated that the service approach that MFIs used is acceptable and suitable for all, especially strictness on repayment schedule and not being allowed to take parallel loan without paying off an existing loan. First loan or new client always received less than they asked for and asked more questions than existing clients. They also conducted some visits to new clients to monitor the use of the loans.

29. Ekphattana Clients in Phonhong Branch talking about the group loan guarantee and central meeting/service location that Ekphattana using. Group Leaders of each center express how they selected their group members;

[How did you select your group members?]

“When there’s someone who is interested to take the loan she will come to attend the meeting to fill the application form, open the saving account with MFI staffs and put the saving for 4-6 weeks and joined the group. So the group Leader will ask other group members if they agreed to include her in the same group.”

30. The study found that the process of loan assessment is pretty simple, especially for small loans (< 10 million kip), regular clients and well performing clients. Most respondents liked the process as there are no complicated questions, no visits after loan approved and they often received amount requested. 3-5 pages is the maximum document required for small loan.

31. The text of the contract and conditions were also not too hard to understand for literate clients. For illiterate and semi-literate clients, staff will read for them and then ask them to take it home for other family members to read. However, most respondents were not interested in reading through the contract carefully, they never ask for clarification or give suggestion. They wanted to know only how much they have to pay back per installment. More than 50% of respondents cannot say how much is the percent interest rate per month that they have been charged, but they could tell how much in total for example: for 1 million kip - total interest is 240,000 kip for a 6 month period.

[What is of most concern regarding the terms and conditions of the loan/account/contract?]

Clients of MFI that provide a service centre meeting:

“ We found it difficult that we have to put savings up to 10% of total loan requested before taking loan, this is main reason that not many people like to use this MFI. We also cannot withdraw money from our saving account anytime we want, because the service is only once a week, we do not know where the MFI office is and don’t know either if we are allowed to go to the office to withdraw”

32. Most SCU respondents said they were allowed to choose the payment terms and condition such as: payment amount per installment, payment schedule by week or month and whether they have to come to pay at the bank or staff go to collect. Some MFIs establish a payment schedule based on the purpose of the loan e.g. agriculture loan payment is monthly and interest only, business loans are weekly payment for both capital and interest. Some MFIs didn’t specify the type of loan, but set the same interest rate and provided a variety of payment schedules (daily, weekly and monthly) with a flat interest rate.

33. All respondents confirmed that they received a set of documents or copy of the contract, plus the calculation of payment and a loan repayment book. Some respondents prefer to keep this document at the MFIs rather than at home as they feel they might lose it.

34. Clients from one microfinance service provider had processes and procedures very different from the example above. There are lots of legal documents that are needed to get

authorization such as: documents of collateral, assessment and estimation of collateral value, residential certification. These documents have to be signed by the village chief and staff at the district and provincial level as well. Altogether the process took from 2 weeks up to 3 months depending on networking and availability of relevant departments.

[What is most concern regarding the terms and conditions of the loan/account/contract?] clients talking about how hard to get the loan:

"It is very difficult and wasting time for going back and forth to government offices to get their signature, sometimes I have to give more money for them to give priority for my paper. If ADB could help please recommend the financial service provider responsible for dealing with all documents required such as valuation of collaterals then they just add these costs into the service fee and please give us receipt for all costs, we don't mind to pay for, and this way will protect us from paying extra fee."

Loan Payment Record

ລາຍການບັນຊີເງິນກູ້ຂອງສະມາຊິກ					
ລ/ດ	ວັນທີ	ສຳລະຕົ້ນ	ສຳລະດອກ	ຍອດເຫລືອ ຕົ້ນທຶນ	ຜູ້ຕິດຕາມ
25.12.14				7,000,000	Dee
25.1.15	1,000,000	2000 .000	6,000,000	Dee	
25.2.15	1,000,000	2400.000	5,000,000	Dee	
25.3.15	1,000,000	2007.000	4,000,000	Dee	
25.4.15		1600.000	4,000,000	Dee	
28.5.15	1,000,000	172.000	3,000,000	Dee	

A Signed Contract

☐ ໃບອອບກຳລັງສົດ
☐ ໃບປະເມີນຄ່າຊັບສິນ
☐ ໃບອອບສົດ
☐ ໃບສະເໜີຂໍຖືກຢືນແລະເອກະສານພິມພັນນາ
 ມາດຕາດີ ສັນຍາສະບັບນີ້ຈະຖືກສົ່ງກັບແຕ່ລະບ່ອນລາຍເຊັນເປັນຕົ້ນໄປ.

ທີ່ 18/12 ວັນທີ 2 / 5 / 13

ລາຍເຊັນຜູ້ຕຳແໜ່ນ
 1. ວຽງ ສິນ
 2. ວຽງ ສິນ

ລາຍເຊັນຜູ້ຖືກຢືນແລະແປະໂປ້ມີ
 1 ສິວ
 2 ເມຍ

ກຳລັງການສິນເຊີຍ
 ສະພາບປະສານ
 ນາຍບ້ານ

ສິດ ນິດປະສາ

Contract highlights the number of approvals/signatures (five) required to acquire a loan

D. Delivery and disbursement

35. Most MFIs provided services and disburse the loan money at the MFI. With new clients the MFI staff will come to the client's home with the application form, explaining and helping to fill in the form. Two MFIs involved in this study use a service meeting center approach, but one MFI delivers and disburses on site once a week and another organizes savings, loan applications, and loan repayments at the meeting point but clients have to come to MFI to get their loan.

36. Loan application form at MFI costs: 10,000 kip – 20,000 kip per loan, APB 800,000 kip per loan plus cost of collateral assessment of between 1 and 2 million kip plus transportation back and forth to offices. Village authority charges a stamp fee which in most villages is 10,000 kip and in places such as Vientiane capital and Pakse is 50,000 kip. However, the village authority does not charge people if they are “close” to the village authority.

[What expenses did you incur when getting the loan?] Woman on outskirts of Vientiane capital complained that that she paid as follows for taking a 1million kip loan:

“First loan I borrowed 1 million kip, I have to put 100,000 for loan guarantee, 20,000 kip for form and 50,000 kip for village plus my cost to go there so I had about 800,000 kip left. My loan period was only 3 months, I have to pay again for my second loan, if the MFI allowed client using same set of documents for one year that would help us a lot in terms of cost and I feel embarrassed that other people in the village know that we are in debt” .

E. Loan Term and Repayment

37. Most respondents knew that if they could not make repayments on time they will be fined, some MFIs apply this very strictly, even for one day late the interest rate will be added. On the other hand the SCU clients said they were allowed to be up to a week late and they could ask for approval of late payment and avoid being fined.

[Have you ever struggled to pay back the loan? And how]

A client with weekly payment schedule said:

“ First loan was 2 million kip and I have to pay about 150,000 kip per week, I didn’t have a problem as it was not too big. After that I borrowed 5 million kip, I decided to pay weekly and it was about 250,000 kip a week I found it very difficult and the week had gone very fast so I could not save this amount . I had to cut other expenses, eat less luxury food and borrow money from my daughter to pay off the loan earlier than scheduled. ”

38. However, most respondents said they tried to avoid a late payment penalty to maintain their reputation as good clients. Some clients have to borrow money from other sources even if the interest rate is higher. If they show they have a good repayment record they could ask for bigger loan amount if needed.

39. Most MFIs do not allow parallel loans, only Ekphattana allows their client to take two loans at the same time. The extra loan called “Family supporting fund” and this loan is only available for 3rd round client (clients who have taken a 3rd loan), the maximum is 3 million kip loan and clients have to make weekly repayments with 4% interest per month.

[Have you ever struggled to pay back the loan? And how]

A client with monthly payment schedule said:

“ I am a civil servant, I rely on my salary, some months I received my salary late and I cannot pay the loan on time then I have to pay the fine for my late payment, Actually they should not charge us because my ATM card is kept at the MFI, if they didn’t believe me they could check my bank account. However, I don’t want to have problem with MFI I just paid the fine without complaint.”

40. All respondents said they were allowed to make early repayments and about 50% of participating clients said they often paid the last 2-4 weeks amount early, the reason was to get a new loan and bigger loan amount.

41. Clients who farm wanted to get bigger loans and longer repayment periods but most MFIs only allow six months to one year and from 2-4 million kip. APB offered group loans up to 10 million kip but for only a one year term, and for individual agribusiness loans up to 500 million kip and for a maximum of three years.

42. Farmers group loan leaders are responsible for collecting money from members and bringing it to the bank; there is no allowance for the group leaders’ transport costs, the payment deadlines are on the weekend and farmers were charged two days extra interest but members didn’t reimburse the leader for that fine as they didn’t agree with it. They suggested bank staff should inform them to come earlier or should not charge them.

F. Interest rates and fees

43. Most respondents realized the interest rate is lower than with informal money lenders. About 40% of microfinance service provider respondents used to borrow money from banks such as: APB, Phongsavanh Bank, Acleda Bank and Lao Development Banks.

44. All respondents know that some MFIs calculated the interest with declining system but the clients paying flat interest rates never ask or complained to the MFI because they found this interest rate is reasonable and convenient for them.

45. There is no extra fee charged for taking loan from MFIs apart from application fee and authorization fee from village authority.

46. A woman selling dry buffalo skin at the market:

[Have you ever struggled to pay back the loan? And how] A client with monthly payment schedule said:

“ I am a civil servant, I rely on my salary, some months I received my salary late and I cannot pay the loan on time then I have to pay the fine for my late payment, Actually they should not charge us because my ATM card is kept at the MFI, if they didn't believe me they could check my bank account. However, I don't want to have problem with MFI I just paid the fine without complaint.”

47. Clients who borrowed large amounts from one microfinance service provider have to pay extra money to speed up the authorization from different offices and from each level.

[Have you been charged any additional money to speed up the process] A young business woman and a long term client:

“I have been borrowing money from this financial service provider for more than 5 years, I am doing several businesses, the first loan was in 2006, it was 1 billion kip or about USD 100,000\$ at that time, the interest rate was 15% per year and for 2 years period, I paid quite large amount of extra money to get all approvals to complete my collateral assessment and handing over assets. I think the procedures took about 3 months . My current loan started early this year, this one is 12 billion kip (USD 1,5million), again 3 years loan period, interest is 15% per year. I could not remember how much I paid in extra fees but at least 5 million kip, the bank approval took 6months because it is a large loan and needs to get board committee approval and by that time the bank didn't have enough capital to lend. I suggest that regular clients with a good repayment record should get some exemption from getting authorization for subsequent loans by just referring to existing one. The financial institution already classifies clients: good performing client, difficult and average.”

Fee charged for a loan

Details of Deposits		NAME	Tel	ບັນຊີເງິນ
ປະເພດເງິນ NOTE	ຈຳນວນເງິນ Amount	ປະຊາຊົນ	ໂທລະສັບ	ເລກບັນຊີ
50,000	800,000	ອີກ		08 502870
		ADDRESS	Unit	ຈຳນວນເງິນ
		ເພື່ອເຂົ້າບັນຊີ		Amount of M.
		TO CREDIT ACCOUNT		800,000
		ຈຳນວນເງິນ (ຂຽນຕົວໜັງສື)		
		AMOUNT IN WORDS		
		ຜູ້ເອກເງິນ	ນາຍົກ	ຫົວໜ້າພະນັກງານ
		DEPOSITOR	CASHER	ຜູ້ໄດ້ຮັບເອກເງິນ
				AUTHORIZED
ລວມ Total	800,000			

A different fee charged for the same loan

Details of Deposits		NAME	Tel	ບັນຊີເງິນ
ປະເພດເງິນ NOTE	ຈຳນວນເງິນ Amount	ປະຊາຊົນ	ໂທລະສັບ	ເລກບັນຊີ
50,000	1,040,000	ອີກ		08 30100.65.17
		ADDRESS	Unit	ຈຳນວນເງິນ
		ເພື່ອເຂົ້າບັນຊີ		Amount of M.
		TO CREDIT ACCOUNT		1,040,000
		ຈຳນວນເງິນ (ຂຽນຕົວໜັງສື)		
		AMOUNT IN WORDS		
		ຜູ້ເອກເງິນ	ນາຍົກ	ຫົວໜ້າພະນັກງານ
		DEPOSITOR	CASHER	ຜູ້ໄດ້ຮັບເອກເງິນ
				AUTHORIZED
ລວມ Total	1,040,000			

G. Customer Services and Complaint

48. Most respondents were satisfied with the services; field staff and loan officers were never rude or gave problems. The study found that respondents were very relaxed when talking about services and they trusted the field staff as some respondents kept their document with the staff; GOL officers kept the ATM card at the MFI and let the MFI withdraw cash for them.

[What step will you take if you have a complaint ?]

A 60-year-old illiterate woman:

"We trust the officers, they wrote our payment on the loan record books and signed, we keep this book and all transaction with us. If we lose it we can report to them to make a new book for us, they told us not to worry about it, just come to their office anytime convenient to us. They also said if we are not happy with the services please tell them or call their Manager but we like all their services."

49. When asking the reason why clients never asked or suggested to the institution to review some condition that they felt was not suitable most respondents said they were not brave enough to ask and they thought the staff will not be able to make a decision anyway.

A group of women talking about meeting center approach:

"We found the meeting is not suitable for working clients as they can't be absent from their work to attend the meeting, if they 1-2 hours late their wages will be cut, same as farmers who sell their labor to other farmers, it's difficult to join the group, if possible I would like staff to conduct meetings very early morning or in the evening especially during the busy planting season."

H. Changes in lives and coping with emergency cases

50. Most respondents have made some improvement in their living condition since they started taking loan from MFIs. Easy access with no collateral is the main strength, and the low interest rate puts clients under less pressure for loan repayment and they could still save some money.

51. Civil servants receive a monthly salary but it is very hard for them to save money, so families with a number of children in school in particular find great advantage with MFIs. They borrow money for tuition fees and fees for children attending evening class, pay for transport to school and renovate their houses.

[What changes in your life since becoming a client?] A retired woman in Pakse said:

"I have sent 2 daughters to study at University and I used this money to dig bigger fishpond, build a frog farm and last month I took a new loan of 6 million kip and I will grow vegetables to sell in wet season. I used to borrow from APB as part of farmers group but it took a long time to get loan approval, you know agricultural production has to be on time and if we are late or out of season, it is very risky. With this institution it is so easy, I just call manager or staff and tell them I will prepay my current loan this week and I need new loan by next week, they said yes please come anytime you're ready."

52. Most respondents stated if that they had an emergency they would borrow money from relatives, if they could not get it from them they would sell anything valuable from the home, and last choice is to borrow money from a money lender with high interest rate.

IV. RECOMMENDATIONS

53. Village authorization should be valid for one year as most clients taking a six-month loan needed to have the contract reviewed, but previous approval by village authority can be used. Borrowing money in Lao culture can be a matter of some shame. People feel they are discredited if others know about the loans and children may feel ashamed if their friends know that the family needs to borrow money for their living. Not many people want to take loans unless they really need to.
54. Fees charged by the village should be standardized for microfinance loans; the study found each village charged differently and there are no receipts, and some people are not charged if they have good connections with one of village authority members.
55. Contract conditions should be read by field staff to their clients every time with no exceptions. For older or illiterate clients the children or one of the family members should sign the agreement stating that they have read the contract. This is especially important for the clause mentioned about the fine for late payment, confiscation of collateral and valuation of collateral.
56. Flat repayment calculation should be used for all clients who choose repayment by installment (because of the ease of calculation). However, before a client chooses the payment type staff should explain the difference between a flat repayment calculation and repayments based on a percentage of the declining amount owed.
57. SCUs should pay more attention to explaining the benefits of being shareholders to clients, rather than just using this as a requirement for loan taking.
58. Loan disbursement procedure at SCUs took on average about three to five days or sometimes longer if the board committee was busy on village works. To make it convenient for existing clients with same loan amount, there should be an exemption from approval by the Board of Director Committee.
59. Emergency loans should be available for all MFIs to assist the long-term clients (of at least one year's standing) from economic shock who would otherwise have to sell their assets at a low price to cover their emergency. The loan disbursement procedure should be simple and quick including no need to get village authority stamp, no collateral and should be able to obtain it within one to two days. Loan amount can be between one and four million kip and interest of three percent per month for not longer than a six month period.
60. Savings products need to have more service choices and need some promotion to attract more clients such as being able to: receive and transfer money, mobile savings and withdrawal service, especially for the institutions that use a meeting center approach. The interest rate for fixed accounts is very attractive but there is no promotion to build trust for clients. If possible providers should show the calculation of interest rate by the amount of cash they will receive not as a percentage as most clients are market vendors and farmers. Monthly interest payment is attractive as people get the cash as monthly income.

61. Most respondents are interested in buying health and life insurance if the services cover medical treatment in neighboring countries such as Thailand and Vietnam. Some clients suggested that the insurance staff should come to hospital to help them deal with doctors to get good service; and that they should not have to provide all the receipts for the claim.

Suggestions for Support Organizations

62. SCU operational set-up generally needs improvement - including security, IT, management and accounting systems, and public relations – to enable BOL to approve the operations and also to attract more customers.

63. BOL support to MFIs should be not only for auditing purposes but also for improving the quality of service and ensuring rights of deposit holders and borrowers are respected, and proper policies followed.

64. ADB future support should include enhanced cooperation between microfinance service providers and BOL through placement of a specialist within BoL to work on:

- encouraging flexibility of regulation on minimum capital holding for MFIs.
- BOL support for newly formed MFIs

APPENDICES

Appendix 1

Fieldwork Completion Report: Demand Data Collection – MFIs ADB –Laos PRD (May 27th – June 5th 2013)

This report outlines key issues arising from fieldwork on microfinance demand data collection in Lao PDR. The report covers timelines and key issues involving the assessments.

I. Fieldwork Summary

a. Fieldwork timeline:

Location	Date start	Date completion
Vientiane Capital		
5 FGDs	27/05/2013	5/6/2013
Luangprabang		
4 FGDs	28/05/2013	29/5/2013
Champasack		
1 FGD	3/06/2013	3/06/2013
Salavan		
1 FGD	3/06/2013	3/06/2013
Savannakhet		
3 FGDs	4/06/2013	5/06/2013

b. Surveyed participants:

Location	Name of participating MFIs	Number of Participants	Female Participants
Luangprabang	SCU Luangprabang - DTMFI	8	6
	Champa Laos - DTMFI	8	6
	Hounghiengsap - DTMFI	8	8
	APB - Luangprabang Branch	8	4
Vientiane Capital	Khoumvangmai - NDTMFI	8	4
	WFDF - DTMFI	8	8
	APB – DTMFI	8	2
Vientiane Province	Eakphattana- Phonghong Branch - DTMFI	8	8
	SCU Namlin - DTMFI	7	6
Savannakhet	SCU Seno - DTMFI	8	8
	Saynyaisamphan - DTMFI	8	6
	APB Savannakhet Branch	8	6
Champasak	SCU Huasae Chaleurn - DTMFI	8	4
Salavan	SCU Vanmai – DTMFI	8	3
	Total	111	79

II. Summary of fieldwork issues

Issues	Strengths	Constraints
Respondents' availability	Most selected respondents were available to participate in the discussion	About 50% of selected respondents from APB in Vientiane capital and Savannakhet branch could not attend the discussion and the schedule for Vientiane had to be amended 3 times. In Savannakhet branch the farmers' group that participated in the FGD was recruited to replace participants who had canceled.
Respondents' participation and Cooperation	All respondents were very interested in sharing information. Most of them were grateful to the organization for supporting this evaluation and involving them. All respondents said that this is first time that they have been asked to attend a meeting and share their needs and experiences	
Logistic support	Most FGDs were conducted according to schedule. The meeting room in LPB province was the most appropriate; there were no disturbances and it was very convenient	The recruitment process was not well planned; the profiles of about 50% of the respondents were conducted after discussions were completed. Main reasons: some selected respondents could not come and there were no contact numbers for many respondents. The FGD in SCU Huasae, Champasak province was conducted at the service area which made it difficult for respondents to talk about negative issues with the SCU. There was a similar issue in SCU Vanmai; Salavan province but at least there is a meeting room separate from the service area and the FGD was conducted on a day that SCU was shut due to a public holiday.

III. Plan for report submission

First draft report will be submitted by: 20th June 2013
Revision will be submitted by: 5th July 2013

Appendix 2

Focus Group Discussion Tool

Client feedback for the investigation of the adequate standards of the client protection certification program

How to Use this Tool:

Information gathered through the Focus Group Tool should be used to support and cross-check results found from other (applicable) aspects of the certification process such as the review of policies and procedures and interviews with staff. The Focus Group Tool is not stand-alone standard that a financial institution can pass or fail. In the event that information gathered through focus group discussions refutes or challenges evidence found through other aspects of the certification, the certifier should probe with more analysis until a conclusion can be reached.

From initial pilot testing, the Focus Group Tool should be conducted in the middle of the visit to allow for the verification of FGD findings with staff and management to take place.

Tool Section	Description
Sample of Clients	The sampling is aimed at selecting an unbiased group of clients, whose composition reflects the market segments served and the products offered.
Moderator Guide	The moderator guide follows the product cycle order -the most logical to the clients- to ensure a smooth discussion and an efficient use of time.
FGD output Form (Excel Spreadsheet)	The FGD output template follows the client protection principles order to facilitate the analysis of results by group and at aggregate level
Follow-up (Excel Spreadsheet)	The follow-up list reports the observations emerged from the focus group discussion requiring further investigation

Sample of clients

Independent sampling of participants is important in obtaining meaningful results and avoiding “guided sample” and biased answers. The participants and branches to which they belong to should be selected by the certifier to ensure the following

Sample size	Number
Focus group discussion	4
Branches to which participants belong to	2
Target participants/group	6 to 8
Clients to be invited*	8 to 16

Sample composition
Heterogeneous between groups
Homogeneous within each group
Variety of loan officers and groups
Representative of areas covered (e.g. R/U)*
Representative of financial products
Representative of loan cycles structure
Representative of loan amount structure
Representative of portfolio quality
Representative of gender*

*Context specific

Moderator Guide

To guarantee a quality output, the moderator should ensure:

1. Good knowledge of the certification methodology
2. Group discussion management skills (e.g. even participation, leader role, majority effect, respect of rules, etc)
3. Good interview skills (e.g. open questions to avoid driving the answers and minimize bias)

Focus Group Discussion Topic	CPP Addressed	Question
Presentation		Welcome and ice breaking (if necessary)
		Presentation of moderator and note-taker, stressing the distinction from the MFI personnel
		Explanation of objectives and how results will be used
		Agreement on rules: confidentiality, rules of interaction, motivation, timing, logistics, anything specific agreed with MFI
Introduction (This part is included in profile)		Name
		Loan amount
		Business and loan use
General	all	What do you think about the MFI (trust, works to help and protect clients)? Why?
	all	What do you like about the MFI (what is important)?
	all	What do you dislike about the MFI (what is important)?
0. Contact	2	How did you approach / were you approached by the MFI?
	2	How did you decide to borrow a loan?
1. Initial information	1, 2, 3	Which are the products available (client awareness)?
	1, 2	How did you obtain the information (Promoter, friend, bank, etc.)?
	1, 2, 3	Did field staff explain to you about the products available?
	1, 2, 3	Who choose the type of product which you took?
	3	When did you get to know about the guarantees necessary for the loan?
2. Loan assessment	2	How is the process of applying for a loan?
	2	How did you select your group members?
	2	Which are the topics discussed during the pre-credit training (joint liability)?
	2	How did the LO/group leader assess you as part of the loan analysis (visit)?
	2	How long does it take for the assessment done by LO at client place?
	2	What did the LO/group leaders ask you?
	1, 2	How does the field staff take into account your situation when analyzing your loan application (family and business circumstances)?
	2	If analysis delegated to group or village bank: How do representatives receive guidance and training on how to perform the analysis of repayment capacity?
	2	What did the staff ask you about (additional loans)?
	2, 5, 7	Have you ever received a visit from any member of the MFI staff, different from your LO?
3. Agreement	3	What is done with the loan agreement (do you have a copy)?
	3	How much time given to review the agreement and conditions?
	3	How do you find the text of the contract (clear)? How is the explanation received (good)?
	5	Do you know if the MIF can share your personal information with other MFIs?

Focus Group Discussion Topic	CPP Addressed	Question
	1, 2, 4, 5	Which is the biggest concern regarding the terms and conditions of the loan/account/contract?
	1, 2, 4, 5	Are there aspect of the product you were forced to accept?
	2	Have you ever felt any pressure to take the loan?
4. Delivery and disbursement	1	Any aspect of the delivery you would like to change?
	3, 4	Which are the expenses you incurred in when getting the loan (i.e. transport, bank fee, etc.)
	3, 4	Have you been bribed any additional money to speed up the process (i.e. bribes)?
5. Loan amount	1, 2	Have you always received the amount you asked for (more or less)? Why?
	1, 2	What would you do in case the amount received is not enough (borrow from someone else)?
	1, 2	How do you see the match between the products and the amount that you need (the lower between what you need and what you can repay)?
	1	Would you recommend the MFI to a friend with a business similar to yours?
6. Loan term	3	How did you find the clarity of the conditions?
	1, 4	Is it possible to prepay the loan? How does it work?
	4	In case of prepayment, is there any cost? (detering switching)
	2	Early repayment and refinancing is possible? Have you ever done it?
	1, 2	Are parallel loans possible? Have you ever done it?
7. Loan installments	2	Have you ever struggled to pay back the loan? How
	2	How does the installments compare to the amount that you can repay (>)?
	2	What do you do when there is no cash enough to repay the loan (skip food or health expenses)?
8. Repayment frequency	1, 2	Does the repayment schedule match your cash flow?
9. Interest and fee	3, 4	How much are the interest rate and commissions?
	3, 4	How do you find the interest rates and fees?
	3, 4	How is the price compared to the competitors?
	3, 4, 5	Do you pay additional charges to the LO?
10. Customer service	5	Were you informed about the way LOs should behave with you?
	5	Were you informed about situations or behaviors from the LOs that are not permitted and that you should report in case they happen?
	1, 2, 5	Did you receive field staff visits after the loan disbursement?
	1, 2, 5	What did the field staff ask you about?
	2	(In case the loan was used for a purpose different from the loan product) Did the field staff make any comment on the way you had used the loan?
	3	How is the explanation received from the LO when you ask some questions?
	6	Can you receive an updated balance if you request for it?

Focus Group Discussion Topic	CPP Addressed	Question
11. Guarantee	5	Does a collateral back your loan?
	5	How is the collateral value compared with the loan amount?
	3, 5	How was the information received before pledging the item (enough)?
	2, 5	Role of guarantors understood
	3, 5	What have you heard related to confiscation practices by the MFI or by other market players?
	5	What happens in a group when the collateral is confiscated (monitoring of groups carrying out collection or seizure of assets)?
12. Late payment and default	5	How the collection works?
	3, 5	What are the consequences of late payments?
	5	Have you heard about the consequences with other institutions in the market?
	5	Have you ever felt intimidated?
	5	During group meetings, how do you discuss the possibility of confiscating the collateral of a member who is late with his repayment?
13. Complaint	7	What steps would you take if you have a complaint (i.e. talk first with the LO, BM, etc.)?
	7	How do you find the channel (appropriate)?
	7	Have you ever wanted to log a complaint?
	7	How long did it take? Was the issue solved?
	7	Can you recall cases when clients have complained and the institution has acted accordingly?
14. Credit history (included in the profile)	2	Is the first time you borrow?
	2	Do you have additional loans? - How much and how many are they?
16. Meeting	all	Which are the topics discussed during the meetings with the staff?
	6	What is the place of the groups meetings (private discussion among group members)?
17. Saving	1	Are there saving account fees?
	1, 3, 4	What are the saving terms and conditions (interest rate, withdrawal, fees, min balance)? Where do you find information about the savings conditions?
	3	What documents are you given when you open a saving account? Can someone please show them?
	3, 5	Is it possible to use savings in case of late loan repayment?
18. Insurance	1, 3	Is there insurance available?
	4	How much is it?
	1, 3	What does it cover?
19. Other		What's changes in your life since becoming a client?

Focus Group Discussion Topic	CPP Addressed	Question
		What other ways of borrow/ saving?
		What do you do in an emergency?
		Why you save or not save?
		What type of finance services will help you to protect your risk in the future
Conclusion		Answer client questions or channel them to the appropriate person
		Clarify expectations: ensure not that the services will change, but that the clients' observations will be brought to the MFI management
		Acknowledge participants time and feedback