

# **Market Study on Agricultural Value Chain Credit Demand of MFI clients in the Lao PDR**



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**Prepared for:** Microfinance Association for the Lao PDR (MFA)

**November 2018**

## List of Abbreviations

ADA	Appui au Development Autonome – Luxembourg
APB	Agricultural Promotion Bank
AVCF	Agricultural Value Chain Finance
BCEL	Lao Foreign Commercial Bank
DAFO	District Agriculture & Forestry Office
DTMFI	Deposit-taking Microfinance Institution
EMI	Ekphathana Microfinance Institution
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GOL	Government of Lao PDR
INGOs	International Non-Governmental Organizations
JICA	Japan International Cooperation Agency
LAK	Lao Kip (Lao Currency)
LDB	Lao Development Bank
LDC	Least Developed Countries
MAF	Ministry of Agriculture and Forestry
MDG	Millennium Development Goal
MFA	Microfinance Association for the Lao PDR
MFI	Micro-finance Institution
MOIC	Ministry of Industry and Commerce
MOF	Ministry of Finance
NDTMFI	Non Deposit-taking Microfinance Institution
PAFO	Provincial Agriculture & Forestry Office
PMO	Prime Minister Office
RMF	Rural and Micro Finance
RMFC	Rural and Micro Finance Committee
SCU	Savings and Credit Union
VB	Village Bank
VC	Value chain
VCF	Value Chain Finance
VDF	Village Development Fund

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# CHAPTER 1: Introduction to the Assessment

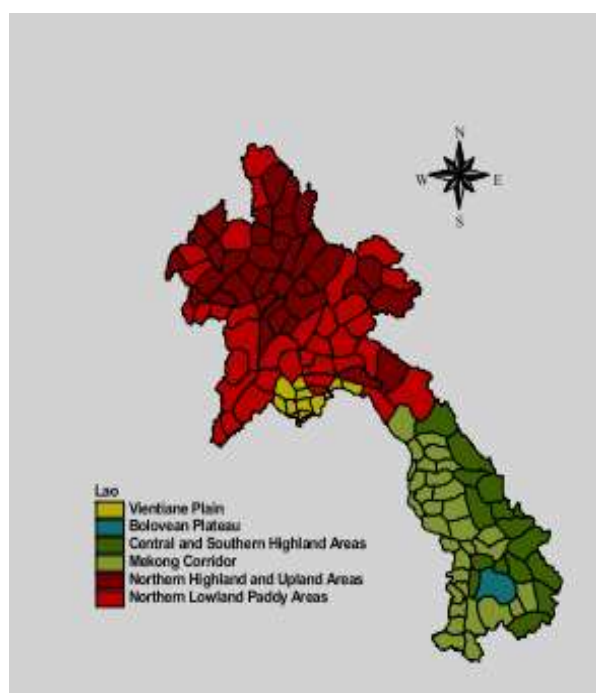
## 1.1. Overview

The rapid change in global agriculture during recent years is characterized by increased demand for food due to growth in population, income, urbanization and changes in consumer preferences. Collectively, these changes contribute to a paradigm shift in the way food is produced, processed, marketed and consumed. To satisfy this increased demand, food value chains emerged as the most important process to ensure sustainable supply. This has also created opportunities for the primary producers and agribusiness entrepreneurs to transform commodities into products that are demanded by consumers across the globe.

In Lao PDR, while declining as a portion of GDP, agriculture remains central to Laos' development, as it contributes to the livelihoods of 80 per cent of the population (World Bank, 2012)<sup>1</sup>. Agriculture and forestry accounted for 33 per cent of GDP, or approximately US\$2.4 billion in 2010 (World Bank, 2012). This is down from 61 per cent in 1990 and 52 per cent in 2000 and reflects the growing importance of other sectors such as mining, hydropower and services (World Bank, 2012).

The agriculture sector includes crops, livestock, fisheries and forestry. Agriculture is sometimes more broadly referred to in government documents as the agriculture, natural resource and rural development sector, or ANR (MAF, 2010a)<sup>2</sup>. This is an indication of the strong relationship the government sees between agriculture and development.

Agriculture in Laos is broadly divided into lowlands and uplands systems (FAO, 2011)<sup>3</sup>. This reflects the geography of Laos, with a land area of approximately 240,000 square kilometres, of which around 80 per cent is mountainous (FAO, 2011). Approximately 25 per cent (or 60,000 square kilometres) of the land area of Laos is used for crops, livestock or forestry. In 2009, 10 per cent of Lao's land area was considered agricultural land. Of this, approximately 6 per cent is arable, used for temporary crops or fallow, while approximately



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<sup>1</sup> Lao PDR Economic Monitoring Report 2012, World Bank (WB) in Laos.

<sup>2</sup> Strategy for Agricultural Development for 2011 to 2020, Ministry of Agriculture and Forestry (MAF) 2010.

<sup>3</sup> Lao Country Report 2011, Food and Agriculture Organization (FAO) in Laos.

4 per cent is used for perennial crops and livestock grazing (World Bank, 2012). A further 15 per cent of the land area of Laos is estimated to be potential production forest, (Tong, 2009)<sup>4</sup>. The areas of arable and agricultural land show an increasing trend due to land-use change.

The strategic shift by the GOL towards development of a market economy has resulted in an environment that is, in principle, enabling private sector growth. Over recent years, there has been a shift from subsistence production to market oriented production. The development of agriculture value chains in the country is at a nascent stage. In late 2000s, some agricultural value chain projects/programs were introduced and implemented in Lao PDR by INGOs in collaboration with MAF and financially supported by donors<sup>5</sup>.

## **1.2. Background**

A specific credit strategy for agricultural development in Lao PDR has not been established so far, however a Rural and Micro Finance (RMF) Policy was drafted and approved by the Bank of Lao PDR in 2003. The policy stated that sustainable rural and micro finance can be effective tools for poverty reduction, which can help Lao PDR to emerge from LDC status by 2020. The GOL reform program in rural and micro finance will enable the sector to expand significantly, with diversity, security and future sustainability. The RMF reform program is a major contribution into the implementation of the National Socio-Economic Development Plan.

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<sup>4</sup> Tong estimates that 3.5 million hectares or 35,000 square kilometres (approximately 15 per cent of the total land area of Laos) will be deemed potential production forest areas.

<sup>5</sup> For example, Animal raising value chain projects in the North of Laos under the RDMA program supported by GIZ; Fodder Maize Value Chain Projects in the South of Laos supported by SNV; Rice Value Chain Project in Savannaket province, implemented by SNV with financial support from EU; and Cassava Value Chain Project in South of Laos, implemented by SNV, financially supported by IFAD, etc.

### **Box 1. Rural and Micro Finance (RMF) policy in Lao PDR**

The vision for development of the rural and micro finance sector will focus on four areas of activities as follows:

2.1 The RMF sector will expand significantly: RMF will increase outreach to the greater number of poor in Lao PDR. Currently, the sector reaches only a small percentage of the Lao population.

2.2 The sector will include a diversity of independent MFIs: The sector will comprise several new MFIs with a diversity of legal ownership, including private and /or public ownership. It will also develop a variety of methodologies, to reflect the diversity of the Lao people and situation. The MFIs will be managed and governed autonomously. The national laws and legal instruments will support the development of the sector.

2.3 The sector will gradually become sustainable: By 2005, most of the people in RMF will share common understanding of RMF best practice and sustainability. RMF initiative will have a plan to become sustainable. Interest rate will be set by MFIs' management based on full cost recovery, profitability and market demand. The management of MFIs will be fully accountable and skilled.

2.4 The environment will ensure security for depositors: An appropriate legal and regulatory framework will be designed and implemented. Supervision of MFIs, especially large deposit taking MFIs, will be strengthened in order to ensure depositors' protection.

(Source: RMF Policy Statement of Bank of Lao PDR)

Rural households, 90% of which are considered poor, have difficulty accessing financial services; credit demand amounting to several hundred million dollars has not been filled. In a household survey conducted by the Japan International Cooperation Agency (JICA) in 2012, it was reported that credit needs during the 12 months were 6.7 times of available funds<sup>6</sup>. For agricultural credit, there is high demand for short-term microcredit for cultivation and sales of agricultural products and stockbreeding. For larger credit amounts, demand is relatively low because the scale of the rural household economy is still small despite its potential demand. For the provision of credit, the Agricultural Promotion Bank (APB) plays an important role. In poor districts identified as priority, the Nayobai Bank, a state-owned policy bank also provides financial services.

In Lao PDR, credit for rural households is provided by various institutions, including government-affiliated banks, commercial banks, microfinance institutions, village funds, private companies engaged in contract farming, and informal sectors.

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<sup>6</sup> JICA (2012), Report on Agricultural Survey in Lao PDR.



However, the microfinance sector in Lao PDR has been significantly developed over the last 10 years in terms of a regulatory framework and an increased number of registered micro-finance institutions. There are currently about 123 MFIs registered with BoL, and about 70% of them have been registered as membership of MFA.

MFA's MFI members suggested that the market survey on the agricultural value chain credit demand of their clients and potential clients should be conducted in order to provide a better understanding of client needs and the characteristics of the agricultural value chain credit, as the proportion of the agricultural-related loans of MFIs has significantly increased over recent years. It is estimated that the percentage of agricultural related loans issued by MFA member MFIs is about 31% of the total loan portfolio on average. Accordingly, MFA with financial support from Appui au Développement Autonome (ADA) – Luxembourg is organizing a market study on agricultural value chain credit demand of the MFIs clients in the Lao PDR.

### **1.3. Objectives of the Study**

The main objective of the study is to assess the credit demand of the clients and potential clients of the MFIs who are MFA members in relation to the identified agricultural value chains in each region of the country.

More specifically, the study will assess the following aspects of the credit demand on the identified promising agricultural value chains (AVC):

- Identify the most promising and potential agricultural value chains, involved by the existing clients and potential clients of the participating MFIs;
- The overall assessment of the AVC credit demand of the different category of the AVC's actors in each chains;
- The main purposes of the loans requested by each category of the AVC's actors;
- The range and average loan size required by each category of AVC actors;
- The range and average loan terms suitable for each categories of the AVC actors;
- Affordable loan interest rate and preferable repayment modes;
- The loan security mechanism proposed by each category of the AVC actors.

### **1.4. Scope of the Report**

This report describes the literature on agricultural value chain finance and summaries the results of the market study on the AVC credit demand of the participating MFIs' clients and potential clients in the Lao PDR.

The report is organized as follows: **Chapter 1** provides an overview, background and objective of the study. **Chapter 2** provides an introduction to Agricultural Value Chain Finance and deals with the definition, framework for understanding and analyzing the structure and process of agricultural value chain financing. In **Chapter 3**, the high level

policy, current situation and the key opportunities and challenges of the rural finance in Lao PDR are discussed.

**Chapter 4** provides a brief profile of the participating Microfinance Institutions (MFIs), their current status and future direction on the agricultural related loans. **Chapter 5** presents the results of the study, where the following aspects are analyzed:

- Identification of the most promising and potential value chains, involved by the existing and potential clients of the MFIs;
- Overview of the credit demand of each category of identified AVC actors;
- Detailed description of the loan characteristics required by each category of AVC actors;
- Recommendations for participating MFIs to take into consideration when they are developing their AVC's loan products.

Finally, the conclusions and some suggested future directions are given in **Chapter 6**.

# CHAPTER: 2 Introduction to Agricultural Value Chain Finance

## 2.1. Agricultural Value Chains

**Value Chain** (VC) involves the sequential linkages through which raw materials and resources are converted into products for the market. **Agricultural Value Chain** (AVC) identifies the set of actors (private, public, including service providers) and a set of activities that bring a basic agricultural product from production in the field to final consumption, where at each stage value is added to the product. It may include production, processing, packaging, storage, transport and distribution or marketing. Each segment of a chain has one or more backward and forward linkages. Thus, with AVCs, we move away from a commercial, segmented form of agriculture in which many separate links operate in isolation, out of sync with each other, in which farmers produce in bulk, are exposed to price risks and capital needs and produce independently. The AVC is based on integrated systems, differentiated production, risk management, information needs and interdependent farmers<sup>7</sup>.

## 2.2. Agricultural Value Chain Finance

*Agricultural Value Chain Finance* (AVCF) refers to the flows of funds to and among the various links within the AVC in terms of financial services and products and support services that flow to and/or through VC to address and alleviate constraints, and fulfill the needs of those involved in that chain, be it a need for finance, a need to secure sales, procure products, reduce risk and/or improve efficiency within the chain and thereby enhance the growth of the chain (Fries, 2007). VCF is a comprehensive approach which looks beyond the direct borrower to their linkages in order to best structure financing according to those needs.

Box 2 below highlights brief definitions of three interrelated value chain concepts.

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<sup>7</sup> African Development Bank Group (2013), Agricultural Value Chain Financing (AVCF) and Development for Enhanced Export Competitiveness.

**Box 2: Value chain definitions**

A useful starting point for understanding value chain financing in agriculture is with three general definitions:

1. *Value chain* – the set of actors (private, public, and including service providers) and the sequence of value-adding activities involved in bringing a product from production to the final consumer. In agriculture they can be thought of as a ‘farm to fork’ set of processes and flows (Miller and da Silva, 2007).
2. *Value chain analysis* – assessment of the actors and factors influencing the performance of an industry, and relationships among participants to identify the driving constraints to increased efficiency, productivity and competitiveness of an industry and how these constraints can be overcome (Fries, 2007).
3. *Value chain finance* – financial services and products flowing to and/or through value chain participants to address and alleviate driving constraints to growth (Fries, 2007).

To summarize, the key aspects of the value chain definitions for agriculture are:

- Value chains – multiple, linked actors and sequential, value-adding activities.
- Value chain analysis – assessment of actors, relationships, constraints and opportunities.
- Value chain finance – finance to address the constraints and opportunities, both through the value chain, and/or because of the value chain.

## **2.3. Instruments to Promote Agricultural Value Chain Finance**

First and foremost, AVCF is an approach to financing. It uses an understanding of production, value-added and marketing processes to determine the financial needs of actors in the chain and how best to provide financing to those involved. Many diverse and innovative financial instruments may be applied or adapted to meet specific financial needs. Commodities and

## **2.4. Demand and Supply of Agricultural Value Chain Finance**

The demand in agriculture finance starts with the primary producers’ need for finance for inputs such as fertilizers, seeds, agrochemicals, fuel, tools and equipment, adoption of improved technology and the labor used to plant, harvest and transport their crops to market. For some, only short term working capital is needed, while for others, investment capital is important to carry out the production at a sustainable scale. Financial services such as short and longer-term loans, line of credit, letters of guarantee, payments and transfers, leasing and insurance can help producers overcome seasonal income fluctuations and adopt more competitive technologies such as irrigation systems, farm mechanization, etc. Other value chain actors (e.g. input suppliers, agro processors, aggregators and traders) also require access to financial products and services to support their short and longer term

capital needs. Table 1 below provides an indicative list of demand and supply side of the value chain finance in agriculture and allied activities.

**Table 1: Value Chain Participants: Main features and typical demand for financial services**

Participants	Main features	Typical demand for financial services
Input suppliers	Provide farmers with the inputs necessary for production. These include seeds, chemicals, fertilizers and equipment, as well as technical assistance. Input suppliers often vary in size, and have different and individualized financial needs.	<ul style="list-style-type: none"> <li>• Short-term working capital;</li> <li>• Mid-term financing (equipment dealers);</li> <li>• Payments, transfers</li> </ul>
Producers/farmers	All of those engaged in primary production including farmers, their families and seasonal/part-time workers. Many producers face significant risks associated with agricultural production, such as predictable and stable income, and household and medical expenses.	<ul style="list-style-type: none"> <li>• Short-term working capital;</li> <li>• Mid-term financing (equipment, livestock);</li> <li>• Deposit accounts (value storage, commitment savings);</li> <li>• Payments, transfers</li> </ul>
Aggregators, service providers, traders	Buy produce from the farmers or co-ops and bulk it before selling it on. Their success hinges on making their working capital flow as quickly as possible in buying and reselling produce. Every transaction offers an opportunity to make a profit (or incur a loss). Small rural traders have to stop buying when they run out of cash, leaving farmers stranded with their products.	<ul style="list-style-type: none"> <li>• Short-term working capital;</li> <li>• Mid-term financing (storage facilities, vehicles);</li> <li>• Deposit accounts (checking);</li> <li>• Payments, transfers</li> </ul>
Processors	Add value to a raw product during the processing stage. Small-scale processors may lack the working capital they need to buy products in bulk from a farmer group or trader. They often lack the money to invest in equipment, leading to losses, lower quality, and higher processing costs.	<ul style="list-style-type: none"> <li>• Short-term working capital;</li> <li>• Mid-term financing (equipment);</li> <li>• Deposit accounts (checking);</li> <li>• Payments, transfers</li> </ul>
Retailers, wholesalers, exporters	Sell the processed product to local and global retailers, supermarkets, and smaller storefront retailers, which in turn, sell to consumers. Wholesalers often manage credit relations in two directions: they provide funding to trusted traders so they can buy on their behalf, and they may provide products to retailers on credit, expecting to be paid after the retailer has sold the goods. In this way, wholesalers often act as a de facto bank for other actors in the chain. They often need more capital than other traders in the value chain.	<ul style="list-style-type: none"> <li>• Short-term working capital;</li> <li>• Mid-term financing (equipment);</li> <li>• Deposit accounts (checking);</li> <li>• Payments, transfers</li> </ul>

## CHAPTER 3: Agricultural Value Chain Finance

### Situation in Lao PDR

#### 3.1. National Policy

Due to the paucity of information related specifically to agricultural value chain finance in Lao PDR, this report uses information on rural finance in Lao PDR instead of agricultural value chain finance. The rural finance sector can be considered representative of agricultural value chain finance since about 90% of the activities financed by the rural finance service providers are agricultural production related activities.

The Government of Lao PDR aims to graduate from Least Developed Country (LDC) status by 2020. It aims to eradicate poverty through a combination of strategies for economic growth, social and cultural development, and conservation of resources as set out in the National Poverty Eradication Plan (NPEP).

Financial sector deepening is a priority for Lao PDR if target GDP growth of around 7 percent per year is to be achieved. The Government's vision is that the financial sector will have the depth to support broad-based sustainable economic growth, poverty reduction and macroeconomic stability through diverse and strong bank and non-bank financial institutions that efficiently allocate resources providing wide access to financial services.

To encourage development of a sustainable, market-oriented rural and microfinance sector, in 2003 the Government formulated its vision for the financial sector in a high level *"Policy Statement for the Development of Sustainable Rural and Microfinance"* (RMF Policy Statement)<sup>8</sup>.

The formulation of the RMF Policy Statement was managed and coordinated by an inter-ministerial Rural and Microfinance Committee (RMFC) chaired by the Bank of Lao PDR (BOL), vice-chaired by the Ministry of Finance (MOF), and with membership from BOL, the Ministry of Agriculture and Forestry (MAF), the National Economic Research Institute (NERI) of the Committee for Planning and Cooperation (CPC), the Prime Minister's Office (PMO), and the Agricultural Promotion Bank (APB).

In November 2003, the PMO endorsed the Policy Statement, which builds a common understanding and consensus on the Government's vision and policy reforms for rural and microfinance, and provides the basis for: (i) putting in place an enabling policy, legal and regulatory environment for the emergence of new sustainable private rural and microfinance institutions; and (ii) strengthening existing rural and microfinance initiatives

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<sup>8</sup> In the Government's definitions, "microfinance" means the provision of a broad range of financial services (credit, deposits, insurance, etc) to the poor and low income households. "Rural finance" means the provision of those same services to people and enterprises located in rural areas. "Sustainability" refers to the ability of a microfinance institution (MFI) to cover all of its costs and generate a reasonable margin of profit through interest and other income from clients.

and institutions to ensure that the industry as a whole will become sustainable and market-oriented<sup>9</sup>.

## **3.2. Current Sources of Credit**

In Lao PDR, credit for rural households is provided by various institutions, including government-affiliated banks, commercial banks, microfinance institutions, village funds/village banks, private companies engaged in contract farming, and informal sectors, as detailed below<sup>10</sup>.

### **3.2.1. Government-affiliated Banks**

Government-affiliated banks include the APB mentioned above, the Policy Bank (or Nayoby Bank), BCEL Bank, and the Lao Development Bank (LDB). The APB in particular provides a wide range of credit for rural households, including joint liability group microcredit and larger credit amounts for individuals and businesses. Nayoby Bank, which was established in 2007 to provide finance in poor districts based on government policy, provides credit only in priority poor districts.

### **3.2.2. Commercial Banks**

Among commercial banks, the ACLEDA Bank and Pongsavanh Bank have been working toward provision of financial services for rural households. The ACLEDA Bank, a Cambodian bank that expanded into Laos, is increasing its branches in Laos with the assistance of international organizations based on its success providing microfinance services in rural areas of Cambodia and initial success in Laos. It is expected that the ACLEDA Bank will expand its presence in the rural microfinance market.

### **3.2.3. Microfinance Institutions**

The Bank of Lao PDR classified microfinance institutions (MFIs) into the following three categories: (1) Non-Deposit-Taking Microfinance Institutions (NDTMFI), (2) Deposit-Taking Microfinance Institutions (DTMFI), and (3) Savings and Credit Unions (SCU)—and issued regulations for each institution in 2008. Furthermore, the GoL issued a Prime Minister's Decree that updates and consolidate all existing regulations in 2012<sup>11</sup>. By the end of 2017, 123 MFIs (19DTMFIs, 74 NDTMFIs and 30 SCUs) had been licensed or registered by BOL under the 3 categories and served roughly 247,000 clients, had a little over 62,000 active borrowers, a total loan portfolio of about US \$88 million.

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<sup>9</sup> First Initiative (2004), Development of a Rural and Microfinance Strategy and Legal and Regulatory Framework in Lao PDR.

<sup>10</sup> JICA (2012), Report on Data Collection Survey on Agricultural Finance in Lao PDR.

<sup>11</sup> Decree on Microfinance Institutions, No. 460/G, dated 03 October 2012.

### **3.2.4. 3.2.4 Village Development Funds (VDFs)**

Village Development Funds (VDFs) are available in many rural areas of Laos. Village funds provide accessible micro-deposit and microcredit services for villagers. It was reported that by 2009, there were 4,113 village funds existed in Lao PDR with some 365,557 members (and 172,612 borrowers) serving 47% of all Lao villages. 76% of these village funds provide credit and savings services while 24% provide credit only. The average loan size is 2 million Kip (222 US\$) and village funds have an average number of 42 borrowers. The unweighted average monthly (supposedly flat) loan interest rate charged by village funds is approximately 2.1%. The majority of these loans are used for agricultural purposes (63%), followed by trade & services (24%), handicraft (6%) and emergencies (4%).

Village funds provide savings services to a total number of 328,085 savers with an average number of 99 savers per village fund. Total savings were 270 billion Kip (30 million US\$) and the average savings amount per village fund is 82 Mill Kip (9,058 US\$) and 823,000 Kip (91 US\$) per borrower.

Total assets of village funds amounted to approx. 400 billion Kip (44 million US\$) with average assets of 97 million Kip (10,777 US\$) per village fund. Total loans outstanding amounted to 246 billion Kip (27 million US\$) with average loans outstanding per village fund of 60 million Kip (6,667 US\$).<sup>12</sup>

### **3.2.5. 3.2.5 Private Companies Engaged in Contract Farming**

In Laos, a contract farming practice called the “2 + 3 system” has expanded rapidly over the past decade or so. Under this system, private businesses provide indirect financial services to farmers. Farmers provide land and labor, and businesses provide (1) necessary investments such as seeds, seedlings, and fertilizer; (2) technology; and (3) market (by purchasing the crops). The primary crops cultivated through this system include cassava, rubber, sugarcane, eucalyptus, and banana. There are many overseas companies from neighboring countries, including China and Thailand, investing in contract farming. The system appears to be attractive for farmers because businesses provide necessary investments for cultivation and to secure the sale of crops.

### **3.2.6. Informal Sector**

In the rural areas of Laos, people still practice informal and traditional financing through their families, friends, and moneylenders. One report reveals that 33% of households borrow money from friends, family and moneylenders who charge 100-200% annual interest. Farmers report that after the establishment of the village development funds, they could obtain credit easily and did not need to rely on moneylenders. This finding indicates that village funds facilitate finance to rural households and reduce the cost of financing.

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<sup>12</sup> NERI and GIZ, “*Microfinance in the Lao PDR 2009*”, forthcoming 2011



### **3.3. Key Opportunities and Challenges**

There is high demand for rural credit, particularly for short-term and flexible microfinance used as operating capital in agricultural production. As traditional agriculture shifts to modern agriculture that requires capital investment for fertilizers, agricultural chemicals, agricultural machinery, labor force, and so on, it can be foreseen that demand for rural credit will increase further. Rural households prefer accessible services that can be used conveniently despite a relatively high interest rate and are also interested in deposits.

Although potential demand for increased amounts of agricultural credit is high because of the modernization of agriculture and its growth in scale, demand for amounts larger than microfinance amounts is still not very high among rural households; the scale of production is small and they have strong concerns about debt<sup>13</sup>.

The commercial banks in Laos is generally reluctant to provide loans in agricultural production activities as they are considered them as low productivity and then a high risky for repayment capability. Thus, MFIs are exclusively active in providing loans for the agricultural production activities.

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<sup>13</sup> JICA (2012), Report on Data Collection Survey on Agricultural Finance in Lao PDR

# **CHAPTER 4: Profile of Microfinance Institutions Assessed**

## **4.1. Selection process**

The terms of reference of the study proposed selecting MFIs in 3 regions of the country: north, central and south. In the northern region 3 MFIs were selected from Luang Prabang province. In the central region, 5 MFIs were selected in Vientiane capital and Vientiane province. In the southern region, 2 MFIs were selected in Savannakhet province, 1 in Saravane province and 3 in Champasack province. In total, 14 MFIs active in the agriculture sector were selected to be representative of the sector in this study.

### **Northern region - Luang Prabang Province:**

- Champalao DTMFI;
- Hounghouangxap NTMFI;
- Luang Phrabang Savings and Credit Union (Luang Phrabang SCU)

### **Central region - Vientiane Capital, and Vientiane Province**

- Patoukham DTMFI – Vientiane capital;
- Nek NDTMFI – Vientiane capital;
- Mittapab Savings and Credit Union – Vientiane capital
- Ekphatthana DTMFI – Vientiane Province service unit;
- Women and Family Development DTMFI – Vientiane province service unit<sup>14</sup>;

### **Southern region – Savannakhet, Saravane and Champasack Provinces**

- Seno Savings and Credit Union (Seno SCU) - Savannakhet;
- Homchaiphatthana SCU – Savannakhet;
- Vanmai SCU – Saravane;
- Huasaechaleun SCU – Champasack;
- Champasack DTMFI – Champasack;
- Champaphatthana SCU – Champasack.

## **4.2. Champalao DTMFI**

Champalao DTMFI was established in 2009 and registered with Bank of Lao PDR (BoL) as a private DTMFI with an initial registered capital of 1.3 billion LAK. Champalao DTMFI is owned by 5 Lao business people who are shareholders. It is managed by a local professional who has an appropriate educational background and professional dedication, and who has

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<sup>14</sup> Women and Family Development DTMFI was not available for interview so was not included in the survey.

received relevant training in microfinance management from the Lao Microfinance Association (MFA);

### **Current Outreach and Financial Status**

Champalao DTMFI has a head office located in Luang Prabang town and 2 service units (1 in Luang Prabang District and 1 in Nambak District about 150 km from Luang Prabang town). It has totally 22 staff, and 11 credit officers. Credit officers have no professional background in agricultural extension. Its services cover 11 districts of the province (out of 12 districts in the province). Currently, total asset are ~31 billion LAK, total loan portfolio ~26 billion LAK, and total amount of savings ~23 billion LAK. Clients include 1,790 borrowers and 7,775 savers.

### **Current Status of Agricultural related Loans**

Champalao DTMFI has so far disbursed loans for agricultural related activities equating to 17% of the total loan portfolio. It has no specific agricultural related loan product which means the loan terms and conditions are the same for all sectors of investment (i.e. business, service and agriculture). However, flexible repayment modes are offered for clients who take loans for agricultural related activities. The loan conditions of Champalao DTMFI can be summarized as follows:

- Loan amount ranges from 0.5 million LAK to 200 million LAK;
- Average loan size 15 million LAK per borrower;
- Loan term ranges from 3 months to 60 months;
- Loan interest rate is 2.4% per month on average:
  - ✓ Loan interest rate for loans less than 10 million LAK is 2.7% per month;
  - ✓ Loan interest rate for loans from 10 million to 50 million is 2.5% per month;
  - ✓ Loan interest rate for loans more than 50 million LAK is 2% per month.
- Loan security: Land certificate, household fixed assets and salaries.
- Repayment modes:
  - ✓ For business and service activities – monthly payment of interest and principal together;
  - ✓ For agricultural related activities – monthly payment of interest, while principal can be repaid in installments based on the agreement between MFI and client.
- Current agricultural activities engaged by the MFI's clients are:
  - ✓ goat raising;
  - ✓ pig raising;
  - ✓ Poultry raising;
  - ✓ Job's tear cultivation;
  - ✓ Maize cultivation;
  - ✓ Vegetable cultivation

### **Future Directions on the Agricultural Loans**

Champalao DTMFI is willing to increase the agricultural related loan portfolio up to 30% over the next 3 years, as it foresees that there are a lot of potential clients requesting loans for the purpose of investing in agricultural activities. The most prospective agricultural activities are: 1) vegetable cultivation; 2). Cattle raising.

### **4.3. Hounghuangxap NDTMFI**

Hounghuangxap NDTMFI was established in August 2012, registered with the bank of Lao PDR as a Lao private NDTMFI with an initial register capital of 200 million LAK. Subsequently, registered capital has tripled due to further investment by the MFI's shareholders.

### **Current Outreach and Financial Status**

Hounghuangxap NDTMFI has one office located in a suburb of Luang Prabang town. It has totally 10 staff, and 5 credit officers. Credit officers have no professional background in agricultural extension. Currently, its services cover 4 districts of the province. Total asset are ~2 billion LAK, total loan portfolio ~2 billion LAK with 137 clients (borrowers only).

### **Current Status of the Agricultural related Loans**

Houngheuangxap NDTMFI has so far disbursed loans for the agricultural related activities representing 10% of its total loan portfolio. It has no specific agricultural related loan product which means the loan terms and conditions are the same for all sectors of investment (i.e. business, service and agriculture). The loan conditions of Hounghuangxap NDTMFI can be summarized as follows:

- Loan amount ranges from 500,000 LAK to 50 million LAK;
- Loan duration ranges from 1 month to 3 years;
- Loan interest rate is 2.8 % per month;
- Loan security: salary, land certificate, and household's items;
- Repayment modes: monthly payment of interest and principal together.
- Current agricultural activities engaged by its clients are:
  - ✓ goat raising;
  - ✓ pig raising;
  - ✓ Oil fruit cultivation;
  - ✓ Rice cultivation;
  - ✓ Maize cultivation

### **Future Directions on the Agricultural Loans**

Hounghuangxap NDTMFI is willing to increase the agricultural related loan portfolio as it foresees that there are a lot of potential clients who are requested loans for the purpose of

investing in agricultural activities. The agricultural activity with most potential is cattle raising.

#### **4.4. Luang Prabang Savings and Credit Union (Luang Prabang SCU)**

Luang Phrabang SCU was established in 2014 with support from an ADB project (ADB TA No. 3413 Lao Project) with the total initial capital of 118,190,000 LAK and 351 initial members. It is a member-owned organization, established to provide small scale financial services for its members. Luang Prabang SCU is governed by a board of directors consisting of 5 members, a credit committee (5 members) and an auditing committee (3 members).

##### **Luang Prabang SCU Current Outreach and Financial Status:**

Luang Phrabang SCU has one head office located in Luang Phrabang town and 1 service unit in Nan District, set up in 2016 (about 70 km from Luang Phrabang town). It has 15 staff with 10 credit officers. Credit officers have no professional background in agricultural extension. Current services cover 9 districts (out of the 12 districts in the province). Luang Phrabang SCU has currently total assets of ~9.8 billion LAK, total savings of ~9.5 billion LAK with 7,888 individual savers and a total loan portfolio of ~7.5 billion LAK with 1,407 borrowers.

##### **Current Status of the Agricultural related loans**

Laung Phrabang SCU has so far disbursed loans for agricultural related activities accounting for 30% of the total loan portfolio. It has no specific agricultural related loan product which means the loan terms and conditions are the same for all sectors of investment (i.e. business, service and agriculture). However, repayment modes are flexible for clients who take loans for agricultural related activities. The loan conditions of Laung Prabang SCU can be summarized as follow:

- Loan amount ranges from 1 million to 50 million LAK;
- Average loan size is 5.5 million LAK;
- Loan term ranges from 6 months to 24 months;
- Loan interest rate is 2.7% per month;
- Loan security:
  - ✓ Household's items (1 – 3 million LAK);
  - ✓ Motorbike paper (3 – 5 million LAK);
  - ✓ Land certificate or car paper (More than 5 million LAK)
- Repayment modes:
  - ✓ For business activities – monthly payment of interest and principal together.
  - ✓ For agricultural activities – monthly payment of interest, but principal can be repaid after the harvesting of the production.
- Current agricultural activities engaged by its clients are:
  - ✓ goat raising;

- ✓ pig raising;
- ✓ Poultry raising;
- ✓ Job's tear cultivation;
- ✓ Sesame cultivation;
- ✓ Maize cultivation

#### **Future Directions on the Agricultural related Loans**

Luang Phrabang SCU recognizes the importance of loans to agriculture sector as it believes that loans to agriculture sector are low risk, based its own experience with the sector. It plans to increase the share of agricultural loans to 60% of the total loan portfolio within the next 3 years, as there is high demand for agricultural credit, especially in Nan District where the service unit is located. It was found that the most potential activities is job's tear cultivation.

### **4.5. Patoukham Deposit-taking Microfinance Institution (DTMFI)**

Patoukham DTMFI was established in 2012 by registering with the Bank of Lao PDR (BoL) as a private DTMFI, with an initial registered capital of 3 billion LAK. Patoukham DTMFI is a Lao private MFI, owned by 7 people who are shareholders of which two are involved in the management of the MFI as Director and Deputy Director.

#### **Current Outreach and Financial Status**

Patoukham DTMFI has a head office located in the center of Vientiane Capital and 2 service units located in Vientiane capital. It has totally 17 staff, and 5 credit officers. None of the credit officers have professional backgrounds in agricultural extension. Its services cover all 8 districts of Vientiane Capital. It has currently a total asset of about 21 billion LAK, total loan portfolio of about 21 billion LAK, and total amount of savings of about 17 billion LAK, with a total of about 1,200 borrowers and about 1,400 savers.

#### **Current Status of the Agricultural related Loans**

Patoukham DTMFI has so far disbursed loans for agricultural related activities representing 70% of total loan portfolio. It has no specific agricultural related loan product which means the loan terms and conditions are the same for all sectors of investment (i.e. business, service and agriculture). The loan conditions of Patoukham DTMFI can be summarized as follow:

- Loan amount ranges from 1 million LAK to 50 million LAK;
- Average loan size 17.5 million LAK per borrower;
- Loan term ranges from 6 months to 60 months;
- Loan interest rate ranges from 2.5% to 3% per month:

- ✓ Loan interest rate for the loan amount which is less than 10 million LAK and less than 1 year of duration is 2.5% per month;
- ✓ Loan interest rate for the loan amount which is more than 10 million and more than 2 years of duration is 3% per month;
- Loan security: Land certificate, household's items and salaries.
- Repayment mode – monthly payment of interest and principal together (only one option)
- Current agricultural activities engaged by the MFI's clients are:
  - ✓ Vegetable cultivation
  - ✓ Maize cultivation
  - ✓ Sugarcane cultivation
  - ✓ Goat raising;
  - ✓ Pig raising;
  - ✓ Poultry raising;
  - ✓ Cattle raising.

#### **Future Directions on the Agricultural Loans**

The proportion of agricultural related loans issued by this MFI is already high (70%) so no further expansion is planned but current levels will be sustained. High potential agricultural activities are:

- Vegetable production;
- Mushroom production.

## **4.6. Mittaphab Savings and Credit Union (SCU)**

Mittaphab Savings and Credit Union (SCU) was established in 2009 by registering with BoL as Savings and Credit Union (SCU) with 200 initial members/shareholders. It is a member-owned organization, established to provide small-scale financial services for its members. Mittaphab SCU is governed by a board of directors consisting of 5 members as well as a credit committee (5 members) and auditing committee (2 members).

#### **Current Outreach and Financial Status:**

Mittaphab SCU has one head office located in the suburb of Vientiane Capital. It has a total of 7 staff with 3 credit officers. Credit officers do not have professional backgrounds in agricultural extension. Current services cover 3 districts (out of the 9 districts in Vientiane Capital). Mittaphab SCU currently has total assets of about 4.5 billion LAK, total savings amount of 780 million LAK deposited by 780 savers, and a total loan portfolio of about 3.3 billion LAK with 262 borrowers.

#### **Current Status of the Agricultural related loans**

Mittaphab SCU loans for the agricultural related activities are only 5% of the total loan portfolio. It has no specific agricultural related loan product which means the loan terms and conditions are the same for all sectors of investment, mostly for family consumption. The loan conditions of Mittaphab SCU can be summarized as follow:

- Loan amount ranges from 0.5 million to 50 million LAK;
- Average loan size is 12.5 million LAK;
- Loan term ranges from 3 months to 36 months;
- Loan interest rate is 3% per month;
- Loan security: household items, motorbike and car papers.
- Repayment mode - monthly payment of interest and principal together (only one option)
- Current agricultural activities engaged by its clients are:
  - ✓ Vegetable cultivation;
  - ✓ pig raising;

#### **Future Directions on the Agricultural related Loans**

According to the managing director, Mittaphab SCU is interested to develop a new loan product for agricultural production activities. It intends that the new loan product would be different from the existing loan product and is keen to see the results of the study so that it can take the findings into consideration.

### **4.7. Next Non-deposit Taking Microfinance Institution (NDTMFI)**

Next NDTMFI was established in August 2013, registered with the bank of Lao PDR as a Lao private NDTMFI with an initial register capital of 300 million LAK, initially invested by 5 shareholders.

#### **Current Outreach and Financial Status**

Next NDTMFI has one (head) office located in Vientiane Capital. It has 18 staff, and 11 credit officers. Credit officers have no professional background in agricultural extension. Its services cover all 9 districts that form Vientiane Capital. Currently, total asset are about 4 billion LAK, total loan portfolio is about 3.5 billion LAK and it has 661 borrowers.

#### **Current Status of the Agricultural related Loans**

Next NDTMFI has so far disbursed loans for agricultural related activities which account for 50% of the total loan portfolio. Next NDTMFI offers a special condition for agricultural loans in terms of interest rate. Loan interest for the agricultural loan is 3% per month, while the interest rate of the loans for other sectors (i.e. trade, services, and construction) is 3.5% per month. The loan conditions of Next NDTMFI can be summarized as follow:



- Loan amount ranges from 1 million LAK to 50 million LAK;
- Loan duration ranges from 1 year to 3 years;
- Loan interest rate:
  - ✓ For agriculture: 3% per month;
  - ✓ For the other sectors: 3.5% per month.
- Loan security: motorbike paper, household items;
- Repayment mode: weekly payment of interest and principal together.
- Current agricultural activities engaged by its clients are:
  - ✓ Organic vegetable cultivation (80%);
  - ✓ Small animal raising (goat, and pig) – 20%.

#### **Future Directions on the Agricultural Loans**

Next NTMFI already plans to increase the agricultural related loan portfolio as it foresees that the agricultural related loans are secure and sustainable. It has recently started piloting the setting up of producer's groups with its Center Meeting members in Thongmung village, Vientiane capital. Management requested technical assistance to provide support in extension of the agricultural related loans.

### **4.8. Ekphatthana Deposit-Taking Microfinance Institution (EMI)**

Ekphatthana Microfinance Institution (EMI) is the first licensed microfinance institution to operate in Lao PDR under the government's Microfinance regulations that was issued in 2005 and was then updated in 2008. EMI is governed by its Board of Directors which is composed of shareholders and representatives from staff. The Board is headed by a Chairperson and consists of 4 members.

#### **Current Outreach and Financial Status**

EMI has a head office located in the city of Vientiane Capital and 13 service units. It has a total of 134 staff, and 56 credit officers. 2 credit officers have professional background in agricultural extension. Its services cover 3 provinces (Vientiane capital, Vientiane province and Xayabouly province), 15 districts, and 488 villages. It has current total assets of about 109 billion LAK, total loan portfolio of about 84 billion LAK, and total amount of savings of about 9 billion LAK, with the total number of about 8,000 borrowers and about 84,000 savers.

#### **Current Status of the Agricultural related Loans**

EMI has so far disbursed loans for the agricultural related activities representing 30% of the total loan portfolio. It has no specific agricultural related loan product.

EMI has so far developed the 3 loan products as summarized in the table 2 below:

**Table 2: EMI's loan products**

<b>Loan product/loan conditions</b>	<b>Individual development loan</b>	<b>Group development loan</b>	<b>Employee loan</b>
<b>Loan amount (range - LAK)</b>	500,000 – 40,000,000	500,000 – 20,000,000	500,000 – 60,000,000
<b>Loan duration (range)</b>	6 – 36 months	16 – 40 weeks	6 – 48 months
<b>Loan interest rate</b>	2.99% – 3.5%	3.5%	2.99%
<b>Loan security</b>	Land certificate or Vehicle paper or salary	Land certificate or vehicle paper.	Salary
<b>Repayment mode</b>	Monthly interest and principal payment	Weekly interest and principal payment	Monthly interest and principal payment

#### **Future Directions on the Agricultural Loans**

EMI plans to develop a specific agricultural loan product and so recently sent two staff to study agricultural loan product development with Fullerton Myanmar. Designing an agricultural loan product is currently under development. The most potential agricultural activities are:

- Vegetable production;
- Mushroom production;

#### **4.9. Women and Family Development Deposit-Taking Microfinance Institution (WFDF)<sup>15</sup>**

In 2009, WFDF was initiated by the Lao women's Union (LWU) in close cooperation with the Savings Banks Foundation for International Cooperation and financial support from the German Federal Ministry of Economic Cooperation and Development. Embedded in the LWU, WFDF was able to develop into a successful and independent unit under the umbrella

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<sup>15</sup> As mentioned earlier, WFDF was not available for the meeting with the study team. So, the MFI was not included in the study. The MFI's information provided in the report was extracted from the MFI's annual report 2016-17.

of the Women's Union. WFDF is governed by its Board of Directors, consisting of 5 members who are representatives from 5 ministries/Departments (LWU, Ministry of Planning & Investment, Ministry of Finance, Ministry of Agriculture & Forestry, and Department of Justice of Vientiane Capital).

#### **Current Outreach and Financial Status**

WFDF has a head office located in the city of Vientiane Capital and 6 service units. It has 40 staff servicing 4 provinces (Vientiane capital, Vientiane province, Bolikhamxay province and Khammouane province), 8 districts, and 133 groups. It has current total asset of about 19 billion LAK, total loan portfolio of about 9.5 billion LAK, and total savings of about 7.5 billion LAK, with a total of about 7,000 borrowers and about 8,000 savers.

### **4.10. Seno Savings and Credit Union (Seno SCU)**

Seno SCU was established on in June 2014 under the support of the ADB TA No. 3413 Lao Project with the total initial capital of 118,190,000 LAK, and 318 initial members. It is a member-own organization, established to provide small scale financial services for its members. Seno SCU is governed by a board of directors consisting of 5 members together with a credit committee (5 members) and an auditing committee (3 members).

#### **Current Outreach and Financial Status:**

Seno SCU has one head office located in the town of Seno in Outhomphone District, Savannakhet province (about 25 km from Savannakhet capital city). It has 18 staff with 10 credit officers. Credit officers have no professional background in agricultural extension. Its current services cover 11 districts (out of the 15 districts in Savannakhet province). Seno SCU has total assets of about 11 billion LAK, total savings of 7.8 billion LAK with about 6,300 savings accounts, and total loan portfolio of about 5.7 billion LAK with 840 active borrowers.

#### **Current Status of the Agricultural related loans**

Seno SCU has disbursed loans for agricultural related activities equal to about 35% of the total loan portfolio. Seno SCU has classified its loan products into 3 types of loans: loan for trade sector, loan for agriculture production, and loan for family consumption. However, the loan terms and conditions for the 3 types of loans are quite similar, the difference is only the principal repayment schedule for the agricultural loans which is flexible to cash flow of the agricultural activities. The loan conditions of Seno SCU can be summarized as follow:

- Loan amount ranges from 1 million to 20 million LAK;
- Average loan size is 10 million LAK;
- Loan term ranges from 3 months to 24 months;
- Loan interest rate:
  - ✓ 3% per month for the loan amount less than 10 million LAK;

- ✓ 2.2% per month for the loan amount more than 10 million LAK.
- Loan security: land certificate, or household items, or motorbike and car documents.
- Repayment modes:
  - ✓ For trade sector and family consumption loan: Monthly payment of interest and principal together;
  - ✓ For agriculture loan: Monthly payment of interest, while the repayment of principal can be done in installments based on the preference of the borrowers (3, 6, 9 months).
- Current agricultural activities engaged by its clients are:
  - ✓ Sugarcane cultivation;
  - ✓ Cassava cultivation;
  - ✓ Cucumber cultivation;
  - ✓ Rice cultivation;
  - ✓ Small animal raising (pig and goat);
  - ✓ Cattle raising.

#### **Future Directions on the Agricultural related Loans**

According to the managing director, Seno SCU is considering policies to support agricultural loans as it already has a flexible repayment schedule for the loan principal of the agricultural loan in order to increase the ratio of the agricultural loans.

### **4.11. Homchaiphatthana Savings and Credit Union (Homchaiphatthana SCU)**

Homchaiphatthana SCU was established from upgrading the village development fund of Dongdamdouane village, supported by the Savannakhet provincial Women Union in collaboration with the SNV – Netherland Development Organization and technical assistance provided by the Lao Micro-finance Center (MFC). Homchainphatthana SCU received the license from the Bank of Lao PDR on 20<sup>th</sup> October 2008 with an initial registered capital of 147,400,00 LAK, including grant support from SNV (7,000 USD). In the beginning, Homchaiphatthana SCU had 149 initial members. It is governed by the board of directors, consisting of 5 members; credit committee (5 members) and auditing committee (3 members).

#### **Current Outreach and Financial Status:**

Homchaiphatthana SCU has one head office located in Dongdamdouane village in the Kaisone Phomvihan district of the Savannakhet capital. It has 17 staff with 10 credit officers. Credit officers do not have professional backgrounds in agricultural extension. current services cover 2 districts (out of the 15 districts in Savannakhet province). Homchaiphatthana SCU has current total assets of about 13 billion LAK, total savings of 7.9

billion LAK with 7,453 savers and a total loan portfolio of about 6.6 billion LAK with 1,651 borrowers.

### **Current Status of the Agricultural related loans**

Homchaiphatthana SCU has disbursed loans for the agricultural related activities accounting for 30% of the total loan portfolio. Homchaiphatthana SCU has classified its loan products into 3 types of loans (i.e. loan for trade sector, loan for agriculture production, and loan for family consumption). However the loan terms and conditions for the 3 types of loans are quite similar, the difference is only the principal repayment schedule for the agricultural loans which is flexible to cash flow of the agricultural activities. The loan conditions of Homchaiphatthana SCU can be summarized as follow:

- Loan amount ranges from 0.5 million to 20 million LAK;
- Average loan size is 8 million LAK;
- Loan term ranges from 3 months to 24 months;
- Loan interest rate:
  - ✓ 3% per month for the loan amount less than 10 million LAK;
  - ✓ 2.2% per month for the loan amount more than 10 million LAK.
- Loan security: land certificate, or household items, or motorbike and car documents.
- Repayment modes:
  - ✓ For trade sector and family consumption loan: Monthly payment of interest and principal together;
  - ✓ For agriculture loan: Monthly payment of interest, while the repayment of principal can be done in installments based on the preference of the borrowers (3, 6, 9 months).
- Current agricultural activities engaged by its clients are:
  - ✓ Vegetable cultivation;
  - ✓ Cucumber cultivation;
  - ✓ Rice cultivation;
  - ✓ Small animal raising (pig and goat);
  - ✓ Cattle raising

### **Future Directions on the Agricultural related Loans**

Homchaiphatthana SCU is considering developing a specific product for agricultural loans in order to meet the needs of its clients in the near future.

## **4.12. Vanmai Savings and Credit Union (Vanmai SCU)**

Vanmai SCU was initiated by World Education (WE) in Lao Ngam District and received a license from the Bank of Lao PDR in June 2010, with initial capital of 300 million LAK and initial membership of about 800 households. In 2014, the WE project came to an end and it

was assessed that Vanmai SCU was not strong enough and still need an on-going technical support. At the same time, GIZ started to implement a rural finance program in Lao Ngam District. Since 2015, Vanmai SCU has received technical support from GIZ. It is governed by a board of directors consisting of 7 members, a credit committee (5 members) and an auditing committee (3 members).

### **Current Outreach and Financial Status:**

Vanmai SCU has one (head) office located in the capital city of Saravan province. It has 19 staff with 12 village banks support officers. Its current services cover 2 districts (out of the 8 districts in Saravan province). Vanmai SCU currently has total assets of about 5 billion LAK, total savings of 3.2 billion LAK with 458 savings accounts and a loan portfolio of about 1.6 billion LAK with 79 wholesale loan contracts.

### **Current Status of the Agricultural related loans**

Vanmai SCU disburses wholesale loans to village banks members, who then disburse sub-loans to the final borrowers. Agricultural related activities are estimated to account for 60% of the total loan portfolio. Vanmai SCU has classified its loan products into 4 types of loans (i.e. Agriculture loan, family consumption loan, emergency loan and loan for trade). The loan conditions of Vanmai SCU can be summarized in the table 3:

**Table 3: Vanmai SCU's loan products**

<b>Loan product/loan conditions</b>	<b>Agriculture loan</b>	<b>Consumption loan</b>	<b>Emergency loan</b>	<b>Loan for trade</b>
<b>Loan amount ( LAK)</b>	Up to 30 million	Up to 10 million	Up to 5 million	Up to 50 million
<b>Loan duration (months)</b>	Up to 24 months	Up to 12 months	Up to 8 months	Up to 18 months
<b>Loan interest rate</b>	2% per month	2% per month	1% per month	3% per month
<b>Loan security</b>	Land certificate, or Savings, or Vehicle documents, or Salary			
<b>Repayment mode</b>	Monthly payment of interest, while repayment of principal in installments (1 moth, 3 moths, 6 months)			

Current agricultural activities engaged by its clients are:

- ✓ Cassava cultivation;
- ✓ Rice cultivation;

- ✓ Coffee cultivation;
- ✓ Small animal raising (pig and goat);

#### **Future Directions on the Agricultural related Loans**

The percentage of agricultural related loan is relatively high (60%) as most of the village bank members are rural villagers engaged in agriculture related activities. Vanmai SCU has already tried to develop its loan product suitable to the agricultural activities and intends to sustain this model in the future.

### **4.13. Huasaechaleun Savings and Credit Union (Huasaechaleun SCU)**

Huasaechaleun SCU was initiated by upgrading the village development fund of Huasaechaluen village in 2008. It received an operational license from the Bank of Lao PDR in 2008 with an initial registered capital of 270 million LAK and 342 initial members. It is governed by a board of directors consisting of 5 members, a credit committee (5 members) and an auditing committee (3 members).

#### **Current Outreach and Financial Status:**

Huasaechaleun SCU has one (head) office located in a suburb of Pakse city (around 11 km from the center of Pakse city). It has 19 staff with 7 credit officers. Its services cover 5 districts (out of the 10 districts in Champasack province). Total asset are about 18 billion LAK, total savings 10 billion LAK with 2,500 savings accounts and the total loan portfolio is about 12 billion LAK with 1,400 borrowers.

#### **Current Status of the Agricultural related loans**

Huasaechaluen SCU has disbursed loans for agricultural related activities equating to 80% of the total loan portfolio. Huasaechaleun SCU has only one loan product “micro-enterprise loan”. The loan conditions of Huasaechaleun SCU can be summarized as follows:

- Loan amount ranges from 1 to 30 million LAK;
- Loan duration ranges from 1 month to 12 months;
- Loan interest rate is 3% per month
- Loan security: Land certificate, or vehicle documents or savings;
- Repayment mode: monthly payment, but the amount of interest and principal payment is based on the availability of cash of the borrowers.

Current agricultural activities engaged by its clients are:

- ✓ Cassava production;
- ✓ Rice production;
- ✓ Coffee cultivation;

### **Future Directions on the Agricultural related Loans**

Huasaechaleun SCU is interested to develop a new loan product fitting to the needs of its members for investment in agricultural related activities. It is willing to adjust its current loan product to be fitting to the needs of the agriculture clients.

### **4.14. Champasack Deposit-taking Microfinance Institution (DTMFI)**

Champasack DTMFI was established in 2015 by registering with the Bank of Lao PDR (BoL) as a Lao private DTMFI with an initial registered capital of 3 billion LAK. Champasack DTMFI is governed by its Board of Directors (5 members), and auditing committee of 3 members.

### **Current Outreach and Financial Status**

Champasack DTMFI has a head office located in the center of Pakse City and 1 service unit in Saravan province. It has 82 staff, and 60 credit officers. Services cover all 10 districts of the Champasack province and all 8 districts in Saravan province. It has total asset of about 264 billion LAK, a total loan portfolio of about 167 billion LAK, and total savings of about 232 billion LAK, with 10,910 borrowers and 169 saving accounts.

### **Current Status of the Agricultural related Loans**

Champasack DTMFI loans for agricultural related activities account for 60% of the total loan portfolio. It has no specific agricultural related loan product which means the loan terms and conditions are the same for all sectors of investment (i.e. business, service and agriculture). Champasack DTMFI has 4 loan products: 1) Short-term loan; 2) Livelihoods Development loan; 3). Better Livelihoods Development loan; and 4) Easy down payment and comfortable payment loan. The loan conditions are summarized in the table 4 below:

**Table 4: Champasack DTMFI's loan products**

<b>Loan product/loan conditions</b>	<b>Short-term loan</b>	<b>Livelihoods Development loan</b>	<b>Better Livelihoods Development loan</b>	<b>Easy down-payment and comfortable payment*</b>
<b>Loan amount ( LAK)</b>	3 to 5 million	5 to 35 million	35 to 50 million	35 to 50 million
<b>Loan duration (months)</b>	Up to 12 months	Up to 24 months	Up to 36 months	Up to 36 months
<b>Loan interest rate</b>	2.5% per month	3% per month	3.3% per month	2.99% per month



<b>Loan security</b>	Salary
<b>Repayment mode</b>	Payment of interest and principal together when the borrowers receive their salaries.

\* **Note:** Loan for the repeat clients.

Current agricultural activities engaged by the MFI's clients are:

- ✓ Fruit tree plantation
- ✓ Cassava cultivation
- ✓ Coffee cultivation
- ✓ Small animal raising (pig and poultry)

#### **Future Directions on Agricultural Loans**

Champasak DTMFI currently has a large percentage of agricultural related loans (60%) and intends to continue working in this sector. High potential agricultural activities are:

- Fruit tree plantation;
- Cassava cultivation;
- Coffee cultivation.

### **4.15. Champaphatthana Savings and Credit Union (Champaphatthan SCU)**

Champaphatthan SCU was initiated by GIZ's Access to Finance for the Poor project (AFP) in Soukhouma District in 2013. It received a license from the Bank of Lao PDR in 2016 and then it expanded its services to the 2 additional districts of Mounlapamok and Champasack. It is an umbrella structure of 121 village banks located in the 3 districts. It is governed by the board of directors, consisting of 7 members with a credit committee (5 members) and auditing committee (3 members).

#### **Current Outreach and Financial Status:**

Champaphatthana SCU has one (head) office located in the town of Soukhouma district, Champasack province. It has 18 staff with 11 village bank support officers. Its current services cover 3 districts (out of the 10 districts in Champasack province). Champaphatthana SCU has total asset of about 11 billion LAK, total savings of 9.7 billion LAK with 92 savings accounts and a total loan portfolio of about 3.6 billion LAK with 84 wholesale loan contracts.

#### **Current Status of the Agricultural related loans**

Champaphatthana SCU disburses wholesale loans to village bank members and then the village banks members disburse sub-loans to the final borrowers. It is estimated that

agricultural related activities account for 60% of the total loan portfolio. Champaphatthana SCU has classified its loan products into 4 types of loans (i.e. Agriculture loan, family consumption loan, emergency loan and loan for trade). The loan conditions of Champaphatthana SCU are summarized in the table 5:

**Table 5: Champaphatthana SCU's loan products**

<b>Loan product/loan conditions</b>	<b>Agriculture loan</b>	<b>Consumption loan</b>	<b>Emergency loan</b>	<b>Loan for trade</b>
<b>Loan amount ( LAK)</b>	Up to 10 million	Up to 10 million	Up to 4 million	Up to 30 million
<b>Loan duration (months)</b>	Up to 8 months	Up to 6 months	Up to 4 months	Up to 12 months
<b>Loan interest rate</b>	2.5% per month	2% per month	1% per month	3% per month
<b>Loan security</b>	Land certificate, or Savings, or Vehicle documents, or Salary			
<b>Repayment mode</b>	Monthly payment of interest, while repayment of principal in installments (3 months, 6 months)			

Current agricultural activities engaged by its clients are:

- ✓ Cassava cultivation;
- ✓ Rice cultivation;
- ✓ Small animal raising (pig and goat);

#### **Future Directions on the Agricultural related Loans**

Champaphatthana SCU works closely with its 121 village banks members that have disbursed loans to their members for investment in the agricultural related activities which is counted of about 60% of the total loan portfolio. The percentage of the agricultural related loan is relatively high (60%) as most of the village banks' members are rural villagers and the activities engaged by them are mostly agriculture related activities. Champaphatthana SCU intends to keep a similar level of agricultural related loans.

## CHAPTER 5: Agricultural Value Chain Credit Demand in Lao PDR

### 5.1. Identification of existing and potential agricultural value chains

The study area is split up into three geographical regions as described below.

#### 5.1.1. Northern region:

In the Northern region, the study was undertaken in Luang Prabang province where the 3 MFIs (Champalao DTMFI, Hounghuangxap NDTMFI and Luang Prabang Savings & Credit Union) were selected to include in the study. 36 existing clients of these 3 MFIs who have borrowed money to invest in the agricultural related activities were interviewed. The results are summarized in table 6 below.

**Table 6: Existing agricultural value chains engaged by the 3 MFIs' clients in the northern region**

Agricultural value chains	Numbers of involved actors interviewed	Categories of the involved actors	Comments
Small animal (goat, pig and poultry) production	11	<ul style="list-style-type: none"> <li>• 9 people are producers;</li> <li>• 2 people are traders;</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Vegetable production	11	<ul style="list-style-type: none"> <li>• 8 people are producers;</li> <li>• 3 people are traders;</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Job's tear production	10	<ul style="list-style-type: none"> <li>• All 10 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market for processing in the district town;</li> <li>• Then the milled products are sold to China</li> </ul>

Fodder maize production	2	<ul style="list-style-type: none"> <li>• All 2 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market (sell to the local traders/collectors);</li> <li>• Then the local traders/collectors exports to China</li> </ul>
Cattle production	2	<ul style="list-style-type: none"> <li>• All 2 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market (sell to the local traders for local market)</li> </ul>

From table 6 above, it is observed that the clients of MFIs are mostly producers and small traders within value chains. Processors in the value chains of job's tear and fodder maize are not found in the study. It was reported that the investment in processing equipment of both value chains of job's tear and fodder maize need a bigger loan than is available from MFIs. The job's tear processors are foreign investors, mostly from China, and so not clients of the MFIs.

It was also reported that there is no problem with accessing markets for any of the products from the existing agricultural value chains. For small animal, cattle and vegetable products usually the local traders/collectors visit villages and buy directly.. These local traders/collectors then sell the products partly to processors in nearby towns and partly to the traders in the fresh markets in the towns. For fodder maize and job's tear products, usually the processors visit the villages to buy from producers, , and then process in town before exporting processed products to China.

### 5.1.2. Central region:

In the Central region, the study was undertaken in Vientiane Capital and Vientiane Province with 4 MFIs (Patoukham DTMFI, Next NDTMFI, Mittaphab Savings & Credit Union, and Ekphatthana DTMFI). 55 existing clients of the 4 participating MFIs who have borrowed money to invest in the agricultural related activities were interviewed. The results are summarized in the table 7 below.

**Table 7: Existing agricultural value chains engaged by the 4 MFIs' clients in the central region**

Agricultural value chains	Numbers of involved actors interviewed	Categories of the involved actors	Comments
Organic vegetable production	25	<ul style="list-style-type: none"><li>• 21 people are producers;</li><li>• 4 people are traders.</li></ul>	<ul style="list-style-type: none"><li>• No specific difficulty so far;</li><li>• There is no problem with market;</li><li>• Domestic market.</li></ul>
Mushroom production	9	<ul style="list-style-type: none"><li>• 8 people are producers;</li><li>• 1 person is trader.</li></ul>	<ul style="list-style-type: none"><li>• No specific difficulty so far;</li><li>• There is no problem with market;</li><li>• Domestic market.</li></ul>
Rice production	8	<ul style="list-style-type: none"><li>• All of 8 people are producers</li></ul>	<ul style="list-style-type: none"><li>• There is a problem with flooding;</li></ul>
Maize production	7	<ul style="list-style-type: none"><li>• All of 7 people are producers</li></ul>	<ul style="list-style-type: none"><li>• No specific difficulty so far;</li><li>• There is no problem with market;</li><li>• Domestic market.</li></ul>
Small animal (goat, pig and poultry) production	6	<ul style="list-style-type: none"><li>• 5 people are producers;</li><li>• 1 person is trader.</li></ul>	<ul style="list-style-type: none"><li>• No specific difficulty so far;</li><li>• There is no problem with market;</li><li>• Domestic market.</li></ul>

### 5.1.3. Southern region:

In the Southern region, the study was undertaken in Savannakhet, Saravane and Champasack provinces with 6 MFIs (Seno SCU, Homchaiphatthana SCU, Vanmai SCU, Huasaechaleun SCU, Chmapasack DTMFI and Champaphatthana SCU). 69 existing clients of participating MFIs who have borrowed money to invest in the agricultural related activities were interviewed. The results are summarized in the table 8 below.

**Table 8: Existing agricultural value chains engaged by the 6 MFIs' clients in the southern region**

Agricultural value chains	Numbers of involved actors interviewed	Categories of the involved actors	Comments
Cassava production	25	<ul style="list-style-type: none"><li>• 23 people are producers;</li><li>• 2 people are traders.</li></ul>	<ul style="list-style-type: none"><li>• No specific difficulty so far;</li><li>• There is no problem with market;</li><li>• Domestic market for processing in the nearby factories located in the district towns;</li><li>• Processed products are sold to Thailand, Vietnam and China.</li></ul>
Rice production	13	<ul style="list-style-type: none"><li>• All of 13 people are producers.</li></ul>	<ul style="list-style-type: none"><li>• There is a problem with flooding;</li></ul>
Fruit production	11	<ul style="list-style-type: none"><li>• All of 11 people are producers</li></ul>	<ul style="list-style-type: none"><li>• No specific difficulty so far;</li><li>• There is no problem with market;</li><li>• Domestic market.</li></ul>
Coffee production	8	<ul style="list-style-type: none"><li>• All of 8 people are producers</li></ul>	<ul style="list-style-type: none"><li>• No specific difficulty so far;</li><li>• There is no problem with market;</li><li>• Domestic market for processing in the nearby factories located in the district towns;</li><li>• Processed products are sold domestically and abroad.</li></ul>

Agricultural value chains	Numbers of involved actors interviewed	Categories of the involved actors	Comments
Vegetable production	6	<ul style="list-style-type: none"> <li>• 5 people are producers;</li> <li>• 1 person is trader.</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Small animal (goat, pig, and poultry) production	4	<ul style="list-style-type: none"> <li>• 3 people are producers;</li> <li>• 1 person is trader.</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Fish production	2	<ul style="list-style-type: none"> <li>• 1 person is producer;</li> <li>• 1 person is processor.</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>

## 5.2. Potential agricultural value chains in the study area

Potential agricultural value chains were identified for this assessment by interviewing clients making loan applications to participating MFIs for agricultural related investments.

### 5.2.1. Northern region:

65 potential clients who are currently requesting agricultural related loans from the 3 selected MFIs in the northern region were interviewed. A summary of agricultural value chains proposed by these potential clients is summarized in table 9 below.

**Table 9: Potential agricultural value chains proposed by the 3 MFIs' potential clients in the northern region**

Agricultural value chains	Numbers of involved actors interviewed	Categories of the involved actors	Comments
Cattle production	32	<ul style="list-style-type: none"> <li>• 30 people are producers;</li> <li>• 2 are small traders</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Potential big market in China</li> </ul>
Vegetable	12	<ul style="list-style-type: none"> <li>• 9 people are</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so</li> </ul>

Agricultural value chains	Numbers of involved actors interviewed	Categories of the involved actors	Comments
production		producers; <ul style="list-style-type: none"> <li>• 3 people are traders;</li> </ul>	far; <ul style="list-style-type: none"> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Job's tear production	10	<ul style="list-style-type: none"> <li>• All 10 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market for processing in the district town;</li> <li>• Then the milled products are sold to China</li> </ul>
Small animal (goat, pig and poultry) production	8	<ul style="list-style-type: none"> <li>• All 8 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Fish production	3	<ul style="list-style-type: none"> <li>• All 3 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market (sell to the local traders for local market).</li> </ul>

Luang Prabang Provincial Agriculture and Forestry Office (PAFO) reported that the Government of Lao PDR (GoL) is currently preparing an MoU to be signed with the Government of China for buying the local variety of cattle from Laos and export them to China. The Chinese Government needs 500,000 cattle from Laos per year, however the current capacity of Luang Phrabang province for supply of is only 40,000 cattle per year. This means the opportunity for expansion of cattle production for the Northern provinces of Laos is potentially huge.

For other agricultural value chains products (vegetable, job's tear, small animal and fish), it was reported by the Provincial Agriculture and Forestry Office (PAFO) that there is no



problem with the current market. Moreover, PAFO expects market demand for all products of agricultural value chains to increase upon completion of the Laos-China high speed railway in 2021.

### 5.2.2. Central region:

48 potential clients who are currently requesting agricultural related loans from MFIs in the central region were interviewed during the study. A summary of agricultural value chains proposed by these potential clients is summarized in table 10 below.

**Table 10: Potential agricultural value chains proposed by the 4 MFI's' potential clients in the central region**

Agricultural value chains	Numbers of involved actors interviewed	Categories of the involved actors	Comments
Organic vegetable production	32	<ul style="list-style-type: none"> <li>• 30 people are producers;</li> <li>• 2 people are micro-traders</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Mushroom production	9	<ul style="list-style-type: none"> <li>• All of 9 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Small animal (goat, pig and poultry) production	7	<ul style="list-style-type: none"> <li>• 6 people are producers;</li> <li>• 1 person is micro-trader.</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>

Vientiane Capital Department of Agriculture & Forestry reported that vegetable production, especially organic vegetable production, is rapidly growing in Vientiane capital. 1 million tons of fresh vegetable per year are supplied to domestic markets, restaurants and hotels in Vientiane capital. Vientiane capital has a total land area of 392,000 ha, in which the agricultural production area of 95,216 ha. The total population is estimated at 850,000 inhabitants and the number of the visitors is estimated at 1,600,000 people per year (2016 data). Vientiane capital is a center for commerce and tourism and it the combination of residents, , domestic visitors and international tourists requires large quantities of food products every day. The Vientiane Capital Department of Agriculture & Forestry has a main

function to guide and encourage farmers and agricultural related entrepreneurs to supply sufficient food to meet demand.

### 5.2.3. Southern region:

54 potential clients who are currently requesting agricultural related loans from MFIs in the southern region were interviewed. A summary of agricultural value chains proposed by these potential clients is summarized in table 11 below.

**Table 11: Potential agricultural value chains proposed by the 6 MFIs' potential clients in the southern region**

Agricultural value chains	Numbers of involved actors interviewed	Categories of the involved actors	Comments
Cassava production	21	<ul style="list-style-type: none"> <li>• 20 people are producers;</li> <li>• 1 person is trader</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market for processing in the nearby factories located in the district towns;</li> <li>• Then the processed products are sold to Thailand, Vietnam and China.</li> </ul>
Rice production	12	<ul style="list-style-type: none"> <li>• All of 12 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• There is a problem with flooding;</li> </ul>
Fruit production	11	<ul style="list-style-type: none"> <li>• All of 11 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Vegetable production	7	<ul style="list-style-type: none"> <li>• 6 people are producers;</li> <li>• 1 person is trader</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>
Small animal (goat, pig and poultry) production	3	<ul style="list-style-type: none"> <li>• All of 3 people are producers</li> </ul>	<ul style="list-style-type: none"> <li>• No specific difficulty so far;</li> <li>• There is no problem with market;</li> <li>• Domestic market.</li> </ul>

Champasack Provincial Department of Agriculture and Forestry reported that cassava production just became popular again in last few years due to an increase in the price of cassava. For cassava, there is no problem with market. Usually, local traders collect both wet and dry cassava from producers and then sell them to cassava factories located in towns nearby. The cassava factories export the processed product to Vietnam, Thailand and China.

In Champasack province, the Boloven Plateau is an area with very fertile volcanic soil and climatic conditions highly suitable for various crops such as coffee, vegetables and fruits. Over the past two decades, the Boloven plateau has emerged as the primary coffee growing region in Laos, with beans sold domestically and for export.

### 5.3. Assessment of credit demand for each category of AVC

#### 5.3.1. Northern region

Based on the results of the interview with 36 existing clients and 65 potential clients of participating MFIs located in the Northern region of Laos, the characteristics of the credit demand in agricultural value chains is summarized in Table 12 below.

**Table 12: Characteristics of the credit demand of the existing and potential clients of the 3 MFIs in the Northern region of Laos**

1. Cattle production		
Characteristics of credit demand	Value chain actors	
	32 Producers	2 Micro-traders
Loan amount (min. and max.)	10,000,000 to 50,000,000 LAK	30,000 to 50,000,000 LAK
Loan duration (min. and max.)	24 to 36 months	12 to 24 months
Loan interest rate (min. and max.)	2% per month	2.8% per month
Loan security	Land certificate	Land certificate
Repayment modes	Monthly payment of interest and yearly repayment of principal.	Monthly payment of interest and quarterly repayment of principal
2. Small animal (goat, pig and poultry) production		
Characteristics of credit demand	Value chain actors	
	17 Producers	2 Micro-traders
Loan amount (min. and max.)	5,000,000 to 30,000,000	20,000,000 LAK

	LAK	
<b>Loan duration (min. and max.)</b>	12 to 24 moths	24 months
<b>Loan interest rate (min. and max.)</b>	2.7 to 2.8% per month	2.8% per month
<b>Loan security</b>	Land certificate	Land certificate
<b>Repayment modes</b>	<b>Two options:</b> 1). Monthly interest and principal payment; 2). Monthly interest payment and semi-annual principal repayment.	Monthly interest and principal payment
<b>3. Vegetable production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>17 Producers</b>	<b>6 Micro-traders</b>
<b>Loan amount (min. and max.)</b>	5,000,000 to 15,000,000 LAK	10,000 to 15,000,000 LAK
<b>Loan duration (min. and max.)</b>	6 to 12 moths	6 to 12 months
<b>Loan interest rate (min. and max.)</b>	2.5% per month	2.5% per month
<b>Loan security</b>	Land certificate or motorbike documents	Land certificate or motorbike documents
<b>Repayment modes</b>	Quarterly payment of interest and principal repayment in every 4 months	Monthly interest and principal payment
<b>4. Job's tear production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>20 Producers</b>	<b>0 trader</b>
<b>Loan amount (min. and max.)</b>	2,000,000 to 10,000,000 LAK	
<b>Loan duration (min. and max.)</b>	6 to 12 moths	
<b>Loan interest rate (min. and max.)</b>	2 to 2.7% per month	
<b>Loan security</b>	Land certificate	

<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of 6 months	
<b>5. Fodder maize production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>2 Producers</b>	<b>0 trader</b>
<b>Loan amount (min. and max.)</b>	5,000,000 LAK	
<b>Loan duration (min. and max.)</b>	6 to 12 months	
<b>Loan interest rate (min. and max.)</b>	2.7% per month	
<b>Loan security</b>	Land certificate	
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of 6 months	
<b>6. Fish production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>3 Producers</b>	<b>0 trader</b>
<b>Loan amount (min. and max.)</b>	20,000,000 to 30,000,000 LAK	
<b>Loan duration (min. and max.)</b>	24 to 36 months	
<b>Loan interest rate (min. and max.)</b>	2.8% per month	
<b>Loan security</b>	Land certificate	
<b>Repayment modes</b>	Monthly payment of interest and half yearly repayment of principal.	

### 5.3.2. Central region

Based on the results of the interview with 55 existing clients and 48 potential clients of participating MFIs located in the Central region of Laos, the characteristics of the credit demand are summarized in Table 13 below.

**Table 13:** Characteristics of the credit demand of the existing and potential clients of the 4 MFIs in the Central region

<b>1. Organic vegetable production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>51 Producers</b>	<b>6 Micro-traders</b>
<b>Loan amount (min. and max.)</b>	5,000,000 to 30,000,000 LAK	10,000 to 50,000,000 LAK
<b>Loan duration (min. and max.)</b>	6 to 12 moths	6 to 12 months
<b>Loan interest rate (min. and max.)</b>	2% to 3.5% per month	3.5% per month
<b>Loan security</b>	Land certificate or household item, or vehicle documents	Land certificate, or household's item, or vehicle documents
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of every 3 months	Monthly interest and principal payment
<b>2. Mushroom production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>17 Producers</b>	<b>1 trader</b>
<b>Loan amount (min. and max.)</b>	10,000,000 to 30,000,000 LAK	30,000,000 LAK
<b>Loan duration (min. and max.)</b>	12 to 24 moths	12 months
<b>Loan interest rate (min. and max.)</b>	2% to 3,5% per month	3.5% per month
<b>Loan security</b>	Land certificate or household item, or vehicle documents	Land certificate or household item, or vehicle documents
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installments	Monthly interest and principal payment

	of every 3 months	
<b>3. Rice production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>8 Producers</b>	<b>0 trader</b>
<b>Loan amount (min. and max.)</b>	5,000,000 to 30,000,000 LAK	
<b>Loan duration (min. and max.)</b>	12 moths	
<b>Loan interest rate (min. and max.)</b>	2.5% to 3.5% per month	
<b>Loan security</b>	Land certificate	
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of every 3 months	
<b>4. Maize production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>7 Producers</b>	<b>0 trader</b>
<b>Loan amount (min. and max.)</b>	5,000,000 to 30,000,000 LAK	
<b>Loan duration (min. and max.)</b>	12 moths	
<b>Loan interest rate (min. and max.)</b>	2.5% to 3.5% per month	
<b>Loan security</b>	Land certificate	
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of every 3 months	
<b>5. Small animal (goat, pig and poultry) production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>11 Producers</b>	<b>2 trader</b>
<b>Loan amount (min. and max.)</b>	5,000,000 to 30,000,000 LAK	30,000,000 to 50,000,000 LAK
<b>Loan duration (min. and max.)</b>	12 to 36 moths	12 months

<b>Loan interest rate (min. and max.)</b>	2% to 2.5% per month	2.5% to 3.5% per month
<b>Loan security</b>	Land certificate, or household item, or vehicle documents	Land certificate, or vehicle documents
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of every 3 or 6 months	Monthly interest and principal payment

### 5.3.3. Southern region

Based on the results of the interview with 69 existing clients and 54 potential clients of participating MFIs located in the Southern region of Laos, the characteristics of the credit demand is summarized in table 14 below.

**Table 14: Characteristics of credit demand of the existing and potential clients of the 6 MFIs in the Southern region of Laos**

<b>1. Cassava production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>43 Producers</b>	<b>3 Micro-traders</b>
<b>Loan amount (min. and max.)</b>	10,000,000 to 30,000,000 LAK	30,000 to 50,000,000 LAK
<b>Loan duration (min. and max.)</b>	12 moths	12 months
<b>Loan interest rate (min. and max.)</b>	2.5% per month	3% per month
<b>Loan security</b>	Land certificate or household item, or vehicle documents	Land certificate, or household's item, or vehicle documents
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of every 3 months	Monthly interest and principal payment
<b>2. Rice production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>25 Producers</b>	<b>0 trader</b>



<b>Loan amount (min. and max.)</b>	5,000,000 to 30,000,000 LAK	
<b>Loan duration (min. and max.)</b>	12 moths	
<b>Loan interest rate (min. and max.)</b>	2% per month	
<b>Loan security</b>	Land certificate or household item, or vehicle documents	
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installments of every 3 months	
<b>3. Fruit production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>22 Producers</b>	<b>0 trader</b>
<b>Loan amount (min. and max.)</b>	5,000,000 to 30,000,000 LAK	
<b>Loan duration (min. and max.)</b>	36 moths	
<b>Loan interest rate (min. and max.)</b>	2% to 3% per month	
<b>Loan security</b>	Land certificate, or Salary	
<b>Repayment modes</b>	<ul style="list-style-type: none"> <li>For the farmers, they prefer to pay interest very month and repay principal in installment (3 moths or 6 months);</li> <li>For the government officials who have regular salary, they prefer to pay interest and principal together every month.</li> </ul>	
<b>4. Vegetable production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>11 Producers</b>	<b>2 trader</b>
<b>Loan amount (min. and max.)</b>	5,000,000 to 30,000,000	10,000,000 to

	LAK	30,000,000 LAK
<b>Loan duration (min. and max.)</b>	12 moths	12 months
<b>Loan interest rate (min. and max.)</b>	2.5% to 3% per month	2.5% to 3% per month
<b>Loan security</b>	Land certificate or household item, or vehicle documents	Land certificate or household item, or vehicle documents
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of every 3 months	Monthly interest and principal payment
<b>5. Small animal (goat, pig and poultry) production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>6 Producers</b>	<b>1 trader</b>
<b>Loan amount (min. and max.)</b>	5,000,000 to 30,000,000 LAK	30,000,000 to 50,000,000 LAK
<b>Loan duration (min. and max.)</b>	12 to 24 moths	12 months
<b>Loan interest rate (min. and max.)</b>	2% to 2.5% per month	2.5% to 3% per month
<b>Loan security</b>	Land certificate, or household item, or vehicle documents	Land certificate, or vehicle documents
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of every 3 or 6 months	Monthly interest and principal payment
<b>6. Fish production</b>		
<b>Characteristics of credit demand</b>	<b>Value chain actors</b>	
	<b>1 Producer</b>	<b>1 Processor</b>
<b>Loan amount (min. and max.)</b>	20,000,000 LAK	30,000,000 LAK
<b>Loan duration (min. and max.)</b>	24 moths	12 months
<b>Loan interest rate (min. and max.)</b>	2% per month	2.5% per month
<b>Loan security</b>	Land certificate, or household item, or vehicle	Land certificate, or vehicle documents

	documents	
<b>Repayment modes</b>	Monthly payment of interest and principal repayment in installment of every 6 months	Monthly interest and principal payment

## 5.4. Recommendations for MFIs

The key comments and feedbacks of the existing and potential clients on the current loan products of the participating MFIs are summarized as follows:

- Clients of **Champalao DTMFI** expressed a high degree of satisfaction concerning the loan product of the MFI. For agricultural related loans, the repayment schedule of monthly interest payment and principal repayment in installments is a good fit with the cash flow of the agricultural related activities. So, the clients and potential clients of the MFI are highly satisfied with the MFI's loan product.
- Clients of **Houngheangxap NDTMFI** who have taken loans for agricultural related activities suggested to modify the loan repayment schedule with 2 options: 1) Monthly payment of interest and principal together; and 2) Monthly payment of interest with repayment of principal in installments based on the cash flow of invested activities.
- Potential clients of **Houngheangxap NDTMFI** who wish to take loans for cattle raising consider the current loan interest rate of 2.8% per month is too high. They suggest reducing the loan interest rate to 2% per month for the cattle raising. On this issue, the consultant team recommends that the MFI should work closely with the potential clients wishing to invest in cattle raising to jointly calculate the potential return on investment (RoI) and then make comparison with the proposed loan interest rate to calculate the potential profit for the borrower. Doing so may help potential clients recognize the viability of loans at the current 2.8% interest rate.
- Clients of **Luang Prabang Savings and Credit Union (Luang Prabang SCU)** are satisfied with the current loan product and services. However, potential clients who had earlier experience with subsidized loans provided by the Agricultural Promotion Bank (APB) feel that the loan interest rate of 2.7% per month charged by Luang Prabang SCU is relatively high. The consultant team recommends that Luang Prabang SCU should ensure potential clients understand the MFI ownership structure by which the members receive a year-end dividend. In addition, more explanation is required for potential clients/members on the different elements of the loan interest rate determination. A joint analysis of the return on investment (RoI) of proposed agricultural activities may help increase acceptance of the loan interest rate offered.
- Many existing and the potential clients of **the 4 surveyed MFIs** in Vientiane Capital (Patoukham DTMFI, Next DTMFI, Mittaphab SCU, and EMI) requested a modified repayment schedule for agricultural loans. They propose 2 options: 1) Monthly payment of interest and principal together; and 2) Monthly payment of interest with

repayment of principal in installments every 3 months. Repayment of the principal by installment is particularly suitable for agricultural producers who form the majority of MFI clients<sup>16</sup>, as it fits the cash flow of agricultural production activities.

- As part of its Center Meeting Services model, **Next NDTMFI** is supporting to organize the producer's groups for its Center Meeting clients/members and support them in linking with the local markets to ensure that the producers who are the members of the groups have a better negotiating power on the price of the products and also access to markets. The case study on this organization supported by Next NDTMFI is very interesting and it is recommended to conduct further study on this. Next NDTMFI is very keen to work in the agricultural sector and it is now looking for the technical assistance on the agricultural value chain finance.
- **Ekphatthana DTMFI (EMI)** is currently developing a loan product for the agricultural sector. EMI recently sent two staff to study agricultural loan product development in Myanmar. EMI is encouraged to consider the lessons learned from Myanmar for the development process of its agricultural loan product.
- Potential clients of **Homchaiphatthana SCU** proposed using their livestock (cattle) as loan guarantee, which would be a new type of loan collateral for MFIs in Laos. On this issue, the consultant team recommends the MFI should consider trialing such an approach with clients already have a strong credit history.
- Existing and potential clients of **Huasaechaleun SCU and Champaphatthana SCU** suggested to extend the loan duration to 36 months in order to support investing in longer-term agricultural activities such as fruit tree plantations.
- The clients of **Champasack DTMFI** were satisfied with the loan products offered. The MFI's clients are all civil servants, and the repayment schedule (interest and principal) aligns well with payment of government salary which is often 3 months in arrears.

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<sup>16</sup> In the survey with the total 327 existing and potential clients of the 13 participating MFIs, about 92% of the interviewed clients and potential clients are producers, while micro-traders is counted only 7.5% and processor is 0.5% respectively.

# CHAPTER 6: Conclusions and Suggested Future Directions

## 6.1. Conclusions

From the results of the study, a number of main conclusions can be drawn as follows:

- The 13 surveyed MFIs have disbursed loans for agricultural related activities representing **31% of the total loan portfolio on average**. This figure demonstrates that the Lao micro-finance sector plays an important role in agricultural finance and is capable of mitigating many challenges associated with the agricultural sector in Laos.
- **Most of the MFI's clients are small producers** (92% of the total sample), with the remainder micro-traders (7.5%) and micro-processors involved in fish drying (0.5%). The consultant team assumes that other actors of the value chains who usually need a bigger loan for investment are probably clients of commercial banks.
- **All 13 surveyed MFIs are committed to providing loans to the agriculture sector**. Some of them (i.e. Vanmai SCU and Champaphatthana SCU – GIZ/AFP's Village Banks Network Support Organizations – NSOs) have already developed specific loan products for agricultural production including for cash crops and animal raising. EMI is in the process of developing a loan product for agriculture production. The other MFIs do not have specific loan products for agriculture, but some offer flexible repayment schedules for agriculture loans (i.e. Champalao DTMFI, Luang Phrabang SCU, Seno SCU, Homchaiphatthana SCU, and Huasaechaleun SCU). Several other MFIs (i.e. Hounghaungxap SCU, Patoukham DTMFI, Next NDTMFI, and Mittaphab SCU) are actively considering adapting their loan product to be more suitable to the need of agricultural clients.
- In general, **the current features of surveyed MFIs loan products are "more or less" fitting to the needs of agriculture clients**, especially primary producers:
  - ✓ Loan size ranges from 0.5 million to 50 million LAK;
  - ✓ Loan duration ranges from 6 months to 36 months;
  - ✓ Loan interest rate ranges from 2% to 3.5% per months;
  - ✓ Loan security by collateral (land certificate, or household's items, or vehicle documents, or salary in case the borrower is the civil servant or pensioner);
  - ✓ Repayment schedule:
    - Monthly payment of interest and principal (common practice);
    - Monthly payment of interest and repayment of principal in installments (a flexible option for agricultural loan).
- **Agricultural Value Chain Finance (AVCF) is a relatively new concept for the Lao microfinance sector**. Usually, MFI management counts loans issued to producers/farmers as agricultural related loans, while loans issued to agricultural traders have been classified as trade sector loans, and loans issued to agricultural processors have been classified as service sector loans. During the study, the consultant team explained to MFI management the basic concepts of Agricultural

Value Chain and Agricultural Value Chain Finance, and in doing so attempted to raise levels of awareness.

## **6.2. Suggested Future Directions**

About 75% of the Lao population is engaged in small holder agriculture production, and the demand from small holder farmers for short-term and flexible micro-loans for operating capital in agricultural production is very high<sup>17</sup>. This is evidenced by the fact that 31% of surveyed MFI loan portfolios were disbursed to clients who are agricultural small holder producers. The proportion could increase if MFI loan products are modified to suit the needs of agricultural activities, especially by aligning the repayment schedule of the loan principal to the cash flow schedule of agricultural production.

In order to ensure that the Lao micro-finance sector can contribute to access to sustainable financial services for Lao small holder producers and micro-entrepreneurs in agriculture sector, it is recommended that:

- MFIs should be encouraged to have specific loan products suited to the agricultural production activities. For example, Vanmai SCU and Champaphatthana SCU have recently developed specific loan products for agricultural production activities including cash crop production and animal raising activities following advice from the Bank of Lao PDR which is their supervisory body. Consequently, the number of the agriculture clients of the both SCUs increased significantly, reaching up to 60% of total borrowers.
- As surveyed MFIs have limited knowledge on the concept and methodologies of Agricultural Value Chain (AVC) and Agricultural Value Chain Finance (AVCF), training and workshops should be organized to facilitate diversified and well-adapted financial products and services.
- The Lao MFIs should be able to conduct the analysis on agricultural value chains and flow of funds in the chains so that they can do selection of the most promising agricultural value chains practiced in their region to work with and can develop their loan products based on the need of the value chain actors;
- The current FAO/ADA's Agri-finance project that is piloting with 3 MFIs in the Northern region of Laos should be expanded to other MFIs in Laos;
- Provincial Departments of Agriculture & Forestry in Luang Prabang, Vientiane Capital and Champasack provinces acknowledge the role of MFIs in providing faster and easier financial services. However there is little coordination between MFIs and PAFO/DAFO for technical support to agricultural clients. It is recommended that MFIs should engage with PAFO and DAFO to ensure agricultural extension workers are active in villages where MFIs have agricultural clients.
- Meeting the financial services needs of the small holder farmers on a sustainable basis requires government to actively support the agricultural financing. A regulatory framework for the financial services sector should create a favorable environment

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<sup>17</sup> JICA (2012), Report on Data Collection Survey on Agricultural Finance in Lao PDR.

and be adapted to the challenges of agricultural and rural finance in Laos. Thus, conducting a deeper study on the challenges of agricultural and rural finance in Laos is highly recommended so that the regulatory framework can further be adapted to the identified challenges.

- As agriculture sector is considered as high risk and this is a main reason that the commercial banks are reluctant to provide loans to the potential agricultural value chain actors, so it is recommended to further conduct the feasibility study on establishment of the Index-based Insurance (IBI) scheme in Laos. IBI can reduce the costs and difficulties of administering and delivering agricultural insurance and it is also a promising tool for underwriting the costs of the insurer. However, the establishment of IBI scheme in Laos would need the involvement of the government and donor's support.

## **Annex 1: Terms of Reference of the Study**

### **Terms of Reference**

#### ***Market study on agricultural value chain credit demand of MFIs clients in Lao PDR***

##### **1. Rationale**

Microfinance sector in Lao PDR has been significantly developed over the last 10 years in terms of a regulatory framework and an increased number of registered micro-finance institutions. Recently, there are about 123 MFIs registered with BoL, and about 70% of them have been registered as membership of MFA.

Most of the MFA's MFIs members suggested that the market survey on the agricultural value chain credit demand of their clients and potential clients should be conducted in order to allow the MFIs to have a better understanding on the client's needs on the characteristics of the agricultural value chain credit, as the proportion of the agricultural related loans of the MFIs has significantly increased over the recent years. It is estimated that the percentage of the agricultural related loans issued by the members' MFIs is about 31% of the total loan portfolio on average. So, in order to help our members' MFIs in designing the suitable loan products for agricultural value chain actors, MFA proposes to commission a market study on agricultural value chain credit demand of the MFIs clients and potential clients.

##### **2. Objective of the study**

The main objective of the study is to assess the credit demand of the clients and potential clients of the MFIs members in relation to the identified agricultural value chains in each region of the country.

More specifically, the study will assess the following aspects of the credit demand on the identified promising agricultural value chains (AVC):

- Identify the most promising and potential agricultural value chains, involved by the existing clients and potential clients of the participating MFIs;
- The overall assessment of the AVC credit demand of the different category of the AVC's actors in each chains;
- The main purposes of the loans requested by each category of the AVC's actors;
- The range and an average loan size required by each categories of the AVC's actors;



- The range and an average loan terms suitable for each categories of the AVC actors;
- Affordable loan interest rate and preferable repayment modes;
- The loan security mechanism proposed by each category of the AVC actors.

### **3. Methodologies**

The proposed study will be split up into 3 phases as follows:

#### **3.1. First phase: Preparation**

The preparation phase includes the following tasks/activities to be fulfilled:

- ✓ Preparation of the questionnaire;
- ✓ Selection of the participating MFIs, covering the 3 regions of the country (North – Oudomxay and LPB, Central – VTE capital and VTE province, and South – Savannakhet and Champasack); 3 MFIs in LPB, 5 MFIs in VTE capital and VTE province, 2 MFIs in Savannakhet and 2 MFIs in Champasack,. So, the total number of participating MFIs is 12 MFIs. The number of the clients and potential clients to be visited and interviewed will be around 10 to 15 people per MFIs, so the total number of the interviewed people (including the existing clients and potential clients) will be 120 to 180 people.
- ✓ This phase will take about 2 working days.

#### **3.2. Second phase: Field visit**

- ✓ Visit and interview the participating MFIs to collect data and information related AVC lending;
- ✓ Visit and interview the existing clients and the potential clients selected by the participating MFIs;
- ✓ As the time constraint, the focus group discussion approach will be used during the client's visit and the group discussion will be separately done between the existing clients and potential clients of each participating MFI;
- ✓ The second phase will take 20 working days including traveling.

#### **3.3. Third phase: Report writing**

- ✓ Compilation of the collected data and information;
- ✓ Report writing.
- ✓ The third phase will take 6 working days including translation.

### **4. Study team**

The study team will consist of one team leader, Mr. Keolabthavong Songsamavong who has an extensive experience in the field of access to finance including AVC finance in Lao PDR. The team leader will be supported by an assistant who will be hired externally.

### **5. Deliverable**

A study report in English and Lao versions will be produced. The report should cover the following main topics:

- Overview of the agricultural loans of the participating MFIs;
- Identification of the most promising and potential value chains, involved by the existing and potential clients of the MFIs;
- Overview of the credit demand of each category of the identified AVC's actors;
- Detailed description of the loan characteristics required by each category of the identified AVC's actors;
- Recommendations for the participating MFIs to take into consideration when they are developing their AVC's loan products.

## Annex 2: Questionnaires

### Questions for Participating MFIs

1. **Name of MFIs:** \_\_\_\_\_
  - Address: \_\_\_\_\_
  - Contact details: \_\_\_\_\_
  - Name and position of person/people met: \_\_\_\_\_
2. **MFI's Background**
  - 2.1. Could you please provide a brief background on your MFI?
3. **MFI's Outreach**
  - 3.1 How many branches s or service units?
  - 3.2 How many total staff and credit officers?
  - 3.3 How many provinces, districts and villages, covered by your services?
  - 3.4 How many members /clients?
    - Savers: \_\_\_\_\_
    - Borrowers: \_\_\_\_\_
4. **MFI's current financial status**
  - 4.1 What is your current total asset?
  - 4.2 What is your current loan portfolio?
  - 4.3 What is your current total savings?
5. **MFI's Agricultural related loans**
  - 5.1 What percentage of the agricultural related loans, compared to the total loan portfolio?
  - 5.2 What are the main characteristics of the agricultural related loans?
    - Loan purposes;
    - Loan size (range and average);
    - Loan terms;
    - Interest rate;
    - Loan security;
    - Repayment modes.
  - 5.3 How have you developed your agricultural loan products?
6. **MFI's credit officers who have experience in agricultural extension**

6.1 How many credit officers who have experience in agricultural extension?

**7. MFI's Policies on Agricultural loans and future plan**

7.1 Do you have specific policies on agricultural related loans?

- If yes, what are the main features of the policies?
- If no, why?

7.2 Are you willing to increase your loan portfolio for the agricultural sector?

7.3 If yes, why and how to do this?

7.4 If no, why?

7.5 What are the main agricultural sub-sectors or value chains that your existing clients are working for at the moment? Please try to understand what types of the value chain actors that the clients of MFI are engaging with?

7.6 Do you foresee any other potential or promising agricultural value chains in your services areas?

7.7 Do you have any more comments on the design of the agricultural related loan products?

## Questions for the existing clients

### 1. Personal information:

- Name and surname: \_\_\_\_\_
- Current address: \_\_\_\_\_  
\_\_\_\_\_
- Contact details: \_\_\_\_\_

### 2. Interest in MFI and current loans

2.1 How did you know the MFI?

2.2 How did you join the MFI and when?

2.3 Why did you need your first loan?

- Loan purpose;
- Loan amount;
- Loan terms;
- Interest rate;
- Security;
- Repayment modes.
- Any problem with interest payment or principal repayment?
- Is the loan product suitable to your need and your cash flows? If not, please explain.

2.4 Your current loan:

- Loan purpose. Please try to understand what type of the agricultural activity is s/he doing and at what chain (input provider, producer, processor, trader, etc.);
- Loan amount;
- Loan terms;
- Interest rate;
- Security;
- Repayment modes;
- Any problem with interest payment or principal repayment?
- Is the loan product suitable to your need and your cash flows? If not, please explain.

### 3. Proposed loan product:

3.1 Do you want to expand your current activity or do you want to do the new activity? If new activity, what is it?

3.2 To expand your current activity or do a new activity, what loan features would you propose to be fitting with your investment?

- Loan amount (mini. and max>);

- Loan terms (mini. and max.);
- Loan interest rate;
- Loan security;
- Repayment modes;

3.3 Do you have any other comments in relation to the loan products and services of the MFI to be improved?

3.4 Where do you sell your products? Is there any problem with market?

## Questions for potential clients

### 1. Personal information:

- Name and surname: \_\_\_\_\_
- Current address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- Contact details: \_\_\_\_\_

### 2. Interest in MFI and proposed loan products

- 2.1 How do you know the MFI?
- 2.2 Why do you want to join the MFI?
- 2.3 What type of the agricultural activity that you are doing now?
- 2.4 Which activity do you want to invest by the loan? (Please try to understand what type of AVC actors is s/he involving)?
- 2.5 What are the loan's features that you would like to propose?
  - Loan amount;
  - Loan terms;
  - Loan interest rate;
  - Loan security;
  - Repayment modes;
- 2.6 Do you have any other comments in relation to the loan products and services of the MFI?
- 2.7 Where will you sell your products? Will there be any problem with market?

## Questions for PAFO or DAFO

### 1. Name of

DAFO/PAFO: \_\_\_\_\_

- Address: \_\_\_\_\_  
\_\_\_\_\_
- Contact details: \_\_\_\_\_  
\_\_\_\_\_
- Name and position of person/people met: \_\_\_\_\_  
\_\_\_\_\_

### 2. Prioritized agricultural production programs in the province/districts

- 2.1 What types of cash crops that the province/district is promoting? And why?
- 2.2 What are the main constraints in promoting these crops and how to overcome them?
- 2.3 What types of animal raising activities that the province/district is promoting? And why?
- 2.4 What are the main constraints in promoting these animal raising activities and how to overcome them?

### 3. Issues related to access to finance for the promoted agricultural value chains

- 3.1 What are the main issues related to access to finance for actors in the agricultural value chains promoted by the province/districts?
- 3.2 Do you have any recommendations in dealing with the issues?

### 4. The MFI services and products

- 4.1 What do you think about the MFI's services and products? Do they support the agricultural production programs supported by the province/districts?
- 4.2 Do you have any recommendations on the MFI's services and products?