

# Country Investment Roundtable: Lao PDR

**RURAL FINANCE ECOSYSTEM  
ASSESSMENT OF  
LAO PEOPLE'S DEMOCRATIC REPUBLIC**  
VIENTIANE CAPITAL, 04 DECEMBER, 2024



Food and Agriculture Organization  
of the United Nations



# Structure of the presentation

- **Methodology of the Study**
- **Financial System in Lao PDR and Regulations**
- **Cooperatives and Farmer Organization**
- **Financial Products and services**
- **Blended Finance as an Instrument**
- **Financial Inclusion in Lao PDR**
- **Recommendations and way forward**

# Methodology – Mixed Method

Source	Information	Overviews
Desk research	Reports, news items, interviews	Reports of bank of Lao, Banks, MFIs, National Statistics and International agencies
Interviews and visits to Banks/regulators/MFIs/Agribusiness companies	Insights on technical knowledge and assets, ambition and strategy	Context of rural finance, regulations, and understanding trend
Visits to farms, agricultural markets (retail and wholesale) and	Thimphu and Paro	Unstructured interactions
Interviews with stakeholders	Mostly in Vientiane and	Government line departments, Central Bank, banks, MFIs, research institutes etc.

# INSTITUTIONAL STRUCTURE OF FINANCIAL SYSTEM IN LAO

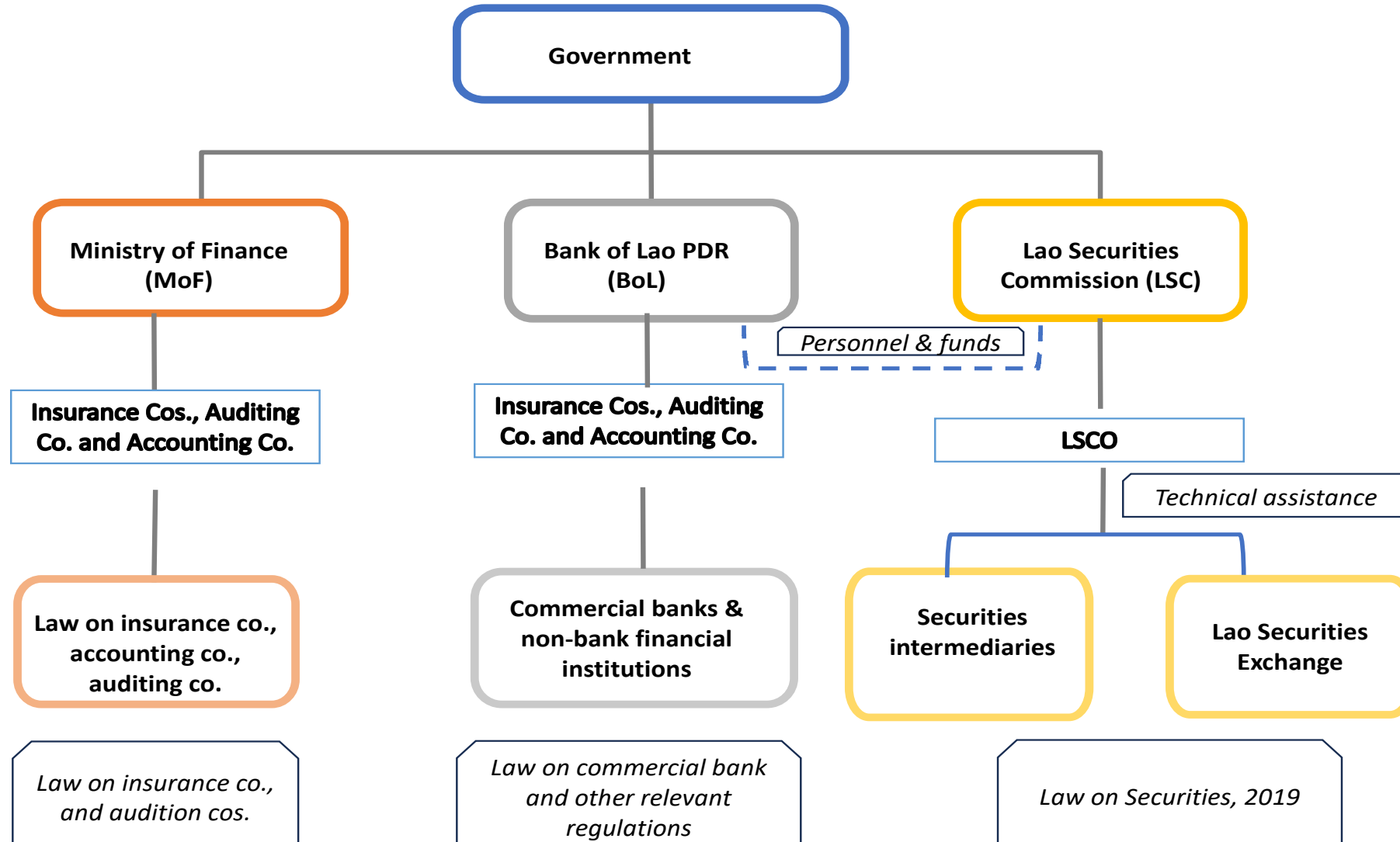
There are 38 commercial banks consisting of 1 state owned commercial bank (SCOB), 1 special bank, 5 joint state commercial banks, 7 private banks, 8 commercial banks that are subsidiaries of foreign commercial banks (FCB), and 16 branches of FCBs are operating in Lao PDR. There are 116 branches of commercial banks, 35 foreign exchange outlets, and 1,493 ATMs in Laos.

*(Bank of Lao PDR, December 2023)*

There are 267 non-bank financial institutions: (a) 20 deposit taking MFIs, (b) 110 non-deposit taking MFIs, (c) 34 credit and savings cooperatives, (d) 31 credit leasing companies, and (e) 60 pawn shops. There are 10 insurance companies (registered with the Ministry of Industry and Commerce), of which 3 are offering composite insurance activities (both life and general insurance), while 5 specialise in general insurance and rest 2 provide only life insurance.

*(Bank of Lao PDR, December 2023)*

# Financial System **Supervision** in Lao PDR



# Financial System **Regulation** in Lao PDR

S/N	Regulator	Sector	Regulated entity
1	Bank of the Lao PDR	Banks, NBFIs, MFIs, and SCUs	All commercial and non-banking finance institutions including deposit-taking and non-deposit taking micro finance institutions and credit unions.
2	Department of Rural Development and Cooperatives (DRDC) is responsible organization for cooperatives development.	Cooperatives	All types of cooperatives
3	Department of Management, State Development Enterprise and Insurance under The Ministry of Finance	Insurance	Life insurance and general insurance companies
4	Lao Securities Commission Office (LSCO)	Capital market	Lao Stock Exchange at Vientiane, and 4 securities firms.

# COOPERATIVES AND FARMERS GROUP IN LAO

- ❑ Cooperatives in Lao PDR are member-controlled organisations pursuing common interest of their members.
- ❑ Agricultural cooperatives provide inputs, credits and marketing facilities.
- ❑ Credit cooperatives provide savings, credit and insurance services to their members.
- ❑ The Department of Rural Development and Cooperatives of the Ministry of Agriculture and Forestry (MAF) is responsible for regulating and supporting and all cooperatives.
- ❑ The farmer groups are organised in production groups, and the production groups into cooperatives. It is estimated that there are 4,339 farmer groups and 582 agricultural production groups and 22 cooperatives having nearly 90,000 members.

*(MAFF, 2023)*

# Financial Products and Instruments

- ❑ The main financial products offered by the Financial Service providers are savings & deposits services and standard lending instruments.
- ❑ The Lao PDR banks also can access the newly created Credit Guarantee Facility (GCF) to provide long-term funding sources for banks who provide credit to MSMEs that lack collateral.
- ❑ As of 2021, there is no agricultural or livestock insurance provision in Lao PDR. However, Government is actively working towards introducing crop insurance.
- ❑ Lao PDR has accessed the climate finance from Green Climate Fund and other international agencies

# Blended Finance: New Financial Instrument

- ❑ Asian Development Bank (ADB) and International Finance Corporation (IFC) have used **blended finance** to support higher risk projects in logistics and renewable power sector (*wind power*)
- ❑ ADB have successfully demonstrated the use of *blended finance* for a large wind power project in Lao that has strong development impacts.
- ❑ The final lender group to this 600 MW plant comprises an ideal mix of domestic and international private sector commercial banks, multilateral development bank, and development finance institutions which demonstrated the mutual faith and interdependence in the partnership between private and public sector lenders.

# Financial Inclusion in Lao PDR

SN	Indicators	In %
1	Account (% age 15+) (Global Findex database, 2021)	37%
2	Account, female (% age 15+) (Global Findex database, 2021)	38%
3	Poor adults with an account (Global Findex Database, 2021)	23%
3	Made or received digital payments in the past year (% age 15+) (Global Findex database, 2017)	13%
4	Received wages or government transfers into an account (% age 15+) (Global Findex database, 2021)	17%
5	Mobile agent outlets per 100,000 adults (Financial Access Survey)	N/A
6	SMEs with an account at a formal financial institution (Enterprise Surveys, 2018)	55%
7	Percent of SMEs with a bank loan/line of credit	27.4%

*(Source: Global Partnership for Financial Inclusion, 2024)*

# Steps taken by Bank of Lao

## Supply side support

- **Fostered a diversity of financial institutions:** The financial institutions are allowed to operate in different geographic regions to serve distinct customer segments.
- **Expanded agent-based digital banking and Internet banking.** Such approaches can cost-effectively expand the distribution network and provide human interface.
- **Strengthened financial infrastructure.** A small beginning has been made with utilising credit reporting systems and build a collateral registries (including for movables) which can increase access to financial services.

## Demand side support

- **Push for financial literacy.** The BoL has incorporated financial literacy and customer protection measures into its 10-year strategy and the roadmap for financial inclusion.
- **Consumers are being protected** from potential abuse, and fraud.
- **Grant licences to MFIs and banks** to open more branches in underserved areas.
- **Support Non-Deposit taking MFIs** to become Deposit Taking MFIs so that both asset and liability side services are within reach of rural members.

# Recommendations

- ❑ **Mandatory Lending by Banks in Rural Sector:** Presently, it is not mandatory for banks in Laos to extend credit to the agriculture or small and medium enterprises (SME) sectors. The BoL may contemplate the provision for direct lending by state-owned banks for various purposes including direct and indirect agriculture and SMEs.
- ❑ **Adopt a Value Chain Approach on Agri-financing:** The Government of Lao through the FAO Hand in Hand Initiative has prioritized three commodities to accelerate agricultural transformation and sustainable rural development resulting in minimizing poverty and contributing to GDP: timber and timber products, cardamom, and tea.
- ❑ **Proactive Promotional Role of Government:** (a) Capacity Building for MFIs, (b) Streamlined and Simplified Registration for Farmer Groups and Producer Groups, (c) Safety and security of public deposits in MFIs.
- ❑ **Strengthen Digital Finance Ecosystem:** Improvements in interoperability of payment among banks, improved penetration of agent network may help in reducing the cost of transaction charged by financial providers.

# Way Forward

- ❑ The assessment suggests that the government needs to take active measures to strengthen the rural financial institutions through policy reforms, incentivizing agricultural finance through value chain finance, strengthen the financial cooperatives.
- ❑ The line departments to ensure availability of segregated data and information and reforms at the institution level.
- ❑ There is an urgent need to prioritize information and communication technologies and digital technologies to reduce transaction costs and remove pricing and supply distortions in agricultural products and inputs so that the activities supported by credit may become remunerative to smallholders.

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**THANK YOU FOR YOUR ATTENTION**

