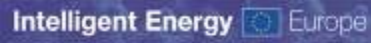


EIE-06-256 REEPRO



Promotion of the Efficient Use of Renewable Energies in Developing Countries

Financing Tools Scan in Lao PDR

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June 2007

List of Contents

1	Introduction	1
2	Country Background	1
3	Investment Options in RE in Lao PDR	2
4	Investment Climate in Lao PDR	3
5	Direct Foreign Investment in RE	5
6	Characteristics of the Formal Banking Sector	5
7	Characteristics of the Semi- and Informal Banking Sector	7
8	The Microfinance Sector in Lao PDR	8
8.1	Fonds Cooperative	8
8.2	UNCDF and UNDP Microfinance Project	8
8.3	The Rural Development Cooperative (RDC)	9
8.4	Saving and credit unions	9
8.5	Ekphathana Microfinance Institution (EMI)	10
8.6	Institute Financier de Development De Phongsaly (IFDP)	10
9	Barriers for RE development	11
10	References	12

List of Tables

Table 1: The characteristics of lending by APB.....	6
Table 2: The characteristics of Fonds Cooperative.....	8
Table 3: The characteristics of the Rural Development Cooperative	9
Table 4: The characteristics of three savings and credit unions	9
Table 5: The characteristics of Ekphathana Microfinance Istitution	10

List of Acronyms

ADB	ASIA Development Bank
APB	Agricultural Promotion Bank
BCEL	Banque pour le Commerce Extérieur Lao
BOL	the Bank of Laos
BTA	Bilateral Trade Agreement
CCSP	Cooperative de Credit de Soutien aux Producteurs
CPI	Committee for Planning and Investment
DDFI	Department of Domestic and Foreign Investment
EDL	Electricite du Laos
EMI	Ekphathana Microfinance Institution
FC	Fonds Cooperative (a Microfinance organization)
IFDP	Institute Financier de Development De Phongsaly
INGO's	International Non-Government Organization
JICA	Japan International Cooperation Agency
LDB	Lao Development Bank
LDC	Least Developed Country
LHSE	Lao Holding State Enterprise
LWU	Lao Women's Union
MFI's	Microfinance
MIH	Ministry of Industry and Handicap
NEM	New Economic Mechanism
NPEP	National Poverty Eradication Program
NPLs	non-performing loans
NGPES	National Growth and Poverty Eradication Strategy
NEDO	New Energy Technology Industry Development Organization of Japan
NGO	Non-Government Organization
NPO	Non-Profit Organization
NUOL	National University of Lao PDR
ODA	Official Development Assistance
PADETS	Participatory Development and Training Centre
PV	Photovoltaic
RDC	The Rural Development Cooperative
RE	Renewable Energy
RES	Renewable Energy Source
SCU's	Savings and Credit Unions
SOB's	the State Owned Banks
SOEs	State-owned enterprises
STEA	Science, Technology and Environment Agency
TRI	Technology Research Institute
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
WOCCU	World Council of Credit Unions.

1 Introduction

The financial tool scan is one of components of local data collection in work package 2 of the REEPRO project, see www.reepro.info. The scope of this activity is to scan off options for mini and micro project financing as well as commercial project support schemes from banks, donor organisations and state authorities with catalogue of options for innovative financing tools and credit schemes for small scale projects in Lao PDR. This report will provide data for the financing part of the training manuals and further project decisions.

2 Country Background

Lao PDR is a landlocked country and with an estimated per capita income of US\$460 in 2005, the country is one of the poorest countries in East Asia. It is classified by the UN as a Least Developed Country (LDC). In 2004, 71 percent of its population lived on less than US\$2 a day, and 23 percent on less than US\$1 a day. A significant decline in poverty has been achieved however during the last decade: using Lao PDR national poverty line (of approximately US\$1.5 a day) the incidence of poverty has fallen from 46 percent in 1992/93 to around 28.7 percent in 2004/05. The social indicators have been improving too, but they remain among the worst in the region, and the quality of measurements remains low.

Lao PDR has a population of around 5.6 million (Census 2005) and a land area of 236,800 square km. It has significant natural resources like forestry, minerals and hydro-electric power. Despite the recent decline of its share in GDP, agriculture remains the major contributing sector to the Lao economy contributing around 45 percent of GDP (2005) and employing nearly 80 percent of the labor force. The Industrial sector accounts for a bit more than 29% and services for nearly 26% (See Annex 1 - "Lao at a Glance" for a more detailed overview of the economy of Lao PDR).

Lao PDR has grown strongly for more than a decade. In the 1990s, real GDP grew by an annual average rate of 6.3 percent - despite the sharp fall-off in growth during the regional crisis of 1997-1999 period. Exports grew at around 15 percent a year; agriculture grew rapidly as did industry and services.

In 1986 the Government introduced the "New Economic Mechanism" (NEM) to begin the transition from a centrally planned to a market-oriented economy. Gradually, price controls were removed, socialist cooperative farming abandoned as farmers were allowed to work on their plots and take ownerships, the exchange rate system was unified, government's monopoly on trade removed, the number of state-enterprises reduced, and establishment of private firms allowed. Reforms stalled during the regional crisis, as Lao struggled with serious macroeconomic problems. Successful stabilization began in 2000 and structural reforms revived in 2001.

In April, 2002, the Government of the Lao PDR finalized an Interim-Poverty Reduction Strategy. Using this and the five-year National Socioeconomic Development Plan for 2001-05, the Government adopted a consultative process to prepare the National Poverty Eradication Program (NPEP). The NPEP was presented to the donors' Roundtable Meeting in September 2003, discussed by the National Assembly in October 2003, and subsequently

upgraded to the National Growth and Poverty Eradication Strategy (NGPES) in early 2004. It articulates Lao's development framework for poverty reduction, specifies the targets and goals that the country values and indicates the policy reform and public expenditure programs that will be needed to achieve these goals.

One of the goals of the NGPES is to provide an enabling environment of economic opportunities in rural areas and the provision of a reliable source of energy can have a significant impact on poverty alleviation. While the government is aiming to provide electricity to 70% of the country's households by the year 2010 and 90% by the year 2020 there will still be large areas, in particular in rural and remote areas, where renewable energy options like Solar PV, Micro- and Pico- Hydro, Bio-fuels, etc. can and will play an important role in providing energy to these areas. However, these options are generally expensive and a large part of the population will not be able to invest in these options due to various reasons like lack of cash, lack of access to formal and semi-formal financing institutions, etc.

However, the Lao People are aware of the opportunities to make use of RE and, in case where suitable financing options are available like the hire-purchase systems for PV managed by the Off-Grid Program of the Ministry of Energy and Mines (financed by the World Bank) and the rental system provided by SunLabob (using a mix of own finance and loans from Foreign Development Banks), the population does make use of these systems and 4.404 PhotoVoltaic systems have been installed all over the country.

3 Investment Options in RE in Lao PDR

Lao PDR has a considerable range of RE options and resources like abundant biomass resources (mainly wood), hydropower ranging from pico-hydro to large scale hydropower as well as abundant solar energy. With regard to wind, the options are not good possible with the exception of some mountain ranges along the border with Vietnam. However, the abundant biomass and hydro-power resources are both a blessing as well as a hindrance to increased use of RE technology and resources at the local level.

Fuelwood for cooking is basically free (in case manpower for the collection is not monetized) and for that reason biogas digesters with the biogas being used as a substitute for fuelwood and charcoal, has difficulty competing price-wise as the investment costs of a family sized digester (about 350 USD) is often beyond the financial means of the rural population and require loans with high interest rates.

Likewise with hydropower, where the large hydropower systems (100-1,000 MW) are financed by foreign partners and foreign loans (often at concessional interest rates) and with the major part of the electricity destined for export and a small part made available for use within the country, makes it difficult for small(er) RE options like gasification for power generation using waste wood from sawmills, etc. to compete due to a.o. economies of scale, etc.

As a result, investors are generally not very eager to invest in relatively small scale RE technologies and systems on a purely commercial basis unless they are insured of a reasonable rate of return on their investment. As the prevailing view in the region including

Lao PDR on *what constitutes a “reasonable rate of return on investments”* with investments which show a longer payback of 3-4 years being considered as “not favourable” it is obvious that the interest to invest in RE schemes which often have a longer payback period than conventional systems is very limited.

This is not to say that investments in small scale RE schemes and technologies are non-existent. There are numerous private people who invest in pico-hydro systems and solar PV systems as here the output is in electricity in non-grid areas. The systems compete with battery charging systems where the battery often has to be transported to areas where there is grid supply. The costs associated with this as well as the high maintenance rates of the battery systems make the pico-hydro and PV systems attractive to the users even though the costs may not really be competitive.

Investments in these systems are generally low - less than 100 USD for small pico-hydro systems (500 Watt) and slightly more for small PV systems (20 or 32 Watt systems sufficient for 1 or 2 7W lights and TV). In addition there are quite a few micro-hydro and mini-hydro power systems (village based) but these are in almost all cases funded partly or wholly by donor agencies like JICA, etc.

4 Investment Climate in Lao PDR

The economic reforms adopted in 1988 and the decree by the National Assembly on the “Law on the Promotion of Foreign Investment” dated October 22, 2004, No.11/NA (www.mekongexpress.com/laos/general/investlaw.htm), claim to promote foreign direct investment as a means of boosting development and economic growth. Under the 2004 Law on the Promotion of Foreign Investment, foreign investors may invest in all business sectors and zones of investment in the Lao People’s Democratic Republic, except in business activities which are detrimental to national security, have a negative impact on the environment, or are regarded as detrimental to health or national traditions. In practice, however, some sectors are effectively closed to outside investors. The overall investment climate is poor, and rates very low in international indices of transparency and ease of doing business.

The investment term of a foreign investment enterprise depends on the nature, size, and conditions of the business project but normally cannot exceed fifty years. Under special circumstances, foreign investment enterprises may be extended with the approval of the government. However, foreign enterprises that receive extension approval from the government may not exceed a total investment term of seventy-five years. The Investment Law does provide rights and benefits to the investor like duties on import of equipment, raw materials, etc. export duty exemption, income and profit tax exemption, etc. (Articles 12-18 of the Investment Law)

Any foreign investor seeking to establish operations in Laos must submit project proposals to the Department for Promotion and Management of Domestic and Foreign Investment (DDFI - <http://invest.laopdr.org/index.htm>), Committee for Planning and Investment (CPI). The proposal is then screened by the relevant line ministries and adjudicated by the Prime

Minister's Office. Further to Prime Minister Decree No 301, dated on October 12, 2005, proposals for projects worth US \$20 million or more require the approval of the Prime Minister. The President and Vice President of the Department of Domestic and Foreign Investment can sign approvals that involve investments of less than \$10 million USD. FDI equal to or less than \$3 million USD can be approved at the provincial level by all provinces, and in large provinces the ceiling for provincial level approval is \$5 million.

The screening process at the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) in the Committee for Planning and Investment (CPI) takes into account the financial and technical feasibility of the project, input from relevant line ministries, and whether the proposed project conflicts with government policy. Upon receipt of an application, the CPI must coordinate with relevant sectors and local authorities to consider and respond in writing to the foreign investor. Responses to projects, depending on project type, are supposed to be forthcoming within 15 – 45 working days.

Foreign investors shall obtain a foreign investment license, an enterprise registration certificate, and a tax registration certificate from the CPI office nearest the place where the foreign investors are licensed. Thereafter they shall be considered as enterprises established in conformity with the laws of the Lao People's Democratic Republic. Within 90 days from the date of receipt of an investment license the foreign investment enterprise must commence business activities. If the investors fail to do so, the foreign investment license shall be terminated.

Besides the investment license, foreign investors are required to obtain other permits. These include a business registration which must be annually renewed from the Ministry of Commerce, a tax registration from the tax department in the Ministry of Finance, a business logo registration from the Ministry of Public Security, permits from each line ministry related to the investment (i.e., Ministry of Industries for manufacturing; Ministry of Communications for transportation, etc.), appropriate permits from local authorities, and an import-export license, if needed. In mid-1999 the Lao government began imposing import restrictions on trading companies, whether foreign or domestic, in an effort to reduce the trade deficit. The Lao government requires them to file a joint annual import plan for approval by the Ministry of Commerce. Government documents articulating the restrictions and explaining the policy are difficult to obtain. Goods that are always prohibited for import and export range from explosives and weapons, to literature that presents a negative view of the Lao government, to certain forestry products and wildlife (for a detailed list of import & export restrictions see <http://www.moc.gov.la/default.asp>).

Agriculture production, as well as the majority of manufacturing production is private. State-owned enterprises (SOEs) currently account for only one percent of total employment. Roughly 97 percent of manufacturing units are small (fewer than 10 employees). Among the medium and large units, 35 percent are privately owned by Lao citizens and 55 percent are joint ventures with foreigners. The rest are owned by the government (including provincial governments). Foreign companies interested in acquiring SOE's should apply through the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) in

CPI. Medium and large-sized SOE's can be obtained through a joint venture with the Lao government.

Laos' comparatively liberal investment law is significantly undermined by inconsistency in implementation. The decline in foreign direct investment after 1996, while partly due to the regional economic crisis, was rooted in other factors as well, such as bureaucratic impediments to the application process; a lack of transparency in the regulatory framework; a lack of skilled workers; and an uncertain domestic economic environment. Implementation of the Bilateral Trade Agreement (BTA) with the US, as well as Laos' efforts to become a member of the World Trade Organization, may eventually help promote greater transparency and consistency in the legal and regulatory frameworks, but progress is slow.

5 Direct Foreign Investment in RE

Foreign entities have invested in RE applications in Laos PDR but these have been invariably in the Hydro Power Sector like for instance the Theun-Hinboun Project (210 MW) and the Huay Ho project (150 MW)) and now the Nam Theun 2 (1086 MW – 1450 million USD with Thai, French and Lao investors and with 995 MW for export to Thailand), the Nam Ngeum 2 (Thai investment) and the Nam Theun 1 (450 MW – 550 million USD with Malaysian investors).

In almost all cases the Government of Lao PDR, mainly through Electricite du Laos (EDL) or presently also through the Lao Holding State Enterprise (LHSE), takes an equity stake in the investment. In the case of Nam Theun 2. the Lao Government through LHSE has taken a 25% stake in the project.

6 Characteristics of the Formal Banking Sector

The Lao PDR's banking sector remains relatively weak with minor contribution to the market as compared to banking systems in more developed economies. Continuous domination of the State Owned Banks (SOB's) is evident by the ownership structure and controlling market share in the sector. The SOB's have recently been starting to be more market oriented. To date, non-state owned banks like private domestic banks and foreign banks play a small role in terms of market share. The formal banking system is mostly concentrated in Vientiane and other cities. An exception is the Agricultural Promotion Bank (APB), which has a rural branch network throughout all provinces. However, it is estimated that 75% of the population do not have access to formal or semi-formal financial services.

Banque pour le Commerce Extérieur Lao (BCEL) retains a dominant position, accounting for approximately half of total deposits and loans in the system. The Lao Development Bank (LDB), being a merger of two SOB's - Lao May Bank and Lane Xang Bank – is smaller.

Common characteristics shared among the SOB's have been poor financial and operating performance with especially weak capital base, high non-performing loans (NPLs) level, depressed profitability and the absence of credit culture. SOB's have always been susceptible to pressure to extend non-commercial lending which historically tends to burden

loan portfolio overtime. With their lack of a credit culture and capacity constraints in credit analysis, while progressively improved, the position of the SOB's remain fragile

These characteristics also apply to the Agricultural Promotion Bank (APB), the state owned policy bank which lends mainly to rural areas. The government has in January 2007 split the bank into a commercial bank (still called APB) and a policy bank (Nayoby Bank). Nayoby Bank is a non-deposit taking bank with a clear mission to support the government's policy. It is comprised of assets transferred from APB, both performing and non-performing. To date, the policy bank is not yet fully operational but its first assignment will be to focus on lending to the 47 poor districts.

With regard to the APB prior to its split into 2 units, the characteristics of lending by APB were as follows:

Table 1: The characteristics of lending by APB

Main strengths:	Largest network in the country covering all provinces
Main weaknesses	High rate of non-performing loans, Highly subsidized by government
Loan Size (Max)	10 Billion Kip
Loan Term	1 to 7 years, depend on the source of fund
Payment Frequency	Varying
Interest Rate (Monthly)	1.5%-2% for commercial loan
Fees	Varying
Collateral Requirements	Land, house
Market	
• Number of borrowers	100,000
• Number of savers	130,000
• Number of villages	approx 13% of all rural households
Comments:	<p>The Agricultural Promotion Bank was established in 1993 as a state-owned policy bank, focusing on the agricultural sector. APB is the main public instrument for rural finance, with 50% of total lending directed towards policy lending. Since its creation, APB has effectively never been supervised or regulated by the central bank. In 2002, a diagnostic study that included the first external audit of APB found that 88% of its loans were non-performing. This situation resulted from a lack of profit orientation, poor lending mechanisms, and weak provisioning. APB began a formal phase of restructuring in 2003, including phasing out of policy and subsidised lending, adoption of market-based principles, improvement of lending policies, recapitalisation and strengthening of information systems and management capabilities.</p> <p>APB's records show that in October 2006 the bank had 130,000 clients (consisting of 100,000 borrowers and 130,000 depositors – most clients fall into both categories since you must open an account in order to borrow money), which represents about 13% of rural households. Another 4% are estimated to have access to savings and credit services in the semi-formal sector. The remaining 83% of rural households either do not have access to any financial services or rely on the semi-informal or informal sector – village savings groups, friends, family, or moneylenders. Moneylender interest rates can reach 20% per month.</p>

7 Characteristics of the Semi- and Informal Banking Sector

As is evident, the formal banking sector only reaches a small part of the total population which is mainly concentrated in the more urban areas. The remainder of the population depends on the semi-informal and the informal sector mainly in the form of micro-credits and finance organizations. According to a report from the Bank of Lao (2002), the potential market for micro credit/finance is 268,000 borrowers and 560,000 depositors. The same report showed that only 25% of that market was served by microfinance providers (APB and moneylenders being the main financiers).

Semi-formal institutions are generally recognised by the government and are regulated to some extent, either by the Bank of Laos (BOL) or by other authorities. Some providers of semi-formal (micro) credits and finance are:

- Mass organisations: primarily the Lao Women's Union (LWU), a state controlled organisation present at every administrative level which has a membership of one million people. Besides the LWU's usual work related to social policy, the organisation sometimes also provides credit, manages credit programmes for INGO's or forms credit groups for formal financial institutions like the APB. These programmes are not always successful or sustainable, partly because the LWU's staff often has only limited financial knowledge.
- Savings and Credit Unions (SCU's): The SCU's are pilot initiatives established by the APB and ADB in three provinces. They are private institutions intended to provide sustainable, commercial operations and are managed by an elected steering committee. They provide basic banking services to members, who number approximately 450 per Union. If the SCU's prove to operate satisfactorily and sustainably, it is envisaged that the model could be replicated to other provinces in Lao PDR. The existing SCU's have expressed an interest in obtaining external funding.
- Donors and INGO's: often use existing networks like the LWU. The largest players in this field are:
 - Concern Worldwide
 - European Union (EU)
 - FIAM (Foundation for Integrated Agricultural Management)
 - World Vision
 - Others

The informal sector comprises all sources of loans (such as money-lenders, traders, relatives and friends) that are neither recognised, legally regulated nor supervised by the state or any of its offices. It is estimated that the informal sector provides more than 50% of micro credit in rural Lao PDR, however this figure is expected to decline as credit sources from the formal and semi-formal sectors expand.

8 The Microfinance Sector in Lao PDR

Microfinance initiatives were first established in Laos in 1996, and as at November 2006, various initiatives (including MFIs) have been established. These can be characterized as:

8.1 Fonds Cooperative

Fonds Cooperative which is an APEX body for the network of Cooperative de Credit de Soutien aux Producteurs (CCSP) established in 1996 with branches in Vientiane Capital (Xaysetha, Naxaithong, Hong Ngoa and Chantaboury), Xiengkhuang Province (Paek), Vientiane Province (Vangvieng and Kasi), Champhasack Province (Pakxong), Saravane Province (Nateuy and Kongxedone), Xekong Province (Thateng) and Luang Phrabang Province (Luang Phrabang)

Table 2: The characteristics of Fonds Cooperative

Main strengths	Experience, backing of shareholders, vision, largest network
Main weaknesses	Lack of experienced staff, weak internal controls/oversight, portfolio quality, insufficient deposits/funding for credit demand
Loan Size	1,000,000 – 10,000,000 Kip
Loan Term	< 12 months
Payment Frequency	Monthly
Interest Rate	3% month
Fees	6,000 Kip
Collateral Requirements	Home, land title, vehicle, solidarity group
Market	
• Number of borrowers	1,151
• Number of Savers	1,738
• Number of villages	174
Comments:	The first CCSP was founded in 1996, and by 2001 there were nine CCSP's. Together they decided to establish the shareholder company FC as an apex body to channel funding, provide mutual support and start new CCSPs. The shareholder company FC was founded by the CCSPs with significant support from donors/investors with 500 million kip. FC lends its capital to its CCSP partners at 18% p.a. It has started four new CCSPs, but three are facing possible shut down due to employee fraud. FC recognises that lack of control over its CCSP partners has been problematic since the majority of their funding is now from FC, rather than savers. CCSPs boards are weak and loan officers require more training. FC is now revising its vision and is considering become a more open network, providing funding to non-CCSPs

8.2 UNCDF and UNDP Microfinance Project

The United Nations Capital Development Fund (UNCDF) and United Nations Development Program (UNDP) Microfinance Project, launched in late 1997 and transferred in 2002 to Ministry of Finance, which to continues to manage the project (now know as the "Microfinance Office" in Xayaboury Province (Xayaboury, Pieng and Paklay) and Oudomxai Province (Xai);

No detailed information about this programme are available at present.

8.3 The Rural Development Cooperative (RDC)

The Rural Development Cooperative (RDC) started in August 2001 in Vientiane Capital (Naxaithong)

Table 3: The characteristics of the Rural Development Cooperative

Loan Size (Max)	30.000.000 Kip (Group) 10.000.000 Kip(Individual)
Loan Term	4-5 months
Re-payment Frequency	Seasonal Repayments are set according to cash flow
Interest Rate (Monthly)	4-5% (Group) 5-6% (Individual)
Fees	10,000 Kip (Group) 10,000 Kip (Individual)
Collateral Requirements	Savings and equipment Fixed Assets
Market	
• Number of borrowers	1,300
• Number of savers	1,761
• Number of villages	46
Growth potential	High
Comments:	
RDC is a business-oriented MFI. It generates a net profit of over one hundred million kip per annum. It has benefited from a 128 millions Kip loan from Vientiane municipality at a subsidised rate of 3%, which has been fully repaid. Its expansion is limited by its ability to raise funds. It will likely be eligible for the ADB Microfinance fund, which will be administered by the Bank of Lao. Comments:	
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8.4 Saving and credit unions

Three savings and credit unions, which were started by the ADB in 2003 in three provinces: Luang Phrabang (Luang Phrabang), Vientiane Province (Phonehong) and Savannakhet Province (Outhomphone). The characteristics for the latter, also known as the Seno Savings and Credit Union (SSCU)

Table 4: The characteristics of three savings and credit unions

Main strengths	Clear legal structure, profitable, member-owned, funded through savings, MIS system
Main weaknesses	No professionally trained loan officers.
Loan Size (Max)	5,000,000 Kip
Loan Term	6 months
Payment Frequency	Monthly
Interest Rate (Monthly)	4%
Fees	10,000 Kip
Collateral Requirements	Savings, Land, house
Market	
• Number of borrowers	205
• Number of savers	303
• Number of villages	unknown
Comments:	
SSCU is one of the three ADB-sponsored credit unions under the draft savings and credit union regulations. It is a membership organisation, which includes members of the provincial government who were the official recipients of ADB support. It is receiving technical support from SNV and will be	

eligible for more ADB funds (a cooperative loan fund) administered by the Bank of Lao. The current structure, designed by WOCCU, does not have loan officers, rather it relies on board members to find loans, analyse and approve them.

8.5 Ekphathana Microfinance Institution (EMI)

Ekphathana Microfinance Institution (EMI) started in 2006 in Vientiane Capital (Xaysetha, Xhantaboury, Sikhottabong, Sisathanak, Xaythani and Pak Ngeum)

Table 5: The characteristics of Ekphathana Microfinance Institution

Main strengths	Experienced management, privately-owned, innovative
Main weaknesses	New, limited funding and deposit-base, untested equal structure
Loan Size	500,000 – 20,000,000 Kip depending on type of customer (individual, group or enterprise)
Loan Term	6-12 months
Repayment Frequency	Monthly (Principal+interest)
Interest Rate	3-4% depending on type of customer
Fees	5,000 – 50,000 Kip depending on type of customer
Collateral Requirements	Group Savings, equipment, land and house, salary, Savings, equipment
Market	
• Number of borrowers	505
• Number of Savers	400
• Number of villages	city only
Comments:	EMI is the first private company licensed under the new MFI regulations. It was started by the founder the microfinance training center and ten Lao businessmen. The challenging is refinancing the high demand of the credit

8.6 Institute Financier de Development De Phongsaly (IFDP)

Institute Financier de Development De Phongsaly (IFDP) was started as a Village Bank in 1998 in Phongsaly Province (Phongsaly) and became a Microfinance Institution in 2006.

No detailed information about this programme are available at present.

9 Barriers for RE development

Main problems for most financial institutes:

Situation of Financial Institutions in Lao PDR can be characterized as basic financial systems with very basic availability of financing instruments and no risk mitigating instruments

- Lack of long term financing
- Lack of understanding of RE equipment and its performance, cost, etc.

Some barriers identified for RE development and use in Lao PDR , this has a direct influence on financing options for application of RE option in the county

- Lack of an integrated national energy policy and no clear or existing vision for all energy sub-sectors
- Lack of energy policies and strategies including appropriate legislation, guidelines and regulations
- Lack of data and information of all sub-sectors of energy
- Government has financial constraints in what it can do. Most of funding sources for energy sector comes from the loans and grants of multilateral financial organizations and international donors, and that local participants into this sector are still limited.
- Local bank/financial institutions lack the necessary capacity to evaluate RE projects – they are hesitant to lend to RE projects due to perceived high risks and the long time needed to recover the investment cost.
- High transaction costs due to the smallness of potential RE projects
- Limited manpower with the knowledge of know-how, experience and skills in strategic planning and those of implementing the plans
- Lack of institutional arrangements and responsibility for energy - not clearly defined and coordinated responsibilities among agencies, which are in charge of the energy sector.
- No incentives from the government that would facilitate the acceleration of the development and wider scale application of sustainable biomass energy resources.
- Cost of renewable energy devices is still high while income of rural households is low
- Lack of large enterprises that supply biomass energy system equipment and services
- Project developers hesitate to invest in biomass energy projects due to high risks and difficulties in recovery of the investment cost
- Poor knowledge of opportunities and obstacles to the application RE technologies, in general, and biomass energy technologies, in particular, for productive and social uses
- Limited knowledge of renewable energy resources, in general, and of biomass energy resources, in particular
- Low level of public awareness regarding improved and efficient biomass energy applications.

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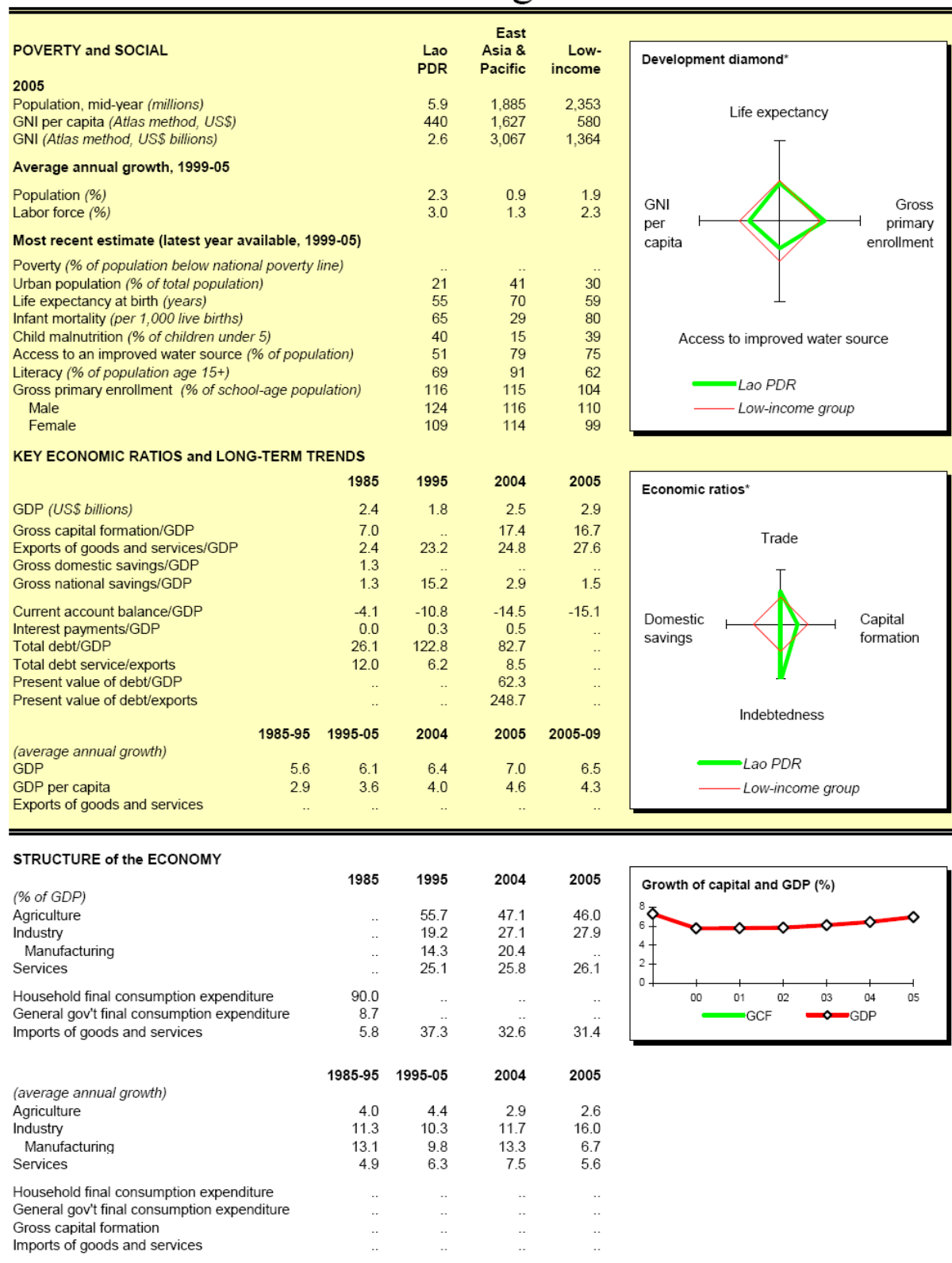
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Appendix 1: Lao at a Glance

Lao PDR at a glance

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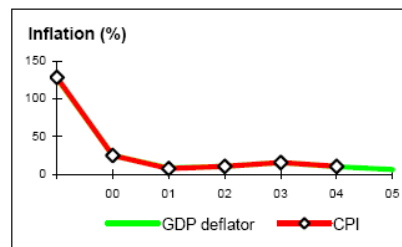


Note: 2005 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

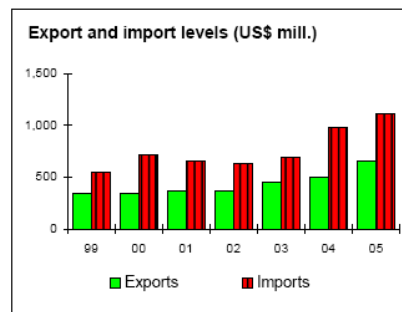
PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
Domestic prices (% change)				
Consumer prices	..	19.6	10.5	..
Implicit GDP deflator	64.8	19.7	10.3	6.5
Government finance (% of GDP, includes current grants)				
Current revenue	..	16.5	11.7	12.0
Current budget balance	..	6.5	3.7	2.8
Overall surplus/deficit	..	-3.9	-3.3	-3.4



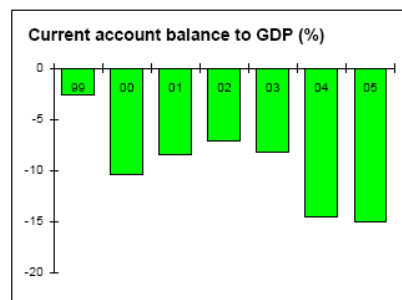
TRADE

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total exports (fob)	..	313	500	659
Electricity	..	24	105	110
Mining	58	216
Manufactures	..	15	14	18
Total imports (cif)	..	589	977	1,116
Food	..	49	90	102
Fuel and energy	..	22	62	76
Capital goods	..	201	490	565
Export price index (2000=100)	..	99	108	128
Import price index (2000=100)	..	99	120	100
Terms of trade (2000=100)	..	101	90	128



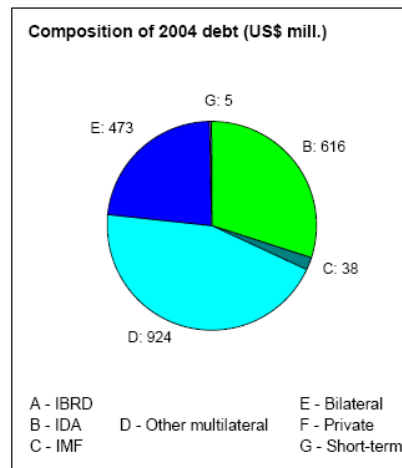
BALANCE of PAYMENTS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Exports of goods and services	58	410	687	874
Imports of goods and services	138	658	1,033	1,191
Resource balance	-80	-249	-346	-316
Net income	-18	-7	-101	-207
Net current transfers	..	64	85	93
Current account balance	-98	-191	-361	-430
Financing items (net)	118	206	391	451
Changes in net reserves	-21	-15	-30	-21
Memo:				
Reserves including gold (US\$ millions)	227	226
Conversion rate (DEC, local/US\$)	45.0	804.7	10,670.5	10,591.0



EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	619	2,165	2,056	..
IBRD	0	0	0	0
IDA	27	285	616	598
Total debt service	7	26	53	..
IBRD	0	0	0	0
IDA	0	3	13	14
Composition of net resource flows				
Official grants	15	130	114	..
Official creditors	37	75	50	..
Private creditors	0	0	0	..
Foreign direct investment (net inflows)	-2	95	17	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	0	19	28	..
Disbursements	0	28	37	35
Principal repayments	0	1	8	9
Net flows	0	27	29	26
Interest payments	0	2	5	5
Net transfers	0	25	24	21



Appendix 2: Comparisons of Financing Organizations

Service Provider	Targeting	Savings	Interest rate	Methodology	Sustainability
FORMAL SECTOR Interest rates ranging from 12-24% per year					
SCB's Lao Dev Bank BCEL	Mainly urban and semi urban communities involved in micro and small enterprise activities	Compulsory savings required to access loan	Interest rate fixed by government policy	Accessibility difficult due to paperwork, formalities and location	Under restructuring
APB	Semi urban and rural farmers	Compulsory Saving required to access loan	Subsidized interest rate, will change in future.	Solidarity Groups. Accessibility is difficult due to paperwork and formalities	Heavy losses. Large number and volume of non-performing loans. Restructuring program.
Formal Credit Cooperatives	Mostly micro and small urban entrepreneurs. Some from rural areas.	Private shareholders and cooperative members. Voluntary and compulsory savings	Trends towards market-based rates	Cooperative legal status, limited company	Aim at reaching operational sustainability
SEMI-FORMAL SECTOR Interest rates vary from 3-5% per month					
Credit Union	Rural poor communities	Shares of equity capital. Aims at providing positive return on savings	Cover operational costs and consider growth of capital	Business orientation, community membership.	APB with technical assistance from ADB launched pilot in 4 provinces
INGO Projects	Mostly poorest and remotest area (such as ethnic minorities)	Compulsory and voluntary savings (cash or in kind)	Often subsidized interest rate determined by the management committee	Self-Help group (CBOs, Village banking) with focus on institutional development	Usually high subsidies involved (but exceptions exist)
Bilateral Projects	Urban and rural poor	Credit orientation. Savings are not often required	Often subsidized interest rate determined by the management committee	Several methodologies followed	Difficult to sustain after project hand over.
INFORMAL SECTOR Interest rates vary from 3-5% up to 20% (money lenders, etc.)					
Savings & Credit Groups	Poor and poorest people	Encouraged voluntary savings in addition to compulsory savings	Often subsidized interest rates determined by the management committee	Self-Help group (CBOs, Village banking)	Difficult to sustain after project hand over.
Other (money lenders, huayi, traders and moneylenders)	No specific target people	No savings required, good understanding and trust are key factors	High	Informal operations	Very quick and prompt services. Interest rate covers high risk.