

**United Nations Capital Development Fund (UNCDF)**  
**United Nations Development Programme (UNDP)**  
**Country: the Lao People's Democratic Republic**  
*Joint Programme Document*

**JOINT PROGRAMME TITLE:** "Making Access to Finance more Inclusive for Poor People"

**UNDAF OUTCOMES** Improved and equitable access to land, markets, social and economic services.  
 Enabled environment for growth with equity.


**JOINT PROGRAMME OUTCOME** Increased access to financial services by low-income households and micro-entrepreneurs.

**EXPECTED OUTPUT** Policy makers more able to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally.  
 The financial sector development infrastructure more capable to meet the needs of financial service providers.  
 Financial service providers more responsive to the financial service needs of poor households and micro-entrepreneurs.


Programme duration	June 2010 – December 2014
Anticipated start	15 <sup>th</sup> June 2010
Anticipated end date	31 <sup>st</sup> December 2014
Date of local UNDAP PAC	18 <sup>th</sup> May 2010
Date of UNCDF HQ PAC	11 <sup>th</sup> May 2010
Management arrangement	National Implementation

<b>Total estimated budget</b>	<b>USD 7,012,189</b>
<b>1. Total funded budget</b>	<b>USD 1,543,982</b>
1.1 UNCDF Core	USD 1, 443,982
1.2 UNDP core	USD 100,000
<b>2. Total unfunded budget*</b>	<b>USD 5,468,207</b>

\* Up to US\$1,634,490 is available from the UNCDF MicroLead programme subject to endorsement of programme by 9<sup>th</sup> June 2010 and assessment and approval of the MicroLead applications by the Programme Management Committee by 10<sup>th</sup> June 2010. If all MicroLead applications are approved, the effective unfunded budget would be US\$ 3,833,717

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05/7/10  
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24/6/10  
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## List of Acronyms

<b>ACCU</b>	Association of Asian Confederation of Credit Unions
<b>ACLEDA</b>	Association of Cambodian Local Economic Development Agencies
<b>ADB</b>	Asian Development Bank
<b>AFI</b>	Alliance for Financial Inclusion
<b>AMIL</b>	Association of Microfinance Institutions in the Lao PDR ( <i>proposed</i> )
<b>APB</b>	Agricultural Promotion Bank
<b>ASEAN</b>	Association of South East Asian Nations
<b>BFSI</b>	Bank and Financial Institution Supervision Department
<b>BOL</b>	Bank of the Lao PDR
<b>BOP</b>	Bottom of the Pyramid
<b>BPA</b>	Banking Payment Authority
<b>BSRP</b>	Banking Sector Reform Program
<b>BI</b>	Banking Institute
<b>CARD</b>	Center for Agricultural and Rural Development (a Philippines MFI)
<b>CARD MRI</b>	CARD Mutually Reinforcing Institutions
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>CMLF</b>	Community Managed Loan Fund
<b>CODI</b>	Community Organizational Development Institute
<b>CTA</b>	Chief Technical Advisor
<b>DT MFI</b>	Deposit Taking Microfinance Institution
<b>EC</b>	European Commission
<b>EMI</b>	Ekphatthana Microfinance Institution
<b>FIF</b>	Fund for Inclusive Finance
<b>FIAM</b>	Foundation for Integrated Agriculture Management
<b>FRAME</b>	Financial Reporting and Management Evaluation
<b>FSP</b>	Financial Service Provider (including licensed deposit taking MFIs and SCUs, regulated non-deposit taking MFIs and SCUs, and commercial banks providing poor people and micro-entrepreneurs with access to finance)
<b>GDP</b>	Gross Domestic Product
<b>GOL</b>	Government of the Lao PDR
<b>GTZ</b>	Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
<b>IFC</b>	International Finance Corporation
<b>IFI</b>	International Finance Institutions
<b>IMF</b>	International Monetary Fund
<b>IT</b>	Information Technology
<b>KfW</b>	Kreditanstalt für Wiederaufbau (German Development Bank)
<b>LDC</b>	Least Developed Country
<b>MDG</b>	Millennium Development Goals
<b>MFC</b>	Micro Finance Center
<b>MFF</b>	Micro Finance Fund
<b>MFI</b>	Microfinance Institution
<b>MFWG</b>	Microfinance Working Group for the Lao PDR
<b>MIS</b>	Management Information Systems
<b>MOF</b>	Ministry of Finance
<b>MPI</b>	Ministry of Planning and Investment
<b>MSME</b>	Micro Small and Medium Enterprise
<b>NBFI</b>	Non Bank Financial Institution
<b>NDT MFI</b>	Non Deposit Taking Microfinance Institution
<b>NGO</b>	Non Governmental Organization

<b>NGPES</b>	National Growth & Poverty Eradication Strategy
<b>PIT</b>	Programme Implementation Team
<b>PMC</b>	Programme Management Committee
<b>PBA</b>	Performance Based Agreement
<b>RFSDP</b>	Rural Finance Sector Development Programme
<b>RTA</b>	Regional Technical Advisor
<b>RMF</b>	Risk Management Framework
<b>RMFC</b>	Rural and Microfinance Committee
<b>SBAA</b>	Standard Basic Assistance Agreement
<b>SBFIC</b>	Savings Bank Foundation for International Cooperation
<b>SCU</b>	Savings and Credit Union
<b>SHG</b>	Self Help Group
<b>SNV</b>	SNV Netherlands Development Organization
<b>SOCB</b>	State Owned Commercial Bank
<b>UNCDF</b>	United Nations Capital Development Fund
<b>UNDG</b>	United Nations Development Group
<b>UNDP</b>	United Nations Development Programme
<b>USAID</b>	United States Agency for International Development
<b>USD</b>	United States Dollar
<b>VB</b>	Village Bank
<b>VRF</b>	Village Revolving Fund
<b>VSCG</b>	Village Saving and Credit Group
<b>WB</b>	World Bank
<b>WEC</b>	World Education Consortium
<b>WPP</b>	World Population Prospects

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## 1. EXECUTIVE SUMMARY

The level of access to financial services in the Lao PDR is low, especially for the poor, as is the general level of development of the financial sector and related infrastructure of the country. Only 25% of households have access to formal and semi-formal suppliers of finance, while the vast majority of Laotians relies on self-generated wealth, informal market funding, or limited traditional micro-finance activities for financing. The formal financial sector engages primarily in large volume transactions catering to the needs of a handful of entrepreneurs in major urban centres; the penetration of formal bank branch networks is amongst the lowest in the world. Access is also constrained by the relatively small number of FSPs licensed to offer the full range of financial services to poor households and micro-entrepreneurs as a result of the under-developed capacity of many FSPs that serve poor households and micro-entrepreneurs.

Achievement of MDGs generally and improving opportunities for current and future generations is critically dependant on significantly increasing people's access to finance. Increasing access and thereby improving opportunities for the majority and not the few will require a sector based approach to transform the ability of financial markets to respond to demands for financial services for those denied access.

This joint programme of UNCDF and UNDP, nationally implemented by the Bank of the Lao PDR (BOL) on behalf of the Government of the Lao PDR (GOL), will contribute to improved and equitable access to land, markets and social and economic services, as well as to an enabled environment for growth with equity. It will specifically increase access to financial services by low-income households and micro-entrepreneurs on a sustainable basis from 30,000 active clients in 2010 to over 140,000 active clients in 2014. To achieve this, the joint-programme will adopt a sector based approach to deliver change at the macro, meso and micro levels through three mutually reinforcing programme outputs including:

- a. Macro-level Output: Policy makers more able to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally.
- b. Meso-level Output: The financial sector development infrastructure more capable to meet the needs of financial service providers.
- c. Micro-level Output: Financial service providers more responsive to the financial service needs of poor households and micro-entrepreneurs.

The joint-programme will give practical expression to the Vientiane and Paris Declaration by establishing a pooled funding mechanism to facilitate donor coordination, provide a framework for more coherent programming, which will provide strategic capital and technical assistance to:

- a. BOL to strengthen its capacity to act as a channel for consolidating sector recommendations and facilitating dialogue among regulators and multiple stakeholders.
- b. Financial institutions and business support service providers in order to help scale-up delivery of sustainable credit and non-credit products to poor households and micro-entrepreneurs.
- c. Microfinance working group to transform it into a formal association for microfinance providers, enabling retailers to make a positive contribution to the overall development of the sector.

The overall cost of the programme is USD 7,012,189. UNCDF and UNDP has committed USD 1,545,000 towards the cost of the programme. UNCDF is also making available up to USD1,634,490 from its global programme to expand savings mobilisation, which is available subject to endorsement of the programme by 7<sup>th</sup> June and subsequent assessment and approval of the MicroLead applications by the Programme Management Committee (PMC) by 10<sup>th</sup> June. Approximately US\$3.8m will have to be mobilised to cover the full cost of the programme if the joint-programme secures access to the additional UNCDF fund.

The programme will begin on 15<sup>th</sup> June 2010 and end on 31<sup>st</sup> December 2014.

## 2. SITUATION ANALYSIS

### 2.1. COUNTRY CONTEXT

*A small, ethnically diverse and sparsely populated country...*The Lao PDR is a landlocked country in South East Asia. It shares its borders with China, Myanmar, Thailand, Cambodia and Vietnam, and it is one of the countries through which the great Mekong River flows. It is one of the most ethnically diverse countries in the world, comprising of 49 official ethnic groups and over 200 sub groups.

It has a small population of 6.3 million (2009), growing at only 1.6% a year. Only 27% of its 1.1 million households live in urban areas. Overall, the country is sparsely populated, with only 27 persons/sq km, compared to 256 persons/sq km in Vietnam. The population is very young, with 39% aged below 15 years and more than 62% below 25 years of age<sup>1</sup>.

*...with sustained high levels of economic growth to reduce poverty...* The economy of the Lao PDR has been steadily growing since 1990, prompted by the so-called “New Economic Mechanism”, adopted by the Lao People’s Revolutionary Party at its 6<sup>th</sup> National Congress in 1986, which triggered the country’s transition from a centrally-planned economy to a market-oriented one.

The Lao PDR economy continues to expand strongly. Real economic growth reached 8.4% in 2006, 7.5% in 2007 and 7.2% in 2008. Real economic growth has slowed down little in 2009 to 6.7% despite a global financial crisis, which is expected to improve further in the coming years. The Lao PDR’s membership of the Association of South East Asian countries and its imminent membership of World Trade Organization are likely to further boost the country’s economic prospects. The development of the Lao PDR economy has led to significant reductions in head-count poverty – from 39% in 1997 to 27% in 2007<sup>2</sup>.

*...but not sufficiently because of narrow-base for the growth resulting in uneven development...* Despite robust growth from 2006 to 2008, much of this has come from mining and power, followed closely by manufacturing and services. Industry and services accounted for 80% of economic growth in 2007, compared with about 50% of growth in 2000.

Agriculture has received less investment and support in spite of the fact that more than 80% of the total workforce relies on the sector for their livelihoods and who by default have found it difficult to participate from the benefits economic growth. Significant majority of the agriculture workforce are subsistence farmers growing rice, vegetables and raising livestock. There is also a large, concentrated micro enterprise sector in agriculture, which accounts for a significant share of employment and businesses in the country. However, both subsistence farmers and micro enterprises have limited access to finance to participate in markets and maximize on the benefits of growth.

Poverty disparity in The Lao PDR is disproportionate where the South is far more affected than the Northern and Central parts of the country, determined largely by the proximity to Mekong and other rivers: the poorest districts are those away from the Mekong. Ranking 130 of 177 in the United Nations (UN) Human Development Index (2007)<sup>3</sup>, the Lao PDR faces an uphill task of alleviating poverty and promoting inclusive growth. The Lao PDR ranked 164 out of 178 economies researched by the World Bank and IFC in 2008 on a scale measuring “Ease of doing business”.

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1 EIU: Country Report, The Lao PDR

2 “Impact of the Global Economic Slowdown on Poverty and Sustainable Development in Lao PDR”, paper by H.E.Dr. Bounthavy SISOUPHANTHONG, Vice-Minister, Ministry of Planning and Investment of the Lao PDR (Hanoi, Vietnam September 2009)

3 UNDP: Human Development Report 2003

*...suggesting need for other mitigating strategies to make economic growth more inclusive...* Given the structure of economic growth, large numbers of households will likely fail to directly participate in the high growth parts of the economy and they will require active intervention to facilitate their access to markets and their ability to maximize the benefits from economic growth. Access to finance will be one of the most important strategies make economic growth and its benefits more inclusive.

*...supported by consistently improving macro-economic and policy context...* Despite double digit inflation rates in the 1990s and early part of new millennium decade, early 2000's, inflation has been kept below 5% since then and by 2009 it was 0%. Other macroeconomic indicators (such as the public debt–gross domestic product (GDP) ratio) continue to improve. These general improvements in macro-economic performance is reflected in the growing trust in the Lao national currency, the Kip (LAK), with the growing volume of LAK denominated deposits and improvements in the exchange rates against major currencies like the USD and the EURO.

The Lao PDR's National Growth and Poverty Eradication Strategy (NGPES) has determined that the improvement of financial services to the rural areas is of special concern. Major objectives of the strategy and action plan for the future of rural and micro-finance include

- support for market-oriented reforms,
- creating a legal environment for a variety of sustainable micro-finance institutions (MFIs),
- ensuring autonomy for MFIs in setting interest rates and making other business decisions,
- formalising a Microfinance (MF) Forum based on the informal Microfinance Working Group, and
- restructuring the Agricultural Promotion Bank (APB) into a financially self-sustainable rural finance institution.

In the meantime most of the mentioned objectives have been achieved under the Rural Finance Sector Development program (RFSDP), jointly implemented by GOL and the BOL<sup>4</sup>, funded by the Asian Development Bank (ADB)<sup>5</sup>.

## **2.2. FINANCIAL SECTOR IN THE LAO PDR**

The level of outreach and depth of an individual country's financial sector correlates strongly with the level of development of the financial and institutional infrastructure, as seen across countries. Studies have shown that better access to finance not only increases economic growth, but helps fight poverty and reduces income gaps between rich and poor people.<sup>6</sup>

At the end of the 3<sup>rd</sup> quarter of 2009, the Lao PDR banking sector comprised three State Owned Commercial Banks (SOCBs), one State Owned Policy Bank, two state joint-venture banks, six private commercial banks incorporated in the Lao PDR, seven foreign bank branches and one representative branch of a foreign bank, all monitored and regulated by a central bank, BOL. The formal financial sector further comprised of Non Bank Financial Institutions (NBFI); next to five licensed private insurance companies, there is a small social security system, 28 pawn shops, seven licensed Deposit Taking MFIs, 11 licensed Saving and Credit Unions<sup>7</sup> and one leasing company with a temporary license.

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<sup>4</sup> The central BOL

<sup>5</sup> All but the creation of a MF Forum. APB still receives ongoing technical support.

<sup>6</sup> See Finance for All? Policies and Pitfalls in Expanding Access, World Bank, 2007, <http://www.worldbank.org/financeforall> and Beck, Thorsten, Asli Demirguc-Kunt & Maria Soledad Martinez Peria, "Reaching out: Access to and use of banking services across countries," World Bank, September 2005.

<sup>7</sup> A member based type MF service provider

The banking sector is dominated by the three SOCBs, which account for about 59% of total banking sector assets. Since 2007, private sector presence in the banking sector has increased, with the establishment of the Phongsavanh Bank (2007), ANZ's purchase of the Vientiane Commercial Bank (2007), the establishment of Indochina Bank (2008), ACLEDA Bank Lao Ltd. (2008), IC Bank (2008) Sacom Bank (2008) and ST Bank (2009)<sup>8</sup>. The number of microfinance institutions is increasing, although they account for only about 1.5% of total financial sector assets. The Nayoby Bank (a nonprofit, "policy bank") was created from the Agriculture Promotion Bank (APB) to provide loans for trade, production, and agriculture to people in 47 poor districts. It is funded by bonds and capital, not by deposits.

With broad money supply (M2) equivalent to 24.75% of GDP in 2007, overall financial sector depth is shallow compared with that in neighboring countries—in Viet Nam the corresponding figure is 70% and in Thailand it is 105%. There has been only modest financial deepening over the last 5 years. Almost all financial assets are bank deposits, of which about 64% deposits are denominated in foreign currencies.

Domestic credit to the private sector is also relatively low compared with that in neighboring countries, although the delivery of credit has picked up very strongly since December 2007, with a total outstanding loan portfolio within the Lao PDR banking sector at the end of the 3<sup>rd</sup> quarter of 2009 that is more than twice as large as it was at the end of 2007. Explanations for the Lao PDR's relatively shallow financial sector include the predominantly rural nature of the economy (80% of the population lives in rural areas), its stage of economic development (annual per capita income is about USD 859, as per the year 2008), high transaction costs for financial intermediation because of the underdeveloped payments system, low creditor confidence, the slow pace of reforms of SOCBs and NBFIs, and the slow development of infrastructure to support the development and growth of the NBFIs. Operating efficiency is relatively low when compared with countries using best practices (e.g., Republic of Korea, Malaysia, and Singapore) as well as with neighboring countries such as Cambodia. One measure of operating inefficiency is the spread between lending and deposit rates. In the Lao PDR, the spread is in the range of 8–9 percentage points,<sup>9</sup> compared with an average of 3.1 percentage points in best-practice countries mentioned above (or benchmark countries). There is therefore a clear opportunity to increase the level of financial intermediation in the economy and the depth of the financial sector by mobilizing more savings.

Table 2 – Number and Type of Financial Institutions<sup>10</sup>

	2006	2007	2008	30 Sept 2009
<b>Number of Banks</b>	<b>13</b>	<b>15</b>	<b>19</b>	<b>20</b>
<i>Foreign Owned Banks</i>	7	8	11	11
<i>Private/Joint Venture Banks</i>	3	3	4	5
<i>State-Owned Commercial Banks</i>	2	3	3	3
Policy Banks	1	1	1	1
Number of Bank Branches	50	50	60	63
Number of Bank Sub-Service Units	23	72	116	141
Number of ATMs	22	44	111	134
Number of registered Non-Deposit Taking MFIs	3	3	5	8
Number of licensed Deposit Taking MFIs	2	3	3	5
Number of licensed Saving & Credit Union	5	5	9	11
Number of Leasing Companies	NA	NA	NA	NA

<sup>8</sup> Data: BOL, September 2009

<sup>9</sup> The interest spread between BCEL's kip deposits and kip overdraft rate can be as high as 17 percentage points. See IMF. 2007. *Country Report. Lao Peoples' Democratic Republic: Selected Issues and Statistical Appendix. IMF Country Report No. 07/395*: Washington, DC.

<sup>10</sup> Data: BOL, year end unless indicated otherwise

The financial sector is highly liquid, since the total outstanding loan amount absorbs only about two-thirds of the total amount deposited at banks. At the same time, physical penetration of bank branches is very low, among the lowest in the world. With 1.0 branches per 100,000 people, Lao PDR ranks alongside Ethiopia, Uganda, Tanzania, Madagascar and Honduras in terms of branch penetration. In the banking sector, SOCB are still dominant, with a rapidly increasing number of new Foreign Owned Banks as competitors. While the financial indicators of the SOCBs are improving, they remain vulnerable to shocks to the economy and the banking sector. Institutional constraints include the absence of a large private sector to monitor the performance of the banking sector properly (e.g., rating companies). There is a weak legal framework for the development of the insurance industry, leasing industry, and other NBFIs.

The formal financial sector engages primarily in large volume transactions catering to the needs of only a handful number of entrepreneurs in major urban areas. Majority of the Lao people rely on self-generated wealth, informal market funding (family, friends and money lenders) or to a limited extent, on traditional microfinance activities. The NBFi combined, hold only 3% share of the total assets in the financial sector.

The fact that the Lao PDR's financial sector is largely nascent can be partly attributed to the fact that the country's transition from a planned to a market economy started only recently, with the first main efforts to restructure the financial sector being instigated in the 1990s. Its institutions and the capacity to support them are still evolving and developing. Other key impediments include the fact that BOL is not independent from the executive arm of Government. Best international practice shows that central bank independence is an important prerequisite for effective bank supervision and monetary policy management.<sup>11</sup> Supervisory capacity at the BOL is currently weak and its effectiveness is further undermined by the conflict of interest inherent in its roles as owner<sup>12</sup> and regulator of the SOCBs, which as mentioned currently dominate the banking sector.

However, GOL has successfully maintained macro-economic stability and continued economic growth even after the Asian Crisis, supported by the International Monetary Fund (IMF), the World Bank (WB) and ADB. Together with assistance from these multilateral institutions, GOL has made investments in the supervisory capacity of the BOL and towards creating a more enabling environment for banks and financial services providers to scale-up and service larger segments of the population. The ADB funded "Banking Sector Reform Program" (BSRP), which ran from 2003 and is currently nearing completion, has addressed the following main issues:

- *Bank restructuring.* It has helped improve the legal framework for the commercial banking sector, including the creation of a fair business environment for SOCBs and private banks. It has helped to improve the governance structure in the two SOCBs<sup>13</sup> through the adoption of Governance Agreements by two SOCBs, the Ministry of Finance (MOF), and BOL; it has resolved the issue of large amounts of nonperforming loans (NPLs) at the SOCBs and it has recapitalized the SOCBs.
- *Strengthening of the enabling legal environment and judicial oversight.* The BSRP has strengthened the commercial legal environment by establishing a commercial chamber in the Peoples' Supreme Court, provides training to commercial judges, and creates an anti-money-laundering regime.
- *Facilitating private sector access to finance.* It has worked on amending and implementing the Law on Secured Transactions and on the establishment of a registry for notifying security over assets, and has worked on the issuance of a new decree on lease financing to improve access to finance, especially for small and medium-sized enterprises (SMEs). Unfortunately, until now the efforts have not led to implementation of either.

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<sup>11</sup> The management of money supply is limited in the Lao PDR due to the presence of multiple currencies (kip, baht, and US dollars) in circulation.

<sup>12</sup> This remains true even though the Ministry of Finance acts as administrator of the SOCBs

<sup>13</sup> Banque pour le Commerce Exterieur Lao (BCEL), Lao Development Bank (LDB)

- *Rural and microfinance.* Under another ADB funded programme, the “Rural Finance Sector Development Programme (RFSDP)”, APB has been restructured. The RFSDP has worked on restructuring APB into a bank working on market principles. Existing policy loans have been transferred from APB to a newly created Policy Bank. As a consequence of the restructuring process, APB has been profitable over the last 2 years after many years of loss making. Recently APB’s Capital Adequacy Ratio has turned positive as GOL’s has re-capitalized APB with government bonds and cash.

### **2.3. MICROFINANCE DEVELOPMENT IN THE LAO PDR**

Less than 25% of the people living in the Lao PDR have access to formal financial services – in developed countries, the percentage is 90% or more. The Rural and Microfinance survey conducted in 2004<sup>14</sup> indicate that of the 40% households which had borrowed, close to 80% sourced these from informal sources (family, friends, and moneylenders) and the remaining 20% from either a formal supplier (APB) or a semi-formal supplier. The semi-formal suppliers consist of Village Savings and Credit Groups (VSCG), which’ funding is based on savings by member villagers, and Village Revolving Funds (VRF), which’ funding is based on funds provided by external sources, mainly international development organizations.

The average debt to cash ratio of the households surveyed was only 28%. Cash savings remain prevalent with 90% having cash rather than bank accounts. In addition, non-cash savings, mainly livestock but also jewellery, precious metals, and housing materials accounted for almost 73.3% of total savings. Only 5% of the rural households have a savings account in a bank, while 6% utilize informal savings mechanisms. The survey revealed that almost 30% of households stated their first preference would be to save in the APB or other banks, suggesting that banks could tap into large unmet demand if they expanded and improved services.

One of the most serious constraints in starting and expanding a business in The Lao PDR is limited access to financing. Many businesses are facing common problems such as limited capacity to prepare the financial statements needed for making a loan application or lack of collateral, which make it difficult for banks to assess borrowers’ capacity and willingness to repay. A baseline survey done by GTZ in 2006<sup>15</sup> indicates that access to finance is easier for larger companies and more difficult for micro-companies. Of all survey participants, 48.8% reported having access to finance of some kind. Of these 51.9% received supplier credit and only 7.5% have received financing through banks. Against the brief analysis on unmet demand, the Government of Lao PDR has made the following noteworthy progress towards building an inclusive financial sector:

*The Rural and Microfinance Committee (RMFC), 2003.* Based on the NGPES, as mentioned previously, the RMFC was created on instigation of the Prime Minister’s Office (PMO) to make a clear policy statement on the development of the rural and microfinance, and, based on the policy statement, develop a strategy and action plan to give direction to implementation. In the RMFC, representatives of all relevant ministries and departments were assembled. Together with the BOL, the RMFC created the policy statement, further laying the political foundation for the goals as set in the NGPES. The committee later was dissolved and since then coordination within GOL on Rural and MF has been taking place in MF stakeholder workshops, organized under the authority of BOL. What was left of the idea of the RMFC, has been renamed the Rural Development and Poverty Eradication Committee.

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<sup>14</sup> Brett E. Coleman and Jon Wynne-Williams, “Rural Finance in the Lao People’s Democratic Republic: Demand, Supply, and Sustainability (Results of Household and Supplier Surveys),” ADB and FIRST, 2006.

<sup>15</sup> “Enterprise Baseline Survey: Volume 1, Main Report”, Lao-German Programme on Human Resource Development for Market Economy, GTZ. Vientiane Ma Baseline Survey 2006.

The Policy Statement for Sustainable and Rural and Microfinance Sector, 2003. The policy statement on rural and MF laid the political foundation for the RFSDP (see below) and was at the same time of the requirements of the release of the first tranche of the ADB loan that funded it. It identified constraints and opportunities in the rural and MF sector and made a clear policy choice for creating an enabling environment based on principles of sustainability and market orientation.

Rural Finance Sector Development Program (RFSDP) 2006-2010. The RFSDP is the basis for an important part of the enabling environment for rural and microfinance (RMF). It is funded by an ADB loan, the release of the tranches of which is dependent upon the fulfillment of the conditions stated in the loan agreement between ADB and the Lao PDR. The RFSDP was the basis for restructuring of the APB<sup>16</sup> into a full commercially viable market oriented bank and for creating a division in the Bank and Financial Institution Supervision Department (BFSD) within BOL with the specific mandate and responsibility to monitor the microfinance sector in the Lao PDR. This Microfinance Division could benefit from resources for further capacity development. RFSDP supported the creation and issuance of MF regulations by BOL and instigated the creation of three independent member-owned MF providers, licensed and monitored by BOL.

Microfinance Working Group (MFWG) for the Lao PDR, May 2007: The Lao PDR Microfinance Working Group (MFWG) was established in May 2007 by a diverse group of microfinance practitioners interested in sharing experiences and working together to promote a coordinated approach to sustainable microfinance that works towards international good practice principles in the Lao PDR, and in so doing, enhancing the impact of microfinance on poverty alleviation.

Micro Finance regulations signed and issued by the BOL, June 2008. New microfinance regulations were issued by the BOL, encompassing all already existing ones. There now are three regulations, one for Deposit Taking MFI, one for SCUs and one for so-called Non Deposit Taking MFIs. The latter obliges all existing informal and semi-formal groups or organizations employing MF activities in the Lao PDR without a license, to register with BOL. The upgrading of these regulations are already under way with support from GTZ.

### **2.3.1. Supply of microcredit and other services<sup>17</sup>**

Licensed MF: Deposit Taking MFIs (DT MFIs). Deposit Taking MFIs are shareholder based, limited liability companies with a for profit orientation with a minimum capital of one Billion LAK (or some USD 115,000). So far, seven DT MFIs have received a license and fall under BOL's regulatory and monitoring authority. All existing DT MFIs so far have only been involved in serving urban and semi urban areas, with the exception of the Savings institute of the Lao Postal Service.

- The Lao Postal Savings Institute has been established and licensed based on an individual decision, before the MF regulations had been issued. It almost exclusively serves civil servants and supplies loans based on a percentage (maximum 70%) of a year's salary with a salary guarantee. It provides national money transfers through its 120 outlets and it is a major provider for this service. It has some 18,000 accounts<sup>18</sup> with both total deposits and total outstanding loan portfolio at around USD 4.4 million.

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<sup>16</sup> A state-owned bank with a special mandate for supplying subsidized loan products to the rural areas. The portfolio of the subsidized loans and a specific GOL mandate were put into the policy bank or Nayoby Bank. The mandate has since changed from being aimed at rural areas to the 47 poorest districts as mentioned previously in the this document.

<sup>17</sup> Starting year and total number of all MF providers currently licensed by BOL, Data BOL, March 2010: Deposit Taking MFIs, licensing: 2000 (1), 2006 (1), 2007 (2), 2009 (1); 2010 (2); Savings and Credit Unions: 1996 (1), 2001 (1), 2004 (3) , 2008 (4), 2009 (2). Of all semi-formal providers, 8 have so far registered with BOL.

<sup>18</sup> Sum of the number of all savings accounts and all loan accounts.

- Four other deposit-taking MFIs that have been licensed based on the MF regulations, together serve 10,000 clients, with a total outstanding loan portfolio of 1.2 million USD and total deposits worth 1.4 million USD<sup>19</sup>.

*Licensed MF: Savings and Credit Unions (SCUs).* SCUs are involved in the urban, semi-rural and even rural areas, but only in those areas that have some density in population and infrastructure. At present, there are 11 licensed SCUs. All SCUs together have some 8,000 members and a total outstanding loan portfolio of some 1.2 million USD. Lending is almost exclusively based on internally generated savings. Due to its low capital requirement and low cost of service delivery, it is quite adept to deliver financial services in the country. Due to an institutional push (the Non-Deposit Taking MFI regulation), its low cost structure, the proximity of the SCU model to the structure of the many VSCGs already existing in the Lao PDR and in general because of “member” based structure of villages, as well as because of demand by donors for a vehicle to put their donor money into good use, the SCU model is expected to grow in importance in the landscape of MF sector in the Lao PDR.

*Registered Microfinance: Non Deposit Taking MFIs (NDT MFIs).* Roughly 50% of all 10,552 villages in the Lao PDR have a community based loan funds (CMLF). Though, a large number of them are unsustainable and expected to collapse because they were set up without any technical assistance or savings component. Another number of them, set up with a strong savings component and long term technical assistance, have a chance of becoming a part of a more permanent structure, delivering financial services to the poor in rural Lao PDR. All of them, as well as informal money lenders, since June 2008 are obliged to register with BOL as “Non Deposit Taking MFI” and are only allowed to take voluntary deposits of up to 200 million LAK, (some USD 23,000). The NDT MFIs can be funded with grants and/or external borrowing and have very few requirements to their organizational structure and with regard to reporting.

### **3. STRATEGY**

#### **3.1. BACKGROUND AND CONTEXT**

For over two billion people in the world who live on less than USD 2 per day,<sup>20</sup> access to financial products and services can directly provide the tools to protect, diversify and increase their sources of income. The gender dimensions of microfinance are particularly important as most microfinance programmes work primarily with women. Numerous impact studies document that the ability to borrow, save, and earn income enhances poor women’s confidence, enabling them to better confront systemic gender inequities. Additionally, the use of financial services by poor women provide a direct and positive impact on their families, as a majority of the additional income earned is invested in family health, education and nutrition.

Within the paradigm of building inclusive financial services for the poor, savings are viewed as being especially important and critical to the sustainability of access to finance. The number of saving accounts opened by poor people often exceed the number of loans taken, indicating the instrumental need for savings opportunities by microfinance clients. The problem is that deposit-taking financial institutions do not always have the ability or incentive to provide those types of services.<sup>21</sup>

With less than 25% of the people living in the Lao PDR having access to formal financial services (either credit or savings), the prospects for the remaining 75% remain muted. Achievement of MDGs generally and improving opportunities for current and future generations is critically dependant on significantly increasing people’s access to finance.

<sup>19</sup> Four, with the Lao Postal Service Savings Institute making a total of five. On two other DT MFIs that have been licensed only very recently not data have been collected.

<sup>20</sup> World Bank data (2004a) estimates that 2.8 billion people in the world live on less than \$2/day. [data used in the MDG indicators]

<sup>21</sup> Portfolio 12/2007 »SAVINGS Available online at [http://cgap.org/portal/site/portfolio/Dec2007/Savings for Poor People: Good for clients, good for business?](http://cgap.org/portal/site/portfolio/Dec2007/Savings%20for%20Poor%20People%20Good%20for%20clients,%20good%20for%20business?)

The scale of the task will require a sector based approach to transform the ability of financial markets to respond to demands for financial services for those denied access. This approach has been highlighted at the World Summit, which endorsed the Monterrey Consensus' emphasis on strengthening domestic financial sectors to include underserved markets:

*"This is about developing local financial markets that serve the majority of their citizens, developing intermediation capacity between savers and borrowers and not just transferring money for loan portfolios," ...most poor households are net savers seeking convenient and safe deposits, which can ultimately fund microcredit activities".<sup>22</sup> "The endgame, of course, is for microfinance to principally fund itself--as most retail banks do--through local deposits. Local funding is more stable and carries no foreign-currency risk. Moreover, secure deposit services are highly valued by poor people, some say far more than loans".<sup>23</sup>*

### **3.2. GAP ANALYSIS OF LAOTIAN MICROFINANCE SECTOR AND LESSONS LEARNT**

Integrating microfinance fully into the formal financial system requires working at all three levels of the financial system: micro, meso, and macro. While retail institutions (the micro level) are the backbone of the financial system, microfinance providers also require support services (the meso level) to train their staff, improve their systems, and become more transparent. Institutions evolve well in a conducive environment (the macro level) when policies, regulations, and supervision set appropriate rules of the game and create incentives. UNCDF has adopted a financial systems approach that takes all three levels into consideration.

Historically, donors in The Lao PDR have concentrated their support at the micro and macro levels. The meso level, however, will assume an increasingly important role as the financial system matures. UNCDF conducted a gap analysis to identify the most pressing needs at all three levels which identify the main gaps at each level of the financial system that require further donor support (*See Annex 1 for details*).

#### **3.2.1. Macro-Level Analysis**

The Lao PDR is one of the few countries in Asia that has developed a progressive forward looking microfinance strategy that encapsulates a comprehensive vision of its microfinance sector. In 2003, GOL approved a policy statement, strategy and action plan aimed to extend financial services on a sustainable basis to the rural and micro-finance market in an attempt to increase financial access for the rural population that otherwise would have to rely on the informal sector. The government's strategy could further boost the sector's development if greater attention would be paid to the actual dissemination of the Prime Minister's Policy statement and the Good Practice principles on which it is based within GOL circles, both at the central and de-central level. Next to dissemination of both the Policy statement and Good Practice principles, explanation should be given of the "why" and "how" of GOL's policy, as well as explanation on the benefits. Showcase examples should be given and mass media (TV, radio) should be used.

BOL has introduced a facilitating regulatory environment, enabling the provision of microfinance as a regulated and supervised financial service through specialized MF institutions. The regulations issued by BOL on deposit-taking MFIs, non-deposit-taking MFIs and SCUs are planned to be submitted to become a Prime Minister Decree, enhancing the legal and political stature. BOL has also demonstrated its commitment to the development of the MF sector by requesting its MF Division to be upgraded to become a Department, giving it more budget, human resources and, last but not least, a stronger political and legal position to regulate and monitor the microfinance operations in the Lao PDR. Over the last few years, BOL has already issued licenses to several microfinance institutions and private banks, both Lao and foreign owned.

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<sup>22</sup> The Big Business of Small Loans. Emerging Markets. [http://cgap.org/press/press\\_coverage81.pdf](http://cgap.org/press/press_coverage81.pdf)

<sup>23</sup> Elizabeth Littlefield, CEO CGAP as quoted in "The Changing Face Of Microfinance Funding", 20 December, 2007, © Copyright 2007, FORBES.com, All Rights Reserved. [http://cgap.org/press/press\\_coverage83.php](http://cgap.org/press/press_coverage83.php)

Getting regulation and supervision right will protect the financial soundness of institutions, which will help protect client deposits and ensure the integrity of the financial system. The regulatory and supervisory framework for microfinance in the Lao PDR has been making strides in the right direction and offers an increasingly viable structure for the emerging microfinance industry. However, a few gaps remain that need to be addressed.

The following are the key macro-level gaps identified in the Lao PDR microfinance sector:

- Under-developed regulation and supervision capacity: Although BOL has introduced a comprehensive set of regulations to license and supervise microfinance institutions, its execution is limited by the level of skill, knowledge and experience of regulating and supervising growing microfinance institutions, in particular in the light of the strongly increasing workload as a consequence of the rapid growth of the MF sector.
- Under-developed prudential standards: The banking regulator's primary mandate is to protect public deposits and the payment system. Industry expansion, especially of savings-led institutions, will require BOL to develop, monitor and enforce sector-wide acceptable prudential standards.
- Undeveloped policy on branchless banking to facilitate the development of new low-cost approaches to providing poor families and entrepreneurs with financial access.
- Under-developed systems for monitoring social impacts.

### **3.2.2. Meso-Level Analysis**

The quality of the infrastructure supporting the financial sector at the meso level is critical to the successful consolidation and expansion of retail providers as well as to the promotion of transparency in the microfinance industry. Interventions at this level are vital for promoting a sound inclusive financial sector in Lao. The following are the broad meso-level gaps identified in the Lao PDR microfinance sector:

- Lack of industry-wide technical service providers. The supply of private-sector, fee-based support services (training, education, consulting) for the financial system is limited. Grant based technical assistance provided by donors to individual financial institutions is available but not sufficient to cover the entire industry. Apart from the Microfinance Center with its accreditation by MicroBanker, no local firm has specialized in designing or technically supporting a Management Information System (MIS) for MF providers. As it is not yet clear that the market will become large enough to support one, no new organizations are entering the market to supply MIS support services, leaving most institutions to struggle individually to find information management solutions.
- Accounting standards need to be improved: In addition, very few firms in the Lao PDR are able to deliver quality accounting and auditing services, limiting the ability for MFIs to improve transparency and internal control systems. The lack of audit and accounting standards and capacity also deprives BOL and other stakeholders of a necessary tool to maintain the transparency and discipline of the financial institutions. Without transparency, it is difficult to protect clients, attract investors/donors, or improve performance.
- Coordination among the different stakeholders is lacking: A donor driven Microfinance Working Group (MFWG) exists in the Lao PDR, but lacks in human resources and structure. Microfinance practitioners need to have a recognized, formal forum to present and promote their interests. Lack of such association deprives MF providers of a means to formally exchange information, access cheaper services, and advocate with donors and the public sector as a unified voice.

- *Inadequate funding mechanisms:* Donor funding to MFIs is quite abundantly available in the Lao PDR context, while currently there is no market for commercial funding. The ADB has established a fund at the BOL to provide matching grants to MF providers, but the requirements for eligible MF providers (transparency, formalization in the form of a BOL license, a good quality business plan, a low portfolio at risk percentage etc) have shown to be difficult to meet in the Lao context, due to the low general level of professionalism of management and staff of MFIs. A recent ADB study has concluded that a wholesale financing mechanism would not be beneficial at this stage of the sector. As the well functioning, licensed FSPs (banks, DT MFIs and SCUs) are liquid (have enough deposits) currently there is little need for additional funding anyway. For the future, and currently for the model of the NDT MFIs, all MFIs however could benefit from commercial funding replacing donor funding, because of the discipline commercial creditors would bring. However, the absence of a transparent process in which commercial finance can have confidence is a key gaps that the programme can help to address.
- *Lack of debtor information exchange between financial institutions:* No formal mechanism exists for MF providers to exchange information on borrowers. Such information would be particularly useful in the Lao PDR because clients borrowing from more than one FSP at the same time form a real risk for the financial institutions. MF providers are thus deprived of valuable information that could help them identify bad clients and compensate for the difficulties and cost of non-collateral based lending. IFC as well as a joint ADB/European Union initiative are currently supporting the existing Credit Information Bureau (CIB) in BOL and are looking at the possibilities of including MF providers in the credit information exchange. UNDP/UNCDF will support inclusion of MF providers in this information exchange mechanism.
- *The lack of access for deposit-taking MFIs and SCUs to the Depositor Protection Fund (DPF):* The DPF is in the process of improving its current capacity and in the meantime all banks have entered the DPF, as required by the Law on Commercial Banks. For licensed MF providers the obligation also exists based on BOL's MF regulations. So far however, the DPF has not been able to allow deposit-taking MFIs and SCUs to enter the Fund, while demand for savings facilities by poor households and micro-entrepreneurs is high and for micro-savers protection of their deposits is crucial. Moreover, deposit-taking MFIs and SCUs highly depend of deposits as source of funding for their lending.

### **3.2.3. Micro-Level Analysis**

The lack of strong retail pro-poor financial institutions constitutes a significant challenge to the process of poverty eradication in the Lao PDR. Retail institutions indifferent to financial sustainability could potentially create unhealthy competition and market distortion by undercutting sustainable retailers. However, well-managed growth and improved management capacity of emerging institutions will strengthen competition and provide clients with better choices. The following are the broad micro-level gaps identified in the Lao PDR microfinance sector:

- *Insufficient technical capacity for growth.* Most microfinance providers lack the full range of skills required to meet the increasingly sophisticated challenges of a growing market. The principal areas in which institutions need ongoing support are loan assessment, credit policy, delinquency management, business planning, human resource development, information technology (IT), management information systems (MIS), internal control systems, corporate governance, product innovation, and organizational structure.
- *Undeveloped sources of commercial funding.* Microfinance providers need funding, before they can start lending. The typical domestic funding markets for financial institutions are undeveloped in Lao PDR.

Domestic savings is an emerging market for MFIs and national markets for issuing commercial paper, bonds, and equity do not yet exist and equity investments even from socially oriented foreign investors is prohibited. Apart from Phongsavanh Bank, commercial banks have not yet shown an interest in funding MF providers and commercial banks are restricted in their ability to down-scale services to extend financial services the poor in the Lao PDR.

- Untested governance and ownership structure. Strong governance is crucial to attract equity and capital. Majority of MF providers in the Lao PDR have a weakly developed corporate governance structure, with a blurred line between the Board and management functions. Internal control and internal audit functions also need improvement.
- Lack of Infrastructure and related poor service delivery in remote areas. Few microfinance providers have successfully extended their services to remote areas. Although foreign donors have supported Community Managed Loan Funds (CMLFS) to be delivered to the remote areas, little is known about how to successfully meet existing demand for financial services especially for savings and other non-credit services (for which the need is highest) in the remote rural areas.
- Supply of financial services is not enough demand and client oriented<sup>24</sup>. MF services can help poor people deal with social economic shock in their lives or enable engagement in profitable economic opportunities. The large demand by the poor for monetary savings opportunities and for emergency loans, rather than productive loans, indicates the relevance of the first motive mentioned. Poor people have little leverage in both income and in their wealth base and they know this very well. Still there is large unmet demand for loans used to build wealth or fund productive activities. To meet unmet demand for lending, FSPs should take into account the various motives for borrowing and should be flexible in the way of delivery. In the practice of credit delivery in the Lao PDR microfinance sector, the level of interest rate has been the dominant focus of attention. Lao people however value sustained and easy access to a RMF provider, including the “certainty that a loan will be made”, over the level of the interest rate. The flexibility of money lenders, with low transaction costs, is a main reason why they are still in demand despite –sometimes extremely- high interest rates.

#### **3.2.4. Prior and Ongoing Donor Assistance to the Microfinance Sector**

In recent years a number of donors and International Financial Institutions (IFIs) have assisted GOL to promote financial services for the poor in the Lao PDR. Annex I contains a detailed gap analysis of current constraints, donor support to address those constraints, and remaining gaps to be filled.

### **3.3. PROPOSED JOINT-PROGRAMME**

#### **3.3.1. Rationale for the Joint-Programme and Overall Role of UNCDF and UNDP**

Access to finance is also recognized by the GOL is a key instrument to eradicate poverty in The Lao PDR, and it has been put into policy through its policy statement (adopted in November 2003), which states “Sustainable rural and micro finance can be effective tools for poverty reduction. The GOL reform program in rural and micro finance will enable the sector to expand significantly, with diversity, security and future sustainability”. This has been further reinforced by the Decree on the Promotion and Development of Small and Medium Sized Enterprises (No.042, adopted 20/04/2004), which specifically prioritises the need to “improve access to finance” and to “enhance entrepreneurial attitudes and characteristic within the society”.

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<sup>24</sup> Brett E. Coleman and Jon Wynne-Williams, “Rural Finance in the Lao People’s Democratic Republic: Demand, Supply, and Sustainability (Results of Household and Supplier Surveys),” ADB and FIRST, 2006

These priorities are reflected in the United Nations Development Assistance Framework (UNDAF) in The Lao PDR to which GOL, UNCDF and UNDP are signatories, which seeks to enhance “...the livelihoods of poor, vulnerable and food insecure populations” through “...improved and diversified incomes of rural households, with a focus on increased market accessibility”. Access to finance will be a major vehicle for delivering UNDAF’s stated intent.

This proposed UNCDF and UNDP joint-programme has been developed to support the execution of GOL’s policy commitments and the priorities of UNDAF. It is a programme between the Government of Lao PDR, UNDP and UNCDF, along with other participating donor agencies who wish to contribute towards the development of an inclusive financial sector in Lao PDR.

### **3.3.1.1. Role of UNCDF**

The role of UNCDF – both as a specialized agency recognized for its expertise and experience in microfinance<sup>25</sup> and in its role as the technical policy advisor to UNDP in microfinance programming<sup>26</sup> – will be to provide catalytic capital and technical assistance through in-country presence and regional backstopping. It will operationalise the key principles of the 2006 Vientiane Declaration and the the Paris Declaration on Aid Effectiveness by adopting a sector development approach for building inclusive financial sectors. The outcomes of a sector-based approach are characterised by<sup>27</sup>:

- Access by all bankable households and enterprises to a full range of financial services at a reasonable cost, including savings, short and long-term credit, mortgages, insurance, pensions, payments, local money transfers, international remittances, leasing and factoring;
- Soundness of institutions, which is maintained through performance monitoring by stakeholders and where required, sound prudential regulation;
- Financial and institutional sustainability as a means of providing access to financial services over time;
- Multiple providers of financial services, wherever feasible, to bring cost-effective alternatives to customers, including sound private, non-profit and public providers.

### **3.3.1.2. Role of UNDP**

The role of UNDP will be to facilitate strategic partnerships with ongoing programmes in Lao PDR. It will maximise and harvest its role as a trusted coordinator with GOL to inform and integrate good practices and lessons learnt from this joint-programme into the Round Table Process and the National Socio-Economic Development Plan, both of which are supported by other UNDP programmes.

## **3.3.2. Stakeholders, Target Groups, Ultimate Beneficiaries**

### **3.3.2.1. Stakeholders**

- a) **The GOL**, principally the Bank of Lao PDR’s Microfinance Division.  
Other key governmental agencies participating in the financial sector policy development process, including the Ministry of Planning and Investment (MPI), MOF and local governmental departments overseeing the delivery of rural, urban, micro- or commercial financial services in the Lao PDR.

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<sup>25</sup> See “SmartAid 2009” (CGAP, 2009).

<sup>26</sup> See [http://www.uncdf.org/english/microfinance/UNDP\\_MFpolicy.php](http://www.uncdf.org/english/microfinance/UNDP_MFpolicy.php) for the “[UNDP Microfinance Policy: Improving UNDP’s Performance in Microfinance](#)”

<sup>27</sup> See [http://www.uncdf.org/english/microfinance/uploads/thematic/Building\\_Inclusive\\_Financial\\_Sectors\\_The\\_Blue\\_Book.pdf](http://www.uncdf.org/english/microfinance/uploads/thematic/Building_Inclusive_Financial_Sectors_The_Blue_Book.pdf)

BOL will serve as chair to the PMC (see Annex 2) to coordinate and synergize funding of financial services providers, facilitating the integration of microfinance into the formal financial sector.

The BOL's primary role is to:

- Ensure that the programme is working in a manner consistent with Government's policy.
  - Create an enabling policy environment.
  - Mobilize additional strategic funders to contribute to the pooled 'Fund for Inclusive Finance' vehicle to support the sector-based approach.
- b) **Development partners and donor agencies** supporting the development of the financial sector at large, and/or funding provision of financial services directly or through international or national NGOs, projects or programmes. Donors will be invited to join an (informal) Coordination Group for Inclusive Finance to align and coordinate support to the sector. The key donor agencies include but are not limited to ADB, WB, International Finance Corporation (IFC), European Union (EU), Kreditanstalt für Wiederaufbau (KfW), German Technical Cooperation (GTZ), International Labour Organisation (ILO), Savings Bank for International Cooperation (SBFIC), UNDP, and UNCDF.
- c) Professional and sector **networks and associations** of the financial sector.
- d) **Financial services providers** (FSPs) in the Lao PDR, including commercial banks, non-bank financial institutions, international NGO partners and other NGO members, credit cooperatives, Self-Help Group (SHG) promoters and projects delivering or supporting the provision of financial services.
- e) **Providers of business support services** to the financial sector, including public and private training and consulting companies and institutes, chartered accountants, auditors, MIS, IT and ICT service providers etc.

### **3.3.2.2. Target Groups**

- a) **BOL's Microfinance Division** will be supported with training, capacity building and technical assistance as needed to facilitate the accomplishment of an enabling environment for building an inclusive financial sector. BOL will be supported with flexible funding to draft, review and consult new legislation for the sector as needed, to create a strategy plan to make the sector more inclusive, as well as to successfully operationalise and implement this plan. This funding will focus on filling gaps not covered by other actors (GTZ, ADB).
- b) **Existing FSPs** in Lao PDR will have equitable access to a broad range of funding through the Fund for Inclusive Finance (FIF). Applications will be selected competitively, based on sound business plans and agreed performance targets by PMC.
- c) **Professional networks and associations**, as well as **providers of business support services** to the financial sector will have equitable access to temporary and declining funding through a special window of the FIF. Applications will be selected competitively, based on sound business plans and agreed performance targets by PMC.

### **3.3.2.3. Beneficiaries**

- a) Poor households and micro-enterprises

### 3.3.3. Key Principles of Programme Design and Implementation

*Donor Coordination:* The program will be designed to assist GOL to address areas that are not being covered by other donors and to promote coordination amongst interested donors in line with the Vientiane<sup>28</sup> and Paris Declarations on Aid Effectiveness<sup>29</sup>.

Based on a donor mapping and gap analysis, UNDP and UNCDF will focus on covering the areas proposed in this programme. The programme will also build on the body of knowledge, experience and training material accumulated in the ADB funded programme called “Catalyzing MF for the Poor” (CMP), which is managed in the Microfinance Fund Management Unit in BOL, to allow it to serve as a multi-donor facility that could coordinate assistance to the sector. Experience in other countries (e.g., Bosnia, Afghanistan, Sierra Leone, etc.) has shown that, if properly structured, the creation of microfinance technical assistance funds can play a crucial role in donor coordination. From the very beginning a multi stakeholder team will be formed and will be involved in the design of the programme.

*Sustainability:* Sustainability will be the underlying principle in the design of any component following international best practices. With respect to the FIF, the programme will strengthen FSPs technical skills to improve their financial performance, to create a market for business development services and to link credit and savings groups to long lasting private financial institutions that provide them with financial services on a sustainable basis.

*Monitoring and Evaluation:* Every component will have a robust framework for the M&E of outcomes/results, which will be confirmed in partnership with the government, designated implementing agencies, and other key stakeholders. The M&E will be based on standard UNCDF reporting, every FSP that will bid for capacity building/TA will have to report on selected quantitative indicators as per UNCDF standard performance based agreements, which will have to demonstrate improved performance. Such indicators will be monitored on a quarterly basis. UNCDF will make available its standard reporting tools.

### 3.3.4. Programme Outcome and Outputs

The programme will contribute to achieving key **UNDAF outcomes** for The Lao PDR, including:

- Improved and equitable access to land, markets and social and economic services, and
- Enabled environment for growth with equity.

This will be achieved through the **programme specific outcome**, which is:

- Increased access to financial services by low-income households and micro-entrepreneurs on a sustainable basis to minimum of 140,000 additional active savings clients and a minimum of 70,000 additional active loan clients in 2014<sup>30</sup>.

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<sup>28</sup> [www.rtm.org.la/documents/VientianeDeclaration\\_\\_feb07.doc](http://www.rtm.org.la/documents/VientianeDeclaration__feb07.doc)

<sup>29</sup> Paris Declaration on Aid Effectiveness, Ownership, Harmonization, Alignment, Results and Mutual Accountability, OECD-DAC, March 2, 2005 <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

<sup>30</sup> Given the unreliability of current statistics in defining a baseline of the number of active clients, the programme has sought to define the target only by the end of the programme. The target of 140,000 active savings clients and 70,000 active loan clients in 2014 is based on a proxy of USD 50 per savings client acquisition. This proxy is not based on any objective measure of cost of client acquisition in the Lao PDR (given the difficulties of unreliable and partial statistics), but it based on the experience of UNCDF operating in other countries in Africa and Asia with similar population patterns and capacity of FSPs, and also based on a judgment of what might be a tolerable level of average client acquisition cost.

The programme specific outcome will be delivered through **three mutually reinforcing programme outputs** include:

- d. Output 1: Policy makers more able to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally.
- e. Output 2: The financial sector development infrastructure more capable to meet the needs of financial service providers.
- f. Output 3: Financial service providers more responsive to the financial service needs of poor households and micro-entrepreneurs.

### **3.3.5. Programme Approach**

The proposed joint-programme will adopt a comprehensive sector-based approach working on all three levels: macro, meso and micro. Since the biggest constraint is sustainable retail capability, the majority of funds will focus on expanding retail capability to directly serve poor and low income clients. While it will work at policy and meso levels, it will carefully choose interventions that complement and not duplicate the other donors' efforts. For its support at retail level, the programme will create a FIF, a meso level fund based at the BOL.

#### **3.3.5.1. Approach at the Policy Level (Macro)**

**The programme will support BOL to strengthen its ability to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally.**

Opportunities to do so include:

- Commitment of GOL to create a supportive environment for the development of variety of microfinance institutions based on a commercial, market-oriented approach driven largely by the private sector within an enabling policy and regulatory framework;
- Existing BOL microfinance regulations, which permit establishing deposit-taking and non deposit taking microfinance institutions as well as savings and credit unions;
- BOL issuing licenses to microfinance institutions permitting them to accept deposits. Similarly, several private banks, both Lao and foreign owned banks have been granted licenses to operate in the Lao PDR.

#### **Activities**

To support the operationalisation of the commitments and policies, as well as to respond practically to the diverse institutional landscape of financial service providers who may be able to do more but for specific policy constraints, UNDP and UNCDF have identified the following activities interventions to support BOL's ability to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally.

- a) Provide flexible funding for BOL to build capacity for effective supervision of the microfinance institutions, support policy studies and train BOL staff in the Lao PDR and abroad. This support will focus on filling gaps in areas not covered by GTZ and ADB support, or by any other stakeholders for that matter.
- b) Provide flexible funding to support coordination and a dialogue with international and national stakeholders on the specific needs for the successful development of an inclusive financial sector in the Lao PDR, more in particular the need to follow, help disseminate, explain and implement good practice, adhere to the Lao PDR Policy Statement, build permanent capacity, and provide technical assistance.

- c) Support policy studies and organize policy conclaves to better understand the sustainable models of microfinance in the Lao PDR, documenting what is currently sustainable, is on track to become sustainable, or by design, could not become sustainable. Organize a conference of policy-makers and practitioners to discuss the findings.
- d) Translate and publish the best-practice briefs from the Consultative Group to Assist the Poor (CGAP), the U.N. Advisors Group on Financial Inclusion and other sources. Organize local language essay competitions on how the microfinance policy should be evolved and refined to develop the microfinance sector.
- e) In conjunction with other donors, organize international exchange visits between policy makers, government officials, FSPs, and other stakeholders within the South East Asia region and beyond to encourage cross-learning and deeper South-South cooperation. Encourage BOL to take lead on this initiative together with the MFWG. The proposed exchange visits will address major policy issues as well as constraints faced at the meso and micro level within South East Asia, and assist in addressing Lao financial sector challenges through collaborative and meaningful exchange of best practices. An effort will be made to invite the microfinance ‘champions’ in the global microfinance industry.
- f) Arrange training and exposure visits specifically for the Laotian officials to see successful inclusive financial sectors in the other countries in Asia.
- g) Based on constraints identified by retail FSPs from time to time, work with BOL and other stakeholders to develop practical solutions to remove those constraints, document those solutions and disseminate them.

### **3.3.5.2. Approach at the Meso Level**

**The programme will support financial sector development infrastructure to meet the needs of financial service providers.**

Opportunities to do so include:

- Willingness of donors to support the development of the financial sector including the technical infrastructure needed to support the FSPs.
- In the recent years the Lao PDR has made significant progress toward providing telecommunications services to its population and building a modern telecommunications infrastructure, which can be used to support financial services delivery channels.
- The Microfinance Centre Lao (MFC) and the consultancy company “Economics, Business and ICT” (EBIT) provide basic training to all type of actors involved in delivering microfinance services. The National Economic Research Institute (NERI) used to conduct regular research on the Lao PDR microfinance sector and used to organize National MF conferences. The MFWG plays a role in information dissemination, advocacy, and donor coordination.

#### **Activities**

To capitalize on these opportunities UNCDF will make the following interventions in four major areas to improve sector level infrastructure:

- a) Promotion of standardized tools to improve accountability and transparency of financial service providers, including the promotion of reporting formats (accounting and portfolio) and performance benchmarks, development of reporting formats for measuring and reporting social impacts, supporting the information clearing houses to track and provide data on the Laotian microfinance market, facilitating reporting on MIX-market, advocating for the participation of microfinance institutions in the Credit Information Bureau (CIB) and support to the BOL Deposit Protection Fund (DPF) to develop tailored provisions for licensed MFIs recognising their differences with standard commercial banks.

Some of the monitoring and reporting formats are being developed by BOL with support from GTZ, while opportunities also exist for MFWG to also provide access to member data.

- b) Training of Laotian Financial Sector Professionals to increase the pool of trained and competent financial sector professionals in the Lao PDR as well as developing savings/other product training curriculums. UNCDF, under license to ADB and WB, is already supporting the extension of the UNCDF Distance Learning Microfinance Course for Laotians. Developing training products specific to the Lao PDR market and delivering those products in both the Lao language and the English language is critical to the adoption of best practices in the country.
- c) Strengthen the Banking Institute (BI) through development of curriculum, training and certification of trainers, and sponsoring exposure trips for instructors in the other countries of the region. Coordination will be sought with Lux-Development, the Luxemburg based development organization, which is currently technically supporting the BI. From preliminary contacts of SBFIC advisors with BI and Lux-Development, it was made clear that curriculum development specifically aimed at the MF sector is currently not being undertaken but could be (*See Annex 4 for detailed Terms of Reference for External Consultant towards the above activities*).
- d) Strengthen institutional capability to mobilize savings and deposits through technical assistance from international savings led market leaders. The assistance could be in the form of training, mentoring and coaching of Laotian staff. In addition to the country programme resources available under this programme, UNCDF would make available from global and regional resources additional funding to achieve country programme objectives. Technical assistance to selected institutions will strengthen the productisation and implementation of microfinance best practices in the country and will help the Lao PDR to develop an inclusive, multi-product delivery channels. Signature of this programme document followed by a review and endorsement of applications by the PMC will serve as authorization for UNCDF to sign performance based agreements (PBAs) with those institutions and release funding from global MicroLead resources based on FSPs meeting performance targets.
- e) Support the Microfinance Working Group for the Lao PDR (MFWG) UNCDF will leverage GTZ's support to the MFWG to support its transformation from an informal working group to a regular, industry representative organisation, providing technical assistance to strengthen the MFWG in three key areas, including member services, advocacy dialogue with the BOL, and strategic planning. UNCDF will also provide support to research legal and institutional options for the transformation process.

### **3.3.5.3. Approach at the Retail Level (Micro)**

**The programme will support financial service providers to be more responsive to the financial service needs of poor households and micro-entrepreneurs.**

Building on the experience of the BOL/ADB Catalyzing Microfinance for the Poor programme, UNCDF will work with BOL, ADB and others to establish a FIF, a meso level funding mechanism combining the available funding resources for capacity building in FSPs from UNCDF and other interested funding agencies. The FIF will be modelled as a challenge fund. The fund will assist promising FSPs with appropriate funds to address key institutional weaknesses, resulting in increased outreach and improved sustainability within a competitive environment.

#### **Activities**

The core activity at the retail level will be to establish the FIF to Channel for funds to fund capacity building FIF will channel funds in such a way that funds will be used for capacity building, training, product development, development of delivery methodologies for FSPs.

The funding should enable the institutionalization, availability and dissemination of developed training material, results of research and solutions. Funding through the FIF will create economies of scale and other cost savings for donors to develop microfinance sector in the Lao PDR.

Building on the experience of the BOL/ADB 'Catalyzing microfinance for the Poor' programme, and contributing UNCDF's global experience in establishing FIF, UNCDF will help FIF to develop efficient procedures for FSP selection, monitoring, disbursement and repayment of funds. The programme will also assist the Fund management to develop transparent and relevant selection criteria and performance monitoring targets for participating FSPs that take account of the unique characteristics of microfinance in the Lao PDR.

The FIF will support specifically:

a) *Capacity Building of participating FSPs*

- Help build the capacity of FSPs. Make technical assistance available for feasibility studies, product development, business planning, operations, and pilot roll-outs. Offer training to use tools such as *Microfin* (for planning) FRAME (Financial reporting and management evaluation), and CGAP assessment tool for FSPs.
- Identify and help develop alternative delivery channels that will allow Laotian FSPs to reach scale, efficiency, and sustainability. Help broker partnerships with other intermediaries, including retail stores, cell phone networks and associations in the informal sector. Support FSPs to offer new products, such as micro leasing, micro insurance, or remittances to provide greater value for clients. Such activities will be supplemented by macro-level work on creating an enabling policy environment where such alternative channels can be tested and supported to go to scale.
- Carefully facilitate the entry of new FSPs to offer sustainable financial services to lower income markets to increase competition and variety of FSPs and increase their outreach to smaller businesses, poor households and women borrowers.
- FSPs qualified and approved for technical assistance will be rated by an internationally recognized microfinance rating agency, which will set the institutions' baseline in terms of governance, outreach, portfolio quality, profitability/sustainability, etc. In addition, the rating will identify the major operational shortcomings and make recommendations to improve them. In the case of non-mature FSPs, rating will be replaced by independent assessments. These assessments will form the basis for support for the selected institutions from the FIF and the technical assistance providers. Performance based agreements will outline the minimum targets that have to be achieved during programme implementation. If the financial institution fails to meet the agreed targets for two quarters, technical assistance may be suspended or terminated. Under this sub-component both services and goods will be procured.

UNCDF may complement programme resources by utilizing additional funds from its regional and global programmes to support the cross-fertilization of experiences in savings mobilization through capacity building using recognized leading FSPs from the Asia region who have demonstrated a track record for success, have reached a critical scale of outreach and sustainability, whose success can be independently and transparently verified through the MIX Market, and who offer good value for money in their capacity building plan. Over USD 1.6m is available for this and the PMC can secure the funding in its first meeting by endorsing the criteria and section of the leading international technical service provider.

b) *Market Development for Financial Services to the Poor*

FIF will provide a range of non-financial services to develop the market for financial services to the poor through, for example, advocacy, information dissemination, and capacity building for FSPs.

Through its various activities, FIF will seek to contribute to a change in the perception of the micro enterprise sector and will bring the sector closer to formal financial markets, in order for products and distribution methodologies to meet characteristics of the shape and form of existing demand. It will also help to further the agenda for reform of regulations and supervisory norms to create an enabling environment for microfinance in the Lao PDR.

The FIF will also create a market for microfinance business development services by establishing a roster of providers and promoting commercial transactions between these providers and microfinance institutions. When short-term, specialized international technical assistance is needed for specific capacity building needs, the FIF will partner international business development service providers with local providers. The FIF will also work to enhance the capacity of private business development services providers to the microfinance industry, for example auditors, IT providers, etc. through specialized trainings.

The Fund will improve financial literacy amongst the Laotian public through, for example, introducing basic concepts on family and household finance to various target groups and actively engaging people through the use of popular media such as web-based technology and essay competitions on topics related to banking and financial inclusion.

### **3.3.6. Gender Mainstreaming**

Numerous impact studies document that the ability to borrow, save, and earn income enhances poor women's confidence, enabling them to better confront systemic gender inequities. This Programme will ensure equal participation of both female and male in all activities by the standard UNCDF requirement that at least 50% of clients are women. These targets will be reflected in all performance based grant agreements with FSPs. Gender disaggregated data will be collected to monitor the programme progress at the micro and meso level.

### **3.3.7. Sustainability of Results**

The sector based approach to improving the microfinance sector through interventions at the policy, meso and micro levels are expected to leave behind at the end of the programme a more responsive policy and regulatory environment based on policy makers more able to respond to FSPs and international good practice, a stronger financial sector development infrastructure offering products and services that FSPs will be willing to buy to improve their performance, established set of tried and tested financial products and delivery mechanisms that both meet the financial service needs of poor households and micro entrepreneurs as well as the needs of FSPs to generate sufficient income to sustain and grow their services, and a challenge fund mechanism with established systems to fund the development of FSP market leaders. All but the challenge fund will sustain and produce results well beyond the life time of the programme. In case of the challenge fund, future institutional options will be assessed as part of the mid-term evaluation of the programme in the 3<sup>rd</sup> year.

#### 4. RESULTS FRAMEWORK

<p><b>UNDAF Outcome</b>            CP Outcome 1.1: Improved and equitable access to land, markets and social and economic services, environmentally sustainable utilization of natural resources, with balanced population growth.            CP Outcome 1.5: Enabled environment for growth with equity.  <b>UNDAF Outcome indicators:</b>            1. Improved and diversified incomes of rural households.            2. Improved advisory and service capability of public and private sector partners in the fields of institutional building and promotion of the domestic private sector.</p>										
<p><b>Joint-Programme Outcome:</b>            Increased access to financial services by low-income households and micro-entrepreneurs.  <b>Joint programme outcome indicator:</b>            Numbers of low-income households and micro-entrepreneurs with access to financial services (baseline: to be determined. Target: 140,000 additional active savings clients and 70,000 additional loan clients in 2014)</p>										
Joint Programme Outputs	UN Organisation Corporate Priority	Implementing Partner	Indicative Activities for Each Output	Resource Allocation and Indicative Time Frame (US\$)						Share of Total Budget
				Y1	Y2	Y3	Y4	Y5	Total	
<p><b>Output 1: Policy-level output</b>            Policy makers more able to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally.</p> <p><b>Indicators for Output 1:</b>            1. Number of FSPs licensed under microfinance regulation and having access to DPF.            2. Extent to which BOL incorporates commonly agreed priorities of FSPs in its policy priorities.</p>	UNCDF support leads to positive policy change	BOL	1.1 Assist BOL to access training & exposure in microfinance best practices.	25,000	25,000	25,000	25,000	30,000	130,000	11%
			1.2 Arrange training for the BOL staff to train at Turin-Boulder Microfinance or its equivalent	-	35,000	50,000	50,000	50,000	185,000	
			1.3 Support establishment and build the capacity of BOL microfinance department & International Relations Department	35,000	15,000	15,000	-	-	65,000	

<p>3. Demonstration of clear process to assess the need for a policy on branchless banking and a policy where the need is found to be compelling.</p> <p>4. Extent to BOL shares key regulatory principles and standards implemented by central banks in successful microfinance markets.</p> <p>5. Availability of reliable sector-wide monitoring data on financial and social impact performance of FSPs.</p> <p>6. Perceived openness and responsiveness of the policy environment to demands from the microfinance sector.</p>			1.4 Support policy studies and organise policy enclaves to improve understanding of sustainable models of financial services in the Lao PDR	10000	20000	25000	35000	35000	<b>125,000</b>	
			1.6 Translate and publish the best-practice briefs from CGAP, the U.N. Advisors Group on Financial Inclusion and other sources	10000	10000	10000	10000	0	<b>40,000</b>	
			1.7 Dissemination of Regulations (Northern, South, and Central Parts) including per-diem, travel expense, accommodation	4500	10000	5000	0	0	<b>19,500</b>	
			1.8 Technical workshop specifically for FSPs (including per-diem, travel expense, accommodation..etc).	5000	10000	10000	5000	0	<b>30,000</b>	
			1.9 Training BOL on Accounting, Internal Control, reporting, governance or any topics as needed	0	10000	10000	10000	10000	<b>40,000</b>	
			1.10 Performance Appraisal (Semi-annual basic)	3000	6000	6000	6000	10000	<b>31,000</b>	
			1.11 Stakeholder Consultation workshop (Annually)	1500	1700	1900	1900	3000	<b>10,000</b>	

			1.12 Develop training materials on, governance, management, internal control, credit procedures and policies.	0	0	0	0	0	-	
			1.13 Development and publication of brochures on an on-going basis of microfinance industry monitoring data and other related info. With the ultimate objective of migrating the system to MIX Market.	5000	1000	1000	1000	2000	<b>10,000</b>	
			1.14 English Training at Vientiane College (for new staff of new Microfinance Department)	0	10000	10000	20000	25000	<b>65,000</b>	
			1.16 Facilitate BOL invitation to join API		-	-	-	-	-	
Sub-total Output 1				<b>99,000</b>	<b>153,700</b>	<b>168,900</b>	<b>163,900</b>	<b>165,000</b>	<b>750,500</b>	
<b>Output 2: Meso-level Output</b> The financial sector development infrastructure more capable to meet the needs of financial service providers. <b>Indicators for Output 2:</b> 1. Consistent trend in improvements in the performance of FSP that have received support compared with others that have not. Key measures to include portfolio at risk, client acquisition cost, loan and savings to staff ratio, operational self-sufficiency, and access to additional grants and other refinancing.	UNCDF support leads to increased institutional capacity	BOL	2.1 Establish Fund for Inclusive Finance to support Retail and Meso level activities	10,000	15,000	-	-	-	<b>25,000</b>	<b>24%</b>
	UNCDF knowledge products meet increasing demand		2.2 Increased capacity of Lao Banking Institute with productization of best practices. Also support existing long-distance learning courses offered outside BI to develop a pool of training microfinance professionals.	35,000	70,000	300,000	350,000	400,000	<b>1,155,000</b>	

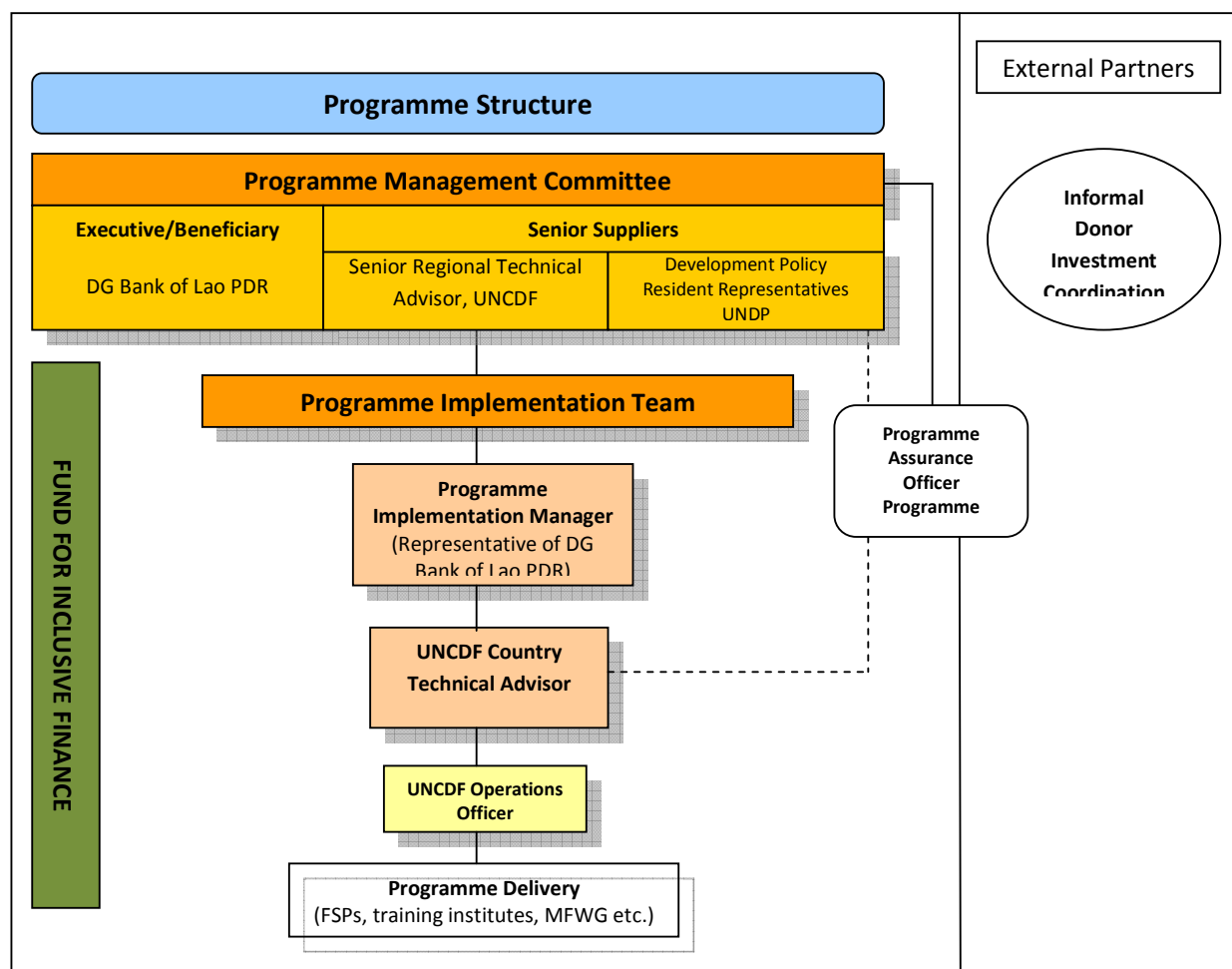
<p>2. Growth in the numbers of trained dedicated microfinance professionals available for the professionalization, growth and licensing of MFIs.</p> <p>3. Growth in the numbers of trained banking and finance professionals to support down-streaming of commercial banking services.</p> <p>4. Numbers of FSPs disclosing audited financial statements on MIX-Market to demonstrate their willingness to be transparent.</p> <p>5. Growing numbers of FSPs contribute membership fees and senior management time to the MFWG.</p> <p>5. MFWG is recognised as a 'go-to' organisation for policy makers, donors, investors and re-financing institutions.</p>			2.3 Assist MFWG (including office rental, furnishing and staffing)	5,000	15,000	15,000	15,000	20,000	<b>70,000</b>	
			2.4 Facilitate reporting on MIX-market.	-	-	10,000	15,000	20,000	<b>45,000</b>	
			2.5 Auditors trained and certified in CGAP standards	-	20,000	40,000	-	-	<b>60,000</b>	
			2.6 All FSPs supported provide annual audited financial statements (CGAP standard)	-	5,000	25,000	25,000	50,000	<b>105,000</b>	
			2.7 Capacity assessment of all FSPs as part of due-diligence for funding and in establishing base-line.	20,000	25,000	25,000	50,000	47,000	<b>167,000</b>	
			2.8 Strengthening monitoring, evaluation and communication for joint-programme	5,000	5,000	20,000	5,000	35,000	<b>70,000</b>	
Sub-total Output 2				<b>75,000</b>	<b>155,000</b>	<b>435,000</b>	<b>460,000</b>	<b>572,000</b>	<b>1,697,000</b>	
<p><b>Output 3: Micro-level Output</b> Financial service providers more responsive to the financial service needs of poor households and micro-entrepreneurs.</p> <p><b>Indicators for Output 3:</b> 1. FSPs receiving technical assistance offer a more diverse range of financial services.</p>	UNCDF supports leverages additional core or parallel funding	BOL	3.1 Country Technical Advisor [CTA] issues request for applications, technically scores according to agreed criteria, presents to Management Committee and prepares performance based agreements [PBAs] based on approvals.	25,500	105,000	105,000	105,000	105,000	<b>445,500</b>	<b>64%</b>

<p>2. FSPs receiving technical assistance and support are recognised as market leaders as evidenced by the quality and growth of their portfolio and overall market share.</p> <p>3. FSPs receiving technical assistance and support demonstrate growing share of loan portfolios funded through deposits and equity, and growing portfolio per officer.</p> <p>4. FIF and FSPs receiving support from FIF attract additional funding.</p>			<p>3.2 UNCDF National Operations Officer (NPO) sets up cash management and monitoring system, manages treasuring function for the programme on behalf of BOL, and prepares reports to BOL and other stakeholders.</p>	15,000	30,000	31,500	33,000	34,500	<b>144,000</b>	
			<p>3.3 Assist FSP to access training &amp; exposure in microfinance best practices (e.g. Cambodia, PLP).</p>	20,000	-	-	-	-	<b>20,000</b>	
			<p>3.4 CTA helps build the capacity of FSPs. Make technical assistance available for product development, business planning, operations, and pilot roll-outs. Offer training to use tools such as Microfin (for planning).</p>	30,000	44,000	43,500	43,500	6,000	<b>167,000</b>	
			<p>3.5 SMART-subsidies to FSPs.</p>	-	-	200,000	500,000	1,300,000	<b>2,000,000</b>	
			<p>3.6 Technical assistance to FSPs on savings mobilisation.</p>	681,010	238,370	238,370	238,370	238,370	<b>1,634,490</b>	
			<p>3.7 UNDP performs Programme Assurance function.</p>	10,000	10,000	10,000	10,000	10,000	<b>50,000</b>	
			<p>3.8 Backstopping technical support from UNCDF Senior Regional Technical Advisor.</p>	4,500	5,500	5,750	6,000	4,750	<b>26,500</b>	
<b>Sub-total Output 3</b>				<b>786,010</b>	<b>432,870</b>	<b>634,120</b>	<b>935,870</b>	<b>1,698,620</b>	<b>4,487,490</b>	
<b>Total costs</b>	Total programme cost			960,010	741,570	1,238,020	1,559,770	2,435,620	<b>6,934,990</b>	99%
	Total Indirect Support Cost (5% of pooled commitments)			77,199	-	-	-	-	<b>77,199</b>	1%

	<b>Total Programme and Indirect Support Cost</b>	<b>1,037,209</b>	<b>741,570</b>	<b>1,238,020</b>	<b>1,559,770</b>	<b>2,435,620</b>	<b>7,012,189</b>	
<b>Total Commitments</b>	<b>UNCDF</b>	350,000	400,000	443,982	250,000	-	1,443,982	21%
	<b>UNDP</b>	-	100,000	-	-	-	100,000	1%
<b>Funding Gap *</b>		<b>687,209</b>	<b>341,570</b>	<b>794,038</b>	<b>1,309,770</b>	<b>2,435,620</b>	<b>5,568,207</b>	<b>79%</b>
* Note: Funding gap does not take into account funding of up to USD 1.6m available from the UNCDF MicroLead Fund, which can be secured subject to review and approval of applicants by the PMC subject to BOL endorsement of programme by 9 <sup>th</sup> June 2010. If funding is secured, effective funding gap across the life of the programme would be as follows:								
<b>Funding gap assuming full UNCDF MicroLead grant is secured by BOL</b>		6,199	3,200	555,668	1,071,400	2,197,250	3,833,717	55%

## 5. MANAGEMENT AND COORDINATION ARRANGEMENTS

### 5.1. PROPOSED MANAGEMENT STRUCTURE



### 5.2. ROLES AND RESPONSIBILITIES OF PROGRAMME PARTNERS

#### 5.2.1. Role of the Bank of the Lao PDR (BoL)

BOL is the Implementing Partner (IP) and therefore the entity responsible and accountable for managing the programme, including the monitoring and evaluation of programme interventions, achieving programme outputs, and for the effective use of UNCDF resources.

#### 5.2.2. Role of the Programme Management Committee (PMC)

The PMC will act as a management committee for the overall programme and the Fund for Inclusive Finance (FIF). It will coordinate funding to FSPs serving poor households and micro entrepreneurs, networks, and business service providers in order to make efficient use of public resources, avoiding duplication and over-subscription. In line with the Paris Declaration on Aid Effectiveness, funding from other donors will be harmonised through the FIF; UNCDF will coordinate and represent donor interests, concerns and views by helping to convene meetings with donors immediately prior to and after formal meetings of the PMC.

PMC will consist of BOL DG of relevant department (Chair), UNCDF Regional Technical Advisor (member), BOL representative (ex-officio member with delegated authority of the DG to provide regular guidance to Programme Implementation Team), and UNCDF Country Technical Advisor (ex-officio member secretary as lead manager of the Programme Implementation Team).

The overall role of the PMC is make consensus-based management decisions in approving annual work-plans (AWPs), revisions and other key decisions needed to achieve the outcomes of the programme. PMC decisions should be made in accordance to standards that shall ensure management for development results, best value money, fairness, integrity, transparency and effective international competition. Based on the approved annual work plan (AWP), the PMC may review and approve programme quarterly plans when required and authorizes any major deviation from these agreed quarterly plans. PMC is the authority that signs off the completion of each quarterly plan as well as authorizes the start of the next quarterly plan.

PMC will also approve programme proposals for funding through FIF as well as to approve and modify the fund management policy and procedures and fund strategy. In support of this key role, PMC will also specifically:

- Approve transparent standards, criteria and processes for eligibility, selection, performance monitoring and reporting.
- Receive, assess and shortlist business plans and funding proposals from FSPs and business services providers, and recommend for direct funding by UNCDF and other participating donors.
- Mobilize additional strategic funders into the FIF, and its initial structure accordingly be set up with sufficient flexibility to easily accommodate future entrants and their potential requirements. BOL will make efforts to align other funding to FIF in line with the principles of aid effectiveness.

See Annex 2 for detailed Terms of Reference for PMC.

### **5.2.3. Role of the Programme Implementation Manager**

Programme Implementation Manager has the authority to run the programme on a day-to-day basis on behalf of the Implementing Partner. The Programme Implementation Manager's prime responsibility is to ensure that the programme produces the results (outputs) specified in the programme document-, to the required standard of quality and within the specified constraints of time and cost.

### **5.2.4. Role of the Programme Implementation Support Team**

The Programme Implementation Support Team will provide programme administration, management and technical support to the Programme Implementation Manager as required by the needs of the programme.

The Programme Implementation Support Team will act as the implementation and technical assistance secretariat of the FIF to secure the fund's sustainable development. It will also be responsible for managing the fund and scrutinizing the proposals as well as provision of technical assistance to applicants when relevant, as well as for short-listing and presenting recommended proposals to the PMC.

An internationally recruited UNCDF Country Technical Advisor (CTA) will be technically leading this team (see annex 3 for ToR of the CTA). The CTA will report to and be supported by the UNCDF Senior Technical Advisor based in Bangkok for the technical aspects of the programme and for setting annual performance objectives (together with the BOL Programme Implementation Manager). The CTA will report to the BOL Programme Implementation Manager for all administrative matters; the BOL Programme Implementation Manager will provide day-to-day management support to the CTAs to deliver his/her annual performance objectives.

The CTA will be supported by a nationally recruited UNCDF Operations Officer who will be primarily responsible for the preparation and manage the programme's financial transactions and reporting on behalf of BOL and in accordance with the UNDP and UNCDF financial and procurement policies as outlined in the Operations Manual of the respective organisations.

The Programme Implementation Support Team will also make use of **short-term international and national experts** (on a need basis) on financial sector development in general and microfinance in particular and resource persons from stakeholders that can be contacted by the task force to provide expertise and other support.

#### 5.2.5. Role of Programme Assurance

Programme assurance is the responsibility of each PMC member; however the role can be delegated. The programme assurance role supports the PMC by carrying out objective and independent programme oversight and monitoring functions. This role ensures appropriate programme management milestones are managed and completed. UNDP or UNCDF will assign a national Programme Officer to provide part-time support to carry out the assurance function<sup>31</sup>.

### 6. FUND MANAGEMENT ARRANGEMENTS

This programme is a joint-programme, as defined by the UN Development Group, and associates UNCDF and UNDP as follows:

- Fund management will be on the basis of a **pooled funding arrangement**<sup>32</sup>.
- UNCDF will act as the Managing Agent on behalf of both agencies, according to UNDG rules. Donor and other third party co-financing funds will be transferred to UNCDF according to the budget management responsibilities as detailed in the budget through "pooled" funding modality, and this will be reflected in (a) inter-agency Memorandum of Understanding to be signed by both UNCDF and UNDP, and by other UN agencies which opt later to support this programme, and (b) the Letter of Agreement signed between the Managing Agent and Donor and other co-financing partners;
- In the course of implementation of this programme, and in monitoring and reporting on progress, UNCDF, UNDP and other future associated UN agencies will collaborate according to the regulations for Joint Programmes as these are issued by UNDG.

UNCDF is committing a total of USD 1,443,982. UNDP is committing a total of USD 100,000. There is a funding gap is of USD 5,468,207, which will need to be mobilized through the life of the programme. Up to US\$1,634,490 has already been identified as being potentially available from a separate UNCDF global programme and subject to meeting the criteria for accessing this fund, the effective funding gap for the programme will USD 3,833,717.

The administration of this Programme shall be governed by UNCDF's policies, and UNDP rules and regulations, which UNCDF also adopts, as defined in the UNDP Programme and Operations Policies (PoPP) within the policy context defined by the Executive Board.

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<sup>31</sup> This will be decided post-programme approval.

<sup>32</sup> See Annex 5 for the Operational details for pooled fund management for joint programmes..

## **6.1. TRANSFER OF CASH TO IMPLEMENTING PARTNER**

BOL is the Implementing Partner for the Programme and it is responsible for the overall delivery of the programme outcome and specific outputs.

### **6.1.1. UNCDF and UNDP as Responsible Parties for Financial and Procurement Administration**

Given BOL' role as a policy maker, regulator and supervisor and therefore the need to avoid potential conflict of interests, BOL requests and UNCDF accepts the role of the Responsible Party for the procurement and financial administration of the programme. This will be governed by a Letter of Agreement (LOA) for the provision of services by UNCDF and BOL stipulating the following services:

- a) Signing Performance Based Agreements (PBAs) with FSPs, providers of business support services, and networks and associations, making all payments, monitoring closely the performance, releasing payments as per terms of PBAs, preparing financial reports, submitting financial reports to BOL, which retains the overall obligation for the implementation programme and therefore the responsibility to circulate and share reporting to all other parties as necessary. This will relieve some of the administrative burden from BoL and help it to focus on its core role in monitoring and evaluation, leadership support and policy and regulation.
- b) Hiring and payment of international consultants and programme staff as needed, which will be managed through the UNCDF Asia Regional Office operations and procurement systems in Bangkok.
- c) Making payments for operational expenditure incurred as a result of day-to-day implementation of other activities. UNCDF will open one Designated Account in Vientiane where funds will be transferred quarterly to on the basis of approved quarterly work-plans.

Given BOL's role as the Implementing Partner, all payments and transactions made by UNCDF will be on the basis of approved minutes of the PMC and/or requests from the Chairman of the PMC to carry out activities under approved work-plans.

Also, as per the Letter of Agreement (LOA) between the Government of Lao PDR and UNDP with respect to the provision of support services by the UNDP Country Office for nationally implemented programmes and programmes, the UNDP Country Office may provide, at the request of the Implementing Partner, the following support services for the activities of this programme, and recover the actual direct and indirect costs incurred by the Country Office in delivering such services as stipulated in the LOA:

- a) Local payments, disbursements and other financial transactions.
- b) Recruitment of national staff, programme personnel, and consultants.
- c) Procurement of local services and equipment, including disposals.
- d) Organization of local training activities, conferences, and workshops, including fellowships.
- e) Travel authorization, Government clearances ticketing, and travel arrangements.
- f) Shipment, custom clearance, and vehicle registration.

The above arrangements can be adjusted in the course of programme implementation in accordance with applicable policies, processes and procedures of the participating UN organizations.

### **6.1.2. Audit Arrangements**

Audit will be conducted in accordance with the UNDP NIM Audit policies and procedures, and based on UN Harmonised Approach to Cash Transfer (HACT) policy framework.

### 6.1.3. Agreement on intellectual property rights and use of logo on the programme's deliverables

These will be retained by the employing organisation of the personnel who develops intellectual products, either Government or UNCDF and UNDP in accordance with respectively national and UNCDF and UNDP policies and procedures.

## 7. MONITORING, EVALUATION AND REPORTING

As stipulated in previous sections, regular monitoring will be conducted of the Programme through the framework of PMC. The monitoring and evaluation activities will be participatory and all stakeholders will be encouraged to be involved in the process.

Financial Service Providers (FSPs) and Business Service Providers receiving assistance under the Fund for Inclusive Finance (FIF) will submit quarterly progress reports to the Programme Implementation Support Team on performance against standard indicators and targets as set in the Grant or Loan Agreements as adopted by the PMC<sup>33</sup>. In addition, FSPs will post their data on the MIX Market<sup>34</sup> facilitating international exposure, and FSPs will consent to the MIX Market forwarding their data to the Micro Banking Bulletin (MBB) for global and regional benchmarking.

Policy and meso level outputs will be monitored partly through the information gathered through BOLs's systems that collate and disseminate information on FSPs across the country, through annual self-assessments and stakeholder surveys. These will be supplemented by commissioned research through mostly the MFWG.

The Country Technical Adviser with the Programme Implementation Support Team will prepare and submit a quarterly (QPRs) and annual progress reports (APRs), narrative as well as financial, to the PMC with programme assurance from the UNCDF Senior Regional Technical Advisor based in Bangkok. Specifically, the reports will include information on progress toward intended programme outputs as well as constraints and opportunities for further developing the sector, policy changes needed to remove the constraints or seize opportunities, and lessons learnt. APRs will be used for appraising the Annual Work Plan & Budget (AWPB) for the following year.

The APRs will also detail status quo on risks and other issues highlighted within the Programme. An Issue Log shall be activated in Atlas and updated by the Programme Implementation Support Team to facilitate tracking and resolution of potential problems or requests for change. Based on the initial risk analysis submitted (*See Annex 1*), a risk log shall be activated in Atlas and regularly updated by reviewing the external environment that may affect the programme implementation. In addition, a programme 'Lesson-learned' log shall be activated in Atlas and regularly updated to ensure on-going learning and adaptation within the organization, and to facilitate the preparation of the Lessons-learned Report at the end of the programme.

The Joint Programme is subject to an independent evaluations (mid-term and final), managed by the UNCDF Evaluation Unit, to assess its overall performance, the outputs and outcomes produced against its initial targets, the impact it has brought or would likely to bring about with a focus on the progress toward sustainability of the FSPs, its relevance to the national context, and management efficiency. The evaluation will be forward looking offering lessons learned and recommendations to improve programme performance or national policy for the next phase of the programme.

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<sup>33</sup> The Performance Monitoring indicators/baseline will utilize UNCDF standards as contained in model grant and loan agreements as per the UNCDF PPOM. These are based on standard financial ratios and gender-disaggregated data recommended by CGAP.

<sup>34</sup> <http://www.themix.org/en/index.html>. UNCDF will establish a dash-board under the MIX market to facilitate the entry of new and less experienced FSPs to the MIX.

## 7.1. JOINT-PROGRAMME MONITORING FRAMEWORK

Expected Results	Indicators	Means of Verification	Collection Methods	Responsibilities	Risks & Assumptions
<b>Joint-Programme Outcome:</b> Increased access to financial services by low-income households and micro-entrepreneurs.	Indicator 1: Numbers of low-income households and micro-entrepreneurs with access to financial services  <i>Baseline: To be established.</i> <i>Target: 140,000 additional active savings clients and 70,000 additional loan clients in 2014.</i>	1. FIF monitoring report. 2. BOL sector-wide monitoring report.	1. Quarterly report submitted by FSPs as part of established monitoring system. 2. Data to be submitted by all FSPs to BOL - monitoring system to be developed under the programme.	UNCDF	<i>Risk:</i> Sufficient funding endangering programme outcome.  <i>Risk mitigation strategy:</i> 1. A resource mobilisation strategy will be prepared as part of inception activities. 2. Activities for years 1 & 2 have been budgeted conservatively with little funding gap to allow for the programme to demonstrate results and improve prospects of financing the funding gap. 2. The programme to front-load capacity building to maximise in available funding and value for money.
<b>Output 1:</b> Policy makers more able to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally.	Indicator 1: Active number of FSPs licensed under microfinance regulation.  <i>Baseline: 18 licensed institutions.</i> <i>Target: 40 licensed institutions.</i>	1. BOL report.	1. BOL statistical report available to the public annually.	UNCDF	<i>Risk:</i> Oversupply/Crowding in of donors working on very similar issues.  <i>Risk mitigation strategy:</i> Identify overlap and develop a collaborative coordination mechanism to reduce duplication and to maximize resources.
	Indicator 2: Extent to which BOL incorporates commonly agreed priorities of FSPs in its policy priorities.  <i>Baseline: Low.</i> <i>Target: Moderate.</i>	1. MFWG report commissioned by the programme.	1. Annual 'review and reflection' report with MFWG members.	UNCDF	
	Indicator 3: Demonstration of clear process to assess the need for a policy on branchless banking and a policy where the need is found to be compelling.  <i>Baseline: No process exists.</i> <i>Target: Policy process completed and results are acted on.</i>	1. Official report.	1. Official report available for public consumption.	UNCDF	
	Indicator 4: Extent to which BOL shares key regulatory principles and standards implemented by central banks in successful microfinance markets.	1. AFI report. 2. MFWG report.	1. Desk-review of AFI reports + key stakeholder interviews among AFI staff. 2. Commissioned report on comparative regulatory policies every 2-years.	UNCDF	

	<p><i>Baseline: To be established during programme inception.</i> <i>Target: Moderate to high.</i></p>				
	<p>Indicator 5: Availability of reliable sector-wide monitoring data on financial and social impact performance of FSPs.</p> <p><i>Baseline: Patchy and unreliable.</i> <i>Target: Comprehensive and highly reliable.</i></p>	1. BOL report.	1. Collection system yet to be developed as part of the programme.	UNCDF	
	<p>Indicator 6: Perceived openness and responsiveness of the policy environment to demands from the microfinance sector.</p> <p><i>Baseline: To be established during programme inception.</i> <i>Target: Moderate to highly responsive.</i></p>	1. MFWG report.	1. Annual stakeholder perception surveys.	UNCDF	
<p><b>Output 2:</b> The financial sector development infrastructure more capable to meet the needs of financial service providers.</p>	<p>Indicator 1: Consistent trend in improvements in the performance of FSP that have received support compared with others that have not. Key measures to include portfolio at risk, client acquisition cost, loan and savings to staff ratio, operational self-sufficiency, and access to additional grants and other refinancing.</p> <p><i>Baseline: To be established during programme inception and various rounds of RFPs.</i> <i>Target:</i></p>	1. FIF monitoring report. 2. BOL sector-wide monitoring report.	1. Quarterly report submitted by FSPs as part of established monitoring system. 2. Data to be submitted by all FSPs to BOL - monitoring system to be developed under the programme.	UNCDF	<p><i>Risk:</i> Funding 1-2 business development service providers may create an uncompetitive business development services market with 2-3 players controlling 90%+ of the market.</p> <p><i>Risk mitigation strategy:</i> Funding for business development services will be a mix of funding directly to a few business development service providers to cover start-up costs (e.g. curriculum development) and also direct funding to FSPs who will decide from where they should buy business development services. Putting purchasing power in the hands of FSPs will significantly reduce the risk of an oligopoly-like situation developing in The Lao PDR.</p>
	<p>Indicator 2: Numbers of FSPs disclosing audited financial statements on MIX-Market to demonstrate their willingness to be transparent.</p> <p><i>Baseline:</i> <i>Target: 50% of all FSPs.</i></p>	1. MIX market. 2. FIF report.	1. Report generated annually from the MIX Market web-site. 2. Quarterly report submitted by FSPs.	UNCDF	
	<p>Indicator 3: Growth in the numbers of trained dedicated microfinance professionals available for the professionalization, growth and licensing of MFIs.</p>	1. Reports from training institutes. 2. Annual reports of MFIs. 3. Training	1. Reports publically available.		

	<p><i>Baseline: 40 trained on distance learning course + 0 trained in tailored microfinance curriculum provided at BI.</i></p> <p><i>Target: 700 trained on distance learning course + 300 trained in tailored full-spectrum microfinance curriculum of international standard at BI.</i></p>	curriculum and international certification.			
	<p>Indicator 4. Growth in the numbers of trained banking and finance professionals to support down-streaming of commercial banking services.</p> <p><i>Baseline: 2,500 banking and finance professionals receiving training at BI without a microfinance module.</i></p> <p><i>Target: 2,500 banking and finance professionals receiving training at BI with microfinance module of international standard.</i></p>	<p>1. Report from BI.</p> <p>2. Training module and international certification.</p>	1. Reports publically available.		
	<p>Indicator 5: Growing numbers of FSPs contribute membership fees and senior management time to the MFWG.</p> <p><i>Baseline: None.</i></p> <p><i>Target: 80% of FSPs with more than Kip 800m outstanding loan portfolio.</i></p>	1. MFWG annual accounts.	1. published report.	UNCDF	
	<p>Indicator 6: MFWG is recognized as the influential representative voice for FSPs.</p> <p><i>Baseline: To be established during programme inception.</i></p> <p><i>Target: Highly recognized.</i></p>	1. MFWG survey report.	1. Annual stakeholder perception surveys.	UNCDF	
<p><b>Output 3:</b> Financial service providers more responsive to the financial service needs of poor households and micro-entrepreneurs.</p>	<p>Indicator 1: FSPs receiving technical assistance offer a more diverse range of financial services.</p> <p><i>Baseline: Highly narrow range products and delivery systems.</i></p> <p><i>Target: Significantly wide range of products delivered through diverse systems.</i></p>	FIF report.	<p>1. Collation of annual reports from FSPs.</p> <p>2. Annual beneficiary satisfaction survey conducted by the programme.</p>	UNCDF	<p><i>Risk:</i> Limited in-country delivery infrastructure and technology leading to higher operational costs and thus achievement of OSS targets.</p> <p><i>Risk mitigation strategy:</i> Undertake innovative approaches and tailor programme roll-out in accordance with existing</p>

	<p>Indicator 2: FSPs receiving technical assistance and support are recognized as market leaders as evidenced by the quality and growth of their portfolio and overall market share.</p> <p><i>Baseline: To be established during programme inception and through various rounds of RFPs.</i></p> <p><i>Target: 70% of all FSPs supported have more than 100% OSS and they collectively hold more than 90% of market share.</i></p>	<p>1. FIF monitoring report.</p> <p>2. BOL sector-wide monitoring report.</p>	<p>1. Quarterly report submitted by FSPs as part of established monitoring system.</p> <p>2. Data to be submitted by all FSPs to BOL - monitoring system to be developed under the programme.</p>	<p>UNCDF</p>	<p>in-country infrastructures.</p>
	<p>Indicator 3: FIF and FSPs receiving support from FIF attract additional funding.</p> <p><i>Baseline: None.</i></p> <p><i>Target: USD 7m.</i></p>	<p>Annual audited accounts.</p>	<p>1. Report submitted by FSPs.</p>	<p>UNCDF</p>	

## 8. LEGAL CONTEXT

This document together with the CPAP signed by the Government and UNDP which is incorporated by reference constitute together a Programme Document as referred to in the SBAA between the Government of Lao People's Democratic Reform and United Nations Development Programme and all CPAP provisions apply to this document.

Consistent with the Article III of the Standard Basic Assistance Agreement, the responsibility for the safety and security of the implementing partner and its personnel and property, and of UNCDF and UNDP's property in the implementing partner's custody, rests with the implementing partner.

The implementing partner shall:

- put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the programme is being carried;
- assume all risks and liabilities related to the implementing partner's security, and the full implementation of the security plan.

UNCDF and UNDP reserve the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of this agreement.

The implementing partner agrees to undertake all reasonable efforts to ensure that none of the UNCDF and UNDP funds received pursuant to the Programme Document are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNCDF and UNDP hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via <http://www.un.org/Docs/sc/committees/1267/1267ListEng.htm>. This provision must be included in all sub-contracts or sub-agreements entered into under this Programme Document".

## 9. WORK PLANS AND BUDGETS<sup>35</sup>

<b>UNDAF Outcome</b>									
CP Outcome 1.1: Improved and equitable access to land, markets and social and economic services, environmentally sustainable utilization of natural resources, with balanced population growth.									
CP Outcome 1.5: Enabled environment for growth with equity.									
<b>Joint-Programme Outcome:</b> Increased access to financial services by low-income households and micro-entrepreneurs.									
Outputs	UN Organisation	Activities	Time Frame				Implementing Partner	Planned Budget	
			Q1	Q2	Q3	Q4		Source of Funds	Amount
Output 1: Policy-level Output  Policy makers more able to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally.	UNCDF	1.1 Assist BOL to access training & exposure in microfinance best practices.	-	-	X	X	BOL	UNCDF	25,000
	UNCDF	1.2 Support establishment of BOL microfinance department & IRD	-	-	X	X	BOL	UNCDF	35,000
	UNCDF	1.3 Support policy studies and organise policy enclaves to improve understanding of sustainable models of financial services in Lao	-	-	-	X	BOL	UNCDF	10000
	UNCDF	1.4 Translate and publish the best-practice briefs from CGAP, the U.N. Advisors Group on Financial Inclusion and other sources	-	-	-	X	BOL	UNCDF	10000
	UNCDF	1.5 Dissemination of Regulations (Northern, South, and Central Parts) including peridium, travel expense, accommodation	-	-	X	-	BOL	UNCDF	4500
	UNCDF	1.6 Technical workshop specifically for FSPs (including peridium, travel expense, accommodation..etc).	-	-	-	X	BOL	UNCDF	5000
	UNCDF	1.7 Performance Appraisal (Semi-annual basic)	-	-	-	X	BOL	UNCDF	3000

<sup>35</sup> The work-plan covers the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2010 in line with the Revised Standard Joint Programme Document guidelines approved by UNDG on 24<sup>th</sup> April 2008, which states: “the annual work plans cover not more than a 12-month period. However, usually at the start-up of the programme, these may cover less than one year”.

Outputs	UN Organisation	Activities	Time Frame				Implementing Partner	Planned Budget	
			Q1	Q2	Q3	Q4		Source of Funds	Amount
	UNCDF	1.8 Stakeholder Consultation workshop (Annually)	-	-	-	x	BOL	UNCDF	1500
	UNCDF	1.9 Development and publication of brochures on an on-going basis of microfinance industry monitoring data and other related info. With the ultimate objective of migrating the system to MIX Market.	-	-	x	x	BOL	UNCDF	5000
	UNCDF	1.10 Facilitate BOL invitation to join API	-	-	x	-	BOL	UNCDF	-
Sub-total Output 1									99,000
Output 2: Meso-level Output  The financial sector development infrastructure more capable to meet the needs of financial service providers.	UNCDF	2.1 Establish Fund for Inclusive Finance to support Retail and Meso level activities	-	-	x	x	BOL	UNCDF	10,000
	UNCDF	2.2 Increased capacity of Lao Banking Institute with productization of best practices and other microfinance training products for The Lao PDR microfinance professionals.	-	-	-	x	BOL	UNCDF	35,000
	UNCDF	2.3 Assist MFWG (including office rental, furnishing and staffing)	-	-	x	x	BOL	UNCDF	5,000
	UNCDF	2.4 Capacity assessment of all FSPs as part of due-dilligence for funding and in establishing base-line.	-	-	-	x	BOL	UNCDF	20,000
	UNCDF	2.5 Strengthening M&E and communication for joint-programme	-	-	x	x	BOL	UNCDF	5,000
Sub-total Output 2									75,000

Outputs	UN Organisation	Activities	Time Frame				Implementing Partner	Planned Budget	
			Q1	Q2	Q3	Q4		Source of Funds	Amount
Output 3: Micro-level Output  Financial service providers more responsive to the financial service needs of poor households and micro-entrepreneurs.	UNCDF	3.1 Recruitment of Country Technical Advisor [CTA] and establishment of FIF	-	-	x	x	BOL	UNCDF	25,500
	UNCDF	3.2 UNCDF National Operations Officer (NPO) sets up cash management and monitoring system, manages treasuring function for the programme on behalf of BOL, and prepares reports to BOL and other stakeholders	-	-	x	x	BOL	UNCDF	15,000
	UNCDF	3.3 Assist FSP to access training & exposure in microfinance best practices (eg. Cambodia, PLP)	-	-		x	BOL	UNCDF	20,000
	UNCDF	3.4 CTA helps build the capacity of FSPs. Make technical assistance available for product development, business planning, operations, and pilot roll-outs. Offer training to use tools such as Microfin (for planning)	-	-	-	x	BOL	UNCDF	30,000
	UNCDF	3.5 Technical assistance to FSPs on savings mobilisation	-	-	x	x	BOL	UNCDF	681,010
	UNCDF	3.6 UNDP performs Programme Assurance function	-	-	x	x	BOL	UNCDF	10,000
	UNCDF	3.7 Backstopping technical support from UNCDF Senior Regional Technical Advisor	-	-	x	x	BOL	UNCDF	4,500
Sub-total Output 3									786,010
<b>Total cost</b>	Total programme cost								960,010
	Total Indirect Support Cost (5% of pooled commitments)								77199
	<b>Total Programme and Indirect Support Cost</b>								<b>1,037,209</b>

**ANNEXURE TO JOINT PROGRAMME DOCUMENT**

**Building an Inclusive Financial Sector in Lao PDR**

<b>Annex 1</b>	<b>The Lao PDR Microfinance Sector Gap Analysis</b>
<b>Annex 2</b>	<b>Draft Terms of Reference for Programme Management Committee (PMC)</b>
<b>Annex 3</b>	<b>Draft Terms of Reference for Country Technical Advisor (CTA)</b>
<b>Annex 4</b>	<b>Draft Terms of Reference for Training Needs Assessment for Financial Sector Professionals</b>
<b>Annex 5</b>	<b>Operational details for pooled fund management for joint programmes</b>

**ANNEX 1 – LAOTIAN MICROFINANCE SECTOR GAP ANALYSIS**

Level	Constraints	Needs	Current & Planned Support	Gaps	Proposed UNCDF Support
Macro	<ul style="list-style-type: none"> <li>Some policy makers, local authorities and donors still lack a solid understanding of sustainable RMF. The concept of RMF is not fully disseminated.</li> </ul>	<ul style="list-style-type: none"> <li>Assist the policy makers, senior GOL and BOL officials to develop national inclusive financial sector policies</li> <li>Disseminate the best practice information to the policy makers, parliamentarians and senior government officials through awareness campaigns and strategic communications</li> </ul>	<ul style="list-style-type: none"> <li><b>ADB (Project: Catalyzing Microfinance for the Poor, complete June 2010):</b> Awareness raising workshops will be held for government officials and organizations that support microfinance to introduce best practices.</li> <li><b>GTZ- Access to Finance for the Poor project:</b> Financial systems development approach, i.e. supporting the development of financial services at the level of policies, regulations and supervision (policy level, BOL, provincial governments)</li> </ul>	<ul style="list-style-type: none"> <li>Training to GOL officials to understand the role of microfinance.</li> <li>Flexible funding for BOL to support policy studies and training of BOL staff</li> <li>An international microfinance conference attended by senior Laotians policy makers, international donors, and microfinance champions.</li> </ul>	<ol style="list-style-type: none"> <li>Establish Fund for Inclusive Finance to support meso and micro level activities</li> <li><b>Flexible funding for BOL</b> through Fund for Inclusive Finance to support policy studies, training and exposure visits for BOL staff.</li> <li>Microfinance Boulder Training Course in Turin, Italy</li> <li>Support the establishment of a BOL MF Department</li> <li>Based on constraints identified by retail Financial Service Providers (FSPs) work with BOL and other stakeholders to develop practical solutions to remove those constraints.</li> <li>Support policy studies to better understand the sustainable models of microfinance in the Lao PDR, documenting what is currently sustainable, is on track to become sustainable, or by design, could not become sustainable. Organize a conference of policy-makers and practitioners to discuss the findings.</li> <li>Translate and publish in Lao the best-practice briefs from CGAP and the other sources. Organize local language essay competitions on how the microfinance policy should be evolved and refined to develop the microfinance sector.</li> <li>In conjunction with other donors, organize stakeholders' roundtables and a major Microfinance conference attended by donors, global and regional lead FSPs, policy makers, local government officials, FSPs, and other stakeholders together for exchanging perspectives. Encourage the BOL to take lead on this initiative together with the MFWG. The meeting will address major policy issues as well as constraints faced at the meso and micro level. An effort will be made to invite global microfinance 'champions' in the global microfinance industry.</li> <li>Support dissemination of Policies, regulations, Good Practice and other relevant information through Conference, Policy Conclaves and the use of mass media (TV, radio, newspaper)</li> <li>Arrange visits for the Laotian officials to see the successful inclusive financial sectors in the other countries in Asia.</li> </ol>

Meso	<ul style="list-style-type: none"> <li>• Coordination among different stakeholders is inadequate</li> <li>• Accounting standards need to be improved.</li> <li>• Training and Consulting. There are a limited number of training and consulting facilities available to serve the sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Credit Information System need to be introduced.</li> <li>• A chattel registry should be introduced.</li> <li>• Coordination among the different stakeholders needs to be strengthened through a permanent organization (Microfinance Association)</li> <li>• Training and consulting facilities for FSPs inadequate).</li> <li>• International Financial Reporting Standards need to be</li> </ul>	<ul style="list-style-type: none"> <li>• <b>ILO:</b> Emphasis on capacity building of its village banks through an independent, specialized technical assistance provider, which in the process is being strengthened as well.</li> <li>• <b>CODI and FIAM,</b> in joint cooperation with the Lao Women’s Union, also support the VSCGs they set up through an independent, specialized technical assistance provider, and on top of that builds support networks of VSCGs. .</li> <li>• <b>World Bank/EC:</b> Plan to support MOF to develop best practice accounting and audit standards, and introduce International Financial reporting Standards (IFRS). <b>ADB (Project: Catalyzing MF for the Poor, complete June 2010)</b> Creation of a Microfinance Fund (MFF) Establishment of a Microfinance Fund Management Unit (MFFMU) within BOL for the duration of the project. Capacity building of the BOL microfinance unit. Training will be provided to BOL staff to enable them to support FSPs and manage the grant Program.</li> </ul>	<ul style="list-style-type: none"> <li>• Microfinance Association to represent the industry in Lao.</li> <li>• CGAP Accounting and Financial Analysis courses should be introduced (through TOT at the training institutes).</li> <li>• Funding (\$800,000) is insufficient for needs of sector and prevents funding business plans over a period to reach sustainability</li> </ul>	<ol style="list-style-type: none"> <li>11. Development and publication of microfinance industry monitoring data and other related info.</li> <li>12. Development of training material on, governance , management, internal control, credit procedures and policies</li> <li>13. Performance appraisal</li> </ol> <ol style="list-style-type: none"> <li>1. Assist BOL to coordinate sector development through a <b>Fund for Inclusive Finance</b></li> <li>2. Promote transparency in the Lao microfinance sector by developing reporting formats (accounting, portfolio and social impact) and performance benchmarks appropriate for different business models and products.</li> <li>3. Along with the other donors, support market research to explore demand for a range of financial services. This can be delegated to the MFWG.</li> <li>4. Provide support to the information clearing houses that track and provide data on the Laotian microfinance market. Additionally, facilitate reporting on MIX-market. Invite MIX representatives to promote MIX reporting in Lao. Additionally, facilitate reporting on MIX-market.</li> <li>5. Strengthen the training institutes through TOTs. Support introduction of a comprehensive university level Microfinance course at a local business school. Arrange internships for the students either directly or (preferably) through the proposed MF association.</li> <li>6. Adapt and translate CGAP one-week courses to offer at the Laotian microfinance training institutes.</li> <li>7. Support the training, mentoring and coaching of Laotian staff under the UNCDF LDC Fund for Savings Led Market Leaders.</li> <li>8. External Consultant for strengthening the capacity of BOL’s Banking Institute.</li> <li>9. Additional External Consultants as needed.</li> <li>10. Assistance to MFWG</li> <li>11. Training and certification for local auditors</li> <li>12. Annual audits and capacity assessment of FSPs</li> </ol>
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		adopted for the financial institutions	<ul style="list-style-type: none"> <li>• <b>GTZ:</b> Building (capacity in) associations of VSCGs, which should technically support the associated VSCGs</li> <li>• <b>IFC:</b> support for Credit Information Bureau, Secured Transactions Law and Registries</li> <li>• <b>ADB/EU:</b> support Credit Information Bureau</li> <li>• <b>SBFIC:</b> supports the development of MFC, in a partnership with CARD MRI</li> </ul>		
Micro	<ul style="list-style-type: none"> <li>• Management capacity of microfinance initiatives is limited.</li> <li>• The majority of FSPs in Lao PDR are not sustainable</li> </ul>	<ul style="list-style-type: none"> <li>• Increase funding for sustainable microfinance and reduce funding to non-sustainable models.</li> <li>• Training, mentoring and coaching of the management and staff of FSPs.</li> <li>• Exposure of FSP to other FSP's (locally and in region)</li> <li>• Significant investment in continuous</li> </ul>	<ul style="list-style-type: none"> <li>• <b>ADB:</b> Training for MFI and SCU managers and staff. Training workshops will cover topics such as MFI management, financial and operational management, accounting and Management information systems and governance. On-site follow-up support will be provided to MFIs and SCUs to help them improve their operations. A matching grant program for MFIs and SCUs. Grants can be used for seed capital, equipment, and capacity building. A total of US\$800,000 has been made available for grants under the program.</li> <li>• <b>SBFIC:</b> supports the development of EMI DT MFI, in a partnership with CARD MRI; next to that, it has a partnership with the Lao Women's Union to set up a DT MFI based on slightly adapted Grameen Banking Methodology</li> </ul>	<ul style="list-style-type: none"> <li>• One-stop funding that pools donor resources and can make long-term funding based on business planning.</li> <li>• Learning from the success experience of other FSPs in the region.</li> <li>• Training in Strategic planning, governance and transformation</li> <li>• Financial transparency, rating and assessments of the microfinance institutions.</li> </ul>	<ol style="list-style-type: none"> <li>1. Establish a Fund for Inclusive Finance under BOL leadership with funding based on sustainability and performance.</li> <li>2. Carefully facilitate the expansion of existing and entry of new FSPs to offer sustainable financial services to lower income markets to increase competition and variety of FSPs.</li> <li>3. Support FSPs to offer new products, such as micro leasing, microinsurance, or remittances to provide greater value for clients.</li> <li>4. Identify and help develop alternative delivery channels that will allow Laotian FSPs to reach scale, efficiency, and sustainability. Besides FSPs, help broker partnerships with other intermediaries, including retail stores, cell phone networks, and associations in the informal sector.</li> <li>5. Help build the capacity of MF institutions. Make technical assistance available for feasibility studies, product development, business planning, operations, and pilot roll-outs. Offer training to use tools such as <i>Microfin</i> (for planning) FRAME (Financial reporting and management evaluation), and CGAP assessment tool for FSPs.</li> <li>6. Provide MIS package like Micro-bankers complemented by training on cost share basis.</li> <li>7. Support "Mini" assessments of the FSPs through international rating agencies.</li> <li>8. Assist FSP to access training &amp; exposure in microfinance best</li> </ol>

		<p>training</p> <ul style="list-style-type: none"> <li>• Board members of the various institutions should receive training in corporate governance and the program will help deliver this training.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>ADB (in various programs), ILO, World Vision, GTZ, Lux-Development, IFAD, ACCU, FIAM, CODI, various hydropower and mining companies</b>, and some other organizations are all setting up or supporting CMLFs and/or village banks</li> <li>• <b>WEC</b> is supporting the creation of a multi-village based SCU</li> </ul>		<p>practices</p> <p>9. Technical assistance and advisory services: the Chief Technical Advisor (CTA) helps build the capacity of FSPs. Make technical assistance available for product development, business planning, operations, and pilot roll-outs. Offer training to use tools such as Microfin (for planning).</p> <p>10. CTA issues request for applications, technically scores according to agreed criteria, presents to Management Committee and prepares performance based agreements [PBAs] based on approvals</p> <p>11. SMART-subsidies to FSPs</p>
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**A. Rationale for the Fund for Inclusive Finance**

The Fund for Inclusive Finance (FIF) is a Fund initiated by the GOL, UNCDF and UNDP and supported by key donors and other stakeholders in the financial sector of Lao PDR. The overall aim of FIF is to provide financial access to the poor and low-income population and to jointly promote the development of an inclusive financial sector through complimentary and coordinated focus.

An inclusive financial sector can be characterized by<sup>36</sup>:

- Access by all bankable households, including women, and enterprises to a full range of financial services at a reasonable cost, including savings, short and long-term credit, mortgages, insurance, pensions, payments, local money transfers, international remittances, leasing and factoring;
- Soundness of institutions, which is maintained through performance monitoring by stakeholders and, where required, sound prudential regulation;
- Financial and institutional sustainability as a means of providing access to financial services over time;
- Multiple providers of financial services, wherever feasible, to bring cost-effective alternatives to customers, including sound private, non-profit and public providers.

The FIF provides a coordinated donor-funding mechanism for grants and loan capital to financial service providers (FSPs), based on agreed Good Practice principles, in ways that would increase outreach, market responsiveness and sustainability.

In order to coordinate funding of FSPs serving in particular the lower-income segments of the financial sector, funders will be encouraged to pool their resources to create efficiencies and better adherence to good practices, resulting in greater return in terms of outreach and institutional development impact per dollar invested towards overall reduction of poverty by half as per the MDGs.

**B. Management Structure**

In line with the Paris Declaration on Aid Effectiveness, funding from other donors will be harmonised through the FIF; UNCDF will coordinate and represent donor interests, concerns and views by helping to convene meetings with donors immediately prior to and after formal meetings of the PMC.

This Committee will consist of BOL DG of relevant department (Chair), UNCDF Regional Technical Advisor (member), BOL representative (ex-officio member with delegated authority of the DG to provide regular guidance to Programme Implementation Team), and UNCDF Country Technical Advisor (ex-officio member secretary as lead manager of the Programme Implementation Team).

**C. Role & Functions**

- Main role is to make joint decisions and approve strategic grant funding for building inclusive financial sectors in Lao PDR;
- Endorses scoring criteria and weights for approvals of PMC managed funds;
- Takes joint funding decisions based on agreed criteria (see ‘Guiding Principles for Funding’ below), in response to applications received and appraised by the Programme Implementation Team;
- Approves payments to FSPs and support infrastructure, as well as for specific technical consultancies or training workshops that may be required for the sector;
- The functions are related to management/approvals including approving the work plan and funding annually and as required when any changes are suggested to the approved work plan by the Programme Implementation Team;
- Agrees on scoring/selection criteria for applications.

This arrangement will increase the cost-effectiveness of donor investments in the sector, while also minimizing transaction costs to FSPs seeking funding, and their Technical Partners.

**D. Meetings – Frequency & Protocols**

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<sup>36</sup> <http://www.uncdf.org/english/microfinance/pubs/bluebook/>

- Meets on a quarterly basis to review proposals, monitor progress, and take actions as needed;
- The Programme Implementation Team will circulate all proposals and the institutional appraisals to all PMC members at least two weeks in advance of meetings. UNCDF will consult in advance with donors/ on potential interest in funding a proposal, and will draft the agenda and minutes of the meetings;
- The agenda will be compiled after consultations with members of the PMC at least one week in advance of the scheduled meeting;
- The draft minutes of meetings will be distributed by the Programme Implementation team not later than 7 days after each meeting.

#### **E. Guiding Principles for Funding:**

- Decisions to provide funding will be made on merit, and will not be subject to political or disbursement pressures;
- Decisions will be made by consensus to the greatest extent possible;
- If Proposals are deemed to be in violation of the Government's policy as advised by the BOL, applicants will be requested to provide amended proposals;
- Proposals may be approved on a multi-year basis if the PMC determines that the business plan is adequate. For multi-year approvals, the performance agreements will note annual targets and the tranche of funding to be released. If the targets are met, the FSP need not reapply in future years;
- PMC agree to utilize uniform performance based agreements And UNCDF's PBAs will serve as the benchmark;
- Reporting requirements, using standard terms and definitions as developed by the Consultative Group to Assist the Poor (CGAP) and as agreed by members of PMC.

The Programme Implementation Team will monitor performance of FSPs against the agreed indicators and targets, and will advise the PMC, if a FSP appears non-compliant. Funders will have the right to cease support to an FSP, programme component or the programme if deemed necessary (non-fulfillment of performance criteria, misappropriation of funds). The decision should be discussed in the Programme Management Committee, and with other funders contributing to funding of respective FSPs.

#### **F. Outline of Fund Operations**

The Fund will have two windows through which funds can be channeled to recipients as grants or loans:

- Support to individual FSPs (NGO-MFIs, Commercial Banks, Non-Bank Financial Institutions, Credit Unions, Village Credit Cooperatives, etc.)
- Support to networks and business service providers for FSPs (training/TA providers, auditors, raters, credit reference bureau, ICT, etc.)

#### **G. Criteria for Applications from FSPs**

Proposals may be made from start-ups, or institutions currently operating in the country. In order to assess the scope of potential investments, the PMC applies a set of progressively strict eligibility criteria for the loan and grant products made available, and disseminates information on these to the sector at large via the Programme Implementation Team. The criteria are based on CGAP Good Practices, and include:

- Firm and demonstrated commitment to full financial sustainability, flexible product development, cost effectiveness and transparency;
- Disciplined management;
- Transparency, with donors, government, clients and the public having the right to know status;
- Reporting and accountability, with regular operational, financial and audit reports;
- Gender considerations, enabling the participation of women;
- Governance, sound structures suitable to the institutional type, and largely free from government and political interference;
- Contribution to the expansion of the low-income client base.

To establish an initial baseline of the potential return on strategic donor capital to respective funders in the Lao PDR market, a time-specific first Request for Applications from FSPs will be made when the Fund is operational.

## **H. Appraisal and Approval of Strategic Funding to FSPs**

A time-specific first Request for Applications from FSPs will be announced through the Programme Implementation Team to potential applicants. Proposals received will be scored according to the following criteria:

- Outreach: change in number of active clients (borrowers/savers), both male and female;
- Profitability: Trend in Adjusted Return on Assets, Financial Self-Sufficiency;
- Portfolio Quality: Trend in Portfolio at Risk (PAR at 30 days);
- Leverage: Amount of funding from other sources (donor grants, savings, loans, equity)/funding requested and change in value of loans outstanding/funding requested;
- Track record of applicant in producing stated results for requested funds in similar situations;
- Management, including staffing and institutional form;
- Financial Frontiers: rural sub-districts served and/or new products/services.

NGO-MFIs applying should indicate in their proposals if they have a technical partner supporting the proposal, and the funds dedicated to cover the costs of this technical assistance. Technical partners are encouraged to jointly sign proposals with their partner FSPs to indicate mutual commitment to meeting proposed targets.

For proposals that are deemed to meet the selection criteria, the Programme Implementation Team will provide an appraisal/analysis with a recommendation to the PMC prior to the Committee's formal review of the funding proposals. Before the first request for the application is issued, the PMC may hire short-term technical consultants to provide the institutional scoring and appraisals, should the UNCDF CTA not yet be in place at the Programme Implementation Team.

## **I. Criteria for Applications from Business Support Service Providers**

Proposals may be made from providers of technical assistance, training, and other business services to FSPs (e.g. audit, ratings, credit reference bureau, Cash-In-Transit service providers, Internet Communications Technology (ICT), etc.), including private companies, private, public and professional institutes, universities, consultants and professional associations of FSPs currently operating in the country, or those which are outside of the country but wishing to start-up operations.

In order to assess the scope of potential funding to the level of intervention (meso), the PMC applies a set of eligibility criteria for the grants made available, and disseminates information on these to the sector at large via the Programme Implementation Team. The criteria are based on Good Practices, and include:

- Financial Transparency: contribute to the transparency of financial information to facilitate commercial investment;
- Sustainability: encourage the long-term sustainability of the services market to gradually remove the dependence on subsidies. The FIF will therefore usually require co-investment by the provider, often as matching grants;
- Competitiveness: Encourage the entrance of a range of providers to ensure that services offered are competitively priced, and customer responsive;
- Specialization, Diversity and Innovation: Encouraging innovations that reduce transaction costs, provide specialization, and promote product diversity;
- Business transactions: Promoting business transactions between the provider and recipient of services, thus grants will often be placed on the demand-side of the equation, enabling recipients of services to pay providers directly.

## **J. Appraisal and Approval of Strategic Funding to Business Service Providers**

As the nature and size of funding in the business services infrastructure will vary greatly, the potential return on grant funding in the Lao PDR market will be assessed on an individual basis, but the PMC can consider issuing a time-specific first Request for Applications from providers when the Programme Implementation Team is operational. Upon receipt, in addition to the above noted criteria, proposals will be screened according to the following:

- Firm and demonstrated commitment to commercial viability, flexible product development, market responsiveness and cost effectiveness.

- Legal identity and experience;
- Relevance of and demand for proposed service to FSPs (additionality);
- Market outreach and competitiveness (market share and customer composition, current product range, current level of operation, research and development capacity);
- Quality of the governance structure and organizational set up (commitment of the leadership, capacity for planning and management);
- Credibility and stability of management (motivation and capacity of staff/management, experience and capacity to overcome constraints);
- Management information systems and internal controls in place;
- Financial performance and quality of programmed financial plan.

Business services providers should indicate in their proposals if they have a technical working relationship with FSPs supporting the proposal, and whether funds from different sources are secured for parts of the proposal. Technical partners are encouraged to jointly sign proposals with their service providers to indicate mutual commitment to meeting proposed targets.

For proposals that are deemed to meet the selection criteria, the Programme Implementation Team will provide an appraisal/analysis with a recommendation to the PMC prior to the Committee's formal review of the funding proposals.

#### **K. Execution/Implementation Arrangement**

Harmonization of UN funding will be achieved through Joint Programme Arrangements: This is a "Joint Programme", as defined by the UN Development Group (UNDG), and associates UNDP and UNCDF as follows:

Fund management will be via "pooled funding" and UNCDF will act as the Managing Agent for both UNCDF and UNDP funds. Donor and other third party co-financing funds will be transferred to UNCDF according to the budget management responsibilities as detailed in the budget through "pooled" funding modality.

- In the course of implementation of this programme, and in monitoring and reporting on progress, UNDP, UNCDF and other future associated UN agencies will collaborate according to the regulations for Joint Programmes as these are issued by UNDG.

Other donors are encouraged to cost-share through this Joint Programme's Financial Inclusion Fund in order to i) minimize disbursement pressure; ii) harmonize reporting; iii) reduce administrative costs; and iv) expedite payments and implementation.

Funders will ensure that either: i) funds approved by the PMC can be disbursed within two weeks of approval; or ii) a certain percentage of committed funds is kept in the main programme account established by UNCDF in order to coordinate its disbursement after approval by PMC. It will be replenished upon proof that the previous tranche will be adequately used. Donor funds will be expended annually approximating the percentage of funds placed under the FIF's management in accord with PMC's approvals.

If needed, the PMC will review these Terms of Reference to adjust them to changing realities and to ensure smooth implementation arrangements. This may include registering the FIF as a separate legal entity consistent with the functions noted in these terms of reference.

#### **L. Reporting to Government**

The Programme Implementation Team, as directed by the PMC, will provide reporting on a semi-annual basis to the Government of Lao PDR and stakeholders on:

- Strategic grant funding disbursed;
- Results achieved by FSPs and Business Service Providers based on standard performance and financial indicators;
- Constraints and opportunities for further developing the sector;
- Recommended policy changes needed to remove the constraints or seize opportunities.

## **ANNEX 3 – DRAFT TERMS OF REFERENCE FOR UNCDF COUNTRY TECHNICAL ADVISOR (CTA)**

### **A. Responsibilities of the Country Technical Advisor (CTA)**

The objective is to set-up FIF with qualified staff to carry out implementation of the Programme effectively and in accordance with UNDP/UNCDF guidelines. Specifically, the CTA will:

- Provide support to the available interim staff to set-up FIF and conduct its operations. Support staff and other field/monitoring staff would be hired by the CTA as appropriate;
- Implement a training and on-the-job mentoring program for all FIF staff positions, including management;
- Carry out all activities related to the programme necessary for the successful implementation of the Programme;
- Follow the Joint Programme Documents (Programme Agreement etc.) as its mandate for the design, preparation and implementation of its work plans;
- Prepare an operational manual and establish procedures and criteria for monitoring and evaluation of the programme and of the participating institutions;
- Be responsible for the procurement, accounting and disbursement processes and administrative services related to planning, organizing, coordinating, implementing and monitoring of all aspects of the Programme;
- Set-up an accounting and financial management system and prepare quarterly reports, as required, by GOL, BOL, UNCDF and other donors;
- Ensure on time FSP quarterly and annual reporting based on UNCDF standard requirements in FSP Performance Based Agreements (PBAs),
- Build capacity in FSPs to provide on-time, high quality reporting for those that lack this capacity at programme inception;
- Ensure all FSPs have annually audited financial statements at CGAP standards for audits;
- Provide the quarterly progress reports to BOL for consolidation of overall programme implementation reporting;
- Utilize programme management tools to document and maintain the status of the Programme and monitor progress in Programme implementation, including the impact of activities in each component;
- Facilitate any external evaluation, impact assessment required of the Programme, including financial audits;
- Prepare operations policies and principles for FIF future operations.

### **B. Technical Support to Institutions Receiving Funds from the FIF**

Building on institutional weaknesses identified as part of the application appraisal process and during execution of investments, provide technical assistance as needed to funded FSPs and business services providers based on their progress against targets to be met in the funding Arrangements. This could include:

- Direct technical assistance to participating FSPs in areas of personal expertise;
- Helping recipients to identify appropriate (international, regional, local) technical assistance providers for areas outside of areas of personal expertise;
- Advising on the strengthening of FSPs or boards of directors and options for institutional/transformation mergers;
- Assisting in the organization of information exchange events nationally in conjunction with FSP networks, and/or regionally between participating FSPs and lead FSPs in other countries.

### **C. Reporting, Accounting, and Auditing**

- The CTA will prepare quarterly progress reports on the overall programme implementation for review by BOL, UNCDF and other donors;
- At the end of the Programme Phase I, the CTA will prepare a comprehensive programme completion report (supported by data) which would include programme implementation experience, impact on institutions and clients.

### **D. Impact of Results:**

- Timely programme outputs and good human and financial resources management directed at achieving the intended results of the programme;

- At retail level: the extent to which potential leaders of the microfinance industry have received assistance to address key weaknesses (products and services including MIS, internal controls, governance) so they have a solid foundation in order to reach sustainability and considerably increased their outreach within a competitive environment;
- At meso level: the quality and quantity of strategic partnerships built with other donors, equity investors and commercial banks in joint support of an inclusive financial sector;
- FSP support in helping them design and implement financial products as well as use new delivery channels and new institutional models to serve low income and rural clients;
- Constraints removed at macro, meso and retail levels through the provision of well-targeted policy advice and technical assistance: the policy should ensure that sound microfinance principles are disseminated and adopted;
- Strengthen commitment by donor, FSPs, NGOs and other regional and national partners to adopt best practices for grants and loans in order to create inclusive financial sectors.

## **COMPETENCY**

### **E. Corporate Responsibility and Teamwork:**

- Serves and promotes the vision, mission, values, and strategic goals of the Programme;
- Plans, prioritizes, and delivers tasks on time;
- Participates effectively in a team-based, information-sharing environment, collaborating and cooperating with others;
- Responds flexibly & positively to change through active involvement;
- Establishes clear performance goals, standards, & responsibilities; manages them accordingly;
- Promotes a learning environment; facilitates the development of individual and team competencies.

### **F. Results-Orientation:**

- Plans and produces quality results to meet established goals;
- Generates innovative, practical solutions to challenging situations.

### **G. Partnering and Networking:**

- Seeks and applies knowledge, information, and best practices from within and outside the Programme;
- Strong networking capabilities and ability to associate him/herself with a range of actors with a view to building relations and facilitating links.

### **H. Innovation and Judgment:**

- Conceptualizes and analyses problems to identify key issues, underlying problems and how they relate;
- Contributes creative, practical ideas and demonstrates sense of entrepreneurial initiative to deal with challenging situation;
- Strives for quality client-centered services (internal/external) when making decisions and taking action.

### **I. Communication:**

- Demonstrates effective written and oral communication skills.

### **J. Job Knowledge & Expertise:**

- Demonstrates substantive and technical knowledge to meet responsibilities and post requirements with excellence;
- Uses ICT and web-based management systems effectively as a tool and resource;
- Is motivated & demonstrates a capacity to pursue personal development & learn.

### **K. Nature of Interactions:**

- Is motivated & demonstrates a capacity to pursue personal development & learn;
- Active and continuous engagement with FSPs to generate viable pro-poor financial services projects which can be supported by the programme;

- Frequent travel to countries to meet with policy makers, regulators and industry actors to promote the programme, identify partnerships and programme support opportunities and to conduct monitoring of projects supported by the programme.;
- Build strong working relationships, supported by an effective communications strategy, with members of the donors contributing to the FIF who are also members of the Informal Donor Investment Coordination Group;
- High level substantive engagement with policymakers and regulators, FSPs and Telecommunication companies to identify policy advice and technical assistance needs to address specific constraints and to capitalize on opportunities;
- Build strong networks with international regional and national institutions and programmes involved in financial services research, advocacy and development.

### ***REQUIRED SKILLS & EXPERIENCE***

#### **L. Education:**

- The CTA/TSP will hold a Master's degree from a reputable institution in finance or economics.

#### **M. Experience:**

- Have a minimum of 10 years relevant, practical working experience within the financial sector and/or microfinance, preferably in least developed countries (LDCs) with at least 3 years demonstrated experience in managing a development programme in the field of microfinance;
- Demonstrated experience with FSP institutional development (product development, internal controls, financial, credit, and human resources management, MIS etc.);
- Documented deep technical knowledge and experience in (Micro) finance good practices for industry building, and development of inclusive financial systems and products in emerging markets;
- FSPI management, preferably in an emerging market;
- Strong financial analysis and business project appraisal skills;
- Familiarity with UN/UNCDF rules and procedures is an advantage;
- Excellent organizational, inter-personal, communication and administrative skills, including solid experience in financial management.

## ANNEX 4 – DRAFT TERMS OF REFERENCE FOR TRAINING NEEDS ASSESSMENT FOR FINANCIAL SECTOR PROFESSIONALS

### Purpose of Assignment

The supply of private-sector, fee-based support services for the financial system is limited. Subsidized technical assistance provided by donors to individual financial institutions is available but not sufficient to cover the entire industry. No local firm offers financial sector training on sustainable basis. Nor is it likely that the market will become large enough to support one, leaving most institutions to struggle individually to find training solutions.

The GOL recognizes the need for technical assistance, training and investment in order to modernize its economy and address critical health, education and employment issues, and has welcomed programs designed to address these needs. It has requested UNCDF to provide support to Banking Institute (BI) to build its capacity to train the financial sector professionals.

Support to the BI will aim at achieving long-term objectives of the financial inclusion policy.

- Increase the pool of trained and competent financial sector professionals in Lao PDR
- Strengthen the BI and partner qualified training institutes through development of curriculum, training and certification of trainers, and sponsoring exposure trips for instructors in the other countries of the region.
- Support introduction of a comprehensive university level Microfinance course at BI or a local business school. Arrange internships for the students either directly or (preferably) through the proposed MF association.
- Adapt and translate CGAP one-week courses to offer at BI and/or other Laotian microfinance training institutes.
- Support the training, mentoring and coaching of financial sector professionals.

### Consultant's Scope of Work

The consultant will present recommendations to upgrade and strengthen the capacity of **BOL's Banking Institute (BI)** to train the Laotian financial sector professionals including staff of central bank, public and private commercial banks, NBFIs, credit unions, insurance companies and other financial service providers in collaboration with regional/global academic and financial sector training institutions. The consultant will make recommendations on the following strategies among others to position BI as a leading financial training institution:

- i. **Training:** To recommend how training and capacity building initiatives at BI can meet agreed standards through delivery of needs-based training, offering capacity building activities, establishing a quality control mechanism, upgrading the curriculum and facilitating international certification of trainers;
- ii. **Information Exchange:** To promote, encourage and facilitate a proactive and timely exchange of relevant training and capacity building initiatives among all actors in financial sector through disseminating information on training and capacity building activities including an interactive internet, e-mail list serve, and other means as appropriate;
- iii. **Research.** To identify areas of sector-wide training and capacity building needs;
- iv. **Interface:** To act as an interface between financial institutions and other stakeholders;
- v. **Networking.** To encourage and facilitate BI's partnerships with regional and global networks of financial sector training providers;
- vi. **Initiate and/or promote standards and guidelines.** As appropriate, to initiate and/or promote standards/best practices in various areas of training and capacity building activities in order to improve the quality of training and capacity building initiatives.
- vii. **Initiate and/or promote training and capacity building activities.** As appropriate, to initiate and/or promote training and capacity building activities in order to strengthen capacities in specialized areas such as micro-finance, risk management, strategic management, ALM etc.
- viii. **Regional Resource Mapping.** To set up a library/database at BI to provide information on regional and global financial sector training resources for sharing amongst financial sector professionals;

- ix. **Learning Adaptation:** To promote adoption, adaptation and use of current international standards of best practice by agencies working in the financial sector such as CGAP and UNCDF as well as providing information and training on issues related to the financial sector reform

**MONITORING AND PROGRESS CONTROLS** (Reports requirements, periodicity, format, deadlines)

The UNCDF Regional Technical Advisor (FIPA) based in Asia, will oversee and coordinate all activities of the consultant. The RTA will play substantive role in advising on the nature of the programme, actively participating in its activities. The consultant will liaise regularly with RTA and UNDP CO designated staff.

**QUALIFICATION AND EXPERIENCE OF CONSULTANT (Degree required, years of experience, field of expertise)**

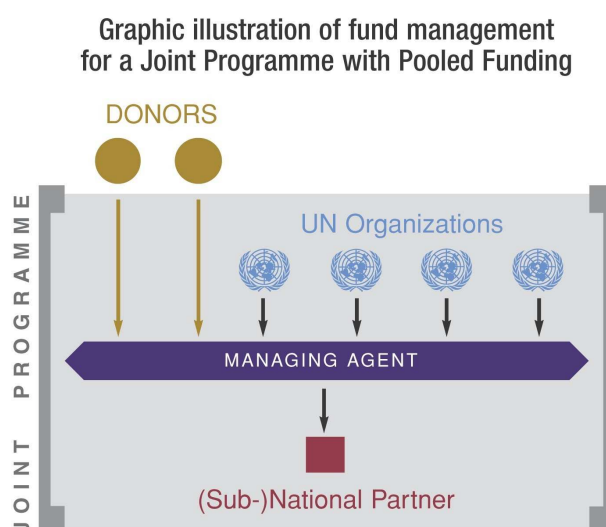
The International consultant should have following qualifications and experiences.

- An advanced degree in Banking, Finance, Economics or relevant field.
- Substantive knowledge and experience (minimum 10 years) of financial sector training including Bank and Microfinance training experience.
- Excellent communication skills in English; Laotian skills desired but not essential;
- Excellent analytical skills as demonstrated, for example, by prior experience in financial training needs assessment in the Asia-Pacific region;
- Prior experience in working with bilateral or multilateral donors or IFIs as well as working with central banks, senior government officials and financial service providers.

## ANNEX 5: OPERATIONAL DETAILS FOR POOLED FUND MANAGEMENT FOR JOINT PROGRAMMES

**B.1 Definition:** This fund management option is likely to be the most effective and efficient when participating UN organizations work for common results with a common national or sub-national partner (e.g. Department, provincial office, NGO) and/or in a common geographical area. Under this option, participating UN organizations pool funds together to one UN organization, called the Managing Agent (MA), chosen jointly by the participating UN organizations in consultation with the (sub-)national partner. The MA will support the (sub-)national partner in managing the programme. Programme and financial accountability for the UN support to the joint programme will rest with the MA.

**B.2 Resource Flow and Management:** The following graphic illustrates the fund flow under the pooled fund management.



**B.3 Coordination Mechanism:** Once the joint programme has been developed and agreed jointly by the participating UN organizations, the arrangements for monitoring, review, and coordination should be documented. The composition of the joint programme coordination mechanism (referred to in the standard agreements as Joint Programme Steering Committee) shall include all the signatories to the joint programme document. The coordination mechanism may also have other members, such as donors and other stakeholders, in an observer capacity.

**B.4 Reporting:** The MA will prepare and share narrative and financial reports in accordance with its policies and procedures and operational policy guidance for submission to the Joint Programme Coordination Mechanism.

**B.5 Monitoring and Evaluation:** This will take place during the year in accordance with the MA's procedures and policy guidance. All signatories to the joint programme document will participate in monitoring and evaluation and contribute to the Annual Review. For some UN organizations, the review takes place every other year. It is however recommended that joint programmes should be reviewed at least annually.

- B.6 Selection of the Managing Agent:** When selecting the MA, the organizations that have pooled their funds will take the following elements into consideration: i) Country presence, ii) Expertise in the area covered by the Programme (comparative advantage), iii) Existing relationship with national counterparts, and; iv) In-country financial/administrative management capacity.
- B.7 Fund Management Mechanism:** Each UN organization participating in the pool would sign a Memorandum of Understanding with the MA (see Annex F). The MA is accountable for supporting the (sub-)national partner in managing the joint programme. The MA is accountable for timely disbursement of funds and supplies, and for coordinating technical inputs by all participating UN organizations. The MA also follows up with the (sub-)national partners on implementation, and is accountable for narrative and financial reporting to the joint programme coordination mechanism. The MA may engage in resource mobilization for the joint programme, in consultation with government and participating UN organizations.
- B.8 Budget Preparation:** The MA will prepare a budget for the joint programme, consistent with its procedures, and covering the mutually agreed components of the programme, for endorsement by the participating UN organizations.
- B.9 Accounting:** The MA will account for the income received to fund the joint programme in accordance with its financial regulations and rules.
- B.10 Indirect Costs:** The MA will recover indirect costs in accordance with its financial regulations and rules. This will be documented in the Memorandum of Understanding signed with the participating UN organization(s) and in any funding agreement signed with the donor(s).
- B.11 Interest:** In the case of Other Resources, interest will be administered in accordance with the financial regulations and rules of the MA and as documented in the Memorandum of Understanding signed with the participating UN organization(s) and in any funding agreement signed with the donor(s).
- B.12 Balance of Funds:** The disposition of any balance of funds remaining at the end of programme implementation will be in accordance with the Memorandum of Understanding signed with the participating UN organization(s) and in any funding agreement signed with the donor(s) (see Annex F).
- B.13 Communication:** Upon consultation with the participating UN organisations, the Managing Agent shall take appropriate measures to publicize the Joint Programme as a joint programme of all the participating UN organisations and the (sub)-national partner. Information given to the press, to the beneficiaries of the Joint Programme, all related publicity material, official notices, reports and publications, shall acknowledge the role of the (sub)-national partner, the Managing Agent and all participating UN organizations, and the other contributors (if any) to the joint programme account.
- B.14 Audit:** Consistent with current practice, audits of joint programmes will be conducted in accordance with the respective UN organizations' requirements. The audits conducted by the MA's internal and/or external auditors should be considered acceptable to all UN organizations contributing to the pool.