



United Nations Capital Development Fund (UNCDF)

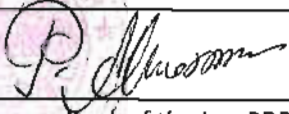
Country: the Lao People's Democratic Republic

Programme Document

Amendment 1

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.
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	15th June 2010 – 31 December 2017	Total estimated budget	USD 9,847,987
Date of local UNDAF PAC	18 th May 2010	1. Total funded budget	USD 7,835,449
Date of UNCDF HQ PAC	11 th May 2010	1.1 UNCDF Core	USD 1,443,982
Management arrangement		1.2 UNCDF MicroLead	USD 100,000
National Implementation (NIM)		1.3 UNDP Core	USD 100,000
Direct Implementation (DIM) for Parallel Funding (MicroLead and MM4P)		1.4 DFAT	USD 6,191,467
Fund management option:	Combination Pooled and Parallel	2. Total unfunded budget	USD 2,012,538
Atlas Award ID		3. Parallel Funding (DIM)	USD 1,904,467
		3.1 UNCDF MicroLead	USD 1,737,610
		3.2 UNCDF MM4P	USD 166,857

Government: 

Bank of the Lao PDR
Government of the Lao PDR

UNCDF: 

Judith Karl
Executive Secretary, UNCDF



15 DEC 2011

Date

24 November 2014

Date

List of Acronyms

ACCU	Association of Asian Confederation of Credit Unions
ACLEDA	Association of Cambodian Local Economic Development Agencies
ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
AMIL	Association of Microfinance Institutions in the Lao PDR (<i>proposed</i>)
APB	Agricultural Promotion Bank
ASEAN	Association of South East Asian Nations
BSD	Banking Supervision Department
BOL	Bank of the Lao PDR
BOP	Bottom of the Pyramid
BPA	Banking Payment Authority
BSRP	Banking Sector Reform Program
BI	Banking Institute
CARD	Center for Agricultural and Rural Development (a Philippines MFI)
CARD MRI	CARD Mutually Reinforcing Institutions
CGAP	Consultative Group to Assist the Poor
CMLF	Community Managed Loan Fund
CODI	Community Organizational Development Institute
CTA	Country Technical Advisor
DFAT	Australian Department of Foreign Affairs and Trade
DT MFI	Deposit Taking Microfinance Institution
EC	European Commission
EMI	Ekphatthana Microfinance Institution
FIF	Fund for Inclusive Finance
FISD	Financial Institution Supervision Department
FIAM	Foundation for Integrated Agriculture Management
FRAME	Financial Reporting and Management Evaluation
FSP	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)
FSSO	Financial Services Support Organization
GDP	Gross Domestic Product
GOL	Government of the Lao PDR
GIZ	Gesellschaft für Internationale Zusammenarbeit (German International Cooperation)
IC	Investment Committee
IFC	International Finance Corporation
IFI	International Finance Institutions
IMF	International Monetary Fund
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
LDC	Least Developed Country
LPSI	Lao Postal Saving Institution
MAP	Making Access to Finance Possible
MB	Mobile Banking
MDG	Millennium Development Goals
MFA	Microfinance Association for the Lao PDR
MFC	Micro Finance Center
MFS	Mobile Financial Services
MFI	Microfinance Institution

MIS	Management Information Systems
MM4P	Mobile Money for the Poor (UNCDF Global Thematic Initiative)
MNO	Mobile Network Operator
MOF	Ministry of Finance
MPI	Ministry of Planning and Investment
MSME	Micro Small and Medium Enterprise
NBFI	Non Bank Financial Institution
NDT MFI	Non Deposit-Taking Microfinance Institution
NGO	Non-Governmental Organization
NGPES	National Growth & Poverty Eradication Strategy
PIT	Programme Implementation Team
PMC	Programme Management Committee
PBA	Performance Based Agreement
RFSDP	Rural Finance Sector Development Programme
RTA	Regional Technical Advisor
RMF	Risk Management Framework
RMFC	Rural and Microfinance Committee
SBAA	Standard Basic Assistance Agreement
SBFIC	Savings Bank Foundation for International Cooperation
SCU	Savings and Credit Union
SHG	Self Help Group
SNV	SNV Netherlands Development Organization
SOCB	State-Owned Commercial Bank
UNCDF	United Nations Capital Development Fund
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
VB	Village Bank
VRF	Village Revolving Fund
VSCG	Village Saving and Credit Group
WB	World Bank
WEC	World Education Consortium
WPP	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 programme of UNCDF, 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 seek to increase access to financial services by low-income households and micro-entrepreneurs on a sustainable basis to an additional 408,000 active users of financial services by end 2017, with a minimum of 300,000 additional active users. To achieve this, the 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.

This 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.

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 age¹.

...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 6th 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 2007².

...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)³, the Lao PDR faces an uphill task of alleviating poverty and promoting inclusive

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

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".

...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 Association, 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 BOL⁴, funded by the Asian Development Bank (ADB)⁵.

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.⁶

At the end of the 3rd 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

⁴ The central BOL

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

⁶ 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.

security system, 28 pawn shops, seven licensed Deposit Taking MFIs, 11 licensed Saving and Credit Unions⁷ and one leasing company with a temporary license.

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)⁸. 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 3rd 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,⁹ 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 1: Number and Type of Financial Institutions¹⁰

	2006	2007	2008	30 Sept 2009
Number of Banks	13	15	19	20
<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

⁷ A member based type MF service provider

⁸ Data: BOL, September 2009

⁹ 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.

¹⁰ Data: BOL, year end unless indicated otherwise

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

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, SOCBs 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 NBFIs 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.¹¹ Supervisory capacity at the BOL is currently weak and its effectiveness is further undermined by the conflict of interest inherent in its roles as owner¹² 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 SOCBs¹³ 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.

¹¹ 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.

¹² This remains true even though the Ministry of Finance acts as administrator of the SOCBs

¹³ Banque pour le Commerce Extérieur Lao (BCEL), Lao Development Bank (LDB)

- *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.
- *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 2004¹⁴ 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 GIZ in 2006¹⁵ 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:

¹⁴ 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.

¹⁵ "Enterprise Baseline Survey: Volume 1, Main Report", Lao-German Programme on Human Resource Development for Market Economy, GIZ. Vientiane Ma Baseline Survey 2006.

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.

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 APB¹⁶ 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 Association (MFA) for the Lao PDR, May 2007: The Lao PDR Microfinance Association (MFA) 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 GIZ.

2.3.1 Supply of microcredit and other services¹⁷

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

¹⁶ 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.

¹⁷ 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.

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 accounts¹⁸ with both total deposits and total outstanding loan portfolio at around USD 4.4 million.
- 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 USD¹⁹.

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.

Table 2: Activity and outreach of the MF sector by type of MFI

Types of Institutions	Loan Portfolio (LAK)	Deposits (LAK)	No. loan clients	No. savings clients
DTMFI				
2010	20,218,142,046	18,562,866,784	6,971	14,082
2011	35,039,166,187	32,500,564,002	9,974	23,934
30-06-12	45,109,178,920	40,842,618,824	11,065	32,307
NDTMFI				
2010	11,704,309,051	5,670,749,469	9,592	17,573
2011	15,510,224,292	7,485,187,402	7,019	15,632

¹⁸ Sum of the number of all savings accounts and all loan accounts.

¹⁹ 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.

	30-06-12	NA	NA	NA	NA
	SCU				
	2010	17,287,012,192	4,836,693,105	2,395	5,873
	2011	15,932,170,309	9,591,317,268	3,077	9,576
	30-06-12	19,936,619,381	11,983,772,771	4,146	11,045
	TOTAL				
	2010	49,209,463,289	29,070,309,358	18,958	49,142
	2011	66,481,561,418	49,577,068,672	20,070	43,352
	30-06-12	65,045,798,301	52,826,391,599	15,211	5,873

3 STRATEGY

3.1 Background and Context

For over two billion people in the world who live on less than USD 2 per day,²⁰ 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.²¹

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 dependent on significantly increasing people's access to finance.

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".²² "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".²³

3.2 Gap Analysis of Laotian Microfinance Sector and Lessons Learnt

²⁰ 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]

²¹ 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%3A%20Good%20for%20clients%2C%20good%20for%20business?)

²² The Big Business of Small Loans. Emerging Markets. http://cgap.org/press/press_coverage81.pdf

²³ 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

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.

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 Association (MFA) 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 oriented²⁴: MF services can help poor people deal with social economic shock in their lives or enable engagement in profitable economic

²⁴ Brett E. Coleman and Jon Wynne-Williams, "Rural Finance in the Lao People's Democratic Republic: Demand, Supply, and Sustainability (Results of Household

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 Programme

3.3.1 Rationale for the Programme and Overall Role of UNCDF

Access to finance is also recognized by the GOL as 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”*.

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.

Making Access to Finance More Inclusive for Poor People (MAFIPP) is a seven year (2010 to 2017), responding to the above mentioned gaps in the financial sector with activities targeting three sectors. MAFIPP 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 and UNCDF, along with other participating donor agencies who wish to contribute towards the development of an inclusive financial sector in Lao PDR.

At the Macro level, the programme works with the BOL to build capacity of the regulator to improve the supervisory process; at the Meso level support is targeted toward services providing financial infrastructure to the sector including formalizing the Microfinance Association into an association, supporting independent auditors and other business service providers.

MAFIPP was designed as a joint UNCDF-UNDP programme for a duration of four year from June 2010 to Dec 2014. UNCDF provided USD 100,000 to the programme during the initial phase. The project ceased to be a

joint programme from July 2013²⁵. This document reflects changes in the Lao financial sector through modifications to the programme design, to achieve the desired objectives.

3.3.1.1 Role of UNCDF

The role of UNCDF – both as a specialized agency recognized for its expertise and experience in microfinance²⁶ and in its role as the technical policy advisor to UNDP in microfinance programming²⁷ – 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 by²⁸:

- 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.

UNCDF will also actively engage with other donor agencies interested in supporting this programme.

3.3.2 Stakeholders, Target Groups, Ultimate Beneficiaries

3.3.2.1 Stakeholders

a) **The GOL**, principally the Bank of Lao PDR's Financial Institutions Supervision Department.

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.

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.

²⁵ See minutes of 12th PMC on 13 August 2013: "UNDP Withdrawal as joint-partner under MAFIPP according to its letter dated 3 July 2013", with comment "Acknowledged and endorsed by PMC".

²⁶ See "SmartAid 2009" (CGAP, 2009).

²⁷ See http://www.uncdf.org/english/microfinance/UNDP_MFpolicy.php for the "UNDP Microfinance Policy: Improving UNDP's Performance in Microfinance"

²⁸ See http://www.uncdf.org/english/microfinance/uploads/thematic/Building_Inclusive_Financial_Sectors_The_Blue_Book.pdf

- 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 International Cooperation (GIZ), 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 FISC** 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 (GIZ, 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 Vientiane²⁹ and Paris Declarations on Aid Effectiveness³⁰.

Based on a donor mapping and gap analysis, 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

²⁹ www.rtm.org.la/documents/VientianeDeclaration__feb07.doc

³⁰ 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>

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 DCED compliant and 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 408,000 additional active users of financial services in 2017³¹ with a minimum of 300,000 additional active users.

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.

³¹ 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.

- 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 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 Fund for Inclusive Finance (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.

To support the operationalization 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, UNCDF has identified the following 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.

Activities

- 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 GIZ 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 MFA. 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.
- h)
- i) MAP – Making Access to Financial Services Possible: Defining the financial inclusion agenda in the Lao PDR based on a rigorous evidence-based diagnostic exercise, concluded by intense stakeholder dialogue and decision making in a process steered by the government.³²

"Making Access to Financial Services Possible", in short MAP, has been developed by UNCDF as a global initiative to enhance financial inclusion with the stated objective of completing MAP exercises in 22 countries in Africa and Asia over the coming six years. In the meantime MAP is being implemented in seven countries in Africa. In Asia MAP has been completed in Thailand and is in final stages of implementation in Myanmar. In the Lao PDR, the government and UNCDF have agreed to also do a full MAP exercise as one of the key, prioritized activities of MAFIPP. In order to realize this agreement, MAP has been embedded in the MAFIPP Annual Workplan for 2013 and in the meantime preparation and implementation of MAP has been initiated.

MAP is a diagnostic and programmatic framework to support expanding access to financial services for individuals and micro and small businesses. The MAP framework creates the space to convene a wide range of stakeholders around evidence-based country diagnostic and dialogue and leads to the development of national financial inclusion roadmaps, in which key drivers of financial inclusion are identified, and includes specific actions that contribute to greater financial inclusion.

MAP as a Diagnostic Tool

The basis of MAP is constituted by evidence-based country diagnostics; comprehensive and in-depth analyses of demand, supply and the regulatory environment which put the ultimately intended beneficiary of enhanced financial inclusion, low-income people and micro and small enterprises, at the heart of the analyses.

As a technical instrument, the MAP diagnostic provides an in-depth analysis using qualitative and quantitative methods in the following areas:

- On the demand side, applying FinScope methodology, the tool analyzes the existing take-up/usage of financial services, the needs and the financial behaviors of existing and potential clients, as well as a preliminary assessment of market segmentation. The demand side uses quantitative as well as qualitative approaches, while building on existing data. FinScope also developed a methodology tailored to the analysis and promotion of SMEs.

³² A document on aspects of management and implementation specific to MAP in the Lao PDR as an activity of the MAFIPP programme has been attached as Annex 6 to the programme document in hand.

- On the supply side, the tool analyzes the spectrum of financial services providers including banks, microfinance institutions, financial cooperatives, insurers and payment services providers. It also includes telecommunications and retail services providers as well as related delivery channels that could play a role in the distribution of financial services to remote rural areas and to vulnerable populations, such as women, youth, and the disabled. The tool provides a prospective analysis of what could become new distribution channels (value chains, agent banking models, mobile phone networks) and new aggregators of financial services based on partnerships between financial service providers and non- financial service providers as agents.
- On the policy, legal, regulatory and supervisory front, the tool facilitates an extensive analysis of the environments that impact financial inclusion. In addition to the prudential and non-prudential regulations, the tool also assesses other regulatory frameworks that could have an impact on financial inclusion (i.e., regulations on cooperatives, on telecommunications, etc.).
- On financial infrastructure, the tool assesses how the general infrastructure (internet, telecoms, postal services) as well as financial sector infrastructure (credit bureaus, rating agencies, technical service providers, research and academia, national associations, etc.) may be leveraged or strengthened in order to help further expand financial access.
- On the client capability and protection front, the tool emphasizes client financial literacy and capabilities, as well as ways in which the principles of client protection and financial capability can be tightly anchored within the agenda of promoting greater financial access.

Through the diagnostics, MAP provides a framework to understand, in a given country context, the key drivers of financial inclusion, and act upon them. In doing so, it also offers a solid basis on which to carry out further detailed analysis on specific issues as required, either incorporated into the MAP process or conducted separately. Some examples of which could be SME finance (through the FinScope small business survey), insurance (through the Access to Insurance Country Diagnostic), or branchless banking (through the Global Mobile Money for the Poor programme).

MAP as a Process

Next to a diagnostic tool MAP is a dialogue enabler that will be adapted to different country contexts and builds upon and leverage existing or planned in-country processes. MAP is different from previous methods in that it offers a holistic approach that goes beyond the diagnostic to map a process, sets it up for implementation, and provides mechanisms for financing it. The process is as follows:

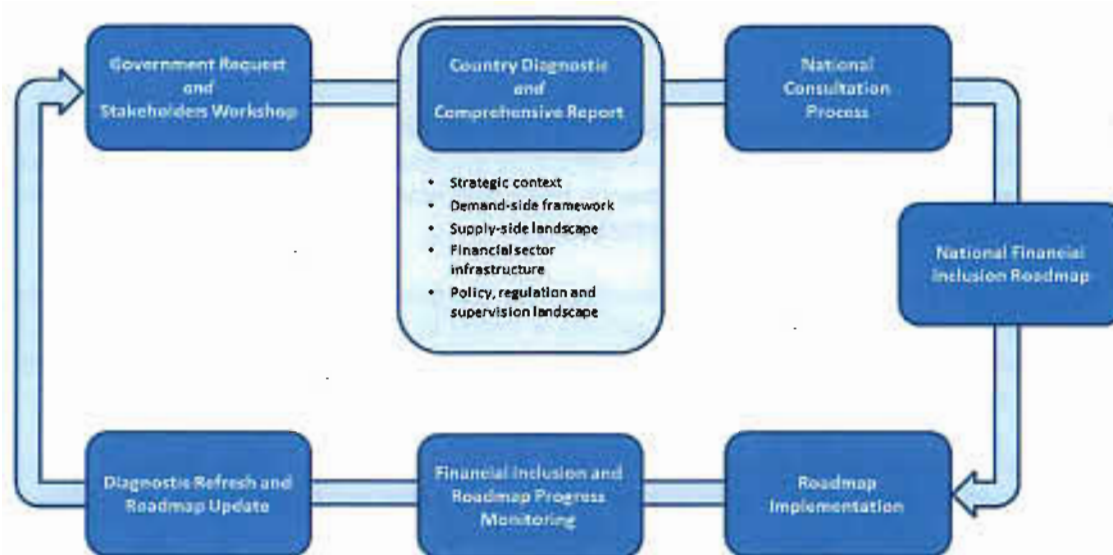
1. Expression of interest in undertaking MAP process by government (generally central bank);
2. Preliminary discussions with government to confirm interest and buy-in on the basis of a short country-specific concept note;
3. Technical workshop to build stakeholder engagement and define country-specific process, roles and expectations;
4. Country diagnostic conducted;
5. Draft technical report with baseline of financial access, analysis and preliminary findings;
6. National stakeholder workshop(s)/consultations to validate analysis and discuss recommendations;
7. First draft of national financial inclusion roadmap developed by key stakeholders;
8. Final roadmap, including diagnostic analytical report, to be proposed respectively send to the government.

MAP Roadmap

The MAP roadmap is intended to serve as a point of reference to plan, coordinate, and assess progress on financial inclusion agenda with the full range of stakeholders (government, private sector players, and

donors). It is not intended to be a static document, as refreshing the diagnostic work and revisiting and updating the key actions and commitments are foreseen at two-year intervals. If the roadmap is indeed enacted upon in that fashion, a styled process would like this:

Figure 1: MAP - Diagnostic & Programming Framework for Financial Inclusion



3.3.5.2 Fund for Inclusive Finance (output 2.1)

As mentioned earlier, this programme is envisaged to be a multi-donor facility, with a lifetime extending beyond the initial planned period, aimed at improving the landscape for inclusive finance in Lao PDR. UNCDF proposes to implement this through the Fund for Inclusive Finance (FIF), a multi-donor facility which will be established under the leadership of UNCDF and the Government of Lao PDR through the Bank of Lao PDR to coordinate donor activity for the sector and jointly promote growth of an inclusive finance sector.

The FIF will provide a coordinated donor-funding mechanism for grants and loan capital to financial service providers (FSPs), networks and business service providers, based on agreed Good Practice principles, in ways that increase outreach, market responsiveness and sustainability. 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 Millennium Development Goals (MDGs). This approach is consistent with UNCDF country sector programming for Inclusive Finance and UNCDF has similar vehicles in the process of formation also in Liberia, Democratic Republic of Congo and Sierra Leone. While UNCDF does not apply a standard structure to these entities, the concept is consistent with the FIF model which will be used in Laos. Similar to an apex organization, the FIF will provide loans and grants to MFIs, however, it will also provide substantial support to the macro and meso-level of the sector, with specific modalities explained herein. While capacity-building grants represent a minor share of the disbursements of apex institutions globally, it is anticipated that grants, including those related to development of Mobile Money and Branchless Banking will comprise a much larger portion of FIF's business than a traditional apex organization.

FIF will be the vehicle for implementing the initiatives contained in this document, with the exception of the MAP diagnostic and the direct support to policy makers, which shall be managed directly by UNCDF. Furthermore, FIF will allow investments in additional opportunities as they arise which may not be included in this document.

Per UNCDF's assessment, the opportunities for support to financial inclusion in Lao PDR to be funded by the FIF and include the following:

- Support to the micro sector with an allocation of funds for loans and grants to strengthen MFIs, especially in the rural areas. This support includes loan capital, support for expansion and capital expenditures to broaden their outreach.
- Support to the Lao Postal Savings Institute to develop and refine their savings products, improve their cash transfer services and enhance their role as a conduit for the distribution of other financial products to the rural poor.
- The FIF would also support UNCDF's work around development of Branchless Banking, including Mobile Banking opportunities to further enhance access to financial services for the rural poor in Lao PDR.
- At the meso-level, FIF will support the Microfinance Association as well as other providers of business support services to the sector, including auditors, local consultants and other experts as well as development of standardized tools for measuring MFI performance and enhancing reporting standards for improved transparency.
- FIF will support the Lao Banking Institute and its development of educational programming specializing in Microfinance. All of the funding for the outputs proposed herein will also be channelled through the FIF.

Donor contributions to the FIF will be managed and overseen through a transparent **governance process** to evaluate and provide funding support for specific individual projects. Harmonization of funding will be achieved via "pooled funding" and UNCDF will act as the Managing Agent for the funds. Other donors are encouraged to cost-share through this 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. The FIF is still in its formation stage with formalization anticipated for later this year. Given its formation stage, donors in the FIF will have the opportunity to participate in the governance process.

The FIF will be governed by a Programme Management Committee (PMC) consisting of representatives of UNCDF and the Bank of Lao PDR (BOL). The PMC would retain responsibility for approving budgets, funding agreements, annual workplans, and partnerships. The Investment Committee (IC) will assess and recommend funding proposals to the PMC while helping to set strategy for the FIF. The PMC will consist of the BOL FID Director General (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 PMC will meet on a quarterly basis to review proposals, monitor progress, and take actions as needed. UNCDF will consult in advance with donors on potential interest in funding proposals and will draft the agenda and minutes of all PMC meetings.

To ensure that information is widely disseminated among all stakeholders, and consistent with global good practice, FIF will support creation of an Inclusive Finance Coordination Group. While creation of the Coordination Group remains subject to final Government approval, it is envisaged that the Group will be led by Government (Bank of Lao) with support from UNCDF and comprise among its membership representatives from key donors, other relevant Government Ministries and agencies, representatives from MFIs (from a variety of institutions including those working outside the capital), meso-level organizations and other stakeholders such as NGOs and others working in microfinance. This is modelled after the Sector Working Groups which comprise the Round Table Meeting process in Lao PDR under the leadership of the Government of Laos Department of International Coordination (DIC) and UNDP. The Coordination Group will

meet semi-annually to present and discuss the state of the sector in Inclusive Finance in Laos, while promoting aid effectiveness and enhancing the impact of Inclusive Finance activities in Laos in reducing poverty, increasing growth, building the capacity of human resources and institutions and accelerating the achievement of the MDGs. Distinct from the PMC or IC, the Coordination Group will focus more on trends and sector environment. It could also be envisaged that the Coordination Group could in time be added as a sub group within one of the Sector Working Groups of the Round Table process, e.g. Trade and Private Sector Development, providing greater visibility to the Group, however, this is a lengthy process requiring consensus at several levels. As a result, it is recommended to establish the Coordination Group independently with transition into the Sector Working Groups as a long term goal.

a. FIF: 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 MFA plays a role in information dissemination, advocacy, and donor coordination.

FIF support to the Meso sector will include support for local businesses providing services to the microfinance sector including audit firms, consultants and others, the Lao Banking Institute and the Microfinance Association (MFA). In addition, FIF will support a sector assessment and launch of branchless banking products including mobile money using mobile phone technology. These interventions have been described in more detail below.

Activities

i. Promotion of standardized tools

FIF will support the 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 GIZ, while opportunities also exist for MFA to also provide access to member data.

ii. Increase the pool of trained financial sector professionals and strengthen the BI

- FIF will support 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.

- FIF will also support the Lao Banking Institute (BI) and its development of educational programming specializing in Microfinance. This will include 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 Luxembourg 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).

iii. *Strengthen institutional capacity*

FIF will provide technical assistance to strengthen institutional capability to mobilize savings and deposits. 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.

iv. *Microfinance Association*

The Microfinance Association is currently the sole membership organization representing the sector in Laos, providing training, research, knowledge management and advocacy for the sector. The MFA has facilitated training for members on a variety of topics, given guidance to MFIs on posting their data to the MIX Market and recently developed a rating tool and benchmarking report for MFIs in Laos. Given the limited resources of its membership the MFA will require ongoing donor contributions (both FIF and others) to sustain its activities. Because of the nascent state of the sector in Lao PDR, the MFA serves a vital function as a source of learning and information and as a voice for the microfinance sector with regulatory and supervisory bodies. MAFIPP has provided limited funding support for the organization but more resources are needed to fulfil their mandate as a voice for the sector. This includes conducting training, gathering and posting sector financial data, maintaining a bi-lingual website as a source of knowledge and information for local MFIs and for hosting events which support microfinance in Lao PDR. FIF may also support the cost of additional staff to implement the MFA's initiatives to serve its membership community.

Targets for the MFA over the life of the project will include expanding the number of FSPs contributing membership fees and senior management time to the MFA to 80% of FSPs with more than LAK 800mln in outstanding loan portfolio. In addition, the MFA will be recognized as the 'go-to' organization for policy makers, donors, investors and lenders.

v. *Launch of mobile financial services including mobile banking*

Mobile financial services offer enormous potential to expand Inclusive Finance and extend outreach to very large numbers of people, including the unbanked and rural poor. Mobile financial services encompass a range of products that include card-based or mobile phone-based solutions .

These solutions usually include a bank which invests in technology and forms partnerships with merchants and other physical networks to offer their clients greater access to cash through bank

merchants, bank agents (usually equipped with POS devices), and ATMs. Such card-based solutions are available on a limited scale in Lao PDR at present led by ACLEDA and BCEL. Globally, mobile financial services have been the fastest growing technological means to reach the unbanked. The primary use of mobile financial services is for money transfer, providing a secure means to move money usually at a lower cost than other alternatives. It can also act as an entry point for the unbanked to gain access to savings, insurance and other services and can assist institutions providing other services (e.g. credit, electricity, health, water) a means to collect payments from clients.

Lao PDR currently has no deployment of mobile financial services making it an exception in the LDCs. At the same time, there is an opportunity to assist the government, mobile network operators, banks and others to develop a strategy and process for creating a robust e-money eco-system.

Table 3: Opportunities and Barriers for Mobile Financial Services

Opportunities	Barriers
• Strong economic growth • Rapidly growing, young population • Increasing urbanization • Increasing domestic transfers (urban and rural) and international remittances • Increasing commercialization of agriculture • Competitive MNO market • Reported 3.5 million SIMs, probably 2.5 million active voice subscribers or 60% of population over 15 • Nearly 100% geographic coverage by MNOs • Mix of financial institutions, commercial and non profit • National ID system with acceptable KYC requirements	• Relatively small and rural population • Lack of legal framework to support mobile and branchless banking • No clear guidelines for non-bank e-money issuers or on use of agents • Failed M-Money pilot of Lao Telecom • Financial and telecom sector primarily state-owned • Relatively poor business environment

Mobile financial services require one or more mobile network operators (MNO) and banks to work together.

Branchless banking encompasses a range of technology (ATMs, POS, phone (voice) and most recently mobile phone) in which clients access their individual account electronically or through use of a non-bank agent, such as a retail store, post office, etc. In “bank-led” operations, the MNOs provide the necessary communications link.

Mobile money is led by mobile network operators which develop, brand and manage the mobile phone-based services that provide clients with “e-money” accounts. In MNO-led operations, banks provide banking arrangements for the MNOs, usually in the form of a trust account or otherwise restricted account to hold clients’ funds. The fastest growing operations have been “MNO-led” due to their large client base, sales and marketing expertise and risk appetite. Banks can offer a “deeper” relationship with clients because of their ATM and POS networks but often lack the risk appetite and experience to reach the unbanked. Increasingly MNOs and banks have been forming closer partnerships their mutual advantage as the distinction between “mobile money” and “branchless banking” has begun to blur.

Based on the population size, the market potential will depend on the quality of the launch of

products. Experience has shown that successful mobile money deployments may take 3-5 years to get to scale. There are also numerous stalled deployments globally that are growing significantly after two years of operation. ***Based upon the assessment and FIF support, we believe UNCDF can lead a pilot and in turn implement the launch of a mobile banking/mobile money product with substantial outreach across Lao PDR.*** A conservative estimate is that mobile financial services would reach 250,000 users after four years. A further in depth analysis was conducted by UNCDF during the scoping exercise in July 2012.

UNCDF recommends a mixture of support.

- The primary support will be through grants and/or technical assistance to mobile financial service providers, agent network managers, or other potential partners in providing the service. This might also include governments or other “bulk payment” providers (e.g. salaries or social welfare payments) that require assistance in converting to a mobile payments platform.
- The second form of support will be for client and product research as well as studies on client impact and use.
- UNCDF will also provide support to regulators, in partnership with the Alliance for Financial Inclusion and CGAP, to assist them in gaining the exposure and building the capacity to oversee the implementation and growth of these services. This may also include direct support to develop or amend regulations.

UNCDF will conduct a review of the Mobile Money initiative within approximately 2 years after implementation to determine if the active user uptake is materializing. This will provide an opportunity UNCDF to assess progress and if necessary, to shift the effort toward Branchless Banking solutions.

b. FIF: 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.

The core activity at the retail level will be 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 specifically support the following ***activities*** in the Micro Sector:

i. 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 selection of the leading international technical service provider.

ii. *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.

iii. *Support to Lao Postal Savings Institute (LPSI)*

- FIF will further support the Micro sector with a range of technical assistance to the Lao Postal Savings Institute (LPSI). The Lao Postal Savings Institute started operations in 2000 and is under the supervision of the BOL. UNCDF will contract an assessment of the institution, review its strengths and weaknesses and the legal and regulatory environment in which it operates. From this information the technical service provider in collaboration with UNCDF would introduce and implement a series of innovative, demand driven products for LPSI, beginning with a focus on savings and then gravitating toward products with a higher technology component. This will revolve around money transfers and remittances as well as other products, such as insurance, that could be marketed through the Lao Postal distribution network. To gain greater efficiencies and leverage, the product development work with LPSI will be combined with emerging technology platforms such as *mobile telephony, ATMs, and point-of-sale devices and smart cards*. This will benefit from the knowledge and technical capability of UNCDF's global project Mobile Money for the Poor.
- As a savings provider the LPSI serves rural populations with small balance savings accounts and funds transfer facilities, transacting approximately 1000 transfers per day. The LPSI and the APB together serve most of the market for domestic funds transfers in Lao PDR. In addition to savings and transfers, it has a small loan portfolio extended largely to government employees. The LPSI has 18 branches across 17 provinces and approximately 135 postal outlets. Because of its outreach and the nature of the business, LPSI has the potential to be a savings leader in Lao PDR and to expand into a wider range of services beyond simple savings products.

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, in the form of FIF, with established systems to fund the development of FSP market leaders. All but the FIF will sustain and produce results well beyond the life time of the programme. In case of the FIF, future institutional options will be assessed as part of the mid-term evaluation of the programme in the 3rd year.

4 RESULTS FRAMEWORK

The MAFIPP programme will comply with the Donor Committee for Enterprise Development Standards (DCED) for measuring achievements in private sector development. This standard outlines eight areas of compliance:

- A) Articulating the result chain (4.1)
- B) Defining Indicators of Change (7.1)
- C) Measuring Changes of Indicators (7.2)
- D) Estimating Attributable change (7.2)
- E) Capturing Wider changes in the system of market (7.2.2)
- F) Tracking Programme Costs (7.3)
- G) Reporting Results and (7.3)
- H) Managing the System for Result measurement (7.3)

The control points and compliance criteria are discussed in the text below. These will be further refined³³ in response to new insights from the Making Access Possible (MAP) financial inclusion diagnostic and to re-align with the Financial Inclusion Roadmap that will result from the MAP process.

4.1 A2F result chain

The overall result chain for Access to Finance sub – component hypothesizes that improved willingness and technical “know – how” of financial institutions supplemented by enabling environment will lead to better and greater offering of financial products and services for low-income households and micro-entrepreneurs, and to an extended outreach in rural areas.

UNCDF theory of change is based on the following previous evidence and research:

- Empirical evidence suggests that improved access to finance is not only pro – growth but also pro – poor reducing income inequality and poverty³⁴. Further high level of financial development (credit extended by financial institutions to households and businesses) may well be a result of wealth, but it is also a powerful driver of poverty reduction³⁵;
- Studies suggest that financial sector development positively affects growth, for example Levine, Loayza & Beck (2000)³⁶ study shows that financial sector development has positive effects on economic growth;

³³ Drawing on advice from BOL and UNCDF Evaluation Units.

³⁴ OECD (2006). Promoting Pro Poor Growth. Private Sector Development. <http://www.oecd.org/dac/povertyreduction/36427804.pdf>

³⁵ Thorsten Beck, Asli Demirgüç-Kunt, and Ross Levine (2004). Finance, Inequality and Poverty. World Bank.

http://www-wds.worldbank.org/external/default/WDSContentServer/IN3F/IB/2004/07/22/000112742_20040723123757/Rendred/PDF/wps1338.pdf

³⁶ Levine, Loayza & Beck; 2000, “Financial Intermediation and Growth: Causality and Causes”, Journal of Monetary Economics, 46, pp.31-77

- Enabling environment also has an important role to play in terms of access to finance, for example it can support innovations in the financial market while safeguarding consumers from over – indebtedness and predatory lending;
- Recent study³⁷ on smallholder households (2013) suggests that smallholder households are not a uniform group and that their needs vary and can be met only with a diversified range of financial products and services;
- Evidence suggests that making good financial decisions is critical for financial well – being however in developing and developed countries³⁸ populations are largely unprepared to make good financial decisions. While evidence on the impact of financial literacy is mixed, some studies suggest that exposure to financial literacy improves business practices and outcomes. Further studies suggest that greater familiarity with financial terms and products leads to greater utilization of financial products³⁹;
- Corresponds to nationally agreed objectives that the expansion of financial services in Laos is a priority to improve livelihoods.

The result chain framework is based on the following assumptions:

- Political commitment to inclusive growth and financial inclusion maintained at national level and to turn it into operational policies;
- FSPs sees the benefit of a single industry representative body and invest time and resources;
- Commercial operators (banks, telcos) realize the potential of serving the rural market of financial services.

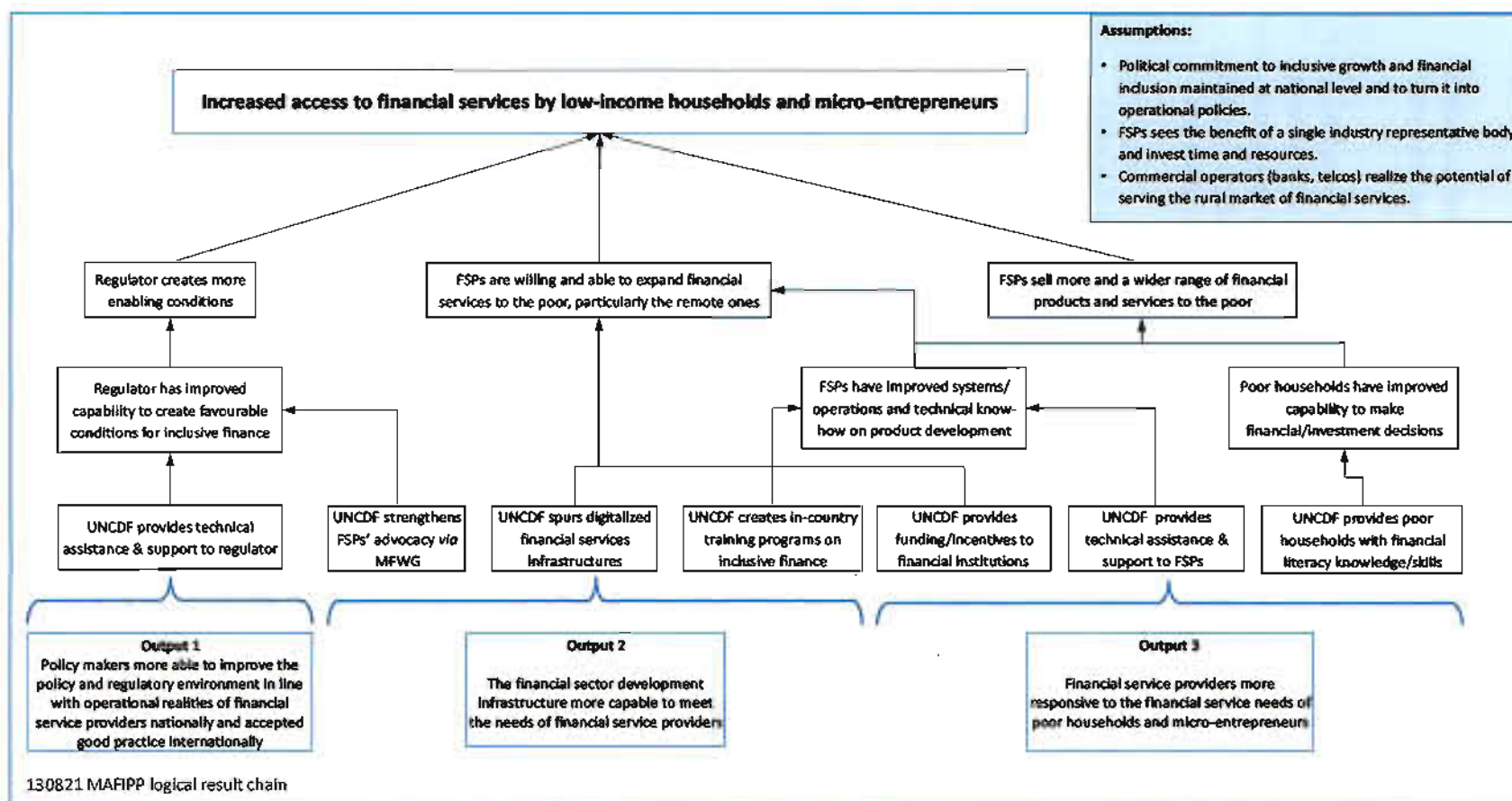
See the overall MAFIPP Result Chain on the next page.

³⁷ Robert Peck Christen and Jamie Andreson (2013). Segmentation of Smallholder Households: Meeting the Range of Financial Needs in Agricultural Families. http://www.cgap.org/sites/default/files/Focus-Note-Segmentation-of-Smallholder-Households-April-2013_0.pdf

³⁸ Alejandro Drexler, Greg Fischer, and Antoinette Schoar (2011), Keeping it Simple – Financial Literacy and Rules of Thumb, <http://www.mit.edu/~aschoar/KIS%20DFS%20Jan2011.pdf>

³⁹ UNCDF (2009), Financial Capability, Financial Competence and Wellbeing in Rural Fijian households <http://anz.com.au/resources/0/3/03f1f40042476300ae26ffb283c86c53/CR-UN-Report-Fijian-Households.pdf?CACHEID=03f1f40042476300ae26ffb283c86c53>

Figure 2: MAFIPP Results Chain



4.2 Results framework

Programme Outputs	UN Organisation Corporate Priority	Implementing Partner	Indicative Activities for Each Output	Resource Allocation and Indicative Time Frame (US\$)								
				2010-11 actual	2012 actual	2013 actual	2014	2015	2016	2017	Total 2014-17	Total 2010-17
Output 1: Policy-level output <i>Objective: 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.</i> Outputs: 1.1 An in-depth and strategic diagnostic on the state of financial inclusion, analysing demand, supply and regulatory issues 1.2 A national financial inclusion roadmap, defining critical steps to accelerate financial inclusion and enabling a programming framework that supports the alignment of donor and investor support through a multi-stakeholder dialogue and in the spirit of the Paris Declaration on Aid Effectiveness. 1.3 An online resource for presentation of financial inclusion data in Laos that contributes to a database available to the Lao and global financial inclusion stakeholder communities. Indicators for Output 1: i1.1 - Number of active FSPs licensed under microfinance regulation. i1.2 - Openness and responsiveness of the policy-setting bodies to environment issues and demands from the financial sector regarding financial inclusion. i1.3 - 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. i1.4 - BOL exposed to lessons learnt and experiences shared by fellow central bankers in developing countries. i1.5 - Availability of reliable sector-wide monitoring	UNCDF support leads to positive policy change	BOL	1.1 MAP - Technical assistance for demand-side Finscope scoping mission, appointment of research house, training workshops and pilot study. Execution of Finscope.			0	314,100				314,100	314,100
			1.2 MAP - Execution of supply-side and policy surveys. Synthesis diagnostic report.			19,454	190,546				190,546	210,000
			1.3 MAP - Workshops and document production for the establishment of the roadmap			0	96,000				96,000	96,000
			1.4 MAP - Online resource for presentation of Financial Inclusion data in Lao PDR. Programme management			0	30,000				30,000	30,000
			1.5 MM4P - Devpt of a branchless banking policy and strategy			33,158	36,842	40,000	0		76,842	110,000
			1.6 Assist BOL to access training & exposure in microfinance best practices (e.g. Turin-Boulder), peer exchanges (possibly through AFI)	6,200	11,180	57,682	70,000	35,000			105,000	180,062
			1.7 Support establishment and build the capacity of BOL FSD & International Relations Opt. Subjects: Accounting, Internal Control, reporting, governance, English proficiency.	64,540	40,242	6,058	0	0			0	110,841
			1.75 Support the capacity of BOL FSD and other stakeholders (NIM through MicroLead funding)		5,253	54,783	39,964				39,964	100,000
			1.8 Support policy studies and organise policy conclaves to improve understanding of sustainable models of financial services in the Lao PDR <i>Includes stakeholders consultation workshop (annually)</i>	49,542	30,508	5,991					0	86,042
			1.9 Dissemination of Regulations, best practices and guidance documents pertaining to Financial Inclusion in-country	0	12,519	0	0	0			0	12,519
			1.10 Performance Appraisal (Semi-annual basic)	3,100	9,847	5,061	6,000	6,000	6,000	6,000	24,000	42,008
Sub-total Output 1				123,382	109,550	182,186	783,453	81,000	6,000	6,000	876,453	1,291,571

Budget lines under Direct Implementation Modalities (DIM) are shaded in blue.

Budget lines related to MAP are represented in green color, those related to Mobile Financial Services (MM4P) in purple.

Programme Outputs	UN Organi- sation Corporate Priority	Implementi- ng Partner	Indicative Activities for Each Output	Resource Allocation and Indicative Time Frame (US\$)								Share total		
				2010-11 actual	2012 actual	2013 actual	2014	2015	2016	2017	Total 2014-17		Total 2010-17	
Output 2: Meso-level Output The financial sector development infrastructure more capable to meet the needs of financial service providers. Indicators for Output 2: i2.1 - FIF attracting additional funding with term extending beyond end of MAFIPP. i2.2 - Growth in the numbers of finance professionals sensitized to the down-scaling of financial services. i2.3 - Numbers of FSPs disclosing audited financial statements on MIX-Market or on their website to demonstrate their commitment to transparency. i2.4 - Growing numbers of FSPs contribute membership fees and senior management time to the MFWG. iP.3 - Extend rural financial inclusion through use of Mobile Financial Services	UNCDF support leads to increased institutional capacity	BOL	2.1 FIF - Establish Fund for Inclusive Finance to support Retail and Meso level activities. TA to FIF to improve its processes and systems	0	1,500	24,829	50,000	60,000			110,000	136,329	9%	
			2.2 FIF operating expenses: requests for proposals, sanction of investment requests and execution, monitoring and reporting	0	0	0	50,000	45,000	30,000	15,000	140,000	140,000		
			2.3 Increased capacity of Lao Banking Institute with productization of best practices (administered through FIF)	0	0	18,501	130,000	100,000			230,000	248,501		
			2.4 Training for meso-level professionals and FSSOs (e.g. auditors), also support existing long-distance learning courses offered outside BI to develop a pool of training microfinance professionals (administered through FIF)	0	16,379	0					0	16,379		
			2.5 MM4P - Research on client/product, impact studies	0	0	4,411	215,589	125,000	0		340,589	345,000		
			2.6 Assist MFA and its training activities	7,600	5,006	0	70,000	50,000			120,000	132,606		
			2.7 Strengthening monitoring, evaluation and communication for the programme	0	0	0	5,000	35,000	20,000		60,000	60,000		
Sub-total Output 2				7,600	22,885	47,741	520,589	415,000	50,000	15,000	1,000,589	1,078,815		

Budget lines under Direct Implementation Modalities (DIM) are shaded in blue.

Budget lines related to MAP are represented in green color, those related to Mobile Financial Services (MM4P) in purple.

Programme Outputs	UN Organi- sation Corporate Priority	Implement- ing Partner	Indicative Activities for Each Output	Resource Allocation and Indicative Time Frame (US\$)										Share total
				2010-11 actual	2012 actual	2013 actual	2014	2015	2016	2017	Total 2014-17	Total 2010-17		
Output 3: Micro-level Output Financial service providers more responsive to the financial service needs of poor households and micro-entrepreneurs.	UNCDF supports /leverages additional core or parallel funding	BOL	3.1 On-site programme advisory & coordination: Country Technical Advisor (CTA) also secretariat to PMC, support to FIF in evaluating and executing investment proposals, responsible for overall monitoring & evaluation	109,000	255,758	200,377	225,000	225,000	225,000	110,000	785,000	1,350,134	75%	
Indicators for Output 3: i3.1 - FSPs receiving technical assistance offer diversified and more suitable financial services. These FSPs use additional delivery channels. i3.2 - FSPs receiving technical assistance and support are recognized as market leaders as evidenced by the quality and growth of their portfolio outpacing the MF sector. i3.3 - Consistent trend in improvements in the performance of FSP that have received support from FIF compared with others that have not. Key measures to include portfolio at risk, cost per client, clients to staff ratio and operational self-sufficiency. i3.4 - FSPs receiving support from FIF attract additional funding. i3.5 - Extend rural financial inclusion through the Lao Postal Savings Institution.			3.2 UNCDF National Operations Officer (NPO) and PIU operating expenses, which support programme execution under the guidance of the CTA	73,018	10,652	8,588	33,000	34,650	36,383	38,202	142,234	234,492		
			3.3 TA and grants to FSPs through MicroLead (CARP & ARI) (DIM)	285,130	476,120	189,220	374,420	212,620			587,040	1,787,610		
			3.4 FIF - TA and grants to FSPs	0	0	0	200,000	300,000	300,000	200,000	1,000,000	1,000,000		
			3.5 FIF - loans to FSPs	0	0	0	1,000,000		-500,000	-500,000	0	0		
			3.55 FIF - TA/grants/loans for additional 40K users currently unfunded	0	0	0			900,000	750,000	1,650,000	1,650,000		
			3.6 MM4P - Pilot and implement launch of branchless banking and /or mobile banking /mobile money product with substantial outreach across Lao PDR (administered through FIF)	0		143,244	721,889	701,633	154,000		1,577,522	1,720,767		
			3.65 MM4P - Scoping work and early stage stakeholders support (DIM)		84,357	82,500					0	166,857		
			3.7 TA to the Lao Postal Savings Institution (LPSI) to expand its services beyond simple savings products & funds transfers (administered through FIF)	0	0	6,334	200,000	300,000	230,000		730,000	736,334		
			3.8 UNDP performs Programme Assurance function	11,400	0	3,000	10,000	10,000	10,000	10,000	40,000	54,400		
	3.9 Backstopping technical support from UNCDF Senior Regional Technical Advisor and UNCDF Regional Office	5,500	0	19,619	50,000	50,000	50,000	20,000	170,000	195,119				
Sub-total Output 3				484,048	826,987	852,882	2,814,309	1,833,903	1,405,383	628,202	6,681,796	8,845,713		
Total costs		Total programme cost		615,030	959,422	1,082,809	4,118,351	2,329,903	1,461,383	649,202	8,558,838	11,216,099		
		GMS - Total Indirect Support Cost			4,200	192,558	72,841	134,755	72,000	60,000	339,596	536,355	5%	
		Total Programme and Indirect Support Cost		615,030	963,622	1,275,367	4,191,192	2,464,659	1,533,383	709,202	8,898,435	11,752,454		
Total Commitments		AusAID -contribution AUD 5,950,000				3,225,806	1,040,583	1,925,078			2,965,661	6,191,467	53%	
		UNCDF -Core Funding		350,000	400,000	443,982	250,000	-			250,000	1,443,982	12%	
		UNDP		-	100,000	-	-	-			0	100,000	1%	
		UNCDF -MicroLead (MM4P)			100,000						0	100,000	1%	
		UNCDF -MicroLead (DIM)		285,130	476,120	189,220	374,420	212,620	0	0	587,040	1,787,610	15%	
		UNCDF -Mobile Money for the Poor (MM4P) (DIM)			84,357	82,500					0	166,857	1%	
Funding Gap				-20,100	-217,055	-3,083,196	-557,007	-230,046	1,303,336	2,012,538	5,095,734	2,012,538	17%	

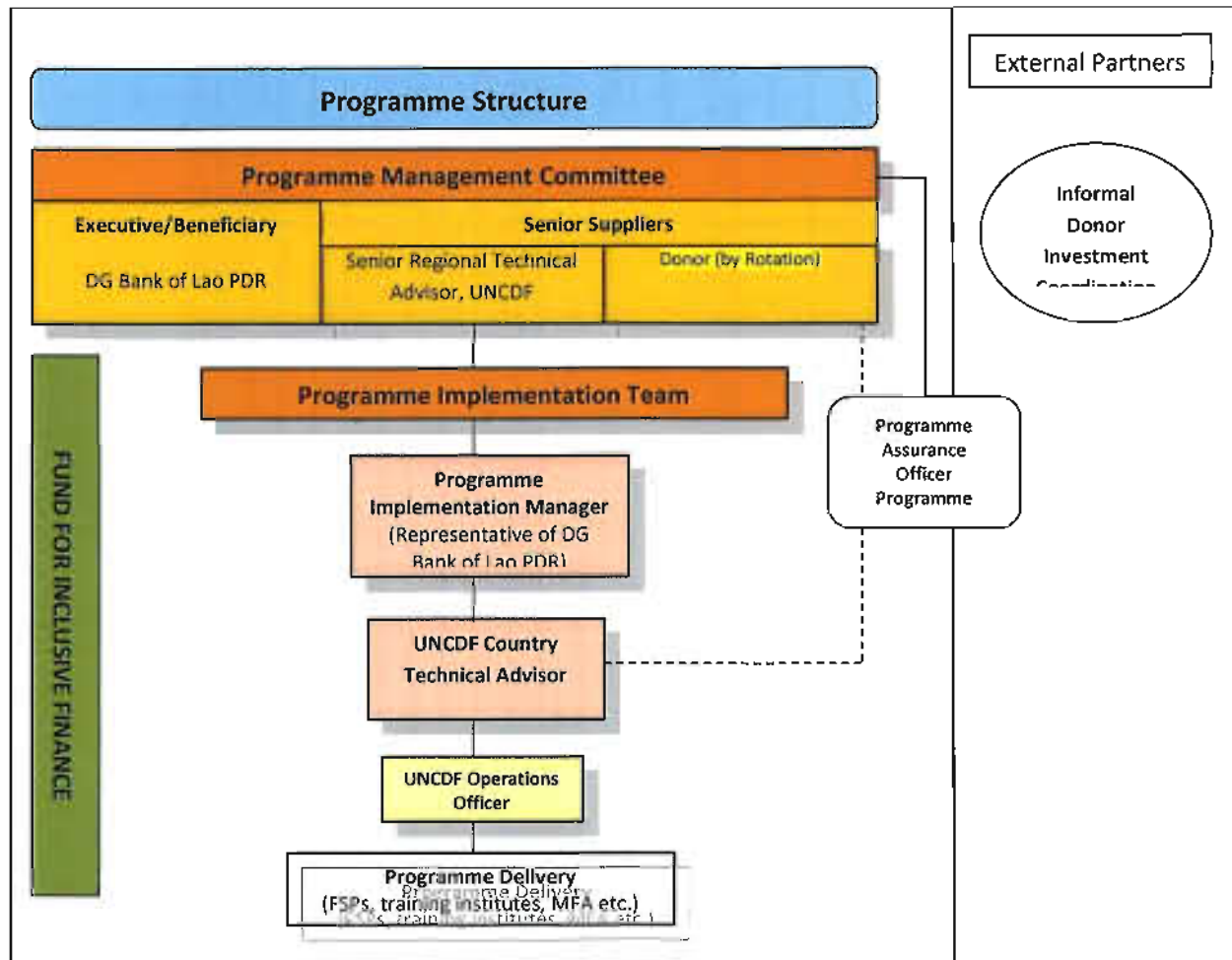
Budget lines under Direct Implementation Modalities (DIM) are shaded in blue.

Budget lines related to MAP are represented in green color, those related to Mobile Financial Services (MM4P) in purple.

5 MANAGEMENT AND COORDINATION ARRANGEMENTS

5.1 Proposed Management Structure

Figure 3: Programme 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 to 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 nationally recruited staffs 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 UNCDF financial and procurement policies as outlined in the Operations Manual of the respective organizations.

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. UNCDF will assign a national Programme Officer to provide support to carry out the assurance function.

6 FUND MANAGEMENT ARRANGEMENTS

DFAT is committing a total of USD 6,191,467; UNDP has committed a total of USD 100,000; UNCDF is committing USD 1,443,982 from its core budget. There is a funding gap in the amount of around USD 2,048,672, which will need to be mobilized through the life of the programme.

In addition, funding will be provided in parallel from two global UNCDF projects: MicroLead (US\$ 1,832,610) and MM4P (USD 166,857) which will be implemented directly by UNCDF in a coherent approach with programme activities from the Nationally Implemented MAFIPP Programme. These amounts are indicative, with actual allocations based on recipients meeting the targets of their financing agreements, or additional opportunities emerging.

The administration of this Programme shall be governed by UNCDF's rules and regulations, as defined in the UNCDF's Operations Manual and the UNDP Programme and Operations Policies and Procedures (PoPP) within the policy context defined by the Executive Board. A Letter of Agreement (LoA) will be signed between government and UNCDF under National Implementation and annexed to this Programme Document.

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 as Responsible Party for Financial and Procurement Administration

Given BOL's 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 provision of 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 Bangkok⁴⁰.
- 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 and Project Manager to carry out activities under approved work-plans.

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 As with regard to parallel funding provided

⁴⁰ UNDP Laos is being considered to handle the procurement of international consultants not already on the UNCDF roster.

from MicroLead and MM4P (DIM), these activities will be audited through UNDPs external (UN Board of Auditors) and/or internal auditors (UNDP Office of Audit and Investigations).

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 in accordance with respectively national and UNCDF policies and procedures.

7 MONITORING, EVALUATION AND REPORTING

7.1 Indicators of Change: Programme Monitoring Framework

UNCDF has defined relevant indicators for each step of the result chain. These indicators are articulated in the UNCDF's Logical Framework.

Expected Results	Indicators	Means of Verification	Collection Methods	Responsibilities	Risks & Assumptions
Programme Outcome: Increased access to financial services by low-income households and micro-entrepreneurs.	Indicator iP: Numbers of low-income households and micro-entrepreneurs with access to financial services <i>Stock-take 2011: 68,000 clients⁴¹. Target: 408,000 additional active users (minimum +300,000) of a variety of financial products aimed at low-income households and micro-entrepreneurs by 2017. Indicative split: 208,000 additional users of a savings/credit/insurance product (iP.1), 200,000 users of mobile financial services (iP.2).</i>	1. FIF monitoring report. 2. BOL sector-wide monitoring report. 3. Report from Mobile Financial Services providers.	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> Client acquisition cost under-estimated, particularly on mobile money services where uptake and regular usage can be much slower than forecast. <i>Risk mitigation strategy:</i> FIF established to receive funding beyond programme. Diversity of retail approaches to identify the most effective one(s). Flexibility of the activities to reorient if needed on the scaling-up of the effective approaches.
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.	Indicator i1.1: number of active FSPs licensed under microfinance regulation. <i>Baseline: 28 licensed institutions (Dec2010). Target: 60 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 mechanism for regular coordination to reduce duplication and to maximize resources.
	Indicator i1.2: Openness and responsiveness of the policy-setting bodies to environment issues and demands from the financial sector regarding financial inclusion. <i>Baseline: No indication of responsiveness identified. Target: Moderate to highly responsive.</i>	1. A successfully completed MAP exercise with GoL endorsing MAP's proposed Roadmap and Action Plan 2. MFA report. 3. Bankers Association report.	1. Formal government decision to undertake MAP in the Lao PDR 2. MAP Steering Committee Minutes 3. MAP specific outputs, accepted by MAP Steering Committee and disseminated as Public Goods: a) FinScope survey; b) Supply and Regulatory assessment; c) Synthesis report and recommendations; d) Roadmap and Action Plan drafted and proposed to the government; e) Interactive Webplatform on financial inclusion data 4. Formal government endorsement of the National Financial Inclusion Roadmap and Action plan. 5. Biannual stakeholder perception surveys.	UNCDF	<i>Assumptions:</i> BOL goes beyond its strict supervisory role and positions itself more as an "enabler". GoL's involvement in the MAP process extends beyond the participation of BOL. BOL open to a quality assessment of its FINA reporting system. <i>Risk:</i> Legal or regulatory constraints that might restrict implementation of mobile and branchless banking services

⁴¹ Source: Microfinance in the Lao PDR 2012, BoL/NERI. Table 1: Number of MFIs by Region.

Expected Results	Indicators	Means of Verification	Collection Methods	Responsibilities	Risks & Assumptions
	Indicator i1.3: 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. A successfully completed MAP exercise with GoL endorsing MAP's proposed Roadmap and Action Plan. 2. Formal decision to implement MM4P in Laos. 4. Strong cooperation with and support to drafting a MM4P implementation Strategy.	1. Check of status of realization of existing recommendations made on branchless banking by development organizations and private organizations. 2. Formal government decision to undertake MAP in the Lao PDR 3. Realization of MAP implementation according to MAP activity document (Annex 4) as reported by MAP activity management's regular feedback and Steering Committee Minutes 4. MAP specific outputs, accepted by MAP Steering Committee and disseminated as Public Goods (see <i>supra</i>) 5. Official Report from GoL covering branchless-banking, showing inter-agency coordination or division of labour.	UNCDF	<i>Risk mitigation strategy:</i> The attitude and capability of the regulator, usually the central bank, is essential. The "good practice" in mobile and branchless services is to take a "watch and learn" approach with minimal policies to address the key risks during the pilot/launch phase: more comprehensive regulation is later developed from the experience of that initial phase. UNCDF can help by (i) assisting the regulators to firm-up their legitimacy to oversee these new services, (ii) building regulators' capacity and a strategy for oversight. UNCDF will work closely with the groups of operators authorized by the regulator, but notes that any exclusion of non-banks (i.e. telecoms) by the regulator would delay the process and may limit the outreach of these mobile services.
	Indicator i1.4: BoL exposed to lessons learnt and experiences shared by fellow central bankers in developing countries. <i>Baseline: To be established 2014.</i> <i>Target: Moderate to high.</i>	1. Number visits /study tours abroad of BoL staff. 2. AFI report. 3. Biannual commissioned report.	1. Records from Int'l Relations Dpt of BoL 2. Desk-review of AFI reports + key stakeholder interviews among AFI staff. 2. Commissioned report on comparative regulatory policies every 2 years. Scope of benchmark: subset of Asian countries with background relevant to Laos.	UNCDF	<i>Risk:</i> BoL not interested by AFI participation. <i>Risk mitigation strategy:</i> Participate to AFI as an observer. Use ASEAN links for peer exchanges. <i>Assumptions:</i> BoL to consider embedding social indicators into the mandatory FSPs reporting.
	Indicator i1.5: Availability of reliable sector-wide monitoring data on financial and social impact performance of FSPs. <i>Baseline: Patchy and incomplete.</i> <i>Target: Comprehensive and highly reliable with a quick lead-time.</i>	1. BOL FINA⁴² database and its sector-wide aggregated output reports.	1. Aggregation of FINA data, with data validation process of FINA to be further refined to allow for comprehensiveness.	UNCDF	MF sector reporting: BoL aims for comprehensive scope covering also unregulated FSPs, see BoL/NERI 2012 stock-take of the MF sector.

Expected Results	Indicators	Means of Verification	Collection Methods	Responsibilities	Risks & Assumptions
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⁴² Open-source information management system for Bank Supervision Authorities developed by USAID: collects data from banks, stores them in the database and generates reports using very flexible report designer tools. See: <http://www.fina2.net/>

Expected Results	Indicators	Means of Verification	Collection Methods	Responsibilities	Risks & Assumptions
Output 2: The financial sector development infrastructure more capable to meet the needs of financial service providers.	Indicator i2.1: FIF attracting additional funding with term extending beyond end of MAFIPP. <i>Baseline: None: FIF not yet institutionalized. Target: additional funding with term beyond 2017</i>	1. FIF balance sheet.	1. FIF audited financial statements.	UNCDF	<i>Assumption:</i> FIF attracting external funding beyond MAFIPP donors considered an indicator of its effectiveness and efficiency <i>Risk:</i> Funding 1-2 business development service providers may create an unwelcome oligopoly with 2-3 players controlling 90%+ of the market. Note that existing oligopolies (e.g. Microbanker software for MFIs) haven't spurred abusive business practices. <i>Risk mitigation strategy:</i> Mixed funding for business development services: directly to the providers to cover their start-up costs (e.g. curriculum development), and indirectly to FSPs for using their services. It puts the purchasing power in the hands of FSPs.
	Indicator i2.2: Growth in the numbers of finance professionals sensitized to the down-scaling of financial services. <i>Baseline: 2,500 banking and finance professionals received training at BI without a microfinance module + 40 trained on distance learning course. Target: 2,500 banking and finance professionals receiving training at BI with microfinance module of international standard + 700 trained on distance learning course.</i>	1. Report from BI. 2. Reports from training institutes. 3. Annual reports of MFIs. 4. Training module and international certification.	1. Reports publically available.		<i>Risk:</i> MFA not perceived as a credible representative of the diverse and somewhat heterogeneous MFIs. MFA not institutionalized. <i>Risk mitigation strategy:</i> If MFA cannot be institutionalized, lodge the MFIs forum under the umbrella of an existing business or NGOs association.
	Indicator i2.3: Numbers of FSPs disclosing their audited financial statements on MIX-Market or on their website to demonstrate their commitment to transparency. <i>Baseline: in 2010 only 1, Acleda⁴³. Target: FSPs covering collectively 80% of the national low-income and micro-entrepreneurs market.</i>	1. MIX market. 2. FSPs websites.	1. Report generated annually from the MIX Market web-site. 2. Quarterly report submitted by FSPs to the MIX Market, directly or via MFA.	UNCDF	<i>Risk:</i> MFA not perceived as a credible representative of the diverse and somewhat heterogeneous MFIs. MFA not institutionalized. <i>Risk mitigation strategy:</i> If MFA cannot be institutionalized, lodge the MFIs forum under the umbrella of an existing business or NGOs association.
	Indicator i2.4: Growing numbers of FSPs contribute membership fees and senior management time to the MFA. <i>Baseline: FSPs covering collectively 58% of the MF sector end 2011, excluding VRFs. Target: FSPs covering collectively 80% of the national low-income market.</i>	1. MFA annual accounts. 2. MFA meeting attendance records.	1. MFA published report and internal records.	UNCDF	Sensitize GoL to the need of identified conduits/fora to conduct a constructive public-private dialogue.

⁴³ 2009 data (i.e. posted in 2010) for Laotian MFIs comprises only Acleda and EMI, but EMI didn't post audited financial statements. Note that when an MFI starts to report on the MIX-Market it must provide the data for the previous year.

Expected Results	Indicators	Means of Verification	Collection Methods	Responsibilities	Risks & Assumptions
	Indicator iP.2.2: Extend rural financial inclusion through use of Mobile Financial Services <i>Baseline: 0</i> <i>Target: 2014 -0; 2015 -10,000; 2016 -150,000; 2017- 250,000.</i>	1. Report from Mobile Financial Services providers.	1. Quarterly report submitted by MFSs as part of monitoring system established in FIF.		<i>Risks:</i> Distrust towards mobile financial services. Sparse mobile agent network. <i>Risk Mitigation Strategy:</i> The highest risk of fraud is internal (employees of the providers): assistance can be provided to operators to review the internal control system. For clients, education and awareness is paramount to assist them in managing basic transactions, noting that most are already familiar with dematerialized services (e.g. airtime top-up). UNCDF will assist policy makers in developing a public awareness campaign to ensure that clients know their rights and can use adequate complaint management procedures put in place. UNCDF will advise operators on the proper pace of development of the network of agents complementing the mobile financial services.
Output 3: Financial service providers more responsive to the financial service needs of poor households and micro-entrepreneurs.	Indicator i3.1: FSPs receiving technical assistance offer diversified and more suitable financial services. These FSPs use additional delivery channels. <i>Baseline: Highly narrow range products through a unique delivery channel.</i> <i>Target: 80% of FSPs have added at least 1 product, 60% of FSPs use an additional delivery channel.</i>	FIF monitoring report.	1. Collation of annual reports from FSPs. 2. Annual beneficiary satisfaction survey conducted by the programme.	UNCDF	<i>Risk:</i> Limited in-country delivery infrastructure and technology leading to higher operational costs and thus insufficient operating margin. <i>Risk mitigation strategy:</i> Undertake innovative approaches and tailor programme roll-out in accordance with existing in-country infrastructures.
	Indicator i3.2: FSPs receiving technical assistance and support are recognized as market leaders as evidenced by the quality and growth of their portfolio outpacing the MF sector. <i>Baseline: Not needed since it is an ongoing benchmarking exercise.</i> <i>Target: Aggregated loan portfolio of supported FSPs grows 1.5 times more than the control group (MF sector less FIF grantees) each year, with PAR30<3%.</i>	1. FIF monitoring report. 2. BOL sector-wide monitoring report.	1. Quarterly report submitted by FSPs as part of monitoring system established in FIF. 2. Mandatory reporting of FSPs to BoL (FINA platform) to constitute the control group (all FSPs in Laos not receiving support from FIF).	UNCDF	<i>Risk:</i> Institutional Partners (MNOs or banks) lack the capacity and staff to implement the service. <i>Risk Mitigation Strategy:</i> Assistance will be provided, including on-site support, to build the capacity of local staff on client acquisition, risk assessment management and reporting. UNCDF will also facilitate exchanges with providers in other countries to learn from their experience.

Expected Results	Indicators	Means of Verification	Collection Methods	Responsibilities	Risks & Assumptions
	Indicator i3.3: Consistent trend in improvements in the performance of FSP that have received support from FIF compared with others that have not. Key measures to include portfolio at risk, cost per client, clients to staff ratio, operational self-sufficiency and ratio refinancing to loan outstanding. <i>Baseline: None: FIF not yet institutionalized. Target: Annual trend constantly 1.5 times better than control group (MF sector less FIF grantees) for 4 indicators out of 5.</i>				
	Indicator i3.4: FSPs receiving support from FIF attract additional funding. <i>Baseline: None: FIF not yet institutionalized. Target: USD 7mln.</i>	Balance sheet of supported FSPs.	1. Audited financial statements of supported FSPs.	UNCDF	
	Indicator i3.5: Extended rural financial inclusion through the Lao Postal Savings Institution. <i>Baseline: 17,000 savings clients end 2011 with 100,000 funds transfers annually. No additional product. Target 2017: 40,000 savings Clients with 350,000 funds transfers annually. Additional product(s) distributed</i>	1. FIF monitoring report.	1. Quarterly report submitted by FSPs as part of established monitoring system.	UNCDF	

7.2 Measuring changes in indicators and determining attribution

In order to measure the changes in indicators articulated in the logical framework UNCDF will periodically measure change using good research practices.

Baselines will be determined for all indicators, as of 2010 whenever possible. All synthetic indicators will be broken-down into measurable components with guidelines for their combination.

The cases of specific indicators are discussed below.

7.2.1 Outcome indicators

The programme's goal to get 408,000 additional active clients encompasses DFAT target of "Number of poor women and men who increase their access to financial services" to be 300,000 by end 2016, particularly with the minimal commitment to 300,000 additional active clients.

To guarantee attribution to MAFIPP these 408,000 additional clients will be uniquely comprised of new accounts or users gained by Financial Service Providers (FSPs) receiving assistance under the Fund for Inclusive Finance (FIF). By signing a Grant or Loan Agreements with FIF as adopted by the PMC⁴⁴, they commit on performance targets relative to outreach and sustainability (most often characterized in terms of operational/financial performance). The actual performances on outreach of supported FSPs under FIF support will be monitored on a quarterly basis.

The programme may define in specific cases the results attributable to its support slightly different from the agreed outreach targets: it will detail the rationale for the divergence, under review from the PMC.

For instance, supporting the downscaling of a commercial bank does not imply that the programme can claim ownership of all new clients of the bank over the duration of the agreement. Similarly supporting the capacity-building of an FSP that would receive funding for expansion from another donor/investor would be also subject to review. Conversely, the programme may claim ownership of results beyond the duration of the agreement if the grant/loan induced the supported FSP to take initiatives that it would not have considered otherwise (geographic expansion, new delivery channel, new product development...).

7.2.2 Qualitative indicators to measure progresses on policy formulation

MAFIPP M&E system captures the wider changes in the systems or markets as per DCED standard, based on the perception of their impact by the operators themselves. Measuring progress on policy dialogue on inclusive finance (indicators i1.2, i1.3 & i1.4) will be tackled through evaluation by the FSPs, through the two forums of the MFA and the Bankers Association, and also through peer review using the feed-back of the Alliance for Financial Inclusion (AFI). The MAP process will also inform on the responsiveness of GoL agencies to broader policy changes and their ability to reach consensus around a roadmap and an action plan for developing forward-looking policies that will greatly enhance financial inclusion.

Lastly BoL needs a comprehensive and accurate reporting system to gauge the outcome of its regulation/supervision efforts: BoL/FISD has developed an extensive database (FINA system) that it is feeding on a quarterly basis with the mandatory reports of all licensed operators. The quality of this reporting system is crucial, hence the object of indicator i1.5 with the assumption that BoL welcomes an external review.

⁴⁴ 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.

7.2.3 Benchmarking supported FSPs vs. the rest of the sector

Assessing the improvement of the group of FSPs supported through FIF over the rest of the industry entails several challenges: FSPs will get support at different points in time and with different durations and also intensities of support, the rest of the sector will not remain static in the meanwhile.

The FINA system of BoL/FISD will be harnessed to enable the benchmarking of FIF grantees versus the rest of the industry. The indicators of operational performance (i3.2 & i3.3) were selected to have all their data points already tracked through FINA.

In addition to their mandatory reporting requirements to BoL FSPs will post their data on the MIX Market⁴⁵ facilitating international exposure enabling some global and regional benchmarking.

The MIX Market platform offers the advantage of additional data points on outreach (e.g. differentiating rural/urban, micro-borrowers/large borrowers): though more relevant these data-points are not embedded into the current set of indicators because further work on standardization is needed and benchmarking with non-supported FSPs is impossible until integrated into BoL/FISD mandatory reporting framework.

7.3 Tracking programme costs

UNCDF will track costs on monthly, quarterly, bi – annual and yearly basis in line with its financial management procedures. UNCDF, in line with UN standards, utilizes “Atlas” accounting and financial management system that allows UNCDF to track costs and produce regular reports regarding programme related expense, by output area and by funding line.

The multi-year budget with an indicative breakdown by year and activity by activity is presented in section §9 below. It is then revised annually: annual work plan and budget are presented to PMC for approval at each start of year and may be revised later in the year.

7.4 Managing the system for results measurement

The results chain – presented in Figure 2 – provides the conceptual framework for the M&E system with assessment of programme performance planned to take place regularly at different levels of the intervention logic.

As stipulated in previous sections, regular monitoring of the Programme will be conducted 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.

A central piece of the result measurement system is the reporting system of FIF that will inform on the attainment of the programme outcome, of the achieved outputs of supported Business Service Providers and on the qualitative performance of the supported FSPs.

All FIF-supported FSPs will be required to report quarterly to UNCDF via the MIX Market using a standard reporting format, including data points on portfolio, savings, outreach, income statement and balance sheet. They will additionally report quarterly directly to FIF on data points specific to supported activities (i.e. outreach under new supported access points or delivery channels or new products) with a narrative report. Each year FSPs will submit audited financial statements to FIF.

All FSPs partners are strongly encouraged to endorse the Client Protection Principles of the Smart Campaign and will report bi - annually to UNCDF on their client protection activities.

⁴⁵ <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.

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 will be updated by the Programme Implementation Support Team. Based on the initial risk analysis submitted (*See column 'Risk & Assumptions' of table of performance indicators in section §7.1 above*), a risk log shall be regularly updated by reviewing the external environment that may affect the programme implementation to facilitate tracking and resolution of potential problems or requests for change. In addition, a programme 'Lesson-learned' log shall be 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.

This 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.

8 LEGAL CONTEXT

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'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 reserves 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 the Implementing Partner's obligations under this Project Document.

The implementing partner agrees to undertake all reasonable efforts to ensure that none of the UNCDF 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 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 BUDGETS⁴⁶

UNDAF Outcome									
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.									
Programme Outcome: Increased access to financial services by low-income households and micro-entrepreneurs.									
Outputs	UN Organization	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 per diem, travel expense, accommodation	-	-	x	-	BOL	UNCDF	4500
	UNCDF	1.6 Technical workshop specifically for FSPs (including per diem, travel expense, accommodation..etc).	-	-	-	x	BOL	UNCDF	5000
	UNCDF	1.7 Performance Appraisal (Semi-annual basic)	-	-	-	x	BOL	UNCDF	3000

⁴⁶ The work-plan covers the 3rd and 4th quarter of 2010 in line with the Revised Standard Joint Programme Document guidelines approved by UNDG on 24th 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 MFA (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 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
Total cost	Total programme cost								960,010
	Total Indirect Support Cost (5% of pooled commitments)								77199
	Total Programme and Indirect Support Cost								1,037,209

Building an Inclusive Financial Sector in Lao PDR

Annex 1	The Lao PDR Microfinance Sector Gap Analysis
Annex 2	Draft Terms of Reference for Programme Management Committee (PMC)
Annex 3	Draft Terms of Reference for Country Technical Advisor (CTA)
Annex 4	Making Access to Finance Possible (MAP): diagnostic and programmatic framework
Annex 5	Support to Financial Inclusion in the Lao PDR through digital financial services
Annex 6	SAMPLE LETTER OF AGREEMENT BETWEEN THE GOVERNMENT AND A UNITED NATIONS AGENCY UNDER NATIONAL IMPLEMENTATION

10.1 Annex 1 – Laotian Microfinance Sector Gap Analysis

Level	Constraints	Needs	Current & Planned Support	Gaps	Proposed UNCDF Support
Macro	Some policy makers, local authorities and donors still lack a solid understanding of sustainable RMF. The concept of RMF is not fully disseminated.	- Assist the policy makers, senior GOL and BOL officials to develop national inclusive financial sector policies - Disseminate the best practice information to the policy makers, parliamentarians and senior government officials through awareness campaigns and strategic communications	ADB (Project: Catalyzing Microfinance for the Poor, complete June 2010): Awareness raising workshops will be held for government officials and organizations that support microfinance to introduce best practices. GIZ- Access to Finance for the Poor project: 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)	- Training to GOL officials to understand the role of microfinance. - Flexible funding for BOL to support policy studies and training of BOL staff - An international microfinance conference attended by senior Laotians policy makers, international donors, and microfinance champions.	1. Establish Fund for Inclusive Finance to support meso and micro level activities 2. Flexible funding for BOL through Fund for Inclusive Finance to support policy studies, training and exposure visits for BOL staff. 3. Microfinance Boulder Training Course in Turin, Italy 4. Support the establishment of a BOL MF Department 5. Based on constraints identified by retail Financial Service Providers (FSPs) work with BOL and other stakeholders to develop practical solutions to remove those constraints. 6. 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. 7. 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. 8. 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 MFA. 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. 9. Support dissemination of Policies, regulations, Good Practice and other relevant information through Conference, Policy

Meso	• Coordination among different stakeholders is inadequate • Accounting standards need to be improved. • Training and Consulting. There are a limited number of training and consulting facilities available to serve the sector.	• Credit Information System need to be introduced. • A chattel registry should be introduced. • Coordination among the different stakeholders needs to be strengthened through a permanent organization (Microfinance Association) • Training and consulting facilities for FSPs (inadequate). • International Financial	• ILO: Emphasis on capacity building of its village banks through an independent, specialized technical assistance provider, which in the process is being strengthened as well. • CODI and FIAM, 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. • World Bank/EC: Plan to support MOF to develop best practice accounting and audit standards, and introduce International Financial reporting Standards (IFRS). • ADB (Project: Catalyzing MF for the Poor, complete June 2010) 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	• Microfinance Association to represent the industry in Lao. • CGAP Accounting and Financial Analysis courses should be introduced (through TOT at the training institutes). • Funding (\$800,000) is insufficient for needs of sector and prevents funding business plans over a period to reach sustainability Conclaves and the use of mass media (TV, radio, newspaper) 10. Arrange visits for the Laotian officials to see the successful inclusive financial sectors in the other countries in Asia. 11. Development and publication of microfinance industry monitoring data and other related info. 12. Development of training material on, governance, management, internal control, credit procedures and policies 13. Performance appraisal 1. Assist BOL to coordinate sector development through a Fund for Inclusive Finance 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. 3. Along with the other donors, support market research to explore demand for a range of financial services. This can be delegated to the MFA. 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. 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. 6. Adapt and translate CGAP one-week courses to offer at the Laotian microfinance training institutes. 7. Support the training, mentoring and coaching of Laotian staff under the UNCDF LDC Fund for Savings Led Market Leaders. 8. External Consultant for strengthening the capacity of BOL's Banking Institute. 9. Additional External Consultants as needed.
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		Reporting Standards need to be adopted for the financial institutions	provided to BOL staff to enable them to support FSPs and manage the grant Program. • GIZ: Building (capacity in) associations of VSCGs, which should technically support the associated VSCGs • IFC: support for Credit Information Bureau, Secured Transactions Law and Registries • ADB/EU: support Credit Information Bureau • SBFIC: supports the development of MFC, in a partnership with CARD MRI		10.Assistance to MFA 11.Training and certification for local auditors 12.Annual audits and capacity assessment of FSPs
Micro	• Management capacity of microfinance initiatives is limited. • The majority of FSPs in Lao PDR are not sustainable	• Increase funding for sustainable microfinance and reduce funding to non-sustainable models. • Training, mentoring and coaching of the management and staff of FSPs. • Exposure of FSP to other FSP's (locally and in region) • Significant	• ADB: 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. • SBFIC: 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	• One-stop funding that pools donor resources and can make long-term funding based on business planning. • Learning from the success experience of other FSPs in the region. • Training in Strategic planning, governance and transformation • Financial transparency, rating and assessments of	1. Establish a Fund for Inclusive Finance under BOL leadership with funding based on sustainability and performance. 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. 3. Support FSPs to offer new products, such as micro leasing, microinsurance, or remittances to provide greater value for clients. 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. 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. 6. Provide MIS package like Micro-bankers complemented by training on cost share basis.

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|---|--|---------------------------------------|---|
| <p>investment in continuous training</p> <ul style="list-style-type: none"> • Board members of the various institutions should receive training in corporate governance and the program will help deliver this training. | <p>slightly adapted Grameen Banking Methodology</p> <ul style="list-style-type: none"> • ADB (in various programs), ILO, World Vision, GIZ, Lux-Development, IFAD, ACCU, FIAM, CODI, various hydropower and mining companies, and some other organizations are all setting up or supporting CMLFs and/or village banks • WEC is supporting the creation of a multi-village based SCU | <p>the microfinance institutions.</p> | <ul style="list-style-type: none"> 7. Support “Mini” assessments of the FSPs through international rating agencies. 8. Assist FSP to access training & exposure in microfinance best practices 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). 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 11. SMART-subsidies to FSPs |
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10.2 Annex 2 – Draft Terms of Reference for PMC

A. Rationale for the Fund for Inclusive Finance

The Fund for Inclusive Finance (FIF) is a Fund initiated by the GOL and UNCDF 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 by⁴⁷:

- 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;

⁴⁷ <http://www.uncdf.org/english/microfinance/pubs/bluebook/>

- 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

- 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

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.

10.3 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 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.

10.4 Annex 4 - Key Benefits of MAP for Laos

Summary of benefits of Making Access to Finance Possible –MAP- *for the* Lao People's Democratic Republic

10.4 Annex 4 - MAP Laos

UN CAPITAL DEVELOPMENT FUND

Annex 4 to MAFIPP programme document on MAP Activity

SUPPORT to FINANCIAL INCLUSION in the LAO PDR 2013-2014

through the “MAKING ACCESS TO FINANCE POSSIBLE” (MAP) DIAGNOSTIC and PROGRAMMING
FRAMEWORK



Region: Asia

MAP contribution to MAFIPP Programme Outcome:

“Making Access to Financial Services Possible” (MAP) is a key, primary activity of the MAFIPP programme that will contribute to the achievement of the MAFIPP Programme Outcome; increased access to financial services for low-income households and micro entrepreneurs in the Lao PDR. MAP’s contribution will be realized by supporting the development of a strong financial sector in the Lao People’s Democratic Republic (Lao PDR), inclusive for low-income households and (their) micro and small enterprises.

MAP-specific outcome:

Specifically, MAP contributes to achieving the MAFIPP Programme Outcome by defining the financial inclusion agenda in the Lao PDR and align resources with key priorities, based on a rigorous evidence-based diagnostic exercise, concluded by intense stakeholder dialogue and decision making in a process steered by the government.

MAP contribution to MAFIPP Programme Outputs:

MAP’s main entry point is at the Policy or Macro level. MAP-specific outputs will particularly contribute to enabling policy makers to further improve the strategic, policy and regulatory financial sector environment in line with operational realities of financial service providers nationally and accepted good practice internationally, aimed at enhancing financial inclusion of low-income households and micro enterprises.⁴⁸ MAP-specific outputs however also engage and inform the financial sector infrastructure, financial service providers and both infrastructure and distribution channels that traditionally have not been included in assessments of financial inclusion yet determine it. This way, MAP-specific outputs also contribute to realization of MAFIPP Programme Outputs at both meso and micro level. MAP-specific outputs are:

⁴⁸ MAFIPP Programme expected Output at Policy Level, “Policy more able to improve the policy and regulatory environment in line with operational realities of financial service providers nationally and accepted good practice internationally”, MAFIPP Programme document page 1.

MAP-specific outputs:

1. Output 1: A detailed quantitative, nationally representative demand-side analysis in the form of the FinScope survey;
2. Output 2: A detailed supply-side, policy and regulatory analysis;
3. Output 3: A synthesis diagnostic report integrating findings of demand-side, supply-side, and of policy and regulatory analyses;
4. Output 4: A national Roadmap and Action Plan that defines key triggers for the enhancement of financial inclusion in the Lao PDR and can serve to enable a programming framework for catalysing and aligning donor and investor support.
5. Output 5: An efficiently managed programme with top talent and expertise, meeting or exceeding all targets.

Duration and Funding

Expected Activity Duration:
1 year

Start/end dates: September
2013 - December 2014

Total estimated budget: USD 650,100

Out of which:

1. Funded Budget: USD 650,100
2. Unfunded budget: US\$-

Sources of funded budget:

- Government _____
- UNCDF _____
- AusAID USD 650,100
- NGO... _____

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1 INTRODUCTION

The UN Capital Development Fund (UNCDF) and the Bank of the Lao PDR (BOL) have jointly engaged in a programme to enhance financial inclusion named "*Making Access to Financial Services more Inclusive for People*" (MAFIPP). MAFIPP has been running since July 2010, managed and implemented collaboratively by UNCDF and BOL. Among other issues, MAFIPP called for technical assistance to BOL to strengthen its capacity to act as a channel for consolidating sector recommendations and for facilitating dialogue between regulators and multiple stakeholders.⁴⁹ In response to that call, BOL and UNCDF have decided to apply UNCDF's diagnostic and programming framework "Making Access to Financial Services Possible" (MAP) to Laos, complete funding for which was secured in May 2013 through AusAid.

MAP has been designated as a key priority in the MAFIPP Annual Workplan (AWP) for 2013. With the AWP approved by BOL there is an urgent need for a document detailing relevant elements regarding management and planning of MAP. This document has specifically been designed for this purpose and is intended to serve as a basis for approval by the MAFIPP Programme Management Committee.

MAP is based on a set of comprehensive and detailed diagnostics of the financial services sector with a central focus on actual demand and needs within the Lao population. Following the diagnostics, MAP enables to convene a broad range of stakeholders in a dialogue around the results of the analyses for the objective of developing a national financial inclusion roadmap and action plan. The roadmap will identify key drivers of financial inclusion and will define specific actions to be taken to be embedded in a related action plan. The roadmap and action plan will contribute to enhanced financial inclusion and is intended to serve as the point of reference to plan, coordinate, and assess progress on financial inclusion agenda with the full range of stakeholders; government, private sector actors, and donors.⁵⁰

UNCDF has developed the diagnostic and programmatic framework of MAP in partnership with two specialized organisations, the FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri).⁵¹ The partnership has been agreed with the target of implementing MAP in

⁴⁹ The signed MAFIPP Programme document page 6.

⁵⁰ A roadmap can also be considered a national strategy. The term roadmap is used to focus on its action orientation and to facilitate regular review and updating that is more difficult with a strategy that may need to go through lengthy review, revision, and approval processes.

⁵¹ **UNCDF** is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF programmes help to empower women, and are designed to catalyse larger capital flows from the private sector, national governments and development partners, for maximum impact toward the MDGs. (www.uncdf.org). **FinMark Trust** is an independent trust whose purpose is making financial markets work for the poor, by promoting financial inclusion and regional financial integration in Africa. It conducts research to identify systemic constraints and advocates for change on the basis of research findings. (www.finmark.org.za). **Centre for Financial Regulation and Inclusion (Cenfri)** is a non-profit think tank that supports financial sector

22 countries over the next six years. Overall objective of the collaboration is to support the expansion of the provision of a portfolio of appropriate financial services to the excluded and underserved segment of the population in order to improve their welfare, and to enhance financial intermediation and financial sector development.

This objective guides the design and implementation of MAP in Laos and will be the yardstick for its success. Main elements of MAP have already been implemented in over 15 countries on the African continent over the period of a decade. Since the full partnership with Cenfri and FMT in MAP was developed, implementation has started in eight African countries. In Asia MAP has almost been completed in Thailand and in Myanmar is in its final stages.⁵²

development and financial inclusion by facilitating better regulation and market provision of financial services. Cenfri has spun off FinMark Trust as a separate and independent organisation yet both organisations have maintained close working relations. Cenfri conducts research, provides advice and builds capacity of regulators and market players (www.cenfri.org).

⁵² The final workshop of MAP in Myanmar is expected early 2014.

2 BACKGROUND AND CONTEXT

As detailed in the MAFIPP Programme Document (ProDoc), MAFIPP was agreed to enhance access to financial services for the poor and low-income part of the Lao population and for micro and small enterprises, because lacking access to finance has been identified as a key factor for the achievement of the MDGs, for enhancing income and employment of the low-income part of the population and generally for socio-economic development of the Lao PDR.⁵³ As identified in the Lao government's Policy Statement for the Development of a Sustainable Rural and Microfinance Sector and confirmed in recent financial sector assessments by main development organizations (ADB in 2012; GIZ in 2010) there are a few related key challenges for the successful enhancement of financial inclusion:⁵⁴

- *Challenge of building a long-term coherent vision and strategy for enhancement of financial inclusion, understood and shared by a critical mass of key stakeholders.*
- *Challenge of alignment and mutual reinforcement of development efforts of a broad range of stakeholders.*
- *Challenge of finding reliable information and data as a basis for informed decision making.*

⁵³ Executive Summary, MAFIPP Programme Document page 6: "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 Lao people relies on self-generated wealth, informal market funding, or limited traditional micro-finance activities for financing. This is partly because 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. Limited access is also due to limited capacity and legal recognition of microfinance institutions, which limits their ability to provide a range of financial services demanded by those excluded. 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 full sector based approach to transform the ability of financial markets to respond to demands for financial services for those denied access."

⁵⁴ Policy Statement for the Development of a Sustainable Rural and Microfinance Sector", drafted by the ad hoc Inter Ministerial RMF Committee and BOL, endorsed by the government in 1760/PMO, 17/12/2003 and updated 2008; Financial Sector Assessment

Consultant's Final Report: TA 7500-Lao PDR Enhancing Financial Sector Supervision Component 2 (Project Number: 42224), Asian Development Bank 2012; Access to Finance Regulation and Supervision Diagnostic by Mark Flaming of Frontier Ventures for GIZ "Microfinance in Rural Areas - Access to Finance for the Poor", 2010.

As a consequence there is a need for the detailed and nationally representative data on intended clients, on financial service providers and on the overall setting of the financial sector, for the purpose of identifying a critical path guiding the decision making process towards financial inclusion and for overall coordination and alignment of development efforts by stakeholders, led by the Lao authorities. MAP, as key deliverable of MAFIPP, is based on these critical development needs for enhancing financial inclusion.

3 MAP-SPECIFIC BENEFITS, OUTPUTS AND ACTIVITIES

The overall outcome of MAP will be a defined financial-inclusion agenda and activity plan to be proposed to the government. The agenda will be based on intense stakeholder dialogue around evidence-based diagnostics of demand, supply and regulation related to financial inclusion concluded by consultative multi-stakeholder decision-making led by the government.

The key benefits of MAP for Laos are crucially related to the main challenges described in the previous chapter. MAP will produce a long-term coherent vision and strategy to enhance financial inclusion that will be both understood and supported by a critical mass of key stakeholders, based on a decision making process that was informed by reliable data. The vision and strategy embedded in the roadmap and the broad stakeholder involvement in the elaboration of the roadmap will ensure maximum opportunity for alignment and mutual reinforcement of development efforts. Ultimately this will contribute to the achievement of the MDGs and to targets set in the 7th National Socio-Economic Development Plan (2011-2015).⁵⁵ The overall outcome and benefits for Laos will be achieved by the following MAP specific outputs:

Output 1: A detailed quantitative, nationally representative demand-side analysis in the form of the FinScope survey;

1. *Demand-side landscape*: understanding the level of financial inclusion and the nature of demand is fundamental to the overall MAP diagnostics. The specific financial-service needs of poor and low-income people and micro enterprises are at the heart of the MAP endeavour. Demand will be measured using the FinScope survey methodology to be subcontracted to a local research agency technically managed and assisted by FinMark Trust.⁵⁶ FinScope will investigate demand patterns for all types of financial services providers (including but not limited to MFIs, village-managed loan funds, banks, the postal financial institution) and all types of financial services, insurance, remittances from abroad and payments made within the Lao PDR, savings and credit, by considering the alternative informal options used by respondents and the cost thereof, thereby assessing pre-conditions for financial inclusion and product sustainability.

Output 2: Detailed supply-side, policy and regulatory analyses;

⁵⁵ In earlier communication on MAP with BOL a separate overview of detailed concrete benefits for Laos was submitted to BOL as part of the process of getting BOL endorsement. The overview has been added to this document as Appendix II.

⁵⁶ FinScope is a nationally representative financial services usage survey developed by the FinMark Trust. The process of selecting the local survey team will be one of the first activities of MAP that will be implemented. FinScope will closely involve the Lao Statistics Bureau of the Ministry of Planning and Investment, which depending on discussions about the best form of collaboration, could either be involved in sampling and listing, and perhaps also in implementing the fieldwork.

2. *Context*: the country economic and historical context will have a significant impact on the nature and development of the financial sector and will be described and incorporated.
- 1.
3. *Supply-side landscape*: the study will scope the financial sector landscape, across a variety of stakeholders (formal and informal) in a number of product areas. It will importantly also consider the distribution of such products and the emerging distribution channel convergence of the different products; the role of traditional financial institutions such as banks, MFIs, the postal financial Institution and village-managed loan funds, and possibilities for interactions among these and other institutions to provide value-adding services to the excluded population. The analysis will involve possible future important distribution channels of financial services outside the financial sector, such as for example agent networks of telecommunication providers and insurance companies.
- 2.
4. *Policy and regulatory landscape*: The diagnostic will consider the policy, regulatory and supervisory landscape relevant for financial inclusion. Centrally important will be BOL but also other government stakeholders determining the financial inclusion landscape, such as the Government Office and the ministries and departments of finance, agriculture and forestry, telecommunication, industry and commerce, labour and social welfare, and the mass organizations, will be considered. The policy landscape study will include, among others, a review of the existing legal and regulatory provisions for the various financial services providers, inter-linkages, gaps and opportunities for streamlining them.
- 3.
5. *Financial infrastructure*: the diagnostic assesses if, and if so how, the general infrastructure (internet, telecoms, postal services) as well as financial sector infrastructure (APEX or some variation of a wholesaling financing vehicle, credit bureaus, rating agencies, technical service providers, research and academia, national associations, etc.) may be created, leveraged or strengthened in order to help further expand financial access.
- 4.
6. *Client capability and protection front*: the diagnostic will give consideration to financial literacy and capabilities from a client perspective, as well as ways in which the principles of client protection and financial education can be tightly anchored within the agenda of promoting greater financial access.

Output 3: A synthesis diagnostic report integrating findings of demand-side, supply-side, and of policy and regulatory analyses;

7. *Syntheses*: The synthesis of the various diagnostic studies ensures a holistic look at the financial sector and a central position of the intended target group of low-income households, and micro and small enterprises. The results of the synthesis will be embedded in a Synthesis Report, summarizing conclusions, market opportunities, policy imperatives and potential market and regulatory barriers to maximise on these opportunities, and constraints, and recommendations. The Synthesis report will ultimately inform the development of road map and action plan.

Output 4: A national financial inclusion Roadmap and Action that defines key triggers for the enhancement of financial inclusion in the Lao PDR and can serve to enable a programming framework for catalysing and aligning donor and investor support.

8. Overall priorities and key triggers for enhancement of financial inclusion will be determined in a process of intense communication and consultation around the analysis reports delivered as MAP Outputs 1-3 with key stakeholders, which will be embedded in a proposal to the government for a national financial inclusion roadmap.
9. In order to realize national financial inclusion priorities and enable key triggers, MAP will define concrete and immediate next steps to be taken, which will be embedded in an action plan based on the financial inclusion roadmap.
10. The identified Roadmap and Action plan will be submitted for endorsement to the government that could serve as a basis for catalysing and aligning donor and investment funding and programming. For the realization of the latter, post MAP a platform for financial inclusion programming would need to be initiated which could be incorporated in or collaborating with the MAFIPP envisioned Fund for Inclusive Finance.

Output 5: An efficiently managed programme with top talent and expertise meeting or exceeding all targets.

11. UNCDF will ensure that the team is set up and will work together to ensure that all activities are undertaken on time and outputs meet and/or exceed targets. Supervision by UNCDF provided by the Senior Regional Technical Advisor, together with technical expertise from the UNCDF Global MAP Programme Advisor, management and implementation of and support to various parts of MAP by a UNCDF MAP Asia consultant for UNCDF in close cooperation with the MAFIPP CTA and team. Programme evaluation to be conducted in conjunction with the Global MAP Programme Advisor.
12. Monitoring, steering and management by UNCDF based on agreements signed with implementing partners Cenfri, FinMark Trust and MIX with outputs, deliverables, budgets and payment schedules embedded therein.

4 IMPLEMENTATION METHODOLOGY

4.1 Flexible to local setting and in line with Lao practice

The MAP process has been designed to have a step-by-step approach calibrated to specific country conditions and built upon or leveraging existing and planned in-country processes. MAP is not a linear process but will rather be fine-tuned to the country setting and tailor to follow rural and microfinance development practice in the Lao PDR. As has happened in the past, large demand, supply and regulatory assessments will be done by foreign experts working collaboratively with Lao national surveyors as a basis for financial inclusion and rural and microfinance strategy development, elaborated in processes involving broad stakeholder engagement led by the government.

4.2 MAP process description

As a process, MAP will be conducted in four separate yet logically related phases. Its structure allows for exhaustive information collection and to incorporate broad, continued participation of stakeholders that are relevant to the objective of greater financial inclusion. MAP will be implemented under government leadership yet will catalyse the involvement of a wide range of stakeholders, including non-traditional players, ranging from policy makers and regulators to market players, intermediaries and different entities that can represent the market that is currently excluded. Particular attention will be given to involving parties that are relevant but are not typically involved in specific sector discussions (e.g., telecommunications ministries, social protection ministries involved in or planning for conditional cash transfers, agriculture ministries, consumer associations, etc.). Below we will outline the main phases in and elements of MAP implementation process (project phases are bold, the sequential steps are numbered):

Phase 1: Inception mission

The first phase of the project will include a kick-off workshop where a wide-set of stakeholders are introduced to the project and methodology. The workshop will be followed by a set of meetings with key stakeholders. Information gathered during the kick-off workshop and follow up meetings will shape the focus of the diagnostic and country engagement. This will be captured in a post-kick off note or inception report. In addition, the MAP team jointly with the government will form a steering committee and technical working group structure that effectively serves as a sounding board and guides the research process. Next to the Central Bank or financial sector authority, the steering committee is generally composed of key stakeholders in the financial services sector, including but not limited to the Ministry of Finance, National Statistics Office, Ministry of Planning and Investment, Government Office and key private sector players and funders.

1. A technical workshop to build stakeholder engagement and awareness of the initiative and to test the country-specific game plan;

Phase 2: Country review

The in-country review process for the supply and regulatory assessment will involve individual meetings with broad set of stakeholders (government, private and donor). The process will produce a Country Note outlining preliminary findings that emerged from the consultation process. The FinScope survey exercise will run before, parallel and continue after the in-country visit with the design of the questionnaire content, translations, sampling framework and field preparation for the FinScope survey, including training for the field.

2. The country diagnostic work: data and information collection and analysis;

Phase 3: Report writing, survey fieldwork and data analysis

FinScope data will be captured, cleaned and weighted and top line analysis published separately to the diagnostic report. The in-country review is followed by extensive working sessions where the information collected during in-country meetings are assessed and vetted against available supply-side data, existing demand side data, and will be confronted in focus group discussions for testing and confirmation of hypotheses and results of analyses. Key findings from the FinScope results combined with results of research on the supply/policy side will serve as inputs for triangulation and will lead to synthesis of results.

3. The preparation of the draft analysis and preliminary conclusions;

Phase 4: Stakeholder workshop and formulation of a financial inclusion roadmap and action plan

The draft diagnostics, including FinScope results, will be presented at a stakeholder workshop to allow stakeholders the opportunity to comment on the analyses and generally provide reflection and inputs. The comments and inputs will be combined with those from the authorities and funding partners and will be included in the basis on which the final diagnostics, roadmap and action plan will be founded.

4. A stakeholder workshop (or series of workshops and consultations) to discuss and debate the draft analysis and preliminary conclusions and their implications for future action;
5. Final version of the financial inclusion analytical report.
6. The first draft of the national financial inclusion roadmap for comments;
7. The final version of the national financial inclusion Roadmap and Action plan to submit to the government for endorsement.

4.3 Post MAP

Although this paragraph describes a phase that is beyond MAP's activities itself, it is included because of its relevance for achievement of MAP's impact potential. At completion of MAP, the designed national financial inclusion roadmap and related action plan will be formally handed over to the government for endorsement and can constitute a basis for the development of a programmatic framework. The development of a programmatic framework following completion of MAP has as key function to operationalize the strategic priorities and concrete actions embedded in roadmap and action plan, by translating them into projects and programs and linking those to necessary and available budgets and investments. The process of developing the programmatic framework as main implementation instrument is envisioned to be facilitated by UNDCF which aims to create a platform in or closely linked to the envisioned the Fund for Inclusive Finance to manage the programmatic framework and its effectuation.

8. Post MAP: Government, private sector and donor programming based on the priorities established in the roadmap and actions defined in the action plan through the elaboration of a programmatic framework. The programmatic framework accommodates collective and individual programming by different stakeholders based on key principles such as complementariness, integration and efficient management of programs, effective targeting of the various segments of the overall lower income and vulnerable part of the population, results-based management, alignment of programs of development partners working on financial inclusion with the roadmap and action plan, and encouragement of subsidiarity and partnership.

5 MAP ACTIVITY MANAGEMENT

MAP is part of MAFIPP and as such approval of MAP will be based on the document in hand, the MAP activity document as annex to the MAFIPP Programme Document, according to MAFIPP's regular procedures, by the Programme Management Committee. Following approval MAP's implementers will be contracted, directly managed and monitored by UNCDF on behalf of the MAFIPP PMC and CTA.

A successful MAP exercise hinges on a broader group of stakeholders constituted by a country specific group of partners, such as the Lao government, organisations that co-fund MAP or are involved in implementation. The agreements reached with those agencies and organisations will be embedded in formal documents, such as the Terms of Reference for the Steering Committee and Technical Working Group and in the Terms of Reference embedded in the contracts with the MAP implementing partners, including FMT, Cenfri, MIX, research house and consultants.

The intended role of the Steering Committee is that as the ultimate body of authority specifically related to MAP's implementation and management. As the Steering Committee's role is functionally focused on MAP only, its composition, mandate and frequency of meetings are determined by the requirements of MAP, which diverge significantly from the existing MAFIPP Programme Management Committee. In order to create adequate Terms of Reference that meet the requirements of MAP specific issues and of the government, the Terms of Reference for the MAP Steering Committee will be developed jointly with the government and MAFIPP PMC. The Steering Committee will normally consist of representatives of the Lao authorities relevant for the subject of financial inclusion and funders of MAP. Among other responsibilities, the Steering Committee will be the recipient of the MAP technical outputs for formal endorsement and sign off.

In order to allow for specific technical local input into the MAP process the creation of a Working Group is envisioned consisting of technical specialists. The position and role of the technical Working Group is that of a body consisting of a broad group of stakeholders that are directly or indirectly involved in financial inclusion, financial sector development or which activities have financial service delivery as a crucial input. Participation in the Working Group is voluntary and can happen on informal invitation. The Working Group provides technical feedback to MAP's implementation team and can vary in terms of its composition, depending on the nature of the issue on which technical feedback is needed.

The exact design of roles and responsibilities, and the composition of both Steering Committee and Working Group depends on agreements with the Lao authorities. They will be detailed and elaborated on as part of MAP's implementation and consequently embedded in Terms of Reference.

As all MAFIPP's activities, MAP will be closely coordinated and aligned with current and future efforts by main other stakeholders in enhancement of financial inclusion, and in particular with the GIZ programme "Access to finance for the Poor – Microfinance in Rural Areas" (AFP). MAP will also be aligned with and inform UNDP's efforts in support of the implementation of the 7th Five-Year National Socio-Economic Development Plan (2011-2015) to achieve the MDGs

6 SUMMARY DELIVERABLES AND TIMELINE

The table immediately below outlines key deliverables and associated timelines. The dates are indicative and subject to change.

Table 1: Summary delivery

Key Deliverables and Milestones	Timing	Dependency
Literature review	1 st Quarter 2014	Approval MAP document; contracting implementing partners
Project kick-off note	1 st Quarter 2014	Approval MAP document; contracting implementing partners; installation Steering Committee and Working Group
Sign off FinScope Questionnaire	1 st Quarter 2014	Approval MAP document; contracting implementing partners; installation Steering Committee and Working Group
Post interview and information collection country briefing note	2 nd Quarter 2014	Availability implementing partners (Cenfri) and intended interviewees.
Draft supply-side and policy and regulatory diagnostics	2 nd Quarter 2014	
FinScope data set complete	3 rd Quarter 2014	Timely sign off Questionnaire; availability research house and LSB
Drafts syntheses documents and FinScope deliverables	4 th Quarter 2014	
Draft roadmap and action plan	4 th Quarter 2014	
Final diagnostics, synthesis document, policy and regulatory analysis, roadmap and action plan	4 th Quarter 2014	

7 BUDGET AND PAYMENT SCHEDULE

7.1 Budget

MAP LAO PDR BUDGET DETAILS								
OUTPUT/ACTIVITIES	Description	2013 Aug - Dec	Responsible Party	Disburse 2013 Jan - Dec	2014 Jan - Dec	Responsible Party	Disburse 2014	Total
Output 1: A detailed quantitative, nationally representative demand-side analysis in the form of the FinScope survey								
Activity 1.1 Technical assistance to and management of FinScope, which includes quality check, analysis and final report and presentation	Consultants	\$0	FMT	\$60,000	FMT			\$60,000
	Travel	\$0		\$20,000				\$20,000
	Supplies	\$0		\$54,100				\$54,100
Subtotal Activity 1.1		\$0		\$134,100				\$134,100
Activity 1.2 Outsourcing Research House household survey, sampling and listing	Outsource	\$0	FMT	\$180,000	FMT			\$180,000
Subtotal Activity 1.3		\$0		\$180,000				\$180,000
Total Output 1		\$0		\$314,100				\$314,100
Output 2: A detailed supply-side, policy and regulatory analysis								
Activity 2.1 Supply and Regulatory Assessment	Consultants	\$46,000	MAC, LC and CENFRI	\$44,000	MAC, LC and CENFRI			\$90,000
	Travel	\$0		\$10,000				\$10,000
	Supplies	\$0		\$2,000				\$2,000
Subtotal Activity 2.1		\$46,000		\$56,000				\$102,000
Activity 2.2 Outsourcing populating products & services matrix	Outsource	\$0	MAC	\$5,000	MAC			\$5,000
Subtotal Activity 2.2		\$0		\$5,000				\$5,000
Total Output 2		\$46,000		\$61,000				\$107,000
Output 3: A synthesis diagnostic report integrating findings of demand-side, supply-side, and of policy and regulatory analyses								
Activity 3.1 Outsourcing Research House qualitative research		\$0		\$30,000				\$30,000
Subtotal Activity 3.1		\$0		\$30,000				\$30,000
Activity 3.2 Synthesis of full diagnostic tool	Consultants	\$0	FMT, CENFRI, MAC and LC	\$66,000	FMT, CENFRI, MAC and LC			\$66,000
	Travel	\$0		\$7,000				\$7,000
	Editorial/Printing	\$0		\$0				\$0
Total Output 3		\$0		\$73,000				\$73,000
Output 4: A national Roadmap and Action Plan that defines key triggers for the enhancement of financial inclusion in the Lao PDR and can...								
Activity 4.1. Pre-programmatic consultations with technical committee and stakeholders and local project coordination	Consultants	\$0	ROADMAP Consultant, MAC and LC	\$20,000	ROADMAP Consultant, MAC and LC			\$20,000
	Travel	\$0		\$7,000				\$27,000
Subtotal Activity 4.1		\$0		\$27,000				\$27,000
Activity 4.2. Finalisation of diagnostics and development of road map and action plan	Consultants	\$0	ROADMAP Consultant and MAC	\$39,000	ROADMAP Consultant and MAC			\$39,000
	Travel	\$0		\$0				\$0
	Editorial/Printing	\$0		\$30,000				\$30,000
Subtotal Activity 4.2		\$0		\$69,000				\$69,000
Total Output 4		\$0		\$96,000				\$96,000
Output 5: Programme Management								
Activity 5.1. UNCDF Global and Regional support	Staff	\$0	UNCDF	\$0	UNCDF			\$0
	Travel	\$0		\$18,000				\$18,000
Subtotal Activity 5.1		\$0		\$18,000				\$18,000
Activity 5.2. UNCDF Local in-country support	Staff	\$0	UNCDF	\$12,000	UNCDF			\$12,000
	Travel	\$0		\$0				\$0
Subtotal Activity 5.2		\$0		\$12,000				\$12,000
TOTAL OUTPUT 5 (Excluding 1% direct cost)		\$0		\$30,000				\$30,000
TOTAL		\$46,000		\$604,100				\$650,100

7.2 Payment Schedule

UNCDF has a global grant agreement with its MAP implementing partners, FinMark Trust and Cenfri. As this grant agreement does not include Laos PDR, an annexure to the Grant Agreement will be prepared for both FinMark Trust and Cenfri to undertake MAP activities in Laos. UNCDF will be responsible for the contracting agreement between FinMark Trust and Cenfri. As such, the total funds for the MAP project will be disbursed to UNCDF who will then make the necessary payments as per the deliverables submitted.

8 DETAILED WORK PLAN

Milestones and Activities	Q4 2013	Q1 2014	Q2 2014	Q3 2014
MILESTONE 1: LAUNCH MAP PROGRAMME ACTIVITY	Q4 2013	Q1 2014	Q2 2014	Q3 2014
1.1 Design and finalize MAP programme activity document, detailed workplan and budget.				
1.2 Agree in MAFIPP PMC on MAP detailed workplan and budget and approve MAP programme activity document as Annex to MAFIPP Prodoc.				
1.3 Send confirmation of endorsement of MAP (as part of MAFIPP ProDoc approval), detailed workplan and budget to UNCDF MAP Global Programme advisor and AusAid for information.				
MILESTONE 2: MAP PROJECT ORGANIZATION, COORDINATION and LOGISTICS ARRANGED	Q4 2013	Q1 2014	Q2 2014	Q3 2014
2.1 Design ToRs for Cenfri, MAP Asia consultant working on Supply-side and Regulatory diagnostics management and implementation, and for the MAFIPP team led by CTA, clarifying respective roles and responsibilities				
2.2 Contracting of Cenfri, FinMark Trust, and other consultants.				
2.3 Clarify and organize visa arrangements and consultants				
2.4 Hold initial talks with Lao Bureau of Statistics on involvement in MAP, with backstopping input from FinMark Trust				
2.5 Draft detailed MAP workplan				
MILESTONE 3: STEERING COMMITTEE and WORKING GROUP ESTABLISHED	Q4 2013	Q1 2014	Q2 2014	Q3 2014
3.1 Make TOR for SC and WG				
3.2 Make list of SC and WG members				
3.3 Send ToRs and proposed list of members to BOL and meet to inform, discuss and agree				
3.4 Finalize SC and WG compositions, sign off on TOR, inform and invite members				
3.5 Hold SC constitutional meeting and agree on procedures. Discuss and approve detailed workplan.				

MILESTONE 4: DEMAND SIDE FinScope DIAGNOSTIC COMPLETED	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
4.1 Publish ToR for FinScope						
4.2 Review proposals from research houses						
4.3 Develop shortlist and notify preferred research houses						
4.4 Appoint and contract research house						
4.5 Initial draft questionnaire to research house						
4.6 FMT to receive comments from research house						
4.7 Send Final Draft questionnaire to SC, WG and research house						
4.8 Kick-Off workshop: introduction FinScope and MAP; questionnaire design						
4.9 Send revised draft questionnaire to SC, WG and research house						
4.10 Receive final sample and maps from research house (3 weeks)						
4.11 NSO to prepare data template and training manual						
4.12 Send final questionnaire to SC for sign off						
4.13 Preparation of training (including logistics), print training questionnaire and manual						
4.14 Preparation of field work (including logistics), print maps, sample etc						
4.15 Training, internal and external pilot						
4.16 Data capture templates						
4.17 Analysis workshop						
4.18 Sign off final questionnaire based on feedback from pilots						
4.19 Fieldwork (incl. listing)						
4.20 Field visits – quality control						
4.21 Data capture and cleaning						
4.22 Field and technical report						
4.23 Final weighted data set; send data to Cenfri						
4.24 Document writing; analysis, presentations and reports						
4.25 Workshop preparatory meetings with Cenfri						
4.26 Sending draft deliverables to SC for approval						
4.27 Closing workshop: presentation of diagnostics and survey results						

4.28 Finalization of FinScope deliverables						
4.29 Send final deliverables to SC for approval						
MILESTONE 5: SUPPLY-SIDE and REGULATORY DIAGNOSTICS COMPLETED	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
5.1 Desktop review of background literature						
5.2 Preparations Kick-Off meetings						
5.3 Kick-Off workshop: introduction MAP and supply-side and regulatory diagnostic; follow-up meetings with SC, WG and survey partners (FMT)						
5.4 Draft post Kick-Off briefing Note and Second version of Desktop review of literature						
5.5 Interviews and gathering of supply-side and regulatory data and information						
5.6 Post Country Interviews Briefing Note						
5.7 Report writing of supply side diagnostic, policy and regulation diagnostic						
MILESTONE 6: FOCUS GROUP DISCUSSIONS COMPLETED	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
6.1 Publish TOR for Focus Group Discussion Provider, review proposals and select and appoint FGD provider						
6.2 Working session with research house on focus group design						
6.3 Technical input for FGD, coordination and logistical input as preparation for in-country visit						
6.4 Attending FGD						
6.5 Working sessions with FGD company, processing of collected data and analyses						
6.6 FGD final report						
MILESTONE 7: SYNTHESSES REPORTS COMPLETED	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
7.1 Working sessions with FMT and UNCDF MAP Asia consultant, incorporation results FinScope survey and FGDs						
7.2 Report writing of syntheses reports and in finalization of supply side diagnostic, policy and regulation diagnostic and synthesis documents based on input qualitative and quantitative demand-side data						
7.3 Workshop preparatory meetings with FMT						
7.4 Sending out draft deliverables to SC for approval						
7.5 Workshop: presentation diagnostics and survey results						
7.6 Finalization of deliverables and sending to SC for approval						
MILESTONE 8: ROADMAP and ACTION PLAN ELABORATED	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
8.1 Arrange local project coordination and support, and set up the SC and WG						

8.2 Kick-off meeting and stakeholder meetings						
8.3 Ongoing coordination and information exchange Cenfri and UNCDF MAP Asia consultant on findings and emerging themes, hypotheses and analyses.						
8.4 Workshop preparatory meetings between FMT, Roadmap consultant and MAP Asia consultant UNCDF						
8.5 Presentation at Closing Workshop of Roadmap assumptions, opportunities and constraints						
8.6 Finalization of Syntheses reports, Roadmap and Action Plan based on feedback workshop						
8.7 Handover Roadmap, Action Plan and Programming Framework to SC and WG						
MILESTONE 9: PROGRAMME REALISATION MONITORED	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
9.1 Create ToRs for managements teams and consultants, clarify roles and responsibilities and contract						
9.2 Monitor progress and realisation of outputs and deliverables against indicators in Programme Monitoring Framework and against milestones embedded in Timeline						
9.3 Handover of Final Diagnostics, Roadmap and Action Plan to SC and WG for follow though						

APPENDIX I: ASSUMPTIONS, RISKS AND MITIGATION

#	Description of Assumptions or Risks	Category	Impact & Probability	Risk Assessment / Countermeasures / Management Response
1	Government endorsement not obtained.	Organisational and Political	Programme can't start, hence can't achieve outcome <i>Probability = Low</i>	MAP has already been formally approved by the government as key prioritized activity of the MAFIPP AWP 2013. The government supported the submission of the proposal sent to AusAid for funding, which included MAP. Approval of the adaptation of MAFIPP Programme Document based on added activities funded by AusAid is judged to be a formality. In the preparation of MAP's implementation, ample efforts has been made in series of presentations and delivery of detailed information on MAP's benefits for the Lao PDR, allowing for understanding of MAP and its objectives and informed decision making on MAP's endorsements.
2	Material government support to MAP implementation is slow	Organisational and Financial	Progress of MAP against planned timelines will be delayed. <i>Probability = Medium</i>	MAP is aimed at good quality, informed strategic development of a financial sector aimed at enhancing financial inclusion of low-income people and the long-term equitable socio-economic development. Considering the importance of MAP's ultimate objective and anticipated long-term, durable positive contribution of MAP's deliverables, the possible delay against anticipated timelines is considered of relative insignificance. Regular feedback will be provided to funder and other stakeholders on progress. Planning and delay will be addressed during quarterly MAFIPP PMC meetings, which include the government.
3	A lack of endorsement or participation by a critical mass of key stakeholders	Organisational and Strategic	Output 4, the National Financial Inclusion roadmap will lack support and the exit strategy or sustainability is at risk	Engagement for MAP has already been sought by UNCDF with the main stakeholder involved in finding the right political platform of the Round Table Meetings in support of the implementation of the National Socio-Economic Development Plan, which is the highest level political structure created in the Lao PDR for the provision of strategic input in to government socio-economic development efforts. BOL as counterparts has been amply

			<i>Probability = Medium</i>	briefed on the need for broad scale stakeholder participation and have shown strong support for this at workshop held so far on the preparation of MAP. UNCDF and UNDP have strong networks and leverage with government and donor community in the Lao PDR and will seek their leverage if needed. Inviting stakeholder engagement is part of regular UNCDF processes and its experience and lessons learned, in particular those in the region will be built on in the Lao PDR.
4	The Lao Statistics Bureau lacks capacity to provide good quality and quantity data in reasonable time	Strategic	The quality of the programme outcome will be undermined as the evidence base on which diagnostic and roadmap are founded is weak <i>Probability = Medium</i>	Contract a local, good quality private survey company if available when necessary. Delivery of technical and on-the-job assistance by project partner and FinMark Trust, who have the experience to deal with this situation and a track record to back it up.
5	The capacity base for MAP's implementation in the Lao PDR is run too thin because of a too large portfolio of running programmes on a global scale.	Organisational and Strategic	The delivery of outputs will be slowed down <i>Probability = Medium-High</i>	A main bottleneck in making progress against the projected timeline is expected to be found in local government's procedures and the time it will take to secure ample numbers of interviews. Since MAP is a strategic exercise and involves long-term objectives, the relative set back of late delivery of a few months has little impact in achievement of the overall outcome. UNCDF, Cenfri and FinMark Trust deal with simultaneous implementation and designing of programmes as a matter of course. Currently Cenfri's capacity is stretched thin as a consequence of rapid role out of MAP Globally small consultants base to begin with. UNCDF management will closely monitor progress and hire additional resources if and where necessary

6	Data and survey results are considered by the government as too sensitive to publish	Political and Strategic	Programme can't achieve outcome <i>Probability = Low - Medium</i>	The nature of the MAP process and its intended benefits will be thoroughly explained to the government. In the past the Lao government has always been forthcoming in publishing financial inclusion data and assessments, and other socio-economic information, even the information showed challenges or disappointments. The government will be asked to sign a letter of intent and approval of MAP in all its aspects confirming commitment at inception.
7	Lack of follow-up on diagnostics and roadmap after completion of MAP	Organisational and Strategic	Programme will not achieve intended impact <i>Probability = Low</i>	During the MAP process ample effort will be made to ensure buy-in and ownership of government and development partners. A working group will be formed as part of the MAP process at inception, which will include all development partners and other stakeholders and which will be amply informed on survey results, requested for feedback and involved in design of the roadmap. A Fund for Inclusive Finance is being set up by UNCDF to play the role of financial inclusion programming platform. The MAP-produced roadmap will be based on evidence on the intended beneficiaries of overall development efforts, the low-income and poor households, denial of follow-up would undermine the development community itself, creating strong rationale to participate and support.

APPENDIX II: KEY BENEFITS OF MAP FOR LAOS

Summary of benefits of **Making Access to Finance Possible –MAP-** *for the* **Lao People's Democratic Republic**



Abbreviations and acronyms

ADB	Asian Development Bank
APRC	Asia Pacific Regional Centre
AWP	Annual Work Plan
BOL	Bank of Lao PDR
BFA	Bankable Frontier Associates
Cenfri	Centre for Financial Regulation and Inclusion
FMT	FinMark Trust
Lao PDR	Lao People's Democratic Republic
LPC	Local Project Coordination
MAP	Making Access to finance Possible (UNCDF Global Programme to enhance financial inclusion)
MAFIPP	Making Access to Finance more Inclusive for Poor People (UNCDF programme for the Lao PDR to enhance financial inclusion)
MFI	Microfinance Institution
RFSDP	Rural Finance Sector Development Programme
SC	Steering Committee
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
WG	Working Group

1. Introduction

This summary will give a brief overview of the benefits of UN Capital Development Fund's (UNCDF) Global programme to enhance financial inclusion *"Making Access to Finance Possible"* –or *"MAP"*– particularly for the Lao People's Democratic Republic (Lao PDR).

The summary will also detail how MAP has been approved by the government of the Lao PDR in official documents on UNCDF's *"Making Access to Finance more Inclusive for Poor People"* (MAFIPP) programme and was agreed with both UNCDF and UNDP country office for the Lao PDR. Finally, the summary explains how MAP is embedded in the tradition of rural and microfinance sector development in the Lao PDR.

The intended audience of this summary is BOL's management officials responsible for financial inclusion and those responsible for MAFIPP.⁴⁸

2. Overall Benefits of MAP for the Lao PDR

2.1 Overall direct benefit

Improved financial service delivery to poor and low-income households

The intended main outcome of MAP is improved quality and outreach of sustainable financial service delivery to poor and low-income households as well as micro and small enterprises in the Lao PDR, including low to middle-income households acting as entrepreneurs and informal businesses. Phrased differently, MAP will lead to enhanced financial inclusion.

2.2 Overall resulting benefit

Improved socio-economic situation of poor and low-income households

As a result poor and low-income households will be empowered to **deal with socio-economic shock** (for example as a consequence of death or sickness of a breadwinner, hospitalization of a family member, flooding, crop failure, loss of livestock, strong price fluctuations of agricultural produce etc) and **non-matching incoming and outgoing cash flows** (e.g. due to seasonality of productive activities such as those related to agriculture, or because of life-cycle events), to **build wealth** and to **make use of economic opportunities**.

Ultimately enhanced financial inclusion will help to **raise income and employment** of poor and low-income households, to **reduce poverty** and to **stimulate economic production** in the Lao PDR.

3. Specific Benefits of MAP for the Lao PDR

3.1 Comprehensive and detailed information on demand for financial services by poor and low-income households

Update of available data on demand for microfinance in the Lao PDR

The last time a large scale survey into demand of poor and low-income households for financial services in the Lao PDR has been done that creates a reliable primary dataset is a decade ago.^{49 50}

⁴⁸ The summary in hand should be understood against the background of an 11-page document titled *"Making Access to Finance Possible (MAP): Lao People's Democratic Republic"* of 1 February 2013, which was shared with BOL in an earlier stage.

Currently no reliable primary data are available on the needs for financial services of poor and low-income households. As a consequence, policy makers have to base their decisions on outdated information as major changes have occurred in both the socio-economic and the financial sector setting of the Lao PDR over the last 10 years. MAP would allow for an update and provide most recent information.

Broadening of scope of available data on demand for microfinance in the Lao PDR

The survey done in 2003 did not include data on demand for international remittances, national payments and insurance, while these types of services are highly relevant for the poor and low-income segments of Lao's population. MAP would include demand for those products.⁵¹

Inclusion of qualitative information demand on demand for microfinance in the Lao PDR

There is little information on what poor and low income households look for in financial products and their delivery, how they make their financial decisions. The information that is available is for the most over 10 years old. MAP would include qualitative information on demand and fill this gap, would describe consumer behaviour of poor and low-income households and relate this to demand for financial services.

Inclusion of a description of the socio-economic life of the Lao population

Little systematic research has been done into what the socio-economic life of poor and low-income households looks like and how it relates to needs and demand for financial services. MAP includes descriptions based on segmentations of groups based on socio-economic parameters and consequences for demand for financial services, something which has not been done before.

Information for policy makers and financial service providers

MAP will produce quantitative data on demand for financial services by poor and low-income households that is nationally representative for the Lao PDR, using scientifically-based FinScope survey methodology with proven results in over 16 countries worldwide. The results of the FinScope

⁴⁹ "Rural Finance in the Lao PDR: Demand, Supply and Sustainability, results of household and supplier survey's" (Asian Development Bank and FIRST Initiative) by Brett E. Coleman and Jon Wynne-Williams was based on survey held in 2003 among almost 1,200 households.

⁵⁰ On payment flows in the Lao PDR, including international remittances and national money transfers recently (2012) a study has been undertaken. The study however used a combination of a small selection of the total body of available secondary research and extrapolations based on focus group discussions in four urban areas with 260 respondents. Various estimations made in this study differ significantly from results of other known studies and primary survey results, including the official Microfinance Statistics survey done by the National Economic Research Institute of the Ministry of Planning and Investment of the Lao PDR under the auspices of BOL. As a consequence, the need for a scientifically-based systematic survey on international remittance and national money transfers is as pressing as it was or even more so now, in order to prevent the risk of drawing conclusions based on flawed data.

⁵¹ Ibid. MAP has the added benefit of having one particular scientifically-based method applied to all different product categories creating primary data. Apart from making MAP's results reliable, the use of one particular and reliable methodology prevents not only differences due to lack of reliability of a chosen methodology but also those as a result of using different methodologies for different products.

survey will be combined with qualitative assessments and will bring the benefits described in the previous 4 paragraphs.

As the main positive result for policy makers, MAP produces information based on the actual state of affairs of financial inclusion and demand for financial services of poor and low-income people in a way that allows for making well informed decisions on policies, strategies and actions that will enhance financial inclusion of poor and low-income households. In the same manner MAP will enable financial service providers to develop financial products and distribution methodologies that better meet the needs of poor and low income households.

3.2 Comprehensive and detailed information on financial inclusion supply and regulation

Supply-side assessment based on actual demand for financial services

As with most financial sector supply-side assessments found anywhere in the world, also in the Lao PDR most of the available is of a quantitative nature and given “as such”, without making a connection to what it is poor and low-income households actually need or demand from financial services. As a result, the information tells us little on how well we are actually doing. MAP relates the supply-side assessment directly to demand for financial services by poor and low-income households. MAP will inform how large or successful in terms of outreach supply is **relative to demand**, not just in absolute numbers, and also intends to answer the question whether or not the **quality** of supply of financial services **meet the needs** of its intended target group.

Broadening of scope of supply-side information on products in the Lao PDR

In the Lao PDR reliable, up-to-date primary quantitative data on supply of savings and credit services by formal microfinance institutions (MFIs) and semi-formal savings and credit funds is available.⁵² Reliable primary data of supply of other products is lacking in availability and accuracy. MAP will focus on supply of all products categories, including international remittances, national money transfers and various forms of insurance while aiming to stay as close to primary sources data as possible by directly engaging financial service providers and simultaneously consulting both authorities and the full bulk of secondary research.

Broadening of scope of supply-side information on providers

As mentioned in the previous paragraph, reliable, up-to-date primary quantitative data on supply of financial services by MFIs and savings and credit funds is available. Supply of financial services to poor and low-income households by other financial service providers such as banks, the Lao Postal Financial Institution and pawn shops as well as by non-financial service providers as part of contractual arrangements in agricultural value chains, is normally left outside of the scope of studies. MAP will include those important sources of finance for poor and low-income households into focus.

Broadening of scope to non-financial sector players and non-financial sector regulations

MAP will include in its scope and assessment of supply and regulation potential future distribution methodologies that are currently not engaged in financial service delivery yet have the potential to dramatically increase outreach and lower costs, such as for example 7/11 or M-Point supermarket outlets and the agent networks of telecom providers and insurance companies. In terms of regulation MAP will also consider non-financial regulation where it impacts access to financial services, such as for example regulation on ID requirements

⁵² Microfinance in the Lao PDR (2012), National Economic Research Institute under the auspices of BOL and GIZ.

3.3 A vision, roadmap, action plan and funding for programming understood and supported by all stakeholders

A shared vision and strategy based on understanding and involvement of all relevant stakeholders and led by the government at the right political level

As identified in the Policy Statement for the Development of a Sustainable Rural and Microfinance Sector of the Lao PDR and confirmed in various sector assessments, there is need a shared vision and strategic direction for the enhancement of financial inclusion. MAP involves all relevant stakeholders that together determine financial inclusion from the beginning of the MAP process in a process led by the government. As a result, the resulting vision, roadmap, action plan and programming framework that form the basis for financial-inclusion development funding has the maximum chance of being understood and supported by crucial stakeholders; various government agencies, donors, development organizations and financial service providers. All will work in the same direction and for the same objective.

Proven foreign expertise, combined with knowledge of the Lao setting, led by the government

MAP combines the best of a few worlds fully adapted to and determined by the Lao setting; proven foreign-based expertise and experience, a method adapted to the Lao setting, involvement of Lao expertise and knowledge of the Lao setting and led by the Lao government.

4. MAP is government approved, fully funded and follows Lao rural and microfinance tradition

4.1 MAP has been approved by Lao government and is funded

MAP has been approved as part of MAFIPP Annual Workplan for 2013

The MAFIPP programme document -or ProDoc- was agreed between the government of the Lao PDR, UNCDF (and the UNDP Lao PDR country office) and was signed by BOL on 5 July 2010.⁵³ MAP was since embedded in the MAFIPP Annual Workplan that was approved on behalf of the Lao government by the Director General of the Financial Institution Supervision Department of BOL and was designated key deliverable.

MAP is fully funded

MAP is fully funded by the Australian government as part of AusAID's overall support to MAFIPP in a total amount of US\$ 6.1 million for the period 2013-2016, as signed on 20 May 2013.⁵⁴

4.2 MAP follows rural and microfinance development tradition in the Lao PDR

Survey and assessments

Until as recent as 2012 the Asian Development Bank (ADB) used to be the main development partner of the government of the Lao PDR on rural and microfinance sector development and had been for over two decades. The ADB's main programme, the Rural Finance Sector Development

⁵³ On behalf on BOL the ProDoc was signed by Mr Phouthaxay Sivilay, Director General of the Bank and Financial Institution Supervision Department; signatory for UNCDF was Mr David Morrison, Executive Secretary signed and for UNDP Lao PDR country office, Mrs Sonam Yangchen-Rana, Resident Representative.

⁵⁴ MAFIPP Addendum1. UNCDF-AusAID Integrated Rural Livelihoods Programme (2012-16). In Chapter 2 of the Addendum a description of new activities as part of MAFIPP that were agreed include MAP as first new activity in paragraph 2.1.

Programme (RFSDP), started with a large survey under almost 1,200 rural households held in 2003 all over the Lao PDR.⁵⁵ The survey was led by foreign experts and implemented mainly by Lao national surveyors. MAP follows in this tradition and also places a survey and assessment at the basis of its work, lead by foreign specialists in this type of survey and implemented by a Lao experts in close coordination and under a Steering Committee lead by the Lao government.

Steering Committee, Working Group and stakeholder involvement

At its start, as part of the ADB's RFSDP, a Committee was formed called the Rural and Microfinance Committee that consisted of senior officials from various parts of the government with responsibilities relevant to the Lao rural and microfinance sector. Within BOL a Project Management Committee for the RFSDP was formed. Jointly, the Rural and Microfinance Committee and BOL drew up the "Policy Statement for the development of a sustainable rural and microfinance sector (2003)" based on an iterative process of engagement and exchange of ideas, in coordination with ADB rural and microfinance experts. During the RFSDP and over a period of more than four years, stakeholder workshops were organized bringing together a broad range of stakeholders from within government, the development community and practitioners.

The process involved in MAP uses similar yet more refined and condensed methodology and also in this aspect operates in accordance with a known and accepted way of working in the Lao PDR. MAP involves a Steering Committee lead by the government, involvement of various stakeholders from within various parts within government, development and practitioners' community, all with relevance for financial inclusion, in a dialogue to develop a strategy or roadmap, action plan and for programming aligned with funding.

⁵⁵ "Rural Finance in the Lao PDR: Demand, Supply and Sustainability, results of household and supplier survey's" (Asian Development Bank and FIRST Initiative) by Brett E. Coleman and Jon Wynne-Williams.

10.5 Annex 5 – Support to Financial Inclusion in the Lao PDR through digital financial services

UN CAPITAL DEVELOPMENT FUND

Annex 5 to MAFIPP programme document on BB an MFS Activity

SUPPORT to FINANCIAL INCLUSION in the LAO PDR 2013-2014

through the “MOBILE MONEY FOR THE POOR” Programme



Mobile Money for the Poor:

Mobile Money for the Poor (MM4P) is a global initiative supported by UNCDF, Sida and AusAID designed to demonstrate how the correct mix of technical, financial, and policy support, as well as research, can assist in scaling up and/or replicating sustainable mobile financial services that reach the poor in very low-income countries. The initiative's outcome of reaching MM4P is for 4 million additional individuals and/or small and microenterprises in the LDCs have access to one or more appropriate branchless or mobile financial services by the end of 2017, including 1.4 million of which are active customers⁵⁶, 1 million that were previously unbanked and 2 million with a second generation⁵⁷ service.

⁵⁶ For MM providers, the emerging standard is having transacted in the past 90 days. For banks, the Mix standard is having used a bank account in the last 265 days.

⁵⁷ A service other than person-to-person transfer, air time top up, cash in and cash out.

MM4P contribution to MAFIPP Joint-Programme Outcome:

Mobile Money for the Poor is one of the primary activities of the MAFIPP programme that will contribute to the achievement of the MAFIPP Programme Outcome; increased access to financial services for low-income households and micro entrepreneurs in the Lao PDR.

MM4P-specific outcome:

Lao PDR at present has no branchless banking (BB) or mobile financial services (MFS) designed to reach the unbanked and underserved. The **outcome** of this strategy will be for 400,000 to have gained access to a financial service via branchless and mobile technologies, of which 250,000 will be active, including 150,000 will have been previously unbanked by the end of the MAFIPP programme.

MM4P's contribution to MAFIPP Programme Outputs:

Level	Description	Performance Indicators
Goal/Impact	Improved sustainable incomes and food security ⁱ	Improved rural households incomes
Purpose	Increased access to financial services by low income households and micro-entrepreneurs	Increase in low income households and micro entrepreneurs with access to financial services (Target: 408,000 active clients using a variety of financial products by 2017 ⁱⁱ)
Output 1	Component objective 1: Improved evidence based decision making and policy dialogue with the Government of Lao in developing financial markets for the poor.	
Output 1.3	Establishment of Branchless and Mobile Financial Services	Baseline- -0- Targets: 250,000 active customers by 2016

Duration and Funding

Expected Activity Duration:
4 years

Start/end dates: **January 2013**
– **December 2016**

Total estimated budget: USD 2,342,624
Out of which:

1. Funded Budget: USD 2,342,624
2. Unfunded budget: US\$-

Sources of funded budget:

- Government _____
- AusAID USD 2,175,767
- UNCDF USD 166,857 (MM4P budget)
- NGO... _____

1. BACKGROUND AND CONTEXT

In June 2012 the MM4P programme was invited by MAFIPP to conduct a scoping exercise to determine a way forward to develop branchless banking and mobile financial services (BB and MFS) that would reach low income unbanked and underserved Laotians. The report was shared with key stakeholders in Lao PDR and a proposal to fund MM4P to provide support to MAFIPP was approved by AusAID in early 2013. The MM4P approach is to support a range of activities to build an ecosystem favourable to the development and rapid expansion of BB and MFS. These activities include direct financial and technical support to (potential) providers, capacity building and training for key stakeholders, policy and regulatory support as well as sharing knowledge to build awareness of best practices. This approach was customized for Lao PDR in the MM4P Lao Country Strategy.

The MM4P plan refers to three phases in the roll-out of mobile financial services: start-up, expansion, and consolidation. During the start-up phase systems are created, products tested, clients sensitized and services piloted and launched. Rapid scaling occurs during the expansion phase. Once critical mass is reached, the industry begins to mature and consolidate. Lao is at the very beginning of the Start-Up Phase. It is the goal of MM4P to help the country be in or near the expansion phase by 2016. In Lao the major focus will be preparing one or more potential providers and the Bank of Lao (BoL) for the launch of the first service as well as laying the groundwork for a strong agent network.

2. EXPECTED MM4P-SPECIFIC OUTPUTS AND ACTIVITIES

The **outcome** of this MM4P's activities will be for 400,000 customers to have gained access to a financial service via branchless and mobile technologies, of which 250,000 will be active, including 150,000 will have been previously unbanked by the end of the MAFIPP programme. As the path to BB and MFS in Lao PDR is still unknown and not one provider has been identified, UNCDF will need to remain flexible in its pursuit of these targets.

There is no single path to developing BB and MFS so some of the outputs and the range activities may need to be reviewed and revised from time to time.

MM4P specific outputs to be achieved through MAFIPP are as follows:

MM4P OUTPUT	OUTPUTS FOR MAFIPP	ACTIVITIES FOR MAFIPP
Output 1 Scalable and replicable solutions	• At least two partners launch a BB or MFS service. • At least one partnership formed for distribution of services. • UNCDF partners reach at least 60,000 unbanked Laotians.	• Provide on-site technical support to 2-3 stakeholders to develop business plans • Provide grant support to implement plans • Engage with LPSI project to find synergies on domestic transfers.

Output 2 Ecosystem developed	• Providers design products specifically designed for e-channels. • At least one "second generation" product launched using BB and MFS. • At least one bulk payment user (government, NGO, corporate, MFI) transitions from cash to electronic payments linked to affordable savings accounts. • At least one shared agent network is assisted to develop an expanding, well-managed network of cash-in, cash-out (CICO) in which at least 50% are active. • At least 20 rural agents are established.	• Develop regular schedule of contact with key stakeholders. • Provide a long-term (18-24 month) expert presence to work with partners and identify best partners for technical support and funding. • Identify a local consultant to work closely with MAFIPP and MM4P on its work to develop a local source of expertise. • Building on the payment flows work of IFC, conduct qualitative research on potential use cases (savings, borrowing and repaying loans, etc.) to determine those are the greatest pain points. • Conduct workshop on results of research with proposed possible designs for products specifically for e-channels. • Initiate the product development accelerator to provide targeted on-site assistance to a few partners to develop, test and launch a product through e-channels. • Initiate Agent Network Accelerator activities: conduct open agent network training, identify 1-2 partners to include in full ANA programme. • If permitted, provide performance-based financial support for agent expansion to test approaches. • Based on IFC payments study, initiate conversations with one or more potential bulk users on coming on to a BB and MFS system (Electricité du Lao, Lao Postal Enterprises, money transfer). • Work with AusAID, UNICEF, World Food Programme and others about possible payment streams that could be converted to electronic.
Output 3 Policy, advocacy	• Supported providers received permission to launch services. • BoL issues enabling policy for BB and MFS	• Support the BoL to attend key events related to regulation of BB and MFS (i.e. GSMA Leadership Forum, AFI). • Facilitate AFI membership.

and coordinated actions	• BoL establishes monitoring of key indicators for BB and MFS.	• Facilitate dialogue between BoL and market players to discuss required policies. • Provide on-site support to BoL to implement policies, and oversight mechanisms. • Work with BoL to develop a limited set of key indicators to measure progress on achieving goals.
Output 4 Knowledge generated and shared	• At least five potential providers are supported to attend events on BB and MF and/or an exchange visits to developed ecosystems relevant to the Lao PDR.	• With IFC conduct national conference with all key stakeholders to promote general awareness. • Translate key documents on BB and MFS into the Lao language • Conduct several smaller workshops that address most urgent needs: BB and MFS strategy, business/partnerships models, agent network development, product design. • Take most likely potential providers on exposure visits to successful ecosystems.

3 IMPLEMENTATION METHODOLOGY

3.1 Country Scoping

The country scoping exercise is conducted by UNCDF and experts to determine the current state of the market at all levels. Using a combination of off-site data review and in-country interviews, MM4P then presents the information in standardized report format that addresses each of the key aspects of the BB and MFS ecosystem development. This document also includes recommendations of important strategies and activities for MM4P to support and determines the estimate of increased financial inclusion through BB and MFS.



Status: The scoping mission was conducted in July 2012 and the report provided the basis for the country strategy.

3.2 Country Strategy

The Country Strategy is a 2-3 year strategy document used to plan and initiate a range of activities to support the development of the eco-system. The document includes the vision and proposed outcomes for MM4P's engagement in the country, the strategies to achieve them and the link to MM4P's global learning agenda. The document is short and flexible and can be used exclusively for the benefit of UNCDF or can be done as part of UNCDF's country programmes or in partnership with other funders. When appropriate, the strategy will be shared with the regulator, other funders and stakeholders to make clear UNCDF's plans in the country.⁵⁸ In the case where UNCDF has an existing country sector programme or other engagement, the strategy is meant to complement the programmes work rather than being a stand-alone document.

Status: In Lao PDR it began testing a new Country Strategy approach in 2013, working with and through MAFIPP and funded by AusAID.

3.3 Country Implementation

MM4P will engage in a range of activities highlighted in the country strategy that include ecosystem support, direct partner support and knowledge generation and sharing. MM4P has developed an annual work plan tool to plan and track the activities at the country and partner level and this plan

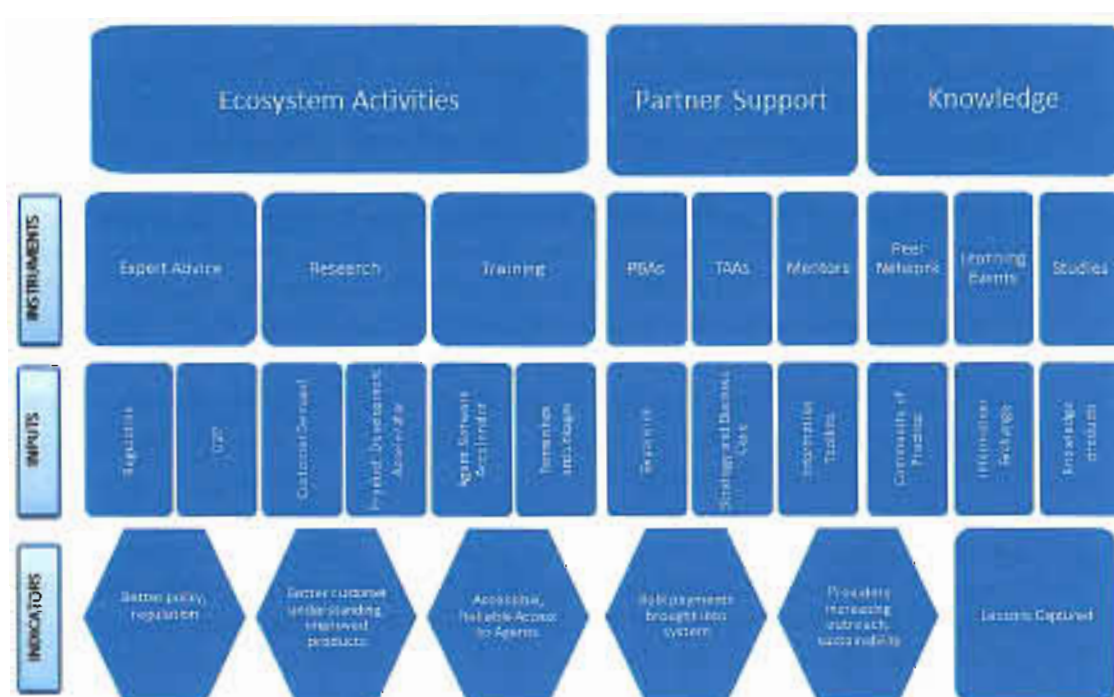
⁵⁸ The Malawi Country Strategy drew heavily from the local Mobile Money Working Group action plan and was shared with its members. The Nepal country strategy is being used as part of UNCDF's overall work with IF with DANIDA. In Lao PDR, it was developed as part of the UNCDF country programme and is now under revision with the participation of IFC.

can be adapted to suit an existing country sector programme. In these plans specific activities are detailed, scheduled and budgeted on an annual basis. The planning tool also identified what human resources are needed (e.g. CTA, on-site expert, specialized support). Some common elements across all countries are described below.

The UNCDF country technical advisor (CTA) will play a coordinating role with funders, regulators and other stakeholders, maintain regular contact and oversight of MM4P partners, and eventually manage short-term consultancies.

Technical Support

All scoping missions have identified the lack of access to expertise as a major constraint in the overall ecosystem development and particularly constraining in dealing with regulators. Implementing country strategies will require the assistance of a stronger technical support and an in-country technical presence.



- In most cases, UNCDF will place a full-time on-site expert in country for the medium term (12-24 months) who works with the CTAs, partners and other stakeholders. The role of the expert will be to work closely with CTA in implementing the country plan, provide advice to all key stakeholders and provide partner support.
- UNCDF will also support the expert and stakeholders through specialized technical support (i.e. short-term consultancies) in critical areas such as market research, training and process development.
- UNCDF will begin establish long-term off-site access to information and advice for CTAs and partners, backed by a remote technical support service including a “hot line” that CTAs and partners can contact. This is currently under development. with MicroSave.

To the extent possible, MM4P will minimize “fly in, fly out” or *à la carte* technical assistance which can be costly and, in MM4P’s opinion, does not lead to the holistic change that is required by providers.

Status: MM4P has placed a full time expert in Lao PDR for a period of four months, supplemented by several experts which will come on short-term missions. MM4P will likely continue the on-site expert once permission to pilot and launch are granted.

Ecosystem Development Activities

The specific range of activities will depend on the findings of the scoping mission and development of the country strategy. However, MM4P has also determined a set of activities can be conducted across all of the countries that would be for both partners and other interested actors.

- To the extent possible, each country will participate in the **Agent Network Accelerator (ANA)**. This programme begins as a “public good,” open to all relevant institutions in the country. Based on performance, a limited number of participating institutions may be eligible for direct technical support and, in some cases, performance-based financial support from UNCDF if they are identified as high potential agents. Several partners will be taken to visit and analyse strong agent networks in relevant countries. Participants will also be required to bear some of the cost of their participation.
- Similarly MM4P is implementing a **Product Development Programmer**, using a methodology similar to the ANA. It will commence with a review of existing market research materials followed by a workshop on using market research for BB and MFS product development. Depending on the need, it may be complemented by further market research – particularly related to user experience with BB and MFS. All relevant institutions may participate and as they progress may be eligible for direct technical and financial support. Participants will also be required to bear some of the cost of their participation.
- **UNCDF will analyze government and other cash payments and seek opportunities to encourage transition to electronic payments.** Each country plan will include research on the opportunity and constraints to convert cash payments to electronic, using a streamlined version of the methodology being developed by for the Better than Cash Alliance (BTCA). The research is intended to encourage actors to work toward the shift to electronic payments by highlighting opportunities. In some cases, it may result in technical or financial support.
- **In-country coordination and building partnerships and linkages remain will also be included in each country strategy.** This activity will need to be customized to suit the environment, although MM4P what type of training or other more standardized support might assist. **In some cases it may require small grants to users and/or providers** to augment or improve technology platforms, build back-end linkages, establish business processes, and/or provide technical assistance for the implementation.

Status: MM4P has contracted support to review existing product research and develop product prototypes for the Lao market. MM4P will also survey the existing payments and identify the most promising payment streams to convert and the steps needed to do so.

Direct Technical and Financial Support

MM4P will provide direct support to institutions, particularly to providers and their agent network partners.

- Requests for expressions of interest (EOI) will still be used as a means to transparently select institutions for support; however they will be more focused on specific outcomes and used later in the overall engagement. This would be in addition to the possible small grants available through the ANA and product development accelerator selection processes.
- Partners may be supported exclusively through technical assistance for specific needs, such as business planning or partnership development, which can be provided through a combination of the on-site expert and targeted short-term consultancies.

Policy and Regulatory Support

Support to policy makers and regulators will depend on their specific needs. MM4P would like to develop a partnership with regulators to facilitate better data collection and analysis for BB and MFS to enable both them and UNCDF to track progress on a country level.

- Each country plan identifies a discreet set of activities to help provide regulators the support they need to develop an enabling environment for BB and MFS which will primarily be implemented by the expert technical assistance combined with CTA involvement. This will include training of regulator's staff.
- In all cases, UNCDF will work with regulators to set-up or improve the data collection process on BB and MFS and help them determine the most needed information.
- **Status:** The BoL has identified several areas of desired support. These include: setting up and organize the working group on BB and MFS; support in analyzing applications and giving permission to operate; support in drafting guidelines for branchless banking and mobile financial services. This will commence in 2014.

Knowledge Building and Sharing

MM4P will support stakeholders in its focus countries to be part of global learning and exchange on BB and MFS. These will include:

- provide access to important materials on BB and MFS
- facilitate and subsidize participation in GSMA Mobile Money for the Unbanked Forums, for both regulators and providers.
- sponsor annual Digital Financial Services (DFS) dialogues to bring senior managers of providers together to share experiences on specific challenges.
- facilitate exposure visits and exchanges for key stakeholders. This is in addition to the exposure visits to Kenya and Tanzania that are part of the ANA. These are currently planned for regulators and providers in several countries.
- establish a "hot line" for support to providers and is in discussions of how best to establish a community of practice across UNCDF and other funder supported providers. This will also include proactive dissemination of toolkits for BB and MFS.

STATUS: MM4P HAS ALREADY SUPPORTED VISIT BY THE BOL TO KENYA, CAMBODIA AND THE PHILIPPINES. IN ADDITION, PROVIDERS WERE SUPPORTED TO VISIT KENYA AND THE PHILIPPINES.

MM4P's global learning agenda consists of four key questions:

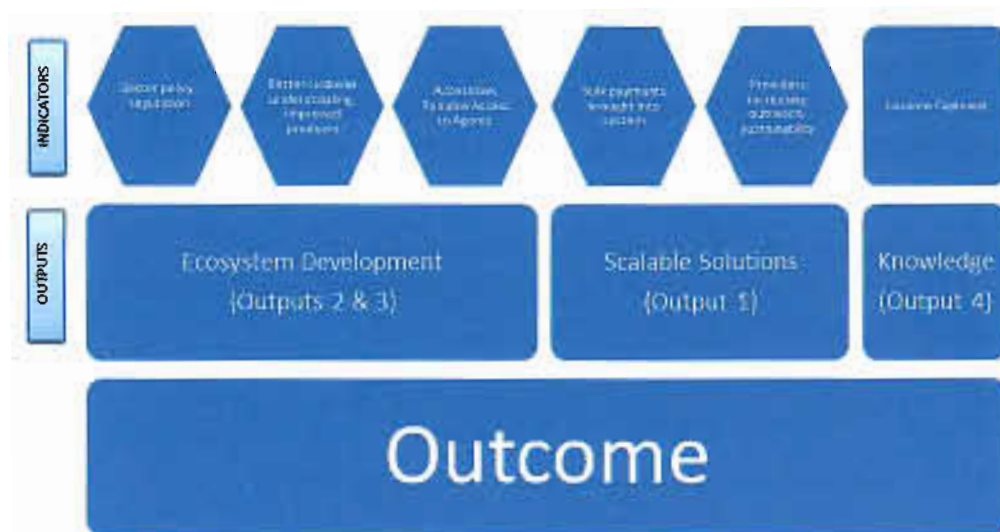
1. Can shared agents networks lead to "win-win-win" for providers, agents and clients?
2. Can transactions other than P2P better drive success in LDCs?
3. Can strong partnerships improve the chances of success in LDCs?
4. Does MM4P's ecosystem approach work well in LDCs?

LEARNING AGENDA

MM4P overall learning goal is to “prove the case” that LDCs can be sustainable markets for BB and MFS and that they require the right mix of support to do so. In each country strategy, MM4P will consider the potential for contribution to its knowledge agenda (see box) and identify the learning agenda from the outset.

The core questions will be refined for each country and MM4P will determine a set of knowledge products specific to the country.

In addition, all research conducted in the country will be made publicly available.



10.5.1 Indicators

MM4P’s outcome is for four million new customers with BB and MFS across up to 8 countries, of which 400,000 will be from Lao PDR. For each country MM4P has identified a set of indicators for its own purposes at the country level as well as a set of indicators for partners that provide direct support. However, MM4P will ensure that the targets for the country programme relevant to BB and MFs are also tracked and reached. The list of indicators is included at the end of this document including the proposed indicators for Lao PDR.

MM4P ACTIVITY MANAGEMENT AND COORDINATION

UNCDF has been actively engaged in the Lao PDR through its MAFIPP programme since July 2010 and has since supported a range of activities to support financial inclusion. Day-to-day management and implementation is handled by a MAFIPP project team consisting of a UNCDF Chief Technical Advisor and (currently) four MAFIPP staff, under direct management of a Deputy-Director General of the Financial Institution Supervision Department (FISD) of BOL. Final management responsibility is with a Project Management Committee (PMC) consisting of senior representatives of UNCDF, AusAid and BOL.

As with all MAFIPP's activities, implementation of MM4P will be day-to-day managed from the MAFIPP project office and supported through backstopping and advice by UNCDF Senior Regional Management and the MM4P team. An expert consultant will be utilized in the first few years of the MM4P activities to assist the CTA and be directly responsible for managing the training and technical assistance. One or more of UNCDF technical consulting partners in MM4P will be in Lao PDR for MM4P's implementation in a number of separate missions.

MAFIPP will be closely coordinated and aligned with current and future efforts by main other stakeholders in enhancement of financial inclusion, and in particular with the IFC programme which is assisting the BoL in establishing a national payment system.

MM4P TARGETS IN LAO PDR



Mobile Money for the Poor



mm4p
UN
CDF
Microfinance + Capital Development

Mobile Money for the Poor

		Country Partner	MM4P Global Targets		Laos	
			MM4P Countries	MM4P Partners		
Blue highlight indicates that the indicator is a target.						
Global indicators						
Increase in registered customer accounts		x	1,200,000		400,000	
	% of female registered customer accounts	x		35%		35%
	% of rural registered customer accounts	x				
Increase in number of active customer accounts		x	360,000		250,000	
Number of new registered customers						
Number of previously unbanked registered customers		x		200,000		60,000
Regulation indicators						
Number of policy or regulatory improvements		x	2			1
	On agents	x				
	On clients (on-boarding, e.g. KYC)	x				
	On non-banks (e.g. e-money issuers)	x				1
	On consumer protection	x				
Number of new approvals for services by the regulator		x				2

Mobile Money for the Poor

Mobile Money for the Poor			Country	Partner	MM4P Global Targets		Laos	
					MM4P Countries	MM4P Partners		
Blue highlight indicates that the indicator is a target.								
% UNCDF partners receiving permission to implement BB and MFS				x		100%		100%
% Regulators collecting regularly information on BB and MFS			x		75%		100%	
Product development and high volume users indicators								
Number of new services launched with UNCDF assistance				x	6		2	
	Number of bulk payment services offered with UNCDF assistance			x		2		1
	Number of services offered focusing on woman with UNCDF assistance			x		1		0
Product development training for BB and MFS provided in all countries				x	100%		100%	
Number of financial education/ consumer awareness efforts included in projects				x		2		0
Availability of standard services offered			x					
	P2P transfer		x				1	
	Cash-in		x				1	
	Cash-out		x				1	
	Airtime top up		x				1	
Availability of bulk payment services offered			x					
	Bill payment		x				1	
	Merchant payment		x				1	

Mobile Money for the Poor

Mobile Money for the Poor		Country Partner	MM4P Global Targets		Laos	
			MM4P Countries	MM4P Partners		
Blue highlight indicates that the indicator is a target.						
	Salary payment	x				
	Government	x			1	
	International remittances	x				
	Other	x				
Availability of financial services offered		x				
	Savings	x			1	
	Loan disbursement	x				
	Loan repayment	x				
	Insurance	x				
	Other	x				
Agent network development indicators						
Number of service points						
	Branches	x				
	Mini-branches	x				
	Proprietary agents, agencies	x				
	ATM	x				
	POS	x				
	Non-proprietary agents	x				
Number of new or improved rural agents with UNCDF assistance			x		120	20
Number of shared agent networks with UNCDF assistance		x		4	1	

Mobile Money for the Poor

Mobile Money for the Poor		Country Partner		MM4P Global Targets		Laos	
				MM4P Countries	MM4P Partners		
Blue highlight indicates that the indicator is a target.							
Agent training provided in focus countries		x		100%		100%	
Number of agent networks report improved or expanded service with UNCDF assistance		x		4		1	
Partnership development indicators							
Number of new or improved partnerships between stakeholders with UNCDF assistance			x		4		1
Number of coordinated efforts with other donors		x		6		1	
Knowledge and Learning							
Number of research products created		x		6		2	
On woman		x		1			
On rural		x		1			
Number of partners supported to attend learning events		x		20		10	
Number of women		x		3		3	
Number of UNCDF Technical Staff trained and have engaged in BB and MFS		x		10		1	
Number of workshops or events sponsored of co-sponsored by UNCDF		x		10		4	

APPENDIX I: ASSUMPTIONS, RISKS AND MITIGATION

#	Description of Assumptions or Risks	Category	Impact & Probability	Risk Assessment / Countermeasures / Management Response
1	Government or PMC does not endorse AWP	Organisational and Political	Programme can't start, hence can't achieve outcome <i>Probability = Low</i> <i>Impact = High</i>	MM4P has already been formally approved by the government as key prioritized activity of the MAFIPP AWP 2013. The government supported the submission of the proposal sent to AusAID for funding, which included MM4P. Approval of the adaptation of MAFIPP Programme Document based on added activities funded by AusAID is judged to be a formality. MM4P activities to date have been well received by the BoL. However, each year MM4P must present a new AWP for approval creating some uncertainty with the PMC.
2	Policy and regulatory approval to MM4P partners is slow	Legal and Regulatory	Ability to deploy pilots and implementations is delayed <i>Probability = Medium</i> <i>Impact = High</i>	MM4P requires that the BoL allow for pilots and implementations to take place. As is usual, there is no specific law or regulation to enable this and some providers have expressed concern that parts of the BoL do not seem willing to move forward. MM4P is continuing to organize a number of events and trips to help the BoL develop a policy to allow implementation to go forward and has received verbal confirmation that they will do so. MM4P is seeking an explicit statement and will help to develop an initial policy for the BoL.
3	MM4P fails to identify a partner willing to move forward on a pilot	Strategic	Ability to deploy pilots and implementations is delayed <i>Probability = Medium</i> <i>Impact = High</i>	To date no partners has agreed to move forward, in part due to lack of permission from the BoL and in part due to uncertainties over the business case. MM4P is currently working to help partners build a business and case and through that submit requests to the BoL to pilot services.

4	Pilots fail and/or are implement poorly	Operational	Ability to reach targets is delayed <i>Probability = Medium</i> <i>Impact = Medium</i>	Initial failures are common in BB and MFS. For this reason MM4P is prepared to provide financial and technical support so that initial attempts have a better opportunity for success and partners can learn from the experience. A main concerns is that the provider will lose interest and decide not to continue and therefore damage the reputation of the service.
5	Key Staff or consultant become unavailable	Organisational	The delivery of outputs will be slowed down <i>Probability = Medium</i> <i>Impact = Medium</i>	A main bottleneck to date was the turnover in the CTA position and resulting delay of four months in the implementation schedule. This has placed an extra burden on the MM4P team to rush deliverables at the end of the year. Slow replacement of the CTA remains a problem and could impact implantation in Q1 2014. Fortunately funding is available which makes the procurement of consultants for assistance possible.

FOUR YEAR WORK PLAN

Milestones and Activities	January 2013 – December 2017														
	2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2016	2017
Scoping and country strategy															
Scoping report															
Country strategy															
Coordination and reporting															
Consultant to coordinate Branchless Banking and Mobile Financial Services initiatives in Lao															
Specialized consultants to support on specific areas (agent network, product design, processes, etc.)															
Knowledge raising and capacity building															
Conduct 2 day Mobile Financial Services Conference															
Translation of key document in Lao language															
Strategy workshop for Branchless Banking															
Practitioner field visit to Cambodia to see live deployments															
Exposure visit to Philippines for Regulator															
Exposure visit to Geneva for Regulator															
Fields/exposure visits for practitioners and regulators															
Market research and product development															
Conduct market research to identify 3-4 prototypes product based on World Bank study															
Conduct additional market research to identify customers segments and closely examine those segments with the greatest potential to reach scale of for BB and MFS.															

BUDGET AND PAYMENT SCHEDULE

Cost items	2012 Est	2013	2014	2015	2016	2017	Total costs	MAFIPP	MM4P
Scoping and country strategy									
1 Scoping Mission Presentation	22,000	0	0	0	0	0	22,000	0	22,000
2 Country strategy	2,000	0	0	0	0	0	2,000	0	2,000
BB and MFS technical expertise									
3 In country expert support		0	112,500	150,000	0	0	262,500	262,500	0
4 Specialized on and off-site support		50,000	300,000	200,000	0	0	550,000	550,000	0
5 Grants		0	308,000	308,000	154,000	0	770,000	770,000	0
Knowledge raising and capacity building									
6 Translation of documents		0	5,000	5,000	0	0	10,000	10,000	0
7 Local Learning Events		10,000	15,000	15,000	0	0	40,000	40,000	0
8 Global Learning Events		45,000	15,000	15,000	0	0	75,000	75,000	0
Market research and product development									
9 Market Research		0	80,000	40,000	0	0	120,000	120,000	0
10 Product Development Accelerator		0	50,000	50,000	0	0	100,000	100,000	0
Learning agenda									
12 Knowledge Products		0	0	0	0	0	0		0
Regulatory support									
13 Regulatory Support (on and off site)		0	70,000	40,000	0	0	110,000	110,000	0
Stakeholders support									
14 Team Travel, Misc.	17,500	51,000	15,300	15,300	0	0	99,100	81,600	17,500
15 PMU Support	42,857	82,500	28,333	28,333	0	0	182,024	56,667	125,357
Evaluation		0	0	0	0	0	0	0	0
TOTAL	84,357	238,500	999,133	866,633	154,000	0	2,342,624	2,175,767	166,857

10.6 Annex 6 : Standard letter of agreement between UNCDF and the government of Lao PDR for the provision of support services

Dear Dr. Praseuth

1. Reference is made to consultations between officials of the Bank of Lao PDR (hereinafter referred to as “the Government”) and officials of UNCDF with respect to the provision of support services by UNCDF for nationally implemented project “Making Access to Finance more Inclusive for Poor People” (MAFIPP). UNCDF and the Government hereby agree that the UNCDF may provide such support services at the request of the Government through its institution designated in the relevant project document, as described below.
2. The UNCDF office may provide support services for assistance with reporting requirements and direct payment. In providing such support services, the UNCDF office shall ensure that the capacity of the Government-designated institution is strengthened to enable it to carry out such activities directly. The costs incurred by the UNCDF office in providing such support services shall be recovered from the MAFIPP Project.
3. The UNCDF office may provide, at the request of the designated institution, the following support services for the activities of the project:
 - 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. UNCDF will be responsible to share all relevant reports submitted by FSPs with BOL and 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.
 - Hiring and payment of international consultants as well as the national consultants when the total contractual value exceed \$10,000 or Lao Kip equivalent and project staff as needed, which will be managed through the UNCDF Regional Office in Bangkok.
 - Procuring equipment and other materials with value higher than LAK100,000,000 or US\$ equivalent.
 - Travel Authorizations, Government clearances, ticketing and travel arrangements for international travels.
 - Managing the independent mid-term and final evaluations of the project according to the requirements of the UNCDF Evaluation Policy.
 - Backstopping missions.
 - Other tasks as required.

4. The procurement of goods and services and the recruitment of project personnel by the UNCDF office shall be in accordance with the UNCDF regulations, rules, policies and procedures. Support services described in paragraph 3 above shall be detailed in an annex to the project document, in the form provided in the Attachment hereto. If the requirements for support services by the UNCDF office change during the life of project, the annex to the project document is revised with the mutual agreement of the UNCDF Executive Secretary and the designated institution.
5. The relevant provisions of the Standard Basic Assistance Agreement (the "SBAA") dated 10 October 1988, including the provisions on liability and privileges and immunities, shall apply to the provision of such support services. The Government shall retain overall responsibility for the nationally managed project through its designated institution. The responsibility of the UNCDF office for the provision of the support services described herein shall be limited to the provision of such support services detailed in the annex to the project document.
6. Any claim or dispute arising under or in connection with the provision of support services by the UNCDF office in accordance with this letter shall be handled pursuant to the relevant provisions of the SBAA.
7. The manner and method of cost-recovery by the UNCDF office in providing the support services described in paragraph 3 above shall be specified in the annex to the r project document.
8. The UNCDF office shall submit progress reports on the support services provided and shall report on the costs reimbursed in providing such services, as may be required.
9. Any modification of the present arrangements shall be effected by mutual written agreement of the parties hereto.
10. If you are in agreement with the provisions set forth above, please sign and return to this office two signed copies of this letter. Upon your signature, this letter shall constitute an agreement between your Government and UNCDF on the terms and conditions for the provision of support services by the UNCDF office for nationally managed projects.

DESCRIPTION OF UNCDF OFFICE SUPPORT SERVICES

1. Reference is made to consultations between the Bank of Lao PDR, the institution designated by the Government of Lao PDR and officials of UNCDF with respect to the provision of support services by the UNCDF office for the nationally managed project: Making Access to Finance more Inclusive for Poor People Project (MAFIPP).

2. In accordance with the provisions of the letter of agreement and the project document], the UNCDF office shall provide support services for the Project as described below.

3. Support services to be provided:

Support services (insert description)	Schedule for the provision of the support services	Cost to UNCDF of providing such support services (where appropriate)	Amount and method of reimbursement of UNCDF (where appropriate)
1. Personnel	Over the course of 84 work months	1,359,705	
2. Contracts	Over the course of 84 work months	3,046,632	
3. Training	Over the course of 84 work months	370,459	
4. Equipment	Over the course of 84 work months	53,410	
5. Backstopping and monitoring missions	Over the course of 84 work months	249,519	
6. Micro Capital: grants and Loans	Over the course of 52 work months	3,650,000	
7. Miscellaneous	Over the course of 84 work months	87,297	

Total (USD)		8,817,022	

4. Description of functions and responsibilities of the parties involved:

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

Given BOL's 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 provision of the support services mentioned above.

As BOL is the IP, all payments and transactions made by UNCDF will be carried out based on the approved annual work plans.

This Letter of Agreement (LoA) will become an Annex to the Project Document hence by signing the ProDoc both parties will also recognise they have agreed with the provisions of the support services stated under this LoA.

Note on NIM SOP Policies:

- (1) As per the newly revised Policy on NIM Procurement dated 25 July 2014, any purchases of goods, works, maintenance and services above LAK100,000,000 or US\$ equivalent, as well as procurement of international air tickets, vehicles, motorbikes, IT, etc, will be to be procured from UNCDF.
- (2) All activities, payments and transactions shall be made by UNCDF based on the agreed Annual Work Plans (AWPs)
- (3) For unanticipated activities, payments not foreseen in the AWP, UNCDF ITA will communicate with the NPD and NPM; if no objection is received within 10 working days of communication, then the project will proceed with implementation of activities. However, in the case of deviation from the approved tolerance given by PMC, the ITA will present any such major deviation to the PMC for approval

ⁱ This goal is included within the UNDAF Outcome 1.1 (Improved and equitable access to land, markets and social and economic service, environmentally sustainable utilization of national resources, with balanced population growth) and UNDAF outcome 1.5 (Enabled environment for growth with equity).

ⁱⁱ This target includes active clients using savings, loans, remittance and electronic transfers; the number of active clients per specific financial products will vary.