

ISSUE BULLETIN - ACCESS TO FINANCE



Background

Access to finance has been a complex issue in Lao PDR for decades. It significantly affects business growth in the Lao business environment. One of the reasons for this, is the introduction of the Lao Kip (LAK) *interest rate capping* in agreement No. 529 dated 21 July 2015 by the Bank of Lao PDR (BoL). Prior to July 2015, commercial banks in Lao PDR were free to set their own market-based interest rates for deposit taking and lending. BoL introduced LAK interest rate capping in July 2015 with the aim of keeping the lending interest rate low to encourage more borrowing, and possibly to stimulate the economy. However, it led to an unanticipated outcome, which was that commercial banks were reluctant to give out loans, as capping had an adverse effect on their margins. Consequently, this worsens access to finance in the Lao PDR, especially in the central capital. As a result, the private sector has proposed to repeal this regulation during the 11th Lao Business Forum (LBF) mechanism.

Another cause brought to light in the LBF mechanism relating to access to finance for small and medium-sized enterprises (SMEs) in Lao PDR, is the issue of *fees for registering loans backed by land title rights*. The essence of this issue is the fact that borrowers would have to pay a fixed 0.2% of the total loan amount. This was considered too high for borrowers, as some large loans would easily result in millions of LAK in fees alone.

Subsequently, this issue was raised in the 12th LBF, known then as the Banking and Insurance Working Group, and currently as the Financial Service Sector Working Group (FSWG).

Issue Progress and Taken Actions

In 2018, the LBF Secretariat recruited an International Banking Consultant to conduct a regulatory banking study on the impact of interest rates caps in Lao PDR. The consultant was also responsible for bringing issues related the financial sector of that year to the LBF mechanism. In late 2018, the consultant shared his initial findings with the banking sector and BoL. Therefore, BoL issued Agreement No. 140/BoL dated 12 February 2019, on the determination of interest rates of commercial banks, which officially repealed the interest rate caps in Lao PDR.

The issue of *fees for registering loans backed by land title rights* was also considered resolved with the approval and enforcement of Presidential Decree No.002/PMO in June 2021, which replaced Presidential Decree No.003. Therefore, the new fees for registering loans backed by land title rights are as follows:

<i>The contract amount (LAK)</i>	<i>Fees on Registration of Contracts, pledged by land titles (LAK) per contract</i>
<i>Below 500 million</i>	<i>Exempted</i>
<i>over 500 million to 20 billion</i>	<i>50,000</i>
<i>Over 20 billion to 50 billion</i>	<i>100,000</i>
<i>Over 50 billion to 100 billion</i>	<i>150,000</i>
<i>Over 100 billion</i>	<i>200,000</i>

Source: laogov.la

Resolution of these two issues have been making significant impact in improving SME access to finance in Laos by addressing regulatory constrain facing supply side – commercial banks to lend to SMEs as well as encouraging SMEs to apply for bank loans by reducing cost of borrowings.

