



# ADVANCING SUSTAINABLE FINANCE IN LAOS

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**This paper proposes the following recommendations to promote sustainable finance in the Lao PDR:**

1. Establish a platform for like-minded stakeholders to collaborate and coordinate their knowledge and expertise while promoting sustainable finance models at both the national and regional levels.
  2. Develop a strategic work plan to promote sustainable finance, which will contribute to implementing Laos' national socio-economic development goals.
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The Lao People's Democratic Republic (Lao PDR), or Laos, has a total land area of 236,800 square kilometers and a population of approximately 7.5 million. Its unique terrain provides favorable conditions for hydropower generation, with a total potential of over 26,000 MW, of which less than 20% has been harnessed. Additionally, Laos possesses fossil fuel reserves and other renewable energy sources such as coal, solar, wind, and biomass. Around 17% of its land area is suitable for agriculture, while untapped mineral deposits and significant tourism potential offer further economic opportunities. However, with an average formal education of only five years and a low population density, most citizens have limited financial literacy and business management skills, making them wary of incurring debts. Conversely, a rising younger population that is more receptive to new technologies and rapid advances in information and telecommunication infrastructure is projected to escalate market competition and improve financial products and services.

Laos' main socio-economic development goals are to achieve sustainable graduation from Least Developed Country (LDC) status by 2026, fulfill the Sustainable Development Goals (SDGs), and elevate the country to upper-middle income status by 2030. To achieve these, Laos must focus on rapid economic growth, poverty reduction, hunger eradication, job creation, improved social equality, ensuring access to quality education and healthcare services, and enhancing economic and climate resilience. The Lao National Green Growth Strategy (NGGS), adopted in 2019, aims to achieve four primary outcomes, one of which is to improve access to credit and other financial services. The NGGS is supported by various national policies that promote investment, regional integration, environmental protection, climate change adaptation and mitigation, agricultural development, and energy sector development.

Between 2010 and 2023, Laos received over USD 11,410.7 million in foreign direct investments (FDI), with 70% concentrated in natural resource-based sectors like power generation (34%), mining (26%), and agriculture (10%). By 2016, there was a remarkable improvement in access to education, health, and other social services, facilitating its transition from a low-income to a lower-middle-income country. However, this rapid economic growth and poverty reduction, achieved through the exploitation of natural resources, has come with social and environmental costs.

## Industry Regulators

The liberalization of its financial sector is a key priority for the Government of Laos (GoL). It aims to improve access to financial capital, promote investment, drive economic growth, and reduce poverty. Approximately 21% of investment capital is expected to be mobilized from banks and other financial institutions to support the country's socio-economic development goals. The following government agencies are responsible for regulating the financial industry:

- **Bank of Lao PDR (BoL):** BoL is the state agency responsible for regulating the operations of commercial banks and financial institutions in the country. With support from the Australian Government and the United Nations Capital Development Fund (UNCDF), BoL has developed and implemented the Financial Inclusion Road Map for 2018-2025. This roadmap aims to enhance access to financial services to support livelihood development and increase economic efficiency. The key objectives of the roadmap are to increase access to general financial services from 75% to 85%, expand access to formal financial services from 47% to 65%, and raise the percentage of individuals using more than one financial product from 29% to 60%. Additionally, the plan aims to boost women's access to general financial services from 76% to 85%, all by the end of 2025.
- **Ministry of Finance (MoF):** The MoF primarily regulates the insurance industry by issuing business licenses and overseeing the operations of insurance companies.
- **Fair Competition Committee:** It was established to regulate markets, ensure fair competition, maintain market price stability, and improve the quality of services in financial markets.
- **Other Regulations:** Several government agencies have also been designated to regulate specific purpose funds, such as the National Security Fund, the Poverty Reduction Fund (PRF), the Environmental Protection Fund (EPF), and local or sub-national development funds.

National laws have also been enacted to regulate financial institutions, including the Law on Commercial Banks, which prescribes regulations for establishing and operating commercial banks to ensure efficiency, stability, transparency, growth, and integration into the international market. The



Insurance Law regulates the insurance sector, and the Decree on Microfinance governs the microfinance industry.

## Overview of Financial Institutions and Market Segments

- **Banking Institutions:** Laos' banking sector was dominated by a few commercial banks in the past, making access to banking services difficult and often accompanied by unreasonably high interest rates. However, following the liberalization of the financial industry, the number of commercial banks has gradually increased, leading to improved access to and quality of services. 23 commercial banks and 12 foreign bank branches operate in Laos.

In 2001, the Commercial Bank Association was established with 18 members and is now a member of the Bank Association of Asia. Despite this growth, the banking sector remains significantly concentrated, with only three banks accounting for 70% of the credit market share. Furthermore, commercial banking institutions generally lack clear policies to support environmental protection and sustainable development, as prescribed by national laws, with most focusing solely on economic and financial returns. These banks rely on assessments from industry regulators for environmental protection and sustainable development initiatives. Due to the limited financial capacity of domestic banks, most large-scale projects in sectors such as hydropower and mining in Laos are financed by cross-border financial institutions.

- **Micro-financial institutions (MFIs):** In Laos, MFIs provide short-term, small-scale credit to individuals, households, and businesses with less stringent requirements. Currently, around 123 MFIs are operating in the country, 42 of which are members of the Microfinance Association, established as a platform for exchange and promoting the MFI sector's interests.
- **Specific Purpose Funds:** Local and sub-national development funds, such as the Village Development Fund (VDF) and the District Development Fund (DDF), primarily offer micro-scale credit to support production and related services. These development funds are typically managed by local authorities, except the Poverty Reduction Fund (PRF) and the Social Protection Fund (SPF), which are managed at the national level.

- **Insurance companies:** Although the insurance sector in Lao PDR has been liberalized, it is still underdeveloped. There are only 12 licensed insurance companies, with the market primarily dominated by Alliance General Laos (AGL).
- **International Financial Institutions (IFIs):** The IFIs operating in Laos are the Asian Development Bank (ADB) and the World Bank (WB). These institutions play a significant role in the country's socio-economic development by providing official development assistance (ODA) and soft loans.
- **Access to Financial Services in Laos:** A National Financial Scoping Survey conducted by BoL indicates that overall access to financial services is 59%. However, access to services provided by regulated financial institutions is only 47%, highlighting a substantial unmet need for formal credit services.

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The liberalization of Lao PDR's financial industry and the implementation of the Financial Inclusion Road Map for 2018-2025 provides a mandate, guidance, and a comprehensive plan to promote sustainable finance standards in the country. It aims to enhance household welfare by improving access to financial services for livelihood development, increasing economic efficiency, and supporting overall growth. With a growing younger population and the rapid advancement of information technology, online services offer a significant opportunity to boost financial inclusion. To fully leverage this potential, a multi-stakeholder approach is essential. This will involve creating a platform for raising awareness, facilitating collaboration, and developing and piloting sustainable finance models that align with the government's socio-economic development goals.

The Fair Finance Laos (FFL) coalition can further this collaboration by providing a platform for multi-stakeholder discussions on sustainable finance and opportunities for capacity building and knowledge sharing. To ensure alignment with Lao PDR's socio-economic aspirations and the regulations governing its financial industry, it is crucial to partner with government agencies in promoting sustainable finance. This initiative should target young people, particularly those in rural areas, through a multilaterally supported, multi-stakeholder platform.

In light of the challenges and opportunities identified, the following recommendations are proposed for consideration:

- 1. Establish a platform for like-minded stakeholders to collaborate and coordinate their knowledge and expertise while promoting sustainable finance models at both the national and regional levels.** The BoL, as the designated regulatory agency in the financial industry, can co-convene this platform. Participation should include financial service providers represented by the Microfinance Association and the Commercial Bank Association. Representation from local civil society organizations (LCSOs), particularly those from rural areas, will be ideal to ensure inclusivity. Academic institutions, mass organizations, and LCSOs that focus on women and youth should also be invited to participate.
- 2. Develop a strategic work plan to promote sustainable finance, which will contribute to implementing Laos' national socio-economic development goals.** Key elements and priorities of this work plan may include developing networks and enhancing the capacity of partners;

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developing and piloting financial inclusion models with particular focus on the poor, women and disadvantaged groups, and the youth, especially in rural areas; reviewing, compiling, and benchmarking the sustainable finance practices while engaging in the development of a national taxonomy; and promoting sustainable finance policies and practices through evidence-based research.

3. Strategic actions to support poor farmers' access to fair financial services should focus on **building the capacity of rural micro-finance institutions, particularly in financial literacy and business planning for farmers**. Economically disadvantaged farmers in Laos face significant challenges in accessing credit due to limited financial literacy, lack of collateral, and unfamiliarity with business planning. By enhancing the capacity of micro-finance institutions to provide tailored training on financial management, loan application processes, and business planning, farmers will be better equipped to secure and manage loans. This initiative could be implemented through partnerships among financial institutions, government agencies, and civil society organizations.

## PATHWAYS FOR THE ENGAGEMENT OF LCSOS IN LAOS' FINANCIAL SECTOR

# 4

The GoL acknowledges the significant role and importance of non-state actors and LCSOs as development partners. This recognition is reflected in Decree 115/PM, which establishes a supportive socio-political environment for LCSOs, enabling them to contribute to the country's socio-economic development. According to the Asian Development Bank (ADB), approximately 160 international civil society organizations (ICSOs) are active in Laos, with 66 of them being members of the International NGO Network (INGO Network), the largest NGO network in the country. There are two other major LCO/ICSO networks in Laos: the Lao Non-profit Association Network (LNN), which has 70 LCSO members, and the Gender and Development Group (GDG).

Lao PDR also has several mass organizations playing key roles in society. The Lao Front for National Construction (LFNC) is primarily responsible for fostering national solidarity and coordinating mass organizations. Other socio-political groups include the Lao Women Union (LWU), which is actively engaged in community-level socio-economic development with a focus on women's empowerment; the Lao People's Revolutionary Youth Union (LYU), which mobilizes the youth to contribute to national development; and the Lao Federation of Trade Unions (LFTU), representing workers' rights.

ICSOs and LCSOs are actively involved in policy development, particularly through an annual Round Table Implementation Meeting (RTIM) organized by the United Nations Development Program (UNDP) in collaboration with the Ministry of Planning and Investment (MPI). In 2024, the RTIM took place in Vientiane, focusing on the theme "Enhancing Partnerships to Support the Implementation of the National Socio-Economic Development Plan." The event saw the participation of over 300 high-ranking government officials, as well as representatives from ICSOs, LCSOs, and the private sector.



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## ABOUT THIS BRIEFING NOTE

This briefing note was commissioned by Fair Finance Laos (FFL) with support from Oxfam in Laos. The briefing note presents a concise distillation of insights and recommendations emerging from FFL’s “Scoping Study on fair Finance in Laos,” which provides an overview of the financial sector regulatory landscape in Lao PDR, key stakeholders the financial sector, and opportunities for overcoming barriers in advancing sustainable finance, such as through the establishment of multi-stakeholder initiatives such as the FFL coalition. The information in this briefing note is correct at the time of publication.

This scoping study upon which this briefing note is based was researched and developed by Dr. Saykham Voladet, Consultant.

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