

Unlocking Finance for Micro, Small and Medium-sized Enterprises

Lao PDR Economic Monitor 2025 Thematic Chapter



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I. Context

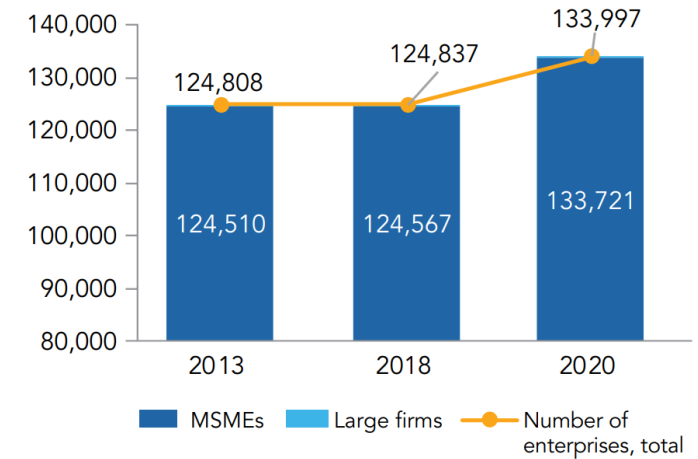
Characteristics of MSMEs in LAO PDR

MSME access to credit products

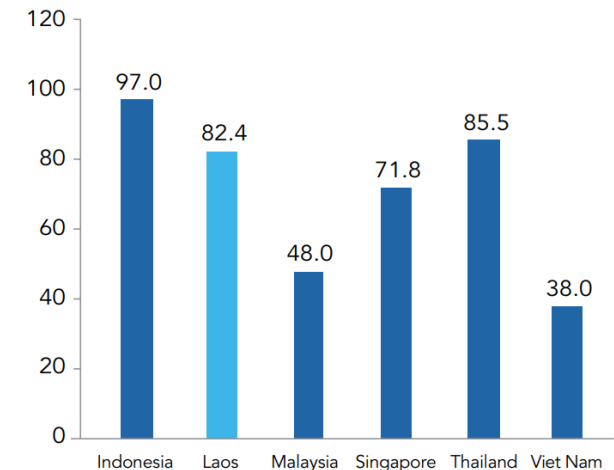
MSMEs in Lao PDR: The Backbone of Jobs, Yet Held Back by Informality

- **Dominant Economic Force:** MSMEs make up the vast majority of enterprises.
- **Major Job Creators:** MSMEs provided 82% of total employment in 2018, similar to regional trends.
- **High Informality:** As of 2016, 86% of firms operated informally, and informal employment remained at 90.4% in 2022.
- **Gender & Sector Disparities:** Informal employment is higher among women (91.6%) and particularly prevalent in agriculture (98%).

Number of enterprises by size



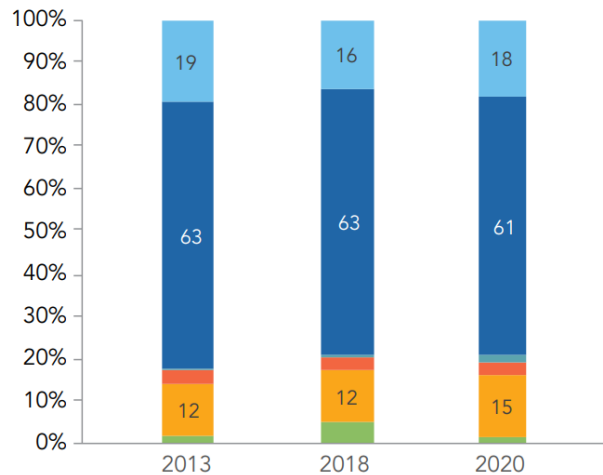
Contribution to employment of MSMEs in 2018 (regional comparison)



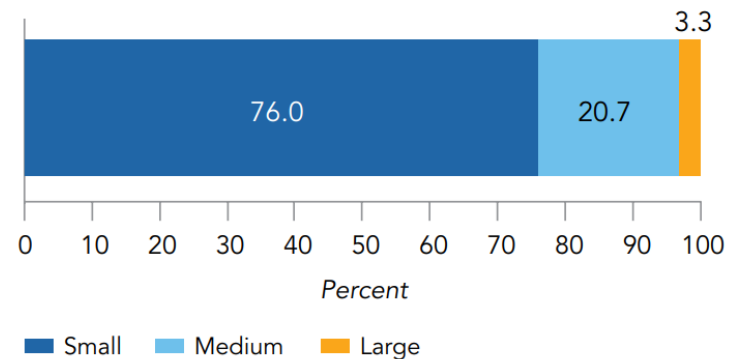
MSMEs in Lao PDR: Small in Size, Trade-Driven, and Male-Owned

- **Sector Distribution:** MSMEs are concentrated in trade (61%), services (18%), and manufacturing (15%), with sector distribution remaining stable over time.
- **Firm Size Breakdown:** Among formal firms with 5+ employees, 76% are small, 20.7% are medium, and only 3.3% are large.
- **Employment & Revenue:** Small firms average 7 workers and 3,580 million KIP in annual revenue, while large firms employ 157 workers with revenues of 23,940 million KIP.

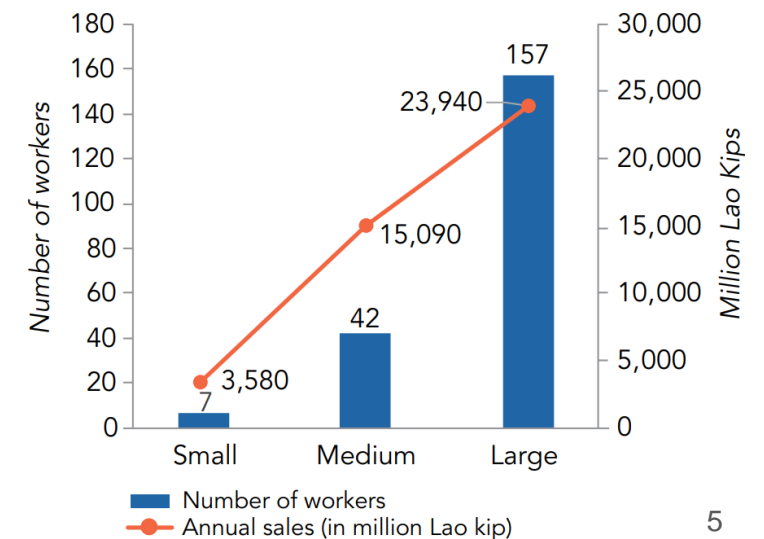
Sectoral distribution of MSMEs



Distribution of firms by size



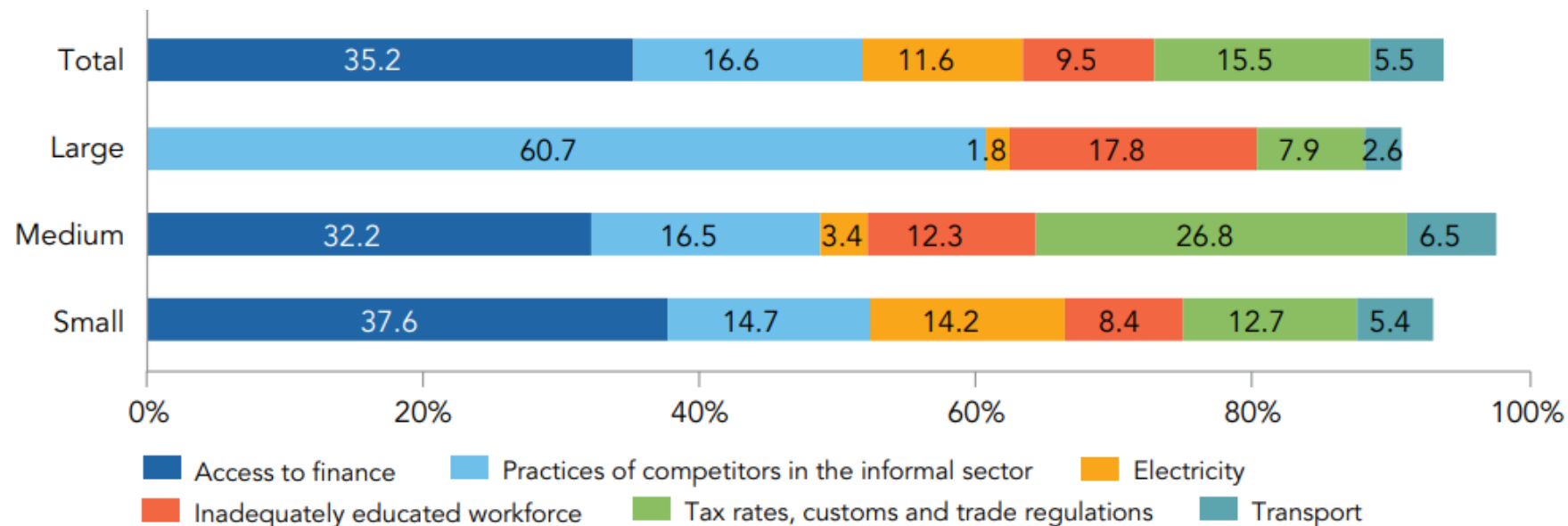
Average workers and annual sales last FY by firm size



Access to Finance is the biggest barrier to MSME growth

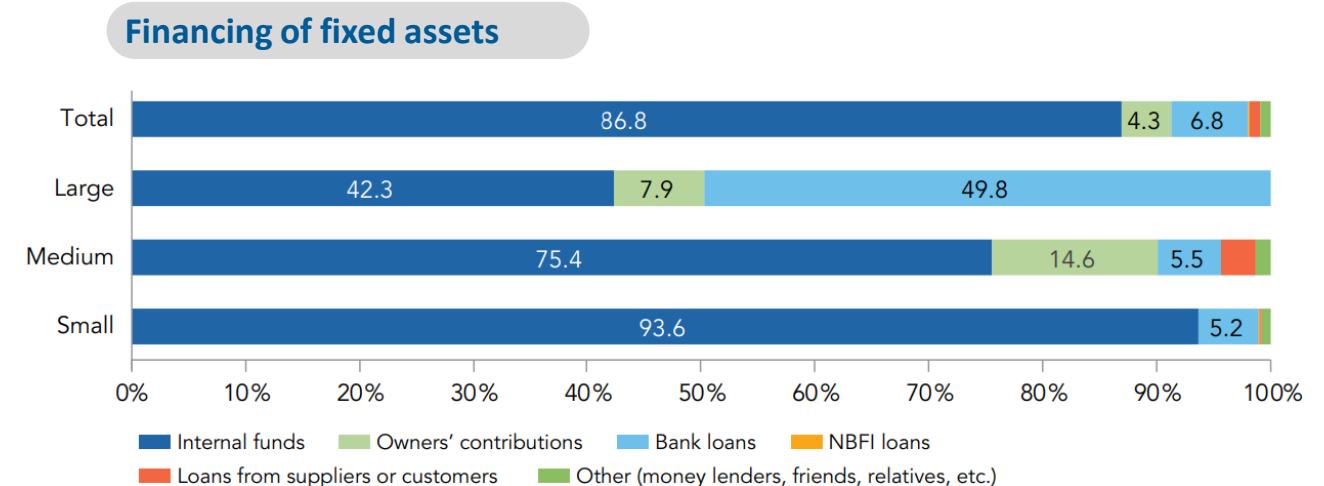
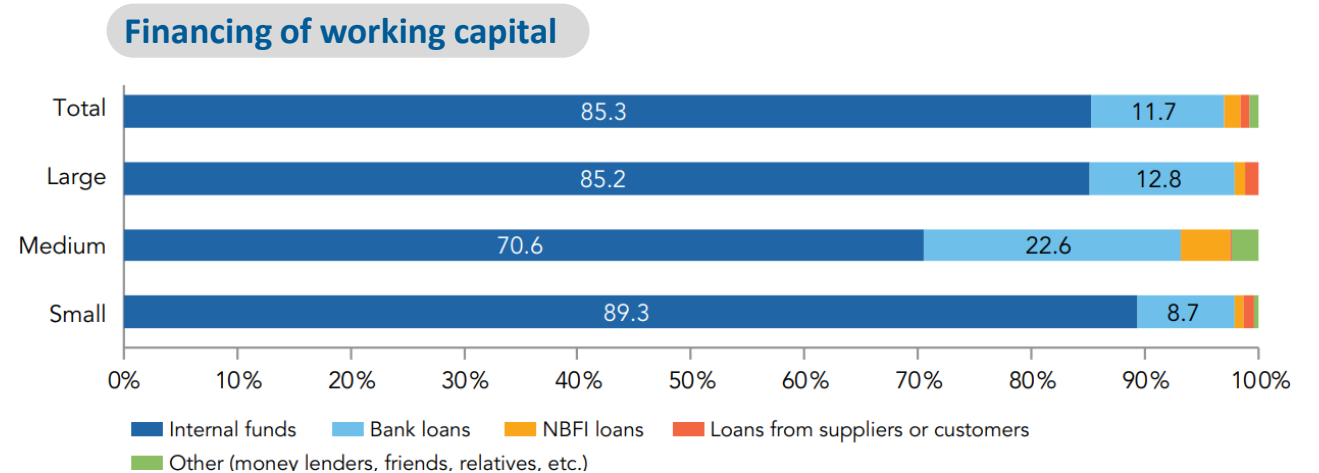
- **Access to Finance as a Key Barrier:** 35.2% of SMEs cite it as their biggest challenge, with small firms facing the greatest difficulty.
- **Other Major Constraints:** SMEs face inadequate infrastructure, workforce skill gaps, weak economic governance, and competition from the informal sector.
- **Different Challenges for Large Firms:** Larger enterprises cite informal sector practices, regulatory burdens, tax concerns, and workforce education as their main obstacles.

Biggest obstacle for the establishment



MSMEs Rely on Internal Funds Amid Limited External Financing

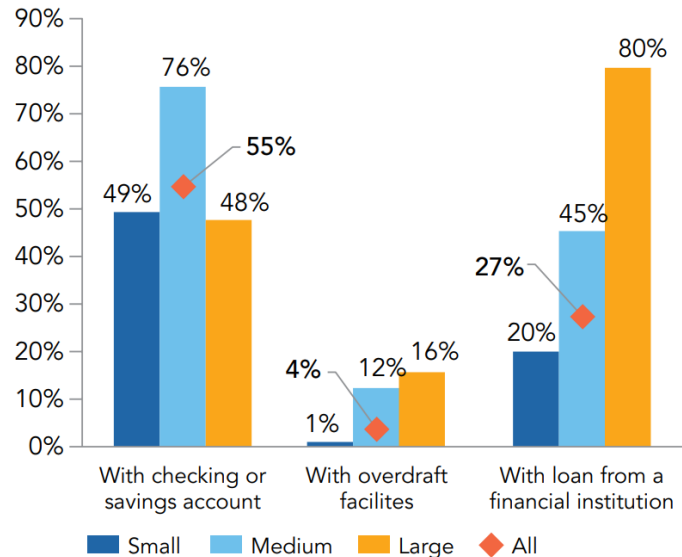
- SMEs Struggle with External Financing**
 85% of SME working capital and 94% of small firms' fixed assets are self-funded, limiting growth.
- Bank Lending Remains Low**
 Only 12% of SME working capital and 5.2% of small firms' fixed assets are financed by banks, compared to 49.8% for large firms.
- Limited Alternative Finance**
 NBFIs cover less than 5%, and supply chain financing is nearly absent, underscoring gaps in financial intermediation.



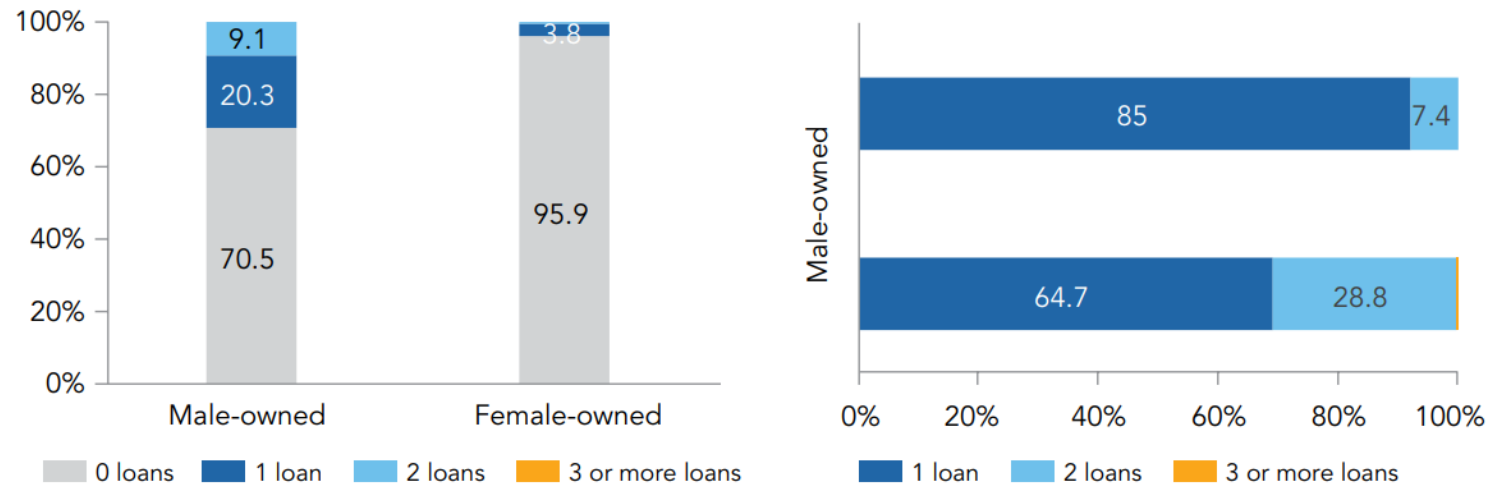
MSMEs have limited financial services available to them

- ▶ **Limited Credit Access:** Only 27% of SMEs have a loan; small firms are most constrained.
- ▶ **Gender Disparities in Financing:** 96% of women-owned small firms lack loans, vs. 71% of male-owned firms.
- ▶ **Personal Loans Fill the Gap:** 63% of small firms with credit rely on owner financing.
- ▶ **Overdrafts Are Rare:** Just 1% of small firms have access, highlighting liquidity challenges.
- ▶ **Bank Lending Dominates:** 79.5% of firms borrow from private banks, but small firms rely more on NBFIs and government sources.
- ▶ **Debt Utilization Varies:** Small firms' debt averages 7% of annual sales, while large firms carry up to 18%.
- ▶ **NBFIs' Role Expanding:** Their share in SME financing has likely grown post-2018.

Financial products of firms



Number of outstanding loans of small firms, by gender of owner



II. Understanding Supply and Demand-Side Challenges

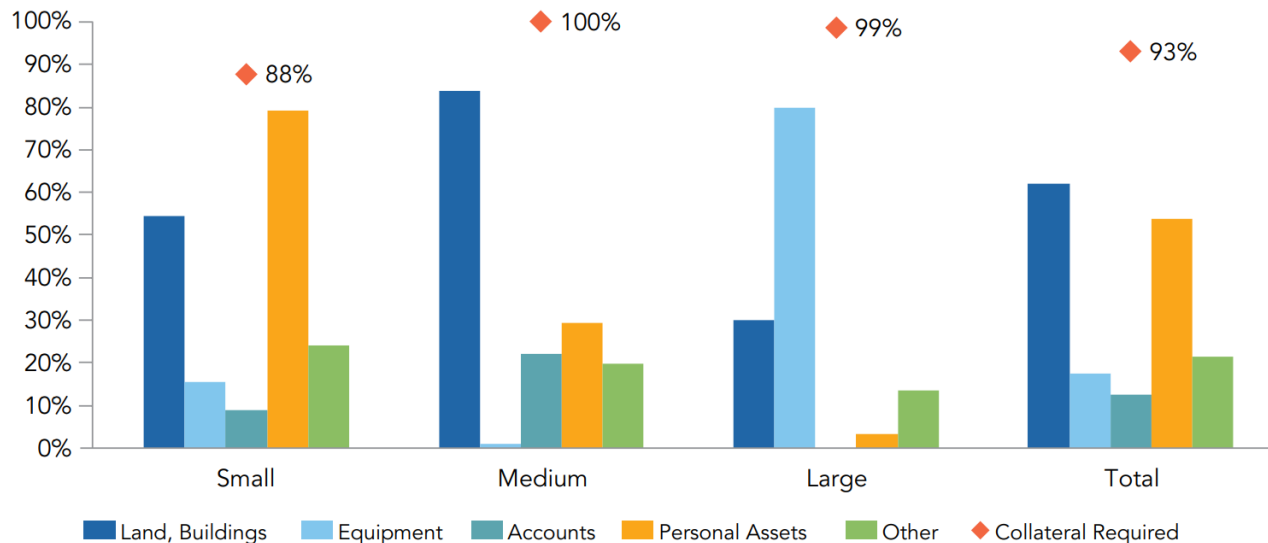
What are the Main Demand-Side Constraints?

What are the Main Supply-Side Constraints to MSME finance?

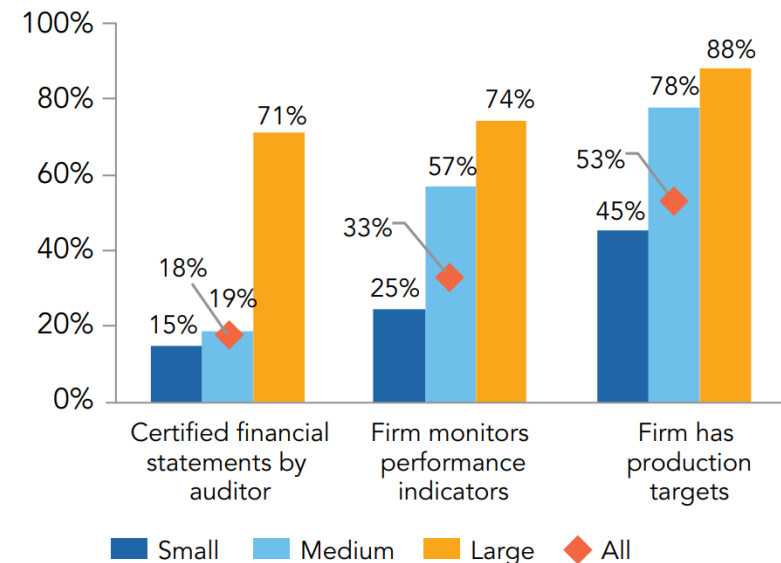
Demand side issues undermining access to finance

- ▶ **Excessive Collateral:** 93% of firms require collateral, often exceeding 200% of the loan value, which is especially burdensome for SMEs.
- ▶ **Underutilization of Movable Assets:** MSMEs struggle to use movable assets as collateral.
- ▶ **Limited Loan Applications:** Only 15% of firms applied for loans, with many deterred by complex processes and high costs.
- ▶ **Lack of Financial Documentation:** 18% of MSMEs have certified financial statements, reducing their ability to secure credit.
- ▶ **Managerial Improvement:** Enhancing business practices and managerial capacity, particularly in smaller firms, could boost both performance and access to finance.

Collateral requirement for most recent credit



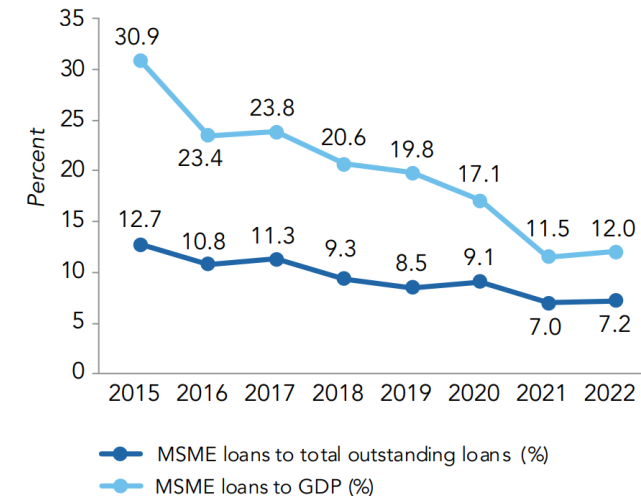
Business practices



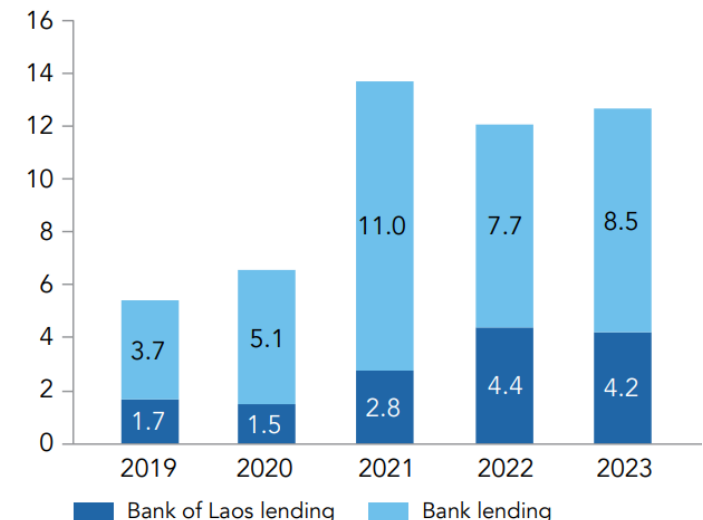
Despite considerable credit expansion, MSMEs have not benefited from increased bank lending

- ▶ **Bank Sector Growth:** Credit from commercial banks in Lao PDR grew from 31% of GDP in 2012 to 60% in 2022, but bank penetration remains low.
- ▶ **Declining MSME Lending:** The share of MSME lending dropped from 30.9% in 2015 to just 12% in 2022, well below regional peers.
- ▶ **Shift in Focus:** Banks have increasingly focused on government and large corporate sectors, reducing MSME lending.
- ▶ **Limited Product Innovation:** Banks offer mostly traditional credit products, with few tailored options for MSMEs.
- ▶ **Need for Risk-Based Lending:** Banks lack the capacity to assess MSME risk effectively, limiting access to tailored financial products.

Bank lending to MSMEs



Credit to the government (% of GDP)



Despite expansion, NBFIs' lending remains limited (~3% of GDP)

➤ Modest but Growing Role of NBFI Sector:

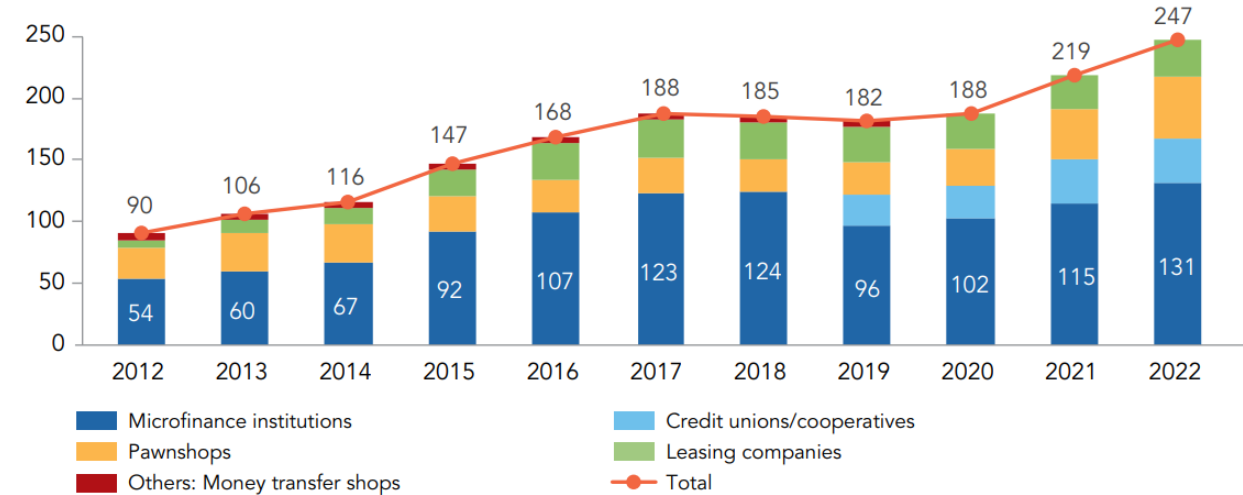
The number of NBFIs has tripled over the past decade, expanding access to finance for MSMEs and underserved clients.

➤ **Sector Consolidation Expected:** New capital requirements will likely lead to a sharp reduction in non-deposit-taking MFIs (NDTMFIs).

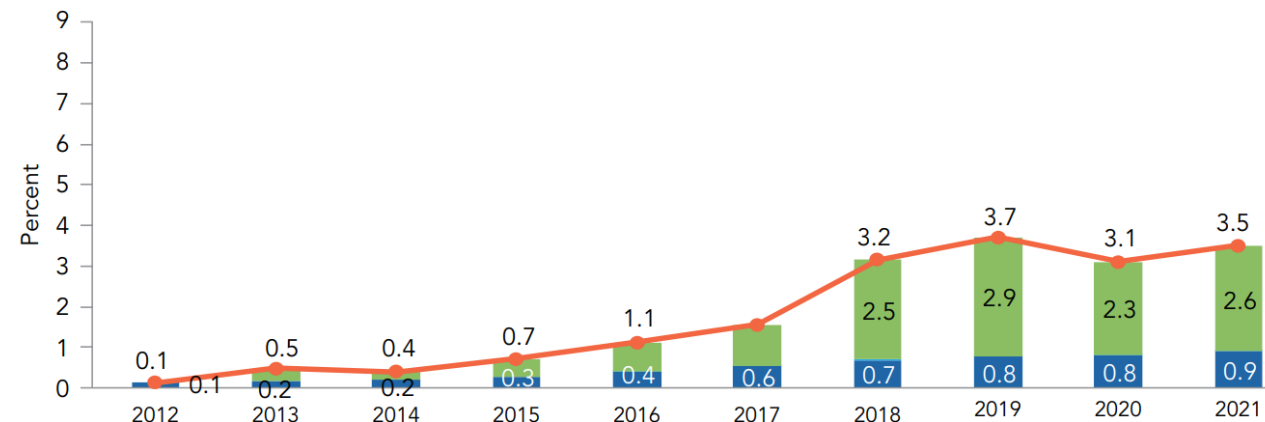
➤ **Leasing Companies on the Rise:** FDI-driven growth has made leasing companies a key player, now serving as many clients as MFIs.

➤ **Gaps in Coverage:** Despite a stronger rural presence than banks, major NBFIs operate in only a few provinces, leaving many regions—especially rural areas—without access to financial services.

Number of NBFIs



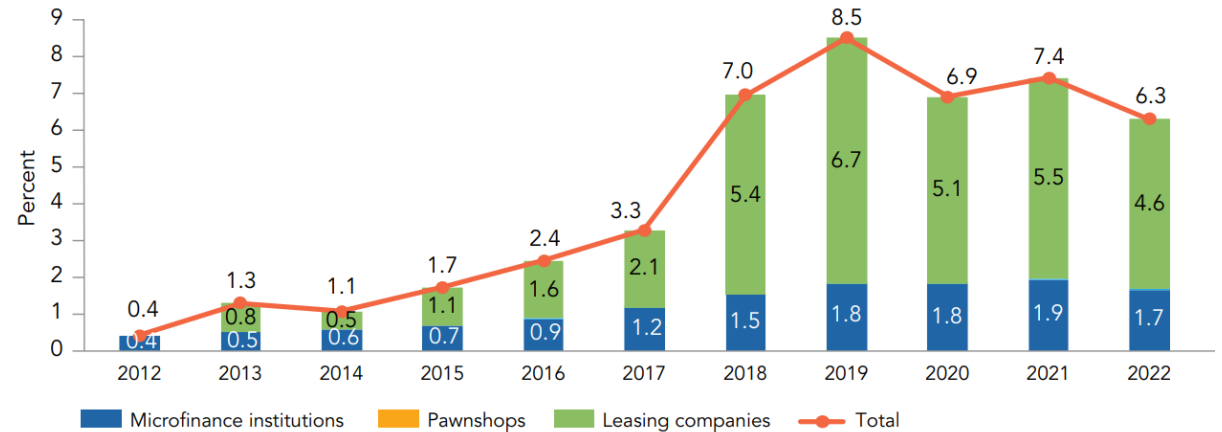
NBFI financing as a percent of GDP



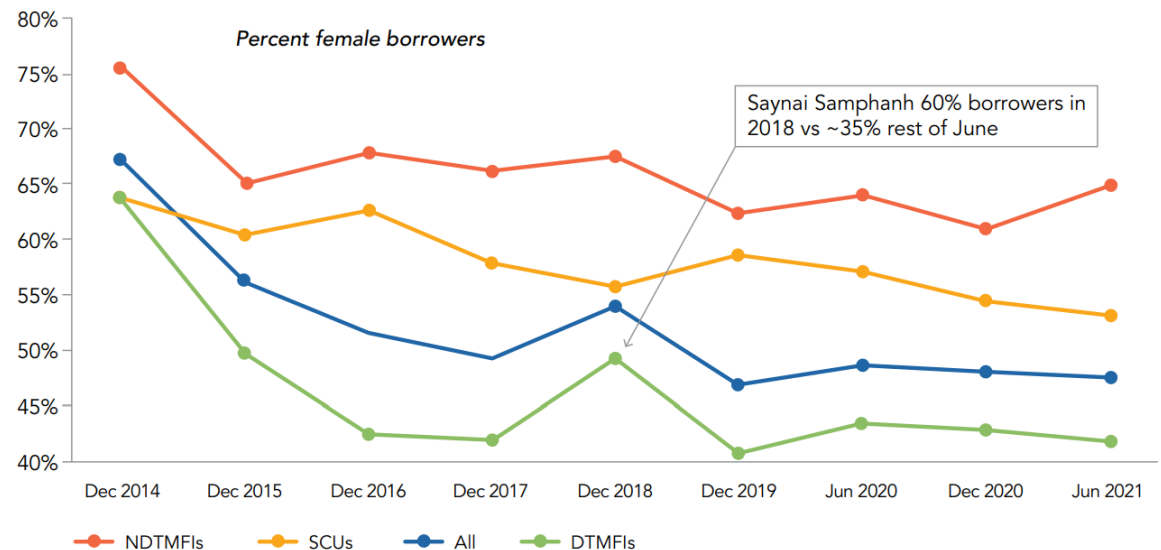
Challenges in scaling MFIs

- **Financing Constraints:** Lack of affordable long-term funding in local currency limit MFI expansion.
- **Regulatory Barriers:** Stricter capital and loan size rules may push smaller MFIs out or into informal lending.
- **Need for Digital Innovation:** Limited access to payment systems and weak tech adoption hinder scalability.
- **Declining Support for Women:** Women are 64% of MFI borrowers but receive only 49% of loan value, with a shrinking share in DTMFIs.

NBFI financing as a percent of total bank credit



Share of female borrowers by type of MFI



III. Credit Infrastructure

Credit Reporting, Secured Transactions & Insolvency

A. Enhanced Credit Information System (CIC):

Established in 2019, now covers over 1 million individuals & 20,000 enterprises.

► **Challenges:**

- Monthly reporting limits effectiveness in preventing multiple loan applications.
- Low adoption of credit scoring by financial institutions.
- Data quality issues due to system limitations & staff turnover.

B. Movable collateral registry (since 2013): Key to unlocking MSME credit.

► **Challenges:**

- Limited use beyond vehicle pledges.
- Registry fee structure deters use for smaller assets.
- Inventory-based lending remains underdeveloped.

C. 2020 Bankruptcy Law

introduced MSME fast-track insolvency & administrator appointments.

► **Challenges:**

- No officially reported insolvency cases due to weak judicial capacity.
- Courts remain slow & unpredictable, discouraging lenders.
- Alternative dispute resolution (ADR) is gaining traction but remains underutilized.

Government Policies & Programs

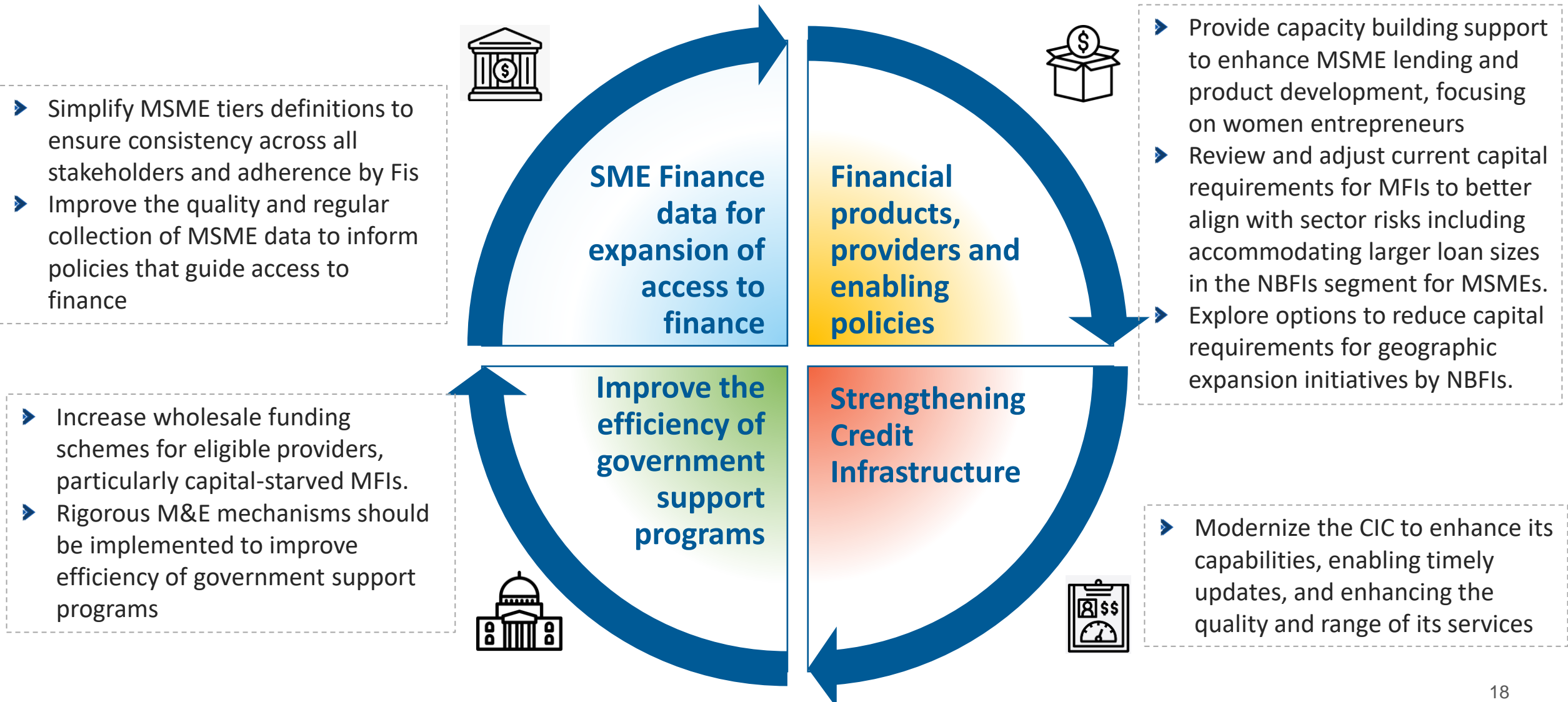
MSME support schemes exist but lack impact measurement

Subsidized lending programs create inefficiencies

Need for outcome-based M&E and better governance

IV. Key Recommendations

Summary of Recommendations



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FINANCE, COMPETITIVENESS, AND INNOVATION GLOBAL PRACTICE

Lao PDR

Access to Finance for Micro, Small, and Medium-Sized Enterprises in Lao PDR

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Thank you

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