Progress Report on Village Finance: Study in Heuy Jong and Phonsay Villages, Xien Nguen District, Luang Prabang Province

Socio-economic Research Component
LSUAFRP Field Report No. 2005/04

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Lao-Swedish Upland Agriculture and Forestry Research Programme
# Table of Contents

**EXECUTIVE SUMMARY** .............................................. 1

1. **INTRODUCTION** ............................................. 2

2. **OBJECTIVES & METHODOLOGY** ............................. 3

3. **OBSERVATIONS** ............................................. 5

   3.1 Structure of the SLG in Phonsay .................................. 5
   
   3.1.2 Rules .................................................................. 5

   3.2 Structure of the SLG in Heuy Jong .................................. 5
   
   3.2.1 Rules .................................................................. 6

   3.3 Initial information, training, monitoring and phasing out ................. 6

   3.4 Reflections on initial information, training, monitoring and phasing out .......... 9

   3.5 Socio-economic conditions in the villages .......................... 10

   3.6 Financial requirements and performance of the SLG ....................... 11

   3.7 Organizational aspects .......................................... 13

4. **ANALYSIS OF OBSERVATIONS** ......................... 14

   4.1 Link 1: Income generating activities ................................ 14

   4.2 Link 2: Social capital ........................................ 14

   4.3 Link 3: LSFP’s local ownership approach ........................ 16

5. **IMPACT FROM SLG ON VILLAGERS’ POVERTY STATUS** .... 17

   5.1 Depth of impact .................................................. 17

   5.2 Accumulation of assets ......................................... 18

   5.3 Empowerment of women ...................................... 18

   5.4 Risk coping ...................................................... 19

6. **CONCLUSION** .................................................. 20

7. **REFERENCES** .................................................. 21

   7.1 Literature ....................................................... 21

   7.2 Interviews ...................................................... 22
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCION</td>
<td>Americans for Community Co-operation in Other Nations</td>
</tr>
<tr>
<td>BBE</td>
<td>Bilateral Associate Expert</td>
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<tr>
<td>CDW</td>
<td>Community Development Worker</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poorest</td>
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<td>DAFO</td>
<td>District Agriculture and Forestry Office</td>
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<tr>
<td>GoL</td>
<td>Government of Laos</td>
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<td>IFAD</td>
<td>International Fund for Agriculture Development</td>
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<td>LSFP</td>
<td>Lao Swedish Forestry Programme</td>
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<tr>
<td>LSUAFRP</td>
<td>Lao Swedish Upland Agriculture and Forestry Research Programme</td>
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<td>MAF</td>
<td>Ministry of Agriculture and Forestry</td>
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<td>NAFReC</td>
<td>Northern Agriculture and Forestry Research Center</td>
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<td>NAFRI</td>
<td>National Agriculture and Forestry Research Institute</td>
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<td>NGPS</td>
<td>National Growth and Poverty Eradication Strategy</td>
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<tr>
<td>NRTC</td>
<td>Northern Regional Training Center</td>
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<tr>
<td>PFO</td>
<td>Provincial Forestry Office</td>
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<td>PRA</td>
<td>Participating Rural Appraisal</td>
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<td>SHG</td>
<td>Self Help Group</td>
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<tr>
<td>SLG</td>
<td>Savings and Loan Group</td>
</tr>
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</table>
EXECUTIVE SUMMARY

- In 1999, savings and loan groups were initiated in Xien Nguen District by the Lao Swedish Forestry Programme (LSFP). After the programme support ended in 2001, the majority of them failed to continue to operate.

- The main objective of this case study has been to survey the factors that made the savings and loan group in one of the LSFP villages, Phonsay, continue to operate while others failed. The observations in Phonsay have been compared with observations from an unsuccessful savings and loan group in Heuy Jong village.

- The results from the study indicate that three factors have been beneficial for the performance of the savings and loan group in Phonsay:
  1. Villagers have access to income generating activities which enables them to repay loans and accumulate savings.
  2. Villagers’ social capital (level of interaction and openness to new ideas and techniques) is relatively high. This has had a positive effect on the process of building trust between members of the savings and loan group and helped villagers to learn and take on the concepts and best practices of how to manage a savings and loan groups.
  3. The community development approach applied by LSFP stressing the importance of local responsibility of the savings and loan group appears to have helped villagers in Phonsay to tackle problems that have occurred after the programme support ended.

- The purpose of operating a savings and loan group is not simply to manage to stay in business but ultimately to have a positive impact on its members’ wealth situation. Therefore, the intention of the study was also to undertake a minor assessment of this potential impact. The result shows that the savings and loan group in Phonsay has had no substantial impact on villagers’ accumulation of assets (housing standard, clothes, food, agriculture tools, etc.). The savings and loan group has, however, helped villagers in Phonsay to finance medical treatment which has the direct effects of improving the health and well being of the villagers. Indirectly, it also creates better opportunities for long term economic development by having a positive effect on their working capacity and ability to keep valuable investments such as livestock. There are no signs of positive impact in Heuy Jong.
1. INTRODUCTION

The majority of formal banking sector does not offer its services to poor people. Main reasons stated for excluding the poor are high administration costs for small loans and the poors’ lack of security and incentives to repay. To capture the true costs of providing loans to the poor interest rates have to be higher than the poor can afford the reasoning goes. In early 1980s, Muhammed Yunus proved formal bankers to be wrong when he set up a small informal bank with the objective of targeting poor clients. In contrast to conventional wisdom in this time, Yunus found that the poor can pay high interest rates and will repay if incentives are to qualify for new loans. The bank has been known to world as Grameen Bank and it can be seen as the start of microfinance.

In the years that have followed, many different microfinance projects have started. While many have borrowed the ideas from Grameen Bank, others have had a broader objective of increasing social capital of its clients in the same time as being financial sustainable. If Grameen type institutions are considered to be a formal sort of microfinance their informal counterpart is village finance.

Village finance aims at providing financial services for the poor in rural, often remote, areas. Self-Help Groups (SHG), Revolving Funds and Savings and Loan Groups (hereafter referred to as SLGs) are some common forms. Many microfinance institutions have initially started up with donor funds. The problem, however, is that a considerable part of them are not able to stay in business when donor funding ends. Accordingly, SLGs need to be operationally self sufficient in order to support income generating activities over a longer period of time.

In rural Laos, lack of access to credit and savings is often seen as the main obstacle for agriculture and economic development which indeed creates a strong need for village finance. Village finance can also help to support alternatives to shifting cultivation. With this background, the Lao Swedish Forestry Programme (LSFP) started SLGs in 1999 in five villages in Xien Nguen District and one in Muang District:

- Phonsay
- Silalek
- Thin Kaew
- Heuy Jong
- Village nr 10
- Thali (Muang District)

In Heuy Kot a SLG was established a year later and is today the most successful of the SLGs in the area. Even though this SLG was initiated by DAFO and the Northern Regional Training Center (hereafter referred to as NRTC) and not LSFP, the fact that it performs really well makes it interesting to study. Hence it is included in this case study, but will not be covered by this report.

When SLGs were initiated in villages by LSFP, support to villagers’ farming systems was an equally important part of the work as the establishment of a village finance system. LSFP developed the Sloping Land Extension-Finance Methodology as an integrated approach which aimed at assisting poor farmers to develop sustainable farming systems in sloping land areas as well as establishing SLGs. The rationale

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1 Staff from DAFO and the Northern Regional Training Center was working closely with the LSFP adviser and they learned from each other. Many of the ideas from the LSFP methodology have been applied in Heuy Kot as well which is the rationale for including the village in this study.
for this integrated approach was that loans would easier be repaid if villagers had access to income generating activities (agriculture) and these activities would in turn benefit from investments generated from savings and loan activities. The project objective was in line with GoL’s goal of stabilizing shifting cultivation, food security and promotion of agriculture and forestry commercialization (Souvanthong & Tuckson, 2001 p.6).

The villagers were responsible for forming a SLG and select committee members who are responsible for issuing loans and keeping members’ savings. Before the start of the SLGs, villagers were trained by LSFP advisers and extension workers from PFO and DAFO. After the start-up of the SLGs, the operations were monitored regularly. A short time after the support from LSFP ended in 2001, the situation worsened and today the SLGs in Thin Kaew, Heuy Jong and Village nr 10 are not operating anymore. In Silalek the SLG is still operating but with a low activity. In Phonsay, however, the SLG has managed to attract new members and continue to operate after the LSFP support ended. The state of the SLG in Thali is for the moment not clear while the SLG in Heuy Kot is operating rather successfully.

2. OBJECTIVES & METHODOLOGY

Villagers in all LSFP villages were trained with the same methodology but the outcome differs. From a researcher’s point of view, this is a very interesting situation since it allows us to see how factors such as villagers’ adoption of concepts learned from training and village organization affect the performance of the SLG.

Thus, the overall objective of this case study is to evaluate which factors that made some of the SLGs able to continue after the external support ended.

The knowledge can then be applied to the LSUAFRP’s research areas Namo and Phonxay District. This is also the first step in the process of establishing village finance as an area of research within NAFRI’s Socio-Economic Component. It is important to keep in mind that this is a progress report which only covers a first comparison of two villages, Phonsay and Heuy Jong. The methodology is further described below. This report will cover step 1. Step 2 is planned to be cover by another progress report and step 3 is to be covered by a technical report. Besides these in depth comparisons, all other LSFP villages with SLGs will be surveyed briefly.

Step 1: Compare an unsuccessful SLG, Heuy Jong, with a more successful SLG, Phonsay

Step 2: Compare another unsuccessful SLG with a more successful SLG

Step 3: Analyze what factors are similar for the unsuccessful respectively more successful SLG

The comparisons in each step will include:
- The structure of the SLG.
- Information to villagers about savings and loans concepts from LSFP adviser, DAFO & PFO before the start up of the groups.
- Training of villagers by LSFP adviser et al. in skills needed for carrying out SLG work.
- Structure of the SLG (rules, people in committee, interest rate on loans and savings, etc.)
- Performance of SLG (ability to stay in business, control of outstanding loans, etc.).
- Socio-economic conditions in the villages (income generating opportunities, organization, educational level, etc.)
- SLG's impact on its members' wealth situation.

Methods used have been interviews with semi-structured questionnaires and focus group discussions. The following activities of information gathering have been carried out.
- Informal discussions with NAFRI researchers and advisers.
- Interview with former DAFO extension worker responsible for SLGs.
- 2 interviews with the head of DAFO.
- 2 interviews with SLG committee members in Phonsay village.
- Focus group interview with 9 members of the SLG in Phonsay.
- Interview with SLG committee members in Heuy Jong village.
- Focus group interview with 9 members of the SLG in Heuy Jong.
- Interview with former LSFP village finance adviser.
- Focus group interview with representatives from 5 households in Phonsay village.

The research has struggled with problems of incomplete, conflicting and to some extent biased information. Many of the records for the SLGs' savings and loan activities have not been kept by the committees and member lists have not been completely accurate. To get around the problems with incomplete information, the research has tried to apply different methods of triangulation by searching for similar information from different sources. Still, the financial information is very incomplete which makes a thorough financial analysis of the SLG's performance impossible. Some of the material from focus group discussions with SLG members in Phonsay village has not been used here since the information is likely to be biased. The reason is that one of the committee members attended (against our will) when villagers among other things were asked about whether or not they believed committee members are doing a good work.
3. OBSERVATIONS

3.1 Structure of the SLG in Phonsay

It is important to note that the structure of the committee in Phonsay did not completely follow the recommendations developed by LSFP. In the Field Guide Sloping Land Extension-Finance Procedures and Methods (Souvanthong & Tuckson, 2001, p.35) it is suggested that “the committee will consist of a chairman, an accountant and deputy accountant, two loan officers and two to for advisers. At least two of the members should be women.” The villagers did not choose the exactly the same structure with the same number of committee members and titles as recommended by LSFP but in practice the difference is not that great. What differs though is that no women have been selected for the committee. It is also worth noting that the adviser is the village headman.

![Committee Structure Diagram]

3.1.2 Rules

The rules that regulate the SLG are ultimately agreed upon by the villagers and supervised by the extension workers. In Phonsay, the rules mainly concern the level of interest rate on deposits and loans, and the size of the profit that should go to the committee. It was decided that the interest rate on savings should be 3 percent per month, 5 percent interest on loans per month and 6 percent for non members that borrow money. 1 percent of the interest goes to the committee in the form of salary and 1 percent covers the cost of the committee’s daily work. Larger loans and all loans for business purposes require security. The social reputation of the loan taker is important. Persons who apply for loans have to be very honest and passive people may not qualify for loans. There is no interest charged on loans for urgent medical expenses. These loans are to be repaid in two months or a shorter period of time. Generally loan periods are restricted to 3 months. For loans with a longer time period, a higher interest should be charged. Besides these rules, all other agreements between the members of the SLG and the committee are discussed informally when needed. For instance, when a member applies for a loan the committee informs the members about the terms and condition of this specific loan.

3.2 Structure of the SLG in Heuy Jong

In Heuy Jong, seven persons, six male and one female, were selected for committee work. As was the case in Phonsay, the structure of the SLG does not follow the recommendations from LSFP completely but there are no major differences. Even though one of the seven committee members is a woman, the target of at least two women set by LSFP is not met. The adviser is the village headman.
3.2.1 Rules
The rules in Heuy Jong regulates what interests that should be charged on savings and loans in the same way as in Phonsay: 3 percent on savings, 5 percent on loans (6 percent for non members), 1 percent to cover costs associated with committee work and 1 percent as payment to the committee members. Maximum loan term is not listed in the rules and there are no rules stating that security is needed for certain types of loans. There is nowhere mentioned in the rules that attention should be paid to loan takers’ social reputation.

3.3 Initial information, training, monitoring and phasing out
In this section, the way initial information to villagers, training of villagers and committee members, monitoring and phasing out the SLGs was practiced within the LSFP is compared to common practices within the area micro- and village finance.

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<tr>
<th>LSFP’s SLGs</th>
<th>Best Practices for SLGs</th>
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<tr>
<td><strong>Observation</strong></td>
<td><strong>Observation</strong></td>
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<tr>
<td>1. Program approach. The LSFP village finance project had a community development (bottom-up) approach which first and foremost aimed at training villagers so they could run the SLGs themselves without external support. There was a strong link to farming systems and villagers received as much training on sloping land farming techniques as on SLG matters.</td>
<td>1. Best practices: program approach. It appears to be a consensus among practitioners and researchers that a bottom-up rather than top-down approach is an explanatory factor for successful development projects. The organization Padek has been successful in setting up village finance oriented Self Help Groups (SHGs) in Cambodia. Integrated with the work of establishing SLGs, the organization aimed at building democratic values and social justice within the villages they worked. Both the LSFP and the Padek project has an integrated approach, but while LSFP focus on the link between sloping land agriculture and SLGs, Padek integrates SLGs with support to organization building. Ideally, an approach which integrates support to SLG, income generating</td>
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<td>LSFP’s SLGs</td>
<td>Best Practices for SLGs</td>
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<td>activities (sloping land agriculture &amp; non farm activities) and organization building is likely to be most effective. Yet, since each programme tends to have their own field of expertise, farming system for LSFP and organization building for Padek, this fact influenced what kind of information and training the villagers got.</td>
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2. **Initial contact and information to villagers**
First the target villages were selected followed by a PRA which showed that lack of access to savings and credit was one of the main problems villagers were facing. The NRTC had experience from initiating and monitoring SLGs. In order to learn more about the concepts, staff from PFO, DAFO and LSFP advisers visit the center and got crucial information about NRTC’s experiences. Then a one day initial dialogue on a program for sustainable farming systems and establishment of a SLG with the villagers started. During this day, opportunities and constraints related to agriculture and finance were discussed with villagers and programme objectives and activities were explained.

2. **Best practices: initial contact and information to villagers**
Similar to LSFP, Padek had a rather holistic approach to village finance and development and not just the concepts of a SLG were discussed with villagers but also livelihood opportunities and constraints and social structures. As written by Rao & Swift (1998, p.130), “in the preparatory phase, the community development worker (CDW) visits the community frequently and holds informal discussions to understand the community, as well as to develop a report with it. S/he meets people in their families, in their fields and tries to understand the living conditions and coping mechanisms of the people. In informal discussions the CDW motivates the people to work together for their mutual development and introduces the concept of SHGs. Those who show interest and want to come together are asked to meet a few times [with CDW facilitation] and try to understand the concept. This phase may last for 4-6 months.”

Clearly, the introductory phase was longer and more thorough in the Padek project than for the LSFP.

3. **Training on sustainable farming systems and SLG concepts and procedures**
About a month after the initial dialogue with the villagers, a one day information and training day with the whole village was carried out. General problems and opportunities with development were discussed. Besides an introduction to the concepts of a SLG, topics such as sustainable development, farming systems appropriate for sloping land, tree nurseries, gender, ethnicity and marketable crops were equally important in the discussion. In the end of the day, villagers were asked to consider the questions of trying new farming systems suitable for sloping land and forming a SLG. In the time that followed, villagers

3. **Best practices: training on sustainable farming systems and SLG concepts and procedures**
Common in many micro and village finance projects is that members’ access to income generating opportunities are surveyed and discussed before a financial system is established. Since the main source of income in the LSFP villages comes from agriculture and the forest, the emphasis on discussions about sustainable farming systems makes sense and it has probably had a positive effect on villagers’ ability to generate income needed to repay loans. Still, the fact that villagers’ theoretical as well as practical experience of finance is very limited, in the same time as they have long hands on experience of
<table>
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<tr>
<th>LSFP’s SLGs</th>
<th>Best Practices for SLGs</th>
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<tr>
<td>were trained on sloping land farming techniques parallel to the training on SLG matters. Only the SLG related training will be described here though.</td>
<td>agriculture, probably should made a case for biasing the discussion with the villagers more towards finance concepts rather than agriculture.</td>
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<tr>
<td>As noticed by Spantigati &amp; Springfors (2005) in their world wide case studies on performance of programmes that link microfinance to forest based incomes, it is important that participating rural households receive training on management of the household’s assets, marketing issues, writing loan applications, bookkeeping and basic accounting. More of this training to the villagers (not only committee members) in the LSFP villages would probably have been beneficial.</td>
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<tr>
<td>4. Training and setting up of SLGs</td>
<td>4. Best practices: training and setting up of SLGs</td>
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<td>The following month a two day training and support of set up of SLGs were undertaken in the villages. In the first day, interested villagers were now in more detail informed about the functioning of a SLG and the following procedures were explained and discussed: • Deposits and withdrawals. • The savings account and the loan form books. • Interest paid on savings and loans and the importance of a margin between them. • The type of projects implemented with the loans. • The possibility of variable interest rates. After the concepts and procedures of the SLG had been discussed, villagers were asked to decide if they would like to join the SLG. If not joining immediately, it was still possible to join later. In the second day, villagers were to select committee members of the SLG, draw the rules of the group and decide upon appropriate interest rates. The villagers were advised by the extension workers on good practices, but the final decisions were taken by the villagers. The selected committee members were then trained by the extension workers in accounting principles, reporting and handling group conflicts for three days.</td>
<td>As recognized by IFAD, ACCION and other organizations dealing with village finance, proper group formation is very important if a small scale financial institution is to be sustainable. A good understanding of SLG concepts and ability to work in a group and trust each other is more important than providing loans in the beginning. In the Padek project (Rao &amp; Swift, 1998), groups were advised to meet once a week and the CDWs attended these meetings. Practical examples and on the job training were used to make the accountants of the groups understand how to keep track of the group’s financial performance as well as to realize the importance of good book keeping. Padek recommends that this phase continues for about 4-6 months. During this phase members mobilize savings, but there are no loans issued.</td>
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<tr>
<td>5. Monitoring of SLGs &amp; phasing out process</td>
<td>5. Best practices: monitoring of SLGs &amp; phasing out process</td>
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<tr>
<td>After the SLGs have been set up, the extension workers visited the villages</td>
<td>Similar to LSFP, Padek’s main objective has been that villagers should be trained</td>
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LSFP’s SLGs | Best Practices for SLGs
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about once a month to control that financial records are kept properly, repayment rates are reasonable and corruption is non existent. In 2001, the LSFP adviser ended his assignment. For different reasons, key persons at DAFO did the same soon after. The remaining staff that was to continue the monitoring of the SLG was neither familiar with the project nor trained on the subject. As a consequence, the monitoring became less frequent and rigid. | so they can handle the SLG work themselves when Pakek is gone. In the preparations for the phasing out, which is suggested to last for 1-2 years, support structures such as linkages with external financial institutions and other community organizations (Village Development Committees, etc.) are to be recognized.

### 3.4 Reflections on initial information, training, monitoring and phasing out

Below villagers’ and extension workers’ reflections on initial information, training and phasing out are compared between Phonsay and Heuy Jong village.

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<tr>
<th>Phonsay</th>
<th>Heuy Jong</th>
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<td>Observation</td>
<td>Observation</td>
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1. **Monitoring**
The extension workers visited the village about once a month during the first year and then the visits became less frequent.

2. **Villagers’ understanding of SLG concepts**
Committee members believe the training they got from the extension workers in general was good and relevant. They believed that they could understand the accounting and reporting methods and they feel that these methods are useful for the SLG work.

The extension workers agreed that the committee members’ adoption of the training was fairly good. Yet, after the LSFP support ended in 2001 there is no clear financial record showing the overall performance of the SLG available for persons outside the committee. The same is true for individual savings and loan accounts. This fact questions if the committee members’ really understood why certain accounting and reporting methods are to be practiced.

Whether or not the committee internally still keep a standardized account of the each deposits and loans that are issued is not possible to get a reliable answer to. What can be concluded though is that the SLG operations do not correspond with best practices of micro- and rural finance that stress the importance of continued
### 3. Phasing out
Since procedures of regularly showing the SLG’s results to the members appeared to be in place at the beginning, the unfavorable situation today might be a consequent of inappropriate phasing out process.

### 4. Local ownership
The fact that LSFP has stressed the importance of local ownership of the project throughout the training and monitoring, it has probably enable the committee to take responsibility for the SLG and manage to run it reasonable good without external support.

#### 3.5 Socio-economic conditions in the villages

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<th>Heuy Jong</th>
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<tr>
<td><strong>Observation</strong></td>
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</table>

#### 1. Ethnicity & culture
- The village is homogeneous in terms of ethnicity and cultural values. The same goes for the SLG with the vast majority being Khamu.

#### 2. Location
- The village is located at the road from Xien Nguen to Nane, about 7 km to Xien Nguen and 35 km to Luang Prabang.

#### 3. Wealth ranking
According to the village’s wealth ranking (3 levels) 29 % of the SLG members are “less poor”, 68 % are “medium poor” and only 1 % is considered “very poor”.

#### 4. Livelihood & income generating activities
- More income generating activities in Phonsay than in Heuy Jong. Better agriculture (more low land rice with higher yield) and more.

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</tr>
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</table>

#### 1. Ethnicity & culture
- The majority of the villagers and SLG members are Khamu. An important part of the population in Heuy Jong has been relocated from upland areas which makes Heuy Jong less homogeneous than Phonsay in terms villagers culture and value

#### 2. Location
- The village is located at the road from Xien Nguen to Nane, about 10 km to Xien Nguen and 38 km to Luang Prabang.

#### 3. Wealth ranking
No wealth ranking is available for Huey Jong. Hence, according to DAFO the wealth level is said to be lower than for Phonsay.

#### 4. Livelihood & income generating activities
- No specific statistics on villagers’ income generating activities is
3.6 Financial requirements and performance of the SLG

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<td>Observation</td>
<td>Observation</td>
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<tr>
<td>1. Operational status</td>
<td>1. Operational status</td>
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</table>

Phonsay:
Observation cash crops. Specifically: 58% of SLG members got their main source of livelihood from upland rice, 21% lowland rice, 5% upland rice + non-farming occupation (teacher, doctor, trading), 10% lowland rice + non-farming occupation and 4% only non-farming occupation. Income is also generated from selling livestock, NTFPs and cash crops such as soybeans and Job’s Tears. The degree of villagers’ involvement in these activities is not completely clear.

5. Educational level
Low level of education for SLG members: average 3.2 years of schooling for males and 3.0 for females. Even though the years of formal schooling completed is really low, the quality of education in Phonsay is said to be higher than in Heuy Jong. There is a significant correlation between educational level for males and females within the household. This can be seen as a precondition for more grounded household decisions regarding livelihood strategies and SLG matters.

6. Women’s status
Not surprisingly, our study indicates that more women are involved in the decision making process for livelihood strategies in Phonsay compared to Heuy Jong. Still, their involvement is really low.

7. Organization
Phonsay has a history of fairly good organization of village life. High level of social capital: villagers interact frequently and learn crucial skills from each other. There is a history of sticking to law and keeping up with agreements in the village and villagers follow the rules of the SLG to a larger extent than in Heuy Jong. The village headman possesses positive characteristics for managing the village: open minded and ability to “get things done.”

Heuy Jong:
Observation available, but according to DAFO and LSFP advisers among others, the main source of livelihood and income is upland rice and NTFPs collection.

5. Educational level
Low level of education for SLG members: average 3.7 years of schooling for males and 1.6 for females. Education is said to have very low quality in Heuy Jong. Educational level completed differs between males and females within the household which is likely to be unfavorable for democratic decision making within the household.

6. Women’s status
Women in Heuy Jong are said to have very low status and their degree of involvement in different decision making processes is very low.

7. Organization
The widespread lack of available statistics provided by the village headman (on wealth ranking, sources of income, SLG members’ performance, etc.) implies that organization of village life is far from sufficient. Village life is said to be based on traditional upland values to a large extent. New ideas and technology have been far less adopted in Heuy Jong than in Phonsay. A major fire destroyed parts of Heuy Jong in 1999. Besides its obvious negative effects on villagers’ assets it is also said to have created a situation in where villagers disagree about how to use the scarce resources and lack trust in each other.
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<tr>
<th>Phonsay</th>
<th>Heuy Jong</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Observation</strong></td>
<td><strong>Observation</strong></td>
</tr>
<tr>
<td>SLG is still active. At the start in 1999 the SLG had 26 members. Today 106 households are members.</td>
<td>SLG does not operate anymore. At the start in 1999 there were 14 members, in 2003 41 but now the SLG is not active.</td>
</tr>
<tr>
<td><strong>2. Individual loans</strong></td>
<td><strong>2. Individual loans</strong></td>
</tr>
<tr>
<td>Loans are issued for individual households and not group of households (which is the case in some credit schemes).</td>
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</tr>
<tr>
<td><strong>3. Loan uses</strong></td>
<td><strong>3. Loan uses</strong></td>
</tr>
<tr>
<td>Loans are mainly used for medical treatment and agriculture followed by housing and leisure (wedding and parties), buying food and trading. Members from the highest state in the wealth ranking (&quot;less poor&quot;) tend to use loans for more productive needs: trading and agriculture. The fact that loans are used for few productive non farm activities makes the SLG’s loan portfolio exposed to a high covariant risk. That is, a sudden shock such a bad harvest is likely to have a negative effect on repayment rates on the majority of the loans issued.</td>
<td>Loans are mainly used for medical treatment, agriculture and buying food. The fact that loans are used for few productive non farm activities makes the SLG’s loan portfolio exposed to a high covariant risk. That is, a sudden shock such a bad harvest is likely to have a negative effect on repayment rates on the majority of the loans issued.</td>
</tr>
<tr>
<td>Security is required on larger loans according to the rules of the SLG. It is followed fairly well in practice.</td>
<td>Security is not required on loans.</td>
</tr>
<tr>
<td><strong>5. Accounting procedures</strong></td>
<td><strong>5. Accounting procedures</strong></td>
</tr>
<tr>
<td>Bad kept financial record of the SLG after external monitoring ended.</td>
<td>Very bad kept financial record of the SLG. Better kept records before the programme support ended, but it was still far from sufficient.</td>
</tr>
<tr>
<td><strong>6. Financial performance</strong></td>
<td><strong>6. Financial performance</strong></td>
</tr>
<tr>
<td>At the end of 2001, total accumulated savings + interest in the SLG was 28.71 million kip and total accumulated borrowing 30.72 million kip. In 2002, total accumulated savings + interest and borrowing has increased to 40.94 respectively 42.34 million kip. In the end of 2003 the figures for total accumulated savings + interest and borrowing was 53.06 respectively 55.80 million kip. In April 2004, the total amount of accumulated savings + interest was 69.2 million kip (no figures on total accumulated</td>
<td>Because of the complete lack of financial information, accumulated of savings and loans within the group cannot be analyzed.</td>
</tr>
</tbody>
</table>

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2 According to one of micro and village finance's central findings, financial institutions for the poor should not decide what activities loan takers should use the loans for. If some loans are used for sudden costs, the loan taker may be able to keep livestock or other valuables and in so doing keeping an investment that will generate future income. Hence, to base a SLG’s loan portfolio on unproductive loans, such as loans for medical treatment, will only work if loan takers have access to activities with a direct link to income generation (agriculture or small businesses). Even though both Phonsay and Heuy Jong issue many loans for medical costs, villagers in Phonsay appear to have sufficient income generating opportunities to manage to repay the loans.
### 7. Repayment rates

Higher repayment rates than in Heuy Jong (the lack of complete financial data makes an accurate repayment rate impossible to state).

### 7. Organizational aspects

#### Phonsay

<table>
<thead>
<tr>
<th>Observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Activity of committee</td>
</tr>
<tr>
<td>Active committee in terms of controlling loan takers reputation, security, monitoring of loans and taking responsibility for the profit generation of the SLG. Incentives for the committee to control loans exist in the form of committee members receiving 1 percent of the interest on all loans as payment for their work. If no members are applying for loans, committee members invest the money available and let the profit go to the SLG.</td>
</tr>
</tbody>
</table>

| Heuy Jong |
| Observation |
| 1. Activity of committee |
| Committee is not active in controlling security and reputation of loan takers, loan activities and taking action if loans are not repaid. There are incentives for the committee to control the chances of repayment since 1 percent of the interest on loans should be payment to committee members. Yet, this does not seem to have had any noticeable effect on the committee’s performance. |

| 2. Trust in committee |
| SLG members have a reasonable degree of trust in the committee’s work and compared with the situation in Heuy Jong, it is considerably higher. |

| 3. Cooperation & legality |
| Committee members appeared to be able to cooperate without any major problems occurring and there are no signs of corruption within the committee. Between 2002 and 2005, there have been few new deposits and one of the reasons stated is that repayment rates have decreased during this period. Some members are afraid that there is a risk of the SLG is going bankrupt for this reason. If that happens, they will not get back their deposits. Therefore, they choose not to deposit money. Indirectly, this can to some extent be seen as a declining trust in the committee’s ability to carry out the work. |

| 4. Transparency |
| Initially, villagers had checks & balances of... |

| Heuy Jong |
| Observation |
| 2. Trust in committee |
| Low level of mutual trust between committee members and between committee and SLG members. |

| 3. Cooperation & legality |
| Committee members were unable to cooperate, mainly because of lack of trust in each other. Some committee members refused to repay loan, other were stealing money from the SLG’s account. |

| 4. Transparency |
| The performance of the SLG has not... |
4. ANALYSIS OF OBSERVATIONS

So why has the SLG in Phonsay been able to continue to operate without external support? From the observations above the following links have been identified which aim to describe the factors behind the positive outcome in Phonsay.

4.1 Link 1: Income generating activities

The logic behind this link is rather straightforward. In order to be able to repay a loan or deposit money, access to income generating activities is of particular significance. These activities are more abundant in Phonsay than in Heuy Jong. Collection and selling of NTFP is an important economic activity in both villages, especially in periods when income from other sources is low. Whether the situation is more beneficial in Phonsay than in Heuy Jong or the other way around is not clear though. To determine that, more research is needed. The proportion of low land rice, with higher yield than upland rice, is higher in Phonsay. Much of this produce is used for self sufficiency and not for obtaining cash. But since it tends to cover the households’ need for food it enables them to save income generated from other activities that in case of lower level of rice produce would have been spent on purchasing food (rice). There is also more abundance of activities with a direct link to income generation in Phonsay than in Heuy Jong such as cash cropping, livestock and small businesses. That situation has helped Phonsay villagers to avoid running their SLG into bankruptcy.

4.2 Link 2: Social capital
Social capital, as defined as networks and trust among citizens, is by Putnam (1993) and Coleman (1988) among others considered a key factor for democratic and economic development. One implication of their theory is that economic transactions are more likely to take place between people who trust each other and know that the other part could be held responsible if this person is not keeping up with the agreement. Another implication is that social capital can have positive effects on the development of human capital (skills) regardless of the socio-economic context. That is, in two villages with similar socio-economic context, the one with strongest networks and trust among its people is more likely to create an environment in where people will learn crucial skills from each other when they interact. So even if the average educational level and income streams are similar between the villages, people in the village with highest social capital will be more skilled.

Applied to our study, these structures of networks and trust appear to be much stronger in Phonsay than in Heuy Jong. There is a history of good organization and interaction in the village. People are used to meet each other, the village headman meet villagers on regular basis and villagers are among other things organized in production groups. This is likely to have built up mutual trust between SLG members and committee members which is of greatest importance for running a SLG efficiently. Lessons learned from ACCION, CGAP, IFAD and other institutions experienced with rural and micro finance is that strong social links have to be in place in order to impose a sound system of control and peer pressure needed to attract new savings and secure high repayment rates. The high degree of interaction among Phonsay villagers and the fact that the majority of villagers are of the same ethnical group (Khamu) appear to create the required extent of homogeneity to operate the SLG in a sufficient manner.

The research shows that committee members as well as savers and loan takers in Phonsay have a much better understanding of the concepts and rules the SLG than in Heuy Jong. Since average years of schooling completed is about the same in the two villages the explanation is to be found somewhere else. The research findings indicate that the relatively high level of human capital in Phonsay can be part of the explanation. The effect stems from the fact that people in Phonsay tend to be open to new ideas and techniques and undertake a considerable amount of interaction and in so dong learning crucial skills from each other. Villagers then make use of these skills when running the SLG. A number of strategic decisions taken by the committee support this idea.

First, the committee has decided that security with a higher value than the loan is required for bigger loans. Spantigati & Springfors (2005) found that security valued approximately 1.5-2 times the value of the loan was required in most
successful rural finance projects surveyed in Africa, Asia and Latin America. Thus, the action taken by the SLG committee is reasonably in line with best practices. Second, the committee members try to control the possibilities of the loans to be repaid by randomly visit the loan takers and get information about the likelihood of repayment. How often and systematic this control is undertaken is not clear though. Third, it has been shown in many micro and village finance projects that the best long term outcome will appear if the management of the institution does not dictate what purposes members shall use the loans for (Clark, Krauss, Rogers, & Stephens at UNCDF, 2002). If some loans are used for sudden costs, such as medical treatment, the loan taker may be able to keep livestock or other valuables. In so doing, they will not lose investment that might generate future income. So loan takers know best which activities that will increase their wealth and as long as members have access to some kind of income generating activities, the committee should not in detail decide what activity the loans should be used for. Whether or not committee members in Phonsay are aware of this truth is not clear. What we do know is that many loans have been issued for the seemingly unproductive need of medical treatment and that repayment rates on these loans are high.

Last, as argued by Cuevas & Paxton (2002) and Lapenu & Zeller (2002) among others, there is to a certain degree a trade off between reaching the poorest and securing high repayment rates and appropriate performance of the SLG. The very reason why the poorest of the poor are so poor is their lack of income generating opportunities. Without such opportunities, they face difficulties to generate income to repay loans. On the one hand there is the goal of targeting the very poorest and on the other hand there is the need for reaching financial self sufficiency. Without financial self sufficiency, the SLG will not be able to operate and generate wealth to its members over a longer period of time. Yet, the fact that only 1 out the 106 households that are members in the SLG is within the very poor bracket (on a scale covering the levels less poor, poor and very poor) is striking. The reasons for this are not clear. It seems like this is partly a result of the poor not being interested in becoming members, the comparatively high wealth level in Phonsay (not many very poor people live here), but also a result of the committee not targeting these groups. The committee might see the very poor as a “bad credit risk” and they are therefore sorted out. This strategy is questionable from a development perspective, but it makes sense financially and might have had a positive effect on the SLG’s performance. As has been showed in various LSUAFRP activities, the very poorest are not the first ones to try new techniques and investments mainly because of the exposure to risk that such actions will lead to. Households from the category very poor are likely to wait and see before joining. In Phonsay there are no signs, however, that the poorest households are starting to join the SLG. Maybe these households need longer time to decide whether or not a membership will be beneficial, maybe they are excluded from the SLG by the committee.

4.3 Link 3: LSFP’s local ownership approach

It appears that the LSFP approach of focusing on local ownership and responsibility of the SLG throughout the whole training and monitoring period have had a positive effect on committee members’ ability to come up with creative solutions to
problems that occur. The action taken by the committee to invest the SLG money that no one is borrowing in order to raise the income of the SLG is one indication of this. If villagers felt that they were not responsible for the project, committee members would be less likely to spend time and effort on this. Another sign is the fact that committee members tend to be pride of their work and are happy to tell the story of the SLG when being interviewed. Worth mentioning is that the situation in Heuy Jong village was completely different with committee members being rather uninterested in participating in the interviews and kept on telling that they were not skilled enough for SLG work. A precondition for successful adoption of the LSFP approach is the social capital factors of openness to new ideas and ability to learn from training which explains why the LSFP approach worked in Phonsay but nor in Heuy Jong.

5. IMPACT FROM SLG ON VILLAGERS’ POVERTY STATUS

Since the SLG did not manage to continue in Heuy Jong, no signs of positive impact whatsoever have been seen in the village. Therefore, Heuy Jong is left out of this discussion.

Best practice of an impact assessment would have been to measure the poverty status among villagers before the SLG was initiated and then measure the poverty status again when the SLG has been in place for some years. The second time the poverty status is measured, wealth among members should be evaluated against wealth among non-members in order to separate out the potential effect from the SLG. Since no assessment of the wealth situation was carried out in the villages prior to the start up of the SLGs, other approaches to measure the impact have to be used.

In the field of microfinance, the neo-classical concept of willingness to pay has often been used as a proxy for impact. Willingness to pay is derived from the assumption that members are seen as rational consumers who purchase goods or services to increase their utility (e.g. increased income, better food supply or better medical treatment). If members are able to repay their loan and apply for new loans, it should indicate that the loans have a positive effect on members’ wealth situation (Ledgerwood, 1999, p.49).

Because of the lack of baseline studies from the time of the start-up of the SLG this study does not claim to be a complete assessment of the impact the SLG might have had on its members’ wealth situation. Instead, it makes use of the willingness to pay concept and departure from the fact that SLG members in Phonsay have managed to repay loans and prefer to apply for new loans. Implicitly, we therefore can conclude that the SLG has had some sort of positive impact on its members’ wealth situation. The depth (ability to reach the marginalized: women and the poor) and the characteristics (different kind of impacts on wealth: accumulation of assets such as housing equipment, food, clothes and agriculture tools, risk coping, etc) have been surveyed. Two focus group interview sessions with nine respectively five household representatives each time were carried out for this purpose.

5.1 Depth of impact

As stated earlier, villagers from the very poor bracket in the wealth ranking are not active in the SLG. Even though it is preferred that the very poorest of the poor shall participate, this should not be seen as a failure of the SLG. As noticed by Raintree (2005, p.50) when discussing target groups for LSUAFRP activities:
First of all, because the programme is working only in districts classified as “poverty districts” [Phonxay & Namo District] by the NGPES it can be said that, with very few exceptions, all households in the research villages are poor by national and international standards. Any talk of working with “wealthy households” has no meaning in the research area.

The socio-economic data collected in our study indicates that the situation in Phonsay village is similar and even though the very poorest villagers are not reached directly by the SLG, the fact that the relatively wealthier households still are poor somewhat justifies the operations of the SLG. Yet, in the longer term the SLG can have positive effects on the poorest villagers’ wealth even though they not participate in the group. Raintree (2005, p.51) continues:

Of particular significance is the research finding that many households in wealth category 5 [Based on a 1-5 scale where 1 represent wealthiest households and 5 contains the poorest households] have a livelihood strategy based on wage labor on the farms of wealthier households. This means that the best way to reach these households might be to concentrate on generating increased production opportunities for the better off households, who will then require more wage labor inputs from the poorest households, thus increasing demand and driving up the local labor wage.

Although these effects have not materialized yet in Phonsay, continued operations of the SLG might give rise to such multiplier effects.

5.2 Accumulation of assets

When it comes to accumulation of assets, the households surveyed find it very difficult to determine if their situation in terms of standard on housing, food, clothes, agriculture tools, etc. has changed since they became members of the SLG. They are, however, sure that there at least have not been any significant improvements of their accumulation of assets. The fact that many of the members just have borrowed and deposited small amounts would make a substantial impact on their wealth rather unlikely. Moreover, it is likely to take time before considerable impact can be seen. Taking these obstacles into consideration, it is no surprise that the indications of impact found in this study are more signs of preconditions for future increases of assets than actual proofs of increased assets accumulation today. These preconditions will be discussed below (See discussion under 5.4 Risk coping). Still, some members answered that they have used the loans to buy material needed to repair their houses. By using the logic from the willingness to pay argument described above, the fact that the surveyed households borrowed money for house repairing and able to repay the loans without selling off other valuable assets should indicate that the membership in the SLG has had a positive effect on members’ wealth in this respect. It has to be kept in mind though that the lack of complete financial data available makes it hard to determine if all loans used for repairing houses have been repaid without sacrificing other wealth assets. So any conclusions about positive impact on the households’ accumulation of assets can not be drawn, but the research results show that there at least are signs of small positive effects on a few households’ housing standard.

5.3 Empowerment of women

In a case study of microfinance’s impact on small scale farming livelihood systems in Indonesia, Panjaitan-Drioadisuryo & Cloud (1999) found that women’s participation in successful microfinance projects tend to increase their decision making power within the household regarding matters such as children’s education
and allocation of household money. Another positive effect they found was that women’s participation in community decisions and social events increased as well. Research by Buvinic & Valenzuela (1996) and Dwyer & Bruce (1988) shows similar findings. Improved involvement of women in the household decisions is not just important for the empowerment process of women, but also crucial for long term economic development since women “consistently devote much of their income to investment in family's human capital; to expenditures on more nutritious food, more education, better health care and more effective ways of limiting their own fertility” (Panjaitan-Drioadisuryo & Cloud, 1999, p. 3p).

Our research shows, however, no signs of such impact in Phonsay village. First, the committee did not follow the recommendation from LSFP that the committee should consist of at least two women. Second, only one woman participated in the different interview sessions we carried out even though we clearly explained for the village headman that we wanted a certain number of women to participate. These events show that women’s participation in village organization is minimal. Households have been asked about the decision making situation within the household today and before the household became member of the SLG. It was found that even though women keep the money, males are considered the head of the household and accordingly take most of the important household decisions. Women are also excluded from most village meetings. Only when her husband is unable to attend (mainly due to sickness or traveling) are women participating in public meeting. That was the situation before the SLG started and so is the situation today and there are no signs of future changes. Hence, it can be concluded that there are no evidence of positive impact from the SLG membership on women’s empowerment.

5.4 Risk coping

When it comes to households’ ability to cope with risks (bad harvests, extreme price fluctuations on important crops, sickness, etc.) the literature on micro and rural finance distinguishes between ex ante and ex post strategies. Ex ante strategies address all of the household’s actions taken to prevent from unexpected events to happen while ex post strategies is the household’s way of handling shocks after they have occurred (Skees, 2003). A good example of an ex ante strategy might be a diversification of the household’s agriculture activities. With diversification, the household is less exposed to risk associated with mono-cropping such as a bad harvest or a sudden drop in the selling price. Another example might be a diversification into non farm activities. Examples of ex post strategies might be the ability to use accumulated savings or apply for quick loans to be used for unexpected costs such as medical treatment.

Applied to this study, there are few signs that the membership in the SLG is having any positive effects on the households’ diversification of income. The households surveyed all got their income from agriculture and the forest (rice, cash crops, selling of NTFPs, selling livestock) prior to the time when they became SLG members and their activities are mainly the same today. A few households have recently started to plant teak, but none of them are expanding outside the agro-forestry area.

One quite remarkable finding from the study is that a considerable amount of the loans are used for medical treatment. One household member drastically claimed that “before the SLG started, we would die if we got sick! Now we can borrow money so we can afford to go to the doctor.” All members from the surveyed households stressed that the access to savings and loan possibilities have enabled
them to visit a doctor if they get seriously sick. They all agreed that this has been
the most positive effect the SLG has had on their lives. A better health status is
also likely to have many other positive effects in the long term. If villagers can
avoid sickness, their working capacity will increase. With increased working
capacity, villagers are likely to generate more food and income that can be used
for consumption or long term investment. Moreover, before villagers had access to
the SLG’s services they usually financed medical treatment by selling livestock or
other assets needed for long term economic development. Now, when villagers are
able to keep these valuable assets they are better equipped for improving their
wealth situation. So the SLG tends to help villagers to improve their ex post risk
strategies. Besides this positive impact on villagers ex post risk strategies, there is
also potential for positive impact on villagers ex ante risk strategies because
access to the SLG’s services enables villagers to “invest in their personal health”
which can make them less exposed to catching diseases in the future. Whether or
not the general health status of the SLG members has improved is out of the scope
of this study, but we can conclude that a tool for improving villagers’ health
situation, ex ante and ex post risk strategies is in place.

6. CONCLUSION

It has been shown that the performance of the SLG in both Heuy Jong and
Phonsay village worsened after the programme support ended. While the SLG in
Heuy Jong went bankrupt, villagers in Phonsay managed to continue to operate
their SLG for three reasons: better access to livelihood and income generating
opportunities, relatively high level of social capital and ability to take on the LSFP
concept of local responsibility. Considering its bad performance and short life, it is
obvious that the SLG in Heuy Jong did not have any positive effects on its
members’ wealth. Any major positive impact on villagers’ wealth situation in
Phonsay has not been observed either. Still, there are signs of the SLG having a
positive effect on villagers’ health creating preconditions for future increases in
wealth.

In the next phase of the case study two additional villages, one with ongoing SLG
activity and one with failed SLG operations, will be surveyed. Adding information
from these villages to the material in this report, it will be possible to compare
factors for success respectively failure between the four villages. Potential impact
can be compared in a similar way. That will hopefully deepen our understanding of
which factors that drive the success of SLGs in rural Laos and what potential
impact on wealth that is to be expected from participating in these groups.
7. REFERENCES

7.1 Literature


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Souvanthong, P. & Tuckson, M. within LSFP, 2001, Sloping Land Extension-Finance Procedures and Methods, Ministry of Agriculture and Forestry, Vientiane
Spantigati, P. & Springfors, A. 2005, *Microfinance and Forestry Based Small-Scale Enterprises-Including Case studies from Africa, Asia and Latin America*, Food and Agriculture Organization of the United Nations: Forest Department, Rome

**7.2 Interviews**

Interview with former DAFO extension worker responsible for SLGs, November 2004

2 interviews with the head of DAFO, November 2004 and December 2004

2 interviews with SLG committee members in Phonsay village, November 2004 and February 2005

Focus group interview with 9 members in the SLG in Phonsay, November 2004

Interview with SLG committee members in Heuy Jong village, November 2004

Focus group interview with 9 members in the SLG in Heuy Jong, November 2004

Interview with former LSFP village finance adviser, February 2005

Focus group interview with representatives from 5 households in Phonsay village, March 2005