Final Report on Village Finance: Case Study in Xien Nguen District, Luang Prabang Province

Socio-economic Research Component
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Lao-Swedish Upland Agriculture and Forestry Research Programme

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<tr>
<td>ACCION</td>
<td>Americans for Community Co-operation in Other Nations</td>
</tr>
<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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<tr>
<td>DAFO</td>
<td>District Agriculture and Forestry Office</td>
</tr>
<tr>
<td>GoL</td>
<td>Government of Laos</td>
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<tr>
<td>IFAD</td>
<td>International Fund for Agriculture Development</td>
</tr>
<tr>
<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>
</tr>
<tr>
<td>MAF</td>
<td>Ministry of Agriculture and Forestry</td>
</tr>
<tr>
<td>NAFReC</td>
<td>Northern Agriculture and Forestry Research Center</td>
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<tr>
<td>NAFRI</td>
<td>National Agriculture and Forestry Research Institute</td>
</tr>
<tr>
<td>NGPEP</td>
<td>National Growth and Poverty Eradication Strategy</td>
</tr>
<tr>
<td>NRTC</td>
<td>Northern Regional Training Center</td>
</tr>
<tr>
<td>PFO</td>
<td>Provincial Forestry Office</td>
</tr>
<tr>
<td>PRA</td>
<td>Participatory Rural Appraisal</td>
</tr>
<tr>
<td>SHG</td>
<td>Self Help Group</td>
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<td>SLG</td>
<td>Savings and Loan Group</td>
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Executive Summary

- In 1999, savings and loan groups were initiated in Xien Nguen District by the Lao Swedish Forestry Programme (LSFP). The main objective of this case study has been to survey the factors that made the groups in two of the villages, Heuy Khot and Phonsay, able to succeed while others failed. The observations in these villages are compared with observations from two unsuccessful groups in Heuy Jong and Thinkeo village.

- The satisfactory performance of the savings and loan groups in Heuy Khot and Phonsay is traced to:
  1. Villagers access to income generating activities and markets, which enable them to repay loans and accumulate savings.
  2. Good village organization and strong support to the savings and loan group from the village headman
  3. High level of social capital (level of interaction and openness to new ideas and techniques) among the villagers. 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.

- Even though both groups have managed to succeed, the members in Heuy Khot have saved and borrowed larger volumes than their counterparts in Phonsay. In addition, repayment rates are higher in Heuy Khot. With higher wealth follows a higher propensity to save and borrow and abundance of income generating activities increase chances of repayment. Accordingly, the chief explanation of the difference in outcome between the two groups comes down to the fact that villagers in Heuy Khot possess a higher wealth status and better income generating activities than in Phonsay.

- While the savings and loan group in Phonsay has not had any substantial impact on its members’ ability to accumulate assets (housing improvements, more and better clothes, food, agriculture tools, etc.) members in Heuy Khot claim that their accumulation of assets has increased since they joined the group. Nevertheless, the savings and loan group in Phonsay has provided an opportunity for its members to finance medical treatment. It may have positive effects on their health status and it can create better opportunities for long-term economic development by potentially increasing members working capacity and ability to cope with risks.
1. Introduction

With a gross national income of 390 US dollar per capita, Laos ranks among the poorest countries in the world (The World Bank, 2004). To lift the country out this severe state of poverty, economic growth and market development are certainly needed. Financial services for companies and individuals are a prerequisite for accomplishing such development. Yet, to achieve pro-poor economic growth, these services have to be available for the majority of the population. So far, this has not been the case. The formal banking sector has mainly focused on the urban areas and neglected the poor and the formal microfinance sector has found it hard to reach clients in remote areas in a cost efficient way. The Agriculture Promotion Bank has not been able to reach out to the rural poor, but rather served relatively wealthy clients in semi urban areas. With this at hand, there has been a strong call for alternative financial services to be developed in order to target the poor in remote areas. This has been the justification for initiating different Village Finance programs in rural areas. Many of the programs have been established in the form of savings and loan groups (SLGs) which commonly consist of 20-100 member households. These groups offer an opportunity for its members to access loans and earn interest on their savings. In most cases, they are initiated by an implementing agency that provides a start up grant and training on basic accounting and organizational skills. The training is followed up by monitoring in collaboration with relevant local government agencies. A rather great number of these groups have, however, failed to succeed after the agency support has been phased out. This study aims to add knowledge to the understanding of why they fail and what factors make other SLGs able to succeed after external support ends.

In 1999, the Lao Swedish Forestry Programme (LSFP) started SLGs in five villages in Xien Nguen District: Phonsay, Silalek, Thinkeo, Heuy Jong and Village nr 10. In Heuy Kot, a SLG was established a year earlier and is today the most successful of the SLGs in the area. Even though the District of Agriculture and Forestry Extension Office (DAFEO) and the Northern Regional Training Center (NRTC) and not LSFP initiated this SLG, the fact that it performs well makes it interesting to study. Staff from DAFEO and the NRTC was working closely with the LSFP adviser and they learned from each other. Many of the ideas in the LSFP methodology are borrowed from Heuy Kot, which is the rationale for including the village in this study. So, the main focus of the study are on the following four villages:

- Phonsay
- Heuy Khot
- Thinkeo
- Heuy Jong

When SLGs were initiated in villages by LSFP, support to villagers’ agro-forestry 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 for this integrated approach was that repayment chances would increase if villagers had access to agro-forestry activities with a commercial potential. These activities would in turn benefit from investments generated from savings and loans. 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).
2. Objectives and Methodology

When talking about “success” of SLGs, it would be highly unlikely to expect any major impact on the living standard of the villagers in such a short time as 5 years but rather preconditions for future increases in wealth. Instead, we have focused more on evaluating the reasons why some SLGs succeeded and which the common factors behind success of these SLGs are. In so doing, the performance and characteristics of the two successful villages will be compared step by step in order to sort out some common factors. The same procedure will be carried out with the two unsuccessful villages. Then the situation in the successful villages is to be contrasted with the characteristics of the SLGs in the unsuccessful villages. That will provide us with knowledge to answer the research question:

*What factors helped SLGs in Xien Nguyen District to manage to continue effectively after external support ended?*

Villagers in all 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. 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. The methodology is further described below.

The comparisons in each step will include:

- Structure of the SLG (rules, people in committee, interest rate on loans and savings, etc.)
- Information to villagers about savings and loans concepts from LSFP adviser, DAFO, PFO and the NRTC before the start up of the groups
- Training of villagers by LSFP adviser et al. in skills needed for carrying out SLG work
- 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 research has to some degree struggled with problems of
incomplete, conflicting and biased information. The committees have not kept many of the records for the SLGs’ savings and loan activities 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. The same goes for parts of the information from the household interviews in Heuy Khot village.

3. Problems with Village Finance

There are a number of problems that are built into the rural financial systems. Most of them come down to the fact that income generating activities in rural villages are either directly, or indirectly, related to agro-forestry. The implications of that are:

1. High covariant portfolio risk of the SLG: bad harvest for an important crop means a deep impact on SLG members’ livelihood and ability to raise enough income for loan repayments. Then all repayment rates are affected simultaneously, which eventually will deplete the SLG assets. The same goes for sudden price drops.

2. High covariance in the seasonal needs for the villagers: there is a high demand for loans in planting season and after harvest there is a demand for savings. This is likely to have negative implications for the committee’s ability to balance the financial flows of the SLG.

3. One of the reasons why villagers in the SLG villages did not qualify for loans from formal financial institutions in the first place is that they are too poor. Bankers in the formal sector consider the rural poor a too high credit risk and costly option because the administration costs versus the small loan size are too high coupled with the fact that their poverty decreases their chances of repayment and their ability to provide needed security.

4. Many rural villagers are caught in a catch 22 situation: they are poor because they lack access to finance services, income generating activities and markets. Their poverty can be alleviated by providing financial services from a SLG. The very factor that drives the success of a SLG is, however, access to income generating activities and markets.

5. Income used for rural villagers to repay loans is in one way or another related to agro-forestry production. The income generation from these activities typically takes 3 months or longer. Compared to microfinance in urban area where income usually is generated on a daily basis from small business activities, the outstanding loan period for rural loans is much greater. This causes a higher risk to the financial institution in the rural area than is the case for its urban counterpart. The interest burden is also larger on the rural loan taker since this person has to pay interest for a considerably longer time.
6. Non-commercial agriculture and NTFP collection for domestic use are important parts of many villagers’ livelihoods in the surveyed villages and the rural economy is principally/to a large degree non-monetized. Because of that, many villagers have minor experience of the concepts and obligations associated with borrowing and deposit money. This has to be taken into account when evaluating their ability to learn from training and take on the best practices in their work with running the SLG.

7. The overall socio-economic standard, including the educational level, is generally lower in the rural regions compared to the urban areas. Difficulties in understanding SLG concepts and accounting and monitoring techniques are likely to follow with lower education.

8. The factors presented above are interrelated and can potentially have a negative influence on the performance of the SLGs. That is crucial to keep in mind when evaluating such performance. Thus, it comes as no surprise that just a limited number of village finance groups have managed to continue its operations after external support ended. Therefore, it is very important to learn about the characteristics for the successful village finance groups, which indeed is the purpose of this case study.

4. The Financial Balance of a SLG

The SLG must achieve a balance of loans issued and money deposited. The money issued for loans come from the savings and the interest on savings comes from the interest on the loans. If there is no money deposited, no capital can be used for loans. If the members of the SLG do not want to borrow, there will be no interest generated and the group will be unable to pay interest to its depositors. The issued loans are by definition the money put in as savings by the depositors. If many of the issued loans are not repaid, the SLG will unfortunately be unable to pay depositors interest on their savings and if the situation gets more serious, their savings will be depleted. In the light of this, the committee must work with facilitating the financial flows to keep this balance between the amount of savings, loans, interest on savings and interest on loans. It must encourage both savings and loans to keep a smooth flow. Careful examination of the loan takers’ reputation and repayment possibilities are two important steps to take. Another important factor is to require security on the loans. It is important that the security has a value that will cover the loan in case of loan default. Equally important is that the security quickly can be sold and turned into cash so the committee can restore the financial balance of the SLG. Further, after loans have been issued the repayment chances should be checked.

The committee must be able to facilitate these financial flows by showing its members that it can be trusted in their work of securing repayment of loans and state clearly what will happen if a loan is not repaid. If not, villagers will fear that their savings will disappear if kept with the committee and villagers are likely to withdraw respectively choose not to deposit money. This will ultimately cause the SLG to run out of money to finance loan and if the detrimental process continues, it will go into bankruptcy. To avoid this situation, it is very important that the committee makes it absolutely clear to the loan takers that not repaying a loan is an unbeneificial solution for the SLG and for the member. The loss of the security should be at least as great as the gain for the loan taker from not repaying the money
borrowed. A situation where it is economically rational to repay should be established.

So following the discussion above, a study of the performance of a SLG has to include an assessment of the committee’s ability to establish trust in the villagers and take actions that will keep the financial flows of the SLG in balance. To get a deeper understanding of what factors that have a positive effect on a SLG ability to manage to stay in business, the underlying factors that drive the establishment of trust between committee members and the committee in the village have to be evaluated as well. Therefore, this study has assessed the organizational aspects and social capital along with income generating activities etc.

5. Observations
The information gathered in the study is presented and discussed below. Further analysis follows in the next section.

5.1 Overall performance of the SLGs
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 in all villages but Heuy Khot were trained by LSFP advisers and extension workers from PFO and DAFO. In Heuy Khot, the training was carried out by staff at the NRTC. Prior to the start, each group received a start up grant of 500 000 kip from LSFP. After the start-up of the SLGs, the operations were monitored regularly. In year 2000, members started to withdraw their savings from the SLG in Thinkeo and the group was forced to stop its operations shortly after. Three years later, however, the SLG was restarted and is now operating rather efficiently. A short time after the support from LSFP ended in 2001, the situation worsened and today the SLGs in Heuy Jong does not operate anymore. The SLG still operates in Village number 10, but the activity is very low. In Silalek the SLG still operates, but its activity is just slightly higher than in Village number 10. In Phonsay, on the other hand, the SLG has managed to attract new members and continue to operate after the LSFP support ended. The performance of the SLG in Heuy Kot has been even better than in Phonsay. The group has attracted new members and saving and loan sizes have increased steadily. The tables below summarize the performance of the SLGs from the initial year (1998 for Heuy Khot and 1999 for the rest of the villages) up to present.

Table 1. Initial performance of the SLGs.

<table>
<thead>
<tr>
<th>INITIAL STATUS</th>
<th>SIZE OF TOTAL SAVINGS + INTEREST IN MILLION KIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Village name</td>
<td>Number of member households</td>
</tr>
<tr>
<td>Phonsay</td>
<td>26</td>
</tr>
<tr>
<td>Thinkeo</td>
<td>17</td>
</tr>
<tr>
<td>Village number 10</td>
<td>35</td>
</tr>
<tr>
<td>Heuy Jong</td>
<td>14</td>
</tr>
<tr>
<td>Silalek</td>
<td>26</td>
</tr>
<tr>
<td>Heuy Khot</td>
<td>15</td>
</tr>
</tbody>
</table>
5.2 Structure of the SLGs

In Field Guide Sloping Land Extension-Finance Procedures and Methods (Souvanthong & Tuckson, 2001, p.35) it is suggested that “the committee will consist of a chairperson, an accountant and deputy accountant, two loan officers and two to four advisers. At least two of the members should be women.” The villagers did not choose 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 the number of women selected for committee work has been lower than suggested, ranging from zero to one in the villages. It is also worth noting that the number of advisers is lower than suggested and that this post belongs to the village headman in all the villages.

Table 2. Performance of the SLGs in 2005.

<table>
<thead>
<tr>
<th>Village name</th>
<th>Number of member households</th>
<th>Size of total savings + interest in million kip</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phonsay</td>
<td>106</td>
<td>69.21</td>
</tr>
<tr>
<td>Thinkeo</td>
<td>Restarted with 26 households</td>
<td>20.27</td>
</tr>
<tr>
<td>Village number 10</td>
<td>35 households are still members, but SLG activity is very low</td>
<td>6.77</td>
</tr>
<tr>
<td>Heuy Jong</td>
<td>Not operating</td>
<td>-</td>
</tr>
<tr>
<td>Silalek</td>
<td>Operating with low activity, number of households unknown</td>
<td>10.00</td>
</tr>
<tr>
<td>Heuy Khot</td>
<td>77</td>
<td>666.90</td>
</tr>
</tbody>
</table>

Figure 2. LSFP recommendations on SLG committee structure.

The structure of the committee in Phonsay did not completely follow the recommendations developed by LSFP. The SLG is headed by a chairman and it has an accountant, deputy accountant, loan officer and an adviser. None of them is women. In Heuy Jong, the committee consists of seven persons who have the positions of chairperson, accountant, two deputy accountants, two loan officers and one adviser. Only one of them is woman. In Heuy Khot the committee consists of a chairman, accountant, deputy accountant, loan officer and an adviser. Only one of the five members is woman. In the period 1999-2000, the SLG in Thinkeo consisted
of a chairman, accountant, two deputy accountant, one loan officer and one adviser. One of the six committee members was woman.

There are no signs that the number of committee members and the positions are considerable different in the successful villages compared to the unsuccessful. The suggestion of at least two women in the committee that was proposed by the LSFP has been equally neglected in the successful villages as in the unsuccessful.

5.3 Rules of the SLGs

The villagers, with suggestions from the extension workers, ultimately agreed upon the rules that regulate the SLG. 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. In the successful villages of Heuy Khot and Phonsay, the rules regulate that security shall be required on larger loans. That is not the case in Heuy Jong and and the rules for Thinkeo between 1999-2000. The rules say that there should be no interest charged on loans for urgent medical expenses. These loans are to be repaid in a maximum period of two months.

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. Even though the rules are similar for the four SLGs, the degree to what they are followed differs. The successful villages appeared to have been stricter with following the rules than their unsuccessful counterpart.

5.4 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 were practiced within the LSFP is compared to common practices within the area of micro- and village finance. 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 and has a strong focus on community development. The Padek project will here represent best practices and its approach is compared with the LSFP approach.

Like Padek, 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 without external support in the future. There was a strong link to development of farming systems and villagers received as much training on sloping land farming techniques as on SLG matters. Both the LSFP and the Padek project has an integrated approach, but while LSFP focuses on the link between sloping land agriculture and SLGs, Padek integrates SLGs with support to organization building. Integrated with the work of establishing SLGs, the organization aimed at building democratic values and social justice within the villages they worked. Ideally, an approach that integrates support to SLG, income generating 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 received.

**Initial contact and information to villagers**

First, the target villages were selected followed by a PRA. The PRA 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 Heuy Khot and other villages. 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 with the villagers was carried out. Establishment of sustainable farming systems and start up of a SLG were on the agenda, and opportunities and constraints related to agriculture and finance were discussed and programme objectives and activities were explained.

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 get 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.

**Training on sustainable farming systems and SLG concepts and procedures**

About a month after the initial dialogue with the villagers, LSFP carried out a one day information and training day with the whole village. 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 were trained on sloping land farming techniques parallel to the training on SLG matters. Only the SLG related training will be described here though.

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 agriculture, probably should made a case
for biasing the discussion with the villagers more towards finance concepts rather than agriculture.

As noticed by Spantigati & 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. The majority of the successful programmes provided this training. Consequently, more of this training to the villagers in the LSFP villages would probably have been beneficial. The following month a two day training and support of the set up of SLGs were undertaken in the villages. In the first day, interested villagers were informed in detail 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 extension workers then trained the selected committee members in accounting principles, reporting and handling group conflicts for three days.

As recognized by IFAD, ACCION and other organizations dealing with micro and 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 & 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. In an evaluation of village finance experiences worldwide, Nelson, McKnelly, Stack and Yanovitch (1996, p.22) conclude that “programmes spend up to three months forming village banks, training members in policies and procedures, fostering an understanding of the leadership roles and building group solidarity.” They continue to claim that “a handful programmes –primarily from West Africa- have advocated allocating up to six months to the formation and orientation of new village banks (Ibid. p.22)” The intensity of the training in the surveyed projects is not clear though. In a comparison with the Padek and LSFP projects it appears, however, that the Padek approach is rather extreme in terms of time devoted to training while the time spent by LSFP is tend to be lower than average.
Monitoring of SLGs & phasing out process

After the SLGs have been set up, the extension workers visited the villages about once a month to control that financial records are kept properly, repayment rates are reasonable and that corruption not exists. 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.

Similar to LSFP, Padek’s main objective has been that villagers should be trained 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.

5.5 Reflections on initial information, training, monitoring and phasing out

Below, villagers’ and extension workers’ reflections on initial information, training and phasing out in Phonsay and Heuy Khot are compared.

<table>
<thead>
<tr>
<th>Phonsay</th>
<th>Heuy Khot</th>
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<tbody>
<tr>
<td><strong>Observation</strong></td>
<td><strong>Observation</strong></td>
</tr>
<tr>
<td>1. Training and Monitoring</td>
<td>1. Training and Monitoring</td>
</tr>
<tr>
<td>Committee members believe the training they got from the extension workers in general was good and relevant. The extension workers visited the village about once a month during the first year and then the visits became less frequent.</td>
<td>In the first four years, the NRTC officers visited the village once a month and if the committee had problems and needed advice NRTC came more frequently. Once a year, bigger meetings are held in the village where the village headman, committee members and staff from the NRTC attend. Staff from the NRTC discussed SLG matters with the villagers and conducted the training with the selected committee members. Committee members found the training from the NRTC good and they give the impression of understanding the SLG concepts and methods. Still, the committee members claim that they would like to get more training on the subject in order to carry out the work with more confident.</td>
</tr>
<tr>
<td>2. Villagers’ understanding of SLG concepts</td>
<td>2. Villagers’ understanding of SLG concepts</td>
</tr>
<tr>
<td>The villagers 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. 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 deposits and loans that are issued is not</td>
<td>The interviewed SLG members appear to have sufficient understanding of the SLG concepts and terms of the savings and loans. The NRTC staff has come to the same conclusion.</td>
</tr>
</tbody>
</table>
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 transparency for successful long-term performance. One interpretation of this is that the importance of transparency of the SLG work should have been stressed even more in the initial information and training to the villagers and prior to the time of phasing out.

3. Phasing out
The LSFP advisers and key staff at DAFEO ended the monitoring support in Phonsay in 2001 without any clear phasing out strategy. Since procedures of regularly showing the SLG’s results to the members appeared to be in place at the beginning, the somewhat unfavorable situation today might be a consequent of an 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 period has probably enabled the committee to take responsibility for the SLG and manage to run it reasonable good without external support.

3. Phasing out
From 2001 on, the monitoring has become less frequent. The reason for this is NRTC would like to see that villagers eventually should be able to handle the SLG matters without external support. So if a problem occurs, the committee has to come and tell NRTC and will get needed help.

4. Local ownership
The level of local ownership of the SLG gives the impression of being high. The phasing out process has worked out well with the SLG being able to operate in the same fashion as before and even managed to attract new members.

<table>
<thead>
<tr>
<th>Thinkeo 1999-2000</th>
<th>Heuy Jong</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Training and Monitoring</strong>&lt;br&gt;The committee believe they did not get enough training on how to handle the SLG work and claimed that “we need some more training in accounting.” Staff from DAFEO only visited the village two times and concluded that the SLG committee was doing fine. Therefore, the office decided that no more visits were required. Still, the SLG members believed that more monitoring from DAFEO would have been good.</td>
<td><strong>1. Training and Monitoring</strong>&lt;br&gt;The extension workers visited the village about once a month during the first year and then the visits became less frequent.</td>
</tr>
<tr>
<td><strong>2. Villagers’ understanding of SLG concepts</strong>&lt;br&gt;There is a fairly high level of understanding of the SLG concepts and loan and savings terms among the villagers.</td>
<td><strong>2. Villagers’ understanding of SLG concepts</strong>&lt;br&gt;SLG members have only very elementary knowledge about SLG concepts and procedures. According to the extension workers, committee members as well as the rest of the villagers had a hard time to understand the concept of the SLG and learn from the training.</td>
</tr>
<tr>
<td><strong>3. Phasing out</strong>&lt;br&gt;According to the committee members, the monitoring from DAFEO was phased out already after two visits. Whether or not this was part of a strategy or just happened is not clear.</td>
<td><strong>3. Phasing out</strong>&lt;br&gt;Even though the problems with the SLG in Heuy Jong were present from the very beginning, they worsened after the monitoring ended. Because of the lack of good organization and mutual trust between the SLG members, they did not manage to cope with their problems without external support.</td>
</tr>
</tbody>
</table>
4. **Local ownership**

Whether or not a notion of local ownership and responsibility among the villagers was established is not clear.

4. **Local ownership**

LSFP’s local ownership approach was not successful in making villagers in Heuy Jong understand that they have the responsibility for the performance of their SLG. The problem should probably not be derived to the LSFP methodology but is instead likely to be a result of the socio-economic situation in the village.

Not surprisingly, the understanding of savings and loan concepts is higher in the Heuy Khot, Phonsay and Thinkeo than in Heuy Jong. One of the reasons is likely to be grounded in the fact that these villages have experience on commercial agro-forestry and therefore have a reasonable understanding of the concept of money, loans and savings.

### 5.6 Financial requirements and performance of the SLGs

<table>
<thead>
<tr>
<th>Phonsay</th>
<th>Heuy Khot</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Observation</strong></td>
<td><strong>Observation</strong></td>
</tr>
<tr>
<td><strong>1. Operational status</strong></td>
<td><strong>1. Operational status</strong></td>
</tr>
<tr>
<td>The SLG is still active. At the start in 1999 the SLG had 26 members. Today 106 households are members. Some are from other villages.</td>
<td>The SLG is still active. The SLG started to operate the 1st of January 1998 with 10 households. Now it consists of 77 households. Some of these households are from other villages.</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.</td>
<td>Loans are issued for individual households and not group of households.</td>
</tr>
<tr>
<td><strong>3. Savings and loan uses</strong></td>
<td><strong>3. Savings and loan uses</strong></td>
</tr>
<tr>
<td>Loans and withdrawals of savings 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 the loans for productive needs such as trading and agriculture. Still, too few loans are used for productive non-farm activities. That makes the SLG’s loan portfolio exposed to a high <strong>covariant</strong> 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>About half of the savings and loans are used for agriculture activities. These are predominantly investments in jobs tears, sesame, corn, and soybeans. Investment in small shops is the next most common use followed by buying food, medical treatment and house improvements.</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>Borrowers living in Heuy Khot do not need security for loans smaller than one million kip, but non-residents need security on all loans. The security shall usually be paddy land or a house, which can easily be sold if it has to be confiscated. Social reputation of loan takers is checked as well by committee.</td>
</tr>
<tr>
<td><strong>5. Accounting procedures</strong></td>
<td><strong>5. Accounting procedures</strong></td>
</tr>
<tr>
<td>The book keeping procedures of the SLG deteriorated after external monitoring ended.</td>
<td>The book keeping procedures are better than in the other surveyed villages, yet much information is missing. Many of the old financial records are not kept.</td>
</tr>
</tbody>
</table>
6. Financial performance
In 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 borrowing are available for this period). Annual mean respectively median loan size is 540 000 kip and 250 000 kip for the period 2000-2001. The yearly loan amount ranges from 20 000 kip to over 5 million kip. It is mainly the wealthier members who borrow most frequently and largest amounts.

7. Repayment rates
The lack of complete financial data makes an accurate repayment rate impossible to state. Compared to the other surveyed villages the repayment rates in Phonsay are said to be higher than in Heuy Jong and Thinkeo in the period 1999-2000, but lower than in Heuy Khot.

<table>
<thead>
<tr>
<th>Thinkeo 1999-2000</th>
<th>Heuy Jong</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Operational status</strong>&lt;br&gt;The SLG started in 1999 with 56 member households but closed down in year 2000. It was restarted in 2003 and is now operating without any disturbances. Yet, in this section only the performance of the SLG between year 1999 and 2000 is evaluated.</td>
<td><strong>1. Operational status</strong>&lt;br&gt;SLG does not operate anymore. At the start in 1999 there were 14 members, in 2003 there were 41 but now the SLG is not active.</td>
</tr>
<tr>
<td><strong>2. Individual loans</strong>&lt;br&gt;Loans are issued for individual households and not group of households.</td>
<td><strong>2. Individual loans</strong>&lt;br&gt;Loans are issued for individual households and not group of households.</td>
</tr>
<tr>
<td><strong>3. Savings and loan uses</strong>&lt;br&gt;Some of the members have used the money for buying food, others for buying land or paying for medical treatment. Yet, there are no complete information on what the savings and loan generated in the period 1999-2000 have been used for.</td>
<td><strong>3. Savings and loan uses</strong>&lt;br&gt;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><strong>5. Accounting procedures</strong>&lt;br&gt;In the period 1999-2000, financial records SLG’s and its members performance were rather bad kept.</td>
<td><strong>5. Accounting procedures</strong>&lt;br&gt;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>
</tbody>
</table>
The figures show that even though both villages have managed to continue with their SLG operations, the financial performance in Heuy Khot has been better than in Phonsay. Besides the obvious of staying in business, the requirement of security on larger loans is something the successful villages have in common but is lacking in Heuy Jong and Thinkeo. Heuy Khot issues more loans that are used for activities with a direct link to income generation than the other villages do. That is mainly a result of the better income generating opportunities in this village compared to the other, which is discussed further below.

### 5.7 Organizational aspects

<table>
<thead>
<tr>
<th>Phonsay</th>
<th>Heuy Khot</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Activity of committee</strong></td>
<td><strong>1. Activity of committee</strong></td>
</tr>
<tr>
<td>The committee is active in terms of controlling loan takers reputation, security, monitoring of loans and taking responsibility for the profit generation of the SLG. There are incentives for the committee to control the repayment chances because 1 percent of the interest on loans is agreed to be payment or committee members. If no members are applying for loans, committee members invest the money available and let the profit go to the SLG.</td>
<td>The committee members have stayed the same during the whole period the SLG has operated. There are incentives for the committee to control the repayment chances because 1 percent of the interest on loans is agreed to be payment or committee members. They have been active in controlling loan takers’ reputation, requiring security on larger loans and check chances of repayment.</td>
</tr>
<tr>
<td><strong>2. Trust in committee</strong></td>
<td><strong>2. Trust in committee</strong></td>
</tr>
<tr>
<td>SLG members have a reasonable degree of trust in the committee’s work</td>
<td>SLG members appear to trust the committee to a large extent. The trust seems to be grounded in absence of loan defaults and overall sound financial performance of the SLG.</td>
</tr>
<tr>
<td><strong>3. Cooperation &amp; legality</strong></td>
<td><strong>3. Cooperation &amp; legality</strong></td>
</tr>
</tbody>
</table>
| The committee members have stayed the same from the start up until now and they appear to be able to cooperate without any major problems occurring. 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 feared that there is an obvious risk that the SLG would go bankrupt. 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. | The committee members have stayed the same from the start to present and it has been good cooperation within the committee and between committee and SLG members. There are no indications of illegal action taken by the committee.
4. Transparency
Initially, villagers had checks & balances of the committee work in the form of monthly information from committee to villagers about the SLG’s performance. After the external support ended, these information sessions seem to have come to an end.

The committee conducts meeting with the SLG members the 10th every month. In these meetings, all members are informed about the SLG activities, and the use of the profit of the SLG is discussed. These meetings are said to be a key factor for building this trust.

<table>
<thead>
<tr>
<th>Thinkeo 1999-2000</th>
<th>Heuy Jong</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Observation</strong></td>
<td><strong>Observation</strong></td>
</tr>
<tr>
<td><strong>1. Activity of committee</strong>&lt;br&gt;Committee did not require security on loans, did not control the reputations of loan taker before issuing loans and did not monitor the chances of repayment. There should be incentives for the committee to control the repayment chances because 1 percent of the interest on loans is agreed to be payment or committee members.</td>
<td><strong>1. Activity of committee</strong>&lt;br&gt;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.</td>
</tr>
<tr>
<td><strong>2. Trust in committee</strong>&lt;br&gt;SLG members’ trust in the committee in 1999-2000 was rather low because the villagers did not believe the committee was doing a good job in controlling loan takers reputation, loan uses and repayment chances. They feared that the group would go bankrupt and they would loose their savings. Accordingly, villagers were pro active and started to withdraw their savings before the expected bankruptcy would materialize.</td>
<td><strong>2. Trust in committee</strong>&lt;br&gt;There is a low level of mutual trust between committee members and between committee and SLG members.</td>
</tr>
<tr>
<td><strong>3. Cooperation &amp; legality</strong>&lt;br&gt;There are no indications of corruption in the SLG work.</td>
<td><strong>3. Cooperation &amp; legality</strong>&lt;br&gt;Committee members were unable to cooperate, mainly because of lack of trust in each other. Some committee members refused to repay loans; others were steeling money from the SLG’s account.</td>
</tr>
<tr>
<td><strong>4. Transparency</strong>&lt;br&gt;The SLG conducted monthly meetings where deposits were carried out. Whether or not the result of the SLG was shown and discussed with its members is not clear though.</td>
<td><strong>4. Transparency</strong>&lt;br&gt;The performance of the SLG has not been shown to members by the committee either before or after the external support ended.</td>
</tr>
</tbody>
</table>

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5.8 Socio-economic conditions in the villages

**Population, ethnicity & culture**
In 2004 there were 611 persons living in Phonsay divided into 98 households. The village is homogeneous in terms of ethnicity and cultural values. The same goes for the SLG with the vast majority of the members being Khamu. The village has not been subject to relocation policies and accordingly has not experienced major population increases. In 2004, Heuy Khot consisted of 410 persons living in 77 households. Lao Lum is the most common ethnic group in the village followed by
Khamu. All committee members are Lao Lum. The level of migration to Heuy Khot has been low and the migrants that have come here appear to have moved on a voluntary basis.

In year 2004, 868 persons, spread over 155 households, were living in Thinkeo. 658 are Khamu, 197 are Mhong and 3 are Lao Lum. In the beginning of the 1990s, three other villages were merged with Thinkeo and villagers from these villages were relocated to Thinkeo. 309 persons lived in Heuy Jong’s 48 households in 2004. The majority of the villagers are Khamu and the same goes for the SLG members. An important part of the population in Heuy Jong has been relocated from upland areas and they have continued to practice their traditional culture and values. What is important to note in the comparison is that the unsuccessful villages Huey Jong and Thinkeo both have experienced substantial in migration as a result of being subject to relocation policy.

**Livelihood and income generating activities**

In Phonsay, 58 % of SLG members got their main source of livelihood from upland rice, 21 % from low land rice, 5 % from upland rice + non farming occupation (teacher, doctor, trading), 10 % from lowland rice + non farming occupation and 4 % only from 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.

In Heuy Khot, about 60 % of the villagers have low land rice and 40 % grow upland rice. Villagers have less livestock than before. The reason is that they have a lot of agriculture land but small grazing areas. Therefore, people sell some of their livestock and invest in a tractor instead. NTFPs, corn and job’s tears, teak and mulberry plantations and fruit trees are other common activities for food and income generation. There are 3 small shops in the village and 3 transport cars.

In Thinkeo, 62 households get their main livelihood from growing upland rice, 21 from low land rice and 18 from both of these activities. 50 households do not grow rice but generate food and income from growing cash crops. 3 households have small businesses and 1 household is exposed to serious starvation. Animal raising and collection of NTFPs are other common sources of income and food generation.

No specific statistics on villagers’ income generating activities is available for Heuy Jong, but according to DAFEO and LSFP advisers among others, the main source of livelihood and income is upland rice and NTFPs collection and villagers involvement in cash crop activities is very low.

The data shows that the conditions for livelihood and generation of income are best in Heuy Khot and least favorable in Heuy Jong while the situation in Phonsay and Thinkeo is fairly similar. Not surprisingly, this implies that access to sufficient income generating activities is important if the villagers are to be successful with their SLGs. Interesting to note is that the situation for livelihood and income generation by no means is better in Phonsay than in Thinkeo. Nevertheless, the SLG succeeded in Phonsay but not in Thinkeo. This suggest that the reason behind the difference in outcome between these two villages is to be found by looking into other factors that are elaborated on below.
Wealth ranking

The wealth ranking presented below is based on the village headmen’s division of the villagers into the wealth brackets "less poor, poor and very poor". No wealth ranking is available for Heuy Jong, but according to DAFEO officials the wealth level is said to be the lowest among the villages surveyed here. The most successful of the SLGs, Heuy Khot, is also the one with less poor inhabitants that is to be derived to favorable income generating activities. Worth noting though is that the wealth status in Phonsay is rather low. This has two implications. It shows that a SLG can work even if the members are poor. It also shows that the SLG has not had any considerable impact on its members’ living standard so far.

Table 3. Wealth ranking of the villagers in the surveyed villages.

<table>
<thead>
<tr>
<th>Village</th>
<th>Less Poor (percentage)</th>
<th>Poor (percentage)</th>
<th>Very Poor (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phonsay</td>
<td>23</td>
<td>89</td>
<td>3</td>
</tr>
<tr>
<td>Heuy Khot</td>
<td>33</td>
<td>58</td>
<td>9</td>
</tr>
<tr>
<td>Thinkeo</td>
<td>12</td>
<td>77</td>
<td>11</td>
</tr>
<tr>
<td>Heuy Jong</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Educational level

In Phonsay, educational level is low. The average years of schooling completed for males respectively females are 3.2 and 3.0 years. 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. In Heuy Khot, no complete figures on educational level were provided. Yet, average years of schooling completed was said to be around 6-8 years if the older population in the village is not counted. The elderly have fewer years of schooling completed. Accordingly, it seems like the figure “6-8 years” should be biased downward to capture the true situation. Average educational level for committee members is 6.2 years.

There is a low level of education for the villagers in Heuy Jong and the quality of the education is said to be very low. The average years of schooling for men are 3.7 years and 1.6 for women. Educational level completed differs between males and females which is likely to be unfavorable for democratic decision making within the household. No complete figures were given for Thinkeo, but the average years of schooling was said to be about 5 years if the oldest people are not counted. They tend to have completed less years of schooling. So this figure should be biased downward as well if we are to get a true picture of the educational situation in the village. Still, the number of years of schooling in the village is probably higher than in Phonsay.

In sum, we see that the educational level in the most successful village, Heuy Khot, is comparatively high. On the other hand, educational level is low in Phonsay and the SLG has still managed to succeed. In the unsuccessful village, Heuy Jong, educational level is low and it is unequally spread between males and females. The study indicates that the educational level in Thinkeo is higher than in Phonsay. This

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1 The original labels of the wealth groups used by the village headmen are “wealthy, average wealthy and poor.” Since the people labeled as “average wealthy” and “wealthy” are rather poor by national GDP per capita standards, it makes more sense to rename the groups. The ranking is based on the households’ food supply and housing standard. One should be cautious when comparing the wealth ranking between villages since the ranking is based on the village leadership’s subjective interpretations. To minimize these biases, the results have been cross checked with other sources.
is interesting since it shows that even though sufficient educational level among its members probably is important for establishing a well functioning SLG, a SLG might work in villages with low educational levels if the villagers have other qualities that compensate for their lack of formal education. These qualities might be good village organization and social capital that will be discussed below.

**Women’s status**

Women’s status is low in all of the surveyed villages. The very low representation of women in the SLG committees and the fact that in most cases men only attend the SLG meetings are two indications of that. In some households are decisions regarding livelihood strategies decided upon collectively but in most of them are these decisions taken by the males. Women’s status appears to be particularly low in Heuy Jong, whereas no clear difference between the other three villages has been noticed.

**Village organization**

*Phonsay* has a history of fairly good organization of village life. Villagers tend to interact frequently and learn crucial skills from each other. There is a history of sticking to law and keeping up with agreements and the villagers follow the rules of the SLG largely. Villagers are organized in different groups with the productions groups being the most essential. The village headman possesses the positive characteristics of being open minded and able to "get things done." That appears to be beneficial for management of the village and the SLG committee certainly benefits from his advice. The personal characteristics of committee members also seem to be favorable for SLG work. They are active people who know all villagers and they seem to realize that they, and not LSFP or DAFO, are the owner of the SLG. Accordingly, they seem to realize that they ultimately are responsible for the outcome of the SLG operations.

The result of the survey indicates that *Heuy Khot* is well organized and there are no obstacles for interaction among the villagers. A number of village organizations exist and the village headman is active in his leadership. Some basic socio-economic statistics and SLG data that is said to have been collected by the village leadership is missing. This can indirectly be seen as a sign that the organization still could have been better. The SLG committee members tend to be active and trustful people who are realizing that they are responsible for the performance of the SLG.

The village headman in *Thinkeo* systematically keeps track of all village assets and livelihood and income generating activities that are undertaken by the villagers. Villagers are organized in a number of groups such as production groups and women’s union. The level of interaction between the villagers, and their ability to learn crucial skills from each other when interacting is unclear. So is the potential impact on organization of village life from the considerable in-migration (relocation) the village has experienced. Overall, village organization appears to be good though.

The widespread lack of available statistics provided by the village headman in *Heuy Jong* (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 great extent. New ideas and technology have been far less adopted in Heuy Jong than in the other villages. 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 where villagers disagree about how to use the
scarce resources and lack trust in each other. Committee members do not give the impression of having personal characteristics beneficial for committee work.

In comparison, it shows that village life is organized effectively in the two successful villages. When it comes to the two unsuccessful villages there is obviously a lack of good organization and interaction among the villagers in Heuy Jong, but in Thinkeo the situation is somewhat more unclear. The formal organization of village life seems to be carried out well by the village leadership, but the degree of informal interactions between villagers and willingness to cooperate with the new comers is not clear. Good organization of village life is an important prerequisite for establishing a successful SLG, but it should be coupled with sound action taken by the SLG committee. Otherwise, the SLG will still fail which the performance of the SLG in Thinkeo between 1999 and 2000 confirms.

5.9 Status of the SLG in Thinkeo in 1999-2000 and 2003-2005

In year 2000, SLG members in Thinkeo started to realize that the committee did not run the SLG properly. Security was not required on loans, the reputation of the loan takers was not checked before loans were issued and repayment chances were not monitored by paying visits to the loan takers. By continuing in that fashion, it would ultimately have a detrimental effect on the members’ savings. Accordingly, members started to withdraw their savings. Without savings, the SLG could not continue to issue loans and was forced to close down.

In 2003, the SLG was re-established and is now operating without major disturbances. The committee seems to have learned from its mistakes and is now requiring security on all loans that are issued. It has also become conscious of the importance of checking the reputation of loan takers before loan approval and monitoring repayment chances more closely. The number of committee members has changed from six to five. Three of them are the same, but the head of the committee is new. The number of member households has decreased from 56 to 26, but the loan and savings sizes per household have increased. In sum, we know that the following variables have changed between the two periods:

- Number of member households
- Average savings size
- Committee members
- Relocated villagers have got time to settle down
- Committee’s security requirement on loans
- Committee’s control of loan takers’ reputation and repayment chances
- Loan uses

Members’ access to income generating activities and wealth ranking is roughly the same in the two periods though (see table 4 below).

Table 4. Wealth ranking in Thinkeo village.

<table>
<thead>
<tr>
<th>Unit</th>
<th>Less poor (%)</th>
<th>Poor (%)</th>
<th>Very poor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All villagers</td>
<td>12</td>
<td>77</td>
<td>11</td>
</tr>
<tr>
<td>SLG members in 1999-2000</td>
<td>15</td>
<td>81</td>
<td>4</td>
</tr>
<tr>
<td>SLG members in 2003-2005</td>
<td>11</td>
<td>85</td>
<td>4</td>
</tr>
</tbody>
</table>
It suggests that access to income generating activities alone cannot help the SLG to succeed. The better outcome of the SLG operations in the second period is neither a result of having wealthier members with higher propensity to generate savings and repay loans. Rather, the success of a SLG can be derived to the action taken by the committee. The increased saving sizes are in turn likely to be an indication of members’ higher trust in the committee. Whether or not the lower number of member households has an effect on the outcome of the SLG operations is unclear. In the period 2003-2005, the committee has been strict on issuing loans for unproductive needs. Now it is most common that loan takers buy animals and invest in small businesses such as NTFP trading.

The fact that a considerable number of people were relocated to Thinkeo village before and during the first period of SLG operations in 1999-2000 is likely to have had a negative effect on organization of the village life. It possibly also has implications on the establishment of trust between SLG members and committee in particular. When the SLG was restarted in 2003, the village had had time to alleviate some of the initial negative effects stemming from the relocation and integrate the relocated people into the community. With better integration follows higher trust between the newcomers and the rest of the villagers who participate in the SLG. This is an important precondition for successful SLG operations. To what extent the difference in outcome between the SLG operations in the two periods can be derived to this factor is not clear, but we can at least conclude that the integration situation in the second period appear to be more favorable than in the first period.

6. Analysis of Observations

From the observations above the following links have been identified which aim to describe the factors behind the positive outcome of the SLG operations in Heuy Khot and Phonsay and the less appealing situation in Heuy Jong and Thinkeo in the period 1999-2000.

6.1 Linkage 1: Income generating activities and SLG performance

In order to be able to repay a loan or deposit money, SLG members must have access to income generating activities and markets. This is rather logical, but it is sometimes neglected in village finance projects. When comparing the four villages, it becomes clear that these conditions are much more favorable in Heuy Khot than in Heuy Jong village. A closer look at the wealth ranking in Heuy Jong supports that the villagers are too poor to be able to generate money needed for loan repayments and generation of savings. All of the villages are located fairly close to each other. Still, Heuy Khot is the village with shortest distance to markets in Xien Nguen district center. In Phonsay and Thinkeo, abundance of income generating activities is about the same, but Phonsay is closer located to the markets. These villages are to be placed somewhere in between Heuy Khot and Heuy Jong on a scale measuring access to markets and income generating activities. Not surprisingly, the result of this study indicates that sufficient income generating activities and proximity to markets are key factors for success of a SLG (see figure 3 below). The considerably higher number of loans issued and savings deposited in Heuy Khot than in the other villages implicitly supports this idea.
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. In the same time, 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. Even though there are some households categorized as very poor in the wealth ranking that are members in the SLGs, most loans are issued to the wealthier households and they are the ones that deposit most money.

Villagers’ involvement in income generating activities is not only good for the performance of the SLG in terms of generating money for repayment of loans, but it also gives them experience on handling money and understanding the concepts of savings and loans. It takes more than access to income generating activities and markets to establish a successful SLG though, which a comparison of the situation in Thinkeo and Phonsay shows. The SLG in Thinkeo failed to continue after year 2000, while its counterpart in Phonsay still operates. The income generating activities in the two villages are about the same, at a rather low level compared to Heuy Khot. Still, they should be enough to help members to repay loans and deposit savings. The result of this study suggests that the answer rather is to be found in the difference between the villages in terms of action taken by the committee and the trust between committee and SLG members. These factors are in turn grounded in the degree of social capital within the village, which will be elaborated on below.

**6.2 Linkage 2: Social capital and SLG performance**

The figure shows the linkages between social capital and SLG performance observed by the research and these connections are further elaborated on below.
Portes (1999:7) observes that, “whereas economic capital is in people’s bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationship.” Trust is considered to be a crucial component of such relationship and 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 good in Heuy Khot and Phonsay, but almost non-existing in Heuy Jong. There is a history of good organization with strong leadership in Heuy Khot and Phonsay and the level of informal interactions within the villages appear to be high. 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 village finance confirm 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. In an evaluation of the performance of village banks in Luang Namtha District, Behrle (2005, p.236) comes to a similar conclusion by stating that “reasons cited for the success of the Village Bank in Ban Longmounehomgaeo are that leadership is strong and many villagers are engaged in more profitable and diverse activities other than shifting cultivation. Ban Longmounexingxai however, is described as having weak leadership and villagers continue to rely on traditional slash and burn upland production.”

The high degree of interaction among villagers in Phonsay and Heuy Khot and the fact that the majority of villagers are of the same ethnical group (Khamu in Phonsay and Lao Lum in Heuy Khot) appear to create the required extent of homogeneity to operate the SLG in a sufficient manner. The fact that the saving activity has been higher in Heuy Khot and Phonsay holds up this idea. If SLG members trust the committee to run the SLG efficiently and secure repayment on loans, then the risk of losing their savings is minimized. This will in turn have a positive effect on SLG members’ propensity to deposit money, which in fact is the fuel needed to get the SLG operations going. If this structure cannot be established, SLG members and the committee are instead likely to be caught in a vicious circle. In such a situation, members fear that the SLG might go bankrupt and accordingly withdraw their savings. This will in effect speed up the process towards bankruptcy, since the SLG will run out of funds needed for issuing loans. This happened to Thinkeo during the first period of operation 1999-2000 and in Heuy Jong.

This study shows that there are obvious organizational problems in Heuy Jong and a widespread lack of trust between committee and SLG members, which certainly origin from the low level of social capital within the village. In Thinkeo the situation is somewhat more complex though. The organization appears to be good and the
ability to restart the SLG in 2003 and operate it efficiently partly supports this idea. Both Thinkeo and Heuy Jong experienced significant relocation, but while Heuy Jong suffered from its negative consequences, Thinkeo seems to have managed to incorporate the newcomers into village life. This shows that the fundamental parts of the village organization must be reasonably good in Thinkeo even though the addition of a considerable number of newcomers to the village probably had a negative effect on the organization and performance of the SLG in year 2000. The failure in Thinkeo in the first period does instead appear to be triggered by wrong actions taken by the committee. The committee decided that security on loans should not be required. Neither were committee members active in controlling the reputation of loan takers and possibilities of repayment. Now the committee has learnt from its mistakes since it requires security on loans, and monitors repayment chances of loans more closely.

The research shows that committee members as well as savers and loan takers in Heuy Khot, Phonsay and Thinkeo have a much better understanding of the concepts and rules of the SLG than in Heuy Jong. Average years of schooling in Heuy Khot are much higher than in Heuy Jong. This higher educational level has probably had a positive effect on the committee members’ ability to learn how to handle SLG matters. Average years of schooling completed in Phonsay are about the same as in Heuy Jong and Thinkeo. The explanation for the positive outcome in Phonsay is for that reason 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. 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 decided that security with a value exceeding 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 repayment chances 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, it is concluded that 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 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. On the other, the committee of the SLG in Thinkeo has changed policy between the first period of operations in 1999-2000 and the second in 2003-2005 and has cut down on issuing loans for uses that are not directly productive such as buying food. The SLG tends to operate efficiently in this period, which shows that there is not a clear-cut truth on how the committee should act on this issue.
7. Impact from SLG on Villagers’ Wealth Status

Since the SLG did not manage to continue in Heuy Jong, there have been no signs of positive impact in the village. Therefore, Heuy Jong is left out of this discussion. In Thinkeo the SLG has been running for two periods: in 1999-2000 and between 2003 to present. The impact from both of these periods is assessed here.

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 Heuy Khot, Phonsay and Thinkeo (in 2003-2005) 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.

7.1 Depth of impact

Involvement of the very poorest villagers in the SLGs is minor. Even if some households from the bracket labeled very poor in the wealth ranking participate, the wealthier villagers are by far more active. This is in line with the strong consensus in the field of microfinance that the poorest of the poor cannot be targeted with microfinance. Instead, other development activities are better suited for them. We have to keep in mind, however, that the relatively wealthy villagers still are rather poor. When discussing target groups for LSUAFRP activities, Raintree (2005, p.50) notices that “because the programme is working only in districts classified as ‘poverty districts’ [Phonxay & Namo District] by the NGPES [National Growth and Poverty Eradication Strategy] 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 and Thinkeo is similar while Heuy Khot’s socio-economic standard is
considered to be somewhat higher. 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 SLG activities. Raintree (2005, p.51) continues by claiming that “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.” Whether such multiplier effects have occurred in the villages is out the scope of this study and has not been evaluated, but it appears that this is potentially the strongest effect the SLG can have on the very poorest villagers’ wealth situation.

7.2 Accumulation of assets

In Heuy Khot, there are signs of positive impact on the surveyed households’ accumulation of assets. They have been able to purchase better food and more livestock, tools for agriculture and construction work, fridge, TV, and invest in house improvements.

The households surveyed in Phonsay and Thinkeo 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 situation rather unlikely. Moreover, it is likely to take time before considerable impact can be seen. Especially for Thinkeo, which SLG only has operated for two and half years, significant impact is not expected to be seen. Considering that, it is no surprise that the indications of impact found in these villages are more signs of preconditions for future increases of assets than actual proofs of increased assets accumulation today. (These preconditions will be discussed below under 7.4 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 have been 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.

Any conclusions about positive impact on the households’ accumulation of assets in Phonsay and Thinkeo 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. What can be concluded though is that accumulation of assets for the households participating in the SLG in Heuy Khot is much higher than for the households in Phonsay and Thinkeo. Even though the SLG in Heuy Khot has been running one respectively five more years than its counterparts in Thinkeo and Phonsay, this positive impact is rather a result of favorable socio-economic conditions and action taken by the committee than caused by the longer time of operations.
7.3 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 in the household regarding matters such as children’s education and allocation of household money. Another positive effect was that women’s participation in community decisions and social events increased. 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. It is so because 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 any of the villages. First, the committees did not follow the recommendation from LSFP that they should consist of at least two women. Second, few women 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 in 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 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.

7.4 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 like 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 livelihood and income generation in Phonsay and Thinkeo. 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. In Heuy Khot, on the other hand, there are indications that the access to
the services from the SLG has helped some villagers to diversify their livelihood
and income generation. Some households have invested in new cash crops and
tradable NTFPs. Others have bought livestock.

One quite remarkable finding from the study is that a considerable amount of the
loans is used for medical treatment. This is most common in Phonsay and to a lesser
degree in Thinkeo and Heuy Khot. One household member in Phonsay 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 the services of the SLG have enabled them to
visit a doctor if they get seriously sick. The SLG members in Phonsay 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 we can conclude that villagers tend to use the services from the SLG to improve
their ex post risk strategies. This is more common in Phonsay than in Heuy Khot and
the findings from this study suggests that the difference in use of the SLG services
can be derived to the difference in wealth status between the two villages. In an
evaluation of village banks in Luang Namtha District, Behrle (2005) comes to a
similar conclusion when noticing that while the better off households borrow money
for large animal raising, trade, house construction and weddings, poor people tend to
use loans and deposits for periods of sickness or rice insufficiency. 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.

8. Concluding Discussion

Village finance is not a tool for direct alleviation of severe poverty, but an injection to
income generating activities in poor areas. The injection will in turn have positive
effects on the living standard of the villagers. Therefore, SLGs are better suited to
tackle problems such as lack of credit for investment in cash crop production rather
than food shortage. Having said that, it comes as no surprise that this study shows
that the SLG in the wealthiest village performs best and savings and loan volumes
are largest among the wealthier people in this village. Greatest chances for success
of SLGs are therefore to be expected in such environment. In villages where income
generating activities and access to market are too weak a SLG will not work. The
poorest villages and its inhabitants are better targeted with other development
support. It has to be kept in mind though that the villages here referred to as
wealthier still are poor by national and international standards.
The wealthier the village is, the greater the possible positive impact on SLG members’ living standard will be. Do not expect any short-term positive effects in poorer villages. Still, this study indicates that access to the services offered by the SLGs appears to be a good risk coping tool for the poor. It allows them to pay for medical treatment without being forced to sell off livestock or other valuables when prices are unfavorable. If a better health is assumed to result from the medical treatment, this can potentially have positive effects on villagers’ working capacity, household productivity and overall living standard. Yet, the correlation between participation in a SLG and wealth improvements is far less clear for poorer villagers than is the case for their richer counterparts.

When it comes to social impact, the study concludes that there are no signs in any of the surveyed villages that membership in the SLG has a positive impact on women’s bargaining power within the household or on their possibilities to participate in public meetings. To achieve empowerment of women it appears like village finance schemes have to target women exclusively.

A non-monetized economy is too a large extent practiced in many rural villages. Consequently, villagers in these areas have little or no experience on credit, interest rates and other financial concepts. This makes extensive training on simple banking principles highly essential to enable them to run a SLG successfully. Group formation, monitoring, conflict resolution and other organizational skills should be equally important parts of the training. The training has to be followed up by frequent monitoring and a strategy of gradually phasing out the external supervision. The LSFP approach of a 2 years monitoring period seems to have been too short and the unplanned exit of the external support should be avoided in favor of a more smooth phasing out process. A good phasing out process should have regular check ups to determine if the villagers can handle the SLG matters independently.

SLG committees that mimic the behavior of formal banking in terms of checking reputation of loan takers before issuing loans, requiring security and monitoring repayment chances closely have been more successful. Accordingly, SLG committees should be advised to base their decisions on rational economic behavior and apply sound banking principles.

Mutual trust between all members of the SLG is crucial for generating sufficient savings volumes and maintaining financial balance of the group. In fact, these are the very factors that drive the success of a SLG. This study states that the likelihood of establishing required trust is highest in villages where social capital is high. That is, in villages where people interact frequently are chances greater that trust is established.

Committee members need to be literate, have basic numerical skills and ability to learn from training. Usually these skills come with completion of a certain years of schooling. Thus, SLGs should be suggested to select committee members with sufficient educational level. In spite of that, this study shows that committee members in Phonsay possess these characteristics even though their formal education is very low. The answer is likely to be found in the relatively high level of social capital within the village where people interact frequently and are open to learn new ideas and technique from each other as well as taking in new ideas from outside. So SLGs might also work in villages with very low educational level if a
substitute for formal education exists that enables committee members to gain equivalent skills.

The village leadership has to support the establishment and ongoing operations of the SLG if the group is to succeed. In the surveyed villages where SLGs have been successful, the village headmen appear to be active, open minded and interested in the SLG matters. Chances for success of future of SLGs are greater if they are established in villages where the village headmen have this attitude. This study demonstrates that SLGs in villages object to major relocations have failed to succeed. To what extent the outcome of the SLG operations is a result of relocation is not clear. It is suggested, however, that caution should be taken before setting up village finance schemes in relocated villages because of the potentially negative effects from relocation on organization of village life in general and SLG matters in particular.

9. References

9.1 Literature

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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

### 9.2 Internet Sources

The World Bank national account data for 2004 at:

### 9.3 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

Interview with staff at the NRTC responsible for information and training given to SLG members in Heuy Khot, May 2005

Interview with SLG committee members in Heuy Khot village, May 2005

Household interview with 7 SLG member households in Heuy Khot village, June 2005

Interview with SLG committee in Thinkeo village, July 2005

Household interview with 5 SLG member households in Thinkeo village, July 2005

Several informal meetings with village headmen of Heuy Jong, Phonsay, Heuy Khot and Thinkeo village and staff at DAFEO in search for secondary socio-economic data, November 2004-August 2005