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Household responses to access to finance through GIZ-AFP Village Banks

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Table of Contents

Charts

Boxes

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Abbreviations

AFP	Access to Finance for the Poor
AIP	Aid Investment Plan
AUD	Australian Dollar
DFAT	Department of Foreign Affairs and Trade (Australia)
DFS	Digital Financial Services
FDI	Foreign Direct Investment
FSP	Financial Service Provider
GE&ID	Gender Equality and Inclusive Development
GIZ	*Deutsche Gesellschaft für Internationale Zusammenarbeit*
GNI	Gross National Income
GoA	Government of Australia
GoL	Government of Lao PDR
LADLF	Laos-Australia Development Learning Facility
LAK	Lao PDR Kip
LARLP	Laos-Australia Rural Livelihoods Program
LWU	Lao Women's Union
LECS	Lao Expenditure and Consumption Survey
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MECF	Microenterprise Challenge Fund
MLSW	Ministry of Labour and Social Welfare
MMG LXML	Minerals and Metals Group, Lane Xang Minerals Limited
MSME	Micro, small and medium-sized enterprises
NCRDPE	National Committee for Rural Development and Poverty Eradication
NGO	Non-Government Organisation
NPA	Non-Profit Association
NSO	Network Service Organisation
OTC	over-the-counter
RLP	Resilient Livelihoods for the Poor
SCU	Savings and Credit Union
SDC	Swiss Agency for Development Cooperation
USD	United States Dollar
VBC	Village Bank Committee
WEE	Women's Economic Empowerment

1. Executive Summary

Summary

During late 2015, an evaluative study was conducted of household response to changes in access to finance resulting from village banks established by the Access to Finance for the Poor (AFP) program. The program is co-financed by DFAT, BMZ (Germany) and the private mining company MMG/ LXML and implemented by GIZ. The study, conducted by the Laos Australia Development Learning Facility and GIZ, found that households respond to village banks by increasing their savings rate; making use of credit for emergencies, consumption smoothing and enterprise development; and feeling more confident and in control of their future. Households used access to a village bank as part of their resilience strategy – saving for an uncertain future and using emergency loans – a contribution these banks make to social protection. The study concluded that village banks are a replicable and scalable model for providing access to finance, and that they support women's economic empowerment by enabling enterprise development and supporting women in governance roles. The study identified opportunities to strengthen financial literacy, improve the Business Enabling Environment (BEE), and build the capacity of NSOs to support village banks.

Key findings

This study found that households respond to having access to financial services through an AFP-supported village bank by:

- **Saving more** – having a safe place to keep their savings and a competitive interest rate to provide a dividend on savings causes member households to save more. Increased savings rates despite low and inconsistent incomes (79% before joining the village bank compared to 100% after), suggests an improvement in financial literacy and management, which both contribute to a sense of wellbeing and confidence. Some respondents – the better off or those receiving remittances – used commercial banks as well, but they had a preference for the village bank because of its convenience and competitive dividend payment on deposits. Respondents also perceived the village bank to be reliable, trustworthy, and transparent as well as having good management systems compared with village funds they had participated in previously, local money lenders/friends and family and commercial banks.

  Using credit – improved physical, cultural and administrative accessibility of loans offered by the village bank increased the confidence of households to use credit. Membership of the village bank did not dramatically increase the tendency to borrow (the percentage of quantitative survey respondents that had borrowed before and after joining the village bank only increased by 3%: from 67 to 70%). But it did change the ***source of loans***, away, for example, from local money lenders charging up to 15% per month in interest (43% before to 25% after joining the village bank), cash strapped family and friends (29% before to 11% after) to village banks (0% before to 66% after). Credit is increasingly being used for trading and productive purposes – suggesting entrepreneurial capacity is encouraged by village banks. Village bank membership also provides access to credit for women who would normally be reluctant to enter a commercial bank to seek a loan. As members become more confident and demand larger-scale loans for enterprise, the NSOs and commercial banks become more competitive and those members use a blend of financial service providers. This graduation in economic activity enables trade and economic growth.
- **Using health and education services** – village bank members use village bank savings and credit services to fund health care (92% of quantitative survey respondents were saving for medical care and emergencies and 74% of loans had been used for this purpose), education for children (57% for savings and 61% for loans) consumption smoothing (35% for savings and 30% for loans), and "lifecycle events" such as weddings or funerals (22% for savings and 4% for loans). Village banks support households to educate their children, through both mandatory and voluntary monthly savings which over a number of years can build up to amounts sufficient to fund secondary education.
- **Developing private enterprises** – access to village bank financial services helps households manage agricultural production and invest in trading or production enterprises. Respondents used savings and loans to fund agricultural inputs such as seeds, fertiliser, equipment hire or labour (37% for savings and 59% for loans. Production loans help cash poor households to fund agricultural inputs before receipt of harvest income. Respondents used savings and loans to invest in business (7% for savings and 22% for loans). Village bank trading loans help others establish and operate small retail and service enterprises.

- **Becoming more engaged** – having a strong sense of ownership in the village bank enables households to engage with institutional and other opportunities in the village. Democratic elections of village bank committees, participatory management systems and good governance, coupled with financial literacy training, give households exposure to practices relevant to village meetings, local development planning and enterprise management. Positive discrimination for women as members of village bank committees (*e.g*. women are often elected to the positions responsible for keeping the village bank account books) benefits the elected individuals but also the standing of women in the village.
- **Recognising a role for women** – this study also found that women have an accepted role in managing household finances (*e.g*. 74% of respondents said that men and women in their household make financial decisions jointly) which is enhanced by village bank governance requirements. For example, village bank membership increases household financial transparency which benefits women and other family members.
- **Feeling more secure** – the availability of emergency loans, especially for health crises, provides village bank members with peace of mind and is a significant boost to a feeling of wellbeing and security.

Respondents to this study said village bank loans do not lead to unsustainable indebtedness. Particularly in locations closer to district centres, households use multiple income streams such as sale of agricultural produce and income from trading and day-labour to manage loan repayment obligations. Households in remote locations are more reliant on the sale of agriculture produce for income. Interpersonal connections between households (e.g. village bank members and their income circumstances are known to the village bank committee), social obligations and a sense of ownership in the village bank encourage timely repayment, as evidenced by the low portfolio at risk ratios in the village banks studied.

The study also identified that limits to the amount of credit available is a constraint in the village bank model, especially during the early years of their establishment. As funds for loans are sourced from members' savings, those banks that have existed for a short time or have predominantly poor members have small balances available for lending. The AFP program does have a system of wholesale loans from NSOs, which on-lend funds from those village banks with excess liquidity to village banks needing additional capital. The NSOs are servicing all village banks on a monthly basis and collect detailed transaction data on individual client level. By analysing the clients' activity rate, the credit morale and other aspects the NSOs are enabled to assess potential risks for their lending decisions. The wholesale credit ceiling for each village bank depends on the individual risk assessment but can in no case exceed the value of the village bank's savings. So for new village banks or village banks in poorer areas, the opportunity to rapidly scale investment is modest.

Conclusions

This study of household response to changes in access to finance concluded that:

- **Village banks are a replicable and scalable model for providing access to finance**. The participatory management systems and use of member savings to finance credit creates strong ownership among members. The use of NSOs provide wholesale credit and technical support to village bank committees creates an effective bridge to the formal banking system for relatively poor and remote rural households. Since NSO-staff are not biased by, or dependent on, village social eco-systems they can freely provide independent advice needed to point out, discuss and solve problems. In village funds that are not supported by external agencies problems may remain unsolved and lead to the collapse of those funds.
- **Access to village banks for saving and emergency loans is a form of social protection.** Many village bank members use village bank savings and emergency loans as a strategy to mitigate the risks of illness or emergencies. Offering emergency loans by village banks is a strategic response to the demand for self-reliant social protection mechanisms, particularly in environments without access to formal social protection or affordable insurance services for the poor and vulnerable. Availability of emergency loans provides confidence for some households to invest in small enterprises that contribute to trade and economic growth in a context such as Lao PDR.
- **The village bank model is effective but cannot address all development needs**. The model is unlikely to be sufficient to enable the poorest of the poor to escape poverty. Although the poorest households with insufficient income to make the required minimum monthly savings contribution may be accepted as members with irregular contributions they are – for good reason – excluded from credit services. Many of the poorest choose not to join as they believe they do not have sufficient money to contribute savings. The income group that benefits most from a village bank is the middle and upper poor. For the poorest of the poor a graduation or similar model can help them to bridge the gap and to more efficiently use the services of a village bank. The model offers less potential for enterprise investment in those villages with savings balances that are too

small to finance much credit. Village banks cannot change the economic opportunities available to villagers, or modify the BEE.

- **Village banks contribute to women's economic empowerment.** Because women have an accepted role in household financial management, village banks and related financial literacy training offer an accessible and convenient means to empower women. Improved access to finance at the village level, and including women on village bank committees, strengthens the capacity of women as household managers, entrepreneurs and carers as well as providing important role models of economically active women for youth to emulate.
- **Village bank outcomes grow over time.** Because the village bank model relies on members' trust and their savings as a foundation for credit, and builds financial literacy through implementation, the longer the village bank exists the greater the resulting outcomes are – more savings, more loans, more enterprise, and more financial literacy. There is an opportunity to use co-location to link village banks with other programs. GIZ has developed pilots such as sanitation/latrine credit, and livelihood credit for MMG's mandarin production groups. There is also potential to use co-location to link village banks with programs such as the Poverty Reduction Fund (for livelihoods responding to new village infrastructure), the District Development Fund (for district economic development) or nutrition programs.

Overall, access to financial services through village banks generated positive responses from respondent households. Opportunities to enhance the response of households to the village banks include supporting improvements to the financial literacy of village bank committee members and village bank members, supporting improvements to the BEE and building the capacity of NSOs to support village banks.

2. Development context and background

2.1 Development context and economic growth

Economic growth in Lao PDR in the last decade was rapid, with GDP growth averaging between 7 and 8% between 2005 and 2014, although this is expected to slow to 6.4% in 2015. Gross National Income (GNI) per capita increased from USD750 in 2008 to USD1,650 in 2014. This income growth has been faster than for other countries at a similar stage of development and faster than neighbouring countries. In 2011 the World Bank raised the income categorisation of Lao PDR from low income to low-middle income.

Achievements in poverty reduction have also been strong with poverty declining from 33.5% in 2002 to 23.2% 2012/13. The number of poor people declined by about half a million to 1.35 million in 2013 and Lao PDR has met its MDG target of reducing poverty to below 24% by 2015.[1] However, the effect of growth on poverty reduction has been uneven and at an estimated 1.2, the growth elasticity of poverty in Lao PDR is well below the regional average of 3.[2] Widespread and stubborn areas of poverty remain, particularly in rural areas, upland areas, remote areas, among non Lao-tai ethnic groups especially women. A recent World Bank assessment in Lao PDR highlights the importance of basic education and access to finance as essential for people to work their way out of poverty.[2]

While overall poverty has dropped it remains high among some population groups and is geographically concentrated. Poverty remains higher in rural areas. Analysis of data from the 5th Laos Expenditure and Consumption Survey (LECS 5) shows that in 2012/13 poverty in rural areas was 28.6% compared with 10% in urban areas. Poverty remains higher in the south than in other regions of the country. Poverty is also more concentrated among ethnic groups. In 2012/13 those of non Lao-Thai ethnicity constituted 55% of all poor people but only one third of the population.[3]

There is also a large proportion of the population who hover above the poverty line. About 80% of the population in 2012/13 still lived on less than USD2.5 per day at purchasing power parity (PPP). These people are vulnerable to falling back into poverty – headcount poverty increased in Savannakhet and Saravan between 2007 and 2012.[3]

There is a high level of inequality in Lao PDR. This can be seen from consumption growth being slower than GDP growth. The income share of the highest 20% was 43.2% in 2002 and 45.86% in 2012 whereas the income share of the lowest 20% was 8.09% in 2002, 7.6% in 2007 and 7.25% in 2012.[4] The Gini Coefficient was 36.2% in 2012/13, up from 35% in 2008.[5] This is still comparably low by ASEAN standards but is increasing.[6]

Patterns in poverty reduction and inequality are reflected in patterns of growth over the last decade. The decline in headcount poverty rate is associated with improved education, transition to non-farm employment or livelihoods, and improvement in agricultural productivity.[2] The increase in education attainment was especially critical in facilitating the transition to non-farm income and increases in

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[1] www.data.worldbank.org/country/lao-pdr accessed on 4/12/15
[2] World Bank (2015) *Drivers of poverty reduction in Lao PDR*. Lao PR Poverty Policy Notes. World Bank, Vientiane, Lao PDR.
[3] LSB (2015) *Poverty Profile in Lao PDR – analysis of the Lao Consumption and Expenditure Survey, 2012 – 2013.* Lao Statistics Bureau, Vientiane, Lao PDR
[4] www.data.worldbank.org/country/lao-pdr accessed on 4/12/15
[5] Pimhidzai, O. 2014. *Highlights from the LECS 5 Analysis*, Presentation, 19 September 2014.
[6] OECD (2014) *Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap*, http://dx.doi.org/10.1787/saeo-2014-en accessed on 9/1/16

returns to agricultural labour or investment.[2] Net primary school enrolment rate for Lao PDR increased from 74% in 2002 to 97% in 2013 but the national figures conceal differences between urban and rural communities (for example, 75% rural compared with 96% urban) and between boys and girls (for example, in poor households 82% of men are literate compared with 59% of women).[7]

Strong economic growth rates are driven by high levels of foreign direct investment, especially in natural resource industries.[8] However, growth generated by the natural resources sector creates fewer jobs than comparable investment in sectors such as services, manufacturing and agriculture. As of 2014, 22,000 people worked directly in the hydro-power and mining sectors, with perhaps another 100,000 indirectly employed.[9]

The majority of adults in Lao PDR are engaged in agriculture. Few of them are wage earners. In 2012/13 17.8% of adults were paid employees with the remainder self-employed, with 19.7% employed in a non-farm activity and 62.5% having their own enterprise.[10]

To stimulate investment in other sectors requires improvement in the BEE including access to finance, transparency and predictability for investors, legal implementation and improved transport and logistics infrastructure and connectivity. In addition, the skills and education of the labour force need to improve.[8] While educational outcomes have improved in recent decades there is still a need for improvement: for example, as of 2013, 39% of 15 to 24 year olds had not completed primary school.[11] Poor educational outcomes are associated with low skills and aptitudes among workers. According to World Bank Enterprise Surveys employers in Lao PDR were more likely to complain about poor skills among workers than other Asian countries and about lack of applicants with the right skills for jobs. Support for development of Micro Small and Medium Enterprises (MSME's) will also be crucial given that the majority of the population own their own business.[8]

2.2 Gender

The field of microfinance has been strongly linked to the field of Women's Economic Empowerment. Across different types of development investments, investments in women's empowerment have been shown to yield high returns.[12] When women have higher earnings and bargaining power there is greater investment in children's education, health and nutrition which leads to economic growth in the long-term. Gender equality and empowering women also contributes to economic growth, development and stability.

In Lao PDR, over the past decade gender gaps in education have diminished. While adult literacy rates for women and girls' primary enrolment rates have improved, the majority of those who have never attended school are girls. Fewer girls are enrolled than boys at all levels in school, and the gender gap increases at higher education levels. Primary enrolment of girls improved from 77% in 1991 to 88% (indexed to enrolment of boys) in 2009. Similarly, adult literacy has improved from 48% for women in 1995 to 70% presently, but remains lower than literacy for men (85%).[7]

A growing private sector creates opportunities for entrepreneurs in Lao PDR, and 30 to 40% of new entrepreneurs are women. However, wage gaps and occupational streaming by gender persist. Although their work is largely informal, 73% of women (compared to 78% for men) contribute to the

[7] LSB (2015) Poverty Profile in Lao PDR – analysis of the Lao Consumption and Expenditure Survey, 2012 – 2013. Lao Statistics Bureau, Vientiane, Lao PDR. [pp28, 29]
[8] World Bank (2014) Lao PDR Investment Climate Assessment 2014: Policy uncertainty in the midst of a natural resources boom. World Bank, Vientiane, Lao PDR. [pp13, 19-24]
[9] http://www.worldbank.org/en/country/lao/publication/lao-pdr-development-report-2014 accessed on 4/12/15
[10] LSB (2015) Laos expenditure and consumption survey 2012/13 (LECS 5). Lao Statistics Bureau, Vientiane, Lao PDR.
[11] http://www.epdc.org/sites/default/files/documents/EPDC%20NEP_Laos.pdf accessed on 4/12/15
[12] For example: Bandiera, A. and A. Natraj (2013) Does Gender Inequality Hinder Development and Economic Growth? Evidence and Policy Implications, The World Bank Research Observer, Vol. 28(1): 2-21.

country's labour force, among the highest rate in the region. Women and girls constitute over 70% of unpaid family workers, but only 32% are identified as "own account workers", suggesting that they are less likely to have incomes that they control. Women work longer hours than men, 7 compared to 5.7 hours for men. Women increasingly run their own businesses, but these tend to be smaller than those owned by men. Women also report greater difficulty finding access to finance and technical skills.[13]

2.3 Financial inclusion in Lao PDR

Improving the quality and breadth of access to financial services is an important part of supporting shared prosperity, reduced inequality and poverty reduction.[2] Access to financial services can help to achieve these objectives by:[14]

- **improving household welfare –** extending financial inclusion to lower income households and target groups that are currently less well served
- **improving overall economic efficiency –** enhancing financial sector infrastructure, encouraging competition, modernising regulation and reducing risks
- **supporting economic diversification –** facilitating well targeted credit to productive enterprises and for investment in assets.

In Lao PDR the national financial system has expanded from a monopoly in 1975 (the State Bank of Lao PDR) to a system in 2015 that includes 36 commercial and state owned banks, 15 insurance agencies, 48 non-bank financial institutions, 64 microfinance institutions and almost 5000 village funds.[15] The national payments system is under-developed – resulting in reduced facilities for inter-bank and international transfers and credit card payments.

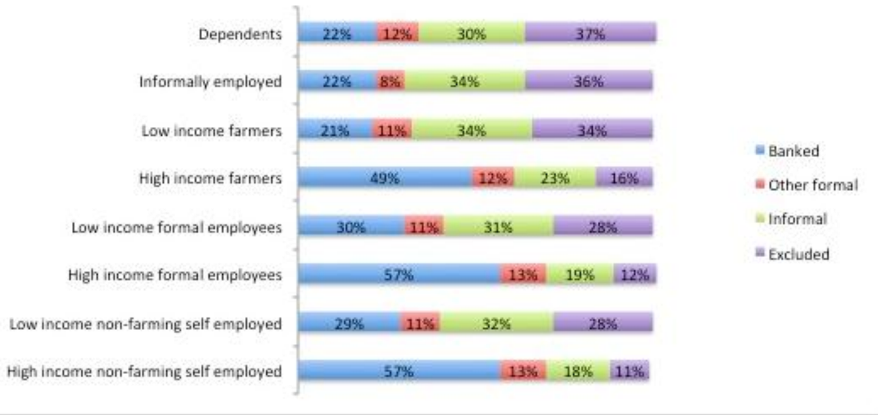
In 2015 FinMark Trust, with support from UNCDF and DFAT, interviewed 2040 randomly selected adults in Lao PDR to seek information about their financial needs and demands, current levels of access to, and utilisation of, financial services and products, types of products used in terms of transactions, savings, credit, insurance and remittances, drivers of financial products and barriers to the utilisation of, and access to, financial products and services. Chart 1 shows access to financial products among different population categories according to FinScope.

Other FinScope findings included:[13]

- Lao PDR has a reasonable score on financial inclusion: with 75% of the population having access to some form of financial services, which compares favourably with peer countries
- Adults in Lao PDR do not use a wide range of products: only 28% use more than one type of product
- Most adults use savings services (24%) but few people use other financial products: ~4% of the adult population had a loan
- Many adults are prevented from using financial services because of their low income, and few products are designed for low-income earners (*e.g*. formal credit products require collateral)
- Proximity to formal financial service outlets is a constraint, particularly among the rural population
- Those with jobs and regular incomes have more access to financial services
- Access to and use of insurance is low in Lao PDR: most people use their savings as insurance, which reinforces the popularity of savings as a product[16]
- The credit market is distorted by the extensive use of subsidised Government credit.

[13] FinScope (2015) FinScope Consumer Survey Lao People's Democratic Republic 2014. Launch presentation for MAFIPP, Vientiane, Lao PDR.
[14] AusAID (2010) *Financial Services for the Poor: A strategy for the Australian aid program 2010-15*. Department of Foreign Affairs and Trade, Canberra, Australia.
[15] UNCDF (2015) *Making access (to finance) possible country diagnostic* Lao PDR. Presentation to Stakeholders, Vientiane, Lao PDR September 17, 2015.
[16] LADLF (2014) *Social Protection in the Lao PDR: Frameworks, Vulnerabilities, Coping Strategies and Gaps*. Lao Australia Development Learning Facility, Vientiane, Lao PDR.

Chart 1: Access to Financial Products among population categories in Lao PDR



Source: UNCDF (2015) MAP Lao PDR Synthesis of Diagnostic Report. Vientiane, Lao PDR September 17, 2015.

Chart 2 identifies the main issues and needs facing different target groups in Lao PDR, according to the FinScope Study.

Chart 2: Financial sector realities and needs facing different groups in Lao PDR

Segment	Size	Key realities and needs
Low-income farmers	788,000 adults	Large group, very low income, mostly female, poorly educated, rural Low financial inclusion, mainly informal financial services Need products for short-term savings, emergency credit Targeted and well-structured but informal agricultural credit
High-income farmers	742,000 adults	Well educated, mostly male, rural Reasonable level of financial inclusion, rely on informal financial services High priority, need for improved range of savings products (short and long term) Agricultural credit Emerging demand for insurance products (assets, crop, health, credit)
Informal employees	387,000 adults	Largest non-farmer group Medium income, low access to finance Need alternative means of receiving payments Need savings products to enable consumption smoothing Opportunity for access to formal services
Dependents	229,000 adults	Low income, mostly urban, female and elderly Low access to finance, mostly informal services Very limited financial literacy Need services for payments and remittances as well as low-cost savings

Source: UNCDF (2015) MAP Lao PDR Synthesis of Diagnostic Report. Vientiane, Lao PDR September 17, 2015.

Extensive support has been provided by development partners to the Microfinance Sector in Lao PDR over the last few decades. Major contributors and their programs are detailed in Annex 1.

2.4 GIZ Access to Finance for the Poor Program

To address problems of poverty and livelihood vulnerability in Lao PDR, GIZ is working to improve access to finance for poor people in 21 districts of six provinces in Lao PDR. Its current project "Micro-finance in Rural Areas – Access to Finance for the Poor" works at the macro through to micro levels. At the micro level, basic financial services are provided through an eco-system of 501 village banks to more than 50,000 remote rural households. The village banks are supported by seven Network Service Organisations (NSO) that provide technical assistance of financial services to their member village banks. The aim of the program is that the NSOs become financially self-sufficient thus developing a model that is scalable in the most challenging areas of the country.

The Australian Government has invested 5.6 million with GIZ to support implementation of the AFP program in six districts in the southern provinces of Savannakhet, Saravan and Champasak. This funds approximately 168 village banks with about 17,500 clients.

2.5 The regulatory environment for financial inclusion in Lao PDR

The basic legal framework for the financial sector of Laos was laid down in the early 1990s. BoL was created in 1990 as a central bank with licensing, supervision and prudential regulatory powers over financial institutions, which were defined as legal persons doing banking or similar business. In 2004 BoL established a Microfinance Institution Division and a Financial Institution Department. In 2010 this was transformed to a Financial Institution Supervision Department (FISD) in charge of supervising non-bank non-insurance financial institutions including MFIs, the Lao Postal Savings Institution, leasing and finance companies, money transfer organisations and pawn shops.

Regulations pertaining to microfinance were laid down between 2005 and 2008. In 2005 BoL launched a Regulation on the Establishment and Implementation of Microfinance Institutions in Lao PDR (No.10/BoL), announcing that large microfinance institutions had to apply for licenses while smaller ones such as credit unions, cooperatives, saving and loan associations and village funds had to be registered, depending on their scale of operation. This was followed by another three regulations issued in 2008:

- **No. 02/BoL on Non-Deposit-taking Microfinance Institutions:** NDTMFIs which do not exceed voluntary deposits of 200 million Kip or revenues of one billion Kip are required to register with BoL and relevant government authorities; Within this framework NDTMFIs are authorized to mobilize savings from their members and grant microloans up to LAK10 million.
- **No. 03/BoL on Savings and Credit Unions** stipulates membership requirements, minimal capital requirements and service restrictions for SCUs
- **No. 04/BoL on Deposit-taking MFIs** stipulates membership, minimum capital requirements, management systems, NPL restrictions and liquidity requirements for DTMFI. Establishing a DTMFI requires five shareholders and one major shareholder with at least 20% of registered capital, a total registered capital of LAK1 Billion divided into shares, and a five-year business plan demonstrating sustainability.[17]

Of the approximately 5000 village funds that exist in Lao PDR, the majority have no appropriate legal status. Identifying how these funds should be registered and recognized as part of a properly monitored system of village funds remains an ongoing challenge. GIZ is seeking to address the challenge by registering NSOs either as a SCU or MFI.

[17] Seibel, H & Rohmann, B (2012) *Microfinance in the Lao PDR* https://www.researchgate.net/publication/256095526_MICROFINANCE_IN_THE_LAO_PDR_2012 accessed on 27/4/16:

2.6 Microfinance debates

While financial inclusion is identified as an important tool to support shared prosperity and poverty reduction, in recent years debates have emerged about the effectiveness of microfinance as a means of delivering access to finance for the poorest of the poor:

- First, a number of randomised control trials compared (otherwise similar) poor individuals who had participated in microfinance programs with those who had not – and found no evidence of (short term) improvement in household consumption and income.[18]
- Second, other studies identified that the benefits of microfinance are limited for those without access to much earning potential. Therefore microfinance tends to benefit the "upper poor" whereas reducing the poverty of the poorest has been less successful.[19] To benefit from microfinance borrowers need to be making net enterprise margins that are higher than interest rates and this is unlikely to be the case for the poorest people who make meagre earnings and lack access to specialised skills, technologies and rewarding markets.[20] Where this is the case microfinance may lead to indebtedness, rather than economic empowerment.[21] Dramatic cases of this were reported some years ago in Andhra Pradesh.[22]
- Third, assessments of microfinance have been too narrowly focused on the effect of microcredit on microenterprise development. This was a finding of the *Portfolios of the Poor* study which collected financial diaries of hundreds of rural and urban households over a period of a year.[23] The study found that the poor use microfinance services for a range of functions in the same way that the general population use financial services: for consumption smoothing, to deal with emergencies such as health problems and to pay for big ticket items like education, weddings and funerals. On this basis the study findings suggest that microfinance may not help the poor to move out of poverty but it may help them to cope better with poverty.

[18] For example: Banerjee, A., Karlan, D. and Zinman, J. (2015) Six Randomized Evaluations of Microcredit: Introduction and Further Steps. *AmEcJ: Applied Economics* 2015, 7(1): 1–21 (Accessed http://dx.doi.org/10.1257/app.20140287 March 9,2015); Banerjee, A.., Duflo, E., Glennerster, R., and Kinnan, C. (2015) The miracle of microfinance? Evidence from a randomized evaluation. *AmEcJ: Applied Economics* 2015, 7(1): 22–53; Karlan, D. and Zinman, J. (2009) *Expanding Microenterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila*. MIT. Accessed from http://www.dartmouth.edu/~jzinman/Papers/expandingaccess_manila_jul09.pdf January 12, 2016.

[19] For example: Duvendack M, Palmer-Jones R, Copestake JG, Hooper L, Loke Y, Rao N (2011) *What is the evidence of the impact of microfinance on the well-being of poor people*? London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

[20] For example: Mosely, P and Hulme, D (1998) 'Microenterprise Finance: Is There a Conflict Between Growth and Poverty Alleviation?', *World Development*, 26(5) 783-790.

[21] Mehra, R., Patel, P., Shetty, A. and A.M. Golla (2013). *Financial services for low-income women: Opportunities for Economic Empowerment*? ICRW white paper. Warwick, UK.

[22] http://www.bbc.com/news/world-south-asia-11997571 accessed on January 9 2016.

[23] Collins, D., Murdoch, J., Rutherford, S., and Ruthven, O. (2009) *Portfolios of the poor: how the world's poor live on $2 a day*. Princeton University Press, USA.

3. About this study

3.1 Focus of this Study

This study focuses on the extent to which village banks meet householders' needs. The study identifies the role that different village bank products/services have in beneficiary households, both individually and in combination including loans and savings products and financial literacy training. The study also looks at whether village banks are supporting a range of households needs, are supporting enterprise development for poverty reduction and if village bank services are leading to indebtedness.

The study also looks at what factors are driving household responses to access to finance. For example, what role do factors such as economic opportunity, access to other forms of support, location, ethnicity and BEE.

The study also looks at the role of the village banks in contributing to women's economic empowerment, to what extent are the village banks able to support the poorest of the poor and what opportunities there are to improve household responses to the village banks.

In light of the above focus areas, the study presents findings against five key questions:

- How do households (women, men and youth) respond to changes in access to financial services?
- How is agency of women and youth changed by access to financial services?
- To what extent does access to finance affect the livelihood of beneficiaries?
- Are there other factors which can lead to cumulative livelihood impacts when linked with access to finance?
- How could the response of households to financial services be enhanced?

3.2 Study design

The study used a mixed methods design. First the study used document review to provide contextual information on household and location characteristics. Sources included the recent FinScope and Making Access Possible (MAP) studies implemented by UNCDF[13 15], 2012 LECS 5 data[10] and the 2012 Lao PDR Agricultural Census[24]. The study engaged households and VB members in 14 villages of 7 districts in 3 provinces (Chart 3). 131 semi-structured interviews (47% involving women) were conducted with village bank users to enable deeper investigation of the study questions, triangulate quantitative data from a household survey results and qualitative data from document review, and to identify explanatory factors for any themes identified. The qualitative component of the study was undertaken between October 26 and November 11, 2015 using semi-structured interviews based on an interview guide (Annex 2).

The study also conducted a quantitative survey of a purposefully selected sample of households from 55 villages of 6 districts in 3 provinces to inform findings for the key questions. 150 respondents (47% women) were surveyed in November and December 2015. They were selected based on location (urban/rural plus a spread of locations), gender, age and ethnicity. The survey responses were

[24] MAF (2014) *2012 Agricultural Census*. Ministry of Agriculture and Forests. Vientiane, Lao PDR.

analysed using frequency and comparative analyses to identify general trends as well as differences in responses relating to the parameters of the study. The quantitative survey tool is in Annex 3.

Chart 3: Locations for implementation of the study

Province	District	Villages
Champasak	Mounlapamok	Duatia, Kadian, Nongbouathong, Saphang-nua, Veunkhaen
	Soukhouma	Boungkeo, Dongnang, Donkong, Hiang, Khoknongboua, Nondaeng-tai, Nongphanvong, Samkha
Savannakhet	Phin	Dongphoungeun, Nakahan, Nakhano, Napho, Nongnang, Nonsa-at, Palek, Pasomxai, Vangbouang
	Sepon	Dong-gnai, Dongsavan, Fuang, Houaysan, Kaengkhup, Khaengkok, Manchi, Phonxai, Sakiphin, Samoun, Thakhong, Vangkoung, Xepon
	Vilabouly	Dongtong, Khoua-nga, Laddengnoi, Nateu, Padong, Soppa, Thangbaengkaenglouang, Vangthakhoay
Saravan	Lao Ngam	Bak-gnai, Phakkout
	Saravan	Buengkham, Nadonkhoang, Nakhoysao, Phao-gnai, Saenvang-gnai, Soutavali, Taopoun

3.3 Data collection methods

Document review was conducted by LADLF staff with support from the GIZ-AFP team and advice from Adam Smith International staff. The qualitative interview guide (Annex 2) and field work plan were prepared by LADLF with support from GIZ-AFP field staff. The quantitative survey instrument was developed by LADLF with input from GIZ and then translated into Lao. GIZ Village Bank staff in selected sample locations administered the survey after first being trained by GIZ Technical Advisers. Those advisers received prior training from LADLF. Off-the-shelf survey software (*Question Pro*[25]) was used to administer the survey enabling the results to be collated electronically directly. The semi-structured interviews were carried out by LADLF and GIZ staff in two teams who conducted field work in three trips during October and November 2015.

3.4 Sampling strategy

The sampling strategy for the survey was purposeful, selecting respondents according to a number of parameters. The first parameter included a spread of locations within the three provinces funded by Australian aid plus Vilabouly district funded by MMG LXML Sepon mine (Chart 3). The second parameter influencing sampling related to characteristics of village bank members including gender, ethnicity and age. Similarly the sampling strategy for the semi-structured interviews was purposeful and based on selecting respondents who represent a range of types of account holders (ethnicity, age and gender) in a selection of geographic locations (Chart 4). The locations included the three Australian aid funded provinces, two districts in each province and two villages in each district.

[25] See: https://www.questionpro.com/ Accessed January 12, 2016.

Chart 4: Characteristics of villages sampled for semi-structured interviews

District	Village	Code 1/	Sampling characteristics
Phine	Ban Vangbouang	1304025	• rural, ethnicity: Makong
	Ban Dongphoungeun	1304053	• urban, ethnicity: Phouthai
Sepon	Ban Vangkoung	1305143	• rural, ethnicity: Makong
	Ban Phonhai	1305073	• urban, ethnicity: Lao Pasom
Vilabouly	Ban Soppa	1312030	• rural, ethnicity: Phouthai
	Ban Padong	1312051	• urban, ethnicity: Makong
Lao Ngam	Ban Phakkout	1407099	• urban, ethnicity Laven and Suai
	Ban Bak-gnai	1407060	• rural, ethnicity: Laven
Saravan	Ban Nadonkhoang	1401096	• rather urban: Lao Lum
	Ban Phao-gnai	1401028	• new VB, rural, ethnicity: Lao Lum
Soukhouma	Ban Samkha	1608013	• urban, ethnicity: Lao Lum
	Ban Donkong	1608037	• rural, ethnicity: Lao Lum
Mounlapamok	Ban Veunkhaen	1609001	• urban, ethnicity: Lao Lum
	Ban Saphang-nua	1609022	• rural, ethnicity: Lao Lum

1/ From 2012 Agricultural Census Database

3.1 Data processing and analysis

Survey data were processed in MS Excel for frequency and comparative analyses. The qualitative analysis did not use any specific technique such as inductive content analysis as such approaches were considered to overcomplicate matters given the limited sample-size. Rather the approach was simply to qualitatively identify themes emerging from the interviews and triangulate these with quantitative data from the survey.

3.2 Ethical issues

The main ethical issues faced in implementing this study relate to confidentiality of financial information, taking up respondents' time and raising respondents' expectations about future assistance. In relation to the first issue, respondents were read a consent form, which they agreed to verbally as a form of informed, prior, consent. The statement explained how the information obtained is to be used and informed them that all personal financial data and any other information would only be used anonymously. The second issue recognises that the time taken in completing the survey may be time taken away from livelihood, education or household activities, which could be costly to the respondent. To address this issue it was explained clearly to individuals selected for the study that they are under no obligation to participate. In regard to the risk of raising expectations it was explained to the respondent that the survey was not a precursor to future assistance. The fact that respondents are existing village bank members reduces the potential for raised expectations as they benefit from an on-going program.

3.3 Users of the study

The users of the study are anticipated to include the Bank of Lao PDR, the Ministry of Industry and Commerce, the Australian Government, GIZ and other development partners operating in Lao PDR.

The findings of the study should be useful for:

- Bank of Lao PDR to inform its policies on micro-finance and digital financial services
- GIZ and village banks - to direct and refine their program in terms of how they develop and deliver products
- DFAT and other development partners – to design and implement programs that provide services that are appropriately targeted to the financial needs of rural community members.

3.4 Limitations

The time and resources available for this study limited the scope of the study:

- **Sample size** – the sample represents 100% of the AFP provinces and districts supported with Australian investment but around 8% (13/168) of the villages with an active VB and around 1.2% (215/~17,500) of households using VB services in these districts. The purposeful sample was large enough and varied enough to gain a valid understanding of themes, challenges and opportunities but not sufficiently representative to provide more than a general guide to household response to changes in access to finance.
- **Study location** – the time and resources available did not permit exploration of remote areas without road access, which is where the poorest people in Lao PDR are located. The study findings risk a positive bias because the sample included more middle-poor than the general population in the target provinces and districts.
- **Limited time spent with community members** – the qualitative interviews were conducted as a rapid appraisal with limited time spent in each village. The study findings risk missing subtle responses to access to finance, for example by youth or women, because there was not time to develop a deeper conversation with respondents.

4. Study findings

This section presents study findings against the five key questions:

- How do households (women, men and youth) respond to changes in access to financial services?
- How is agency of women and youth changed by access to financial services?
- To what extent does access to finance affect the livelihood of beneficiaries?
- Are there other factors which can lead to cumulative livelihood impacts when linked with access to finance?
- How could the response of households to financial services be enhanced?

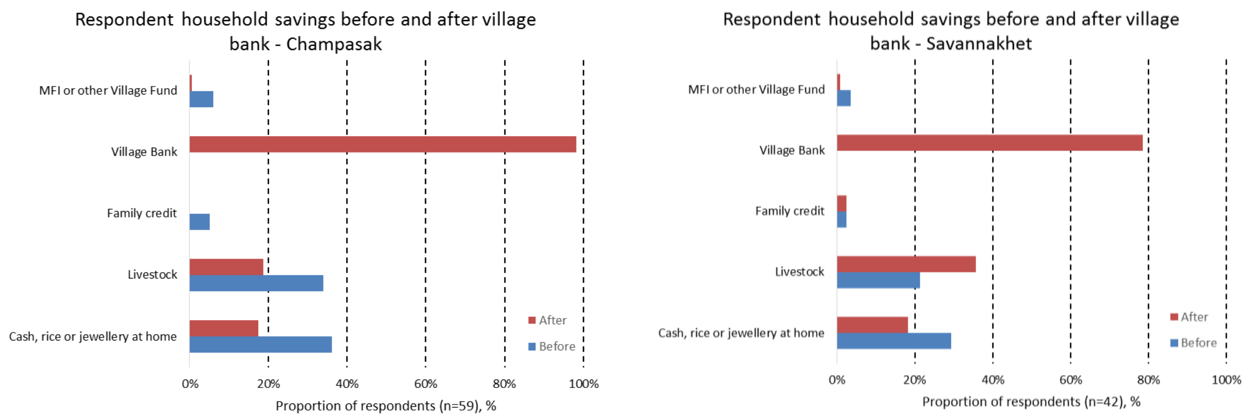
4.1 Household response to changes in access to financial services

Respondents used village banks to access several financial services: deposit-taking for savings, credit for emergency and livelihood loans, and a trusted place to learn about and conduct financial transactions.

Somewhere safe and accessible to keep savings

Respondents appreciated the village bank for providing somewhere safe to keep their savings. Before they had access to a village bank most villagers kept their savings at home (Chart 5) and they tended not to save much because they felt it was not safe to do so or because they or other household members were tempted to use available cash for consumption. Before they had the village bank 79% of quantitative survey respondents saved at home using cash (81%), jewellery (17%) or rice (2%). Use of other financial institutions (commercial banks, MFIs and other village funds) was much less frequent (Chart 5). 80% of the 137 qualitative survey respondents said that they had changed to saving with the village bank once they had access to it.

Chart 5: Village banks change savings behaviour



Respondents perceived a number of benefits to the new access to savings facilities including increased security and convenience compared to commercial banks (which are only accessible at branch offices in the district centres far away from many villages). For example, in *Ban Phonhai* (Chart 4) all male respondents said that before the village bank they kept money at home. They also said they tended to spend money without considering saving because they were worried that the cash they kept at home would be lost.

The following responses from people in Saravan villages relating to household use of financial services for savings are typical of the responses recorded from the semi-structured interviews:

- *Since the village bank had been established, many villagers felt happy to have a village bank in which they could store their money safely* [Lao Ngam, Saravan, male]
- *I now save at the village bank. Before I joined the village bank I thought about saving but with saving at home it was difficult not to spend the money because I liked buying things for my house.* [Ban Phakkout, Saravan, male]
- *Our family used to have a bank account but we withdrew the money and put it in the village bank because it is easier to access than a bank in the district centre located 12km from home.* [Ban Nadonkhoang, Saravan, female]
- *My household only has a savings account with the village bank. This a good opportunity to save money in a safe place where it was easy to deposit and we can save even if they don't earn too much. It is astonishing when compared to the past. Before we wanted to save but thought it wasn't possible because we didn't have enough money for an account with a bank in the district town.* [Ban Bak-gnai, Saravan, male]

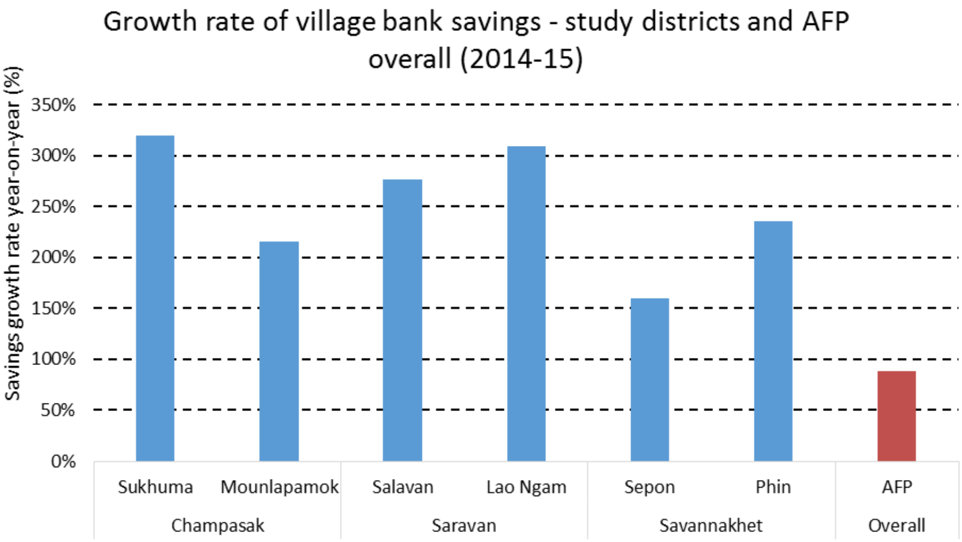
In addition to increasing the security of savings the village bank tended to increase villagers discipline to save and thus the amount that they were able to save (Chart 6). This response is supported by the regular savings requirements mandated by the village bank as well as improved financial literacy and a tendency of villagers to compete with each other to save more when they attended village bank meetings and make deposits. The men's group from *Ban Vangbouang* (Chart 4) said that before they had the village bank, villagers kept their money at home. Many people just bought what they wanted without considering saving because they felt worried about keeping cash at home. But now they have access to a village bank they are able to save some money.

Better-off people living closer to town (*e.g*. *Ban Dongphoungeun* and *Ban Padong* – Chart 4) saved their money at commercial banks before they had the village bank because they felt insecure keeping large amounts of money at home, whereas poorer people were more likely to keep cash at home. Some better-off people living closer to district centres among the quantitative survey respondents said they shifted some of their savings from commercial banks to village banks once they had the village bank for reasons including higher deposit interest rates, convenience and a sense of ownership and trust in the village bank. However, some of them do maintain accounts with both commercial banks and village banks, particularly those receiving money transfers. For example, the women from Padong village, an urban village in Vilabouly district, had accounts at BCEL and the village bank and kept some savings in both. One women said she maintained her BCEL account to receive remittances from her husband who works in Attapeu. This is consistent with the findings of the quantitative survey which showed the proportion of respondents using commercial banks declined from 13% to 7% after the village bank opened in their village.

These anecdotal responses are consistent with data from the household survey (Chart 5) and with AFP data. For example, the annual growth of savings in provinces and districts sampled for this study are higher than the overall AFP savings growth rate (Chart 6).

The function of savings supported households in a number of ways including increasing their net worth, increasing their financial literacy and supporting members to educate their children, manage emergencies and generate income. Mandatory and transparent savings requirements contributed to the value of household savings and improving financial literacy and management skills. Introducing and normalising the discipline of saving among community members resulted in increased household net worth.

Chart 6: Village banks savings – AFP overall and study provinces



Available and accessible loans

Respondents appreciated the village bank as a source of credit – especially for emergency loans, livelihood loans and other purposes. Respondents appreciated the availability and accessibility of loans from the village bank.

Respondent village bank members did not increase borrowing activity, with the rate of borrowing amongst quantitative survey respondents overall increasing slightly from 67% before membership of a village bank to 70% after (Chart 7).

> "The village bank makes it much easier and cheaper to access loans, almost everybody who asks for a loan receives one, although in lower amounts. The village bank credit process is beneficial for villagers. Borrowers do not have to hand in a lot of paper work and documents for collateral, only the approval of the village bank committee and the Nai Ban is necessary."
>
> *Ban Saphang-nua, Champasak, male*

Chart 7: Respondent borrowing activity before and after joining a village bank

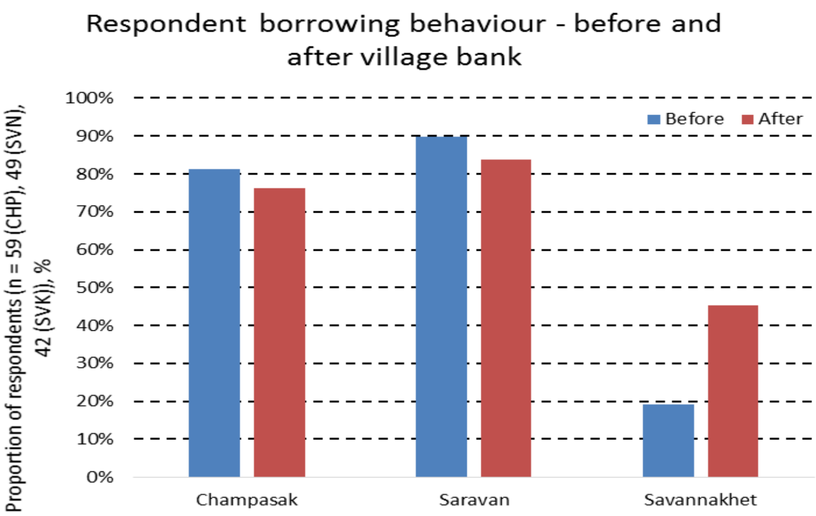
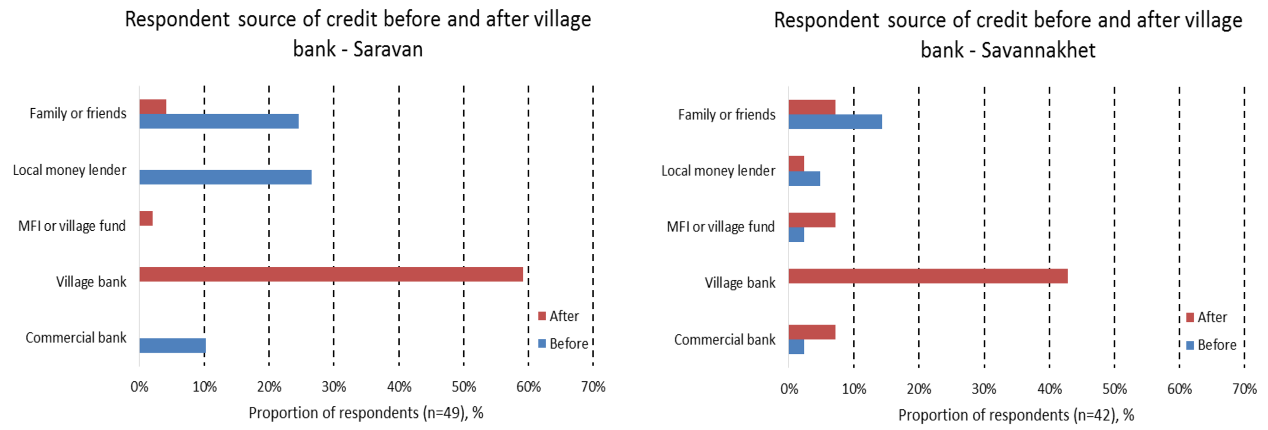
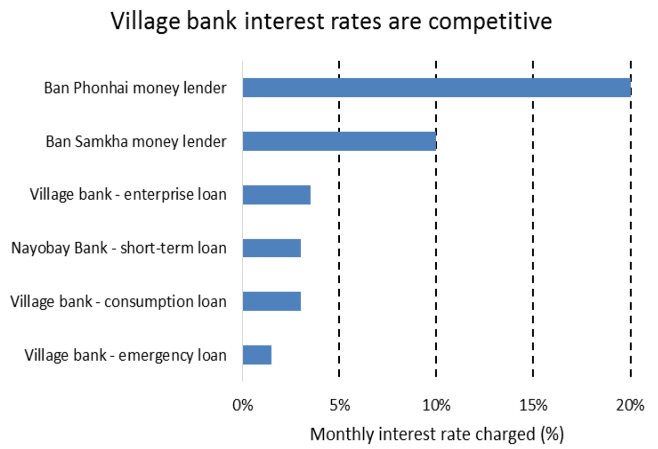


Chart 8: Respondent sources of credit before and after joining a village bank



However, having access to a village bank did change the source of credit used by respondents, most notably away from moneylenders and family and friends (Chart 8). Respondents to semi-structured interviews said the opportunity that the village bank provided to shift away from moneylenders and family and friends as a source of credit was appreciated because money-lenders were expensive source of credit and the availability of funds from family/ friends is usually limited (Chart 9).

Chart 9: Village banks are competitive sources of credit



Source: Semi-structured interview respondents, November 2015.

Interest rates on village bank loans are agreed by village bank members at the village bank AGM. They average 2 to 3% per month (with 1 to 2% per month for emergency loans), which is higher than the interest charged by commercial banks (typically 10 to 16% per year). Respondents on the whole were satisfied with the interest rates for village bank credit. Of the 13 villages engaged for the semi-structured interviews only one, *Ban Padong* (Chart 4), complained that the interest rate for emergency loans, was too high at 2%. The women's group that raised this concern, also identified that the village bank committee planned to debate a motion at the bank's next Annual General Meeting (AGM) to review the interest rate for emergency loans.

Few respondents used commercial banks (Chart 8). This finding is consistent with the 2015 FinScope Study, which conclude that formal credit is still a new service for most village households in Lao PDR.[13] As well the constraint of distance to commercial banks, the collateral requirements for loans from the village bank are less onerous than those required by commercial banks and the administrative processes quicker and simpler.

> "I wouldn't borrow from commercial banks. Although the interest is not too high, commercial banks are far away from the village and the procedures were too complicated."
> *Ban Bak-gnai, Saravan, male*

As with savings accounts, some better-off community members in peri-urban locations access commercial loans but they prefer to borrow from the village bank if possible. In some cases the village bank did not have enough funds to provide loans of the required size so members borrowed from commercial banks.

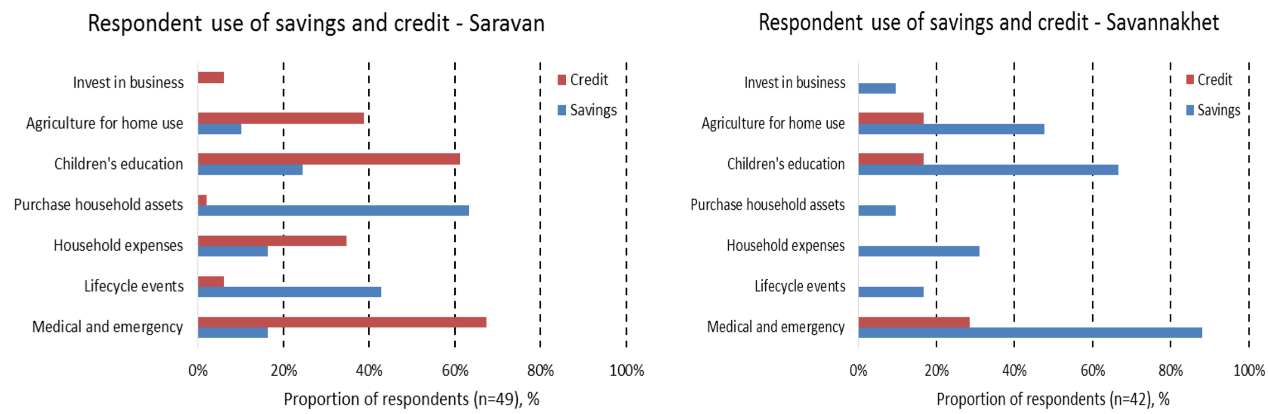
> "It is only if you live close to town that you can get a loan from a commercial bank."
> *Ban Padong, Savannakhet, woman*

How households use savings and loans

Village bank savings and credit services are used by members to support health treatment, educate children and smooth consumption, as well as to support livelihood enterprises. The use of savings and credit across these investment choices varied at province level (Chart 10). While respondents identified similar uses of savings and credit, village banking activity shows that members use credit more frequently than they withdraw their savings.

> "Some people have loans from both the village bank and a commercial bank and some better off people take out commercial loans when loans from the village bank were not available."
> *Ban Phakkout, Saravan, male*

Chart 10: Respondent uses of savings and credit



Health treatment and emergencies – 92% of survey respondents identified medical and emergencies as a reason for saving. For example one respondent from *Ban Saphang-nua* (Chart 4) withdrew 50% of his savings to pay for a medical procedure. This is not surprising because health providers in Lao PDR are permitted to charge user fees and the cost of treatment can be significant for patients.[26] Although many respondents gave medical needs and emergencies as a reason for saving, in practice they tended to use emergency loans from the village bank rather than withdraw their savings. 74% of survey respondents said they used a loan from the village bank to pay for a medical emergency. For example, one respondent from *Ban Vangbouang* (Chart 4) twice used emergency loans to pay for visits to hospital. This was identified by respondents as providing peace of mind. Before the village bank was established people either went without treatment or used moneylenders at higher cost (Chart 9). Unlike other loans, which are made available at the village bank meeting, emergency loans are made

> "The village bank has approved eight emergency loans. These can save the life of community members if they need to go to hospital."
> *Ban Veunkhaen, Champasak, male*

[26] World Bank (2012) Government Spending on Health in Lao PDR: Evidence and Issues [pp13, 19-24]: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/03/26/000356161_20130326120719/Rendered/PDF/762290ESW0P1430C0disclosed030250130.pdf accessed on 9/1/16

available at the time of need. According to the regulations adopted by village bank members at the AGM, emergency loans are made available at a lower interest rate than other loans. This pro-poor approach provides an incentive to join a village bank and gives members peace of mind.

> "Our biggest concern is becoming sick and not having enough money to be treated by a doctor or hospital. Emergency loans from the village bank remove that concern for us."
>
> *Ban Vangbouang, Savannakhet, male*

Education – 57% of survey respondents gave education of their children as a reason for saving. In Lao PDR primary education is technically free, but schools often charge informal fees and parents also need to buy books, a uniform and snacks for children to attend school. Some respondents to the qualitative survey said they kept separate accounts for their children's education. For example, one household respondent from *Ban Vangkoung* (Chart 4) split their savings in two, putting half in an account for the family and half in a separate education account. 29% of survey respondents said that more than one savings account was held by their household and 16% said they had specific children's accounts.

61% of survey respondents who borrowed used the funds to help educate their children. Semi-structured interview respondents said short-term loans were used to buy new school uniforms and study materials or pay informal school fees. Some members use loans for secondary or higher education – for example one respondent from *Ban Nadonkhoang* (Chart 4) borrowed LAK1 million to pay for his son to study at medical school in Pakse and repaid the loan with proceeds from his cassava and peanut harvests.

Lifecycle and consumption smoothing – 22% of respondents said they were saving for lifecycle events such as weddings, funerals and other ceremonies, 35% for consumption when they don't have income and 21% said they were saving to purchase assets for their house. With multiple income sources and different timing of income, loans are often used by village bank members to smooth consumption. For example, a respondent from *Ban Nadonkhoang* (Chart 4) used two loans, each of LAK500,000 to finance household needs because her husband receives a quarterly salary. She paid back the first loan and at the time of interview was paying off the second, three-month term loan. 30% of survey respondents said they used loans for household expenses when they don't have income. Although there was less use of credit to support lifecycle and lifestyle choices: only 4% said they used their loans for lifecycle events, and 1% for purchasing assets for their house.

A trusted place to learn about and conduct financial transactions

Respondents appreciated the strong management systems used by their village bank. This gave them trust in the operations. Of the 131 people engaged in semi-structured interviews, 5% identified the trustworthiness, transparent governance and management systems as positive attributes attracting them to engage with a village bank. The regular external support, supervision by NSOs, monitoring of financial books and operations, and the provision of a safe box to store money and financial books in the village as well as training in how to manage the books contributed to the strong trust in operations by village bank members.

> "We feel safe now, nobody can steal our money – before with the village fund repayment of loans was bad but now we have support from the NSO and there were are no overdue payments."
>
> *Ban Veunkhaen, Champasak, female*

In many villages engaged for this study there had previously been village funds that were poorly managed, resulting in members losing their savings, seed funds being misappropriated and the funds collapsing. The AFP program has had a policy of not establishing village banks in communities that have a functioning village fund, because the village is seen as too small a unit to have competing financial institutions. For the village funds that had been integrated into the village banks in some cases these provided a boost of seed funding which increased the value of the village banks. In other cases the village funds could not be integrated because they had non-performing loans.

Villagers appreciated the transparency of the village bank and the fact that they could understand how the rules worked. Commercial bank systems and processes and how they calculated interest often seemed incomprehensible to community members resulting in a lack of trust in commercial banks. This problem is likely to be compounded by poor financial literacy among villagers.

> "Eight years ago I deposited LAK8 million in a commercial bank and the bank staff told me that after one year I would have a total amount of money including interest of about LAK12 million. However, after one year I only received LAK250,000 in interest. When I asked the bank staff to explain they told me my interest had been used to pay for bank services such as books, pens and accounting fees. Since then I transferred my money out of the commercial bank and hope that I don't have to deal with them again. I am happy to have the village bank, the rules are not too difficult to understand, I feel more confident to be able to get a loan when needed, and other villagers are happy too."
>
> *Ban Bak-gnai, Saravan, male*

4.2 Changes in agency resulting from access to financial services

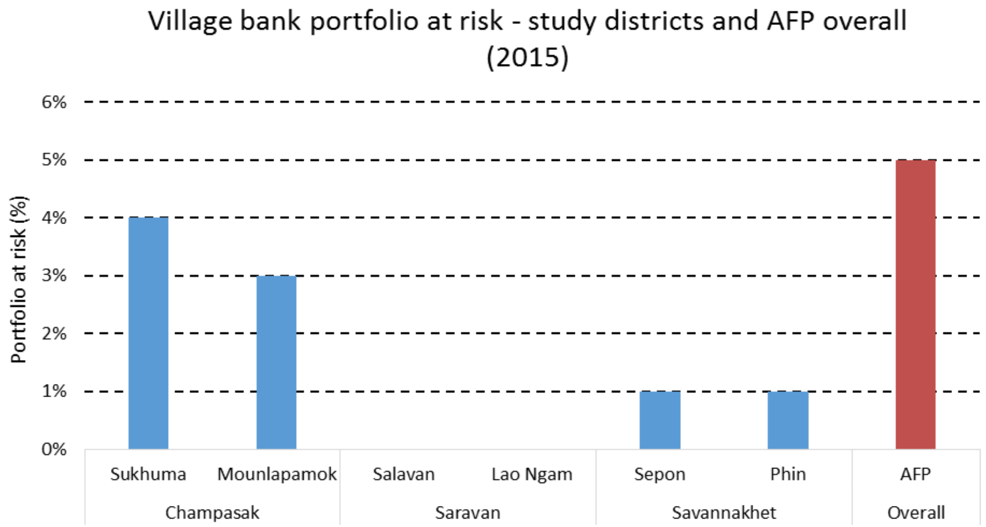
Semi structured interview respondents demonstrated a strong sense of ownership in village banks, which appeared to be related to the participatory ownership and management systems and their receipt of dividends. Each of the 131 people engaged in semi-structured interviews identified a sense of ownership in their village bank and demonstrated agency in their financial affairs with the bank. For example, the women from *Ban Phakkout* (Chart 4) said they like their village bank because they get interest from the dividends: usually about 10 to 15% per year. They therefore preferred to borrow from the village bank rather than elsewhere because the dividends came back to members.

> "The high value of dividends has strengthened my interest in saving with the village bank."
>
> *Ban Veunkhaen, Champasak, female*

The transparent and inclusive management of village banks gives members increased agency in their financial affairs. For example, interest rates on loans from village banks are agreed at the village bank AGM by members. AFP has some standard bylaws to be used by village banks in their first year of operation. From the first annual general meeting (AGM) members of the village bank may propose changes on some aspects, like interest rates or loan ceilings. The proposals will be discussed and decided upon during the AGM and the bylaws are adapted for the next operating year. Each village bank committee receives credit management trainings and guidelines for loan appraisals based on which they decide on the system for assessing loans and any collateral requirements. The systems also rely heavily on personal knowledge of applicants and a culture of respect which is strengthened by peer pressure and social norms. This results in a high degree of agency, and contributes to low portfolio at risk ratios and increasing roles for women (Charts 11 and 12). A related advantage identified by households was less paper work and faster loan processing in village banks compared with commercial banks. The village banks were also culturally more accessible – of the 131 people engaged in semi-structured interviews, 21% expressed a sense of being intimidated by commercial banks or being afraid to take loans from commercial banks because of what might happen if they could not repay the loan.

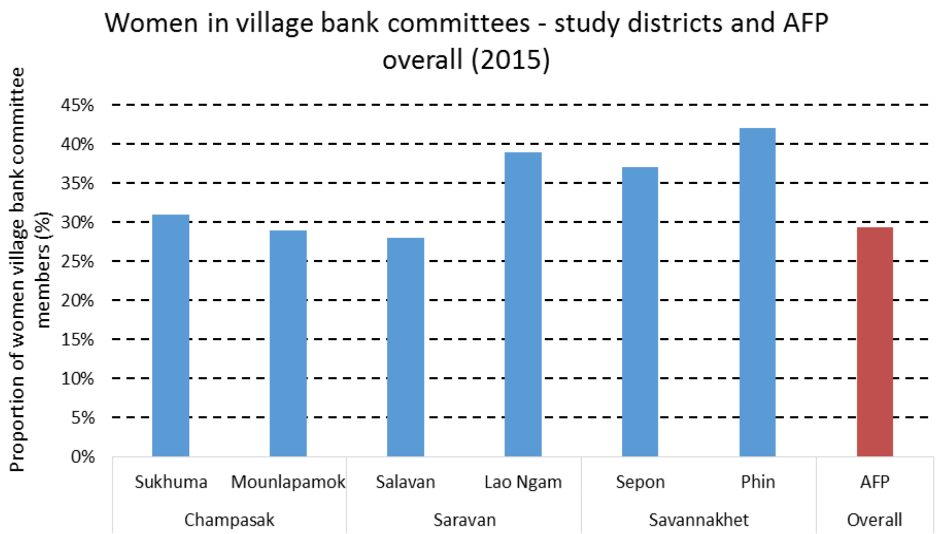
Male respondents in *Ban Saphang-nua*, (Chart 4) all highlighted that the village bank makes it easier and cheaper to access loans. They said that almost everybody who asks for a loan receives one, although often for lower amounts than originally requested.

Chart 11: Portfolio at risk across AFP



Source: AFP monitoring data, December 2015.

Chart 12: Role of women in AFP village bank committees

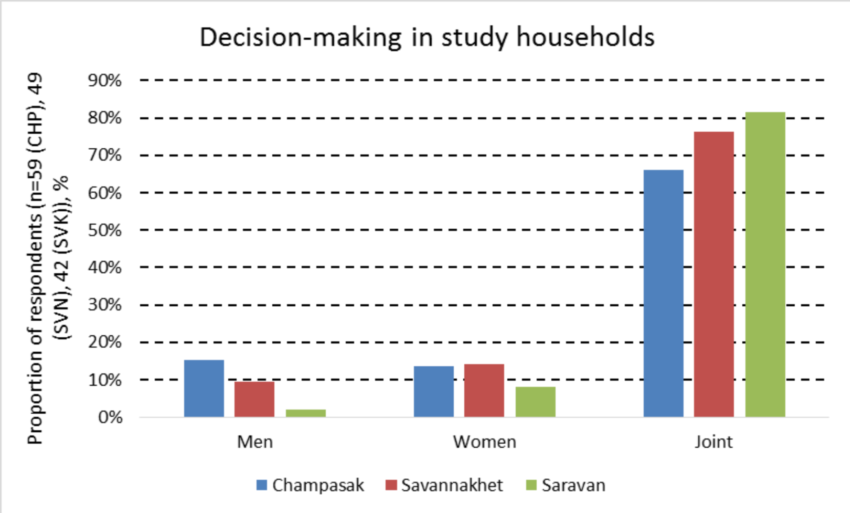


Source: AFP monitoring data, January 2016.

Semi-structured interviews indicate women have an accepted role in managing household finances which is enhanced by becoming village bank members. This is supported by quantitative survey data showing that 42% of women kept account books for their households. Some women also mentioned that having savings accounts improves transparency and accountability of household finances which is better for women and children. In *Ban Vangkoung* (Chart 4) women respondents said that before they had the village bank they kept cash at home and they would hide it from the men in a special place. They didn't want the men to know how much money they had. Now they only keep what they need for daily use and are able to save money safely in the village bank. The women respondents from *Ban Phonhai* (Chart 4) said that before they had the village bank they saved in a piggy bank and didn't save that much. Now they had the village bank they saved more.

Gender roles in financial decision-making changed after women became a member of a village bank. In most households decisions were made jointly (Chart 13) before and after joining the village bank but female decision-making increased slightly after joining the village bank.

Chart 13: Financial decision-making at household level



All of the women respondents in *Ban Samkha* (Chart 4) said they never accessed credit from a commercial bank because the amounts they needed were smaller than the loans available, and the process was difficult for people with limited literacy to deal with. The village banks give women increased agency in financial services.

> "Our household never had loans from other sources - only the village bank. We do not dare to go to the commercial bank. We are afraid that we may not be able to pay back the bank in the district town."
>
> *Ban Bak-gnai, Saravan, female*

> "I prefer to get a loan from the village bank rather than from a commercial bank because I can use our livestock as collateral at the village bank."
>
> *Ban Phao-gnai, Saravan, female*

Some household respondents became more confident to enter commercial banks and became engaged in village affairs after experience with the village bank (Chart 14). Although the proportion of respondents demonstrating a change in agency is relatively low still (Chart 14), this comes from a context of low engagement in formal processes[27] or financial services.[13] Having a strong sense of ownership in the village bank enables households to engage with institutional and other opportunities in the village. Participatory management systems and good governance, coupled with financial literacy training, give households exposure to practices relevant to village meetings, local development planning and enterprise management. Positive discrimination for women as members of village bank committees (*e.g*. women are often elected to the positions responsible for keeping the village bank account books) benefits the elected individuals but also the standing of women in the village.

4.3 The effect of access to finance on the livelihood of beneficiaries

Semi-structured interview respondents identified livelihood benefits from village bank membership. Of the 131 people engaged in semi-structured interviews, 57% identified either dividend return or enterprise financing benefits from having access to financial services from a village bank.

[27] For example see PRF (2016) Draft Impact Evaluation of PRF-II. Poverty Reduction Fund, Vientiane, Lao PDR.

Livelihood benefits identified by respondents included savings and credit for agriculture and subsistence production as well as financial services for trade, service delivery and industry:

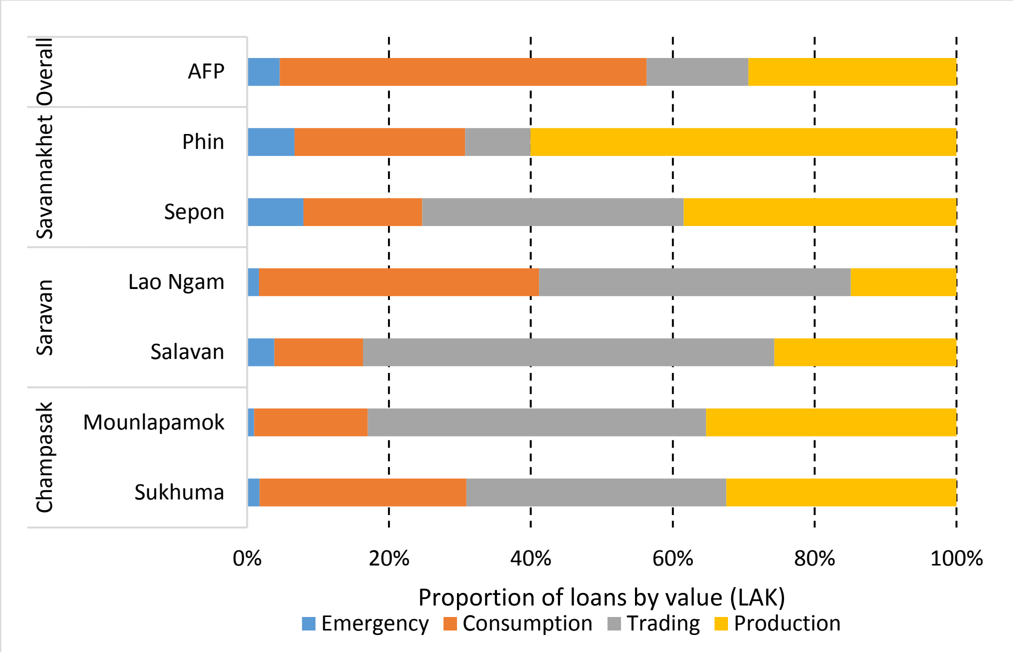
Chart 14: Behaviour change resulting from village bank membership

What do you do differently since joining the village bank?					
	Attend village bank meetings	Participate in other village meetings	Confident to enter a bank	Record household income and expenditure	Deal with finances more confidently
Savannakhet	67%	14%	29%	14%	38%
Salavanh	71%	12%	53%	22%	51%
Champassak	49%	17%	58%	36%	2%

Agricultural production – some households use village bank credit to pay for agricultural inputs rather than drawing on savings. Others managed cash flow by using savings at the beginning of the agricultural season and returning surplus to savings after harvest. For example, two respondents from *Ban Nadonkhoang* (Chart 4) sometimes withdrew up to LAK500,000 of their savings to buy fertiliser or to pay day labour for weeding. 37% of respondents said they were saving to support their agricultural production (Chart 10). Overall, credit for production was less popular in the districts targeted for this study than credit for consumption or trading enterprises. This varies from the overall AFP experience (Chart 15).

Overall, 59% of survey respondents using village bank credit said their credit was for production or consumption (Chart 15). Loans for production ease cash flow pressures caused by the timing of income from agriculture and the costs of inputs (*e.g*. seed, fertiliser and pesticides, hire labourers for planting and weeding, hire tractors). Respondents in semi-structured interviews said that loans are repaid with income from multiple sources including agricultural produce grown for sale, day labour, harvesting forest products, trading (buying goods and on-selling them), industry (weaving or other forms of manufacture) and wage labour. Communities close to urban areas have more diverse options for income generation. (Box 1).

Chart 15: Allocation of village bank credit – study districts and AFP overall



Source: AFP monitoring data, December 2015.

Box 1 – Confidence to use credit improves farmer livelihoods
A 33 year-old man from *Ban Phakkout* in Lao Ngam borrowed LAK2 million so he could hire a tractor to plant cassava. Before the village bank existed he had never used credit, not that he had no need for credit but he did not know where to borrow from or how to apply for a loan. The man and his wife earned about LAK10 million from growing cassava. A woman from the same village took out a loan from the village bank of LAK5 million to pay labourers to help with harvesting her cassava crop. Similarly, a man from Ban Nadonkhoang in Saravan borrowed LAK3 million for inputs and agricultural equipment used to produce a subsistence rice crop. The loan was repaid with income from selling animals and day labour.

Trade, services and manufacturing – Village bank members interviewed for this study used credit to finance trade, services and industry activities (Chart 14). Some of this was for operating cash flow (*e.g*. small retail outlets using credit for stock) but other loans were used to start or expand new enterprises (Box 2).

Box 2 – Access to local credit enables local economic development
A woman and her husband from *Ban Nadonkhoang* used a village bank loan to start a new business making carriages (*tang lot*) for attaching to small tractors (*tok tok*) to transport people and goods locally. They sell the *tang lot* to a Chinese company and receive LAK4 million for each one. Before the village bank, the couple did not have the confidence or financial literacy to obtain a loan from a commercial bank in Salavan District town. Similarly, a woman in *Ban Padong* recently borrowed for the first time a 6-month credit of LAK10 million to buy stock for her own retail store and her husband's furniture business. Another woman from *Ban Phakkout* used a loan of LAK9 million to start a peanut trading business – local growers bring peanuts to her house and she sells them in the local market. Finally a woman from a remote village borrowed LAK2 million from her village bank to support her weaving business. She produces cloth to make *sinh*, the traditional skirts worn by women in Lao PDR. She makes net income of LAK200,000 per piece of cloth and she sells about 20 pieces per month.

This study did not seek to collect comprehensive evidence of the livelihood impact of village banks and the AFP program. However, the anecdotal evidence presented above suggests that village banks enable women, men and households to engage in local economic development across a wide range of opportunities. The semi-structured interviews identified examples of members using village bank loans to grow their business:

- A woman from *Ban Phonhai* (Chart 4) borrowed LAK5 million in 2015 to plant 4 hectares of cassava. She received LAK600 per kg for the product. This scaled-up her initial adoption of this crop – in 2014 she used a village bank loan to plant 1½ hectares of the same crop and received LAK15 million revenue. Her husband is a policeman and his regular income helps with collateral required for the loan.
- Similarly, a subsistence rice producer and wage employee from *Ban Padong* (Chart 4) has used two village bank loans (one for education of his children [LAK500,000] and one to invest in a fishpond [LAK5 million]). He said that before having the village bank he thought about making a fishpond, but he did not know where to get the money from. Now he can take action on his business ideas and improve the livelihood of his family.

> “My household never used loans before we joined the village bank. Although there is a local moneylender who can be easily accessed, the interest that he charges is too high.”
> *Ban Bak-gnai, Saravan, male*

For poorer community members and those in more remote locations, their only option to obtain credit is money lenders and friends or family if they do not have access to a village bank (Chart 8). The other options charge very high and normally unaffordable interest rates (Chart 9). Moreover, some respondents advise that this type of informal borrowing led to community conflict in some cases. Community members appreciated the village bank for freeing them from these unfavourable forms of credit.

> “Before the village bank was established we had to ask relatives for loans. We usually paid 10% interest per month. Now we pay 3.5% per month to the village bank.”
> *Ban Samkha, Champasak, female*

Village bank committee members said that they had difficulty approving loans for business due to lack of viability of business models, collateral and capacity among applicants. Factors relating to the BEE may also influence members’ willingness to use credit to finance business.

4.4 Other factors contributing to livelihood impacts of access to finance

Business enabling environment (BEE)

The BEE affects the ability and confidence of village bank members to use credit for investment, growth and improved income. The BEE includes factors such as access to markets, formal and informal regulatory practices, prices received for goods, and taxes and charges imposed on producers and industry. This study did not explicitly explore village bank member perceptions of the BEE, but anecdotal information from semi-structured interviews provide some preliminary findings. For example, a woman from *Ban Phonhai* (Chart 4) had difficulty marketing the *sinh* she made because the local Lao Women’s Union shop would not accept the design she wove.

BEE factors such as access to other financial services (*e.g*. insurances), distance from roads, district towns and markets influences how members respond to access to finance through a village bank. In particular, access to income earning opportunities affects the ability of village bank members to contribute savings, their confidence to use credit for economic activities and their ability to repay loans.

Villages that are closer to district towns have a larger range of opportunities for income earning. Remote villages typically engage in subsistence agriculture. For example, the range of livelihood activities identified by semi-structured interview respondents from *Ban Nadonkhoang* (Chart 4, 11 km from district centre) included: rice farming; retail shop owner; day labour for road construction; building houses; barber; raising pigs, chickens and ducks; working as nurse in Pakse; manufacturing *tang lot* attachments for *tok tok*; and restaurant owner. This is diverse and active compared with the livelihood activities identified by respondents from *Ban Bak-gnai* (Chart 4, more than 30 km from district centre), which included growing cassava, long bean, ground bean, black bean, coffee, upland rice, soy bean, pineapple.

The importance of supporting financial literacy

Semi-structured interviews identified that many village bank committee members and ordinary bank members had limited financial literacy. For example, a number of respondents indicated that they did not understand interest rates. For example, women from *Ban Nadonkhoang* (Chart 4) complained that they did not understand how to calculate the interest rate on a deposit or loan. Another respondent and village bank committee member from *Ban Padong* (Chart 4) thought that the interest rate on a village bank loan was less than a similar loan from a commercial bank, which is most unlikely. Similarly, a village bank committee member from *Ban Phao-gnai* (Chart 4) expressed concern about wholesale loans and whether the committee had the skills to manage them. They would like to see younger committee members who have better financial skills.

Being a member of a village bank improves financial literacy for many villagers. Before they had access to a village bank and attended financial literacy training, many villagers did not record income and expenditure – they simply spent money if cash was available. When their income did not match their expenses they could not save and risked indebtedness. Since having access to a village bank, 61% of survey respondents said they participate in village bank meetings. They can compete for saved amounts with others in the village, which causes them to save more and spend less. 25% of respondents said that they now record income and expenditure for their household which they did not do before and 28% said they deal with finances more confidently. Participating in a process of borrowing and repaying village bank loans develops the skills of members to manage household finances.

The AFP program also provides financial literacy training for village bank members. 39% of the semi structured interview participants had attended a one-day course of financial literacy training where they had learned about dividing their household income into “four purses”. Semi structured interview participants who had participated in the training stated that they thought the training was useful. However, the women from *Ban Veunkhaen* (Chart 4) said they found it difficult to follow the model as special expenditures come up regularly (school fees, barber, buying fish for dinner, etc.). They only remembered the model after checking their notebooks. They state they only use ‘one purse’. They voiced their strong interest to learn about budgeting and investing. The women from *Ban Samkha* (Chart 4) said that other family members, not they, had participated in the training because they did not have time to attend the training due to work in their rice field, cooking duties or taking care of their house and children.

Box 3 – GIZ training in financial literacy

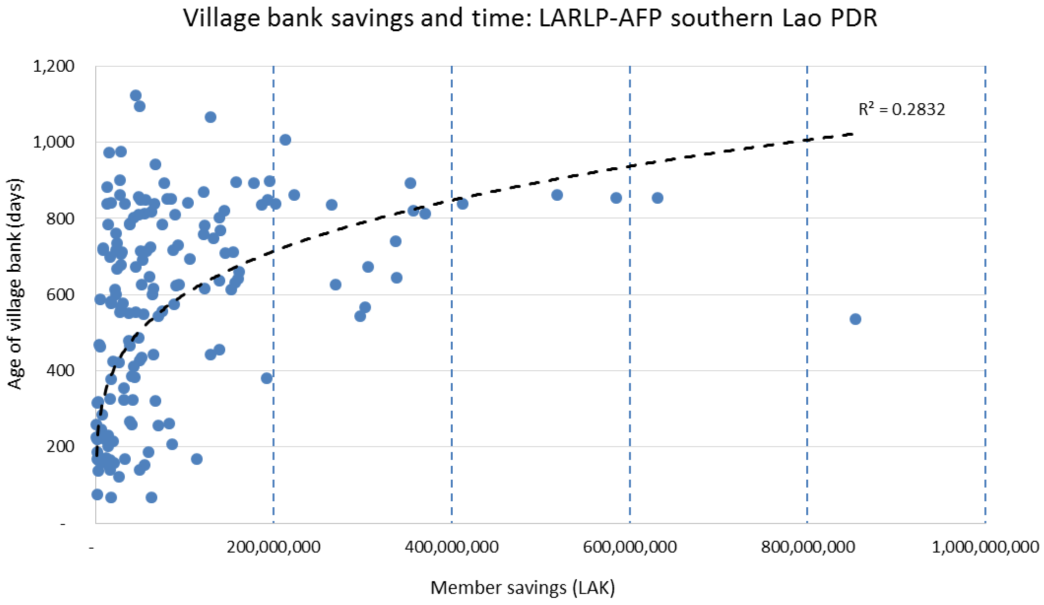
To support improvements in villagers’ financial management skills through village bank membership, GIZ-AFP has produced a financial literacy training package consisting of six core modules with trainer manuals, participant booklets, posters and awareness-raising brochures. The package covers the topics of financial goal setting and planning, money management, saving, using debt vs. own money, budget planning, and simple risk management.Trainers use interactive methodologies to communicate the key messages such as storytelling, posters, pictures, role-play and group discussion.

One financial literacy facilitator is hired in every NSO. The facilitator coordinates his monthly training plan with the NSO and local authorities. The number of participants for each session is set at around 30 to ensure a participatory learning environment. At each village the facilitator aims to deliver the training in two sessions plus one additional session 3-6 weeks later to repeat the core messages (2+1). The target group is village bank members and non-members who are interested in learning about financial household management. Feedback of participants has shown that there is a wide interest in the topics provided by the training.

The liquidity of village banks – key to scale

Some respondents to semi-structured interviews identified a limitation on the amount of credit available from their village bank. The liquidity of a village bank is affected by (i) the income of members and their willingness and capacity to make deposits; (ii) the length of time the village bank has operated and accumulated savings; and (iii) the relationship with NSO and other sources of inter-bank capital (Chart 16).

Chart 16: Relationship between age of village bank and lending capital



Source: AFP monitoring data, December 2015.

A concern raised by some households was that some village banks lack sufficient capital to meet the demand for credit. As funds for credit are sourced from the stock of member savings those banks that had existed for a short time or had predominantly poor members saving relatively small amounts (*e.g*. LAK5000 to LAK20,000 per month) had limited credit available for lending. For example, in *Ban Bak-gnai* (Chart 4) the village bank was 8 months old, had 90 members, and savings of LAK14.4 million. Some members has asked for loans of LAK5 million but for the time being the village bank committee capped loans at LAK500,000. This appropriately matched experience, available capacity and prudential risk management. By comparison, the village bank in *Ban Phao-gnai* (Chart 4) opened in 2013, has 73 member households and LAK42 million in savings. This is still a modest resource to support meaningful local economic development, but the scale-up trajectory is clear.

The AFP program does have a system of wholesale loans whereby the NSO on-lend funds from those village banks with excess liquidity to that village banks needing new capital. The final safeguard in this mechanism is to ensure that the wholesale loan does not exceed the value of the village bank's savings. So for new village banks or village banks in poorer areas, the opportunity to rapidly scale investment is modest at best.

Inequality within villages

Some community members are not able to join a village bank because they do not have enough money to save the regulated mandatory monthly amount, typically LAK5000 to LAK 20,000 per month. For example, in *Ban Saphang-nua* (Chart 4) 60 households out of the 206 in that village are not members of the village bank. The main reason identified by respondents is their inability to regularly meet the mandated minimum monthly savings amount. Across AFP, the majority of village households are members of their village bank, but the proportion declines with implied poverty characteristics such as remoteness and ethnicity. The villages are advised to keep the regulated mandatory minimum savings at rather low level and mandate for higher voluntary savings to balance inclusiveness for the poor and attractiveness in terms of available lending volume. Members that miss to contribute mandatory savings are not expelled from the village bank but excluded from credits.

The risk of unsustainable indebtedness

One concern raised in the literature about microfinance is that it can lead to unsustainable indebtedness – for example where members take out loans that they have difficulty repaying. Community members may take out additional loans to pay off original loans and get into a cycle of unsustainable debt or sell assets to repay loans which reduces their net worth. Of the 65 respondents engaged in semi-structured interviews, only 3 said that they either borrowed money or sold assets to repay village bank loans. The AFP program and the village banks they support have an incentive to undertake thorough loan assessments. Village bank members and committees are trained in financial literacy and village bank regulations ensure loans are affordable. Community members who do not have enough money to save the minimum regulated monthly savings may be accepted as members of the village bank but they will be excluded from credits – a safeguard for the poorest households. Some of the poorest households also choose not to join for fear of not having enough money to save.

Quantitative survey respondents showed reasonable capacity to handle debt. Out of those who had borrowed, 96% said they fully understood their loan obligations and 100% said they were certain of having enough money to repay the loan at the time of taking out the loan. 87% of those who had borrowed from the village bank had successfully repaid at least one loan. Of those who had borrowed 19% said they had experienced problems in repaying their loan and only 3% said they had ever had to sell assets to pay back their loan.

4.5 Opportunities to enhance the response of households to financial services

Semi-structured interview respondents identified three opportunities for enhancing their use of financial services from village banks:

- **Strengthen financial literacy and business management skills** – on-going training and mentoring to support village bank members in financial literacy will enhance the response of household members with access to financial services (See Box 3). This would be enhanced by training and support for small business development.
- **Improve the Business Enabling Environment (BEE)** – In addition to improved access to finance there may be other opportunities to strengthen the BEE. The study showed that village bank member households engaged in agricultural production for home consumption or sale, casual and wage labour and retail and trade. Measures to strengthen the agricultural sector may help to improve the BEE for households. These include enhancing physical access to markets through farm-to-market roads; improving access to quality farm inputs such as improved seed varieties, fertiliser and treatments for pests and diseases; encouraging investment by the private sector in agricultural value chains to deepen markets and enhance opportunities for value adding; and helping farmers to access external markets by addressing non-tariff constraints such as sanitary and phytosanitary regulations (tariffs are already low).[28] For households engaged in wage labour

[28] World Bank (2006), *Lao PDR: Rural and Agriculture Sector Issues Paper*, World Bank, Washington DC, USA

the BEE could be improved through measures to enhance the investment climate.[29] Education is key to improving income from both on-farm and off farm sources: education is correlated with a higher share of agricultural output being marketed among farmers[30] and inadequate workforce skills has emerged as the top constraint to private sector expansion in Lao PDR.[31]

- **Build the capacity of NSOs to support village banks** – the external support provided by the NSOs which includes oversight, capacity building and financial services for village banks is key to the success of the AFP program. It sets them apart from those village funds which become dysfunctional over time. In order for the village banks to continue to service communities beyond the life of the AFP project the NSOs must become financially self-sustaining, independent legal institutions. GIZ has a long term program for strengthening the NSOs and enabling them to achieve self-sustainability which involves capacity building, training, obtaining legal status as a Savings and Credit Union (SCU) or MFI, and establishing income streams through payment for services by village banks as well as wholesale and retain lending. One NSOs out of seven (Hongsa) have already achieved financial self-sufficiency, two are on the verge of financial self-sufficiency (Luang Namtha and Khop). One NSO (Saravanh) has achieved legal status as a registered SCU and NSO Champasak is currently in the process of obtaining a license as an SCU. To give the village banks the best chance of sustainability the GIZ program of support for the NSOs should continue for enough time for all seven NSOs to achieve a legal status and financial self-sufficiency.

[29] World Bank (2014), *Lao PDR, Investment Climate 2014, Policy Uncertainty in the Midst of a Natural Resources Boom*, World Bank, Trade and Competitive Global Practice, East Asia and Pacific Region

[30] World Bank (2006), *Lao PDR: Rural and Agriculture Sector Issues Paper*, World Bank, Washington DC, USA, pp VI

[31] World Bank (2014), *Lao PDR, Investment Climate 2014, Policy Uncertainty in the Midst of a Natural Resources Boom*, World Bank, Trade and Competitive Global Practice, East Asia and Pacific Region

5. Lessons learned and conclusions

This study of household response to changes in access to finance identified a number of lessons:

- **The village bank is a replicable and scalable model for providing access to finance**. The participatory management systems and use of member savings to finance credit creates strong ownership among members. This addresses challenges experienced by village funds in Lao PDR. The mandatory savings requirement supports households to develop a saving culture and improve their financial management. The use of NSOs to provide wholesale credit and technical support to village bank committees creates an effective bridge to the formal banking system for relatively poor and remote rural households.
- **Access to village bank services is a form of social protection.** Many village bank members use savings as a strategy to mitigate the risks of illness or emergencies. Offering emergency loans by village banks is a strategic response to the demand for self-reliant social protection mechanisms, particularly in environments without access to formal social protection or affordable insurance services, reliable access to finance services with attractive interest rates support access to healthcare, consumption smoothing and education for the poor and vulnerable. These services, in turn, provide confidence for some households to invest in small enterprises that contribute to trade and economic growth in Lao PDR.
- **The village bank model is effective but cannot address all development needs**. The model is unlikely to be sufficient to enable the poorest of the poor to escape poverty. Although the poorest households with insufficient income to make the required minimum monthly savings contribution may be accepted as members with irregular contributions they are – for good reason – excluded from credit services. Many of the poorest choose not to join as they believe they do not have sufficient money to contribute savings.
- The income group that benefits most from a village bank is probably the middle and upper poor. Wealthier people access savings and loans services in commercial banks. Their savings balances are considered to be large enough to deposit in commercial banks and they can manage repayments for larger loans (*e.g*. LAK50 million) that are more competitively sourced from commercial banks. Poorer households do not have the collateral or capacity to service larger loans so the village bank is competitive for the smaller loans they demand (*e.g*. LAK1 to 10 million). Wealthier households use the village bank savings and loans services as well as commercial banks services in a blended approach that maximises their return on savings and increases their options for credit. This is important as their savings and loan repayments with interest contribute to village bank liquidity.
- Villages vary considerably in the livelihood opportunities available near them. Villages closer to town centres have a larger range of opportunities for income earning. Remote villages typically engage in subsistence agriculture or harvesting non-timber forest products. Both urban and rural households are affected by the BEE. Expanding income earning opportunities for households will help enhance the role of the village banks both in terms of expanding the uses of credit and increasing village bank income from savings and interest. There are mutual benefits and self-reinforcing elements between enhanced business opportunities and the growing business volume of village banks.
- **Village banks contribute to women’s economic empowerment.** Because women have an accepted role in household financial management, village banks and related financial literacy training offer accessible and convenient means to empower women. Improved access to finance at the village level, and including women on village bank committees, strengthens the capacity of

women as household managers, entrepreneurs and carers as well as providing important role models of economically active women for youth to emulate.

- **Village bank outcomes grow over time.** Because the village bank model relies on members' savings as a foundation for credit, and builds trust and financial literacy through implementation, the longer the village bank exists the greater the resulting outcomes are – more savings, more loans, more enterprise, and more financial literacy. There is an opportunity to use co-location to link village banks with other programs such as the Poverty Reduction Fund (for village infrastructure), the District Development Fund (for district economic development) or nutrition programs.

Overall access to financial services through village banks generated positive responses from respondent households. Opportunities to enhance the response of households to the village banks include supporting improvements to the financial literacy of village bank committee members and village bank members, supporting improvements to the BEE and building the capacity of NSOs to support village banks. Household respondents perceived village banks to be the best option for financial services in comparison with other financial services options available to them such as commercial banks, money lenders, family and friends, or other village funds. Households respond to having access to a village bank by:

- **Saving more** – having a safe place to keep their savings and a competitive interest rate to provide a dividend on savings causes member households to save more. Increased savings rates despite low and inconsistent incomes, suggests an improvement in financial literacy and management, which both contribute to a sense of wellbeing and confidence. Some respondents – the better off or those receiving remittances – used commercial banks as well, but they had a preference for the village bank because of its convenience and competitive dividend payment on deposits. Respondents also perceived the village bank to be reliable, trustworthy, and transparent as well as having good management systems compared with village funds, local money lenders, friends and family and even commercial banks.
- Households use savings and loans services from the village bank to fund health care, education for children, consumption smoothing, "lifecycle events" such as weddings or funerals and household assets, agricultural production or investment in businesses. Village banks support villagers to educate their children through mandatory and voluntary monthly savings which over a number of years can build up to amounts sufficient to fund education.
- Access to financial services for savings and loans help households manage agricultural production. For cash poor households it can be challenging to fund the cost of inputs for agricultural production (*e.g*. seeds, fertilisers and pesticides, hiring equipment and labour for clearing, planting and harvesting) as they occur at a different time in the year to their income from harvest.
- **Using credit** – availability of village bank loans, and physical, cultural and administrative accessibility to the lending institution, increased the confidence of households to use credit. Credit is increasingly being used for trading and productive purposes – suggesting entrepreneurial capacity is encouraged by village banks. Village bank membership also provides access to credit for women who would normally be reluctant to enter a commercial bank to seek a loan. As members become more confident and demand larger-scale loans for enterprise, the commercial banks become more competitive and these members use a blend of financial service providers. This is a form of graduation in economic activity that enables trade and economic growth.
- **Respondents said village bank loans do not lead to unsustainable indebtedness**. Particularly in locations closer to district centres, households use multiple income streams such as sale of agricultural produce and income from trading or day-labour to manage loan repayment obligations. Villagers in remote locations are more reliant on the sale of agriculture produce for income. Interpersonal connections between villagers (*e.g*. village bank members and their income

circumstances are known to the VBC), social obligations and a sense of ownership of the village bank encourage timely repayment.

- **Limits to the amount of credit available** is a constraint in the village bank model, especially during the early years of their establishment. As funds for loans are taken from members' savings, those banks that have existed for a short time or have predominantly poor members have small balances available for lending. The AFP program does have a system of wholesale loans whereby the NSO on-lend funds from those village banks with excess liquidity to village banks needing new capital. The NSOs safeguard this mechanism by analysing the clients' activity rate, the credit morale and other aspects the NSOs are enabled to assess potential risks for their lending decisions. The wholesale credit ceiling for each village bank depends on the individual risk assessment but can in no case exceed the value of the village bank's savings. So for new village banks or village banks in poorer areas, the opportunity to rapidly scale investment is modest at best.
- **Becoming more engaged –** having a strong sense of ownership in the village bank opens members to institutional and other opportunities in the village. Participatory management systems and good governance, coupled with financial literacy training, give members exposure to practices relevant to village meetings, local development planning and enterprise management. Positive discrimination for women as members of village bank committees (*e.g*. women are often elected to the positions responsible for keeping the village bank account books) benefits the elected individuals but also the standing of women in the village.
- This study shows that women have an accepted role in managing household finances (*e.g*. households tend to make financial decisions jointly) which is enhanced by village bank governance requirements. For example, village bank membership increases household financial transparency which benefits women and other family members.
- **Feeling more secure –** the availability of emergency loans, especially for health crises, provides village bank members with peace of mind and is a significant boost to wellbeing and security.

5.1 Future research priorities

- **What is an appropriate program mix, including community finance, to help the poorest of the poor to escape poverty in Lao PDR?** Given the findings of this and other studies regarding the limited role for community finance in supporting the poorest of the poor and the current application of the Graduation Approach through the DFAT AIP in Lao PDR for supporting very poor rural households it would be worthwhile exploring what mix of interventions is effective in enabling the very poor to climb out of poverty.
- **How can the benefits of community financed be complemented by other support for the BEE in Lao PDR?** It would be useful to look at lessons learned of successful examples of community finance being combined with other forms of support for enterprise development such as support for production, value chain and market development to help household expand their businesses. Are there key elements of these successes that can be scaled up and replicated in combination with a community finance model such as the village banks?

Annexes

Annex 1: Development Partner Investments in Financial Inclusion in the Lao PDR[32]

Organisation	Activities
GoL, Lao Women's Union with donor support	Allocated 41.7 billion Kip (2003 – 2007) to the development of village funds across the country. There are close to 5,000 village funds covering more than half the villages of the Lao PDR, the majority savings based. By September 30, 2009 the Government's support for VFs in the 47 poorest districts covered 528 villages and 34,865 families. The number of active members comprised 21,759 families, and total revolving funds stood at LAK42.5 B
Asian Development Bank at the national level	**Rural Finance Sector Development Program** (RFSDP) (2007 – 2012): policy-based loan ($7.8 million), a project loan ($2.3 million), a technical assistance grant ($0.7 million) and grant projects ($1.98 million and $0.472). Support to Agricultural Promotion Bank (APB) Supported the establishment of a Microfinance Division in BoL including piloted regulations for SCUs and MFIs which were enacted in 2008 **Catalysing Microfinance for the Poor** (2007): support for locally adapted capacity-building and training and matching grants for MFI's
ILO in Borikhamxay, Champassak, Savannakhet, Khammouane, and Sayaboury provinces	Supported the establishment of 139 village banks in 5 provinces serving over 27,000 members in close collaboration with the Lao Community Sustainable Development Promotion Association (LCSDPA) and the provincial departments of labour and social welfare, and of industry and commerce as part of two technical cooperation projects to reduce the incidence of human trafficking (2003-08) and to promote women entrepreneurship and gender equality (2009-11).
UNDP/UNCDF at the national level	Initiated a microfinance roundtable (mid-1990s), conducted the first **microfinance survey** among rural households (1996), reporting on 1,640 village funds (most of them rice banks) and 28 projects. **Microfinance and Sustainable Livelihood Project** (1997) with BoL to build capacity and promote good practices, establishment of three MFIs: Sayaboury Microfinance Office, Sihom Project Savings and Credit Scheme and Oudomxay Development NDTMFI and establishment of the Microfinance Centre (MFC) a leading training and consultancy provider. **Making Access to Finance more Inclusive for Poor People (MAFIPP)** (2010-2104, USD7 million, 2014-2017, USD7 million)**:** interventions at the macro, meso and micro levels including strategic capital and technical assistance to increase access to financial services by low-income

[32] Seibel, H & Rohmann, B (2012) *Microfinance in the Lao PDR* https://www.researchgate.net/publication/256095526_MICROFINANCE_IN_THE_LAO_PDR_2012 accessed on 27/4/16:

	households and micro-entrepreneurs on a sustainable basis
WB/PRF in Houaphan and Savannakhet provinces	The LONG program, a pilot within the Poverty Reduction Fund (PRF) II provided grants to self-help groups of 10-20 families in some 200 villages, with the aim of improving community nutrition.
WB/ Nam Theun 2 Power Company (NTPC) in Khammouane and Savannakhet provinces	Income Restoration Funds established as part of a downstream livelihood strategy, compensating villages for the loss of livelihood caused by Nam Theun 2, a large hydropower project.[22]
IFC at national level	Establishment of a Credit Information Bureau, jointly with ADB and the EU. Work with BOL on development of payments system
Association of Asian Confederation of Credit Unions in Luang Prabang, Xayaboury, Oudomxay and Luang Namtha provinces	Supported the development of SCUs in Laos since 1992. This has included capacity building of VFs as pre-SCUs and their upgrading to SCUs. ACCU's main partners have been BoL, the provincial Department of Planning and Investment (DPI) in Luang Prabang, Xayaboury, Oudomxay and Luang Namtha and two Dutch NGOs, Agriterra and Rabobank Foundation. Its activities have included contributions to the preparation of a regulatory framework for SCUs, promulgated by BoL in 2008, and of bylaws; the promotion and organization of 19 VFs during 1995-2000; technical support to 6 SCUs and 44 VFs in 2002-2008; and organizational strengthening of 22 VFs in 2009-2010, together with capacity building for participating organizations.
DGRV in Vientiane capital and Savannakhet province	Supported Naxaythong Rural Development Cooperative in Vientiane Capital, Helped to establish a **Village Bank Service Center** (VBSC) as a cooperatively owned network support organization in Champhone District, Savannakhet Province designed to evolve into a licensed self-sufficient SCU financial intermediary and service provider – as of 2012 the VBSC had 50 village funds with 3,990 members, a savings balance of LAK4.6 B and a loan portfolio of LAK3.1 B.
FIAM and CODI in Vientiane capital	Established 453 village banks in the nine districts of Vientiane Capital, covering 91% of the villages with 104,000 member-savers, 30,000 borrowers and 25,000 life insurance participants.
German Savings Banks Foundation for International Cooperation (SBFIC)	Supported the establishment of a Women and Family Development Fund (WFDF) in partnership with LWU, the training program of the Microfinance Centre (MFC) and the Microfinance Working Group (MFWG).
Welthungerhilfe	Promoted village funds (VFs) in Laos since 2003

Annex 2: Semi structured interview guide

Instructions for interviewers: Divided into two groups: women and men. Do in a group of 3-4 but ask each person individually. VB Committee members might be part of one of the groups. Try to get at least one female VBC member.

Savings

When did you join the village bank?

How many savings accounts do you have? (joint or one for each family member, for children)

What are you saving for? How much do you contribute? How much have you accumulated in savings?

Have you used your savings yet? If so, when/what for?

Did you save before there was village bank? Where/how?

Do you have any other savings account in other institution at the moment?

How do you think having a savings account with the VB has helped you?

Loans

Do you have a loan with VB? What's it for?

How much is it? When did you take it out? When do you have to pay it back?

Are you paying off only the interest and then the principle at the end?

What do you do for income? What does your husband do?

Was the decision to take out a loan a joint decision with yourself and your husband/wife or others?

If they grow rice or other farming ask whether they sell any or just grow to eat, (I also always ask how many hectares they have. If they sell stuff, how hard or easy is it to market

Do you think you will have trouble paying it off?

Have you had a loan from VB before? What was it for? Did you have trouble paying it off?

Do you have a loan with any other institution/person?

Did you take out a loan with any other person/institution before there was VB in the village? If so, how much was it for/interest rate/did you manage to pay it back?

General

How do you think the Village Bank has helped your village?

Can you think of any ways in which the VB could be improved?

Village committee members

How has the VB helped your village? Has the village bank had any negative effects on your village?

What can you see in the future for the village bank in your village?

How has being a village bank committee member affected you and your household (positive and negative effects)?

Annex 3: Quantitative Survey Instrument

LADLF Study: Household Responses to AFP Program Survey Instrument	
Hello: You are invited to participate in our survey <i>Household Responses to Access to Finance through AFP Program</i>. In this survey, approximately 100 people will be asked to complete a survey that asks questions about their interactions with village banks. It will take approximately 45 minutes to complete the questionnaire. Your participation in this study is completely voluntary. There are no foreseeable risks associated with this project. However, if you feel uncomfortable answering any questions, you can withdraw from the survey at any point. It is very important for us to learn your opinions. Your survey responses will be strictly confidential and data from this research will be reported only in the aggregate. Your information will be coded and will remain confidential. If you have questions at any time about the survey or the procedures, you may contact LADLF. Thank you very much for your time and support. Please start with the survey now by clicking on the Continue button below.	
1) Please enter the date.	
2) Please enter respondent's village/district/province	
3) Please enter respondent's ID number	
4) Name of respondent	
5) Respondent's sex	
(i) Male	(i)
(ii) Female	(ii)
6) Are you the head of the household?	
(i) Yes	(i)
(ii) No	(ii)
7) Is the head of your household male or female?	
(i) Male	(i)
(ii) Female	(ii)
8) What is your age?	
9) What is your highest education attainment level?	
10) What is your ethnicity?	

11) Which of these livelihood activities do members your household engage in (can select more than one)?	
(i) Farm own land and grow produce to eat	(i)
(ii) Farm own land and grow produce to sell	(ii)
(iii) Daily wage labourer (e.g. work on someone else's farm or road construction)	(iii)
(iv) Gather goods from the forest	(iv)
(v) Trading (e.g. small shop, restaurant, gas station, buy goods and resell etc)	(v)
(vi) Public servant	(vi)
(vii) Wage earner for private company	(vii)
(viii) Other	(viii)
12) When did you become a member of the village bank?	
13) What are you doing differently now that you weren't doing before you joined the village bank (can select more than one)?	
(i) I attend village bank meetings	(i)
(ii) I participate in other village meetings	(ii)
(iii) I am confident to enter a bank	(iii)
(iv) I record income and expenditure for my household	(iv)
(v)I deal with finances more confidently	(v)
(vi) Other	(vi)
14) Are you a village bank committee member?	
Yes	
No	
15) When did you become a village bank committee member?	
16) Who keeps the account book/s in your household?	
(i) Myself	(i)
(ii) My spouse	(ii)
(iii) All household members keep their own book	(iii)
(iv) Other	(iv)
17) Who made decisions about financial matters in your household before you became involved with the village bank?	
(i) Myself only	(i)
(ii) My spouse only	(ii)
(iii) Joint decision making	(iii)
(iv) Other	(iv)
18) Who makes decisions about financial matters in your household since you became involved with the village bank?	
(i) Myself only	(i)
(ii) My spouse only	(ii)
(iii) Joint decision making	(iii)
(iv) Other	(iv)
19) How many savings accounts with the village bank are held by members of your household?	

1	
2	
3	
4	
More than 4	
20) What type of savings accounts are held by your household (can select more than one)?	
(i) Joint account	(i)
(ii) Individual account	(ii)
(iii) Children's account	(iii)
21) Before you joined the village bank did you save?	
(i) Yes	(i)
(ii) No	(ii)
22) Before you joined the village bank where did you save (can select more than one)?	
(i) Cash at home	(i)
(ii) Credit to family members	(ii)
(iii) Jewellery at home	(iii)
(iv) Livestock	(iv)
(v) Rice at home	(v)
(vi) Commercial bank	(vi)
(vii) MFI	(vii)
(viii) Another village fund	(viii)
(ix) Other	(ix)
23) Before you joined the village bank what was the purpose of your savings (can select more than one)?	
(i) Medical and emergencies	(i)
(ii) Lifecycle events	(ii)
(iii) Household expenses when don't have income	(iii)
(iv) Purchase assets for household	(iv)
(v) Send children to school	(v)
(vi) Agriculture production for household consumption	(vi)
(vii) Investment in business (includes sale of agricultural produce, trading, and other type of business)	(vii)
(viii) Pay debt	(viii)
(ix) Other	(ix)
24) Before you joined the village bank who did you save for (can select more than one)?	
(i) Myself	(i)
(ii) My spouse	(ii)
(iii) My children	(iii)
(iv) Other family member	(iv)
(v) Other	(v)
25) Where are you currently keeping your savings (can select more than one)?	

(i) Cash at home	(i)
(ii) Credit to family members	(ii)
(iii) Jewellery at home	(iii)
(iv) Livestock	(iv)
(v) Rice at home	(v)
(vi) Commercial bank	(vi)
(vii) MFI	(vii)
(viii) Village bank	(viii)
(ix) Other village fund	(ix)
(x) Other	(x)
26) What is the purpose of your current saving (can select more than one)?	
(i) Because saving is a requirement of being a village bank member and accessing loans	(i)
(ii) Medical and emergencies	(ii)
(iii) Lifecycle events	(iii)
(iv) Household expenses when don't have income	(iv)
(v) Purchase assets for household	(v)
(vi) Send children to school	(vi)
(vii) Agricultural production for household consumption	(vii)
(viii) Investment in business (includes agricultural production for sale, trading and other type of business)	(viii)
(ix) Pay debt	(ix)
(x) Other	(x)
27) Who are you currently saving for (can select more than one)?	
(i) Myself	(i)
(ii) My spouse	(ii)
(iii) My children	(iii)
(iv) Other family member	(iv)
(v) Other	(v)
28) Before you became a member of the village bank did you borrow money?	
(i) Yes	(i)
(ii) No	(ii)
29) Before you joined the village bank where did you borrow money from (can select more than one)?	
(i) Commercial bank	(i)
(ii) MFI	(ii)
(iii) Other village fund	(iii)
(iv) Local money lenders	(iv)
(v) Family and friends	(v)
(vi) Other	(vi)
30) Before you joined the village bank what did you borrow money for (can select more than one)?	
(i) Medical and emergencies	(i)
(ii) Lifecycle events	(ii)
(iii) Household expenses when don't have income	(iii)
(iv) Purchase assets for household	(iv)

(v) Send children to school	(v)
(vi) Agricultural production for household consumption	(vi)
(vii) Investment in business (includes agricultural production for sale, trading and other type of business)	(vii)
(viii) Pay debt	(viii)
(ix) Other	(ix)
31) Before you joined the village bank who did you borrow money for (can select more than one)?	
(i) Myself	(i)
(ii) My spouse	(ii)
(iii) My children	(iii)
(iv) Other family member	(iv)
(v) Other	(v)
32) Since you became a village bank member have you borrowed money?	
(i) Yes	(i)
(ii) No	(ii)
33) Since you joined the village bank where did you borrow money from (can select more than one)?	
(i) Village bank	(i)
(ii) Commercial bank	(ii)
(iii) MFI	(iii)
(iv) Another village fund	(iv)
(v) Local money lenders	(v)
(vi) Friends and family	(vi)
(vii) Other	(vii)
34) How many loans have you taken out from the village bank?	
0	
1	
2	
3	
4	
More than 4	
35) Since you joined the village bank what did you use your loan/s for (can select more than one)?	
(i) Medical and emergencies	(i)
(ii) Lifecycle events	(ii)
(iii) Household expenses when don't have income	(iii)
(iv) Purchase assets for household	(iv)
(v) Send children to school	(v)
(vi) Agricultural production for household consumption	(vi)
(vii) Investment in business (includes agricultural production for sale, trading and other type of business)	(vii)
(viii) Pay debt	(viii)
(ix) Other	(ix)

36) Since you joined the village bank who did you borrow money for (can select more than one)?	
(i) Myself	(i)
(ii) My spouse	(ii)
(iii) My children	(iii)
(iv) Other family member	(iv)
(v) Other	(v)
37) When you took out a loan from the village bank did you fully understand your loan obligations?	
(i) Yes	(i)
(ii) No	(ii)
38) When you took out a loan from the village bank were you certain you would have enough income to pay back the loan?	
(i) Yes	(i)
(ii) No	(ii)
39) How many loans from the village bank have you already repaid?	
0	
1	
2	
3	
4	
More than 4	
40) Have you experienced any problems in repaying your loan/s from the village bank?	
(i) Yes	(i)
(ii) No	(ii)
41) Why did you have a problem paying back your loan from the village bank?	
42) Did you ever have to sell assets to pay back a village loan? (e.g. livestock, jewellery, motor vehicle)	
(i) Yes	(i)
(ii) No	(ii)
43) Please give details about the assets you sold (type of asset/year sold/number of assets sold)	
44) Do you think that taking out a loan from the village bank has helped your household?	
(i) Yes	(i)
(ii) No	(ii)
45) Do you have a business?	
(i) Yes, I have a registered business	(i)
(ii) Yes, I have a business but it is not registered	(ii)
(iii) No I don't have a business	(iii)

46) Did you invest in your business before you joined the village bank?	
(i) Yes	(i)
(ii) No	(ii)
47) When you invested in your business before you joined the village bank where did get the money from (can select more than one)?	
(i) Savings with commercial bank	(i)
(ii) Savings with MFI	(ii)
(iii) Savings with other village fund	(iii)
(iv) Savings in cash at home	(iv)
(v) Savings in jewellery at home	(v)
(vi) Savings in livestock	(vi)
(vii) Savings in rice	(vii)
(viii) Loan from commercial bank	(viii)
(ix) Loan from MFI	(ix)
(x) Loan from other village fund	(x)
(xi) Loan from family and friends	(xi)
(xii) Gift from family and friends	(xii)
(xiii) Other	(xiii)
48) When you invested in your business before you joined the village bank what did you invest in?	
(i) Buy equipment	(i)
(ii) Buy inputs or stock	(ii)
(iii) Improve facilities	(iii)
(iv) Increase the size of business	(iv)
(v) Open a new business	(v)
(vi) Other	(vi)
49) Since you joined the village bank have you invested in your business?	
(i) Yes	(i)
(ii) No	(ii)
50) When you invested in your business after you joined the village bank where did you get the money from (can be more than one)?	
(i) Savings with village bank	(i)
(ii) Savings with commercial bank	(ii)
(iii) Savings with MFI	(iii)
(iv) Savings with other village fund	(iv)
(v) Savings in cash at home	(v)
(vi) Savings in jewellery at home	(vi)
(vii) Sale of livestock	(vii)
(viii) Savings in rice at home	(viii)
(ix) Loan from commercial bank	(ix)
(x) Loan from MFI	(x)
(xi) Loan from village bank	(xi)
(xii) Loan other village fund	(xii)
(xiii) Loan from local money lender	(xiii)
(xiv) Loan from family and friends	(xiv)

(xv)Gift from family and friends	(xv)
(xvi) Other	(xvi)
51) When you invested in your business after you joined the village bank what did you invest in (can select more than one)?	
(i) Buy equipment	(i)
(ii) Buy inputs or stock	(ii)
(iii) Improve facilities	(iii)
(iv) Increase the size of the business	(iv)
(v) Open a new business	(v)
(vi) Other	(vi)
52) In the future do you plan to invest in your business?	
(i) Yes	(i)
(ii) No	(ii)
(iii) Not sure	(iii)
53) If you invest in your business in the future, where will you get the money from (can select more than one)?	
(i) Savings with village bank	(i)
(ii) Savings with commercial bank	(ii)
(iii) Savings with MFI	(iii)
(iv) Savings with other village fund	(iv)
(v) Savings in cash at home	(v)
(vi) Savings in jewellery at home	(vi)
(vii) Sale of livestock	(vii)
(viii) Savings in rice at home	(viii)
(ix) Loan from commercial bank	(ix)
(x) Loan from MFI	(x)
(xi) Loan from village bank	(xi)
(xii) Loan other village fund	(xii)
(xiii) Loan from local money lender	(xiii)
(xiv) Loan from family and friends	(xiv)
(xv)Gift from family and friends	(xv)
(xvi) Not sure	(xvi)
(xvii) Other	(xvii)
54) What will you invest in (can select more than one)?	
(i) Buy equipment	(i)
(ii) Buy inputs or stock	(ii)
(iii) Improve facilities	(iii)
(iv) Increase the size of the business	(iv)
(v) Open a new business	(v)
(vi) Not sure	(vi)
(vii) Other	
55) Have you attended financial literacy training?	
(i) Yes	(i)
(ii) No	(ii)

56) What do you do differently as a result of the financial literacy training provided by GIZ (can select more than one)?	
(i) I feel more capable managing the household finances	(i)
(ii) I have saved more money	(ii)
(iii) I have invested more in my business	(iii)
(iv) I record income and expenditure for my household.	(iv)
(v) Other	(v)

This report was researched, written and edited by

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ການ ຮ່ວມມື ເຢຍລະມັນ DEUTSCHE ZUSAMMENARBEIT

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