

Human Trafficking and Microfinance: the Lao Village Development Funds

Discussion paper of the ILO- IPEC/TICW

Lao Village Development Project

By

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ABSTRACT

The main objective of this work was to research the effectiveness of microfinance as a preventative measure to combat human trafficking. The IPEC-TICW's most successful microfinance programme, the Lao Village Development Fund, was used as the primary case study in this report. A qualitative analysis of key microfinance components reviews existing literature on the microfinance-trafficking relationship, to recommend that microfinance can be an effective preventative measure, contingent upon sustainable design with pre-emptive anti-trafficking education, as well as increased focus on targeting those most vulnerable to trafficking. Further research is needed to quantify the extent of the Lao VDF's impact on migration and trafficking in target villages, but its success and extent provides initial evidence that microfinance programmes play a key role in a holistic programme to counter human trafficking.

GLOSSARY OF KEY TERMS

Microfinance

The provision of loans, savings, insurance, transfer services, microcredit loans, and other financial services targeted at low-income clients (UNCDF Microfinance). Microfinance is generally regarded as a permanent part of the financial sector where previously these services to the very poor did not exist.

Village Bank

Village banks are community-managed credit and savings associations established to provide access to financial services in rural areas, build community self-help groups, and help members accumulate savings (Otero and Rhyne 1994). The model was developed in the mid-1980s by the Foundation for International Community Assistance (FINCA). Membership in the bank usually ranges from 30-50 people, most of whom are women. The bank is financed by the savings of bank members as well as loans provided by the microfinance institution (Microfinance Handbook, 85)

Migrant worker:

Anybody who is going to be engaged, is currently engaged or has been engaged in a paid activity in a state where he or she is not a national (according to Article 2(1) of the UN Convention on the Protection of the Rights of all Migrant Workers and Members of their Families, 1999).

Migration:

The movement of people abroad for education, employment, political or personal reasons, and this movement should be legal and well prepared to ensure a successful movement. Migration can also depend on natural or human disasters, conflict, an oppressive regime and other situations where the life, freedom or livelihood of people are endangered (according to the UN Convention on the Protection of the Rights of all Migrant Workers and Members of their Families, 1990).

Trafficking:

This content analysis and interview with an editor operates from a baseline knowledge of human trafficking using the internationally-recognized definition (summarized) below:

Article 3 of the UN Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children (2000):

- “(a) ‘Trafficking in Persons’ shall mean the recruitment, transportation, transfer, harbouring and receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal of organs;
- (b) The consent of a victim of trafficking in persons to the intended exploitation set forth in subparagraph (a) of this article shall be irrelevant where any of the means set forth in subparagraph (a) have been used;
- (c) The recruitment, transportation, transfer, harbouring or receipt of a child for the purpose of exploitation shall be considered ‘trafficking in persons’ even if this does not involve any of the means set forth in subparagraph (a) of this article;
- (d) ‘Child’ shall mean any person under eighteen years of age

LIST OF ABBREVIATIONS

CLCTO	Office to Eradicate Child Labour and Child Trafficking – (part of Lao Ministry of Labour and Social Welfare)
DSLW	Department of Labour and Social Welfare
ILO	International Labour Organization
IPEC	International Programme on the Elimination of Child Labour
Lao VDF	Lao Village Development Fund
LSCDPA	Lao Community Sustainable Development Promotion Association
MFI	Microfinance Institution
PSC	Provincial Steering Committee
SEED/WEDGE	In Focus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) and Women's Entrepreneurship Development and Gender Equality (WEDGE)
TICW	Trafficking in Women and Children
UNIAP	UN Inter-Agency Project on Human Trafficking in the Greater Mekong Sub-Region
VDC	Village Development Committee
YV	Youth Volunteer

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CHAPTER 1: INTRODUCTION

1.1 Background to the Study

The problem of human trafficking is a complex issue requiring a multidimensional, collaborative approach from international organizations, NGOs, and government agencies. As part of the ILO/IPEC Technical Intervention Area 3, microfinance has received greater attention, along with non-formal education and vocational training, as a way to generate income in rural areas and lower the incidence of trafficking.¹ In particular, as a result of effort by implementing partners and the ILO's Mekong Sub-regional project to combat trafficking in children and women (ILO-TICW project), village banks in Lao PDR (the Lao Village Development Funds) have achieved measurable success over the past few years. Initiated in Phase I of the project in early 2004, there are now more than 120 operational village banks in Lao PDR across five provinces. The estimated number of loan beneficiaries is now 12,000 families², and the cumulative amount of loans disbursed has reached 6.3 billion kip (USD \$653,000) as of August 2007.³

Despite these impressive figures, it remains to be studied and quantified how these village banks have contributed to the fight against human trafficking. Figures range widely, but it is believed that every year thousands of people, particularly women and children, are victims of trafficking in Laos. Have the village banks affected these outflows or inflows in the three years of its operation? Have there been any qualitative changes in the lives of its beneficiaries? These questions and others are what this report seeks to explore.

1.2 Country Overview

The Lao People's Democratic Republic – Lao PDR – is a landlocked country with a primarily agricultural-based economy. With an estimated population of 6.4 million in 2006, the country's per capita income in 2006 of \$572 USD is one of the lowest in Southeast Asia, with the exception of Burma.⁴ Agriculture, mostly subsistence rice farming, dominates the economy, employing an estimated 78% of the population and producing 43.4% of GDP.⁵ Domestic savings are low, forcing Laos to rely heavily on foreign assistance and concessional loans as investment sources for economic

¹ P.F. Kelley: *Micro-finance Interventions: Tools to Combat the Worst Forms of Child Labour, Including Trafficking*, (Bangkok, ILO-IPEC, 2002) p vii. Other TIAs include non-formal education and rural skills training, legal labour migration, gender equality promotion, networking and coordination, participation, project management, psycho-social counselling and working with employers' and workers' organizations.

² L. Deelen: "Using Microfinance to Fight Child Labour, Human Trafficking," in *ILO Issues* newsletter, April 2007, p 6

³ Summary operational table of target VDFs 2007

⁴ US Department of State, 2006, available at <http://www.state.gov/r/pa/ei/bgn/35910.htm>

⁵ Ibid

development. The administrative structure consists of 18 provinces and 142 districts, 10,868 villages, and 881,596 households as of 2002.⁶

As the country borders five GMS nations, Lao PDR is both a source area and a transit country for victims of trafficking and labour and sexual exploitation. With over half of the population below the age of 20, many young Lao people migrate in search of better economic opportunities.⁷ The legal channels established by the government are costly and time-consuming, resulting in many migrants going through non-legal channels and without legal documentation.⁸ This leaves them vulnerable to disreputable employment agencies and employers, to exploitative work situations and trafficking.

Studies show that most victims of human trafficking in Laos end up in Thailand, and according to the first national survey on human trafficking from October 2004, the typical profile of a trafficking victim in Lao PDR is a girl between 12-18 years of age, originating from rural areas but not the most remote areas or situations of severe poverty, and vulnerable in terms of poverty, lack of education, awareness, and employment opportunities.⁹

1.3 The Case for Microfinance in Lao PDR

The previous absence of a microfinance sector in Lao PDR has contributed to the success of the Lao village banks. Existing state-owned and joint-venture banks, including the Agricultural Promotion Bank, have not been able to extend financial services to much of the rural poor.¹⁰ Further, although the June 2005 microfinance regulatory framework enacted by the Lao Government allows private investment in microfinance institutions (MFIs), there has been little headway in this sector.¹¹

The ILO village banking programme started in Lao in 2004, working with non-governmental organizations such as the Lao Community Sustainable Development Promotion Association (LCSDPA), the Lao Women's Union (LWU), and SEED/WEDGE (ILO – TICW's sister project to promote gender empowerment and entrepreneurial skills).¹² The project is also implemented by provincial departments of labour and social welfare (DLSW), as well as the departments of industry and commerce. Loan repayment rates have been close to 100%, with average village savings of over USD \$1000.¹³

⁶ National Statistics Centre of Lao PDR: *Statistical Handbook 2002*

⁷ ILO-TICW: "An ILO-TICW project overview of Lao PDR" available at <http://www.childtrafficking.net>.

⁸ A. Beesey et al.: *Mid-project impact assessment*, forthcoming p. 23

⁹ ILO-TICW: "Lao PDR country profile", Mekong Women's Forum, Hanoi, (12-13 July 2007)

¹⁰ Linda Deelen, "The ILO Village Banking Programme in Lao PDR," May 2007, pg3

¹¹ *Ibid.*

¹² ILO-TICW: "An ILO-TICW project overview of Lao PDR" available at <http://www.childtrafficking.net>.

¹³ ILO-TICW: "Banking as a Solution," Mekong Women's Forum, July 2007

Box 1: A village bank, from setup to save up

The ILO and local NGO staff first visit a village and explain the concept of a village bank to the villagers. If there is interest, and they can form a group of at least 25 individuals, then the ILO offers them a training programme on village banking methodology. After the training, the group elects a village bank committee, consisting of a president, a treasurer, an accountant, and two other members. This committee manages the daily affairs of the bank and approves loans. The whole group agrees on the rules and bylaws of the village bank.

Once the village bank has been set up, members start depositing their savings. After enough savings have been collected (say US \$100 or US \$200), small loans will be issued to members. The interest rate on the loans is decided by the village and is usually around 3% per month. The NGO regular audits the village banks, and at the end of the year, members receive a dividend on their savings (Deelen, 2007b).

1.3.1 Microfinance vs. Microcredit

The United Nations broadly defines microfinance as the “provision of loans, savings, insurance, transfer services, and other financial services targeted at low-income clients” (UNCDF Microfinance). The term “microfinance institution” now refers to a wide range of organizations dedicated to providing these services and includes non-governmental organizations, credit unions, co-operatives, private commercial banks, non-bank financial institutions and parts of State-owned banks.

On the other hand, microcredit primarily refers to the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans, and is generally considered a component of a more comprehensive microfinance programme (Grameen Bank).

CHAPTER 2: METHODOLOGY

2.1 Research Objective

This project is primarily designed to explore the impacts of microfinance on levels of human trafficking, using the Lao village banks as a case study. Frequently incorporated into a holistic programme to combat trafficking, the effect of microfinance itself on migratory flows is not easily identified, though there have been previous ideas of indirect connections between the two fields. Designing effective village microfinance programmes that have the potential ability to reduce trafficking requires an understanding of not only principles of sustainable village microfinance, but the ability to channel this framework to address the causes of trafficking.

It is the hope of the researcher that this paper will generate extended discussion about the synergies between financial services to the rural poor and the root drivers of human trafficking. Though it was not possible to obtain quantitative data on the link between microfinance and human trafficking due to lack of availability, there is justifiable cause for this research in the future.

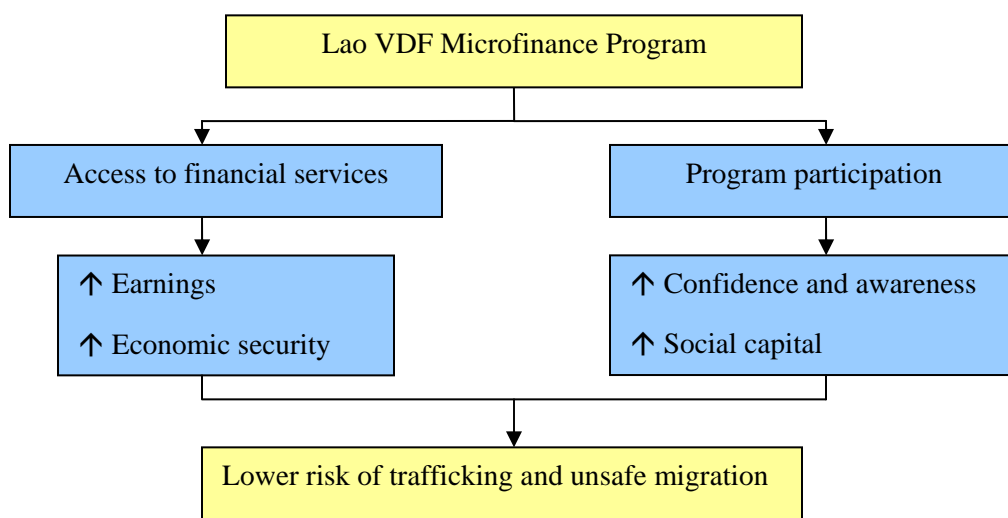
2.2 Challenges and Limitations of the Research process

This paper is primarily styled as a qualitative “thought-piece” exploring the connections between microfinance and human trafficking, using the Lao village banks as a case study of a successful ILO-IPEC/TICW technical intervention area. There exists little prior research on this topic, and preliminary research mainly reviewed papers written by the ILO – Bangkok office’s regional microfinance expert, Linda Deelen, the mid-project impact assessment, and various materials on poverty finance and rural development.

Given additional time and resources, it would have been interesting to test the theoretical framework in a field mission to the Lao provinces of Savannakhet, Khammoune, and Bolikhamxay. With support from Kolakot Venevankham, the NPM for ILO-IPEC/TICW, Onevong Keobounnavong, Head of CLCTO, Ms. Phetphim, NPC of ILO-SEED/WEDGE project in Laos, and various Provincial Steering Committees and Village Managing Committees of the rural banks, a formal data collection project could result in some quantitative material to establish baseline figures on the Lao VDFs. A random questionnaire and in-depth interviews would be administered to a sufficient sample size of beneficiaries in each village and then coded; followed by multiple regression analysis to isolate key variables and illustrate any associations between microfinance and trafficking.

CHAPTER 3: MICROFINANCE EFFECTS ON TRAFFICKING

Figure 1: Pathways toward Reduction of Human Trafficking



Microfinance as an anti-trafficking intervention is based on several assumptions. The justification for microfinance is that poverty alleviation will reduce the risk of ill-prepared migration and trafficking, and that higher incomes will promote safer migration. The link between microfinance and human trafficking is indirect but evident. Overall, it decreases the “push” factor to migrate in several ways:

- a. Generates family income so that children can be kept in school and away from exploitative situations.¹⁴
- b. Offers access to services such as savings and emergency loans which insure against financial shocks such as family illness, accidents, crop failures, and other emergencies.¹⁵
- c. Affords people credit options at lower rates than a loan shark or money lender could offer, providing the first step towards escaping the cycle of poverty and achieving self-sustainability.

¹⁴ P.F. Kelley, 2002, pg. vii

¹⁵ L. Deelen: “The ILO Village Banking Programme in Lao PDR,” 2007, p 2

- d. Expands employment opportunities at home and reduces the pressure to migrate in search of income.

However, it is difficult to quantify the extent to which microfinance has reduced economic push factors such as poverty and unemployment and thereby, lowered the risk of trafficking and ill-prepared migration. One important disclaimer to note is that measures of success cannot be based on the rate of migration, but rather on whether trafficking is reduced or the vulnerability to the risk of exploitative trafficking is lowered.¹⁶ Impact assessments, therefore, will have to develop accurate and appropriate methods based on less trafficking, reduced ill-prepared migration, or greater awareness to explore this connection.

3.1 Community development versus targeted assistance

In economic development circles, microfinance has typically been viewed as a component of a more comprehensive poverty alleviation program, as a way to provide the poor with financial services previously inaccessible through existing institutions. This perspective also applies to the village banks in Lao PDR which help build a sounder economic base for the general benefit of the community.

Lately, however, economists and social scientists have linked microfinance to multiple social issues ranging from gender-based violence to female empowerment, to child labour and human trafficking. Using microfinance as a technical intervention to prevent trafficking, for example, can be argued to be effective in two ways. Firstly, by improving overall village welfare the rising tide of prosperity “lifts all boats.” Engaging in vocational and rural skills training provides people with alternative livelihood earning potential, and access to credit offers opportunities for business expansion previously unavailable. Families are better positioned to help each other in times of need and overall village relations improve. By setting into place a series of social goods, the idea is to counteract or stymie the spread of social ills.

On the other hand, there is the argument that microfinance funds need to be better targeted to address a social concern whose most vulnerable victims to trafficking are young people, especially women. At the risk of undermining wider community interests and undercutting a broad spectrum of loan beneficiaries¹⁷, should microfinance funds be more specifically targeted? Current borrowers are mainly heads of families or housewives age 25-40, not the children and young women who are most likely to leave.¹⁸ The degree to which the latter group benefits indirectly through increased work opportunities at home or school funds, however, remains to be assessed. (Though savings accounts established for children can be considered a direct benefit that lessens

¹⁶ A. Beesey et al: *Mid-Project Impact Assessment*, 2007, p 52

¹⁷ IPEC: *Mid-term Evaluation*, 2006, p 66

¹⁸ Id. 65

their vulnerability to trafficking.) In addition, most vocational skills training focus on activities such as pig-rearing and paddy rice cultivation which may appeal to older demographics.¹⁹

3.1.1 Absolute poverty

Can microfinance effectively reach the poorest of the poor? It seems paradoxical that an intervention designed to empower those with few resources may be unable to help those with the greatest need. In the ILO-IPEC work entitled *Micro-finance Interventions: Tools to Combat the Worst Forms of Child Labour Including Trafficking*, Paula Francis Kelley posits that “micro-finance is not for the poorest of the poor but only for the poor with opportunities.”²⁰ She cites Reminyi (1991) who defined the concept of the “entrepreneurial poor” who can use financial assistance to move out of poverty, as opposed to the vulnerable/ultra poor, labouring poor, etc. who are unable to do so.²¹

This is an interesting contrast to the modern example of the Grameen Bank in Bangladesh, an MFI with 12 million beneficiaries and a loan repayment rate of 98%, all based on Mohammed Yunus’ belief that even the poorest of the poor will create a way to escape poverty if given the opportunity. In this case, the idea of a select group of “entrepreneurial poor” is a moot concept, and all those in need are given loans regardless of distinctions in their level of income. The demonstrated success of the Grameen Bank as well as the savings accrued by even the most destitute of borrowers provides meaningful weight against the theory offered by Reminyi above.

In regards to human trafficking, the issue becomes more complicated. The key question is whether microloans can be targeted in such a way as to prevent families in the direst situations from say, selling their child into prostitution or other forms of forced labour. According to consultants Beesey et al, “microfinance does not necessarily reach the poorest people, and in some ways is not designed to, and in some ways does not have to if the poorest people are less likely to migrate.”²² It is difficult to draw the line between those who need to be targeted (the poorest who are most vulnerable to be trafficked) and those who have the resources but are ill-prepared to migrate (people higher up socio-economically attracted to promises from recruiters). Though there is no simple picture or designated characteristics of a prospective migrant, a better understanding is needed of migration patterns, motivations, and recruitment by district and village.

¹⁹ Id. 66

²⁰ P.F. Kelley: *Microfinance interventions*, 2001, p 5. By microfinance Kelly means the “credit and saving activities within an enterprise development project.” (3) though she acknowledges a broader meaning to microfinance in the international discourse: referring to the “provision of financial services such as deposits, loans, payment services, money transfers, insurance, training, counselling, and other support of an in-kind nature to poor and low-income households and their micro enterprises.” (4)

²¹ Ibid.

²² A. Beesey et al: *Mid-project assessment*, 2007, p 52

3.1.2 Gender concerns

Microfinance has often been presented as a way to better the lives of women both economically and socially. Through women's empowerment and increased control over household finances, women are less susceptible to exploitative situations and attain new economic roles. In fact, studies have shown that lending to women yielded higher returns to family savings, and that women were in a stronger position to ensure children's access to food, schooling, and medical care than men.²³ A CGAP study²⁴ further highlights evidence of empowerment in various microfinance practices worldwide:

- Philippines: women who were principal household fund managers increased from 33% to 51% due to program participation (Tulay Sa Pag-unlad, Inc., one of the leading MFIs in the Philippines)
- Bangladesh: credit program participants were more empowered than non-participants due to their physical mobility, ownership and control and assets, involvement in decision making, and political and legal awareness (Survey of 1300 clients in Bangladesh)
- Bolivia: program participation led to increased self-confidence and improved status for women within the community (Freedom from Hunger - Bolivia/Ghana)

However, there exists another side to this argument that merits consideration. Grameen Bank statistics show that 94% of its borrowers are women, a figure that has been since replicated and lauded worldwide in its extent of outreach to disadvantaged women. The logical corollary is that increased control over household resources leads to female empowerment, but studies conducted by the Canadian International Development Agency and others found that Grameen Bank²⁵ lending actually led to their *disempowerment*.²⁶ Through a 13 month study of 295 households in a rural community

²³ M.M. Pitt, S.R. Khandker. 1998. "The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?" *Journal of Political Economy* 106 (October): 958-96. The most widely cited series of studies on gender-differentiated impacts of microfinance, and one that takes special care to control for selection bias, was recently completed by the World Bank based on data collected during 1991-92 from 87 villages in Bangladesh. The study found that welfare impacts on the household were significantly better when borrowers were women. For every Bangladeshi taka lent to women, the increase in household consumption was 0.18 taka, compared to 0.11 taka when borrowers were men. Only when women borrowed was there a large and important effect on the nutritional status of both sons and daughters. Assets other than land also increased substantially when women borrowed—but not when men borrowed. Similarly, it was only when women borrowed that education of girls (rather than just boys) increased. Men, on the other hand, tended to take more leisure as a result of borrowing.

²⁴ S.M. Hashemi, E. Rojas-Garcia, "Microfinance and Domestic Violence," CGAP presentation, 2004

²⁵ For more information on the story of the Grameen Bank, an MFI in Bangladesh, please visit <http://www.grameen-info.org>

²⁶ A. Rahman, "Microfinance and gender-based violence: Experience from the Grameen Bank lending." Canadian International Development Agency, 1996

in Bangladesh, the researchers found that women were often used as conduit for loans to men (women have little control over the loans), their forced attendance in group meetings led to domestic tensions, and that emphasis on financial sustainability creates mission drift from focus on gender issues. Specifically, they found that 75% of women were sent by household male to join the Bank, 78% of women's loans were used by men and in 60% of the cases women passed on the entire amount without any control over the investment.²⁷ Other empirical studies have found similar results.²⁸

Though we should be cautious in applying the case of the Grameen Bank in Bangladesh to the village banks in Lao PDR, this debate sheds light on the microfinance-trafficking relationship as well. The general belief is that targeting women provides speedier improvements in family conditions and solidarity for women. Contrary to households in Bangladesh, nearly all principal household fund managers in Lao PDR are women.²⁹ This lessens the possibility of women acting as conduits for men, but does not rule out whether some women, lacking skills and confidence, lean on their husbands or male relatives to make use of their loans. (It would be interesting to compare loan use and disbursement statistics for single-mother households as opposed to dual parent households.) This would discount, to some degree, the targeting mechanism of the village banks to engage women into sustainable micro-enterprise. Likewise, there has been difficulty ensuring full participation of women in the village banking structure. Villages have elected on average two women to the five-member managing committee, when a minimum of three was expected.³⁰ Limited capacity among women to manage is the usual argument, and moreover, it is typically men who join public gatherings and village meetings.³¹

This short review calls for a positive but cautionary assessment regarding the impact of microfinance to target women and reduce their vulnerability to trafficking. Positive empowerment effects are not unconditionally guaranteed. Empowerment is a cultural and personal concept not readily observable, requiring the use of proxy indicators such as changes in income and education levels.³² For female empowerment through microfinance to be most effectively used as an anti-trafficking initiative, financial products and institutional packages need to be tailored to the specific local preference and skill-base of women. Market research is required to identify micro-enterprises in which women have a strong niche and stand to gain good financial returns. This will

²⁷ Rahman, A. 1996. "Microfinance and gender-based violence: Experience from the Grameen Bank lending." Canadian International Development Agency.

²⁸ For more information, please read Naila Kabeer, "Money can't buy me love"? Re-evaluating gender, credit, and empowerment in rural Bangladesh, Institute of Development Studies Discussion Paper 363 (Sussex, UK:IDS, 1998); and S. Hashemi, S. Schuler, and A. Riley, "Rural credit programs and women's empowerment in Bangladesh," *World Development* 24 (1996): 635-653.

²⁹ ILO-TICW: "Banking as a Solution," Mekong Women's Forum, July 2007, p 2

³⁰ Ibid

³¹ Ibid.

³² M. Sharma: "Microfinance," 2001 available at http://www.ifpri.org/2020/focus/focus06/focus06_10.asp

considerably reduce incentives for powerful male relatives to control the newly available resources to their own benefit. Women's property rights on the newly financed assets should be clearly established and enforced, and micro-loans should be accompanied by a workshop or seminar aimed to boost confidence in managing loans and small businesses.

3.2 Ongoing questions

Ongoing questions for the use of microfinance to prevent human trafficking touch upon multiple issues:

- Who to target and how
- What kind of training or educational support to provide
- How to reach out to the absolute poor (the poorest of the poor)
- Ways to improve women's empowerment through targeted loan disbursement, etc.
- How to ensure cost effectiveness and sustainability
- The need to collaborate on educational materials and awareness raising

The Lao village banks have only been operational for 2-3 years, and the lack of baseline indicators complicate much of the impact assessment. However, further research on any of these issues could prove meaningful for the replication of these village banks in the future or for their continued design and implementation.

CHAPTER 4: VILLAGE BANKING IN LAO PDR

ILO-IPEC/TICW - Lao PDR was launched project in May 2000 to address the trafficking of women and children. Currently in its second phase, the project emphasizes preventative measures composed of three main interventions:

Capacity-building

- Institution Building: government bodies, local authorities
- Institutional Networking: labour, planning, law enforcement, education, agriculture
- Community organization and training: objective-oriented project planning, participatory monitoring and evaluation, skills training

Awareness-raising

- Provincial, District, Village Awareness-raising Teams
- Youth Volunteers Peer Education Teams
- Television & Radio Network
- Traditional Theatre and Mass Campaign

Direct Assistance

- Vocational and rural skills training
- Village banks, microloans and savings

As part of the direct assistance intervention, the Lao VDFs integrated vocational and rural skills training as well as a village banking system in the five provinces of Savannakhet, Champasak, Khammuane, Bolikhamsay, and Sayabuly. The training sought to reduce the risk factors prevalent in the communities: poverty, jobless youth, and limited employment opportunities of school drop-outs. The targeted populations included families with children at highest risk of being trafficked, youth not attending school, trafficked victims, and returned migrant workers. Thus far, the VDFs have been met very positively by the villagers, and the village banks appear to be an appropriate model for rural areas.

4.1 Basic Village Banking Principles

In the Lao village banks, the TICW project works with SEED/WEDGE to channel loan funds through the Provincial Department of Labour and Social Welfare (DLSW). These funds average between USD \$1000 and \$2500, depending on the specific agreement between local authorities and the project, and based on the population and rate of known migration.³³ Individual bank members are required to deposit a certain amount of

³³ "ILO-TICW: "Banking as a Solution," Mekong Women's Forum, July 2007, p2

savings before they are eligible for loans, and though anyone can join the bank, only persons older than 18 can borrow money. Loan terms are usually between four to six months, with loans conditional on two personal guarantors and pledge collateral such as fridges, radios, televisions, and small livestock.³⁴ The 3-4 percent monthly interest rate is much lower than the market rate of 20-25 percent per month, allowing villagers to borrow for agricultural inputs or business investments at a much more affordable rate.³⁵

At the end of the year, the profits of the village bank are distributed as follows:

- ◆ 70% dividend on savings
- ◆ 15% management committee
- ◆ 5% advisory committee
- ◆ 3% capitalization
- ◆ 2.5% village development
- ◆ 2.5% welfare & emergency
- ◆ 2% auditing costs.³⁶

In addition to the microloans, the TICW project also provides skills and business training in collaboration with relevant government departments. For example, trainings are provided in animal husbandry or rice cultivation, or women interested in starting or expanding a micro-enterprise can attend an ILO programme called “Get Ahead for Women in Enterprise.”

4.2 Challenges for village banks

An ongoing challenge for the village banks is the issue of sustainability. Currently, the village banks undergo training and auditing by the LCSDPA while the government handles the loan funds.³⁷ The TICW project staff manages the bulk of the loan administration, and there is no real MFI involved. As microfinance is a complex intervention that requires technical support and expertise, this highlights the need for capacity building of local NGOs and committee members to manage the village banks, especially when donor support is withdrawn.

Another challenge is getting women and youth to be more involved in the management of the village banks. As mentioned earlier, on average women are only elected to two positions of the five-member managing committee— below the expectation of three women per committee stated in the 2004 Village Development Fund Modality.³⁸ The VDF modality also calls for Youth Volunteers (YV) in each village to assist and advise the Managing Committees. Required to be between 18-25 years of age and completed with lower secondary school, the YVs are a method to directly involve youth in the village

³⁴ L.Deelen: *The ILO banking programme in Lao PDR*, 2007, p5

³⁵ IPEC: *Mid-term evaluation*, 2006, p 64

³⁶ ILO-TICW: “Banking as a Solution,” Mekong Women’s Forum, July 2007, p3

³⁷ Id., 5

³⁸ See Annex 1

bank and engage them to save. The implementation of this idea has differed in practice, however. First, the majority of the “Youth” Volunteers in target villages have been well over 30 years old. Pakse District Labour officials explained, “We ask for youth, but the villages do not select youth. Maybe there is a “misunderstanding” of the village authorities, or maybe they do not believe that young people can do it.”³⁹ Second, the YVs continue to express lack of confidence in their ability to manage or give advice.⁴⁰ In Houay Neua Village, for example, the volunteer is actually is a young female accounting student who explains, “I can work to try and mobilize the youth to join and tell them about the VDF, but I am less able to give advice to elders.”⁴¹

The difficulties in engaging youth and women pose challenges to not only the viability of the village banks to generate full community integration, but to the “targeting” mechanism of microfinance to those who are at greatest risk for trafficking or ill-prepared migration. Thought should be given to these considerations as the village banks continue to grow and expand.

4.3 Awareness of trafficking – microfinance relations

Implementing effective microfinance projects is a difficult task in countries where these financial services do not exist; it is even more challenging to develop microfinance as part of a project with broader objectives. Empowering the poor to sustain themselves through self-entrepreneurship, and providing resources to aid in emergency situations can be powerful tools that create space for building connections. In that capacity, have the Lao village banks differentiated themselves from general poverty reduction work to genuinely exist as an anti-trafficking intervention?

With educational partnerships, workshops, and outreach, the creation of a Village Bank can be invaluable for launching an anti-trafficking awareness campaign at the village level. However, an independent evaluator has called awareness raising to be the “Achilles heel” of the project in Lao PDR.⁴² In both phases of the project, the report found awareness activities to occur infrequently and irregularly. For example, in Houay Laoh village there were three role-play performances since the project inception, and in some locations, IEC materials, posters, CDs, and booklets had been distributed.⁴³ According to another report by consultants, there seems to be unclear motives and lack of clarity regarding the relationship between microfinance and trafficking. In a field visit, one head of a VDF, when questioned on the relationship of VDFs and trafficking and

³⁹ ILO-TICW: “Village Development Funds,(Lao PDR), unpublished document, 2005, p4

⁴⁰ ILO-TICW: “Banking as a Solution,” Mekong Women’s Forum, July 2007, p5

⁴¹ Ibid

⁴² IPEC: *Mid-term evaluation*, 2006, p 68

⁴³ Ibid.

migration, responded that migrants go to Thailand, earn money, and then can afford to join the VDF.⁴⁴

Perhaps it is still too early to expect village bank managing committees to be aware of the village bank's intended role in an overall anti-trafficking agenda, when even experts do not understand the full details of both microfinance and human trafficking. The issues seem both disparate and complexly interconnected, and a village bank designed to address both concerns requires an unravelling of tangential factors with a re-gluing of similar social threads. And yet, once that understanding is reached the potential for dual results is indeed possible. With a solid and permanent community-based awareness program existing in conjunction with the village banks, there is potential to mobilize peer educators and community members on a long-term basis. Workshops could teach young children about confidence and decision-making, and train older participants about safe migration and trafficking issues. Eventually, a drop-in centre could offer a variety of different services, perhaps as play-center for children, an information booth with disseminated information on trafficking, a peer-education group, and a place for migrants to learn of legal channels and documentation. This work should be outsourced to other NGOs if need be, such as Save the Children UK, and designed with the village bank protocol to maximize technical expertise and exposure to services.

Thus, even if microfinance and anti-trafficking activities bear no connection, or should exist in separate spheres, at least there exists opportunity to link a successful economic intervention with an eminent social concern. If the regularity with which loan beneficiaries repay their debt were matched by the consistency of exposure to anti-trafficking information, then that would be a worthwhile achievement indeed.

⁴⁴ A. Beesey et. al: *Mid-project assessment*, 2007, p 57

CHAPTER 5: CONCLUSIONS

5.1 Recommendations

Despite the measurable growth and reach of the Lao village banks, it remains difficult to assess the trafficking situation as there are no baseline indicators available for review. The criteria for defining trafficking cases are not homogenous across different villages (trafficking victims, legal migrants, illegal migrants) and often returnees are classified into several of these categories.⁴⁵ Further, though the project has served to prevent re-migration there are very few cases reported of people who decided not to leave in the first place because of the village bank. There is contrary evidence that the village banks have enabled some people to leave and send money back for deposit.⁴⁶ Targeting continues to be an issue when young people are trafficked the most, although older borrowers constitute the majority of the clients.

A better system is needed to assess the reduction in trafficking or ill-prepared migration attributable to the village banks, and additional vocational skills training or programs are needed to target younger populations. Similarly, a comprehensive awareness-raising component of the VDFs should be instituted, or incorporated through collaborative partnerships with other NGOs such as Save the Children. Good practices and such integrations should be observed from other socially-oriented MFIs such as Geneva Global and Center for Community Transformation (CCT), who claim to be engaged in anti-trafficking activities with successful results.⁴⁷

5.2 Microfinance to Combat Human Trafficking

According to the Modality for the Lao PDR Village Development Funds, the key goal of the ILO-IPEC/TICW and TICW/WEDGE projects is to “strengthen the capacity of local authorities and the local people to actively participate in decision making processes that determine the future direction and management of their own villages.”⁴⁸ In that regard, microfinance initiatives in the Lao villages have proven to be locally driven and empowering, and have been greeted with a strong sense of village pride and accomplishment.⁴⁹

In current anti-trafficking measures there is always the risk of neglecting long-term prevention of the root cause of human trafficking (poverty) in deference to treating the

⁴⁵ IPEC: *Mid-term evaluation*, 2006, p 64

⁴⁶ *Ibid.*

⁴⁷ M. Getu: Interview with Ruth Callanta, in “Human trafficking and development: The role of microfinance,” 2006

⁴⁸ See Annex 1

⁴⁹ IPEC: *Mid-term evaluation*, 2006, p 64

more visible and short-term symptoms of the problem. When the majority of the population lives on USD \$1 a day, unemployment, hunger, disease, and illiteracy can be widespread. Limited employment, education, and vocational training opportunities exist for the young people in Lao PDR, where over 50% of the population is composed of people under 20 years of age. Unemployed youths and school dropouts become vulnerable and easy targets to human traffickers, whose offers and lures are too difficult to resist. In this context, a lasting solution to the trafficking dilemma will only result from sustainable change and development, in which microfinance plays a key role. For while traffickers promise opportunities in unknown, faraway places, microfinance offers these opportunities in the familiar context of home.

An effective microfinance programme should take a five-pronged approach:

1. Income generation and job creation
2. Reintegration services
3. Vocational skills training
4. Education and awareness raising
5. Advocacy

Microfinance can break the cycle of poverty and multiply the options to the poor. Through a savings-based, micro-loan system (such as implemented in Lao PDR), credit previously inaccessible can be directed towards small business investments and emergency relief. Vocational training can supplement these loans with the skills needed to become economically self-sufficient. Additionally, returned migrants should have speedy access to credit which allows them to reintegrate back into the community. This is especially important for women and girls who can be socially marginalized and relegated to second class citizens.

Microfinance institutions such as the Lao village banks can use solidarity groups, borrowing groups, and other channels of local assemblies and civic society to educate and disseminate information about human trafficking. Workshops and training sessions can serve as capacity building tools to strengthen the village bank teams to develop the technical expertise required for sustainable management. Further, MFIs should continually stress the importance of education, encouraging families to save for their children's education and providing schoolbooks or eventually even scholarships from dividend profits to send motivated children to school.

Finally, the above reasons all relate to reducing "push" factors or the supply side of human trafficking. For a microfinance programme to occupy a comprehensive position in this issue, a second arm or partner needs to simultaneously address the "pull" or demand factor of trafficked labour through adequate government advocacy and lobbying. In this regard, the Lao village banks are well-placed, through both the greater

TICW advocacy objectives as well as the local and provincial government connections, to make notable inroads on the multiple faces of human trafficking.

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Annex 1

Modality ILO-IPEC/TICW and TICW/WEDGE Lao PDR Micro-Finance “Village Development Funds⁵⁰”

Rationale:

The key goal of the ILO-IPEC/TICW and TICW/WEDGE projects is to strengthen the capacity of local authorities and the local people to actively participate in decision making processes that determine the future direction and management of their own villages. This should be based on their own knowledge, innovations and resources, and should enhance participatory and democracy approaches to nurture solidarity, reinforce village cohesion and assistance amongst villagers, particularly in supporting and assisting the poorest families, children and youth with particular emphasis on women who are at risk of being either trafficked, or child labour, or are trafficked victims.

Experiences from the ILO-IPEC/TICW project have shown strong village cohesion, commitment and creativity in implementing the project activities, contributing to combat trafficking in children and women in their respective villages, districts and provinces.

The project approach is in accord to the government's priority i.e. National Poverty Eradication Programme, in particular the Prime Minister's Decree No. 01/PM on decentralization aiming for localized empowerment which will enable provincial, district and village authorities to become key players in their own development process.

Drawing lessons learnt and experiences from the direct assistance intervention of the provincial integrated projects to combat trafficking in children and women, particularly in rural skills training for IGAs and the establishment of “Village Development Funds”, the beneficiaries have expressed their preparedness to expand and upgrade their IGAs to MSEs and modify the revolving loan funds to village banking system through the mobilization and contribution of resources from the villagers. Hence, to expand the size of the funds that is accessible to more targeted risk groups and creation of more self-employment of jobless youth in the village.

The modality of the ILO-IPEC/TICW and TICW/WEDGE Lao PDR micro-finance scheme is based on the Guidelines on Micro-finance Against Child Labour, Geneva-December 2003 and the proceedings and consensus of the participants, beneficiaries and experts made during ILO project planning workshop on micro-finance held in Vientiane 29-31 March 2004⁵¹.

Goals:

The goals of the creation of Village Development Funds in TICW/WEDGE villages are:

- To contribute to the reduction of trafficking in women and children in the target villages through the provision of skills training⁵² and access to loans for IGAs and MSEs⁵³ of target beneficiaries.
- To contribute to poverty eradication through the creation of IGAs and MSEs in order to improve the livelihood of the villagers, particularly the poorest families whose children are at risk of being trafficked and child labour.
- To boost employment and empowerment of women and youth through enterprise development in the villages.

⁵⁰ Micro-finance model for the ILO target villages is the village banking model but called “Village Development Funds (VDF)” in accord with the government's development agenda (D. 01/PM).

⁵¹ The workshop was chaired by LWU (member of NSC), participants include specialists in Micro-finance, Gender, Child Labour, from ILO SRO, external consultant for entrepreneurship development, Micro-finance specialist Concern, FIAM Project Coordinator and field staff, ILO-IPEC NPM, TICW NPC/NPO, WEDGE NPA, IPEC/TICW PPCs, DPCs, VDCs, staff of MoLSW.

⁵² Vocational and rural skills training for jobless youth and families at risks.

⁵³ GET-AHEAD Entrepreneurship and market access training supported by WEDGE.

- To contribute to the development of the villages as a whole, in particular access to social services i.e. access to better education and health services, social welfare and social protection of the villagers.
- To promote gender equality in all aspects of village development activities.
- To contribute to the overall National Poverty Eradication Programme in the target villages, districts and provinces.

Objectives:

- To support the target villages of the ILO-IPEC/TICW and TICW/WEDGE projects with the creation of a sustainable village banking system that will contribute to the economic empowerment of the villages.
- Mobilization of contributing funds from beneficiaries through saving schemes.
- Provision of project funds as low interest loans to Village Development Committees to match the funds of the beneficiaries.
- Mainstreaming Gender Equality and Women empowerment into the design of the Village Development Funds.

Framework of Cooperation⁵⁴

ILO-IPEC/TICW and TICW/WEDGE projects will support the development of Village Development Funds in the target villages in collaboration with the Lao Women’s Union (LWU) and the newly created “Lao Community Sustainable Development Promotion Association (LCSDPA).

Apex and Mobilization:

The Central Lao Women’s Union Board of Trustees of Village Funds⁵⁵ (CLWU/BTVF) is the Apex of the Village Development Funds that have already been established in Lao PDR. The existing Village Development Funds are monitored closely by the LWU provincial and district board of trustees. The Village Development Committees receive support from the Lao Women’s Union at the different administrative levels in mobilizing the villagers to actively participate in the Village Development Funds, particularly in the establishment and election of the committees and in mobilizing the initial saving funds for the Village Development Funds (VDF).

As the result of the success and achievements gained from the Small Rural Development Project of the LWU (Micro-finance project in collaboration with FIAM and CODI), the government has approved the principles of the micro-finance model of LWU/FIAM and encourage other key actors to adopt the model for replication in their respective projects, particularly in the Poverty Eradication Programme.

The Department of Women in Development of the LWU has an active role in facilitating the implementation and replication of the MF model as initiated in the LWU/FIAM/CODI project. The Department has qualified and experienced MF trainers who also provide supervision, support and training to the VDCs. The Department of the Protection of Women’s Rights also plays an important role in promoting gender equality through the LWU’s development projects. Both departments have important roles to promote, mobilize, establish and monitor the VDFs⁵⁶. They are also members of the Board of Trustees of the Village Funds.

Supporting and Auditing:

⁵⁴ See Diagram: Mechanism for VDF Management and Cooperation

⁵⁵ Since 1997, LWU in collaboration with CODI and FIAM implement MF projects with the creation of the Board of Trustees. As of December 2003, there are 217 VDFs with 21,295 members with total budget of 6,094,424,600 Kips (Savings 5,893,124,600 Kips; Seed Funds 201,300,000 Kips). Source: LWU/CODI/FIAM Report February 2004.

⁵⁶ LWU coverage MF of clients/beneficiaries over 200,000 people (49% of total MF services).

The support to the Village Development Committees and the auditing of the Village Development Funds will be done through an IPEC-TICW Action Programme with an independent non-governmental organization called the “Lao Community Sustainable Development Promotion Association⁵⁷ (LCSDPA)”. This is a new NGO set up by the former FIAM/CODI project which will be expected to receive recognition from the Prime Ministers Office by the end of May 2004. The main role of the LCSDPA is to provide training in village bank management to the VDCs, and auditing of the accounts of the VDFs⁵⁸.

The training will be provided by the Training Service Unit of the association. The training unit will draw upon the ex-field staffs of FIAM who has implemented the MF project with LWU of more than 7 years experiences in the field. Training of trainers (TOT) will be provided to a pool of Youth volunteers⁵⁹ consistently to ensure adequate trainers for systematic outreach training to the VDCs. TOT will be provided in the form of in-service and cascade training in the project sites with the targeted trainees.

The Auditing Unit will draw upon experienced members of the association and its networks at central, provincial, districts and in the 217 VDF committees. The auditors will be selected by the advisory board of the association based on the interest, competency and commitment of the experienced members.

On the job training in auditing will also be provided for competent trainers among the youth volunteers and staff of the provincial and district administration and mass organizations i.e. Lao Front for national Construction (LFNC), Lao Federation of Trade Union (LFTU), Lao Women’s Union (LWU), Lao Youth Union (LYU) so that eventually the district authorities can take over the auditing role.

Every six months⁶⁰ an external audit of the Village Development Funds is necessary for members to know that they can safely put their savings in the VDF. Auditing is needed even more often during the first year of the existence of the Village Development Funds.

At the initial stage the project will cover the cost of auditing. At a later stage a part of the profit generated by the Village Development Funds will be used to cover auditing costs.

Branches of the association will be established in the province/district as appropriate depending on the project coverage. The budget of the Action Programme will cover the extra costs that the association will incur in training and auditing the ILO target villages during the first year of implementation of the VDFs in the project target sites.

VDF and Gender Equality promotion:

In the ILO-IPRC/TICW target villages, loans and savings facilities will be offered both to men and women, whereas extra support for women in the village will be necessary in order to ensure they have equal access and equal benefits. Women will be over-represented in the different VDF committees as far as literacy rates amongst women in the target villages permits it.

⁵⁷ Established under the approval of the Prime Minister’s Office, its name of the association was recommended by the PM Office so as not to focus only on MF but people centered sustainable development. Members are intellectuals from all aspects of the civil society, private and public sector, businesses, development workers, youth volunteers, etc...the main management and administration are ex-staff of FIAM and their networks.

⁵⁸ There are two main purposes in auditing (a) provide assistance to the VDCs for accurate accounting and book keeping, (b) keep track of transparency to avoid fraud/corruption

⁵⁹ College/Vocational/University graduates in accounting, finance, business management, etc. motivated to participate in the Government’s development programme.

⁶⁰ In line with the timeframe of the Participatory Monitoring and Evaluation of the project in targeted villages which is conducted every six months.

The projects will take care that women are equally participating in all training events organised by the projects, both on skills development and micro-finance.

Committees:

The Village Development Funds will have the following committees:

- A Village Development Committee of 5 members (3 women and 2 men separately elected), including the head, the accountant and the cashier of the village bank;
- An Advisory Committee of 5 members, representing the village authorities (respective elderly, village head, representatives of the different mass organizations within the village);
- An Auditing Committee of 2 members (neutral).

While it is good to have many persons involved in the management and control of the Village Development Funds, not all of the committee members can be remunerated. Remuneration by definition has to come from the profits of the fund. In practice, the head of the Village Development Committee and the accountant will do most of the work and need to be compensated. The members of the Advisory Committee should not receive a share of the profits⁶¹.

The committees are formulated according to the result of the election with the presence of the district authorities. After the election, the village authorities will make a Letter of Memorandum on the results of the election to be signed and acknowledged by the district authority at presence.

During the initial stage of the project, the committees will function for the period of 2 years. Within this period, the re-election of the VDC members could be called on, based on the performance of the VDC and the results of auditing. If there is evidence of fraud/corruption among the VDC members, the district authority will intervene, if serious, referral to the court will be made.

Administration:

The administrative model of FIAM is regarded as the best model for the village development fund administration in the ILO target villages. All members will have a passbook in which their loans and savings are recorded. The village development fund will have a loan administration, savings administration and cash book e.g.

- + Passbooks of the members: credit and deposit
- + General account book for loan and dividend
- + Passbook of bank deposits
- + Revenues and expenses account
- + Savings account
- + Loan account
- + Cash book account (financial status)
- + Cash account
- + Report of operations (Income statement)

⁶¹ Preferably, but depends on the mutual agreement among the villagers during the process of the establishment of the VDC and the formulation of the rules and regulations of the VDF management.

After the election of the VDCs and the establishment of the VDFs, the members will formulate the rules and regulations for the management of the VDFs based on the consensus of the members.

The rules and regulations of the Village Development Funds will spell out clearly⁶²:

➤ ***The structure and organization of the different committees***

The Village Development Funds will have the following committees:

- A Village Development Committee of 5 members (3 women and 2 men separately elected), President, Vice President, Savings Accountant, Loan Accountant, cashier.
- An Advisory Committee of 5 members, representing the village authorities (village head, representatives of the different mass organizations within the village); Chair, Deputy Chair, 3 members.
- An Auditing Committee of 2 members (work as team).

➤ ***Roles and responsibilities the VDC and members.***

The VDC has the right to accept and reject members of the VDF. Members who do not oblige the rules and regulations of the VDF would be expelled from the membership.

The VDC is responsible to manage and administrate the VDF most efficiently and effectively to enable and secured the savings and incentives of the members.

The VDC is responsible to formulate the rules and regulations of the VDF with full participation and consensus of the members. The VDC in collaboration and agreement of VAC makes decisions of providing loans for eligible applicants.

Open an account in the bank. Communicate and networking with other VDCs in the areas and the association/MF providers.

Roles and responsibilities of the Advisory and Auditing Committees.

Participate in the monthly meetings of the VDCs after the closing of the monthly account (after the saving days and loan release day).

Motivate the villagers to be members of the VDF, conflict resolution, clarify misunderstandings, provide advice and supervision to the VDC, liaise with the auditors of the internal and external auditing mechanism.

➤ ***Criteria of the VDF members.***

VDF members should be citizens of the village who respects the rules and regulations of the VDF, should not be involved in any gambling activities, cooperative and helpful to each other, contribute their views during meetings and discussions, promote cohesion among the villages.

➤ ***Savings and loans criteria.***

Villagers will only be allowed to take a loan from the VDF if they have saved a minimum of 5% of the requested loan amount beforehand. Exception may be made for a few very poor families within the village who can take small loans without prior savings upon the decision of the Management Committee.

⁶² The VDFs Management rules and regulations must be the consensus of the members, acknowledged and signed by the VACs and VDC members, approved by the Village and district authorities. Provided are some examples only. Different villages may have slightly different rules that reflect the reality of the villagers.

- **Emergency loans.**
Members of the Village Development Fund can apply for emergency loans only in case of sickness or accidents. Emergency loans can be extended for a maximum term of 3 months. The interest rate on emergency loans can be decided by the villagers themselves.

- **Dividends for the members and compensation for the Committees.**
e.g. The profit of the VDF in each year (i.e. profit 100%) will be distributed into different parts as follows:

+ Dividend for members of village funds	55%
+ Compensate for the Management Committee	15%
+ Reserve funds	15%
+ Development activities of the village	10%
+ Auditing costs	5%

At all times, the Village Development Funds must keep a certain amount of cash as a reserve. This reserve is needed to ensure that all villagers will be able to get their savings back, even if there are some repayment problems on loans.

- **Obligation and regulations concerning the administration, auditing and conflict resolution.**
Set certain dates (normally the first week of each month) for savings deposits of members and a certain date for loan release (normally after 3 days from the date of closing the saving deposits and allow members 3 days to submit their application).

The VDCs and members of the VDF will meet monthly to be updated on the status of the VDF and to make the decision of the selection of applicants for the next loans.

- **Monitoring and Evaluation of the VDCs and VDFs performance**
A network of the VDCs will be created (groups) to share experiences and lessons learnt every six months (evaluation cycle) among villages, districts and provinces. The PME Tools of the TICW project will be used for the evaluation.

Project Monitoring and Management Mechanism⁶³:

The overall ILO-IPEC/TICW project monitoring and management mechanism is supervised by the inter-ministerial National Steering Committee (NSC) chair by the Vice Minister of Labour and Social Welfare (MoLSW) with its Secretariat (Combat Child Labour and Trafficking in Children and Women Office) base in the MoLSW.

In project target provinces, inter-sectoral Provincial Steering Committees chair by the Provincial Vice Governors supervise the implementation, monitoring and evaluation of the project activities with their Secretariats base in the Department of Labour and Social Welfare. Chair of District Steering Committees (DSC) are also members of the PSCs.

District Steering Committee (with similar structure as PSC), chair by the District Vice Governors supervise the implementation of the project activities by the Village Development Committees in the target villages.

⁶³ Existing ILO-IPEC/TICW/WEDGE Project Monitoring Mechanism, at Central, Provincial, District and Village level.

Elected Village Development Committees (VDC) facilitate the implementation of the project activities in the villages. The VDCs report directly to the District Project Coordinators (DPC) and Provincial Project Coordinators (PSC) on a monthly basis particularly in updating the baseline information and data on illegal migration, returned migrant workers, school enrolment and school drop outs, jobless youth, rural skills training, progress and problems in IGAs and MSEs in the villages.

Quarterly progress reports⁶⁴ are prepared by the head of the VDC, consolidated by the DPCs and PPCs. These reports are sent to the Secretariat of the DSC, PSC for clearance before they are sent to the Secretariat of the NSC and the ILO-IPEC/TICW National Project Coordinator.

Every six months, the PSCs and DSCs conduct Participatory Monitoring and Evaluation in the target villages, districts and provinces. The results of the evaluation are shared in the NSC/PSC/DSC meetings i.e. in June and December of each year. VDCs Meetings to share experiences and lessons learnt are held once a year.

Policy and Mainstreaming⁶⁵

In June 2003, the National Economic Research Institute (NERI) of the Committee for Planning and Cooperation (CPC) launched the Microfinance Capacity Building and Research Project assisted by Concern funded by Ireland Aid. In August 2003, the Rural and Microfinance Committee (RMFC) and the bank of Lao officially launched the national Policy Statement for the Development of the Sustainable Rural and Microfinance Sector in Laos as follows:

- Sustainable rural - and micro-finance can be effective tools for poverty reduction, which can help Lao PDR to emerge from LCD status by 2020.
- The Government reform programme in rural finance and microfinance will enable the sector to expand significantly, with diversity, security and future sustainability. The RMF reform programme is a major contribution into the implementation of the National Socio-Economic Development Plan.

The RMFC/BOL also presented their general vision for the development of the Rural and Microfinance Sector, which focuses on four specific areas:

- (1) the RMF sector will expand significantly to increase outreach to the greater number of poor people in Lao PDR;
- (2) The sector will include a diversity of independent Microfinance Institutions (MFIs) with a diversity of legal ownership, including private and/or public ownership and methodologies, to reflect the diversity of the Lao context;
- (3) The sector will gradually become sustainable with interest rate set by the MFIs based on full cost recovery, profitability and market demand and
- (4) The environment will ensure security for depositors through an appropriate legal and regulatory framework.

The efforts of ILO-IPEC/TICW/WEDGE Lao PDR project in promoting collaboration among key stakeholders will enhance the mainstreaming of the project experiences at grassroots level to the reflect the national policy. Reflecting the national strategic vision, the project will support and assist the creation of an independent MFI with legal ownership i.e. the Lao Community Sustainable Development Promotion Association (LCSDPA)⁶⁶.

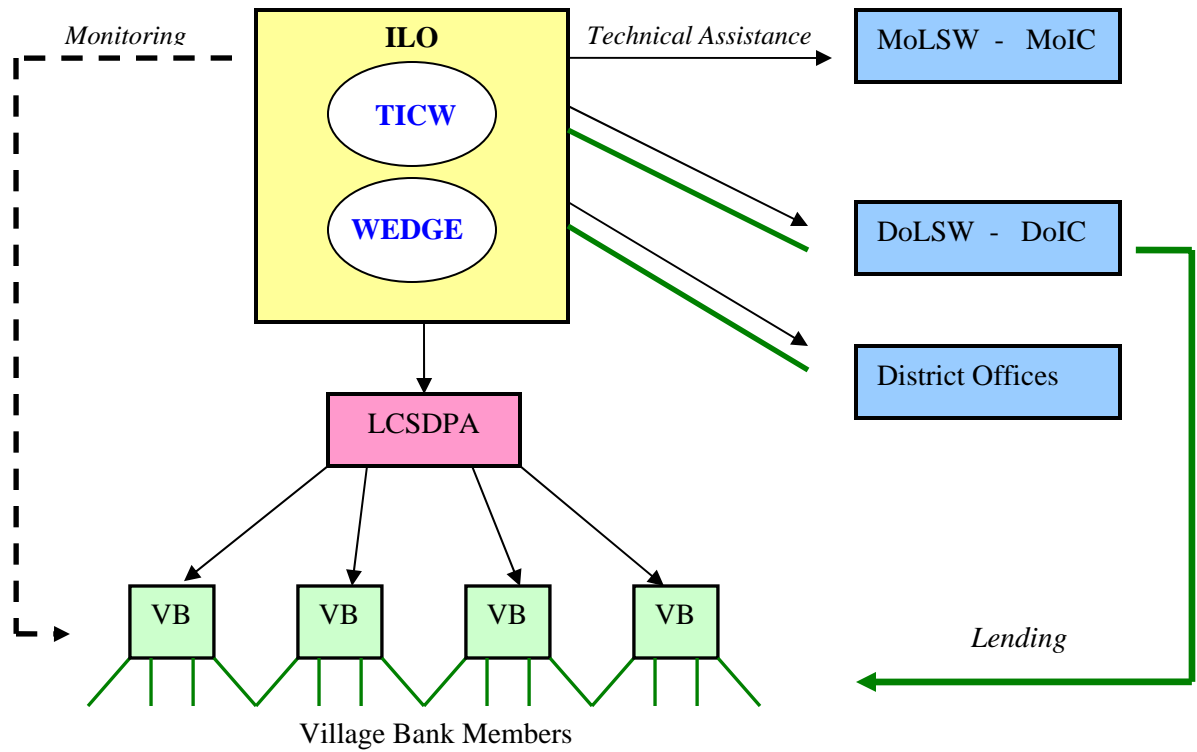
⁶⁴ Including the report on the financial status of the VDF and the financial expenditure of the project implementation.

⁶⁵ Source: Microfinance Newsletter Microfinance Capacity Building and Research (MCBR) Project, Issue 1, June – December, 2003.

⁶⁶ The First Local Non Governmental Organization for Microfinance Service Provider for Rural development established under the decree of the PM office.

Appendix 2.

Figure 2: Schematic diagram of Lao village banking mechanismⁱ



ILO	International Labour Organization
TICW	Mekong Sub-regional Project to Combat Trafficking in Women and Children
WEDGE	Women's Entrepreneurship Development and Gender Equality
MoSLW	Ministry of Social Labour and Welfare
MoIC	Ministry of Industry and Commerce
DoSLW	Department of Social Labour and Welfare
DoIC	Department of Industry and Commerce
LCSPDA	Lao Community Sustainable Development Promotion Association
VB	Village Bank
----->	Monitoring
————>	Technical Assistance
—————	Monetary Assistance

ⁱ Many thanks to Linda Deelen, ILO-IPEC's regional microfinance expert, for her help in this redesign.

Appendix 3

Table 1: Cumulative operational table for target VDFs 2007ⁱⁱ (monetary units in kip)

Province, District Village	# Villages	VDF Com		Advisory		VDF member		18-25 year		> 26 years		< 17 years		Total of Saving money (kip)	Num. of Loan Takers		Total of Loans (kip)
		T	F	T	F	T	F	T	F	T	F	T	F				
Savannakhet Prov.	16	78	41	80	11	2,451	1,388	398	229	1,468	876	585	283	806,825,750	647	361	1,120,040,500
Champhone District	1	5	3	5	1	73	35	27	14	44	20	2	1	8,044,500	26	20	21,413,500
Xonbouly	1	5	3	5	1	107	59	9	4	74	46	24	9	5,755,000	25	10	11,500,000
Songkhone District	5	28	19	30	2	1046	623	207	143	484	302	355	178	284,656,250	190	128	393,677,000
Artsaphanthong	1	5	3	5	1	164	130	23	17	106	92	35	21	62,470,500	35	27	74,750,000
Xaibouly	1	5	3	5	1	275	143	43	0	187	118	45	25	70,189,000	72	54	103,970,000
Khmathabouly Dist.	3	10	5	10	1	424	246	60	34	299	183	65	29	263,351,000	125	75	336,075,000
Outhoumphone Dist	4	20	5	20	4	362	152	29	17	274	115	59	20	112,359,500	174	47	178,655,000
Champasack Pro.	17	88	25	84	16	2865	1461	181	90	2422	1253	262	148	866,415,100	1142	615	1,238,866,500
Khong Island District	4	20	4	20	3	647	233	0	0	581	197	66	36	139,342,600	197	73	229,007,500
Pathoumphone Dis.	4	20	6	22	4	451	283	0	0	425	270	26	13	207,035,000	266	135	226,559,000
Sukhumma Dis.	2	10	3	10	3	487	269	78	50	330	175	79	44	57,941,000	93	51	91,877,000
Pakse District	2	10	5	9	2	513	284	93	30	362	244	58	40	239,141,000	240	191	336,873,000
Sanasomboon Dis.	2	10	2	10	2	327	179	0	0	327	179	0	0	149,532,000	150	79	142,039,000
Phonthong District AP002	3	18	5	13	2	440	213	10	10	397	188	33	15	73,423,500	196	86	212,511,000
Khammouane Pro.	18	92	31	96	10	2466	1249	440	223	1394	662	632	364	1,448,735,250	666	274	2,057,861,750
Hinboon District	5	22	6	26	2	696	348	175	71	357	183	164	94	867,207,750	183	51	1,081,701,000
Thakheak district	3	16	0	15	2	226	66	63	18	106	19	57	29	55,119,000	76	20	112,757,000
Nongbok District	3	17	11	16	2	424	251	67	52	242	135	115	64	187,209,500	205	109	305,976,000
Mahaxai District	3	17	0	17	2	232	88	27	10	184	67	21	11	18,503,000	63	10	51,714,000
Xebangfai District	4	20	14	22	2	888	496	108	72	505	258	275	166	320,696,000	139	84	505,713,750
Borlikhamsay Pro.	8	40	21	41	5	1768	989	931	513	343	217	494	259	242,242,000	664	362	416,391,000
Paksan District	4	20	10	21	3	593	337	333	179	136	81	124	77	50,921,000	242	143	128,641,000
Thaphabhad Dis.	4	20	11	20	2	1175	652	598	334	207	136	370	182	191,321,000	422	219	287,750,000
Saiyabouly Pro.	9	52	16	44	7	892	379	623	239	117	67	152	73	252,398,988	188	78	400,980,405

PakLay District	3	17	5	15	2	388	148	294	98	62	42	32	8	126,697,900	64	29	183,281,800
Kenetao District	3	17	6	15	2	295	134	199	85	29	14	67	35	47,534,258	90	37	93,817,785
Bortene District	3	18	5	14	3	209	97	130	56	26	11	53	30	78,166,830	34	12	123,880,820
Totals	68	350	134	345	49	10442	5,466	2573	1,294	5744	3,075	2125	1,127	3,616,617,088	3,307	1690	5,234,140,155
% Female			38.29%		14.20%		52.35%		50.29%		53.53%		53.04%			51.10%	

ⁱⁱ For annual data please contact the ILO-TICW national project office in Vientiane, Lao PDR.