

Mekong Wetlands Biodiversity Conservation and Sustainable Use Programme



Micro-Credit and Self-Help Groups Stung Treng Ramsar Site

Prepared by

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List of Abbreviations

ACLEDA	Association of Cambodian Local Economic Development Agencies
BB	Buffalo Bank
BBC	Buffalo Bank Committee
BBCM	Buffalo Bank Committee Member
BBM	Buffalo Bank Member
CA	Credit Agent
CB	Cow Bank
CBC	Cow Bank Committee
CBCM	Cow Bank Committee Member
CBM	Cow Bank Member
CBO	Community-Based Organization
CGA	Cambodian Global Action
CHE	Community Health Education Program
CO	Credit Officer
CM	Committee Member
DoE	Department of Education, Youth and Sports (Stung Treng Province)
DoRD	Department of Rural Development (Stung Treng Province)
DoWA	Department of Woman Affairs (Stung Treng Province)
GL	Group Leader
GLM	Group Leader Meeting
GM	Group Member
IUCN	International Union for the Conservation of Nature
MFI	Micro-Financing Institution
MWBP	Mekong Wetland Biodiversity Conservation and Sustainable Use Programme
OCAA	Oxfam Community Aid Abroad
PPC	Provincial Programme Coordinator
PFD	Partners For Development
PB	Pig Bank
PBC	Pig Bank Committee
PBCM	Pig Bank Committee Member
PBM	Pig Bank Member
R	Riel (Cambodian Currency)
RB	Rice Bank
RBC	Rice Bank Committee
RBCM	Rice Bank Committee Member
RBM	Rice Bank Member
USD	US Dollar
VCG	Village Credit Group
VDC	Village Development Committee
VF	Village Fund for Saving and Credit
VFC	Village Fund Committee for Saving and Credit
VFM	Village Fund Member for Saving and Credit

Executive Summary

The Mekong Wetlands Biodiversity Conservation and Sustainable Use Programme (MWBP) is a joint programme of the four riparian governments of the Lower Mekong Basin, Cambodia, Lao PDR, Thailand and Vietnam. The programme will mainly focus on the management of the Ramsar reserve and possibly other adjacent wetland areas, and to contribute the sustainable rural economic development as to improve living standards of the rural people in Stung Treng Ramsar site, the programme aims to undertake a study of the current methods by which Stung Treng Ramsar site villagers obtain micro-credit and work in self-help groups (rice bank, cow bank, buffalo bank and pig bank) for development and prepare detailed recommendations for any additional schemes that may be required along with details on how these can be implemented and villagers trained to obtain maximum benefit from them. The following is the summary conclusion of study on micro-credit and self-help groups:

UNICEF Sethkoma has established more than 50 VFs¹ serving about 600 families in an environment that had virtually lacked financial services for the greater part of the population in 3 districts including Stung Treng, Thala Barivath and Siem Bouk districts. Particularly Ramsar site there are villages to be launched in Village Funds (VF) since 2001 serving about 60 families² in Koh Snaeng, Koh Sralaou and Chorm Thom villages. A substantial number of these VFs work in remote locations far from main roads. Loan amounts are small (about US\$ 25) and repayment rates, even on-time repayment, exceed 95% in 2001 and 2002; but 2003, 2004 and 2005 downed fewer than 50%³. Most importantly at present, the VF provides access to credit at low interest rates to the rural population, which would otherwise have had to rely more on moneylenders. Another positive spin-off is the reduction of moneylenders' interest rates in areas where the VFs are active. Yet another positive trend noted by VF members is that now that they have regular access to credit, they have more positive attitudes toward income generation activities (especially in the agricultural off-season) and in investing in rice production. This will result in increased business activities in the rural areas, and greater use made of idle capital. The VF performance has met any obstacles such as:

The problems with the existing group lending methodology of Village Funds (VFs) of UNICEF Sethkoma and self-help groups of Partners For Development (PFD) are less with the design, and more a result of improper implementation, lack of enforcement of essential principles in VF and self-help groups formation and management, the lack of capacity within the project staff in credit management and community development, and lack of capacity in Micro-credit and SHG management among villagers. The VF model of credit delivery and self-help group's management has also suffered due to the lack of adequate technical support, monitoring and supervision by the assistant of UNICEF Sethkoma/ Department of Woman Affairs (DoWA)⁴.

There is sufficient evidence that villager in the VFs and the Rice Bank (RB), Cow Bank (CB) and Pig Bank (PB) value the micro-credit and self-help group programmes. Villagers who have borrowed from programmes claim to have increased their income levels and improved their living standards. In some

¹ Report on Village Fund Activity Information in which supported by UNICEF Sethkoma from 2001 to 2004.

² Report on Village Fund Activity Information in which supported by UNICEF Sethkoma from 2001 to 2004.

³ Report on Village Fund Activity Information in which supported by UNICEF Sethkoma from 2001 to 2004.

⁴ Interview with Ms. Sey Chanthavy and Ms. Sorn Sokha (Director and Vice-Director of DoWA): VFs were transferred from UNICEF Sethkoma to DoWA in the early 2003. And DoWA did not take the measures to support, monitor and supervise the VFs strictly since at the end of 2003 to present due to shortage of budgets to support the field staff to carry out their missions (DoWA got the budget of \$4,000 from UNICEF Sethkoma for supporting, monitoring and supervising the VFs but those budgets were expended for the operation first term of the year 2003 and from 2nd term of 2003 to present, DoWA has no any budget to operate their activity to support those VFs).

cases, where VF internal funds⁵ have been well managed, villagers claimed that they have also benefited from the internal fund, which provides them with emergency and short-term working capital loans.

Overall the repayment on UNICEF Sethkoma's loans, through the VFs is not excellent in recent times. Koh Snaeng VF reported 100% non-repayment⁶ for the last cycle in 2003 due to natural disaster (drought) and some clients said that they did not repay the loans to VFC because they have seen other members has not paid, if they reimburse, she also repays the loans. Koh Sralaou reported 100% on time repayment in 2004, but the last loans cycle disbursed in 2005, it was overdue 100% of loan repayment⁷ over month and Chorm Thom reported 28% non-repayment⁸ in 2002 and then this VF was not work. The repayment problems in those VFs can be attributed to some extent to external factors, including natural disasters such as flood, drought. The other factors for the repayment problems experienced in micro-credit providing and shelf-help groups are:

- (1) Weak management and monitoring by the credit staff at the credit and rice bank committee members at rice bank level;
- (2) Corrupt practices among the Village Fund Committee (VFC) and Rice Bank Committee (RBC), who have mismanaged UNICEF Sethkoma and PFD loan funds as well as monopolized VF internal funds against VF rules and regulations.
- (3) There have no internal control in irregular basis from credit committee members and credit staff of credit programme and RBC for the RB.

There are some common problems with the existing VFs and RBs that were observed in all Ramsar site. 1) VFs and RBs lack good governance; 2) VFC and RBC leaders lack transparency in their management and are monopolizing the loans from the internal fund; 3) VFs and RBC lack solidarity among VF and RB members; 4) VFs fail to maintain compulsory savings as contributions to internal fund; 5) VFCs and RBCs are unable to maintain the books in an appropriate manner without assistance from UNICEF Sethkoma and PFD staff⁹.

⁵ Saving mobilization from villagers, 1000R per month, to capitalize the VF internal funds (Village Fund Principle, article 2, Page 28).

⁶ Interview with Ms. Sey Chanthavy and Ms. Sorn Sokha (Director and Vice Director of DoWA): UNICEF Sethkoma has operated its activities at 3 villages in Koh Snaeng commune such as Koh Snaeng, Koh Sralaou and Chorm Thom villages in 2001 and the payment rate of Koh Snaeng is 100% for 2 previous years, but in 2003 there had 3 group loans (16 families) to be lent 1,845,400 R but this village fund were overdue 100% (there had no any clients to repay principal and interest to UNICEF Sethkoma Programme until to day because of natural disaster).

⁷ Interviewing with Mr. Sing Pith, CA of Koh Sralaou VF (he confirmed that he didn't collect loans because he has been busy).

⁸ Ms. Sorn Sokha, Vice-Director of DoWA [the payment rate of Chorm Thom is 100% for previous years, but in 2002 there had 3 group loans (15 families) to be lent 1,526,700 R but this village fund has only been repaid 72% (there have 4 clients not repaying yet of 426, 400R principal)].

⁹ Interviewing with Ms. Sey Chanthavy and Ms. Sorn Sokha (Director and Vice-Director of DoWA): VFs were transferred from UNICEF Sethkoma to DoWA in the early 2003. And DoWA did not take the measures to support, monitor and supervise the VFs strictly since at the end of 2003 to present due to shortage of budgets to support the field staff to carry out their missions (DoWA got the budget of \$4,000 from UNICEF Sethkoma for supporting, monitoring and supervising the VFs but those budgets were expended for the operation first term of the year 2003 and from 2nd term of 2003 to present, DoWA has no any budget to operate their activity to support those VFs). And interview with Ms. Tith Nita, representative of PFD (PFD transferred Rice bank and pig bank monitoring and supervising to Department of Rural Development in 2003. Actually DoRD has not done the monitoring and supervising on regular basis).

There are other external factors that have undermined the success of the VF and RB performances, which include: (1) the lack of standardization in operational VF and RB policies and procedures. (2) The lack of clear policy guidelines for the internal management of VFs and RB. (3) the lack of capacity among the credit staff (credit committee members and assistant of UNICEF Sethkoma) in community development; and credit and RB management.

In some cases, VF and RB members that were interviewed indicated that they benefit from the internal funds during emergencies, many of them borrowing from the internal fund to repay loans on time. It is therefore, important to identify appropriate ways to reform the problems within the VF and RB system, as well as propose alternatives where reforms may not be possible or preferred by clients. The problems with the VF and RB are most severe in Koh Sanaeng and Chorm Thom since 2003 and Koh Sralaou in 2005¹⁰; and slightly all RBs have been failed since 2003 to present¹¹.

The UNICEF Sethkoma/DoWA Credit Unit will have to work to ensure the following: (1) Conduct a full internal audit of the Credit Programme, including individual VF and RB in all 4 communes of Ramsar site; (2) Improve the overall credit delivery mechanism by simplifying procedures for both the staff and the clients; (3) Tightening monitoring and evaluation at the field level; (4) Developing a realistic strategy for reform of the VF system; (5) Developing clear credit policies and procedures for the lending ; (6) Clear operational policies for the head office and the branch operations; (7) Guidelines for VF management and VF internal policies; (8) Training for staff at the head office/programme credit coordinator, as well as the VF committees to improve their capacity in credit management; and (9) Developing a strong management team at the Credit Unit that can enforce policies, provide the essential monitoring and control services.

It is important that until the problems have been resolved and the key steps in the reform process have been completed, Credit Programme should not plan for geographic expansion, and should not promote VFs or solidarity groups in new areas.

It is concluded that the VF model is too complicated for the existing capacity of the Credit Programme staff as well as VFC. They should reform to simplify for the existing delivery mechanism to suit the capacity of the credit staff, VFC and the clients. The recommendation is based on the fact that there is inadequate capacity among the existing staff and VFC in community development and credit

¹⁰ Interview with Ms. Sorn Sokha (Vice-Director of DoWA): the payment rate of Koh Snaeng is 100% for 2 previous years, but in 2003 there had 3 group loans (16 families) to be lent 1,845,400 R but this village fund were overdue 100% (there had no any clients to repay principal and interest to UNICEF Sethkoma Programme until to day because of natural disaster), the payment rate of Chorm Thom is 100% for previous years, but in 2002 there had 3 group loans (15 families) to be lent 1,526,700 R but this village fund has only been repaid 72% (benchmark >95%) because there have had 4 clients not repaying yet of 426, 400R principal and interview with Mr. Sing Vein, vice-chief of Koh Sralaou VFC, he confirmed that Koh Sralaou is 100% non-repayment for the last cycle in 2005 [the loans (1,500,000R) are overdue over one month as of February 2006].

¹¹ interview with Mr. Fong Fy, Chief of Rice Bank Committee of Koh Snaeng village; Nhem Sokhon, Chief of Rice Bank Committee of Krom village; Yin Vuth, Chief of Rice Bank Committee of Leu village; Muth Lith, Chief of Rice Bank Committee of Kandal village; Mr. Sek Mao, Chief of Rice Bank Committee of Ou Roun village, etc. they confirmed that the rice banks lent the rice loans to members in 2003 and those loans must repay in 2004 but all members did not repay the rice to rice bank because of natural disaster and the members asked to delay and promise to pay in 2004 and asked to delay to repay in 2005 and they didn't repay the rice loans yet in 2005 until to present. They said they got the result in 2005, but they repay it to the moneylenders because they borrowed money and rice from them because of natural disaster for food security. So the rice bank warehouses has no any rice.

management. The Credit Unit lacks adequate management capacity and resources to enhance the level of the staff to ensure efficient implementation of the VF.

Moreover, the VF is not appropriate given the need to commercialize the lending operations. In the future the Credit Programme will not have the resources to cover the costs of providing community development inputs, such as training and strengthening of the VF committees, and the rebates for the capitalization of the internal fund. Finally, the current VF is not sustainable at the village level, given the fact that in many cases, the mismanagement by VF committees has eroded the solidarity and trust of VF membership.

If the Credit Programme is to achieve its objective of sustainability, then it must focus on improving the efficiency and profitability of the overall credit programme, including the group lending mechanism. This means a thorough strengthening the improper loan appraisal, loan follow-up on regular basis, formulate the internal audit team in order to audit the credit operation and strengthening the internal control system from village fund to headquarter or we use another strategy is to reform of the existing VFs, a strengthening of the stronger VFs to make them autonomous, and conversion of the weaker VFs that are unable or unwilling to manage their internal funds into a simpler group-lending model, namely the Village Credit Group (VCG) model.

The conversion of VFs to VCGs will allow Credit Programme to continue to provide financial services to clients, while maintain the portfolio quality, reducing staff inputs in training of committee leaders in internal fund management, increasing staff productivity in loan disbursement, reduced losses due to breakdown of solidarity in the groups, and overall increase in profitability. VF members should be provided the option of converting to VCG model, with continued access to the valued credit services, but without forced savings as fees and participation in internal fund activities that they do not perceive as beneficial.

The VCG model is relatively simple in terms of implementation, both for the staff and the clients. The absence of fee collections and loan activities from the internal fund reduces essential transaction costs to the members, limits the possibility of mismanagement and eventual problems within the VF in terms of undermining of solidarity. The disadvantages are minimal and can be addressed in other ways, particularly by improving efficiency of the delivery mechanism, i.e. staff productivity and client responsive loan products and repayment schedules. The Credit Programme can make progress as per the new credit strategy.

As part of the reform process, the credit staff of the credit programme must be provided intensive and various type of training in the following areas: credit management, loan appraisal, loan approval, disbursement and collection; monitoring and supervision; managing delinquency; internal audit and control; VF management; VF audit and control, etc. The Credit Unit must be strengthened to promote good practices at the VF level, maintain an appropriate level of monitoring and supervision, as well as ongoing capacity building of the VF level staff. The reformation of the Credit Programme must include a thorough revision of credit policies and procedures, improving product design and product policies for all loan products, and an overall tightening and strengthening of operational and management systems and procedures, at all levels. The Credit Unit must develop a short term and long term business plan to support the continuous improvement and the overall management of the Credit Programme.

I Introduction

The Mekong Wetlands Biodiversity Conservation and Sustainable Use Programme (MWBP) is a joint programme of the four riparian governments of the Lower Mekong Basin, Cambodia, Lao PDR, Thailand and Vietnam, managed by the United Nations Development Programme (UNDP), the World Conservation Union (IUCN) and the Mekong River Commission (MRC), in collaboration with other key stakeholders. With funding from the Global Environment Facility (GEF), UNDP, the Royal Netherlands Government, MRC, the Water and Nature Initiative (WANI) and other donors, the programme addresses the most critical issues for the conservation and sustainable use of natural resources in the Mekong wetlands.

In 2003, in partnership with the MRC and UNDP, IUCN began a 5 year US\$30 million programme (2004-2009) for the conservation and sustainable use of wetland biodiversity through capacity strengthening at the provincial, regional and national levels-with demonstration wetland areas in each of the four countries: in the Songkhram river basin, Thailand; in Attapeou province in southern Lao PDR; in Stung Treng, Cambodia and in the Plain of Reeds in the Mekong Delta, Viet Nam.

The programme goal is the conservation and sustainable use of wetland biodiversity and this will be achieved through capacity strengthening in order to address the root causes of wetland degradation. The programme will work to establish a multi-sectoral planning process, strengthen policy framework and macroeconomic environment that supports wetland biodiversity conservation and sustainable use, provide information to support policy, planning and decision making, improve the human and technical capacity to better conserve and manage the wetlands, and improve community-based natural resource management of wetlands¹².

The Stung Treng Ramsar reserve is one of four demonstration sites of the Programme. Each demonstration site represents one of the four key wetland ecosystems representative of the Lower Mekong Basin as a whole. In the demonstration sites, the programme will help to identify the values of the freshwater ecosystem, and work with local people to develop improved management systems and alternative livelihood options. The demonstration site will be used to carry out research into the importance of wetlands for both biodiversity and livelihoods, and to develop plans and projects for their sustainable management¹³.

The programme will mainly focus on the management of the Ramsar reserve and possibly other adjacent wetland areas, and to contribute to the sustainable rural economic development as to improve living standards of the rural people in Stung Treng Ramsar site, the programme aims to undertake a study of the current methods by which Stung Treng Ramsar site villagers obtain micro-credit and work in self-help groups (rice bank, cow bank, buffalo bank and pig bank) for development and prepare detailed recommendations for any additional schemes that may be required along with details on how these can be implemented and villagers trained to obtain maximum benefit from them.

¹² Website: www.mekongwetlands.org

¹³ MWBP 2006, *An Ecotourism Assessment of the Stung Treng Ramsar Site*.

II. Background

2.1 General Situation of Stung Treng Ramsar site¹⁴:

The Stung Treng Ramsar Site was declared a Ramsar site in 1999. The site extends 37km along the Mekong River (6km north of Stung Treng town and 3km south of the Laos border), covering an area of 14,600 hectares. The site encompasses the entire Mekong River to the terrestrial boundary 150 meters to the landward side of the riverbanks. There are 13,000 people living within, or close to, the site boundaries, in 2 districts, 4 communes and 21 villages. Of the forty islands in the Ramsar site, three are permanently populated with established villages. In the dry season, the larger islands are used for agriculture, harvesting of natural resources, livestock, and hunting.

The Ramsar reserve is very important for livelihoods and biodiversity conservation. Those communities living in and around the wetland areas obtain great benefits from the natural resources. There have been a number of barriers to the effective management of the Ramsar reserve which include a lack of coordination between different sectoral approaches, weak policy frameworks and unsupportive economic environments, inadequate information base with which to develop wetland policy, planning and management decisions, inadequate human and technical resources and lack of options for resource use by local communities. These all result in unsustainable use of the wetland resources.

A seasonally inundated riverine forest habitat is a globally significant feature of this site. The forest is found in the flowing water on the edges of islands and rivers and on rocky outcrops. This stretch of the Mekong is important for the migration of over 100 species of fish between the Tonle Sap Lake and the upper reaches of the Mekong. The site and its immediate tributaries is also an important breeding site for fish species that can not migrate beyond the Khone Falls and may be an important habitat for fish breeding and offer shelter for fish during period of peak flow.

Within the Ramsar site there are 4 communes (O'Svay, Samaki, Preah Rumkel and Koh Snaeng), with a total of 21 villages and a combined population of approximately 13,186 people (2375 families). O'Svay commune is located about 60 km north of Stung Treng Town, bordered by Laos on the north, Samaki Commune on the south, Preah Rumkel Commune on west and Siam Pang district on the east. O'Svay Commune can be accessed by two ways: National Road No 7 and by Mekong River. There are two international border-crossing points, one by road and the other by water. The commune is made up of five villages with the total population of 2,554.

Preah Rumkel is one of the most remote communes, divided by 8 villages with a population of 4,774 (901 families). The commune is located on the other side of the river on the west of O'Svay commune. It is bordered Lao by the Mekong River on the north. O'Svay Commune is located south of the Laos border and north of Samaki Commune, with the Mekong as its western border. The total population is approximately 2,554 people (490 families).

Koh Snaeng Commune is located down south of Preah Rumkel Commune. Koh Snaeng maybe the most remote commune in the Ramsar area with a population of 2,089 (373 families). Currently it is accessible only by water. Koh Snaeng is commune of several islands, such as Koh Snaeng where most people reside, Koh Sralaou, Koh Ky, Koh Tanle Muy, Koh Kro Lay, Koh Hip and many other small islands. Samaki Commune lies on both the Sekong and Mekong Rivers and is bordered by O'Svay Commune to the north and Stung Treng town to the south. It consists of 5 villages with a total population of 3,769 people (611 families).

¹⁴ MWBP 2006, *An Ecotourism Assessment of the Stung Treng Ramsar Site*.

Most people in O'Svay commune are farmers and fishermen. Their livelihood depends largely upon the natural resources. Their close proximity to the Lao border gives the community easy access to a wider market to sell their local products such fish, beans, corn and tobacco. In return they have access to cheaper products from Laos such as petrol and other goods. The community has a variety of sources of income such as rice and chamcar, fishing, livestock, small business vendors, boat taxi, sugar cane, beans, tobacco, NTFP, sap and labour services. This variety of income sources provides the local community with opportunities to improve their livelihoods, however wealth of the community is largely set in the natural resources placing added pressure on them.

The high dependency on the natural resources forces the alternative of finding how the local community's livelihood can be improved whilst maintaining the environment. With good planning and management, community has been demonstrated as a successful strategy to conserve the environment and to boost local economy. The community's wide sources of income and ability to farm agricultural supplies also means that they have the ability to sell their products both to the tourist market and the wider consumer market. Stung Treng province currently does not have enough agricultural supplies and 45 goods to feed demand in the province. Thus focusing more on the communities ability to better farm supplies would possibly provide them with a greater incomes, also increasing in the province each year.

In Preah Rumkel the community have a variety of sources of income such as rice farming and chamcar, fishing, livestock, vendors, boat taxi, sugar cane, beans, tobacco and labor. Most of the community grows rice with big yields; however only grow paddy rice once a year due to the absence of water reservoirs for a second yield, even though they live along the Mekong River. Being near the border the community also finds it easier to sell their products to Lao. Fishing is one the primary sources of income after rice production.

The community fish for their daily consumption in addition to selling at the market near their community, earning US\$1 dollar per day. Livestock is also one great sources of income and is considered as the major source of cash earning for the community, with pigs, cattle and buffalo the most common. While the community only grow enough rice for personal consumption, if tourism was introduced the community would need to increase this production to serve tourist needs. As a result, surplus stock could be sold to markets for extra income and expanding the income options for communities.

The main source of income for the Koh Snaeng Commune is agriculture, with rice farming the major source of income. In addition to rice farming, the communities also have other ways to earn extra income such as fishing, livestock, corn, watermelon, NTFP, boat construction and small business. Fishing is typically for daily consumption and not commerce as they live far from the market. While this daily consumption may provide them with a food source, it is not converted into cash. However, some villagers do transport fish to the market in Stung Treng for extra income. Income is also earned from raising livestock (pigs, cattle, and buffalo).

Koh Snaeng commune may not be wealthier in terms of monetary sources than other communes, however their ability to lead a simple life without wanting material possessions and their ability to provide enough food for their daily consumption means that they are self sufficient. Therefore the motivations for ecotourism are slightly different in this commune and will require a different strategy for development.

Though Samaki commune is located near the provincial town, it appears that the living standards of many local people is still of a lower standard than other communes. The commune's close proximity to the provincial town provides an easy opportunity for the community to sell their products, however the community still remains at a much lower standard. The main sources of income were rice, farming, fishing and livestock raising, which is less than the other three communes in the Ramsar site. This has implications for micro-credit and self-help groups development as it would need to be primarily used as a

poverty reduction strategy in this commune to improve their current sources of income as well as identifying alternative sources of income.

2.2 Objectives of the Study¹⁵

One of the outputs of the MWBP programme is assessing the potential for alternative livelihood activities with assistance provided to establish suitable activities. Micro-credit and self-help groups have been identified as one potential livelihood activity for the four communes located in the Stung Treng Ramsar area. As a result, Micro-credit and self-help groups study is currently in progress that will, amongst other things, identify and describe the Micro-credit and self-help groups potential of the Ramsar area, assist in the preparation of a Micro-credit and self-help groups strategy for the area, and assist in the detailed plan of implementation for Micro-credit and self-help groups activities in selected villages. The purpose of the study was to gather information to identify potential villager living standard development opportunities, and the viability of those opportunities to offer direct benefits to conservation and community livelihoods through the following objectives:

- Undertake a study of the current methods by which Stung Treng Ramsar site villagers obtain micro-credit and work in self-help groups (rice bank, cow bank, buffalo bank and pig bank) for development and prepare detailed recommendations for any additional schemes that may be required along with details on how these can be implemented and villagers trained to obtain maximum benefit from them.
- Identify, evaluate and assess the appropriateness of existing micro-credit schemes currently available in the Ramsar reserve, including repayment levels and the consequences of non-repayment.
- Estimate the number and types of people (by gender, wealth status, education level etc) using the currently available micro-credit schemes, and their availability to the poor.
- Identify, evaluate and assess the appropriateness of the self-help groups, including buffalo and rice banks etc, currently operating in the Ramsar reserve.
- Estimate the number of people (by gender, wealth status, education level etc) currently participating in self-help groups, including buffalo and rice bank etc.
- Recommend any alternative micro-credit and self-help group schemes that it would be appropriate to introduce to the Ramsar area.
- Estimate the willingness of villagers to adopt new systems of micro-credit and self-help groups that this study recommends will be beneficial to them.
- Identify any training requirements that are necessary to increase participation in and effectiveness of existing and proposed micro-credit and self-help group schemes.
- Advise on ways in which IUCN, MWBP and other agencies involved with small credit and self-help groups can coordinate and improve their efforts.

2.3 Methodology¹⁶

The study was divided in two phases. Phase one, studying with institutions which have been operated the MC and SHG in Stung Treng Province, especially being operated in Ramsar site and phase two, Field Study, studying the real activities in which have been working in micro-credit; saving mobilization; rice, cow, buffalo and pig bank in each village in Stung Treng Ramsar site.

Related Institution Study: The study conducted 5 days in Stung Treng provincial town, in February 2006. The institutions were selected to visit such as Aclada Bank; Cambodian Global Action; Oxfam Community Aid Abroad; Partner For Development, Department of Rural Development; Department of

¹⁵ Terms of Reference for the consultant provided as Annex One.

¹⁶ Field study questionnaire provided as Annex 3 to 7.

Woman Affairs; and Department of Education, Youth and Sports in order to understand where and what they have been done, the methodologies to set up the micro-credit and shelf-help groups committees and the methodologies to choose the good clients and the rules and process of disbursing and reimbursement loan, the measures to be used to solve the overdue loans, existing loans and to prevent future loans to become overdue.

Field Study: The fieldwork conducted 9 days of field studies in 4 communes in Stung Treng Ramsar site, in February 2006. Samaki commune was selected 3 villages has initiated pilot experimentation with village-level rice bank since 2000 and cow bank since 2005. Koh Snaeng commune was selected 3 village-level rice bank and micro-credit operation since 2001, O'svay and Preah Rumkel was selected 3 villages per each commune in village-level rice and pig banks.

Discussion and analysis of findings and conclusions: the consultant, such as a study Result Discussion Meeting, was held on February 27, 2006 recorded the findings and conclusions. The meeting served to share findings and conclusions with the management team of MWBP, as well as discuss preliminary conclusions and recommendations regarding the micro-credit and shelf-help groups performances and the proposed recommendations for any additional schemes that may be required along with details on how these can be implemented and villagers trained to obtain maximum benefit from them.

Analysis of the field study: The consultant, based on the discussions at the meeting, prepared the analysis of the field study. The analysis included the following:

- Identification of the strengths and weaknesses of the existing Credit Programme and Self-help groups.
- Recommendations to the existing Credit Programme and Self-help groups – Strengthening the Credit Programme and self-help groups to run smoothly and to be sustainable for the future.

Draft report: A preliminary report (first draft), with key findings, analysis, preliminary conclusions and recommendations were shared with the International Technical Advisor and management team of MWBP.

Additional field study: In the interim period, the consultant conducted a three-day field study in Samaki commune in March, as part of the preliminary review in preparation inception report. The Samaki field study provided information on 9 additional credit and self-help groups members. The findings and conclusions are integrated into the final draft report.

Final draft: The final draft reflects the preliminary conclusions and recommendations of the mission on micro-credit and shelf-help groups strengthening to run smoothly and to be sustainable after receiving the additional feedback from the members of the consultation meeting on Micro-credit and Self-help groups.

List of Villages visited

Commune	VILLAGE	MICRO-CREDIT	RICE BANK	COW BANK	BUFFALO BANK	PIG BANK
Samaki	Thmei	no	yes	yes	no	no
	Kham pan	no	yes	no	no	no
	Koh Kordin	no	yes	no	no	no
Koh Snaeng	Koh Snaeng	yes	yes	no	no	no
	Koh Sralaou	yes	yes	no	no	no
	Koh Ky	no	no	no	no	no
O'svay	Koh Phnaou	no	yes	no	no	no
	Ou Roun	no	yes	no	no	no
Preah Rumkel	Leu	no	yes	no	no	no
	Kandal	no	yes	no	no	no
	Krom	no	yes	no	no	yes

III Lessons Learn From the Field Study

Micro-credit providing and Self-help groups are the necessary means to reduce the high interest rates of moneylenders and to contribute to cut down the people's difficulties by providing the loans in capital to the villagers to make income generation. By good cooperating between provincial departments, local and international organizations, there are many organizations such as PFD, WFP, CRC, OCAA, YWAM, SFKC, and NVDP and UNICEF Sethkoma to be carried out the activities in many fields, especially micro-credit and self-help groups in 5 districts in Stung Treng province in cluding 57 rice banks are 316, 380 kg; 19 buffalo banks are 58 buffalos; 3 cow banks are 6 cows; 19 pig banks are 81 pigs; and 35 VFs to be provided loan portfolio outstanding is 47, 580,000 Riels¹⁷.

As for Ramsar site has 21 villages of 4 communes, and there are 3 villages of them to be provided loans to villagers by UNICEF Sethkoma in cash at Koh Sralaou, Koh Snaeng and Chorm Thom villages of koh Snaeng commune and others were carried out by PFD in rice bank and pig bank since 2001 and cow bank by CGA at the end of 2005. There are 15 rice banks including 3-rice banks at Samaki commune, 2 rice banks at koh Snaeng, 5 rice banks at O'svay and 5 rice banks at Preah Rumkel commune, 1 cow bank at Thmei village of Samaki and 1 pig bank at Kroum village of Preah Rumkel commune¹⁸.

3.1 Micro-Credit Situation

3.1.1 Definition of VFs¹⁹:

According to the design of UNICEF Sethkoma, the VFs are village level informal organizations that were organized by UNICEF Sethkoma to serve as a mechanism for achieving community development through

¹⁷ Statistics and achievement of Stung Treng Provincial Rural Development Department on August, 2003.

¹⁸ Samaki, O'svay, Koh Snaeng and Preah Rumkel Commune Development Plans (2005), Stung Treng Province.

¹⁹ UNICEF Sethkoma, *Village Fund Performances for Saving and Credit*, 08 March 2001; *Village Fund Principle*, 2001; *Internal Regular for Village Fund Councils and borrowers*, 2001 and *Draft on By-Law of Village Fund for Saving and Credit*, 07 February 2001.

savings and credit activities. VFs members are supposed to be the poorer members of the village. Only one member per household can be represented in a VF. Villagers are generally introduced to the programme by UNICEF Sethkoma staff, and then formed self-selected guarantor groups of five members. Members are encouraged to save to contribute small amounts of savings (1000R per family of each month) to establish an internal fund.

UNICEF Sethkoma further capitalizes the internal fund, through rebates from the interest income earned on on-time repayment of UNICEF Sethkoma loans. The internal fund also benefits from the interest income from internal fund loans. Internal fund loans are intended to serve members during emergencies and for small loans for household consumption and small income generation activities. The VF activities include monthly meetings for collecting savings, discussion of internal fund loans and UNICEF Sethkoma/DoWA loans. VFs are also supposed to have annual general meetings for discussing VF activities, assessing the VF status, and reelection of group leaders and VF committees every three years.

The guarantor groups elect guarantor group leaders. The VF members then elect the VF committee from the guarantor group leaders. The VF committee consists of the President, Accountant (vice-president) and Cashier, who work with the other guarantor group leaders. UNICEF Sethkoma/DoWA provides training to the VF committee in bookkeeping and accounting, with the aim to strengthen their capacity to manage the VF, moving towards autonomous management. UNICEF Sethkoma/DoWA provides a rebate to the VF, which includes a portion to cover the administrative costs of the VF committee and a fee for their services. The VF committee generally shares the fee with all the guarantor group leaders. The VF committee along with the guarantor group leaders is responsible for managing the VF internal fund activities as well as the UNICEF Sethkoma/DoWA loans. Activities include the organization of regular (usually monthly) meetings with the guarantor group leaders to discuss VF activities and the organization of regular meetings (usually once a year) with all VF members to report and inform on VF internal fund and UNICEF Sethkoma/DoWA activities.

The main responsibility of the VF committee to UNICEF Sethkoma/DoWA is to co-manage the UNICEF Sethkoma/DoWA loans to the VF. These responsibilities include: client screening, demand and risk assessment, preparation of loan applications, transfer of funds between the UNICEF Sethkoma /DoWA and the village, disbursement and collections of loans at the village level, and follow up. The VF committee must ensure on time repayment of loans and take necessary actions regarding late payment and defaulters.

The Village Fund was designed and implemented with the following objectives:

- Building village level organizations, for the purpose of organizing villagers who can together develop the village.
- Promoting savings among VF members, for contributing to the internal fund, and encouraging stakeholding at the community level.
- Promoting an internal fund, for the purpose of building a community based fund, for meeting the emergency and consumption needs of members.
- Strengthening human resources at the village level by providing management and leadership training to strengthen VF committees.
- Providing management training in accounting, and bookkeeping to the VF committees to enable autonomous management of the VFs.
- Establishing a linked Credit Programme, that would meet the financing needs of villagers for various income generating and micro-enterprise development activities.
- Providing substantial rebates to the VF internal funds for the purpose of capitalizing the internal funds, and creating an incentive for villagers to build a village bank.

- Providing rebates to the VF committees, as incentives to ensure continuing contribution in the management of the internal fund and UNICEF Sethkoma loan activities.

3.1.2 VFs' Current Development Status

In this section, general comments and observations are made on the current development status of the VFs, including their solidarity (especially in terms of joint liability), savings mobilization and financial intermediation, democratic governance (including holding of elections), committee members' and ordinary members' perceptions of cooperative principles and the main purpose of their VF, motives and expectations of the members in having joined an VF, the members' perceptions of the "very poor" or "poorest" and whether they may be creditworthy VF members. A description will be made of the main problems and constraints currently facing the VFs, and of their impact on the general lending environment in the village. This section will also describe briefly the current classification system in use and support, which has been provided the VFs from UNICEF Sethkoma. The next section will describe the VFs' development potential.

All in all, while the VFs are not strong exemplars of the mutualist approach to rural credit, and are mostly unable to function autonomously, their overall utility as credit providers (whether from UNICEF Sethkoma/DoWA or from their internal funds) to a large number of small and marginal farmers overshadows their current weaknesses. We find that even VFs, which are categorized as weak (3) according to the current system, are still able to perform a useful function for their members in terms of limited financial intermediation. The VFs are also able to provide a benefit to villagers at large in that moneylenders' rates have come down in many areas where VFs are active.

More than 80% of loans are used to finance agricultural production. The activities that stand out clearly, are fishing net, raising animals and buying fertilizers. Credit is also used for small business investment and services, such as food trading, food processing, battery charge, motorboat, bicycle and motorcycle repair, rice mill etc.

3.1.2.1 VFs as Village Cooperatives

The project's expectations of the VFs as mutualist (cooperative) credit associations have been quite high. The VFs were supposed to have been formed from an "association" of smaller, guarantor groups which would save money on a regular (preferably monthly) basis to build up an internal fund, and would assist members having difficulties to repay loans from UNICEF Sethkoma based on the concept of joint liability. Our findings indicate that the VFs do not operate as cooperative credit associations. At the same time, however, our discussions with VF committees and members indicate that they were not strongly facilitated in this direction. People's understanding of the VF formation process is that they had to form groups immediately, save money for a certain period (once a month for three months, for example) as a requirement to get UNICEF Sethkoma loans, and that their group leaders would then stand for election as VF committee members, with the result that all members with land and/or other collateral would then be eligible for UNICEF Sethkoma loans (most people have no understanding that joint liability is a form of collateral in and of itself). This description of the VF formation promotion process did not vary much from province to province.

VF members, whether committee members, group leaders or ordinary members expect little more from their VFs than access to UNICEF Sethkoma loans, and to loans from the internal fund. Having this access is most certainly the main reason they have joined the VF. In some of the VFs, people have said that they have joined the VFs in order to "help each other," but further questioning on this point revealed that what they really meant was that they had had to form groups in order to receive UNICEF Sethkoma loans, and that they considered the UNICEF Sethkoma loans as a means of assistance which also result in reduced

dependence on higher interest charging moneylenders. Some VF committee members, however, said that the internal fund was an important means to help each other, as the members' payments could then be used to lend to those in greater need, and with no interest if less than a certain duration (up to one month). The concept of solidarity in terms of joint liability basically does not exist in the VFs, and in some cases members were quite horrified to think that they might have to help repay a group member's late or bad loan to UNICEF Sethkoma.

Rather than joint liability, the group members felt that it could be their task if necessary to put pressure on a fellow group member to repay UNICEF Sethkoma by whatever means possible (selling livestock, borrowing from the moneylender, borrowing from relatives, borrowing from the VF internal fund). In this respect, given the very low repayment rates of the VFs to UNICEF Sethkoma (the overall on-time repayment rate as given in the UNICEF Sethkoma Credit Section Yearly Summary of Credit Statistics, yearly cycle closing) for 3 VFs (Koh Snaeng, Koh Sralaou and Chorm Thom VFs) in 2001 is 100%, for 2002 is decreased to 90.5% due to Chorm Thom had 4 overdue loans, i.e. Chorm Thom VF's loan was repaid only 72% and the repayment rate was highly decreased from 90.5% in 2002 to 25% of on-time repayment because of 100% non-repayment in 2003 (because clients met the natural disaster, drought) of Koh Snaeng VF (not opening new cycle) and 28% non-repayment of Chorm Thom VF (not opening new cycle) in 2003, but Koh Sralao VF's loan was repaid 100%. The last loan cycle of Koh Sralao for 2005 is 100% non-repayment. It is overdue in the period of one months ago (these loans must repay the mid February, 2006)²⁰.

All interest income was divided such as 20% interest rebates given by UNICEF Sethkoma as incentives to the committee members, 30% for provincial coordinator expense to support the credit programme, 20% for loosing and currency inflation rate, 10% for village safe fund, 5% for other village safe funds, and 10%²¹ as a means to build up the internal fund most certainly motivated the committees to collect from their members on time and other means to build up the internal fund by member fee (all VF member must pay the saving 1000Riel per month and must pay the membership fee 1000Riels per member per loan cycle)²². An indirect joint liability has been followed in cases where an VF member having difficulty to repay a UNICEF Sethkoma loan on time was able to borrow from the internal fund.

If the concept of joint liability is to be effective, it would need to be carefully explained several times to the villagers *prior* to their formation of guarantor groups, so that they would have had more time to discuss and decide among themselves as to who should be in the different groups, with a stronger eye to mutual trust and confidence. As it was, the groups were very rapidly formed mostly in accordance with the size criterion (5 members) given by the credit agents (CAs) of VFs, and often in groups of neighbours (very occasionally in groups of relatives).

It may well be that a group size of only 5 is to reasonably expect 4 members to cover for the lack of repayment of one member. Otherwise, since members also believe it is necessary for them to have individual collateral to get UNICEF Sethkoma loans, they may not understand that there is any reason to

²⁰ Interview with Ms. Sorn Sokha (Vice-Director of DoWA): the payment rate of Koh Snaeng is 100% for 2 previous years, but in 2003 there had 3 group loans (16 families) to be lent 1,845,400 R but this village fund were overdue 100% (there had no any clients to repay principal and interest to UNICEF Sethkoma Programme until to day because of natural disaster), the payment rate of Chorm Thom is 100% for previous years, but in 2002 there had 3 group loans (15 families) to be lent 1,526,700 R but this village fund has only been repaid 72% (benchmark >95%) because there have had 4 clients not repaying yet of 426, 400R principal and interview with Mr. Sing Vein, vice-chief of Koh Sralaou VFC, he confirmed that Koh Sralaou is 100% non-repayment for the last cycle in 2005 [the loans are overdue amount of 1,500,000R].

²¹ Follow-up register of Koh Sralaou Village Fund for the loan cycle from 19 May 2004 to 22 February 2005.

²² UNICEF Sethkoma, Village Fund Principle article 2 page 28 and article 17 page 29.

have joint liability in addition. Moreover, villagers' ideas of helping each other relate to helping with labour (as in house construction), or with small cash donations (for each others' funeral expenditures, for example, or to assist the poorest if they have emergency needs.)

The groups have rather little meaning within the VFs at present. They have no activities of their own, and we could not find any examples where the groups had their own meetings. It is hard to imagine the VFs as a real "association" of groups, as the groups themselves seem to have no real function but to allow members access to UNICEF Sethkoma and internal fund loans. As mentioned above, the early formation stage of the VFs encouraged people to form small groups quite rapidly, not really paying close attention as to whether the groups were large enough, whether the members come from similar economic strata or not, and what kind of functions the group could have. Group leaders also seem to have been rapidly selected from among the group members. In a number of VFs the group leaders have not very clear tasks, as the members interact directly with the VF committee members in terms of savings payments, and loan disbursements and payments.

Another key principle of a cooperative or, indeed, of any Community-Based Organization (CBO) is that of democratic governance, including regular re-affirmations of the leadership, and limited terms of office for the leadership (with terms being ended with elections of committees by the regular members). The VFs do not closely follow these principles of democratic governance. Indeed, there had not been any new elections held for the VF committees since the time they were founded (however, two of the VFs visited had been formed in 2001²³). The members interviewed did not express dissatisfaction with this situation (although it must also be said that quite a number had little idea as to the actual roles of the VF Chairman; on the other hand, members have also said in several cases that they really need their VF committees to do the work of contacting UNICEF Sethkoma).

While there has been little to no process of democratic governance in terms of elections in the VFs, it does not mean that the committee members have necessarily been governing their VFs autocratically or with an "iron fist." Many committee members have mentioned that in order to change more important by-laws governing the operation of internal fund lending they would need to refer to a membership meeting first. Other rules requiring members' inputs are those governing the amount of savings, which should be collected, how they should be collected, and the frequency with which they should be collected.

The issue of transparency is closely related to the issue of democratic governance. We found that a lack of transparency in decision-making, application of rules and by-laws, and in accounting and bookkeeping is a problem at most of the VFs. In too many cases members did not have a clear enough understanding of the VF's rules and regulations. While it is easy to lay blame for this situation with the leaders, the members themselves are clearly too passive in finding out what is going on and why (some of our respondents were even not sure if they had received a UNICEF Sethkoma or an internal fund loan)²⁴.

²³ Koh Snaeng and Koh Sralaou Village Funds.

²⁴ Koh Snaeng and Koh Sralaou Village Funds have no accounting book to record the daily transactions, but cash book only and record the transactions in the cash book not following the register methods, for example, Koh Sralaou Village Fund: the name in the register is Lann Feur, group 1, borrowed 100,000R from 19 May 2004 to 19 January 2005, actually Lann is husband's name (full name is Khoem Lann) and Feur is wife's name (full name is Poeung Feur); client Ang Khoeu, actually Ang is husband's name (full name is Lok Ang) and Khoeu is wife's name (full name is Vann Khoeu), etc.; The CA or VFC have not issued the voucher or receipt to the clients and 14 loan contracts to be kept with Village Fund Committee have no thumbprints of guarantees, group leader, group members, chief of VF, chief village and chief of VDC. On the other hand, Mr. Sing Vein, Koh Sralaou village fund committee told that the client (Naov Srey) borrowed 70,000R, but his name didn't register in the cash book and has no loan contract. The contracts was kept with village fund committee has seen the client Thed Thy (husband) and Sing Pek (wife) to be lent 100,000R, but when the consultant interviewed his wife, she said that she has never borrowed loans from any one; actually this loan has been lent to Mr. The Lek in the same village. And the contract was kept with

Neither party has experience enough with local organizations that the issue of transparency is self-understood. Nonetheless, we were pleased to see that some of the VF committees did try to make more efforts to run the VF transparently.

A difficulty for the VFs in changing committee members on a regular basis is the “thinness” of the capacities of the current membership because of the majority of members (60 to 70%²⁵) is functionally illiterate. Therefore, the pool of people who are eligible to be VF leaders is limited from the start. Another issue to be considered is that a person’s literacy does not necessarily make him/her trustworthy in the eyes of others (thus further limiting the pool of members who are really eligible to be committee members). Second, the project has not made a point of training VF members beyond the committee, in terms of bookkeeping or financial management issues, making it difficult for others to take over these tasks easily. This means that if new elections would result in a new committee, the project would have to be committed to training the new committee members as well (perhaps with their predecessors as resource persons).

3.1.2.2 VF as Financial Intermediation

The VFs visited showed varying capacities and successes in turning UNICEF Sethkoma rebates and members’ contributions (refundable fees or savings) into lending activities (from the internal fund). The size of the VF internal funds varied considerably, even among those VFs, which had been founded around the same time and had a similar number of members. In a number of cases, the VFs were collecting fewer savings and on a more sporadic basis than they had when they had just been founded. At the last time in 2003 the villagers stopped the saving, but to be paid the contribution (membership fee) to be capitalized in the internal funds of VF of 1000 riels per member per loan cycle²⁶.

The members’ view of savings is rather more as a membership fee. In most of the VFs all members are to pay the same amount, although judging from cashbooks the members did not always pay their dues! In those VFs where members had received small dividends (two or three times since the founding of the VF), the members were also more willing to go on with the membership fees (most members do not see their payments as a form of mutual help). In cases where there were deductions from the UNICEF Sethkoma loans, members did not complain that it was unfair to do so, as they felt it was a relatively painless way to pay their dues. In some cases, people said that the payment of even small monthly fees was a barrier to increased membership in that there were people in the village who would be unable to provide such payments.

In those VFs where the committee had the idea that new members would have to pay the equivalent of the existing members’ fees as an entrance fee, there were not surprisingly no new members in recent times. Where the VFs were more flexible, allowing new members to start just by paying a small monthly fee, there were a bigger number of new members. In a couple of cases, the VF committees differentiated between “old” and “new” members by paying dividends to old members but not to new members until they had paid dues for at least one year, for example.

The importance given by members to the internal fund lending versus UNICEF Sethkoma lending varied between VFs. At one VF the internal fund had been significantly increased through the VFs’ lending activities and at another the members’ taking of UNICEF Sethkoma group loans significantly reduced

village fund committee has showed the client, Tap Ny (husband), and Noeur Vin (wife) to be lent 100,000R, actually this loan was lent to his brother (Thay Na that has lived at Koh Snaeng village).

²⁵ Mrs. Sorn Sokha, Deputy Director of Department of Woman Affairs, Feb. 2, 2006.

²⁶ UNICEF Sethkoma, Village Fund Principle article 17 page 29.

over a two-year period (while internal fund borrowing increased). The committee members' commitment to maintaining and/or increasing their internal fund varied significantly, with many cases of slack loan and/or interest collection.

The members' commitment and/or interest in the internal fund is less than in the UNICEF Sethkoma loans. They said that their own fund was too small to cover the members' demands. At the same time, however, ordinary members had not given any thought to the ways in which they could try to increase their fund. There was also a great deal of variation in the numbers of members who had had access to internal fund lending over time; from barely one-quarter of the members, to virtually all of them. (At any given time a minority of members have loans from the internal fund.) Part of the reason for this lies in VF committee members' administration of the fund, and whether they tended to give out fewer larger loans (in contravention of their written by-laws) or many smaller ones. In cases where many smaller loans had been given out, the members also attributed a higher importance to their fund, saying that it was a valuable source for emergency or immediate consumption needs. All members appreciated that the internal fund loan could be had with a minimum of administration and waiting, and that loans of a few days could be had interest-free.

3.1.2.3 VF Membership

The VF members tend to represent the "average" and poor households in the villages. Although there are very large variations, since the average VF visited comprises around 15% of the total of the village households (3 VFs' members are 51 among 334 villagers in 2002)²⁷, it means generally that the VFs are covering of very small and marginal farmers, and is not a good achievement. Changes in VF membership over time have varied greatly from VF to VF visited. In one case, for example Koh Sralaou VF is an increase of up to 222% was noted (the VF had started with 9 members in 2001 and went up to 20 in 2005). Decreases were noted at those VF is 18% (from 51 clients down to 32 clients) due to one VF (Chorm Thom) not opening the new cycle²⁸.

3.1.2.3.1 Gender Issues

Gender is the very important factor in the current development context as the government has affirmed in the five-year development (2001-2005) plan on social and economic issues. Gender plays a crucial part in community development in which the activities are linked to a gender mainstreaming approach. This is related to the objectives of credit and self-help groups programme. Moreover it is a fact in Cambodia that women are always involved in the formalities of borrowing and repaying, even if they do not manage the loans. The requirement for punctuality in repayment is also one of the reasons for this, as the women live in the village all the time, whereas the men have to be away a great deal for their work, particularly in the dry season.

The credit agents of VFs and officials of UNICEF Sethkoma/DoWA are diligent in keeping records of female membership in the VFs. As a result, we could see that the female membership in the VFs visited varied greatly; from a high of 26% in 2001 to a low of 8% in 2002²⁹ and increasing to a high of 25% in

²⁷ Department of Woman Affairs (Stung Treng Province) 7 July 2004, *Report on Village Fund Activity Information in which supported by UNICEF Sethkoma from 2001 to 2004*

²⁸ Department of Woman Affairs (Stung Treng Province) 7 July 2004, *Report on Village Fund Activity Information in which supported by UNICEF Sethkoma from 2001 to 2004*

²⁹ Department of Woman Affairs (Stung Treng Province) 7 July 2004, *Report on Village Fund Activity Information in which supported by UNICEF Sethkoma from 2001 to 2004*

2003 and to a low of 15% in 2005. So 3 VFs (Koh Snaeng, Koh Sralaou and Chorm Thom) have around 18,5% female members³⁰.

The number of women who are group leaders is very much less than the percentage who are members. Among the VFs visited, only one had a majority of female group leaders; many of the others had no women as group leaders, or only one or two female group leaders. Of all the VFs visited, But there had 30%-44% of female committee members per each VF. A reason is that women may be unaccustomed in Khmer society to take leadership roles outside of the home, (although we did not find that women were particularly shy at meetings they attended with us). Nonetheless, according to our respondents, women are often the household “bankers,” taking care of household funds. It thus makes good sense to encourage women to be active members of their VFs, as they already play a role as household financial managers, and have economic activities they carry out independently from their husbands’ activities (examples are basket making, small livestock-raising, vegetable selling). Many local moneylenders are women.

Members we spoke with were, however, relatively pragmatic about their VF membership. That is, if the husband had more time he would attend the VF meeting, if the wife had more time she would go. If the wife were at home on the loan disbursement day, she would collect the money; otherwise the husband would do it. The established policy is that both the husband and wife need to sign/thumbprint the loan agreement form, and which should be continued in all provinces.

3.1.2.3.2 Education issues:

Illiteracy is one problem that has been identified as linked to the cause of poverty (food, house, clothes, and healthcare shortages). Due to illiteracy, the villagers are unable to access the information about new agricultural techniques, micro-credit and self-help groups mechanism. Literacy classes are one priority to enhance livelihoods and increase the villagers' status in the society in which they live.

By making observation the clients to be interviewed in 3 VFs (received the loan from UNICEF Sethkoma) noted that there are 60-70% of illiterate members³¹ of the VFs because of the civil war during over 3 decades, shortage the food security, the school is far away from village, lack of transportation, not encouraging from parents and family in which cause they didn't attend the school.

We are not convinced that the "low literacy and comprehension level of villagers" pose a problem to our proposals. We are aware of the fact that many participating villagers are illiterate and have difficulties to comprehend the issues. Therefore, we propose larger groups so that at least group leaders with some educational background can represent the interests of those villagers with a lower literacy level. We expressed our reservations concerning small VFs and reflect this in the assessment scheme. We also argue that credit programme staff could do more to upgrade the VFCs provided that they themselves are appropriately trained (communication skills etc.).

The high percentage of illiteracy among the villagers being VF group members is, again, an existing condition. It makes the project's task more difficult, and requires more innovation in dealing with this condition. It is in itself not a negative finding, as experiences with rural credit in such countries as India

³⁰ Department of Woman Affairs (Stung Treng Province) 7 July 2004, *Report on Village Fund Activity Information in which supported by UNICEF Sethkoma from 2001 to 2004*

³¹ Interview with Ms. Sorn Sokha, Vice-Director of DoWA; Mr. Prak Vanthon, Literacy Trainer of DoE; Mr. Sear Heng, Deputy Director of Department of Rural Development; Mr. Sing Pith and Mr. Sing Vein, chief village and vice-chief VFC of Koh Sralaou village; Mr. Loeung Vy, chief Koh Snaeng VFC. Doung Lean, chief Koh Snaeng commune.

attest. Finally, it is not the project's objective to increase the literacy rate. A high illiteracy rate may be even considered as an indicator that the project indeed accesses the poorer levels of the society. It is a challenge that was taken up by credit programme. For example, the project created posters as media for training. The mission added several proposals. For example, one of the reasons for having larger individual group sizes is to accommodate the low literacy rate. Illiteracy is not a killer condition. One can find illiterate people who know exactly their loans, outstanding amounts, interest payments and due dates.

3.1.2.3.3 Wealth Status issues:

Understanding of the villagers about the wealth status, people consider those families with houses, paddy land, farmland, animals, boats, motorboats, household utensils, production tools such as rice mills, saw mills, wells, gold, cash as wealthy. The condition/characteristic of poverty is according to the people, household wealth is defined as the rich family with lots of property, whereas the poor family is the one with little property and the village wealth ranking as following³²:

In the vast majority of cases, households identified as “rich” by the villagers were not VF members nor did we come across any case where a moneylender was an VF member (the villagers’ definition of Better family/rural rich family is the family in which owns big house with tiled roof of zinc, at least two 2 ha. of paddy land, one ha. of farmland, 9 cattle, one or two motorboats, a tractor, a rice mill, a water pump, 5 to 6 pigs, 40 to 60 chickens and ducks, a video set, sewing machine, cassette player, bicycle, gold, money and own business like giving the cash and rice loan to the poor. When asked why, people said that the rich were not interested in SKP loans (especially the group loans).

Medium family is the family owned big house with tiled roof or zinc roof, 1 hectare of paddy land, maximum two cattle, one boat and one motorboat, 2 pigs and 20 chicken and ducks, 1 cassette player and a bicycle, and owned small business in market and catch fish. Poor family is the family owned house with zinc roof, half hectare of paddy land, one cow or buffalo, one boat, one pig, 5 chickens or ducks, fishing and collecting NTFPs and owned little cash.

At the other end of the spectrum, those households identified as poorest by the villagers were also not often included as VF members. (The villagers said the poorest are landless agricultural laborers with no larger livestock (pigs or cattle), rent draught animal, sell labor and borrow from others for food security. sometimes not even owning a plot of land for a small house or owned small cottage; female-headed households were at times included among the poorest, but this depended on the age of children also living in the household). The study noted that the 60% VF members to access the loans are poor, 10% are poorest and 30% are medium family.

There are several reasons for the partial “exclusion” of the poorest. First, members said it was a matter of income earning potential—if a person has the means to earn money (land or a small business) they would also “dare” (have the self-confidence) to take a loan from VF. Second, existing members and their committees view the poorest as a higher credit risk; they fear that the poor are more likely to be unable to repay because if something goes wrong, they have no other assets to draw upon which could be used to repay UNICEF Sethkoma. Third, the poorest exclude themselves by not approaching the VF regarding membership (they may feel that the membership fees are prohibitive or that the loan products don’t meet their needs). Fourth, members considered that the poorest were eligible for “welfare assistance,” with

³² MWBP (Stung Treng PPA Team); *Participatory Poverty Assessments (PPA) on Livelihoods and Wetlands Stung Treng Province, Cambodia*; prepared by a Multistakeholder Group of Stung Treng Province with Support from CEPA, Action Aid and IUCN. Funded by Royal Government of Netherlands, December 2002 to January 2003.

various community members giving money to the poorest to cover the latter's emergency needs. We were pleased to observe, however, that several VFs were including the poorest among their members. In these cases the VF committee members did not consider the poorest eligible for SKP loans, but they did have access to the internal fund.

Although the VFs do not as a rule include the poorest of the poor as their members, they most certainly do include small and marginal farming families; in some villages a large majority of such families are VF members. That such families have been able to increase rice yields with the UNICEF Sethkoma loans, or have been able to purchase small livestock, or have been encouraged to try more income-generating activities, already constitutes a contribution to poverty alleviation in the villages.

3.1.2.4 VF Leadership

While the VFs have shown themselves to be more resilient as CBOs than was expected, they do suffer from a general problem of weak leadership. Problem areas related to weak leadership, with few exceptions, have been observed at most of the VFs visited and are most often manifested in terms of the internal fund management. The VF committee members are normally elected from among the group leaders, the latter of who have been selected by the members. Therefore, the number of groups in the VF automatically limits the number standing for election. It later happens that the VF committee member also still remains a group leader. As mentioned above, VF committee elections are a rare occurrence, despite the limits of terms described in the by-laws.

One of the main issues which has arisen regarding VF committee management of the internal fund is that the members themselves see both the internal fund, and the committee members who manage it, in much more familiar terms than the more distant (and strict) UNICEF Sethkoma staff and loans. This means that on the one hand members are less inclined to repay the internal fund on time, nor with the correct amount of interest (more aspects of these loans are considered "negotiable"), while on the other hand the VF leaders are also part of the local kinship and friendship networks in the village, making it also difficult for them to knock at their friend's door to recover an internal loan on time. Loan collection from friends and relatives is undoubtedly a stressful task. Thus, repayment rates for loans are low.

Nonetheless, it is highly commendable that despite the observed difficulties, the vast majority of VFs makes timely repayments of their group loans to UNICEF Sethkoma (some regularly repaying *before* due dates). The main problem areas observed, many relating to management and internal fund management skills, are as follows:

- Weak VF management (few meetings, problems in savings and loan collection);
- Inconsistent adherence to rules and by-laws (some people pay regular interest on internal fund loans, others don't; some people get loans above the ceiling, others don't);
- Lack documentation of important decisions (changes in by-laws; minutes of annual general assembly meetings; dividend payments);
- Lack progress in further skills development (have received training and advice, but still unable to perform required tasks);
- Communication skills (poor explanations to members of by-laws, changes in UNICEF Sethkoma regulations, etc.);
- Don't understand by-laws (given as handout by CAs, but content not well-known or understood by the VF committee members);
- Poor delegation of tasks/lack control over group leaders (some VFs group leaders have almost no job to do because committee members haven't insisted that they perform certain tasks).

Additional weaknesses related to financial management are as follows:

- Weak accounting (no balance sheet, no idea of profits);
- Bookkeeping (books poorly maintained; missing entries; wrongly posted entries);
- Inappropriate loan assessment;
- Inadequate loan supervision;
- Weak enforcement of internal fund loan agreements (people not reminded to pay on time; interest due not collected; not enough awareness of the importance to the members to collect interest).

Some of the leadership problems are related to a VF due to the VF committee and credit agent did not take care and not following the credit policy and by-law of the VF. In addition to weak leadership, there is also some evidence of VF leadership that does not display adequate ethical standards. We hasten to add that this seemed to be a minor problem by comparison with the overall weakness of VF leadership. We are also certain that if the by-laws were strengthened and clarified to provide clear guidelines on the removal of unethical leaders, the grounds would be laid for holding elections to elect new and more trustworthy committee members.

While we have observed many weaknesses in the VF leadership, we also strongly feel that many of these weaknesses could be overcome with simple and systematic training measures that also include systematic follow-up, timely advisory services and retraining as needed. Much greater use could be made of networking among the VFs to encourage the weaker ones to learn from the stronger. Indeed, we have already come across examples of good and innovative leadership that could be spread to others; such leaders should be used as resource persons.

3.1.2.5 VFs as a Tool for Community Development:

The leadership issues mentioned immediately above have also played a role in the current status of the VFs as a tool for community development. A problem in the past has been that the VF committee members alone were trained to undertake various bookkeeping functions. Management issues, whether financial or general organizational management, did not get so much emphasis. Therefore, the VFs have not to date provided a forum for wider learning in the community on bookkeeping and financial management. Skills development has been concentrated with too few people. This concentration has been even more pronounced where the Chiefs Village, Chief Village Development Committee (VDC) and the Chief VF have turned out to be a single person. This concentration could even lead to a situation where a combination Village –VF Chief actually blocks the entry of other credit operators into the village.

In many cases the VDC members are also the VF committee members. This again concentrates leadership and skills in the village rather than encouraging their broadening and democratization. Also, the potential for some abuse of power and trust is greater when so many functions are concentrated in one or two persons; there are fewer checks and balances possible. Moreover, when so many tasks are concentrated in the hands of the few, there is also a greater likelihood that these tasks will be performed poorly, as the person runs into time constraints related to his/her normal economic and household activities while at the same time trying to do tasks related to some two or three committees.

Despite the current limitations of the VFs as tools for community development, they are also one of the few CBOs in the villages which have a clear sense of purpose, and which is able to benefit so many members through being a vehicle for both UNICEF Sethkoma and internal credit. Although few VFs have regular meetings, they all do have some meetings, thus making them one of the few forums available to villagers to meet and discuss issues of common concern (access to “affordable” credit being a high priority for many small and marginal farmers).

Moreover, the continuing payment of small fees by members to an internal fund does provide the village with a ready means of covering emergency and immediate consumption needs and even small investments. The VFs are the *only* CBOs which are able to make funds available to poorer villagers on a regular basis. In a few cases, we have also come across VFs which had made small donations for community projects such as road or school repair. In another case, the VF made a small donation to two people so that they could attend livestock training outside the village. At another VF, the committee members say that they could lend in future to a women's handicraft group for income generation.

In these ways, while the VFs may not embody cooperative principles in their true sense, they are still performing a vital function for community development.

3.1.2.6 VF Classification and Monitoring

While the CAs clearly spend time and effort to rate the VFs, the information collected is not really used to any extent. For example, if it would be noticed that more VFs in a certain area have similar problems, then a special training or more intensive advisory services could be arranged for a group of them. The other point we noticed is that the credit programme should form the VF classification system to assist CAs to take early action to help solve problems. Problems are allowed to get worse, VFs are moved down to "weaker" categories, and if care is not taken some VFs that could have been facilitated with timely assistance instead become defunct. As far as we could determine, VF committee members were unaware of the ratings they had received. Three parties such as the CA of VF and the VF committees and provincial programme coordinator should use the classification system for monitoring purposes.

The VF classification system to decide whether VFs are strong and able to function virtually autonomously (Category 1 or A), medium (Category 2 or B) or weak (Category 3 or C) has been inherited from UNICEF Sethkoma. Likewise, the ratings for each of the criteria were either on a three-point scale or a five-point scale (although in the latter, points were only awarded from 2 – 5 with 5 being the best). Where there were only three criteria used to rate the VFs, the criteria were: Honesty of Committee, Internal Fund Management and Repayment of UNICEF Sethkoma Loans. Elsewhere, savings are normally used as a criterion, as are bookkeeping and meetings. Member participation has also served as a criterion to be easy to the VF management. The provincial programme coordinator (UNICEF Sethkoma / DoWA staff) should rate the VFs every two to three months. The trend over the past few months in all the VFs is a decrease in the Category 1 VFs, and an increase in the Category 3 VFs. Actucally there are various reasons for this, but certainly the natural disasters of 2002 and 2003 have played a role in repayment rates.

3.1.2.7 VFs Impact on the General Lending Environment

In virtually all the villages visited, the presence of the VFs had had a positive impact on the general lending environment in the village. The villages visited have a few moneylenders (often the rice mill owners) living there, although some have none or only "part time" moneylenders (those with very few clients). Because of the competition from UNICEF Sethkoma and the VF internal fund lending, moneylenders have in many places reduced their interest rates, which is a benefit for all villagers. In a few villages people said there are no more moneylenders in the village because UNICEF Sethkoma had "put them out of business." The most commonly cited rate reductions were from 15 – 20% per month, down to 10%. We came across one case in Koh Snaeng and Koh Sralaou where villagers said the

moneylenders used to charge 10% per month, but now the rate has dropped to only 6 – 8%. In some villages the moneylenders had not reduced their rates but maintained them at 10% per month³³.

While people very much appreciate having an alternate source of credit in the village, they do not necessarily see the moneylenders' loan as completely disadvantageous. In fact, a number of our respondents mentioned positive aspects of doing business with the moneylender. One of the most positive points mentioned is the moneylenders' flexibility. That is, if the loan is due and the borrower cannot repay, the borrower just continues to pay interest until he/she can repay the principal as well. Another positive point mentioned is that there is a minimum of paperwork or waiting to get a moneylender's loan. Finally, the moneylenders have proved to be fallback positions for VF members who could not repay their SKP loans on time! We have come across a number of such cases VF members had borrowed from moneylenders to repay SKP; the main reason for this seemed to be the poor harvest caused by excessive flooding in the previous rice-growing season.

3.1.3 VFs' Development Potential

While the VFs are not currently in a position to operate autonomously, this is by no means an indication that the majority of them would be unable to achieve organizational sustainability. If the VFs are strengthened and stabilized, they could be major and reliable clients for the sustainability. As described in the section above, one of the main problems faced by the VFs today is weak leadership. This is not, however, a problem which cannot be overcome. The VFs, even those that are in weaker categories, have shown that they have the potential to create or further build on self-help capacities in the villages. Most of the VFs are already able to perform services in limited financial intermediation, although they would certainly need more support in building their internal funds through other means besides member savings and the UNICEF Sethkoma rebates (i.e., higher interest rates, lending to non-members).

There is, however, a tendency for the VFs to be dependent on the UNICEF Sethkoma loans for their existence; many have said that if they would stop receiving loans they would also come to a close. This is also an indication, though, of how "credit hungry" the rural people in the target areas are. For the most part, the demand far outstrips the availability in terms of the internal funds (even if VF leaders were more diligent in loan and interest collection).

The community development objective of skills development in the villages can be supported via the VFs. Moreover, with more careful targeting, these skills could be developed among a wider cross-section of VF members, including women. With more careful and timely support provided by community-development oriented staff (whether from Community Development or from the Credit Section), the VFs could become a skills pool in the village. Besides the obvious benefits of enhanced bookkeeping and accounting skills, the financial management capacities of more people in the villages could be enhanced. Such financial management skills would be applicable in other fields of endeavor in the village, including village development planning and implementation (trained VF members could then be advisers for the VDC, for example). If the individual VF groups were somewhat larger and also better facilitated, they could eventually develop something more of a multi-purpose character, depending on the interests of the members (for example, income-generation activities, group marketing, etc.)

Many of the VFs have already proved themselves capable in the area of community mobilization. The membership of the VFs has proved quite stable over time, and Koh Sralaou VF has been able to increase their members. It is likely that the smaller VFs at present (less than 15 – 20 members) would be able to

³³ Chhorm Nhoem, Group 1, Koh Snaeng Village Fund, Koh Knaeng Commune; Sing Pith, Chief Koh Sralaou village, Koh Snaeng Commune.

further increase their membership. As mentioned above, it is not necessarily a good thing if the VFs are “too effective” in community mobilization as the association may become too large and difficult to manage.

Most of the VFs have shown themselves weaker in terms of mobilizing people to attend regular meetings, but this could also be improved if the committee members would be assisted to hold more effective meetings (not necessarily very frequently). With better facilitation, we believe the VFs could become a stronger vehicle for both community development and solidarity in the villages. Above all, the VFs can be made much stronger and more independent financial intermediaries and financial service providers. This in itself gives the potential for a positive community development impact.

Our impression is that even at VFs that are virtually defunct, there is still an interest among some of the members in reviving and reforming the association. The greatest number possible should be given the opportunity to reform as suggested in the section below (Recommendation).

3.1.4 VF SWOT Analysis (*Strengths, Weaknesses, Opportunities and Threats*):

Strengths:

1. VFs bring people together.
2. VF clients expressed satisfaction with the loans provided by UNICEF Sethkoma and indicated continued interest in borrowing.
3. Most families indicated an improvement in their overall income levels, as well as an enhancement of assets, and a reduced dependence on moneylenders.
4. The existence of small loans with 4% interest per month of VFs resulted in money changers reducing their interest rates (10% of money lenders), an advantage for all villagers
5. Almost all VF members interviewed indicated that the internal fund was useful as an alternative source of credit, to bridge credit needs of members between UNICEF Sethkoma loans and to meet emergency financing needs.
6. Some credit staff understands the constraints of the existing policies, and has useful suggestions for improvement.
7. Some credits staffs have benefited from the micro finance training provided by UNICEF Sethkoma, and have taken steps to improve their field operations.
8. Intellectual skills (e.g., financial intermediation) are developed and transferred among village people.
9. Based on the number of members, there appears to be a reasonably good level of penetration of the VF in villages. In most cases, a significant number of the poorer families were involved in the VF. However, actual impact could not be verified.
10. The existing group mechanism for credit delivery is relatively cost effective, since the VF committees and guarantor group leaders are taking on most of the responsibilities for the credit operations.
11. VFs are often the most important agents for financial intermediation in the villages.
12. VF committee members and group members know the borrowers' character and their repayment capacity.
13. VFs can earn income, which can be used for common village development.
14. VFs enhance understanding of the money economy and production for the market vis-à-vis subsistence.
15. VFs contribute to the improvement of the rural infrastructure, a reason for reduced migration to cities.

16. New ideas are brought to the village due to the continuous communication with UNICEF Sethkoma /DoWA staff.
17. New businesses with alternative employment started.
18. VF development follows the government strategy for village development.
19. Villagers earn more income due to productive use of time during the off-season time.
20. Saving is rewarded. Villagers can earn interest or dividends.
21. People in villages learn to manage funds.
22. Loans (from UNICEF Sethkoma /DoWA) to members of VF groups are of similar size and do not contribute to tension between the poorer and the less poorer villagers
23. Loans proved to be a tool to increase the income and welfare in the successful VF- villages despite substantial interest payments.
24. Idle individual (group member) funds ("savings") can be put to use (Internal Fund)

Weaknesses:

1. VF committees have major problems with the bookkeeping and records.
2. A more thorough study in Koh Snaeng and Koh Sralaou revealed that the transaction records and books were not accurately maintained
3. The poor bookkeeping is either a reflection of the lack of capacity of the VF committee to do their job, or the lack of capacity of the CA to be an effective trainer. In some cases it is possible that the VF committee and the CA have deliberately misrepresented information to prevent discovery of their fraudulent actions, i.e. the misuse of loan funds.
4. Fraud and mismanagement in general, is due to weak policies, weak monitoring by credit agent and overall monitoring by the Credit Unit of UNICEF Sethkoma /DoWA.
5. The problems within the VFs are due to the lack of appropriate community development inputs to the villagers during the formation stage. VF members do not have the capacity or the commitment to manage their internal affairs, and the VF committees lack transparency and good governance. These weaknesses combined with poor monitoring by the credit staff has led to mismanagement of the internal fund and group loans.
6. Lack of an appropriate policy, mechanism and staff capacity to conduct audits at the client level. The credit staffs do not conduct regular monitoring visits or they do not investigate thoroughly depending mainly on information provided by the VF committees. There is often no follow up with VF group loan clients.
7. Lack of clear credit policies and procedures for monitoring and supervision, appropriate mechanisms to ensure control, credit operational manual.
8. Lack of standardization among the VFs.
9. Lack of competent credit staff – credit and community development staff at the provincial level.
10. Lack of adequate management skills in micro finance management, at the Credit Unit of UNICEF Sethkoma /DoWA.
11. Current group lending mechanisms do not have adequate measures for controlling leakage/losses due to weak appraisal and poor management of delinquency.
12. Current level of staff efficiency and productivity will not sufficient to achieve the requisite levels of operational and financial self-sufficiency
13. Weak loan appraisal mechanisms. Both the credit staff and the committees lack the ability to conduct actual loan appraisals. Loans are made based on the relationships within the group and the use of peer pressure for repayment.
14. Credit staffs lack communication and facilitation skills, to work effectively with villagers.
15. Communication is weak at all levels – between client and credit officer, credit officer and Credit Unit of UNICEF Sethkoma /DoWA.

16. Good repayment of the UNICEF Sethkoma loans is often a cover for problems with the internal fund. Therefore, repayment is not sufficient as a proxy for measuring success.

Opportunities:

1. There are 15% of villagers to be provided loans by UNICEF Sethkoma /DoWA, so there are 85% of villagers need loans added.
2. Ramsar site there are 21 villages in which 2,285 family living to generate income such as rice farming and chamcar, fishing, livestock, vendors, boat taxi, sugar cane, beans, tobacco and labour. These are big market for micro-credit providing.
3. Villagers are interested in the micro-credit strongly and they are hard worker.
4. 80% of villagers need the micro-credit loan providing to do their business such as boat taxi, small selling, animal raising, buying animal draught, etc.
5. Good cooperation and relation between local authorities and Projects.
6. VFs can develop to become reliable and profitable clients for credit programme.
7. VFs can also act as an agent for a credit programme. The VF can take over several tasks more efficiently and at lower cost. This reduces transaction costs of the credit programme and allows VFs to earn income.
8. VFs can assist the villagers with emergency loans.
9. Advanced VFs may mobilize funds from villagers and lend them to those whose businesses allow them to shoulder the interest burden, which is to be shared with the savers, the VF, and the VF management.
10. Profits generated by VFs will allow contributing to village development.

Threats:

There is the danger of misuse of the concentration of power and funds:

1. Natural disasters, particularly flooding and drought
2. Declining and damaging of natural resources
3. VF committees have major problems with the bookkeeping and records.
4. A more thorough study in Koh Snaeng and Koh Sralaou revealed that the transaction records and books were not accurately maintained
5. The poor bookkeeping is either a reflection of the lack of capacity of the VF committee to do their job, or the lack of capacity of the CA to be an effective trainer. In some cases it is possible that the VF committee and the CA have deliberately misrepresented information to prevent discovery of their fraudulent actions, i.e. the misuse of loan funds.
6. Fraud and mismanagement in general, is due to weak policies, weak monitoring by credit agent and overall monitoring by the Credit Unit of UNICEF Sethkoma /DoWA.
7. The problems within the VFs are due to the lack of appropriate community development inputs to the villagers during the formation stage. VF members do not have the capacity or the commitment to manage their internal affairs, and the VF committees lack transparency and good governance. These weaknesses combined with poor monitoring by the credit staff has led to mismanagement of the internal fund and group loans.
8. Lack of an appropriate policy, mechanism and staff capacity to conduct audits at the client level. The credit staffs do not conduct regular monitoring visits or they do not investigate thoroughly depending mainly on information provided by the VF committees. There is often no follow up with VF group loan clients.

9. Lack of clear credit policies and procedures for monitoring and supervision, appropriate mechanisms to ensure control, credit operational manual.
10. Lack of standardization among the VFs.
11. Lack of competent credit staff – credit and community development staff at the provincial level.
12. Lack of adequate management skills in micro finance management, at the Credit Unit of UNICEF Sethkoma /DoWA.
13. Current group lending mechanisms do not have adequate measures for controlling leakage/losses due to weak appraisal and poor management of delinquency.
14. Current level of staff efficiency and productivity will not sufficient to achieve the requisite levels of operational and financial self-sufficiency
15. Weak loan appraisal mechanisms. Both the credit staff and the committees lack the ability to conduct actual loan appraisals. Loans are made based on the relationships within the group and the use of peer pressure for repayment.
16. Credit staffs lack communication and facilitation skills, to work effectively with villagers.
17. Communication is weak at all levels – between client and credit officer, credit officer and Credit Unit of UNICEF Sethkoma /DoWA.
18. Increasing competition, particularly from ACLEDA and other credit operators that may render entry in micro enterprise market segment very difficult

3.1.5 Conclusion

UNICEF Sethkoma /DoWA has established more than 50 VFs serving about 600 families in an environment that had virtually lacked financial services for the greater part of the population in 3 districts including Stung Treng, Thalabarivath and Siem Bouk districts. Particularly Ramsar site there are villages to be launched in VF since 2001 serving about 60 families in Koh Snaeng, Koh Stralaou and Chorm Thom villages. A substantial number of these VFs work in remote locations far from main roads. Loan amounts are small (about US\$ 25) and repayment rates, even on-time repayment, exceed 95% in 2001 and 2002; but 2003, 2004 and 2005 downed fewer than 50%. Most importantly at present, the VF provides access to credit at low interest rates to the rural population that would otherwise have had to rely more on moneylenders. Another positive spin-off is the reduction of moneylenders' interest rates in areas where the VFs are active. Yet another positive trend noted by VF members is that now that they have regular access to credit, they have more positive attitudes toward income generation activities (especially in the agricultural off-season) and in investing in rice production. This will result in increased business activities in the rural areas, and greater use made of idle capital.

Overall, the advantages to the villagers of having an VF far outweigh the disadvantages, or the inconveniences of having to do internal fund management and bookkeeping within the VF. With the VF, the villagers have an instrument that brings them together as a CBO, thus creating more potential in the village to build unity. The VF is a vehicle for community development in accordance with government policy. Also, the VFs now include a small pool of village leaders with greater skills in bookkeeping and financial management; this pool most certainly could be increased with the support package.

The VFs also support poverty alleviation efforts in that poorer members have the chance to borrow from the internal fund for emergency and/or immediate consumption needs, and for small investments as well. For many, it is the first time they have the opportunity to borrow at such favorable interest rates. The increasing internal funds at many of the VFs are providing modest earnings for both members and committee members. At a number of VFs members have been receiving regular dividends. Thus, the internal fund is an important tool for both community development and for village banking.

While the VFs clearly bring advantages to the villages, care must be taken to avoid that they lead to an over-concentration of economic and political power, as there is a potential for misuse of both. When the village leadership becomes so concentrated that only a very few persons are responsible for all committees, and also represent the authorities, there is a greater danger that people will be tempted to misuse their power. Village political and economic relations are already much influenced by personal relations within the village which negatively affect the operation of the VF according to business or banking principles. If there are too few checks and balances in the village, it would also open the VFs to greater interference from outsiders who may try to influence the functioning of the VFs for their own purposes.

Overall the VFs are already bringing unique advantages to the villages that could not easily be brought by any other lending mechanism, including smaller lending groups that have no internal fund. As mentioned above, the VFs are capable of bringing a larger number of villagers together with a common purpose, and are able to support both micro business activity and people's emergency needs. Skills such as bookkeeping and financial and CBO management, which can be developed via the VFs, are much needed in the villages if they are to keep pace with the rapid socio-economic changes occurring today.

The risks and present disadvantages of the VFs can be overcome to a great extent with the proposals for reform made above. The simplification of bookkeeping, the outsourcing of some bookkeeping and accounting tasks will also assist many VFs which currently have problems to maintain their accounts. Clearer recommendations to villagers and their leaders regarding the risks and dangers of over concentration will help to avoid the pitfalls of a lack of checks and balances. Above all, having the clear and simple objective of providing sustainable (profitable) financial services in rural areas, increasing transparency in management, decision-making and by-laws, and improving internal supervision, will make a major contribution to improving the VFs' performance.

The mission is convinced that the proposed program to strengthen the VFs will result in rural financial institutions that alone, but especially together with a credit operator, can contribute to both to goals of rural finance and community development for many years. The majority of these village institutions will have a good chance to survive after the UNICEF Sethkoma to be finished and stricter criteria for loans are applied. However, the VFs have to be prepared for this change in the form of advice, assistance and supervision over the next years. The benefits derived for the local people will be well worth the efforts required to support the VFs.

Through the study, mission noted that the VFs processing did not succeed fully due to any weak points such as the poor bookkeeping is either a reflection of the lack of capacity of the VF committee to do their job, or the lack of capacity of the CA to be an effective trainer. In some cases it is possible that the VF committee and the CA have deliberately misrepresented information to prevent discovery of their fraudulent actions, i.e. the misuse of loan funds, Fraud and mismanagement in general, is due to weak policies, weak monitoring by credit agent and overall monitoring by the Credit Unit of UNICEF Sethkoma /DoWA, The problems within the VFs are due to the lack of appropriate community development inputs to the villagers during the formation stage. VF members do not have the capacity or the commitment to manage their internal affairs, and the VF committees lack transparency and good governance. These weaknesses combined with poor monitoring by the credit staff has led to mismanagement of the internal fund and group loans, Lack of an appropriate policy, mechanism and staff capacity to conduct audits at the client level. The credit staffs do not conduct regular monitoring visits or they do not investigate thoroughly depending mainly on information provided by the VF committees.

There is often no follow up with VF group loan clients, Lack of clear credit policies and procedures for monitoring and supervision, appropriate mechanisms to ensure control, credit operational manual, Lack of standardization among the VFs, Lack of competent credit staff – credit and community development staff

at the provincial level, Lack of adequate management skills in micro finance management, at the Credit Unit of UNICEF Sethkoma /DoWA, Current group lending mechanisms do not have adequate measures for controlling leakage/losses due to weak appraisal and poor management of delinquency, Current level of staff efficiency and productivity will not sufficient to achieve the requisite levels of operational and financial self-sufficiency, Weak loan appraisal mechanisms. Both the credit staff and the committees lack the ability to conduct actual loan appraisals. Loans are made based on the relationships within the group and the use of peer pressure for repayment, Credit staff lack communication and facilitation skills, to work effectively with villagers, Communication is weak at all levels – between client and credit officer, credit officer and Credit Unit of UNICEF Sethkoma /DoWA.

3.1.6 Recommendations

The VFs are common in their goals and tasks, namely providing financial services to members. One VF (Chorm Thom) has discontinued their activities in 2002 and Koh Snaeng VF could not close the loan cycle in 2003 and another on is overdue over one month as of February 2006. Differences at present between the worst and best VFs are often based on the seriousness and engagement of the VF Committee (VFC) and Group Leaders (GLs). This seriousness is also a function of control and internal supervision, motivation and well-designed incentive systems. So that strengthening those VFs in order to achieve the credit programme goal of the UNICEF Sethkoma/DoWA is to be sustainable, MWBP should recommend the credit operator (UNICEF Sethkoma/DoWA) by holding the workshop through this study finding to introduce them the problems that they encountered and recommend them any ways strategies to strengthen VFs through:

3.1.6.1 First Way: improving the efficiency and profitability of the overall credit programme, including the group lending mechanism. This means a thorough strengthening the improper loan appraisal, loan follow-up on regular basis, formulate the internal audit team in order to audit the credit operation and strengthening the internal control system from village fund to headquarter, train them how to find the problems, the way to solve the existing problems and the strategies to take the measures to prevent the future credit risks.

3.1.6.2 Second Way: is to reform any existing concepts of the VF such as:

- Set up clear objectives;
- Enhancing participation of group members through active involvement in decision-making regarding, among others, profit disbursement, annual assembly, by-laws;
- Strengthening the position of group leaders as supervisors of the VFC;
- Strengthening the VFC through improved tools for recording, for self-assessment as well as networking;
- Increasing membership through the introduction of full and associate membership;
- Monitoring based on objectively verifiable indicators that can also be self-applied by the VFC or GL.

This revised concept should also be seen as a set of recommendations for the VFs. The VFs and their members may accept or reject them in full or in part. Those VFs that already now perform the tasks in a way that satisfies their members should not be forced to undertake major changes. The project should accept the VFs' diversity rather than trying to "standardize" VFs and all their procedures. With regard to the design of the by-laws the project would be encouraged to present options about which the VF group members will decide.

It is recommended that the project should focus on the strengthening of existing VFs so that these entities qualify to become reliable and profitable clients of the future sustainable credit programme. The proposal for a classification system addresses in particular the requirements of this credit programme. Expansion should be limited to efforts to increase the number of groups and group members in existing VFs, rather than increasing the number of VFs.

The project should prepare the VFs about the consequences related to performance. Future loans and loan conditions will have to depend on a transparent and objective assessment or classification system. This system should be explained to VF managers in order that they can apply it themselves. Scoring in this classification system will reflect the quality of the VF management.

3.1.6.2.1 VFs as Financial Intermediaries

Objectives and Tasks of VFs: Under the revised concept VFs are regarded only as financial intermediaries. The objective of the VFs shall be:

- Rendering financial services in rural areas in a sustainable, i.e. profitable, way.
- The tasks of VFs shall comprise:
 - Accepting savings from its members, the groups;
 - Accepting deposits and loans from third parties disbursement of loans to active members;
 - Channeling funds from third parties to individual group members and groups;
 - Collecting funds, loan repayments, savings and deposits from and for third parties;
 - Assisting third parties in other matters regarding financial transactions like loan assessment and supervision.

It is recommended that the VFs, in particular the VFC members, should not be burdened with other public tasks. There is the danger that these may not only overburden them, but also influence their neutral and independent decision-making. They may also interfere with the proper and independent execution of the tasks mentioned above. The VFC members may, however, make available their capacity and skills and consult and advise other village authorities and village organizations.

3.1.6.2.2 Organization of the VF:

No changes in the basic organizational set-up of the VFs are proposed. However, this proposal for a new concept emphasizes power sharing, decentralization and internal supervision. Strengthening the VF means strengthening the importance of groups and group leaders (GL). The term "association" is taken more seriously:

- The VF is an *association* of savings and credit groups;
- Members of the VF are groups represented by their group leader;
- The GLs control and supervise the management of the VF;
- Individuals are members of groups and not members of the VF;
- The group members elect their group leader or group representative once a year.

3.1.6.2.3 VF Membership:

Individual villagers have the right to form a new group. New groups can then apply to become a member of the VF. In other words, the groups are the VF members, not the individuals, who are members of their groups.

The VFC together with the group leaders decide in the GL Meeting on the application of a new group to become a member of the VFC. The decision should be documented in minutes of meeting.

The VF should offer a full membership and an associate membership:

- Full members are groups participating with savings. They have access to the internal fund loan facility and participate in profit disbursement.
- Associate members are those groups without savings activities. They are invited to attend the General Assembly (GA) as observers but they shall have no votes in the GA. The GA shall decide based on the VFC's proposal on whether associated members have access to internal funds and related loan conditions. Associate members should, however, have access to at least emergency loans. It should be the VFC's aim to convince and support associate members to qualify for full membership.

It is recommended that the project does not support the establishment of new credit-only groups. Rather it should concentrate its limited capacities on strengthening existing VFs. The project should, however, encourage and facilitate that any credit-only groups in the vicinity of VFs apply for associate membership in the VFs, and that the VFs do grant this membership.

3.1.6.2.4 Strengthening Groups as VF Members:

The reason for people to form or to join a group is to obtain a benefit. This includes:

- Obtaining a benefit they would not get as individuals, in particular a loan;
- Being a member of a social network (mutual benefit and assistance);
- Charging the most capable person with tasks they cannot fulfill as effectively, such as facilitation, representation, and intermediation to protect their interests

Membership

Group members shall decide on the application of an individual to join their group. However, conditions as set by the VF's by-laws may apply.

Group Size

It is proposed to encourage an increase in the average number of group members per group from about five or six to around ten.

The reasons behind these recommendations are:

The concept of joint liability has a much better chance. At present, a UNICEF Sethkoma/DoWA loan could potentially be as expensive as a loan from the moneylender if a group of five members has to take responsibility for a defaulter. The burden is much smaller, for example, if nine group members shoulder the loan of a defaulting member, even if it is only temporarily. This is made clear in the small table below:

Number of group members	5	10
Individual loan	R 100,000	R 100,000
Interest 4% x 5 months	R 20,000	R 20,000
Total individual repayment	R 120,000	R 120,000
Group repayment	R 600,000	R 1,200,000
Repaying group members	4	9
Repayment per group member	R 150,000	R 133,333
Cost of joint liability	R 30,000	R 13,333

Cost of loan (interest and joint liability)	R 50,000	R 33,333
Cost of loan in % per month	10%	6,7%

The average most capable person among ten group members is most likely to be more capable than the average most capable person among five persons. The average group member representation will be stronger.

Group meetings are more lively and beneficial if the number of group members is ten rather than five. This becomes quite obvious when we consider that sometimes not all group members attend meetings and that several group members may be rather quiet by nature. Groups of ten persons are still easy to manage. It is also not a problem to find a meeting place for about ten persons. The group members and the group leader would also know quite well and in detail the economic and social situation of about ten families. The total number of groups of an VF will be smaller, if the average number of group members per group is higher. This would make VF management easier, reduce the workload, make it less prone to mistakes, more transparent, better supervised and consequently, more sustainable.

Therefore, it is recommended that the VF and group leaders be advised to consider assisting VFCs in facilitating the merging of groups, in particular when a group leader resigns, a group leader joins the VFC, or members leave a group. If group size is less than 4 members it is strongly suggested to merge with other groups as soon as possible.

3.1.6.2.4.1 Enhanced Participation of Group Members:

Enhanced participation should be achieved through increased decision-making. The group members are asked to:

- Elect their group leader to decide on new group members and whether to merge with other groups;
- To attend the annual General Assembly and decide on by-laws, rules and regulations profit distribution annual (re-) election of VFC members.

Enhanced transparency demands that, seen apart from emergency loans, the group members are consulted before a group member obtains any internal or external "individual" loan.

Group members should be made aware that any additional debt of one of their members increases the chance to default on a loan for which they are jointly liable.

3.1.6.2.4.2 Strengthening the Group Leaders

The group members select their group leaders (GL). The group leaders represent the individual group members, their funds and their interests vis-à-vis the association. The GLs speak on behalf of the group members. GLs have to safeguard the interests of the group members. The GLs' opinions and requests expressed to the VFC should not be personal ones but rather should represent those of the members. The GLs can hide their own views and opinions behind those of the more anonymous group. It then becomes more easily possible to speak up without risk of hurting personal relationships, or to be regarded as impolite.

The GLs' tasks should encompass the following:

- Facilitation of the financial transactions between the VF and the group members; For example, the GLs collect, record and transfer money, the savings and the loan repayments, of group members. In this task the GLs should be trained and assisted by the VFC, in particular concerning the monitoring of due dates of the members' loans. The GLs assess, or assist in the assessment of, loans to group members.
- Consulting group members
- The GLs consult the group members regarding the selection of candidates for the VFC. They will forward their proposals for the nomination of candidates.
- The GLs attends the GL meetings together with the VFC. These meetings should be held at least quarterly.
- The GLs keep a copy of the by-laws. They control and supervise the VF management.³⁴ Therefore, the GL's position is strengthened vis-à-vis the VFC.

Ideally, the GLs call for monthly group meetings in line with the schedule of VF activities and the group members' demand for financial services. The group members shall decide themselves on the frequency and venue of these meetings. Group members might convene less often if they do not save or if they save irregularly, if they do not request loans, or if only one or two members apply for a loan.

The project staff should accept and tolerate a pragmatic approach. VFs should not be ranked by adherence to a dogmatic group-meeting schedule. Informal meetings and information prevail when groups are small and group members live close to one another. Communication between GL and group members need not always to be formalized although group members must be fully aware of, and accept, the GL's tasks.

The GLs should certainly receive an incentive for their engagement. The amount should depend on a General Assembly (GA) decision.

3.1.6.2.4.3 Group Leader Meetings

Most villages are so small that GLs and VFC members often meet and exchange information informally. However, it is proposed that at least once in a quarter all VF members and all GLs convene for a regular meeting for which the GLs invite the VFC. The VFC members inform the GLs on new loans, loan defaulters and other important developments.

The joint GL meeting shall also decide on:

- How to proceed with loan defaulters (loan recovery or seizing assets);
- Interim changes to the by-laws (which would need to be confirmed by the next GA);
- Membership application of groups;
- Expulsion of groups;
- The date and venue for the next meeting.

The meeting times and dates, and decisions made in these meetings have to be documented. They should become a part of the classification system. The VF's secretary keeps the minutes in a separate file together with a copy of the by-laws.

³⁴ At present, an effective internal control mechanism does not exist.

3.1.6.2.5 Strengthening the VF:

The VFs were originally established under emergency conditions using a rapid, top down approach as described above. The VF committee members execute the VF management. The position of these persons, the "rules of the game" and the tools they have available need to be reviewed, clarified, and adjusted. These concerns:

- The issue of VF ownership
- The election of the VFC
- The question of VF supervision
- The General Assembly

3.1.6.2.5.1 VF Ownership:

Many group members have the impression that the VF belongs to the community leaders. VFs are strengthened if group members would definitely know that they are joint or co-owners of the VFs. In general, the owner of a company is the party most interested in its sustainability. The "sense of ownership" is a driving force to control and to protect the company against losses and all kinds of damage. Continuous interest and observation is one indicator for "sense of ownership".

At present, the question of ownership of the VFs remains without a clear answer. The group members know that once they give up their membership they can demand the money back that they contributed as "savings". It is common practice that VFCs not only return the savings of resigning members but they also pay "interest" for the time the resigning member's funds were rotating in the VF.

In general, the VFs' leaders consider the rebate as property of the VF. A resigning group member would not get his or her share of this, therefore equity-like, fund.

The assets of the VFs consist of cash and outstanding loans. These loans are called "internal fund loans" vis-à-vis SKP-financed loans. The assets are financed from:

- Compulsory regular savings or fees from members;
- "UNICEF Sethkoma/DoWA rebate"; upon timely repayment of the " UNICEF Sethkoma/DoWA loans" the project returns up to 40% of the interest collected from the villagers and assigns a part of this amount as "contribution to capital building;"
- The membership fees were capitalized in internal fund, too.
- Interest earned from revolving savings and UNICEF Sethkoma/DoWA rebate as loans.

At least it is clear that the group members have generated all of the funds invested in the VFs through their fee contributions and interest payments. Nonetheless, the VFs count "members" and not "owners". This indicates that in the minds of the "members," the question of ownership is still not entirely resolved. It is obvious that "sense of belonging" and, consequently, supervision is weak. People do not try to control property that they do not own.

It is proposed to make the group members aware that they are the owners of the VF and that the VFC administers their money. It is further proposed that the "capital" that at present is considered to be not available for disbursement or refund to members should also in future stay with the "company." It shall serve to generate interest income for the members and to cover losses of the VF. It then becomes a joint liability fund.

As co-owners, group members have the right to decide on their share of the profit. It is proposed that the key for disbursing the VF's profit is the sum of compulsory savings and capital.

3.1.6.2.5.2 Election of the VF Committee

The VF is managed by a committee (VFC) of at least three persons. The VFC acts on behalf of the group members who are represented by their group leaders. All group members at the annual General Assembly should elect the VFC.

The following are recommendations that should be implemented:

- The election, or re-election, of the VFC members by all group members present should become a routine part of the annual General Assembly;
- The GLs should be in a position to convene (an extraordinary) General Assembly, especially if it concerns the need for a change in VFC membership between the General Assemblies or when the General Assembly is overdue (recommendation: latest, 14 months after the last General Assembly);
- After group-internal discussions, the group members should charge their GL with the task to propose the group's candidates for the VFC prior to the General Assembly. Thus, it is easier to avoid exposing directly the persons who propose a change in leadership. It will also be more likely that more than one candidate for the positions to be filled are presented in the General Assembly (GA).

The VFC members should receive incentives based on a decision by the GA.

3.1.6.2.5.3 Supervision of the VFC:

At present, the project staff (provincial programme coordinators) performs the task of facilitating, so they should be revised to the supervisor in order to manage the VFs financial administration and business activities; in most cases every month. In future, the GLs. Between the General Assemblies should supervise the VFC; the VFC has to report to the GL meetings. The GLs supervise the activities of the VFC and have the right to demand account of the VFC's activities anytime. On request of the GLs, the VFC has to open their books and answer the GLs' questions. GLs should pay special attention to the loan portfolio with regard to repeat borrowers, high loan amounts and matured loans. It is the also the task of the GLs to check if the VFC members adhere to the provisions in the by-laws.

3.1.6.2.5.4 VF General Assembly:

It is recommended that once a year the VF should close its books³⁵. This will be a new feature for the majority of VFs. The VFC should invite all group members for a General Assembly (GA). The agenda for the GA should include the following:

- VFC report, review of activities during the past year;
- Development of internal fund (savings and capital);
- Number and volume of "internal" (direct) loans to the group leaders;
- Report on loans overdue (borrower and amount);
- Number and volume of loans from third parties channeled to group members

³⁵ Preferably, books should be closed at a date when farm activities and outstanding loans are on a low level in order not to interfere with the agricultural activities.

(Indirect loans);

- Amount of individual loans with VF-guarantee;
- Income from interest and services;
- Expenses for VFC and GL management (incentives);
- Other expenses (stationery, transport, stamp and signature fee, etc.);
- Presentation of profit and loss statement;
- Proposal for and voting on the use of profits or plans to cover losses;
- Proposed changes of the by-laws and voting on by-law changes;
- Discharge of the VFC members from their duties;
- Election of members of the VFC (same ones or new ones);
- Decision on incentives for VFC and GLs.

3.1.6.2.6 Strengthening the VFC:

A strong VFC contributes to strengthening the VFs. In the following sub-sections, suggestions for improved incentives, tools and techniques are presented that should be applied by the VFCs. These tools refer to:

- Profit-oriented incentives;
- By-laws;
- Instruments and regulations to enhance savings mobilization;
- Basic bookkeeping records;
- Introduction of balance sheets and profit and loss statements;
- Self-assessment and classification.

3.1.6.2.6.1 Profit-Oriented Incentives

The UNICEF Sethkoma/DoWA rebate is at present the major source to pay incentives for the management of VFs and to compensate for costs. It is a clever instrument: the borrowers, the farmers, would perhaps not reward the VFC directly. UNICEF Sethkoma/DoWA engages the services of VFC members by returning part of the amount collected as "interest" as an "incentive for VFC members" and for "stationery."

After some years, this procedure has not strengthened the VFs. It has even weakened the VFs for the following reasons:

- The present procedure alienates the group members from the VF. Normally, the owner of a company pays the management. As UNICEF Sethkoma/DoWA pays the incentive, the group members may assume that UNICEF Sethkoma/DoWA "owns" the VFs.
- A sense of ownership and participation does not develop.
- Group members cannot control the income of their VFC members.
- The rebate does not reward the work or the success. It rewards only the on-time discipline, a questionable target with regard to loans to agriculture.
- The VF will not receive a rebate if loan repayments are delayed despite all of the efforts of the VFC, especially when some members face repayment difficulties.
- The VFC will not receive incentives when floods make their task especially difficult, and on-time repayment of loans is impossible to achieve.

In future, the project should avoid interfering in VF-internal matters, especially if they are sensitive matters. The compensation for particular persons, especially VFC members, who perform tasks for group members, is one such sensitive item. The project does so by directly allocating a percentage of the

UNICEF Sethkoma/DoWA "rebate" as an "incentive" to particular positions. Many group leaders do not receive a share of this rebate thus also contributing to some of the difficulties.

This procedure contrasts drastically with a "solidarity concept," as it is "punishing" those with difficulties rather than assisting them.

A revision of the procedure and the amount rewarded for the services is strongly suggested:

- The rebate should be paid based on transaction costs taken over by the VF;
- These costs could be better expressed as a fixed amount for the administration of a loan account. The current 40% rebate for a 8-month R150,000 loan is equivalent to R19,200³⁶.
- Many VFCs do not like the idea of reducing the rebate in exchange for "better" services;
- It is suggested that the VFCs and SKP should negotiate on who takes over what risks and tasks and the payments to VFs;
- The rebate should be part of the entire income of the VF. It should not be anymore earmarked for particular purposes. The group members should decide in the General Assembly on the allocation of the profit of which the rebate is then a part. The project should only facilitate the VF to make reasonable decisions. It should not decide on their behalf.

A reasonable reward for VFC members and group leaders would have two components:

- A fixed reward paid quarterly, preferably based on the number of group members (for the work);
- A percentage of the profit (for the success).

3.1.6.2.6.2 By-laws:

It has been found, as mentioned above, that VF leaders frequently disregard by-laws for various reasons and with different intentions. Violations of maximum loan amounts are common, while applying lower interest rates is another issue hurting the interests of the majority of the group members. General Assemblies are held irregularly. Often, members with low savings efforts, a high ratio of loans being repaid after due dates and relatively low interest income reflect this lack of discipline.

By-laws should be a tool for transparency and for protecting the VFC. They describe the authority of the VFC and they limit the VFC's decision-making. They have to be reviewed frequently. It is recommended that alterations to by-laws are a result of deliberations at GL meetings. Without adjustments to the by-laws the VFC may no longer be in a position to work effectively for the interests of the members, or the VFC may be tempted to violate the rules. Violation of rules without consequences results in increasing disrespect of the by-laws.

Some decisions taken by VF leaders may look arbitrary. But in fact they do not violate by-laws. One of the identified weaknesses is that regulations defined in the by-laws are incomplete, not applicable, or just difficult to understand even for well-educated persons.

The following items should be regulated in the by-laws:

New Members: new group members; new groups;

The by-laws should state the conditions under which the groups can accept new members and the VF new groups. Details concern the new member's financial obligations (savings) and rights, participation in profits (starting immediately or the following period) and access to services (none, limited, or full).

³⁶ Interest: R150,000 x 4% x 8 months = R48,000, rebate: R48,000 x 40% = R19,200.

Annual General Assembly:

- Participants (all group members of full and associated groups, Chief Village, Chief VDC, CAs);
- Timing (recommended), neither later than 14 months after the previous GA, nor later than 2 months after closing the books for the previous year;
- Agenda of the GA.

Incentive for VFC Members and GLs:

- Monthly fixed incentive, e.g. R 5,000 per VFC member and R 1,500 per GL, for example, depending also on number of VF members and group members (e.g., R 500 per group for each VFC member, R200 per group member for each GL) thus giving a reward for growth
- Success- or profit-oriented incentive as a percentage of the profit earned.

The by-laws should also state if a VFC member can act simultaneously as a GL and if this person is entitled to two incentives, one as a VFC member and one as a GL (which sometimes occurs now). This is discouraged because GLs should control the VFC. The group members should elect a new GL if their GL becomes a member of the VFC or merge with another group.

3.1.6.2.6.3 Enhanced Savings Mobilization

Compulsory savings, also called "fees"³⁷, are often regarded as a nuisance. If the members do not like to invest in their VF then one should not force them to do so. For VFCs and GLs, it is a frustrating activity to repeatedly ask the group members for their "fees". And many VFs do not need to demand savings from their members. In fact, VFs reported that demand for loans is low. Some "UNICEF Sethkoma/DoWA loans" were substituted with loans from the internal funds. Other VFCs consider repayment of savings or disbursement of profits; the VFs even executed already "repayment" of profits. Few VFs engaged already in lending to non-members. In other places, however, the demand for small loans exceeds supply.

In the following some proposals are presented to strengthen VFs through enhanced savings mobilization. As a general rule it is suggested that the group members should save only if and when it is not a heavy burden to them, e.g. after sale of the harvest together with the loan repayment. The amount of savings and, in turn, loans and earnings, could be much increased if the VFC succeeds in convincing the group members to apply methods and techniques to mobilize saving that have proved to be successful elsewhere:

- Connecting savings with loans amounts;
- Connecting savings with loan disbursements;
- Connecting savings with dividends or profit distribution;
- Savings in kind;
- Connecting savings with interest payments.

Savings can be connected to the share in profit. There is no reason that all members have to have the same amount of savings so that they receive the same profit share. "Compulsory savings/fees" can be made quite attractive if VFs regularly (annually) disburse profits that are based on the amount of savings contributed by the individual members. Thus, the VF will have created another incentive to save more.

³⁷ This word reveals the character of the payment.

The group members are free to decide on the amount they want to save. Those who do not save (new group members), just do not participate in the profit.

The procedure to base profit sharing on the amount of savings and share in "equity"/"capital" can make it more acceptable for groups or VFs to accept new group members and new groups, in particular "non-saving" groups. *This opens also the door to accepting a group of the "poorest" in the village as members of the VF.* They would not participate in the profit if they do not save.

In poor rural communities cash is normally valued higher than assets. This leads to the proposal that group members should not pay their "fee" in cash but in kind. For example, farmers could contribute a chicken or a duck as their "fee." They will feel it is easier and "hurts less" than contributing hard-earned cash.

The "Advanced" VF should offer an opportunity for members and third parties to put their "voluntary" savings to productive use. Many sensible reasons exist for saving (for putting money aside), in particular in rural areas and especially for the poor and vulnerable that need an emergency reserve. At present, most villagers do not have any opportunity to save. Most VFs also do not offer incentives to increase savings.

It is proposed that advanced VFs should engage in offering deposit services. Interest should be paid for these "voluntary savings" provided the VF is able to find borrowers who pay a higher interest rate to the VF. With lending rates of 4% per month to members and even higher rates to non-members, the VF could easily offer a 2% return per month to depositors.

3.1.6.2.6.4 Bookkeeping and Accounting:

The study was not concerned with verifying the bookkeeping of the VFs visited. It was assumed that the explanations and figures in the books reflect reality and that they were not manipulated with ill intentions. Use of whitener and missing original vouchers for procurement is common. According to the study, we noted that majority of CAs of VFs and VFC will not be able to do the bookkeeping independently, because of the CAs of VFs and VFCs' lack of capacity to comprehend, insufficient rewards to the VFC, and the VFCs having inadequate time due to other income generating activities.

However, no VFs has been visited that set up a balance sheet and a profit and loss (P/L) statement, the most common tools for transparent reporting. The words "profit" or "loss" do not appear in any of the bookkeeping systems. VFs have developed individual ideas on the sources of income, purpose of "deductions" and "contributions" as well as disbursement of a share of the "income"³⁸ to members. This may create some confusion and necessitates clear definitions.

3.1.6.2.6.5 Basic Bookkeeping Tools:

It is recommended that the project does not introduce a standardized bookkeeping system for all VFs. This could weaken those strong VFs that have already mastered the bookkeeping without major support from outside. In contrast, the project should train its staff to cope with different systems that were introduced.

Bookkeeping can be divided into recording transactions and processing transactions (accounting or "posting"). According to observations in the field, all CAs of VFs and VFCs are able to record transactions but many VFCs fail to process the data. In several cases they lack the required discipline and/or comprehension for this job.

Therefore, it is suggested:

- To review the provision that the bookkeeper has to be an elected person;
- To consider if it would not be possible to employ someone, even if the person is not a group member (a teacher, a capable person from an VF in a neighboring village, even the CA).

It is recommended to support CAs of VFs and VFCs with manuals that describe the forms they use and the application of these forms.

Minimum Requirements

The basic information on financial transactions, assets and liabilities can be derived from these three sources:

- Cash Book: All VFs keep cashbooks.
- Loan contracts: Not all VFs can provide contracts for all outstanding loans.
- Savers Book: All VFs keep books for recording savings.

It is recommended that VFs relying on assistance from third parties should at least prepare these three documents in the beginning. Other books should be introduced step-by-step.

Cash Book

The Cash Book should give information on the following:

- Date of transaction;
- Voucher or credit contract number;
- Group number concerned (if applicable);
- Description (e.g., loan number);
- Transaction type (according to balance sheet and P/L statement) in order to allow easy accounting or posting;
- Amount incoming;
- Amount outgoing;
- Balance.

Loan Contracts

Loan contracts should be kept in a file sorted according to their consecutive number. They should give information about:

- Consecutive loan number (starting with 1, for completeness check);
- Borrower (group number);
- Purpose (name of borrowing group member and purpose);
- Loan date;
- Repayment date and/or maturity;
- Amount;
- Interest rate.

Upon full repayment of the principal and interest the bookkeeper should invalidate the contract using the "paid" stamp and adding the date of final payment. The contract remains in the file.

The borrower should always receive a copy of the contract and all receipts for payments.

Loan Register

For easier monitoring and greater transparency it is recommended that all VFs keep a Loan Register. The data in this register could be entered as follows:

VF Loan Register (internal loans)

No.	Group No.	Name	Purpose	Opening Date	Due Date	Interest (%)	Amount Riel	Date of final repayment
1	5	Uch Sovann	Fertilizer	28.02.06	28.05.06	4%	200,000	30.05.06
		etc.						

Savers' Book

The Savers' Book reveals the amount of savings and the payment date (month and year) of the individual group member:

Group No.: 7

Year: 2006

Month	c/f	1	2	3	4	5	6	7	8	9	10	11	12	Total
Member 1	24	1	1	1										
Member 2	24	1	-	2										
Member 3	24	1	1	-										
Member 4	24	1	1	1										
Member 5	24	1	1	-26										
Member 6	24	1	1	1										
Member 7	24	1	1	-										
Member 8	24	6	-	-										
Member 9	24	1	1	1										
Member 10	-	-	1	1										
Member 11	-	-	-	-										
Total	216	10	10	-15										
Cumulative	216	226	236	221										

The example above shows that Member 2 paid the February fee in March, Member 5 leaves the group (repayment of accumulated savings), Member 6 paid for six months in advance and Member 10 is a new group member.

These two books and the contracts (respectively the loan register) allow all data to be obtained which are required for an assessment of the VF.

Borrowers' Book:

Only few VFs could provide an updated list of their main assets, the loans. It often took about 30 minutes to establish a list of some 15 to 20 outstanding loans, from which one could then obtain the amount and

due dates. (However, in several cases due dates were neither noted in the loan contract nor elsewhere.) This exercise turned out to be even more difficult when the loan was repaid in installments.

It is strongly recommended that VFs should keep a Debtors or Borrowers Book in which one or two opposite pages are allocated for each group member. A design for the page is presented below.

This book assists in monitoring loans that are not repaid in one amount together with interest. This page allows monitoring immediately past and present loan activities of the borrower and the status of the loan. This book reveals also immediately the borrowers, the frequent borrowers and the non-borrowers (empty pages!) in the VF. It is a tool for enhanced transparency.

Borrowers Book

Group: 10

Name of member: SSS

Date	Payment (R)	Principal (R)	Interest (R)	Balance (R)
01/04/05	<i>New loan no.146</i>	<i>Due date: 01/06/05</i>	<i>4%</i>	200,000
04/06/05	216,000	200,000	16,000	0
03/07/05	<i>New loan no.163</i>	<i>Due date: 01/09/05</i>	<i>4%</i>	250,000
02/08/05	50,000	40,000	10,000	210,000
05/09/05	50,000	41,600	8,400	168,400

Overdue Loans

Latest by the end of every quarter (or month, if it concerns VFs with more than one transaction day per month), the bookkeeper should prepare the List of Overdue Loans as presented below. This list is required to calculate Reserves for Bad Debt (RBD) requirements. The data for this list can be obtained from the Loan Register and the Borrowers Book. This list should be a focus of discussion during the GL Meetings.

List of Overdue Loans per28 February 2006

No.	Name of borrower	Date loan opened	Date loan due	Overdue (months)	Amount outstanding (Riel)	RBD (%)	RBD (Riel)
1	SSS	03/07/05	05/09/05	5	168,400	50%	84,200
	Total				168,400		84,200
	RBD last period (month or quarter) (minus)						- 33,680
	RBD cost this month						50,520

3.1.6.2.7 VF Membership Expansion:

Increasing the membership can help to strengthen especially those VFs that currently have less than 30 or 40 group members. Annual targets for Provincial Credit Programme include those for the total number of

VFs, but do not include targets for membership. As mentioned above, the project, did not analyze to what extent increases in total membership were due to additional members accepted by current VFs or their groups and to what extent increases were a result of newly created VFs. In general, by-laws of the VFs have no provisions regarding the application of individuals or groups to become members. This is certainly one obstacle that needs to be overcome. CA has been sometimes confronted with complaints from villagers who wanted to join the local VF, but who faced difficulties with their application. The project advises that only one family member may become a member of a VF.

Membership expansion in VFs can happen in two different ways:

- Existing groups accept new members;
- Existing VFs accept additional groups as new members.

The following options are offered to overcome the constraints to increased VF membership:

1 The VF insists that new members should provide the same amount for savings than the old members. The VF provides, for example, a loan of R30, 000, the amount old members have already saved, to the new member. For the VF this has zero risk: This is a loan without any cash outflow. The booking of this loan is balanced with a booking of membership savings. The loan can be repaid together with a UNICEF Sethkoma/DoWA loan.

2 The calculation above does not address the reluctance of old members that new members share immediately in the VF's capital, i.e. rebates from UNICEF Sethkoma/DoWA and interest gained from the internal fund during former years. These funds generate income continuously through internal lending. The members might not like to share this income generation power and liquidation value with others. New members would then have to add also equity or capital to the "company VF". It is quite common that "Total Capital" amounts to more than twice the amount collected as "Savings/fee":

3 The new group member might also be disadvantaged with regard to internal loans. The VF could put the loan application of a non-full member on a lower priority, limit the maximum loan amount, charge higher interest or deduct "contribution to capital", a percentage from the loan amount that goes to strengthening the "capital" ("equity").

4 In several instances CAs mentioned that the number of groups and group members could be increased provided no monthly savings are collected. It is proposed that non-saving groups are formed and integrated as associate members. As already mentioned, this could open the door to a group of poor villagers.

5 Disbursement of profits is regarded as another instrument to increase attention, heighten attraction, resulting finally in increased membership.

6 With regard to strict loan supervision, the risk, and the small amounts involved it would not be adequate if the project requests interest from poor and very poor people. Allowing the poorest to obtain a loan without repaying in case of failure (because they are poor) may create a fatal problem for the VF. Other borrowers may follow and not repay their internal loan.

3.1.6.2.8 Human Resource Development for VFC Members and Group Leaders:

The average VFC member needs HRD support to overcome several weaknesses. Many of the weaknesses relate to leadership weaknesses that have already been outlined above section. However, a few additional points may be made here. VFC members have not been facilitated adequately to understand the advantages of adherence to rules and proceedings (introduced by the project). Certainly, a continuing

problem is that most VFC members have no former experience in the positions they occupy. They have no idea how others perform their tasks as VFC member, as they haven't been encouraged to network.

Training measures should always include the preparation of handbooks for VFC members and group leaders. For *all* issues for VFC training, the training needs to emphasize the advantage, importance and purpose of doing things in a certain way. Training for VF Committees and Group Leaders should be kept very short as a rule (1 day), but with more follow-up. The training should be conducted for groups of VFs (perhaps at commune level, if it makes geographic sense), also to encourage their further networking.

The training most urgently required and probably with a high rate on return for the sustainability of the VF concerns techniques regarding the recovery of non-performing (internal) loans. The question of bad debt starts with how to avoid bad debt, how to recognize early warning signals, and how to handle defaulters.

3.1.6.2.9 Summary of Problem Areas and Training Needs:

Problem Area	Recommended Project Action	Training Needs of Trainers
Weak Leadership		
CBO Management weak (meetings, savings collection, loan collection)	Provide tools like new standard forms, folders, files, and incentives to use the tools like preferential treatment, interest rebate etc.	Advice to Develop tools
Don't understand By-Laws	Training and discussion on the importance and advantages of by-laws for VFC and GLs; Consultation at General Assembly	Visualization, Facilitation, Rules & By-Laws
Inconsistent Adherence to Rules & By-Laws	Identification and analysis of reasons, classification and respective action like review and adjustment of tools (change of by-laws and regulations)	Research & Evaluation Skills
Weak enforcement of Loan Agreements, tolerating delayed or even non-repayments without proper action	Identification, classification and analysis of reasons, approp. action such as training & consultation; introduction of penalties for lack of discipline	On-Job Training
Important VFC-decisions are not documented	Provide tools, explanations, on the job training, Monitoring by staff	Exposure Training
No continuous skills development	Facilitated networking among nearby VFs (commune level) to exchange experiences	Communication Visualization, Facilitation
Communication skills are poor (poor explanations to	Training with practice	Basic management tasks
	Advice/consultation/on-the-job training	Basic management tasks
	Tools and systems, consultation, on the job training	

members) Delegation of Tasks Lack of Control		
Problem Area	Recommended Project Action	Training Needs of Trainers
2. Bad Leadership (abuses of position, responsibility, trust) No re-election of VFC members Lack requisite ethical standard	Standard part of Annual Meeting to re-elect or confirm members Training code of conduct; training on bankers' ethics Facilitate new elections according to clearly formulated by-laws; removal of leadership	Communication Facilitation Explain and clarify
3. Financial Management Weak Accounting (no balance sheet, no P/L statement, forms not filled in) Bookkeeping IF-Loan Assessment not performed or not documented Loan Supervision Interpretation of figures and ratios and developments	Provide tools , systems, forms, etc. and related training Short training on commune level with follow-up to check practice & provide further assistance, development and provision of a standardized tool (form) Provide tools (forms) and schedules, training on how to use the tools Training on the use of figures and ratios for monitoring developments (vis-à-vis accumulated figures),purpose of Monitoring and Evaluation	How to train bookkeeping, accounting, loan skills in-house training infield training in-house training

With regard to specific weaknesses demanding particular training measures the VFs can be clustered as follows:

Weakness	Problem	Proposal
Internal loans	The highest loan exceeds 15% of the total fund available.	Improving comprehension of and adherence to best practices using self-assessment.
Internal loans	More than 20% of the loans are very late or even not at all	Learning techniques and application: training on the spot how to recover loans;

	repaid.	loan assessment techniques
Management and membership	The number of groups (members) is too small or too big.	Facilitation of mergers or splits; techniques to de- or increase the number of group members and the number of groups; communication skill training
Management, rules and regulations	VFC members do not adhere to by-laws and other internal rules.	Awareness and comprehension training; supervision by group leaders and financial institutions before granting a loan
Management and bookkeeping	The VF needs assistance. The problem is serious, when these VFs do not want to pay for the service.	Step-by-step introduction of bookkeeping: starting with simple recording of transactions
Earnings	Interest income is low (most probably in connection with other problems)	Training loan assessment; training loan recovery; adherence to by-laws; introduction of profit-oriented income

3.1.6.3 Third Way: is the recommendation and methodology for MWBP to introduce the UNICEF Sethkoma/DoWA through the workshop to change the village fund to the village credit group in order to run the credit providing smoothly as following:

UNICEF Sethkoma/DoWA should change from VF to Village Credit Group in order to provide loans to villagers who have been living in Ramsar site. What is the Village Credit Group (VCG)? VCG is essentially an informal village based organization, composed of guarantor groups. Villagers self-select guarantor groups of five to eight members and elect a guarantor group leader. One VCG should include four to ten guarantor groups.

All the guarantor group leaders together form the VCG committee. Two of these leaders are nominated as President and Vice-President. There will be no Cashier and Accountant for the VCG committee as these responsibilities will be transferred to the credit officers. The VCG committee must act together to discuss VCG affairs and take decisions on important actions. All guarantor group leaders must be present at meetings. The VCG committee will receive a rebate of 8% of the total interest income from a loan repaid on time (within 15 days), which they will share among all the guarantor group leaders.

The loan agreement is between UNICEF Sethkoma/DoWA and the guarantor groups. The President and Vice-President of the VCG committee and all the other guarantor group leaders must sign the loan agreement, indicating that they are responsible for ensuring that the guarantor group will repay the loan. All the members of the guarantor group borrowing from UNICEF Sethkoma/DoWA must sign the loan agreement for showing joint liability as the collateral arrangement. Guarantor groups in the same VCG do not have to borrow at the same time. Each guarantor group can borrow individually. However, all members within a particular guarantor group must borrow and repay at the same time, on the same terms, as per the loan agreement with UNICEF Sethkoma/DoWA. The VCG benefits from the UNICEF Sethkoma/DoWA loan product. Loan durations will be less than eight months, with interest and principal to be repaid as one instalment at the end of the loan term.

3.1.6.3.1 Key Differences from VFs:

No savings

This is in response to the fact that villagers at present either are not able to contribute to the internal fund due to unstable income, or unwilling to save, due to their lack of trust of committees.

No rebates to increase the capital of the internal fund.

This is due to the emphasis on rapid transformation of the Credit Programme into a sustainable institution, which requires a reduction and phasing out of subsidies over a short time.

3. No internal fund

This is in response to the shift in emphasis of the Credit Programme, from community development to financial service delivery.

4. Less time for VCG formation

As a result of no savings and internal fund, it takes a maximum of one month to establish the guarantor groups and VCG. Training is restricted to educating the villagers on the credit policies and procedures, and the policies and procedures related to the VCG. Villagers will require some training and facilitation to ensure good group formation and elections of competent, trustworthy guarantor group leaders and committees.

5. Increased participation by villagers

As there is no internal fund to be managed, villagers will not require high levels of literacy and management skills.

6. Improved committee structure to increase participation in decision making

The VCG committees include all guarantor group leaders who appoint two leaders to play the role of President and Vice-President. The committee as a whole must meet to take decisions.

7. Cashier and accountant responsibilities with the credit officer.

The VCG committees are not responsible for maintaining books and records for MWBP loans. They have to maintain some reports on repayments, but overall responsibility for the maintenance of books and accounts lies with the credit officers.

8. Reduced time and labour contribution from the committees.

As there is no internal fund and there is reduced work in the management of the MWBP loans, the VCG committees do not have to invest as much time and effort as in the case of the VFs.

9. Overall reduction in transaction costs.

As there is no savings or internal fund, villagers do not have to contribute money or time for internal fund activities. They can restrict their involvement to loan application, disbursement and repayment activities, and focus on their income generating activities. Credit officers do not have to spend time in developing and strengthening the VCG committees in the management of internal funds. Moreover, they will spend less time in the monitoring and control of VCGs.

10. Loans to guarantor groups.

The loans are made as group loans to individual guarantor group members through each guarantor group. The contract is between MWBP and the guarantor group. However, the VCG committee as a whole is responsible for collecting repayments on time.

3.1.6.3.2 Advantages of the VGC:

The proposed Village Credit Group lending model is more suitable group loan delivery mechanism than the VF model given the following:

- Better suited for a financial services approach that is essential for a sustainable institution.

- Client responsive, in that it is relatively simple for the villagers to manage as there is no internal fund.
- Reduced transaction costs to the clients, as they do not have to contribute to the internal fund, and do not have to attend meetings for discussing the internal fund activities.
- Reduced transaction costs to the institution and the clients, as the model requires less capacity and time commitment from the VCG committees. VCG committees would require less training, fewer meetings and do not have to contribute to the internal fund.
- More inclusive as the model is suited to reach poorer villagers or larger number of villagers. Absence of compulsory savings as fees allows more villagers to participate. Villagers who are unable or unwilling to save will not be screened out. This is a major advantage from the existing VF model, where new members who are unable to afford the entry fee. The entry fee is the total amount deposited per member at that point in time.
- More democratic/participatory – members do not have to worry about lack of literacy skills. There are no books to be maintained and no internal fund to be managed. Greater possibility of members volunteering to serve as group leaders and committee members, as there are fewer responsibilities and requirements for capacity.
- Village based banking, with loan disbursement and collection at the village level in the presence of the guarantor group members and the VCG committees. The credit officers will be responsible for cashier and accountant functions.
- Less risk for villagers and committees, as there is no internal fund that can be mismanaged or monopolized.
- Less risk for villagers and committees, as in future the credit officers will handle cash transactions and be responsible for transfer of funds to and from the village.
- Less possibility of leakage, as rebates will be provided solely for the contribution of committee leaders in the co-management of MWBP loans – screening and monitoring activities.
- Less costs to credit program, as rebates will be significantly reduced than in the original VF model, there will be reduced investments of staff time in promotion, training, monitoring and control. Less possibility of delinquency or default, due to corruption and mismanagement of internal funds by VF committees or credit staff.

3.1.6.3.3 Disadvantages of VGC:

The absence of an internal fund means villagers no longer have access to this useful alternative source of credit for emergencies and for additional credit. They will be dependent on their own resources (savings), relatives and friends, or moneylenders at high rates of interest. In the case of very poor villages, where villagers still face issues with food security, income security and health security, villagers need access to money during emergencies, and natural disasters. The VCG model would not be very effective for families that do not have a basic level of income stability.

Villagers in VCGs who face difficulties in repayment of UNICEF Sethkoma/DoWA loans may be forced to borrow at very high rates of interest from moneylenders, and over time may become indebted. The high cost of medical services in rural areas and losses incurred due to natural disaster (crop failure, pests, flooding) and occasional food security were evidenced in all Ramsar site communities.

The clients in solidarity groups were able to manage problems with on time repayment through household savings and borrowings from friends and relatives. Some borrow from moneylenders, but do not indicate this as a serious problem.

The clients of solidarity groups of Koh Snaeng, Koh Sralaou and Chorm Thom VFs indicated losses and problems with repayment due to the recent flooding and drought. Continued lending to the poor rural

families who do not have income sustainability or have high levels of vulnerability could be risky for credit programme.

3.1.6.3.4 Recommendations to Address Disadvantages:

Targeting. The current level of staff capacity in UNICEF Sethkoma/DoWA, is not adequate to avoid such risks for both institution and clients, if Credit Programme continues to work in high risk areas that are prone to natural disasters and have high percentage of vulnerable families. The lessons learned from the field study inform us that if VCG model is to be successful, then credit programme has to make some changes in its current targeting strategy and improve the staff capacity to screen villagers before they approve loans. Villagers that have high level of risk and vulnerability to natural disasters, or high incidences of poverty, should not be selected. This is to ensure the minimization of losses to villagers and to Credit Programme.

Appropriate repayment policies. UNICEF Sethkoma/DoWA would also have to establish appropriate policies to help clients manage repayment problems due to natural disasters, death of primary income generators, or losses due to accidents and other external factors. These policies should involve case-by-case analysis, and policy changes for an appropriate time period, including short term moratoriums on interest charged on loans, waiver of penalties, extension of loan repayment dates, and rescheduling of loans, either by individual or group, depending on the situation. The credit staff should have meetings with the VCG committees to discuss the situation and take appropriate action.

Internal fund. If members of VCGs wish to have an internal fund, they may initiate this on their own. Villagers can contact the VF committees of neighboring villagers to provide training in assisting VCGs in internal fund activities.

3.1.6.3.5 Micro-Credit Providing Methodology:

- | | |
|---|--|
| 1. Guarantor group size: | 5 to 8 members |
| 2. Guarantor groups per VCG: | 4 to 10 guarantor groups |
| 3. VCG promotion: | VCG CO |
| 4. Election of guarantor group leaders: | Guarantor group members |
| 5. Formation of VCG committee: | Election of President and Vice-President |
| 6. Assessment of loan demand: | Guarantor group leaders |
| 7. Loan application: | VCG committee on behalf of guarantor group |
| 8. Loan appraisal: | CO |
| 9. Loan approval: | Loan Committee |
| 10. Loan disbursement: | At the village level as service to the clients |
| 11. Loan monitoring: | Co-managed by CO and VCG committee |

- | | |
|--------------------------------|---|
| 12. Loan collection: | At village level by the credit staff |
| 13. Action on default/arrears: | Guarantor groups, follow up by VCG committee and the CO |

VCG LOAN PRODUCT

- | | |
|-----------------------------|---|
| 1. Loan ceiling: | First cycle: 150,000R
Second cycle: 250,000R
Third cycle: 275,000R
Fourth cycle: 350,000R |
| 2. Interest rate: | 4% per month (48% per annum on declining balance) |
| 3. Loan duration: | Maximum of 8 months |
| 4. Prepayment of full loan: | Allowed by guarantor group, adjusted to the interest amount |
| 5. Repayment: | Interest and principal due at the end of the loan cycle for agricultural loans. Installments for non-agricultural loans. |
| 6. Penalty (late payment): | 3% per month, 36% per annum. |
| 7. Rebate: | Divided among the VCG committee (all guarantor group leaders). 8% of the total interest earned per loan cycle for on time repayment. Rebates as per revised policies. |
| 8. Penalty for default: | No new loans for the offender in future. No new loans for the VCG until loan has been repaid in full. |

3.1.6.3.5.1 Details on VGC:

Target area selection

The UNICEF Sethkoma/DoWA should:

- Form VCGs in areas, only if there is adequate capacity and financial resources.
- Develop a comprehensive business plan with clear target areas.
- Develop a comprehensive strategy for converting VCGs, in consultation with the clients, and train the credit staff on VCG model.
- Provide training to Credit Officers (COs) to be jointly responsible for formation of quality VCGs with strong joint liability mechanisms to ensure on time repayment.
- Ensure that the villages for implementing the VCG model are not vulnerable to losses due to natural disasters.
- Establish clear criteria for selecting target clients, including:
- Analysis of opportunities and threats, both external and internal (household level)
- Understanding that VCG model does not have internal fund and cannot work in areas that have low levels of food and income security.

- VCG model is not appropriate for the poorest or very poor with high levels of vulnerability (areas prone to disasters). Therefore, target group should be medium poor or very poor.
- Lending areas should have good business opportunities for a range of business activities, not only rice cultivation.
- Lending areas should be reasonably close to branch office, or have good access to roads for efficient operations.
- The current and potential competition from other micro finance providers (formal MFIs, NGOs and informal sources)

Promotion with the Village Authorities

The UNICEF Sethkoma Project Co-manager and CO should meet with the village authorities, namely the commune chief and village chief to:

- Explain the changes in the objectives and strategy of the UNICEF Sethkoma/DoWA credit programme.
- In new villages, credit staff must seek permission to start credit activities.
- Obtain more information to ensure good service delivery by UNICEF Sethkoma/DoWA credit programme
- Develop good collaboration with village authorities, that is supportive of UNICEF Sethkoma/DoWA credit programme objectives
- If possible, UNICEF Sethkoma/DoWA credit programme should obtain a letter from village authorities authorizing UNICEF Sethkoma/DoWA credit programme to work in that area.
- Organize public meeting at the village level.

Promotion with villagers at the village level meeting

CO should conduct the village level meeting. As many as three meetings may be required, based on the capacity of villagers to understand the shift in the UNICEF Sethkoma/DoWA credit approach, the objectives, strategies, the roles and responsibilities of credit staff and villagers.

1. There should be a general assembly meeting with the villagers, with clear presentation of advantages and disadvantages of credit programme. UNICEF Sethkoma/DoWA credit programme would have to provide staff training to ensure the quality of this first meeting with clients.

Ensure that the villagers understand clearly the:

- ❖ Benefits of the UNICEF Sethkoma/DoWA credit programme
- ❖ Steps to the formation of a VCG
- ❖ Responsibilities as borrowers

2. The CO must explain clearly the following advantages:

- Accessing credit from UNICEF Sethkoma/DoWA credit programme and future credit programme is a better alternative to moneylenders.
- UNICEF Sethkoma/DoWA credit programme offers two products – group and individual, to suit different needs.
- UNICEF Sethkoma/DoWA credit programme provides group loans to villagers who do not have access to formal credit as they lack adequate physical collateral, but can form guarantor groups to provide joint liability as alternative collateral.

4. The CO must explain credit policies and procedures carefully, with details about:

- i) Membership criteria for VCG guarantor groups
- ii) VCG group loan delivery mechanism – how villagers can access group loans and what they need to do to access loans
- iii) Meaning of the concept of solidarity and joint liability as alternative collateral.
- iv) Group loan product including all relevant terms and conditions
- v) Loan polices and procedures related to the group loan and individual loan products.
- vi) Loan application process.
- vii) Role and responsibilities of VCG members
- viii) Election of guarantor group leaders and VCG committee
- ix) Role and responsibilities of VCG committees
- x) Relationship between credit officer and VCG committee
- xi) Role and responsibilities of credit officer

5. Details on the lending methodology:

5.1. Membership criteria

- Guarantor group members must be from different households
- Members must be over 18 years old
- Members must have permanent residence in the village
- Guarantor group members must agree to guarantee each other.
- Guarantor groups must establish a code of conduct, with rules regarding specific activities, i.e. guarantor group meetings.
- Members must commit to volunteering as candidates for guarantor group leader elections.

5.2. The group loan credit delivery mechanism – the Village Credit Group model

- i) A VCG consists of 4 to 10 guarantor groups.
- ii) Each guarantor group consists of 5 to 8 members each.
- iii) Members must be self-selected based on the membership criteria.
- iv) Guarantor groups must have elections at the very beginning, and then at the end of each loan cycle to select a guarantor group leader. Efforts should be made to rotate leadership, but guarantor group members should make the decision based on the performance of group leaders.
- v) Guarantor group leaders should have a maximum of two years in service, unless they are voted out earlier, due to poor management or misconduct.
- vi) The group leaders form the VCG committee, consisting of the VCG President and Vice-President.
- vii) The CO should facilitate the VCG committee elections, until the VCG members can manage on their own.

5.3. The VCG formation process and committee member election

- i) The CO must facilitate the constitution of members, facilitate the guarantor group formation, election of the guarantor group leaders (if necessary) and facilitate the election of the VCG committee.
- ii) The CO must clarify the roles and responsibility of guarantor group leaders and the VCG President and Vice-President.

- iii) The CO must ensure that members understand the importance of solidarity, joint liability and rotating leadership.

5.4. Training of VCGs by UNICEF Sethkoma/DoWA credit programme CO should include clarification of:

- i) Objective of forming a VCG
- ii) Conditions to access UNICEF Sethkoma/DoWA credit programme loans
- iii) Loan application, approval, disbursement and repayment procedures
- iv) Role of guarantor group leaders and VCG President and Vice-President.
- v) Role of CO.

5.5. Eligibility of VCGs for accessing loans from UNICEF Sethkoma/DoWA credit programme

- i) Group members must demonstrate ability to:
 - Elect guarantor group leaders that are able to manage and control activities within the guarantor group.
 - Understand UNICEF Sethkoma/DoWA credit programme credit policies and procedures.
 - Willingness to follow UNICEF Sethkoma/DoWA credit programme credit policies and procedures.
 - Commitment to joint liability and credit discipline.
- ii) Guarantor groups leaders must demonstrate ability to:
 - Explain UNICEF Sethkoma/DoWA credit programme policies and procedures to members.
 - Explain the credit policies and procedures specific to the group loan as well as the individual loan product
 - Advise members on which product to choose.
 - Demonstrate ability to facilitate discussion among members to assess client demand and identify the appropriate loan sizes and utilization, for the group loan application process.
 - Demonstrate ability to appraise the risk at the borrower level for group loans.
 - Prepare the loan application for the guarantor group to submit to the VCG committee.
- iii) VCG President and Vice President must demonstrate the ability to:
 - Explain UNICEF Sethkoma/DoWA credit programme credit policies and procedures to the VCG membership as a whole, if necessary.
 - Explain the UNICEF Sethkoma/DoWA credit programme group and individual loan products.
 - Clarify the roles and responsibilities of members, guarantor group leaders and VCG President and Vice-President.
 - Assess the risk of individual members and guarantor groups.
 - Finalise the group loan application by each guarantor group to UNICEF Sethkoma /DoWA credit programme.

Loan Appraisal:

Loan appraisal by CO involves:

- i) CO reviewing each guarantor group loan application individually.
- ii) CO visiting each household for first time loans, to verify information on the loan applications, if necessary. Approval of repeat loans can rely on track record of the guarantor group and VCG.
- iii) CO discussing and clarifying any doubts with the guarantor group leaders and VCG President and Vice-President.
- iv) CO reviewing the proposed loan amounts by individual and guarantor group, based on the stated utilization, loan duration and the ability of villagers to repay on time.
- v) Risk assessment should include a consideration of the vulnerability of the members to natural disaster or other external problems that may affect timely repayment.
- vi) CO preparing a short loan appraisal report with comments and recommendations to the Loan Committee.

Loan Decision-Making

Loan appraisal by Loan Committee involves:

- i) The establishment of a Loan Committee.
- ii) Weekly meeting of the Loan Committee to decide on loan requests for VCG loans and individual loans.
- iii) Loan Committee should consist of the Senior Credit Officer and the Credit Officer responsible for the particular loan request.
- iv) Loan Committee should work as a team, but the Senior Credit Officer has the right to make the final decision on approval.
- v) Senior Credit Officer reserves the right to visit a particular VCG and guarantor group before approving the loan, in the event of any doubts.
- vi) Loan Committee basing decisions on repeat loans to guarantor group on the recommendation of COs and track records.

Loan Disbursement

Loan disbursement involves the following:

- i) The VCG guarantor group loan should be approved within a week of the application. No more than two weeks in the case of a new VCG and no more than one week for repeat loans
- ii) The loan should be disbursed at a formal meeting for disbursement on a fixed date (village banking day) set in consultation with the VCG members.
- iii) Prior to disbursement, the CO must clarify all policies and procedures, terms and conditions of the loan contract.
- iv) The loan should be disbursed at the village on the specified village banking day.
- v) The CO responsible for the VCG along with another CO, either a senior CO or the Senior Credit Officer should disburse the loan.
- vi) The VCG President and Vice-President and all guarantor group leaders must be present at the disbursement.
- vii) All members of the guarantor groups receiving loans must be present in order to receive loans.
- viii) Loan contracts must be prepared in advance by the credit staff.
- ix) Loan contracts must be signed by the CO and Senior Credit Officer

- x) The VCG President and Vice-President, the particular guarantor group leader and all the members of the guarantor group receiving loans must sign loan contracts.

Loan Monitoring

Monitoring of the group loan involves:

- i) CO initiating weekly monitoring visits the week after disbursement.
- ii) CO meeting with all members of the guarantor groups, their leaders and the committee leaders to ensure that all is well with the guarantor group. Any difficulties should be highlighted and addressed at the village level and then reported to the Senior Credit Officer at weekly staff meetings.
- iii) Senior Credit Officer should follow up on serious problems, on the request of the CO.

Loan Collection

Collection involves:

- i) The due date of the loan should be specified on the contract.
- ii) The CO must remind the VCG President and Vice-President and guarantor group leaders of due dates at least two weeks in advance.
- iii) The collection should be conducted in a formal meeting that is scheduled in consultation with the guarantor group leaders.
- iv) The collection should be at the village level involving all the guarantor group members who have to repay on that date, their respective group leaders, VCG President and Vice-President.
- v) The CO and either a senior CO or the Senior Credit Officer should be present and be responsible on the collection date, to assist and monitor collection and record keeping.
- vi) Guarantor group leaders and committee leaders should not collect money directly. They serve as observers at the meeting to ensure collections are made on time and to resolve any problems with repayment.

Loan Workout Management

Resolving late payment or default involves:

- i) Guarantor group leaders and VCG President and Vice-President reporting any potential arrears or default to the CO at least a fortnight in advance during the weekly monitoring visit by the CO.
- ii) The CO taking appropriate action, and requesting assistance from the Senior Credit Officer, if necessary.
- iii) Follow up with the client(s) in question, with visits to the delinquent clients in their houses, in advance of the due date, to assess the situation.
- iv) Meeting with the VCG President and Vice-President to determine appropriate action.
- v) VCG President and Vice-President and CO communicating decision to the delinquent client in the presence of the guarantor group, with the leader.

Approach to managing delinquency and arrears involve:

- i) The relevant guarantor group leader convening a meeting with all the members to discuss the situation and provide a solution. The guarantor group could request the assistance of the VCG committee to facilitate the discussion. The decision should be communicated to the CO.

- ii) In the event of wilful default, the group must take steps to use peer pressure to make the defaulter repay. In other cases, the credit policies should be implemented with guidance from the CO, and with approval of Senior Credit Officer.
- iii) In the event of wilful default if the repayment problem has not been resolved in one week then, the CO must arrange another guarantor group meeting. The Senior Credit Officer must attend this meeting and explain the impact of late repayment to MWBP credit programme and the VCG. If after one month the borrower has not repaid, then CO must organize a VCG meeting with all guarantor groups and put collective pressure on the defaulter. It must be made clear that no new loans will be approved for the VCG unless the defaulter repays his/her loan.

IV. Rice bank

4.1 Current Situation of Rice Bank

PFD in cooperation with Department of Rural Development³⁹ (DRD) in 2001, to create the rice banks (RBs) are village level informal organizations that were organized by PFD to serve as a mechanism for achieving community development through a temporary support measure to provide the villagers with low interest loans (20% per annual) during the rice cultivation cycle. This reduces reliance on loans from village lenders who charge high interest rate. RBs members are supposed to be the villagers, especially the poorer members of the village. Only one member per household can be represented in a RB. Villagers are generally introduced to the programme by PFD and DRD staff, and then form self-selected guarantor groups of five members. Members are encouraged to contribute to build the barn in sand, gravel, wood, and labor; as for PFD contributed in zincs, cement and rice from 5 tons to 9 tons to be provided to each village to be an internal funds in order to deliver loans to villagers who shortage the food security in accordance with family size between 100 kg to 150kg of rice⁴⁰.

The internal fund is further capitalized by contributing of Rice Bank Members (RBM) 15kg of paddy per member. The internal fund also benefits from the interest income from internal fund loans. Internal fund loans are intended to serve members during emergencies in which shortage the food security in wet season. The RB activities include monthly meetings for discussion of internal fund loans and RB management. RBs are also supposed to have annual general meetings for discussing RB activities, assessing the RB status, and reelection of group leaders and RB committees every three years⁴¹.

The guarantor groups elect guarantor group leaders. The RB members then elect the RB committee from the guarantor group leaders. The RB committee consists of the President, Secretary (vice-president) and Cashier, who work with the other guarantor group leaders. PFD provides training to the RB committee in bookkeeping and accounting, with the aim to strengthen their capacity to manage the RB, moving towards autonomous management. RB provided a rebate 10% of interest income to the RBC and VDC of 4%, which includes a portion to cover the administrative costs of the RB committee of 2%, 1% to barn guard and 2% to safe association and interest left to be internal funds of RB. The RB committee along with the guarantor group leaders is responsible for managing the RB internal funds⁴².

The main responsibility of the Rice Bank committee to manage the internal funds (paddy) and loans (paddy to be lent to the clients). These responsibilities include: client screening, demand and risk assessment, preparation of loan applications, transfer of paddy from clients to barn, disbursement and collections of loans at the village, and follow up. The RB committee must ensure on time repayment of loans and take necessary actions regarding late payment and defaulters.

The RB was designed and implemented with the following objectives⁴³:

- To provide the loans to villagers who shortage the food security in wet season.
- Having helped the farmers to avoid borrowing the loan from moneylenders.

³⁹ Rice Banks were transferred and have been responsible by DRD while PFD was finished in 2003.

⁴⁰ Partner For Development, *Guidelines on Rice Bank*, 2001; Yen Mey, Chief Koh Phnaou rice bank committee, O's svay commune; Sek Mao, Chief Ou Roun rice bank committee and vice-chief O'svay commune; Yin Vuth, chief Leu rice bank committee, Preah Rumkel commune.

⁴¹ Fong Fy, chief Koh Snaeng rice bank committee, Koh Snaeng commune.

⁴² Fong Fy, chief Koh Snaeng rice bank committee, Koh Snaeng commune; Yen Mey, Chief Koh Phnaou rice bank committee, O's svay commune; Sek Mao, Chief Ou Roun rice bank committee and vice-chief O'svay commune; Yin Vuth, chief Leu rice bank committee, Preah Rumkel commune.

⁴³ Partner For Development, *Guidelines on Rice Bank*, 2001.

- Building village level organizations, for the purpose of organizing villagers who can together develop the village.
- Strengthening human resources at the village level by providing management and leadership training to strengthen RB committees.
- Providing management training in accounting, and bookkeeping to the RB committees to enable autonomous management of the RBs.
- Providing substantial rebates to the RB internal funds for the purpose of capitalizing the internal funds, and creating an incentive for villagers to build a RB.
- Providing rebates to the RB committees, as incentives to ensure continuing contribution in the management of the internal fund loan activities.

4.2 Key Findings of Rice Bank Performance:

Based on the field study the mission concludes that the PFD/DRD project has not been successful in achieving its objectives.

The RB has valuable characteristics that would have benefited the villagers and achieved PFD objectives. Villagers to meet their needs during emergencies utilize the internal fund, where it is managed reasonably well. Where villagers benefit from the internal fund, they continue to contribute to the internal fund. All of the RBs had significant problems with governance, management and bookkeeping⁴⁴. Most of the RBs appear to have significant problems with mismanagement of the internal fund by the RB committees. Some RBs have problems with fraud, i.e. RB committees borrowing funds and not repaying as per the contract. RB committees were lending to relative and other non-members of the RBs, against the rules and regulations of the RB. The main problem areas observed, many relating to management and internal fund management skills, are as follows⁴⁵:

- Weak RB management (few meetings, problems in loan disbursement and collection);
- Inconsistent adherence to rules and by-laws.

⁴⁴ Interview with Mr. Fong Fy, Chief of Rice Bank Committee of Koh Snaeng village; Nhem Sokhon, Chief of Rice Bank Committee of Krom village; Yin Vuth, Chief of Rice Bank Committee of Leu village; Muth Lith, Chief of Rice Bank Committee of Kandal village; Mr. Sek Mao, Chief of Rice Bank Committee of Ou Roun village, etc. they confirmed that the rice banks lent the rice loans to members in 2003 and those loans must repay in 2004 but all members did not repay the rice to rice bank because of natural disaster and the members asked to delay and promise to pay in 2004 and asked to delay to repay in 2005 and they didn't repay the rice loans yet in 2005 until to present. They said they got the result in 2005, but they repay it to the moneylenders because they borrowed money and rice from them because of natural disaster for food security. So the rice bank warehouses has no any rice.

⁴⁵ Kham Phang, member of Leu rice bank, borrowed 120kg of paddy, but the figure in the register is 360kg and has no contract, voucher or receipt to be provided to the client, not repaying because of natural disaster (drought); Korng Phornng, member of Leu rice bank, said that he borrowed 540kg of paddy but the figure in the register is 360kg because the rice bank committee was not provided him the contract, voucher or receipt to him and anyways, he didn't understand the rice bank principle, especially he has never attended the school. his family has not farmland, nowadays, he rent the neighbor's farmland to farm not repaying because of natural disaster (drought); Ngoun Mom, member of Leu rice bank, borrowed 240kg of paddy, not repaying because of natural disaster (drought), the rice bank committee was not issued the contract, voucher or receipt to him. Actually, Ngoun is husband's name is Ban Ngoun(Ban Ngoun is next name, the real name is Pann Hun) and Mom is wife's name is Mrs. Chun Srey Mom. This member didn't understand the rice bank principle; especially they have never attended the school. His family has not farmland and draught animal, nowadays, he rent the neighbor's farmland (600kg per ha/year) and cattle (300kg per cattle/year) to farm; Suth Khoeung, member of Leu rice bank, the figure in the rice bank committee register is to be lent to him 360 kg from 2002 to 2003, but the client answered that he owed 120kg. This is because the rice bank committee didn't issue to the member the contract, voucher or receipt in order to clarify this matter.

- Lack documentation of important decisions (changes in by-laws; minutes of annual general assembly meetings);
- Lack progress in further skills development (have received training and advice, but still unable to perform required tasks);
- Communication skills (poor explanations to members of by-laws);
- Poor delegation of tasks/lack control over group leaders (some RBs group leaders have almost no job to do because committee members haven't insisted that they perform certain tasks).

Additional weaknesses related to management are as follows⁴⁶:

- Weak accounting (no balance sheet, no idea of profits);
- Bookkeeping (books poorly maintained; missing entries; wrongly posted entries);
- Inappropriate loan assessment for internal fund loans;
- Inadequate loan supervision;
- Weak enforcement of internal fund loan agreements (people not reminded to pay on time; interest due not collected; not enough awareness of the importance to the members to collect interest).

Some of the leadership problems are related to a RB due to the RB committee and DRD officials did not take care and not following the RB policy and by-law. In addition to weak leadership, there is also some evidence of RB leadership that does not display adequate ethical standards. We hasten to add that this seemed to be a minor problem by comparison with the overall weakness of RB leadership. We are also certain that if the by-laws were strengthened and clarified to provide clear guidelines on the removal of unethical leaders, the grounds would be laid for holding elections to elect new and more trustworthy committee members.

While we have observed many weaknesses in the RB leadership, we also strongly feel that many of these weaknesses could be overcome with simple and systematic training measures that also include systematic follow-up, timely advisory services and retraining as needed. Much greater use could be made of networking among the RBs to encourage the weaker ones to learn from the stronger. Indeed, we have already come across examples of good and innovative leadership that could be spread to others; such leaders should be used as resource persons.

Due to various factors, the RB has failed to achieve the objectives of the project such as:

- Natural disaster (flood and drought).
- Unwillingness of clients to repay.
- Clients leaving to settle new areas.

⁴⁶ Kim Lee, member of Leu rice bank, borrowed 250kg of paddy in 2002 and now she denied repaying this loan to rice bank by saying that she didn't borrow this loan, her husband is a borrower (she divorced her husband in 2003). Yin Vuth, Leu rice bank committee, replied that she must repay because the name in the register is her name (Kim Lee), not her husband's name (Soeung Bo) but she responded that she has gone to take out the 250kg of paddy because her husband told her to take out this loan because he borrowed the rice bank committee already and she asked the rice bank committee why this committee registered her name. And the committee answered that she is the person who took out the loan so the committee must record her name, not her husband. This problem happened because of the rice bank committee didn't follow the rice bank policy; it means that he didn't fulfill loan contract, voucher or receipt in order to provide to the client (this problem happened slightly all the rice banks in the Ramsar site).

4.3 Key Conclusions:

Through the study, mission noted that the RBs processing did not succeed fully due to any weak points such as: Lack of adequate policies and procedures to guide RBC in managing difficult situations such as fraud, monopolization of loan funds by RB committees, managing arrears and default, and crises related to natural disasters, etc; RB committees have major problems with the bookkeeping and records; The poor bookkeeping is either a reflection of the lack of capacity of the RB committee to do their job, or the lack of capacity of DoRD officials to be an effective trainer; In some cases it is possible that the RB committee and DoRD officials have deliberately misrepresented information to prevent discovery of their fraudulent actions; and

Fraud and mismanagement in general, is due to weak policies, weak monitoring by credit agent and overall monitoring by the DoRD officials; The problems within the RBs are due to the lack of appropriate community development inputs to the villagers during the formation stage; RBCs and RB members do not have the capacity or the commitment to manage their internal affairs, and the RB committees lack transparency and good governance; These weaknesses combined with poor monitoring by the DoRD officials has led to mismanagement of the internal fund and group loans; Lack of an appropriate policy, mechanism and staff capacity to conduct audits at the client level; The DoRD officials do not conduct regular monitoring visits or they do not investigate thoroughly depending mainly on information provided by the RB committees; There is often no follow up with RB group loan clients; and

Lack of clear credit policies and procedures for monitoring and supervision, appropriate mechanisms to ensure control, credit operational manual; Lack of standardization among the RBs; Lack of competent RBC members and DoRD officials; Lack of adequate management skills in loan management, at the DoRD officials; Current group lending mechanisms do not have adequate measures for controlling leakage/losses due to weak appraisal and poor management of delinquency; Weak loan appraisal mechanisms; Both the DoRD officials and the committees lack the ability to conduct actual loan appraisals; Loans are made based on the relationships within the group and the use of peer pressure for repayment; and

DoRD officials lack communication and facilitation skills, to work effectively with villagers; Communication is weak at all levels – between client, RBC and DoRD officials; Members lack complete knowledge about RB policies and need the assistance of RBC regarding interest rates charged, dates of repayment, etc; Natural disaster (flood and drought); Unwillingness of clients to repay; and Clients leaving to settle new areas.

4.4 Key Recommendations:

The MWBP's goal is the conservation and sustainable use of wetland biodiversity and this will be achieved through capacity strengthening in order to address the root causes of wetland degradation by working closely with other development partners, especially DoRD and local authorities and people in Ramsar site, therefore, so that the Rice Bank Programme is to achieve its objective of sustainability, then MWBP should hold a workshop to train them how to survive those rice bank by encouraging officials to focus on improving the efficiency and profitability of the overall rice bank programme, including the group lending mechanism. This means a thorough strengthening the improper loan appraisal, loan follow-up on regular basis, formulate the internal audit team in order to audit the credit operation and strengthening the internal control system from rice bank to headquarter and train them how to find the problems, the way to solve the existing problems and the strategies to take the measures to prevent the future risks.

And the RB, with the internal fund, can only succeed if clients perceive the benefit; there is adequate management capacity among the RB committee leaders, close monitoring and supervision of the RB committees by DoRD⁴⁷ officials to ensure transparency and good practices.

To ensure the effective functioning of the RB, DoRD would have to improve the current RB, to simplify the model for easy management by RBC and members. Unless the existing RB is simplified and the RBC are trained to implement and manage the RB, especially in the area of group formation, establishment of internal funds, election of committees, promoting solidarity for joint liability, strengthening RB committees capacity to manage the internal fund; and monitoring and control of the internal fund and loans, there will be more cases of fraud and mismanagement in the RB system.

The DoRD has to acquire expert advice to develop a clear manual for RB management, monitoring and control, for the use of staff and RB committees. Books and systems will have to be simplified, and standardized across the operation areas. RBC will have to be trained. DoRD will have to ensure clear working relationship between RB committees and DoRD staff, with specific roles and responsibilities.

The Community Development component will provide essential training and monitoring support from the community development team. Development of an operational RB manual, with clear policies and procedures for DoRD officials as well as guidelines for RBs. Establishment of a new organizational structure, with a management team at the RB, with RBC having clear roles and responsibilities and job descriptions to support efficient and effective implementation. Development the appropriate incentives to motivate RBC and clients as well as performance evaluation of RBC to ensure and maintain excellent performance.

Monthly meetings of RBC with group leaders should be continued in a regular and professional manner until the mechanism for reforms have been established. Appropriate mechanisms for RBC and client feedback have to be developed for the future. Appropriate mechanisms for communications between the RBC and RBM must also be developed, to ensure appropriate implementation, and requisite improvements in the proposed policies, procedures, products and loan delivery mechanisms.

⁴⁷ All Rice Banks were transferred from PFD to DoRD in 2003.

V Cow Bank

5.1 Current Situation of Cow Bank

Cambodian Global Action (CGA) launched the cow bank on October 2005 in Samaki commune including Thmei village was provided 4 cows, 4 cows to Hang Kosoun, 2 to Kilo 8, 3 to Hang Koban and 3 cows to Sakoun villagers (totally 16 cows) to serve as a mechanism for achieving community development through animal husbandry. CB members are supposed to be the poorer members of the village. Only one member per household can be represented in a CB. Villagers are generally introduced to the programme by CGA staff, and then form self-selected guarantor groups of five to ten members. Members are encouraged to contribute in building the cowshed and CGA provide cow for raising⁴⁸.

The guarantor groups elect guarantor group leaders and all group leaders participate to elect the CB committee from them. The CB committee consists of the president, vice-president and cashier, who work with the other guarantor group leaders. CGA provides training to the CB committee in bookkeeping and accounting, with the aim to strengthen their capacity to manage the CB, moving towards autonomous management. The CB committee along with the guarantor group leaders is responsible for managing the CB activities. Activities include the organization of regular (usually monthly) meetings with the guarantor group leaders to discuss CB activities, planning and approval on cow raising application form, settle the problems in the CB, and the organization of regular meetings (usually once a year) with all CB members to report and inform on CB activities⁴⁹.

The raising man must tend the cattle well, not abandon. He/she must provide 2 cow babies (first and third one) to CB committee in order to provide them to other members in those group to raise. The raising man must pay 40,000R per annual during 3 years to CB and then this loan to be provided to raising man to cure the cattle without interest rate during a month and half. If the cow was ill and can not cure, in the case raising man tended it carefully, CGA and CB agree him to repay 50% of cattle cost; but if he/she raised and abandoned intentionally he/she must repay full cost.

The CB was designed and implemented with the following objectives:

- i) Building village level organizations, for the purpose of organizing villagers who can together develop the village and help each other.
- ii) Step by step Developing of animal raising technique in remote areas.
- iii) Generating the family income to improve the living standards.
- iv) Promoting savings among CB members, for contributing to the internal fund, and encouraging stake holding at the community level.
- v) Promoting an internal fund, for the purpose of building a community based fund, for meeting the emergency and consumption needs of members.
- vi) Strengthening human resources at the village level by providing management and leadership training to strengthen CB committees.
- vii) Providing management training in accounting, and bookkeeping to the CB committees to enable autonomous management of the Rice Banks.
- viii) Establishing the internal funds for the purpose of capitalizing the internal funds to buy cattle for raising at each family.

⁴⁸ Nen Limhour, CHE Program Officer (Cambodia Global Action)

⁴⁹ Cambodia Global Action 2005, Rule of village cow bank.

5.2 Key Conclusions:

Based on the field study the mission concludes that the CGA established an important project in CB to provide the cattle to the villagers to raise for sale or draught animal to enhance the livelihood of the poorest beneficiaries and those are affected by drought. The CB has valuable characteristics that would have benefited the villagers and achieved CGA objectives.

5.3 Key Recommendations:

MWBP should hold a workshop to train the CGA organization how to operate the cow bank well by encouraging officials to focus on improving the efficiency and profitability of the overall cow bank programme, including the group lending mechanism. This means a thorough strengthening the improper raising member appraisal, animal-raising follow-up on regular basis, formulate the internal control team in order to control the performance in order to run well and train them how to find the problems, the way to solve the existing problems and the strategies to take the measures to prevent the future risks. And MWBP should suggest any commends as follows:

- CGA must train the cow bank members on the animal raising method and providing the vaccine to prevent the vaccinia.
- CGA Officer and CB committee initiating weekly monitoring visits the week after cow providing.
- CGA meeting with all members of the guarantor groups, their leaders and the committee leaders to ensure that all is well with the guarantor group. Any difficulties should be highlighted and addressed at the CB and then reported to the CGA Senior Officer at weekly staff meetings.
- CGA Senior Officer should follow up on serious problems, on the request of the CGA Officer and CB committee.

VI Pig Bank

6.1 Current Situation of Pig Bank⁵⁰

Partners For Development (PFD) formed Pig Bank in 2001 at Krom village (Preah Rumkel commune, Thala Barivath district, Stung Treng province). PFD created the Pig Bank (PB) are village level informal organizations to serve as a mechanism for achieving community development through animal husbandry. PB members are supposed to be the poorer members of the village. Only one member per household can be represented in a Pig Bank. The Pig Bank members contribute to build the pigpen and PFD provides 7 pigs to the Krom Pig Bank. Pig Bank Members are sold the pig baby in low cost compare with the market price.

VCD committee in cooperation assigned the PB committee with PFD by selecting from VCD committee members. The composition of this committee member consists of chairman, vice-chairman (accountant) and cashier. The PB committee selected 3 or 4 potential members of PB to be provided the pigs from PFD to raise in one place together in a pigpen which was built by contributing from PB members and PFD. PFD provided 5 female pigs and one male pig to PB in 2001 to start the PB and PFD provided the pig food and vaccination to support the PB during the first raising year and then it was responsible by PB itself.

The PB product increased from 7 pigs in 2001 to 20 pigs in mid 2004, but all the pigs died in mid 2005 because of vaccinia disease. Then PB was finished its activities.

The PB was designed and implemented with the following objectives:

- Building village level organizations, for the purpose of organizing villagers who can together develop the village.
- Promoting an animal husbandry, for the purpose of building a community based pig raising, for meeting the emergency and consumption needs of members.
- Strengthening human resources at the village level by providing pig raising method and management and leadership training to strengthen PB committees.
- Establishing a linked PB Programme, that would meet the animal husbandry needs of villagers for various income generating and micro-enterprise development activities.

6.2 Key Conclusions:

Partners For Development (PFD) formed Pig Bank in 2001 at Krom village (Preah Rumkel commune, Thala Barivath district, Stung Treng province). PB members are supposed to be the poorer members of the village. Only one member per household can be represented in a PB. The PB members contribute to build the pigpen and PFD provides 7 pigs to the PB. PB Members are sold the pig baby in low cost compare with the market price.

The PB product increased from 7 pigs in 2001 to 20 pigs in mid 2004, but all the pigs died in mid 2005 because of vaccinia disease. Then PB was finished its activities.

Anyways, the pig foods were bought in high cost (from \$17.50 to \$25.00 per sack). The PB sold 50% of the baby pigs for support the pig food, but it still was not enough the food for raising. At last, PB decided to sell other pigs to buy more foods. Lack of vaccination to protect the diseases

⁵⁰ Mr. Sous Sophal, Chief Pig Bank Committee of Krom village, Preah Rumkel commune.

6.3 Recommendations:

- Due to this program was failed because of the pig foods were bought in high cost and vaccinia diseases. Anyways, PFD was completed their operation since 2003 and now it has no any organization to support this section, so MWBP should support this program strongly by preparing the pig bank policy, the lesson to train the members how to raise the pig such as the way to provide the pig bran and how to take care it.
- MWBP should provide the local pig type that can patient and protect the other diseases in the village to pig bank.
- Pig raising in traditional manner by providing the pig to each selected member for raising in their houses and the pig bran providing in traditional manner, too (remain of family meal and banana palm and bran), it is pig bran in low cost to reduce the family expenses.

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Annex One:

TERMS OF REFERENCE (NATIONAL CONSULTANT)

Name: Peou Da
Assignment: Short-term consultant to MWBP for undertaking a study of micro-credit facilities at the Mekong Ramsar site

REPORTING RESPONSIBILITIES

Under the overall direction and guidance of the UNDP-GEF Mekong Wetlands Biodiversity Programme team leader in Vientiane, Lao PDR, the reporting relationships will be as follows:

Direct Reporting Line

MWBP Project Co-Manager
Mekong Wetlands Biodiversity Programme
Stung Treng
Cambodia

Reporting Area

All matters related to the position

LOCATION

All field work will be carried out in the Mekong Stung Treng Ramsar reserve site and adjacent areas as agreed by the consultant and MWBP.

Report writing will be undertaken in Stung Treng Town and, by agreement, in Phnom Penh or elsewhere.

GENERAL RESPONSIBILITY

To undertake a study of the current methods by which Ramsar site villagers obtain micro-credit and work in self-help groups for development and prepare detailed recommendation for any additional schemes that may be required along with details on how these can be implemented and villagers trained to obtain maximum benefit from them.

RESPONSIBILITIES AND TASKS

Upon commencement of the study the consultant will prepare in agreement with IUCN/MWBP a detailed methodology which will include at least the following requirements:

- Identify, evaluate and assess the appropriateness of existing micro-credit schemes currently available in the Ramsar reserve, including repayment levels and the consequences of non-repayment.
- Estimate the number and types of people (by gender, wealth status, education level etc) using the currently available micro-credit schemes, and their availability to the poor.
- Identify, evaluate and assess the appropriateness of the self-help groups, including buffalo and rice banks etc, currently operating in the Ramsar reserve.
- Estimate the number of people (by gender, wealth status, education level etc) currently participating in self-help groups, including buffalo and rice bank etc.
- Recommend any alternative micro-credit and self-help group schemes that it would be appropriate to introduce to the Ramsar area.
- Estimate the willingness of villagers to adopt new systems of micro-credit and self-help groups that this study recommends will be beneficial to them.

- Identify any training requirements that are necessary to increase participation in and effectiveness of existing and proposed micro-credit and self-help group schemes.
- Advise on ways in which IUCN, MWBP and other agencies involved with small credit and self-help groups can coordinate and improve their efforts.

The consultant will be based at MWBP's Stung Treng project office. The consultant will work closely with and report to MWBP national and provincial programme staffs and work directly with the international wetlands technical adviser based in Stung Treng. The study will also involve much consultation with other NGOs, commune councils, and operation of micro-credit schemes and self-help groups. Information will be collected from available literature, meetings and workshops as required.

OUTPUTS

The draft findings of the consultancy will be presented to a meeting in Stung Treng of relevant agencies and village representatives for review and discussion.

The consultant will prepare a draft report for review by the MWBP and based on comment received will prepare the draft final report.

All reporting will be in English

MATERIALS

The consultant will provide all necessary materials and equipment to undertake the work.

ASSISTANCE

A technical assistant may be provided for the consultant for part the study. The consultant will be responsible for organizing the inputs of any such assistant.

Annex Two:

Consultant's Schedule

Date	Activity, Meetings
31.01.	Stung Treng Arrival
01.02.	Briefing introduction by Mr. Pich Darong, Project Co-Manager; Dr. Marcus Chamber, International Technical Advisor and Mr. Sous Sivutha, Outreach Officer.
	Planning for consultancy Prepare the questionnaires to interview the credit and self-help group operators
02.02.	Meeting with Mr. Nen Limhourn, CHE Program Officer of CGA
	Meeting with Mrs. Sey Chanthary and Mrs. Sorn Sokha, Director and Duputy of Department of Woman Affairs
03.02.	Meeting with Ms Tit Nita, Representative of PFD
	Reading related project documents, discussions with Mr. Sous Sivutha, Outreach Officer
04.02.	Reading related project documents
05.02.	Reading related project documents
06.02.	Meeting with Mr. Yam Lang, Branch Manager of ACLEDA Bank Plc.
	Reading related project documents, discussions with Mr. Sous Sivutha, Outreach Officer
07.02.	Meeting with Mrs. Ty Thida, officials of Department of Education, youth and sports
	Meeting with Mr. Prak Bunthon, illiteracy Trainer of DoE
08.02.	Meeting with Mr. Sear Heng, Deputy Director of Department of Rural Development
	Meeting with Mr. Yin Sorya, Ecotourism Consultant of MWBP
09.02.	Reading related project documents, discussions with Mr. Sous Sivutha, Outreach Officer
10.02.	Meeting with Mr. Sok Vesna, Assistant Project Manager of OCAA
	Meeting with Mrs. Sorn Sokha, Duputy of Department of Woman Affairs
11.02.	Reading related project documents
12.02.	Reading related project documents
13.02.	Reading related project documents
14.02.	Samaki commune
	Travel from Stung Treng Provincial Town to Samaki commune
	Discussions at Samaki commune office with chief commune and commune council
	Meeting at Thmei village with villagers, chief village and rice bank committee
15.02.	Meeting at Kham pann village with villagers, chief village and rice bank committee
	Meeting at Koh Kordin village with villagers, chief village and rice bank committee
16.02.	Koh Snaeng commune
	Travel from Stung Treng Provincial Town to Koh Snaeng commune
	Discussions at Koh Snaeng commune office with chief commune and commune council
	Meeting at Koh Snaeng village with villagers, chief village and rice bank and Credit committee
17.02.	Meeting at Koh Sralaou village with villagers, chief village and rice bank and credit committee
	Meeting at Koh Ky village with villagers, chief village
18.02.	Reading related project documents
19.02.	Reading related project documents

20.02.	O'svay commune
	Travel from Stung Treng Provincial Town to O'svay commune
	Discussions at O'svay commune office with chief commune and commune council
	Meeting at Koh Phnaou village with villagers, chief village and rice bank committee
21.02.	Meeting at Ou Roun village with villagers, chief village and rice bank committee
	Meeting at Vein Sean village with villagers, chief village rice bank committee
22.02.	Preah Rumkel commune
	Travel from Stung Treng Provincial Town to Preah Rumkel commune
	Discussions at Preah Rumkel commune office with chief commune and commune council
	Meeting at Leu village with villagers, chief village and rice bank committee
23.02.	Meeting at Kandal village with villagers, chief village and rice bank committee
	Meeting at Krom village with villagers, chief village, rice bank and pig bank committee
24.02.	Travel back to Stung Treng Provincial Town
	Reading related project documents
25.02.	Report writing
26.02.	Report writing
27.02.	Briefing at MWBP office with Mr. Pich Darong, Project Co-Manager; Dr. Marcus Chamber, International Technical Advisor and Mr. Sous Sivutha, Outreach Officer on Study Result.
28.02.- 16.03.	Draft Report Writing
	Submitting the draft report to MWBP Project Co-Manager Reporting findings and recommendations to national stakeholders
17.03.- 23.03.	Final Report Writing
	Submitting the final report to MWBP Project Co-Manager
	Reporting findings and recommendations to national stakeholders Departure of the mission

Annex 3

Borrowers Interview Finding Format

Loan Account Number:
 Loan amount:
 Overdue amount:
 Loan term:
 Loan purpose:
 Disbursed date
 Borrower's name:

Initial of Interviewer:
 Date of Interviewing:
 Name of Committee:
 Name of Village:
 Commune:
 District:
 Province:

<i>PARTICULARS</i>	Status	Observations
Member of group		
Copy of loan agreement and voucher with the borrower		
Awareness of loan conditions and repayment obligations – terms and interest rate		
Loan Assessment		
Loan Utilization whether correspondence with agreement		
Business process		
Repayment performance		
Any other borrowings from the group members –if yes, details		
Lending to other members		
Any other borrowing from other agencies		
Loan follow up by the Credit Committee before and during the loan cycle and last visit by the Credit Committee		
Other issues		

Signature:.....

Interviewer:.....

Finding Format of Bank Committee/Credit Officer

Rice/cow/buffalo/pig bank:
 CC/CO's Name:

Initial of Interviewer:
 Date of Visit:

<i>Questions</i>	Status	Observations
How many members? How much are your loan portfolios?		
I would like you to describe about your role and responsibilities?		
I would like you to explain me the methodologies to set up the rice/cow/buffalo /pig bank and the methodologies to choose the good clients		
Who complete the information in the loan application form and make the loan agreement? What do you do with that information?		
I would like you to explain the rules and process of disbursing and reimbursement loan?		
What is the CC/CO's duty after the loan disbursement?		
What do you do to follow up the loan?		
How many overdue loans you have? How much is the amount? How many overdue loans problem did you solve and how?		
What measures are you taking to solve the problems of existing overdue loans?		
What measures are you taking to prevent outstanding loan to become overdue		
What measures do you have to prevent future loans to become overdue?		
How do you communicate with program, clients and authority?		
Any other issue		

Signature:.....

Interviewer:

Annex 5

Finding Format of Credit Committee/Credit Officer

Village Fund:
CC/CO's Name:

Initial of Interviewer:
Date of Visit:

<i>Questions</i>	Status	Observations
How many loan accounts are you in charged of? How many Clients? How much are your loan portfolios?		
I would like you to describe about your role and responsibilities?		
I would like you to explain me the methodologies to set up the Village Fund and the methodologies to choose the good clients		
Who complete the information in the loan application form and make the loan agreement? What do you do with that information?		
I would like you to explain the rules and process of disbursing and reimbursement loan?		
What is the CC/CO's duty after the loan disbursement?		
What do you do to follow up the loan?		
How many overdue loans you have? How much is the amount? How many overdue loans problem did you solve and how?		
What measures are you taking to solve the problems of existing overdue loans?		
What measures are you taking to prevent outstanding loan to become overdue		
What measures do you have to prevent future loans to become overdue?		
How do you communicate with program, clients and authority?		
Any other issue		

Signature:.....
Interviewer:

Annex 6

Credit Operator Interview Finding Format

Name of interviewee:
Position:
Organization:
Location:

Name of interviewer:
Date of interviewing:

<i>PARTICULARS</i>	Status	Observations
General Situation of organization		
I would like you to explain me the methodologies to set up the Village Fund (micro-credit) and the methodologies to choose the good clients and the rules and process of disbursing and reimbursement loan?		
Could you tell me how to manage the credit?		
What problems did your organization meet?		
What measures are you taking to solve the problems of existing overdue loans?		
What measures do you have to prevent future loans to become overdue?		
How about the education of members?		
Could you tell me the Gender Situation of members?		
Other issues		

Signature:.....

Interviewer:.....

Local Authority Governor Interview Finding Format

Name of interviewee:
Position:
Village:
Commune:
District:
Province:

Name of interviewer:
Date of interviewing:

<i>PARTICULARS</i>	Status	Observations
I would like you to tell me the General Situation of your commune/village.		
What is the Economic Situation at your commune/village?		
How about Social Security and Tradition?		
What is the Communication situation at your commune/village?		
What about the Villagers' Education? How many percent of literacy?		
I would like to tell me the Gender situation at your commune/village?		
Has your commune/village got any organization operated the Micro-Credit?		
And how about Rice bank?		
Cow bank?		
Buffalo bank?		
Pig bank?		
Other issues		

Signature:.....

Interviewer:.....

Annex 8

Target Area Representatives and Households Interview Respondents

1. Target Area Representatives Interview Respondents

N.	Name	Position	Organization	Service
1	Mrs. Sey Chanthary	Director of DoWA	DoWA	Micro-credit
2	Mrs. Sorn Sokha	Deputy Director of DoWA	DoWA	Micro-credit
3	Mr. Yam Lang	Branch Manager	ACLEDA Bank Plc	Micro-credit
4	Mr. Sear Heng	Deputy Director of DoRD	DoRD	Micro-credit and self-help groups
5	Ms Tit Nita,	Representative of PFD	PFD	Rice bank, Pig Bank
6	Mrs. Ty Thida	Official	DoE	Education
	Mr. Prak Bunthon	Illiterate Trainer	DoE	Education
7	Mr. Nen Limhourn	CHE Program Officer	AOG/CGA	Cow bank
8	Mr. Sok Vesna	Assistant Project Manager	OCAA	Self-help groups

2. Target Area Commune Council and Household Interview Respondents

N.	District	Commune	Village	Name	Position	Services
9	Thala Barivat	Koh Snaeng	Koh Snaeng	Doung Lean ⁵¹	Chief Commune	Authorities
10	Thala Barivat	Koh Snaeng	Koh Snaeng	Van Samphorn	Secretary of Commune Council	Authorities
11	Thala Barivat	Koh Snaeng	Koh Snaeng	Noeung Vy	Chief VF	Micro-credit
12	Thala Barivat	Koh Snaeng	Koh Snaeng	Sum Mith ⁵²	Member	Micro-credit
13	Thala Barivat	Koh Snaeng	Koh Snaeng	Chea Sou ⁵³	Member	Micro-credit
14	Thala Barivat	Koh Snaeng	Koh Snaeng	Som Phy ⁵⁴	Member	Micro-credit
15	Thala Barivat	Koh Snaeng	Koh Snaeng	Korng Thorng ⁵⁵	Member	Micro-credit

⁵¹ There are 60% illiterates in this commune.

⁵² The figure in the committee register recorded that he borrowed 61,300R, but he denied that he didn't borrow the money from Village Fund, but he borrowed 90kg of paddy from Koh Snaeng Rice Bank (no contract, voucher or receipt).

⁵³ She borrowed 61,300R from Koh Snaeng Village Fund (for buying pig to raise, but all pigs died because of disease, so she has no money to repay) and borrowed 300kg of paddy from Koh Snaeng Rice Bank (not repaying because of natural disaster), she didn't understand the credit policy and didn't know the group number and group members (no contract, voucher or receipt).

⁵⁴ The figure in the committee register recorded that he borrowed 61,300R, but he denied that he didn't borrow the money from Village Fund (no contract, voucher or receipt).

16	Thala Barivat	Koh Snaeng	Koh Snaeng	Chhorm Nhoeum ⁵⁶	Member	Micro-credit
17	Thala Barivat	Koh Snaeng	Koh Snaeng	Phing Kham ⁵⁷	Member	Micro-credit
18	Thala Barivat	Koh Snaeng	Koh Snaeng	Fong Fy	Chief RBC	Rice Bank
19	Thala Barivat	Koh Snaeng	Koh Snaeng	Loeung Chun	Member	Rice Bank
20	Thala Barivat	Koh Snaeng	Koh Snaeng	You Yoin	Member	Rice Bank
21	Thala Barivat	Koh Snaeng	Koh Snaeng	Khay Mala	Member	Rice Bank
22	Thala Barivat	Koh Snaeng	Koh Snaeng	Ny Mey	Member	Rice Bank
23	Thala Barivat	Koh Snaeng	Koh Sralaou	Sing Pith	Chief Village	Authorities
24	Thala Barivat	Koh Snaeng	Koh Sralaou	Sing Vein	Chief VFC and RBC	Micro-credit and Rice Bank
25	Thala Barivat	Koh Snaeng	Koh Sralaou	Srey Naov ⁵⁸	Member	Micro-credit
26	Thala Barivat	Koh Snaeng	Koh Sralaou	Theed Thy ⁵⁹	Member	Micro-credit
27	Thala Barivat	Koh Snaeng	Koh Sralaou	Tab Ny ⁶⁰	Member	Micro-credit
28	Thala Barivat	Koh Snaeng	Koh Sralaou	Khoem Vy ⁶¹	Member	Rice Bank
29	Thala Barivat	Koh Snaeng	Koh Sralaou	Lann Feur ⁶²	Member	Rice Bank
30	Thala Barivat	Koh Snaeng	Koh Sralaou	Puth Lenn ⁶³	Member	Rice Bank
31	Thala Barivat	Koh Snaeng	Koh Sralaou	Naov La ⁶⁴	Member	Rice Bank

⁵⁵ The figure in the committee register recorded that he borrowed 60,000R, but he denied that he didn't borrow the money from Village Fund (no contract, voucher or receipt).

⁵⁶ She borrowed 60,000R for buying pig to raise, but all pigs died because of the dog buying, so she has no money to repay (no contract, voucher or receipt).

⁵⁷ The figure in the committee register recorded that he borrowed 61,300R, but he denied that he didn't borrow the money from Village Fund (no contract, voucher or receipt).

⁵⁸ Mr. Sing Vein, Village Fund Committee, told that he borrowed 70, 000R from Koh Sralaou village fund, but no his name in the cashbook (committee register) and it has no contract, voucher or receipt.

⁵⁹ In the committee register, he borrowed 100,000R, but his wife (Sing Pek) denied that she and her husband didn't borrow this loan, but Mr. Mr. Sing Vein, Village Fund Committee, told that her husband borrowed this loan and on lent to Mr. The Lek living in the same village.

⁶⁰ In the committee register, he borrowed 100,000R, but his wife (Noeur Vin) denied that she and her husband didn't borrow this loan, but Mr. Mr. Sing Vein, Village Fund Committee, told that her husband borrowed this loan and on lent to his brother, Mr. Thay Na living in Koh Snaeng village.

⁶¹ Khoem Vy borrowed 100kg of paddy, actually Khoem is husband's name is Mr. Khoem and Vy is wife's name is Mrs. Vy (no contract, voucher or receipt).

⁶² Lann Feur borrowed 150kg of paddy, actually Lann is husband's name is Mr. Khoem Lann and Feur is wife's name is Mrs. Phoeung Feur (no contract, voucher or receipt and has no body to follow up him). The client responded that he borrowed the rice loan for last cycle amount 200kg of paddy and repaid 240kg and he said that he stopped borrowing it 2 years ago, but he borrowed 100,000R from village fund and he is ready the money to repay but the village fund committee didn't collect it.

⁶³ Puth Lenn borrowed 150kg of paddy, actually Puth is husband's name is Mr. Puth and Lenn is wife's name is Mrs. Lenn (no contract, voucher or receipt).

⁶⁴ Naov La borrowed 150kg of paddy, actually Naov is husband's name is Mr. Naov Srey and La is wife's name is Mrs. Phek La (no contract, voucher or receipt and has no body to follow up him). he said that he repaid 90Kg to

32	Thala Barivat	Koh Snaeng	Koh Sralaou	Roun Tou ⁶⁵	Member	Rice Bank
33	Thala Barivat	Koh Snaeng	Koh Ky⁶⁶	Chief village	Chief village	Authorities
34	Thala Barivat	O'Svay	O'Svay	Mann Lyhor	Chief commune	Local Authorities
35	Thala Barivat	O'Svay	O'Svay	Sek Mao ⁶⁷	Vice-chief commune	Local Authorities and Rice bank
36	Thala Barivat	O'Svay	O'Svay	Doung Bun Toung ⁶⁸	Member of Commune Council	Local Authorities
37	Thala Barivat	O'Svay	O'Svay	SamBath Piseth	Commune Secretary	Local Authorities
38	Thala Barivat	O'Svay	Koh Phnaou	Ny Sim	Chief village	Local Authorities
39	Thala Barivat	O'Svay	Koh Phnaou	Yen Mey	Chief RBC	Rice Bank
40	Thala Barivat	O'Svay	Koh Phnaou	Sen Lun ⁶⁹	Member	Rice Bank
41	Thala Barivat	O'Svay	Koh Phnaou	Horm Phath ⁷⁰	Member	Rice Bank
42	Thala Barivat	O'Svay	Koh Phnaou	San Mao ⁷¹	Member	Rice Bank
43	Thala Barivat	O'Svay	Ou Roun	Sum Vath	Chief Village	Authorities
44	Thala Barivat	O'Svay	Ou Roun	Soeung Sovann ⁷²	Member	Rice Bank

Rice Bank and left 90kg (including interest) because natural disaster and he has nothing to repay. Anyways, he borrowed 70,000 from Koh Sralaou village fund and yet repay this loan to village fund committee.

⁶⁵ Roun Tou borrowed 100kg of paddy, actually Roun is husband's name is Mr. Bun Roun and Tou is wife's name is Mrs. The Tou (no contract, voucher or receipt).

⁶⁶ This village has no micro-credit, rice bank, cow bank and pig bank.

⁶⁷ He is vice-chief of O' Svay commune and chief Ou Roun Rice bank. He told that the RBC of Ou Roun Village lent the rice loans to 86 members in 2003; totally loan amount is 23,469kg of paddy. This loans has to repay in 2004 in according to the contract, but these loans are non-repayment 100% to present, because of natural disaster (draught).

⁶⁸ There are 60% illiterates in the commune.

⁶⁹ He borrowed 300kg in rice (not paddy) since 2003, actually the Rice Bank Committee provided the rice loan amount 150kg per household, but Mr. Ny Sim (chief village) didn't borrow, so he borrowed double loans is 300kg. The RBC didn't provide him the contract, voucher or receipt. He didn't repay this loan to RBC yet (since 2003 to 2006) because of natural disaster (draught).

⁷⁰ He said that he borrowed 300kg in rice (not paddy) since 2003 and he repaid 200kg principal plus interest and he owed only 100kg (the client has no contract, voucher or receipt), but Mr. Yen Mey, Rice Bank Committee, said that he provided the rice loan to him amount 300kg and he has never repaid to him and he has to repay 365kg (principal 300kg + interest 65kg). He showed the contract with Mr. Horm Phath's thumbprint. Mr. Horm Phath said that Mr. Yen Mey has called for him to make the contract for the loan in which he has not repaid. He thought that he has owed only 100kg, he put his thumbprint that contract. Anyways, he is illiterate. He said that he is very poor. he has nothing to repay this loan and nowadays, he caught the fish 2kg or 3kg per day and he sold all fishes from 5000R to 7500R (2500R per 1kg) to buy rice and petrol for a small motorboat.

⁷¹ Interview with his wife, Mrs. Keth Neang; she said that her husband borrowed 300kg of rice since 2000 and she paid only interest, not principal to present. She said that she needs more loans of 1,000,000R to buy pig and cattle for raising.

45	Thala Barivat	O'Svay	Ou Roun	Ban Bunny ⁷³	Member	Rice Bank
45	Thala Barivat	Preah Rumkel	Leu	Kham Leam⁷⁴	Chief Commune	Authorities
46	Thala Barivat	Phreah Rumkel	Leu	Dy Phon	Chief Village	Authorities
47	Thala Barivat	Phreah Rumkel	Leu	Yin Vuth ⁷⁵	Chief RBC	Rice Bank
48	Thala Barivat	Phreah Rumkel	Leu	Kham Phaing ⁷⁶	Member	Rice Bank
49	Thala Barivat	Phreah Rumkel	Leu	Kang Phang ⁷⁷	Member	Rice Bank
50	Thala Barivat	Phreah Rumkel	Leu	Ngoun Mom ⁷⁸	Member	Rice Bank
51	Thala Barivat	Phreah Rumkel	Leu	Suth Khoeung ⁷⁹	Member	Rice Bank
52	Thala Barivat	Phreah Rumkel	Leu	Kim Lee ⁸⁰	Member	Rice Bank

⁷² To be lent 400kg of paddy at 03 August 2002, there have no contract, voucher or receipt to be issued to him. This loan is overdue 100% (principal is 400kg and interest is 100kg) to present because of natural disaster (draught).

⁷³ He borrowed 300kg of paddy at 03 August 2002 (interest is 75kg) and he didn't repaid since 2002 to present because of natural disaster (draught).

⁷⁴ There are 60% illiterates in this commune.

⁷⁵ Leu Rice Bank started to lend the rice loans to 57 members in 1999; total loan amount is 9 tons of rice (grant from PFD). The RBC collected the above loans are 4,944kg in 2003 and the RBC continued to lend this loans (4,944kg) to 27 members in 2003. And there have no any members to repay those loans to RBC since 2003 to present because of natural disaster (draught). There has no any contracts, voucher or receipt to be provided to the members and there has no the loan follow-up.

⁷⁶ He said that he borrowed 120kg of paddy for the last cycle in 2003 with interest rate is 25% per annual. He didn't repay it because of natural disaster (draught), but the loan amount in the RBC register is 300kg of paddy, not 120kg. RBC didn't issue the contract, voucher or receipt to him. This is the problem, we didn't any side saying is true or not.

⁷⁷ She said that he borrowed 540kg of paddy for the last cycle in 2003. She didn't repay it because of natural disaster (draught), but the loan amount in the RBC register is only 360kg of paddy, not 540kg. RBC didn't issue the contract, voucher or receipt to her. Nowadays, she has lived alone. She has got 2 ha. of farmlands, but she has no force to do the farm because she is over 60 years old, so she rent this farmlands to her son-in-law in 600kg per season for security food. So she has no capacity to repay the rice bank loans.

⁷⁸ Ngoun Mom, member of Leu rice bank, borrowed 240kg of paddy, not repaying because of natural disaster (drought), the rice bank committee was not issued the contract, voucher or receipt to him. Actually, Ngoun is husband's name is Ban Ngoun(Ban Ngoun is next name, the real name is Pann Hun) and Mom is wife's name is Mrs. Chun Srey Mom. This member didn't understand the rice bank principle; especially they have never attended the school. His family has not farmland and draught animal, nowadays; he rent the neighbor's farmland (600kg per ha/year) and cattle (300kg per cattle/year) to farm.

⁷⁹ Suth Khoeung, member of Leu rice bank, the figure in the rice bank committee register is to be lent to him 360 kg from 2002 to 2003, but the client answered that he owed 120kg. This is because of the rice bank committee didn't issue to the member the contract, voucher or receipt in order to clarify this matter.

⁸⁰ Kim Lee, member of Leu rice bank, borrowed 250kg of paddy in 2002 and now she denied repaying this loan to rice bank by saying that she didn't borrow this loan, her husband is a borrower (she divorced her husband in 2003). Yin Vuth, Leu rice bank committee, replied that she must repay because the name in the register is her name (Kim Lee), not her husband's name (Soeung Bo) but she responded that she has gone to take out the 250kg of paddy because her husband told her to take out this loan because he borrowed the rice bank committee already and she asked the rice bank committee why this committee registered her name. And the committee answered that she is the person who took out the loan so the committee must record her name, not her husband. This problem happened because of the rice bank committee didn't follow the rice bank policy; it means that he didn't fulfill loan contract,

53	Thala Barivat	Phreah Rumkel	Kandal	Mi Leam	Chief village	Authorities
54	Thala Barivat	Phreah Rumkel	Kandal	Muth Lith	Chief RBC	Rice Bank
55	Thala Barivat	Phreah Rumkel	Kandal	Ny Thai	RB Cashier	Rice Bank
56	Thala Barivat	Phreah Rumkel	Kandal	Neam Horm	RBC Member	Rice Bank
57	Thala Barivat	Phreah Rumkel	Kandal	Long Sokly ⁸¹	Member	Rice Bank
58	Thala Barivat	Phreah Rumkel	Kandal	Phon Bang ⁸²	Member	Rice Bank
59	Thala Barivat	Phreah Rumkel	Kandal	Lo Mom ⁸³	Member	Rice Bank
60	Thala Barivat	Phreah Rumkel	Krom	Ping Lean	Chief village	Authorities
61	Thala Barivat	Phreah Rumkel	Krom	Nhem Sokhon ⁸⁴	Chief RBC	Rice Bank
62	Thala Barivat	Phreah Rumkel	Krom	Sous Sophal	Chief PBC	Pig Bank
63	Thala Barivat	Phreah Rumkel	Krom	Pon Fon ⁸⁵	Member	Rice Bank

voucher or receipt in order to provide to the client (this problem happened slightly all the rice banks in the Ramsar site).

⁸¹ He said that he borrowed 200kg of paddy for the last cycle in 2003 with interest rate is 25% per annual. He didn't repay it because of natural disaster (draught), but the loan amount in the RBC register is 440kg of paddy, not 200kg. RBC didn't issue the contract, voucher or receipt to him. This is the problem, we didn't any side saying is true or not.

⁸² Phon Pang, member of Kandal rice bank, borrowed 513kg of paddy, he repaid 220kg at last year and yet repays 293kg because of natural disaster (drought), the rice bank committee was not issued the contract, voucher or receipt to this member. Actually, Phon is husband's name is Phay Phon and Bang is wife's name is Mrs. Yoth Bang. Besides borrowing paddy from Kandal rice bank, this member has borrowed from outsiders, for example: he has borrowed 300kg from Thy Horm, 300kg from Thy Kun, 600kg from Pum Vy. This member has totally owed 1,493kg (Kandal Rice Bank is 293kg and others is 1,200kg). This member said that he has actually borrowed outsiders in rice (not paddy), it means that he borrows 100kg of rice and he has to repay 480kg of paddy. He said that he borrows 1,200kg from outsiders every year for food security. His family has not draught animal, nowadays; he rent the neighbor's cattle (300kg per cattle/year) to farm.

⁸³ Lo Mom, member of Kandal rice bank, borrowed 200kg of paddy in 2003 (the member said he didn't know which year he has borrowed it), and yet repays it, because of natural disaster (drought), the rice bank committee was not issued the contract, voucher or receipt to this member. Actually, Lo is husband's name is Mr. Kim Lo and Mom is wife's name is Mrs. Nou Mom. Besides borrowing paddy from Kandal rice bank, this member has borrowed from outsiders, for example: he has borrowed 200kg of rice from Gnounh Oeurn and he has to repay him 840kg of paddy, 50kg of rice from Soeung Vanna and he has to repay him 180kg of paddy, 100kg of rice from Mi Pi and he must to repay him 300kg of paddy, and he has borrowed 100kg of rice from Loeung Thary and he must to repay him 300kg in paddy. This member has totally owed 1,820kg (Kandal Rice Bank is 200kg and others is 1,620kg). His family has not farmlands and draught animal, nowadays; he rent the neighbor's farmlands (3 ha. is 480kg of paddy per annual) and 2cattle (300kg per cattle/year) to farm. He harvested the paddy product amount 2,400kg in 2005, but he paid the farmlands and draught animal 1,200kg and he sold 960kg to pay the medicines' fee to cure his children. Nowadays, he has 240kg of paddy for food security and he borrowed 30,000R from Ny Chay for curing his children and he has to repay him 120kg of paddy (1kg of paddy is 250R).

⁸⁴ The Krom rice bank started its activities in 2000, by receiving the grant amount 8 tons of rice from PFD is equal 14 tons of paddy. This rice bank lent the rice loans to 58 members in 2000 and there were 13 members not repaying the loans to rice bank (total non-repayment loans amount are 4,881kg (principal plus interest in 2001; there were 22 members not repaying the loans to rice bank (total non-repayment loans amount are 6,070kg (principal plus interest) in 2002; and in 2003, there were 23 members not repaying the loans to rice bank (total non-repayment loans amount are 10,201kg (principal plus interest); and nowadays, the barn is empty. There have 25% of members who are illiterate.

⁸⁵ Pon Fon, member of Krom rice bank, borrowed 180kg of paddy with interest rate 25% per annual in July 10, 2001. He said that he repaid 60kg at last year because of natural disaster (drought), actually he has no a receipt to clarify it because the rice bank committee was not issued the contract, voucher or receipt to this member. Anyways,

64	Thala Barivat	Phreah Rumkel	Krom	Su Yong ⁸⁶	Member	Rice Bank
65	Stung Treng	Samaki	Thmei	Khav Pon ⁸⁷	Chief commune	Authorities
66	Stung Treng	Samaki	Thmei	Tath Lun	Vice-chief commune	Authorities
67	Stung Treng	Samaki	Thmei	Keth Chhem	Chief village	Authorities
68	Stung Treng	Samaki	Thmei	Pha Somchay	Chief VDC, RBC and CBC	Development, Rice Bank, Cow Bank
69	Stung Treng	Samaki	Kham Pan	On Choun	Chief village	Authorities
70	Stung Treng	Samaki	Kham Pan	Khea Loeur ⁸⁸	Chief VDC, RBC	Development, Rice Bank,

Pon is husband's name is Mr. Kham Pon and Fon is wife's name is Mrs. Div Fon. Besides borrowing paddy from Krom rice bank, this member has borrowed from outsider, for example: he has borrowed 100kg of rice from Pou Kham and he has to repay 600kg of paddy to Pou Kham.

⁸⁶ Su Yong, member of Krom rice bank, borrowed 276kg of paddy, yet repays because of natural disaster (drought), the rice bank committee was not issued the contract, voucher or receipt to this member. Anyways, this member didn't understand the rice bank policy. Besides borrowing paddy from Kandal rice bank, this member has borrowed from outsiders, for example: he has borrowed 100kg of rice from Clergy Phay and he has to repay 360kg of paddy, 180kg of paddy from Mili, 180kg of paddy from Chhe Ra, 100,000 Riels from Lakena and he has to repay 300kg of paddy, 150kg of rice from Nhom and he has to repay 480kg of paddy, 100kg of rice from Yath and he must to repay 360kg of paddy and he borrowed 105kg of paddy from Yuth. This member has totally owed 2,241kg of paddy (Kandal Rice Bank is 276kg and others is 1,965kg). His family has not draught animal, nowadays; he rent the neighbor's cattle (300kg per cattle/year) to farm. He harvested the paddy product amount 2,400kg in 2005, but he paid the draught animal 300kg and he repaid to other lenders 1,700kg of paddy and he, now, left 400kg (300kg for seed and 100kg for food security), so he will continue to borrow the paddy from outsiders next year for food. Anyways, he has no any paddy to repay the rice bank.

⁸⁷ PFD created the rice bank in 4 villages such as Thmei, Kham Pan, Koh Kordin and Sakourn in 1998 and this organization finished their activities in this commune in 2003 because of project to be completed. And the members of the rice banks didn't repay the rice loans to rice bank due to natural disaster (flood and drought). This commune has just not suffered from the natural disaster from 2004 to present. Due to the natural disaster, the villagers or members of the rice banks have borrowed loans from moneylenders in Stung Treng Provincial Town with high interest rate, for example: he/she borrows 10,000 Riels, he/she has to repay 60kg of paddy at the end of he season (generally market price is 20,000R to 25,000R per 60kg). Anyways, there have moneylenders (rice man in the Koh Kordin village, Mr. Fong Toung , the interest rate is 100% per annual); some villagers have borrowed from moneylenders at Stung Treng provincial town with interest rate 5% per month (60% per annual), for example: the client Ma Bunthy (Koh Kordin villager) borrowed 1,000 USD from Mr. Chhour Soun at 14 February 2006 and due date is 30 March 2006 with the land (150metres x 350 metres) collateral to cure his mother. This is the problem, the client took out this loan to pay the medicine's fee, so he cannot find 1,000 USD during one month to repay for this loan, and finally the moneylender will size his land. And also, credit operator (ACLEDA Bank) operated their activities in this commune. Obviously, there are 10 clients at Hang Kosuan village and 5 clients at Koh Kordin village have borrowed loans from ACLEDA Bank on December 2005, the loan ceiling is 500,000 Riel to 1 million Riels (individual loans, not group loans) by putting the land and cattle in collateral. And there are 25% illiterates in this commune.

⁸⁸ Rice bank started its activities in 2002, by receiving 10 tons of rice from PFD and Rice bank lent this loans to 50 members (10 groups, 5 members per group) with interest rate is 20% per annual. All members didn't repay to the rice bank because of the fruitless paddy due to the drought during two years ago and also the 2005, they produced the paddy for food security only. Nowadays, the barn is empty. Due to the natural disaster, the majority (over 50%) of the rice bank members have borrowed the loans from moneylender (Mr. Fong Toung) in this village with interest rate is 100% per annual. For example: if he/she borrows 100,000 Riels in early season, he/she has to repay

71	Stung Treng	Samaki	Koh Kordin	Chan Sok	Chief village	Authorities
72	Stung Treng	Samaki	Koh Kordin	Soeum Sinoeurn ⁸⁹	Chief VDC, RBC	Development, Rice Bank,

200,000 Riels at the end of the season. The same, if he/she borrows 100kg of paddy, he/she has to repay 200kg of paddy at the end of the season. There are 80% illiterates.

⁸⁹ Rice bank started its activities in 2001, by receiving 10 tons of rice from PFD and Rice bank lent this loans to 80 members (16 groups, 5 members per group) with interest rate is 20% per annual. All members didn't repay to the rice bank because of the fruitless paddy due to the drought during two years ago and also the 2005, they produced the paddy for food security only. Nowadays, there are 2 tons of paddy in the barn.. There are 37% illiterates.