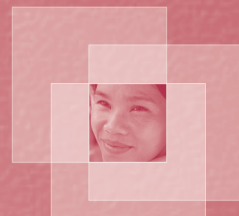




Meeting the Challenge

Proven Practices for Human Trafficking Prevention in the Greater Mekong Sub-region



International Labour Organization

LAO PDR

BANKING AS A SOLUTION

How microfinance can help reduce the need for young people to migrate for employment and thus diminish their vulnerability to human traffickers

THE PROVEN PRACTICE:

Displacing village loan sharks and their high-interest loans and instilling a culture of savings and planning, the village banking programme brings new innovation through a savings-based approach to an established system of rural finance. The community-based accounting, community-determined interest and dividend scheme and the targeting of populations vulnerable to trafficking bring a new standard to community microfinance. The complementing provision of vocational and business management training offers a balanced solution to risky migration.

Institutionalizing awareness raising in Lao PDR

THE INITIAL CHALLENGE:

Microfinance responds directly to triggers of risky migration and vulnerability to traffickers by buffering financial shocks and helping to increase family income by enabling people to start, expand or purchase supplies for businesses. However, the Government of Lao People's Democratic Republic does not allow non-government organizations to offer financial services; and the reach of formal financial institutions is limited to mostly

urban demand. Although studies have shown that even the poorest people in Lao communities have a capacity and desire to save, there have been few interest-earning and safe options available to them. A 2003 study showed that only 11 per cent of the rural population had access to formal financial institutions, and only 1 per cent had bank deposits.¹ In addition, productivity in the agriculture sector, which is the livelihood source of 83 per cent of the population, is low due to low levels of investment. Studies have found that women own and operate most of the



Map courtesy of UNLAP

¹ Fukui Ryu and Llanto Gilberto, 2003, Rural Finance and microfinance development in transition economies in South-East and East Asia.



registered small businesses in the country, but limited access to market information, technical training and financial services hamper their entrepreneurial activities.

THE PROJECT'S CHALLENGE:

In the first phase of the International Labour Organization's Mekong Sub-regional Project to Combat Trafficking in Children and Women (ILO-TICW), revolving loan funds were created as direct assistance to target groups in villages with a high incidence of human trafficking. Some families benefited and were able to encourage their children to stay home or return home to help with a family business. Other youth who returned home could access credit to develop a livelihood. But overall, the project faltered within a year due to poor management and insufficient funds generated subsequently to meet villagers' demands. Many villagers saw the loans as free money and were not compelled to repay.

THE RESPONSE:

The ILO-TICW project staff, together with local government partners,³ microfinance experts and village representatives, reviewed the shortcomings of the first phase and developed new guidelines to transform the revolving loan funds into village banks. The Lao Sustainable Community Development Promotion Association (LA), a national non-profit organization, helped the target communities to adapt to the new approach. Primarily, members of the village banks now have to maintain a certain amount of savings for at least three months prior to receiving the right to borrow from the village bank; thus the villagers have an invested contribution to the bank's success. Also, the committee managing the village bank must consist of both men and women. The poorest villagers and women and men are to have equal access to the savings and credit schemes. There also has been increased training of the village committee members managing the village bank.

Microfinance as effective human trafficking prevention

Some analysts might argue that while microfinance programmes are valuable poverty-alleviation programmes, it is difficult to measure their effectiveness in preventing human trafficking. However, experiences from the ILO-TICW project have shown that under certain conditions, microfinance interventions are indeed effective tools, such as if the programme is:

² Ministry of Industry and Handicrafts and GTZ, 1996, Results of a National Survey: Small and Medium Enterprises in Lao PDR. New studies are planned for later 2007.

³ LA works with the Labour and Social Welfare Departments in targeted provinces, which is the leading agency to implement the TICW project, and Lao Women's Union staff, who are also members of the ILO-TICW Project Steering Committee.

- Correctly and carefully targeted; for example, it targets the villages that have a high number of trafficking victims or at-risk individuals.
- Designed with a component on emergency loans so that people in acute economic situations will have options other than unprepared migration.
- Used as a vehicle to disseminate information on human trafficking and safe migration.

How a village bank works

Village banking is a microfinance methodology that serves 25–100 individuals and is considered an excellent model for rural people who are poor. It is typically created with technical and financial support from microfinance institutions.

In the Lao scheme, the ILO-TICW project⁴ channelled loan funds through the Provincial Departments of Labour and Social Welfare (between US\$1,000 and \$2,500, depending on the agreement between local authorities and the project, and based on the population and rate of known migration). Each village bank signs a one-year loan contract with the Department of Labour and Social Welfare (DLSW). A 12 per cent interest rate is charged per year. Half of this interest goes to the province for administrative and other support costs. The other half goes to the Lao Sustainable Community Development Promotion Association to cover their ongoing technical support costs. Although anyone, regardless of age or sex, can join the village bank, only persons older than 18 can borrow money. End-use purposes are not limited; money can be borrowed for almost any reason. In general, each village bank keeps around 1 million kip (US\$95) on hand for emergencies. If a managing committee maintains more than 1 million kip, the money is to be deposited in the bank. Dividends on savings are based on the amount of each savings account.

Loans require at least two guarantors from family members, preferably a spouse or parents, or other village bank members. Loans can vary in amount, but they are dependent upon the amount of money available. If many members apply for a limited amount of available funding, the applicants may receive the same amount of loan. In general, loan borrowers use motorbikes, household durables, livestock or hand carts as collateral at the signing of the contract. To help nurture a savings culture and a positive attitude toward the banking idea among villagers, currently no fines are charged for late payments (although some managing committees are re-evaluating this practice). The savings dividend is paid at the end of the year.

⁴ In this programme, the ILO-TICW project works together with the ILO Project on Women's Entrepreneurship Development and Gender Equality.



The loan capital derives from:

- Membership registration fee, usually 5,000 kip (US\$0.50)
- Savings from individual members
- Interest from loans
- Loans from the TICW project.

The financial administration consists of the loan administration, savings administration, cash book, ledger, individual passbook and balance sheet.

Profit distribution is as follows:

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

THE PROCESS:

In implementing the project, the Lao Sustainable Community Development Promotion Association first visited villages together with the local government partners to explain the village banking concept, its advantages and challenges. If at least 15 villagers were interested, the LA provided training on village banking.

After the training in each village, the group elected a village bank management committee, including a president, a treasurer and other members. The management committee oversees the day-to-day affairs of the village bank and approves loans. A village bank advisory committee was also established to oversee the village bank management committee and consists of the village head, a representative of the Lao Women's Union and other respected community members. The advisory committee and the management committee, along with the village bank members, agreed on the rules, management principles, interest rates for loans (3–4 per cent per month), the loan period (three to nine months), loan size (no more than five times of savings account or shares), repayment deadlines, penalties for late or non-payment and target groups (poor families).

The LA and ILO-TICW staff provided training and on-the-job support for members of the management and advisory committees on all aspects of village banking and loan and savings administration. Relevant district government staff and youth volunteers who would help in the monitoring of the village banks were included in the training. Government staff assigned to the ILO-TICW project received additional technical training for supervising the overall expenditures, monitoring, advising, auditing and reporting on the progress of the village banking programme. The LA and ILO-TICW staff also monitored the village banks to ensure that democratic principles were adhered to in the disbursement of loans.

Committee member elections take place annually, after payment of the dividend. The conditions of savings and loans can be changed at any time by agreement of bank members during the general meeting. Both aspects allow the opportunity for change if villagers lose trust in the performance of committee members or the terms for borrowing and saving.

In addition to the microfinance support, the ILO-TICW project provided skills training and business training, organized in collaboration with relevant government departments. The Provincial Departments of Agriculture and Forestry, for example, offered skill instruction on chicken and pig raising. The business training included an ILO programme called “Get Ahead for Women in Enterprise” that is designed for poor women who want to start or expand a micro business.

OUTCOMES:

- The TICW project set up or strengthened village banks in 96 villages (with another 24 set up outside of the project by the Lao Women’s Union); 90 village volunteers and 395 committee members from those villages were trained in management of the village bank.
- On average, villages have accumulated more than US\$1,000 in savings.
- Loan repayment rates have been close to 100%.
- 60 staff members from provincial and district local government (18 districts of three provinces) who would have responsibility for inspecting the village banks received auditing training.
- Approximately 3,160 people (82 village banks with 40 members each) participated in the complementing vocational training, including village bank members, poor families, children, youth and women at risk of being trafficked; 180 women and more than 20 men received business management training.



The most obvious change in the targeted areas is the reduced use of sales credit and money lenders. “Many people have been happy to become village bank members and receive the low-interest loan,” said the Houay Leuk village chief in Bolikhamxay province. “They no longer have to rely on the high-interest loan. People live with each other in harmony and help in cases when there is need for money, such as for hospitalization or health care. Children and school kids save their money. We can see their future is brighter because of it.”

Around a third of loans taken in the 2005 rice-production season were to buy fertilizer. Previously, the borrowers had paid 50 per cent interest on fertilizer purchased to the fertilizer store. The monthly interest rate on their loan (of 3–4 per cent) from the village bank meant a significantly reduced debt burden. And nearly half of the loans were used for investing in chicken, duck and pig raising. Following the skills training courses from the Department of Industry and Handicraft, most farmers have started to vaccinate their poultry and livestock. The business investments have been in brick making, small trade, mushroom growing, handicraft production, food processing and repair shops.

More importantly, elders have started saving for their funerals and to cover the costs of illness, hoping to spare their children the burden of these costs. New families and youth are saving small amounts for education and other future investments.

The Lao Women’s Union, which has helped supervise the village banking programme, has since gone beyond and on their own have extended the scheme to villages outside the targeted areas. Village leaders, Party members and mass organization officials have been appointed to advisor roles with the management committees.

ONGOING CHALLENGES:

- Because there is no real microfinance institution involved, a local NGO takes care of training and auditing while the Government handles the loan funds. However, these people are not specialized in microfinance and are more used to giving hand-outs rather than loans. Also, the ILO-TICW project staff manage the loan administration, which is not sustainable in the long term. Over the coming years, there will be a need to build up the capacity of local NGOs to manage microfinance schemes. Also, relevant government departments will need to adapt to their new role, creating an enabling environment for microfinance institutions.

- Based on interviews with committee members, direct and ongoing support is needed for at least three to five years.
- Villagers have elected on average two women to the five-member managing committee, when a minimum of three was expected. Limited capacity among women to manage is the usual argument, although women typically take care of their household financial management. But it is typically men who join public gatherings and village meetings.
- Youth monitors continue to experience lack of confidence in their ability to manage or give advice.

LESSONS LEARNED:

- Committee members need to be trained and closely monitored during the first year. During the start-up period, the ILO-TICW staff and implementing NGO needed to make monthly monitoring and training visits to ensure that simple bookkeeping principles were followed. Operational costs decrease only when village bank members have the capacity to run the village bank independently.
- Some managing committees tend to ignore the basic rules and regulations, largely because they don't fully understand the reason for them. Some committees, for instance, disbursed much larger loans than what should have been allowed. One committee dismissed bank members who didn't make any deposits in three months, not realizing how this creates a disincentive for the poorest in the village to join the village bank.
- In many countries, taking a loan from a government department most likely would lead to high default rates; but in Lao PDR, the involvement of the Government actually resulted in higher repayment discipline. However, the Department of Labour and Social Welfare is not well positioned to maintain sophisticated loan administration. Loans are repaid with one payment at the end of the year. This arrangement makes it more difficult for the DLSW and the project to monitor performance and manage delinquency.
- While repayment discipline is high, many members pay their instalments a few days late. Often members do not remember the repayment date (the first or second day of each month) or forget to instruct family members to pay when they travel or stay over in the rice fields. Late payments have limited impact on the financial results, but they do make extra work for the managing committee members.



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- Distributing dividends is important for increasing the confidence of the community and expanding bank membership.
- There is a risk of committee members monopolizing the benefits of the village bank and the borrowing rights. Such nepotism keeps the majority of villagers from accessing the fund and undermines its role as a community savings and loan institution and its ability to target vulnerable populations. Yearly elections and external audits are key for success.

