

プロジェクト報告

Monitoring Survey of Savings Groups in Vientiane Municipality with Special Reference to Surplus Funds

Akihiko Ohno* and Chansathith Chaleunsinh**

Introduction

Delivering financial services to the rural poor in developing countries is considered a costly business, entailing high transaction costs and a perceived high risk of default. Under such conditions, microfinance institutions (MFIs) are regarded as useful vehicles for extending loans to the rural poor. A large part of the literature on MFIs has centered on their effectiveness in poverty alleviation from the viewpoint of a poverty-lending or credit-led approach. The most notable MFI of this type is Bangladesh's Grameen Bank.

The poverty lending approach, however, has invited a twofold criticism focused on the financial unviability and limited outreach of MFIs. Following Vogel's (1984) reference to "the forgotten half of rural finance," MFIs generally do not provide savings services mainly due to the ill-considered belief that the rural deprived are too poor to save and thus do not respond to savings products. This absence of savings services jeopardizes the financial viability and sustainability of MFIs. Indeed, most MFI programs incur large loan losses and require frequent capital injections from external organizations. The extensive presence of rotating savings and credit associations (ROSCAs) in rural areas of developing countries, however, suggests that

* Akihiko Ohno, School of International Politics, Economics and Communication, Aoyama Gakuin University

** Chansathith Chaleunsinh, National Economic Research Institute

low-income people do, in fact, have a saving capacity¹⁾. As Rutherford (2000) claims, the rural poor in developing countries do have monetary surplus, albeit in a limited amount. A second issue is that the targeting of the rural poor and the heavy reliance on external organizations for loan funds lead to poor outreach that is restricted to a narrow segment of social strata in limited geographic areas.

These factors suggest the appropriateness of a financial systems or savings-led approach that emphasizes the role of commercial financial intermediary between cash-surplus and cash-deficit households through the provision of savings services (Rhyne 2001). Robinson (2001) referred to the shift from the traditional poverty-lending approach to a financial systems approach in what might be described as a microfinance revolution. She claims that “large-scale, sustainable microfinance can be achieved only with a financial systems approach” (p.2).

Savings groups (hereafter, SGs) epitomize the revolution. SGs have a great many similar forms under different names in different places, such as credit unions, credit cooperatives, savings and loan cooperatives, accumulating savings and credit associations, self-help groups, village banks, and self-reliance village banks. Though they each have distinct features, SGs can generally be defined as member-owned and member-governed financial institutions whose funds come almost entirely from the internal mobilization of members' savings under the principle of savings-before-credit. Thus, the SG performs as a financial intermediary among its members within a village community. SG membership is self-selected: members are mostly women because only women can receive loans from an SG. Managing committee members are elected by group members. SGs mobilize savings and extend short-term loans (normally three or six months) to members on an individual basis. Though there is no direct link between loan amount and the size of a member's savings, a ceiling on borrowing is set at three to five times the borrower's savings amount. Members determine group rules, such as loan interest rates (normally 3 percent per month), terms, and the penalty for delinquency²⁾. Though no interest is paid on savings, the members receive dividends from the group's profits, which are directly proportional

1) In Laos, ROSCAs called *houei* can be widely observed in rural areas.

2) In the initial stage, when loan demand exceeds savings, the interest rate tends to be as high as 4% per month.

to the amount of savings each member has contributed to the group.

The SG is an autonomous financial institution in that it relies solely on the savings of its members. Monthly meetings are held to collect savings and disburse loans. Members are required to attend the meetings and make a deposit every month. Neglect of this duty (generally, absence three months in a row) results in cancellation of membership. In order to assure strong autonomous control of the SG, members must reside in a sufficiently cohesive area of the same village. The community-based nature of the SG allows the membership to exert pressure for contract enforcement. Despite their substantial autonomy, the SGs cannot manage without the help of supporting institutions (mostly international NGOs) and their donors; the generally poorly educated villagers elected to committee positions require training in accounting as well as monitoring and oversight.

The Lao SG movement has developed rapidly since the late 1990s. Not surprisingly, these SGs suffered from fund shortages in the initial stages, as savings had not accumulated sufficiently. However, in the course of time some have now reached fund equilibrium or have even developed surplus funds (Ohno and Fujita 2015). This report attempts to provide empirical evidence regarding the emergence of surplus funds among the SGs of Laos and how these surplus funds are managed.

1 . SG Movement in Laos

Since the economic liberalization in 1986, the Lao economy has shifted from a socialist economy towards a market-based economy. Creating rural financial markets is one of the central arenas of policy intervention in pursuing a market-based economy and alleviating poverty in rural areas. In 1993, the Lao government made an effort to extend financial services to rural households by establishing the Agriculture Promotion Bank (APB) as a state-owned policy bank making subsidized agricultural loans. However, the APB branch network has remained extremely poor and the bank reportedly suffers from a high rate of non-performing loans (ADB 2006). To compensate for the insufficient outreach of the APB, microfinance institutions (MFIs) have taken an active part in rural areas of the country.

Among the various MFIs in Laos, the SGs initiated by the Foundation for Integrated Agricultural and Environmental Management (FIAM: a Thai NGO) hold

a unique position in rural finance. They are the product of the first organized movement to form SGs by the Small Rural Development Project for Women (SRDPW), a joint project of FIAM and the Lao Women's Union (LWU). In 2002, another SG movement was begun under the Woman and Community Empowerment Project (WCEP) in cooperation with the LWU and the Community Organizations Development Institute of Thailand (CODI: a Thai Government Agency). WCEP followed the same method as SRDPW in organizing their SGs; in fact, the director of WCEP had previously been the director of SRDPW. These SGs have accumulated their loan funds almost entirely from members' savings. Though FIAM and CODI deliver technical assistance, including training accountants, they do not provide lines of credit³⁾.

The two projects have established the largest SGs in Laos in terms of number of groups and size of membership. Though the SG movement has been implemented in cooperation with a government body (LWU), the SGs remain outside the regulation and supervision of the central bank (Bank of Lao)⁴⁾. Thus, they are regarded as semi-formal financial institutions. On the other hand, the few credit unions that exist in Laos are officially registered SGs, as is true in Thailand.

The SG programs were first implemented in the nine districts of Vientiane Municipality by dividing the districts between the two projects⁵⁾. Their services have since extended into other provinces, including Luang Prabang, Bolikhamxai, and Champasak. In Vientiane Municipality, SGs were serving more than 90% of the villages and approximately half of the households at the time of our survey, achieving greater outreach than the MFIs based on the poverty-lending approach.

3) Some SGs in Vientiane Municipality and most SGs in Luang Prabang Province receive seed money, called project funds, amounting to approximately 10,000,000 Kip (roughly 1,000 \$US) at the time of their founding.

4) This hampers the integration of the rural financial markets created by SGs with the formal financial markets.

5) Note that Vientiane Municipality was split off from Vientiane Province in 1989 and is home to the capital city of Laos. It has 491 villages. 453 savings groups were operating there in 2009.

2. A Case Study

In this section, we examine the case of the Somsavanh SG. Baan (= village) Somsavanh is located in the Xaytany district of Vientiane Municipality, approximately 27 km from the center of Vientiane. In 2001, there were 430 families and 2345 persons living in Somsavanh, of which 1185 were women. The village established an SG in October 1998 and was one of the first target villages of FIAM. In the village, water for agriculture is scarce and before the inception of the SG there was only one well for drinking water—a community well on the premises of the local temple.

Paddy fields occupy 61.9% of the village area, followed by gardens (24.5%) and houses (12.1%). Power tillers began being used around 1985, replacing traditional bullock ploughing. In the early 2000s, there were 20 power tillers; their lease-in for ploughing became prevalent. The paddies are transplanted by hired workers who must be paid. In addition, chemical fertilizer needs to be applied to the paddies, adding to the expense. Consequently, planting season (June) is the peak season of demand for credit.

In 1988, FIAM visited the village to offer information and guidance on the formation of an SG. Though many villagers attended the meeting, the majority left immediately after they were informed that FIAM did not provide seed money. At the second meeting with FIAM, an SG composed of 89 members was organized. The group instituted internal rules (Table 1) using the sample format provided by FIAM. The number of members increased to 364 in January 2002, to 632 in March 2004, and exceeded 1000 in 2007 (Figure 1). By the early 2010s, each of the 430 families in the village had, on average, approximately three SG members.

The Somsavanh SG has steadily accumulated loan funds (savings plus reserve), as is shown in Figure 2. The reserve is essentially a savings account set aside by an SG consisting of accumulated funds contributed as a stipulated proportion (generally 10 to 20%, but later reduced to 8%) of the group's interest profit. Its purpose is to meet any unexpected costs that may arise, mostly from loan losses. However, as loan losses are negligible for most SGs in Laos, the reserve is generally treated as loan funds. Loan funds reached 3 billion Kip in 2008 and 4.5 billion Kip in 2014 (1 US\$ = approximately 8000 Kip).

Table 1 Internal Rules of Somsavanh Savings Group

1)	A member of the savings group shall be a village resident and registered in ban Somsavanh	
2)	No discrimination with respect to age or social classes.	
3)	Loans are provided only to women who have a job or a family.	
4)	Members should deposit at least 5,000 Kip a month.	
5)	Saving deposits and withdrawals, and payment of monthly interest are made on the 15th of each month.	
6)	Members who miss the due date for one month will be cautioned, and those who fail to save for two month in a row will be dismissed from the savings group.	
7)	Applicants for membership should pay a fee of 3,000 Kip.	
8)	After depositing three months in a row, a new member becomes eligible for a loan.	
9)	Members can borrow up to 5 times their savings.	
10)	All members can borrow money from the group.	
11)	The loan term is 4 or 6 months.	
12)	A member who withdraws savings mid-term will forfeit the right to the annual dividend.	
13)	Interest rated (monthly)	
	Emergency loan	2%
	Trading loan	5%
	Others	3%
14)	Distribution of net profits	
	Group Committee	15%
	Members (dividend)	70%
	Social Development	5%
	Advisory Committee	2%
	Reserve Fund	8%

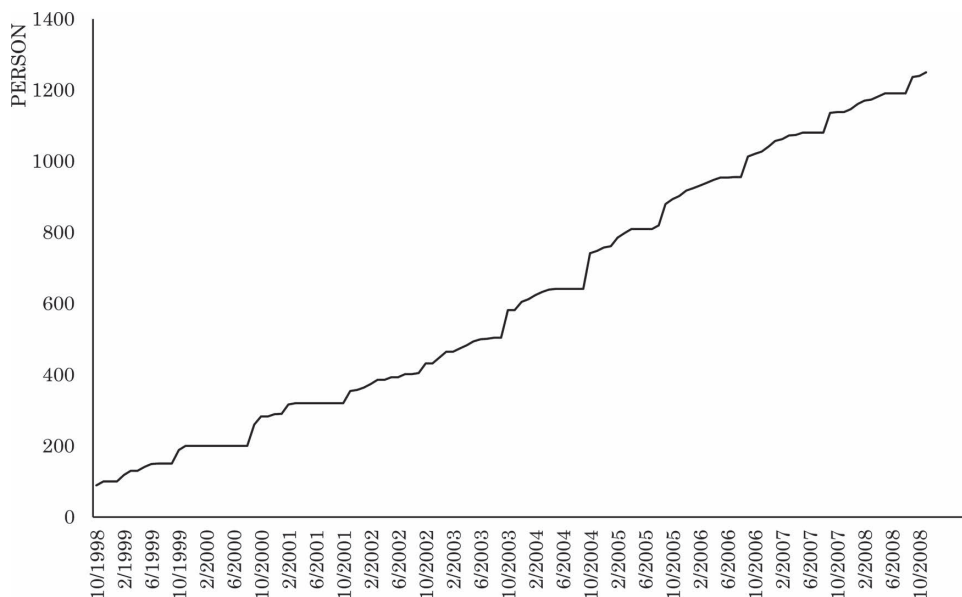
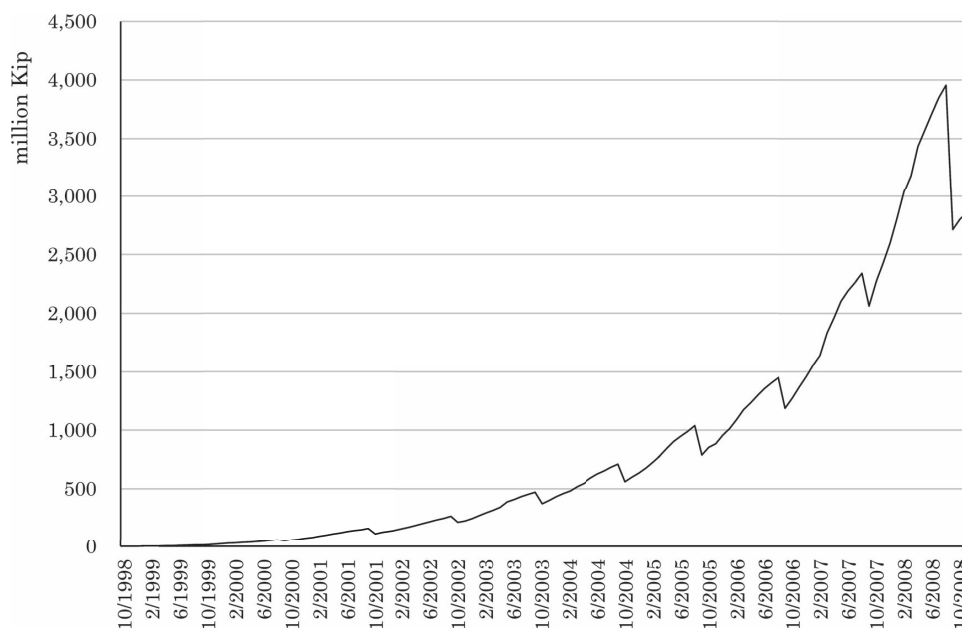


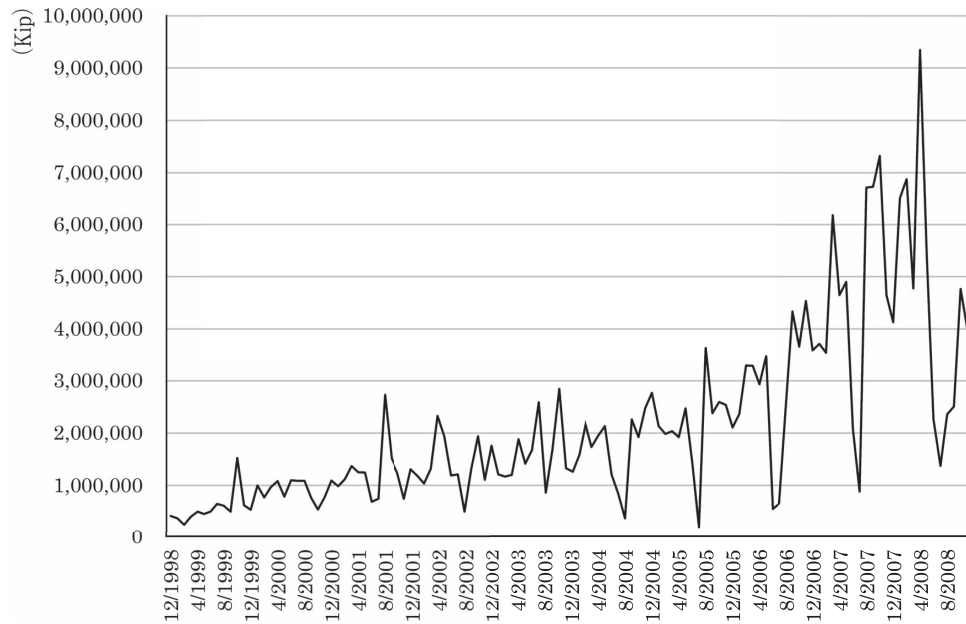
Figure 1 Members of Somsavanh Savings Group



Source: Internal Documents of Somsavanh Savings Group

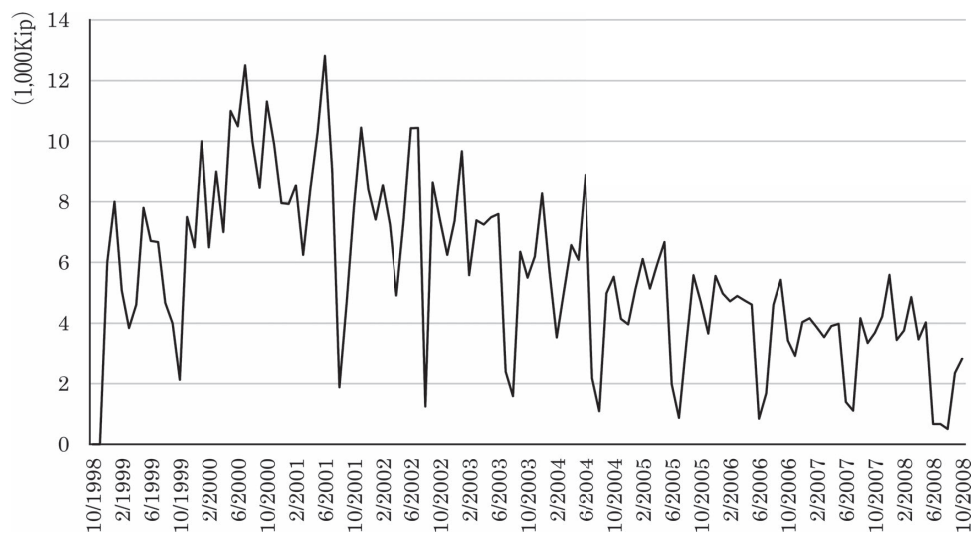
Figure 2 Total Loanable Fund of Somsavanh Savings Group

Figure 3 indicates the increasing loan amount per borrower. These numbers appear to suggest the success of the SG. Generally speaking, SGs suffer from a funds shortage during their initial stage due to insufficient accumulated savings. However, over time, accumulated savings and reserve may come to exceed loan demands from the members. This causes a surplus of funds. Somsavanh SG is no exception. Figure 4 shows how the proportion of borrowers to total members has changed. As to monthly fluctuations, a large drop takes place before the annual meeting held in September. Because debts need to be repaid at the time of the meeting and the loan term is three to six months, members are normally reluctant to borrow as the annual meeting date approaches. As to the long term trend, the percentage of borrowers to lenders remained roughly 6% during the early years of the SG, then increased to 10% around the turn of the century as savings were accumulated. Given that the loan term is four to six months, it can be said that approximately 90% of village households had taken loans from the SG at least once during the early stages. However, this percentage started to decline gradually. More recently, the proportion of monthly borrowers to members has remained in the range of roughly 2% to 4%. Thus, approximately 20 to 30% of the members obtain loans annually.



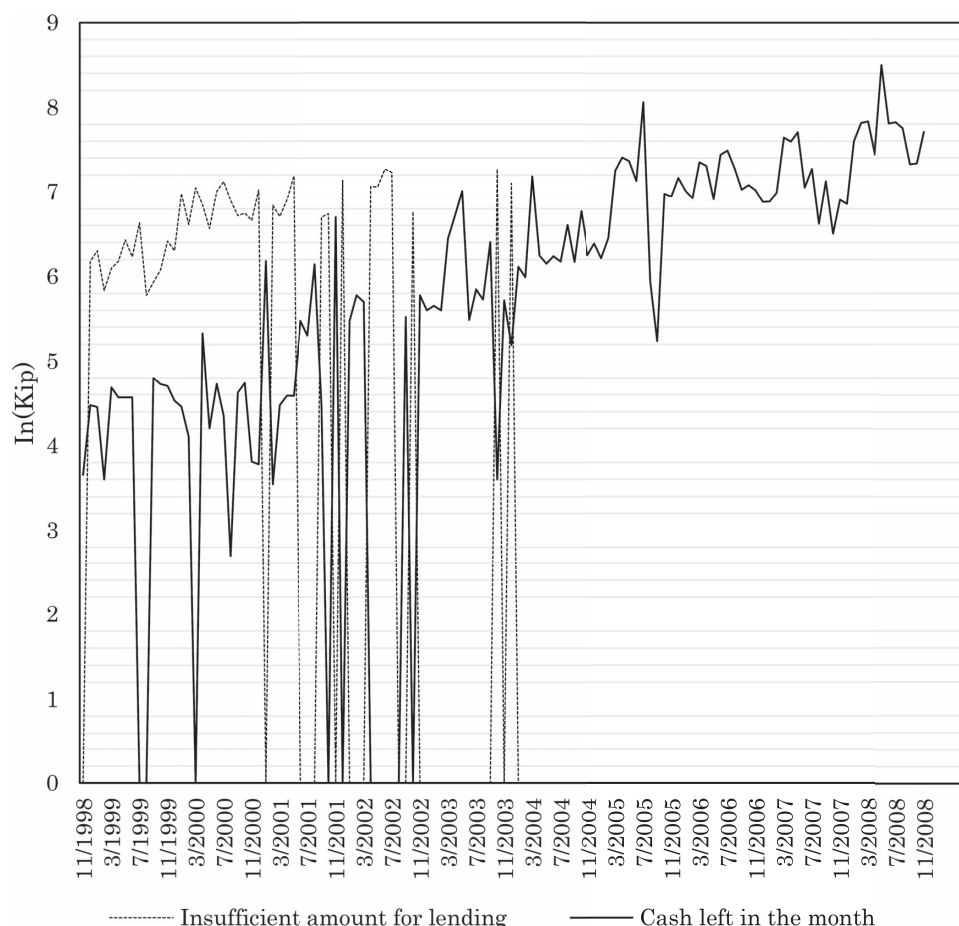
Source: Internal Documents of Somsavanh Savings Group

Figure 3 Per Capita Loan Size



Source: Internal Documents of Somsavanh Savings Group

Figure 4 Proportion of Borrowers to Total Members by Month (%)



Source: Internal Documents of Somsavanh Savings Group

Figure 5 Insufficient Loan and Cash Left in Group Account by Month

These numbers predict the emergence of surplus funds. Figure 5 shows the changes in insufficient funds (loan demand unsatisfied due to the lack of loan funds) and loan funds left in SG accounts at the time of the SG's monthly meeting. Though loan funds were insufficient to satisfy loan demand during the initial stage, this loan insufficiency disappeared in the early 2000s, when an increase in the loan funds left in SG accounts became apparent. This change took place as accumulated savings increased at a much faster pace than loan demand.

As we observed, the success of the SGs, as measured by accumulated savings, almost inevitably raises the issue of surplus funds. This was certainly true for the Ban Somsavanh group.

3. Surplus Funds Issue and Savings Outflow

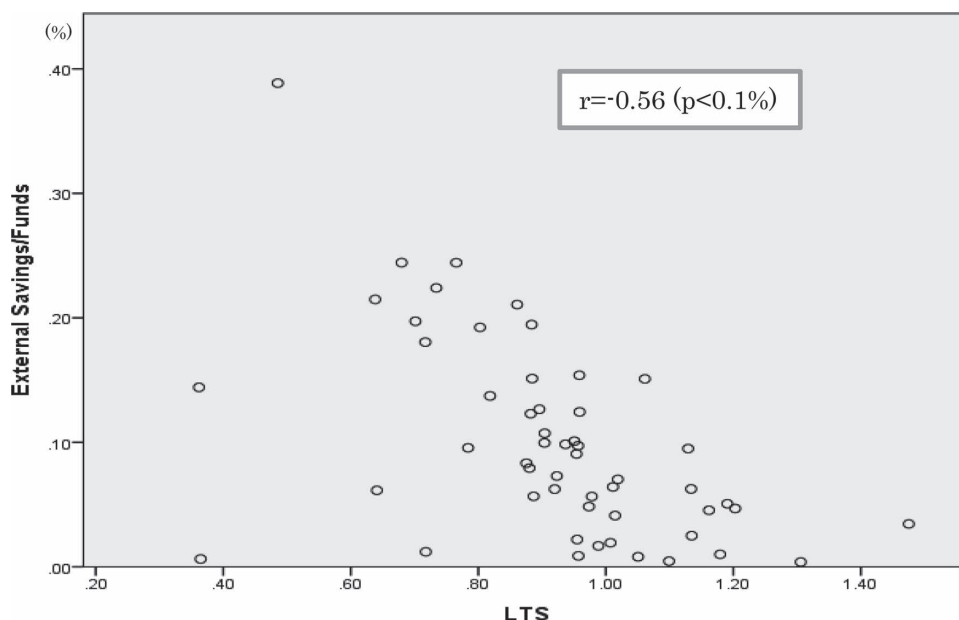
For SGs, there are essentially four possible ways to deal with surplus funds: 1) lower the lending interest rate to stimulate loan demand, 2) put a cap on savings per person, 3) increase the investment needs within the village, such as investment for rural non-farm activities, and 4) link surplus funds with outside demand in a creditable way. Though increasing loan demand for productive projects within the village could be considered the optimal option, not much of this can be expected given the present condition of the rural economy. At the same time, lending surplus funds to non-members residing outside the village is easily the worst option, since formal legal guarantees hardly secure such transactions. (Fujita (2015) discusses a case of an SG in Vientiane Municipality that suffers from non-performing loans after lending surplus funds to non-members residing outside the village.)

When surplus funds emerge, many SGs lower the loan interest rate to stimulate demand for loans. During the initial phase of SG operations, the lending interest rate is likely to be as high as 4% to 5% per month. As savings accumulate, the rate is lowered to 3%, and sometimes even 2%, per month. However, flexible adjustment through lowering the loan interest rate is often difficult because dividend-oriented members tend to oppose it. Some SGs try to reduce total savings by putting a cap on the amount of a member's monthly savings. However, the effect of this policy can be diluted as families increase the number of family members who are SG members.

Not surprisingly, then, some SGs in Vientiane Municipality have failed to deter the emergence of surplus funds. To address this issue, FIAM and CODI established service networks among the SGs in Vientiane Municipality to transfer surplus funds to under-resourced SGs. Unfortunately, the system, called the Network or League, has not achieved the desired effect, largely because the funds transferred under this system are not as lucrative as expected due to the exploitation of the interest margin by an intermediate organization (LWU).

A representative picture of surplus funds among SGs can be seen in Figure 6, which shows the association between the loan-to-savings (LTS) ratio and the ratio of savings outflow to total savings for SGs in the Naxaythong district.

The LTS ratio measures an SG's liquidity by dividing the group's total loans by its



Source: Internal Document of Naxaythong District LWU office.

Figure 6 LTS and External Savings of SGs in Naxaythong District

total savings. A high LTS ratio means that the group may not have enough liquidity to satisfy loan demand from its members (savings-deficit SGs). Conversely, a low ratio means that the group may not be able to utilize its resources effectively (fund-surplus SGs). As to Lao SGs, loan funds consist of savings plus reserve. At the inception of an SG, when the reserve fund is negligible and there is a high demand for loans, the LTS ratio will be almost 1. As the reserve fund increases over time, the ratio will exceed 1. However, the emergence of surplus funds lowers the ratio, even driving it below 1. The average LTS ratio for all SGs in Vientiane Municipality was 0.92 (SD = 0.21). Savings outflow is measured by the sum of bank deposits, direct transfer to other SGs, and indirect transfer through the network system.

Figure 6 clearly shows that the proportion of savings outflow increases as the LTS ratio decreases ($r = -0.56$, $p < 0.1\%$). There is a mistaken belief that the rural poor are unable to save because of their poverty and thus do not respond to savings products. However, the figure indicates the possibility of savings mobilization from the rural sector to contribute to the economic development of the country.

4. New Regulations

The WCEP project ended in December 2011. The supervision of SGs was transferred from the project division of Central LWU to the LWU offices of each province and municipality. In 2012, Central LWU issued its Regulations for Supervision of SGs (see Appendix). The new regulations are strictest in setting ceilings for borrowing and deposits, liquidity management, collateral requirements, loan interest rates, and the distribution of interest income.

The regulations include the following major provisions:

- *Savings*: Monthly savings should not exceed 500,000 Kip (approximately 60 US\$) per month per person⁶⁾.
- *Loan*: Eligible members can borrow no more than three times the amount of their savings deposit. The maximum loan is set at 25 million Kip. Borrowing is allowed only twice per year per member.
- *Interest rate*: The loan interest rate should be between 1% and 3% per month.
- *Collateral*: Loans of more than 500,000 Kip require collateral of equivalent value.
- *Withdrawal*: Members cannot withdraw more than 60% of their savings and withdrawals cannot exceed 1 million Kip at any one time.

Though these new regulations were intended to enhance the creditability and sustainability of the SGs, they can have the effect of restricting the growth of SGs. As the regulations are legally binding, SGs must modify their own regulations accordingly. In some districts, such as Xaythany, the League of SGs regards the Central LWU regulations as the format for developing their own regulations.

SGs are required to report the data relating to financial outcomes, achievements and outstanding loans to the district LWU. For example, the Naxaythong and Pakngum districts have quarterly meetings at the Khet (sub-district) level and report data from the meeting to the district, and then to the LWU of Vientiane

6) This is equivalent to nearly ten times the daily agricultural wage rate.

Municipality. Xaythany district has a similar reporting system; each SG reports to the Network, then to the League.

The new regulations were expected to be implemented in every district by the end of 2012. However, different conditions in each district have produced different outcomes. Seven districts of Vientiane Municipality have implemented the regulations in modified form. Only Naxaythong district reported full adoption throughout the district.

Transfer of surplus funds between the SGs has continued in the Naxaythong and Xaythany districts. However, facing serious problems with this type of transaction, PakNgum district temporarily suspended its participation. Due to the ceilings on savings and loans set by the new regulations, demand-supply gaps within the SGs have narrowed. SGs are now required to deposit their surplus funds in a bank, resulting in a weakening of their savings mobilizing capacity.

To explore how SGs in Vientiane Municipality have reacted to the new regulations and to assess the effect of these regulations on surplus funds, we monitored 10 SGs in the Naxaythong, PakNgum and Xaythany districts of Vientiane Municipality in 2012 and 2015.

5. Ten Savings Group Cases : Monitoring in 2012 and 2015

Under the supervision of LWU, the SG Movement has developed rapidly since the late 1990s. Some mature SGs have reached funds equilibrium and some now have surplus funds (surplus SGs). Young SGs continue to grow but have insufficient loan funds (insufficient SGs). As mentioned earlier, Central LWU announced its new regulations for SGs in 2012. These were primarily designed to deal with non-performing and overdue loans likely to jeopardize the credibility of the savings groups. However, these cautious regulations appear to have a centripetal force that has discouraged the savings motivation of dividend-oriented members.

As indicated above, to examine how these regulations have affected the behavior of the SGs, we conducted surveys in ten SGs in three districts of Vientiane Municipality. The villages included: Baan Hiounamyen, Nanad and NaNga from the Naxaythong district, Baan Nongdong, Naxone, Noansoung from the PakNgum district and Baan Nalom, Somsavanh, Phokham, Tanmixay from the Xaythany district.

Table 2 Savings Groups in three districts between 2011/12 to 2014

District	Time of Record	Number of SG	Members (persons)	Total Savings (billion Kip)	Average savings per Group
Naxaythong	Jun-12	57	26,603	44.0	775
	Dec-14	57	31,016	42.0	737
Pakngum	Nov-11	55	11,437	36.0	653
	Sep-14	50	15,098	19.5	390
Xaythany	May-11	106	43,628	103.0	971
	Dec-14	106	49,613	109.5	1033

In our 2012 visit, Naxaythong LWU was drafting regulations for cross-groups borrowing, and Pakngum LWU had suspended cross-groups transfers. Ultimately, these two districts terminated all cross-groups transfers of surplus funds. Though surplus funds in Xaythany district were drastically reduced due to the new regulations, some groups with large accumulated funds, such as the Somsavanh SG, continued their transfers.

Table 2 shows the change in key statistics for SGs in the three districts between 2011/12 and 2014. By 2011/12, every village in the three districts had established an SG. However, in 2014, five SGs eased their operations in PakNgum district. Average savings per group decreased in the Naxaythong and PakNgum districts, especially in PakNgum—where savings were reduced by nearly half. Central LWU's restrictive measures made savings much less attractive, and thus profit-oriented members reduced their savings.

Table 3 shows key statistics for the ten SGs in 2014. Compared to 2012, most of the SGs surveyed experienced remarkable growth in both membership and accumulated funds. The exception was the group in Ban Naxone of the PakNgum district, which showed a decrease in total funds.

For discussion purposes, we have grouped the SGs in our study into a high- growth cluster, a slow-growth cluster, and a moderate-growth cluster:

High-growth cluster: This cluster includes the SGs of Ban Nanad and Ban Nongdong, both of which enjoyed high growth rates in membership and total funds. While the Nongdon SG suffered from funds insufficiency (insufficiency for 12 months), the Nanad SG was financially balanced. Given its funds insufficiency, Nongdon SG has set its loan interest rate as high as 3% per month to stimulate savings, while the financially balanced Nanad SG decreased its rate to 2% per month.

Table 3 Major Statistics of the Ten SGs (2014)

	High Growing Cluster				Slow Growing Cluster				Moderately Growing Cluster					
	Nanad	Nongdong	Nanga	Naxone	Somsavanh	Houlnamien	Noansoung	Phokham	Nalom	Tamixay				
Village														
District	Naxaythong	PakNgum	Naxaythong	Xaythany	PakNgum	PakNgum	PakNgum	Xaythany	Xaythany	Xaythany				
Model	CODI	CODI	CODI	CODI	FIAM	CODI	CODI	FIAM	FIAM	FIAM				
Date of Establishment	28/3/2008	8/8/2002	12/1/2002	15/3/2000	9/8/1998	12/6/2003	1/8/2002	15/9/1998	10/10/1998	20/6/2000				
Member (persons)	434	105	718	690	1751	2023	87	568	178	1374				
Member (% of village population)	42%	22%	54%	39%	41%	82%	30%	51%	21%	33%				
Household Coverage	96%	37%	97%	77%	98%	91%	60%	98%	80%	56%				
Accumulated Fund (1000kip)	1,818,310	56,500	1,010,664	2,022,845	4,707,050	2,864,703	83,201	1,840,298	244,500	4,842,177				
Accumulated Fund per member (Kip)	4,189,654	538,095	1,407,610	2,931,660	2,688,207	1,407,917	956,333	3,239,961	1,373,596	3,524,146				
Minimum Savings	5,000	10,000	5,000	10,000	5,000	5,000	10,000	5,000	10,000	10,000				
Ceiling for Monthly Savings (1,000kip)	500	None	200	500	50	500	200	1,000	100	200				
Ceiling for Loan (1,000kip)	25,000	500	25,000	25,000	20,000	25,000	None	None	None	100,000				
Loan Interest Rate (month)	2%	3%	2%	2%	2%	2%	3%	2%	3%	2%				
Dividend Rate per month	1.55	2.18	NA	1.35	1.97	1.51	1.46	NA	3.02	1.65				
Increase of Member (2012-2015)	39%	57%	25%	13%	11%	24%	24%	27%	16%	27%				
Increase of Fund (2012-2015)	108%	363%	1%	-15%	4%	17%	37%	29%	10%	23%				
Fund Surplus in month	0	0	12	3	2	0	1	2	0	0				
Fund Insufficient in month	0	12	0	3	0	0	1	3	0	12				

In addition, the Nongdon SG imposed a ceiling on loans of 500 thousand Kip (1 US\$ = approximately 8,000 Kip). As these SGs can be said to be in a rapid growth period, the restrictive measures (ceilings on savings and borrowing) have not affected their own regulations.

Slow-growth cluster: This cluster includes the SGs of Ban Nanga, Naxone and Somsavanh, all of which were established more than 13 years ago. These SGs have placed a ceiling on savings of 50 thousand to 500 thousand Kip per person per month and a ceiling on loans of 20 million to 25 million Kip. Although the number of members in these groups increased by 11% to 25%, their accumulated funds rose only 4% at maximum. This is mainly because those families with surplus money increased the number of family members who joined the group.

The SGs in this cluster have been highly responsive to the new restrictive measures and have decreased their loan interest rate to 2% per month. However, they still have surplus funds, which they deposit in banks. The Somsavanh SG continues its cross-groups lending to SGs in the same sub-district (*Khet*).

The impact of the new regulations is most significant for the Naxone SG, whose membership increased by 13% since 2012, while its accumulated funds decreased by 15%. This decrease in funds is due largely to the lowering of the ceiling on savings, from 1 million to 500 thousand Kip, and setting the ceiling on loans at not more than 25 million Kip per person per time. For the Somsavanh SG, interest income decreased when the loan interest rate was reduced to 2% and the group was not allowed to loan more than 20 million Kip per person per time. The group's surplus funds continue to be used for cross-groups lending.

Moderate-growth cluster: This cluster is composed of the SGs in Ban Houinamyen, Noansoung, Phokham, Nalom and Tanmixay. Though these SGs have been in operation for more than 12 years, their degree of outreach varies significantly, from 21% of the population in Nalom to 82% in Houinamyen. However, the amount of average savings per member differs only slightly, except for the Noansoung SG. With substantial accumulated funds, each of these groups has set a ceiling on monthly savings of 100 thousand to 1 million Kip. Three out of five of these groups continue to provide loans without a ceiling. The exceptions are Houinamyen, which limits lending to 25 million Kip, and Tanmixay, which has a limit of 100 million Kip. The Noansoung and Nalom SGs, which reported having insufficient funds, maintained a loan interest

rate of 3% per month. The SGs having sufficient loan funds began to decrease their loan rate to 2%. Thus, it can be said that SGs that reach funds equilibrium or have surplus funds tend to decrease their loan interest rate to stimulate loan demand.

The number of members in the groups in this cluster increased by 16% to 27% from 2012 to 2014; accumulated funds increased by 10% to 37%. However, many of the groups maintained more or less balanced finances, with the exception of the Tanmixay SG, which has had sufficient funds relative to loan demand, but has set a ceiling on loans in order to assure quality in the management of its funds.

Dividend rate data are available for five of the ten SGs surveyed. These data are shown in Figure 7, along with the commercial bank deposit interest rate (12 month time deposit). Since annual dividend rates have been higher than the deposit rate of commercial banks, savings at SGs are more lucrative for members than putting their money in a bank. Though dividend rates have declined as accumulated savings have increased, there continues to be an interest rate spread between the SGs and the commercial banks. This eventuates in the emergence of surplus funds in some

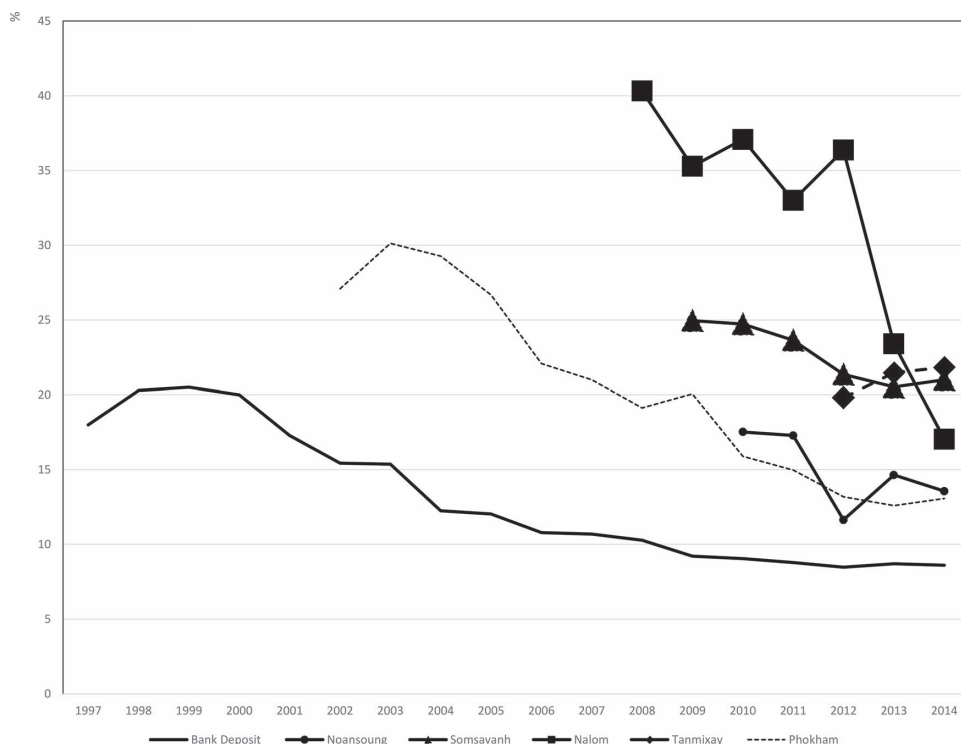


Figure 7 Annual Bank Deposit Rate and Dividend Rate

successful SGs. Though restrictive measures were imposed on SGs in 2012, their effect on the rate spread seems to have been kept to the minimum. Further research on the effect is needed.

Conclusion

Though the new regulations of 2012 enhanced the sustainability of SGs, their negative impact should be considered. SGs with large loan funds provide diversified social funds, such as death insurance, sick-childbirth-operation insurance (health insurance), and fire insurance. In addition, SGs provide a proportion of their interest income funds for social development (Table 1), including pavement of village roads, school building renovation, and so forth. The restrictive measures set forth in 2012 are likely to place limitations on these social welfare activities.

In addition, the Network system for cross-groups funds transfers had facilitated the development of newly established SGs and assured high profit rates for the SGs having surplus funds. Importantly, SGs comprise a system for transferring money from cash-surplus households to cash-deficit ones. This implies the development of a financial market within a village. The cross-groups transfer of surplus funds facilitates the formation of rural financial markets in a wider area. The suspension of money transfers among the SGs discourages this movement.

Among the ten SGs studied, two reported depositing surplus money into the Sonpeuy Credit Cooperatives, five have bank accounts at commercial banks such as the Agriculture Promotion Bank, BCEL and Lao Development Bank, and the remaining three (cash SGs) have not opened bank accounts and keep cash on hand. Increasing bank deposits is a welcome advance, as it indicates savings mobilization for economic development of the country. Bank deposits, however, do not yield high returns since the deposit interest rates of commercial banks are significantly lower than the loan interest rates of SGs, especially those of cash-deficit SGs. The quest is for the integration of SGs by establishing a coordinating body that will be responsible for the transfer of surplus funds among member groups. Inhibition of the cross-groups transfer of surplus funds would inevitably weaken the SG movement in Laos.

LWU, in collaboration with the Savings Banks Foundation for International Cooperation, initiated the Village Banks Project in order to build the capacity of the

SG management and advisory committees. The project has selected SGs in two districts (Naxaythong and PakNgum) and provides training in accounting, group management and guidance in using computer programs.

Regulations
Regarding the Administration of Lao Women's Union
Savings Groups

In order to guarantee that savings groups have regulations and systematic administration, the Lao Women's Union Centre has issued these regulations regarding the administration of savings groups:

Part I

Meaning and Objectives of Savings Groups

Article 1: Meaning of Savings Groups

1. Establishment of a savings group is in line with the policies of the party and government.
2. It unites harmony, knowledge, innovation, resources and labor in order to provide mutual self-help both materially and intellectually.
3. In order to implement the policy of self-help, sufficiency and strengthening through development, beginning with sincere participation of the individual, family and community.
4. Elevate the role and harmony of women one step at a time.
5. Having a village fund, assisting in solving various problems within families and promoting the development of villages, motivating production and business.
6. Creating employment and reducing informal lending with high interest and contributing to the prevention of conflicts in society.

Article 2: Objectives of the Savings Groups

1. To create a concept for the people to realize the benefits of saving money to their families, mutual assistance and the ability to improve their livelihoods on their own, to be self-sufficient and strengthen themselves.
2. In order to create funds for social welfare, education, conserving the environment, and developing villages for the people by concentrating on the creation of vocations and Women's Union organizations at each level.
3. Participate in the creation of villages and village development organizations.

Part II

Roles and Responsibilities, Duties and Scope of Rights of the Savings Groups

Committees

Article 3: Roles and Responsibilities

Savings groups are revolving funds at the village level that manage savings, give loans to members, follow-up and motivate the implementation of activities of members and administer village level savings groups effectively.

Article 4: Duties

1. Disseminating regulations, meaning and importance of the savings group to members and people to understand and participate in their establishment and implementation.
2. Mobilizing and creating harmony among members of savings groups and people in the villages.
3. Creating, improving and replicating regulations for savings groups and for using funds for social welfare, development, educational, administration, etc.
4. Accepting new members, collecting fees, fees for the cost of loan application documents, savings books and administration for receiving money, giving out loans, receiving money for paying capital and interest from members.
5. Summarizing income and expenses and annual dividends strictly according to regulations and transparency.
6. Summarizing and reporting on the status of the group, collecting statistics, information on progress and exchange of lessons each month, quarterly and annually, as well as sending reports to the Lao Women's Union at the central level regularly and on time.

Article 5: Scope of Rights

1. Village savings groups have the right to manage money on the basis of the agreement and consent of district authorities and the guarantee of the Lao Women's Union at various levels.
2. To contribute opinions and observations to work plans and create various regulations.
3. To consult with members as well as solve problems that arise within the groups.
4. To coordinate with the committees for the savings groups at the sub-district and district levels and authorities and Lao Women Union at every level in order to

ask for guidance to ensure effective implementation.

Part III

System for Establishing Village Savings Groups

Article 6: Establishment of Village Savings Groups

6.1 Establishment of village savings groups consists of the following:

1. A Village Savings Fund Committee consisting of 5-7 women.
2. An Advisory Committee of 3-7 persons, women and men.

Article 7: Standards for the Village Savings Group Committee

1. Persons with good qualities, who are harmonious, willing to sacrifice themselves, can be trusted, have the knowledge and ability to manage money, are not in debt, are permanent residents and are confident and fair.
2. Need to be committee members of the Lao Women's Union and members of the Lao Women's Union.
3. If one member of the family is already a member of the committee, another member of the family is not allowed to be a member of the advisory committee for the savings group.

Article 8: Make-Up of the Village Savings Group Committee

- | | |
|---|----------|
| 1. Chairperson responsible for overall leadership | 1 person |
| 2. Deputy Chairperson responsible for accounts received – payable and general ledger | 1 person |
| 3. Committee member responsible for savings accounts | 1 person |
| 4. Committee member responsible for loan accounts, interest and money paid back to fund | 1 person |
| 5. Committee member responsible for petty cash and assisting with separate accounts | 1 person |

(In case the committee has more than five members, duties should be divided as appropriate for each group.)

Article 9: Election to the Committee

1. Savings committee members serve for no longer than a 3-year term and must be re-elected at a general meeting attended by at least 2/3 of all members of the savings group 18 years and older. The election of the new committee is led by the old committee and advisors, with participation of the District Savings

Committee and District Lao Women's Union. The newly elected committee is proposed to the District Lao Women's Union, who guarantee their right to carry out their rights and responsibilities.

Article 10: Duties of the Village Savings Committee

1. Disseminating regulations, administering the implementation of credit of the savings group, following-up on the correct use of loans for activities and calling for loans to be used according to the loan contracts.
2. Being responsible for paper work, accounts – finances and common assets of the savings group so they are correct according to the principles, in order to ensure transparency that members and concerned parties can check.
3. Calling meetings for members of the savings group quarterly and annually.
4. Writing financial reports monthly, quarterly and annually. Acknowledging and sending reports to the Advisory Committee to check, guarantee and send on to the upper authorities.
5. Creating regulations for the use of money for social welfare, education and other purposes according to recommendations.

Article 11: Make-up of the Savings Group Advisory Committee

The Savings Group Advisory Committee consists of 3-7 persons.

- | | |
|--|----------|
| 1. Secretary of the Party for the village or Deputy Secretary | 1 person |
| 2. Headperson or Deputy Headperson | 1 person |
| 3. Lao Women's Union Committee Member | 1 person |
| (In case the Lao Women's Union Member is not already a member) | |
| 4. Member of the village elderly advisors | 1 person |
| 5. Village security | 1 person |
| 6. Another member of the village administration | 1 person |

(The size of the Savings Group Advisory Committee depends upon what is appropriate.)

The members of the Savings Group Advisory Committee must be members of the savings group, must have knowledge and understanding about savings groups, grasp well the policies and regulations of the savings group and be able to audit the accounts of the savings group.

Article 12: Duties of the Savings Group Advisory Committee

1. Participating in all meetings of the members of the savings group.

2. In cases where a member of the savings group transgresses the rules of the group, participating in mediation, correction and education that is fair and timely.
3. Maintaining harmony within the village and the membership in order to improve and strengthen and stabilize the work of the savings group.
4. The length of a term for an advisor is three years, in accordance with the regulations of the village administration.
5. Auditing the accounts, signing to acknowledge monthly and annual reports, undertaking training in auditing accounts, acknowledging the rules and regulations of the savings group, assisting the committee regarding accounting for the savings group and participating in all meetings of the savings group.

Article 13: Appointment of the Village Savings Group Advisory Committee

The Village Savings Group Advisory Committee is appointed by the Head of the District on recommendation of the Savings Group Committee and Village Administration Committee.

Part IV

Auditing, Follow-Up and Administration

Article 14: The Auditing, Follow-up and Administration Committee of the Village Savings Group consists of:

- The Village Savings Group Committee
- The Sub-District Savings Group Committee
- The District Savings Group Committee
- The District Lao Women's Union
- The Lao Women's Union, Vientiane Prefecture
- The Lao Women's Union Centre

Article 15: Duties of the Members of the Savings Group Auditing Committees at Each Level

1. Village Savings Group Committee
 - Auditing the funds each month, along with being responsible for signing and announcing the results to the members.
 - Following-up and approving loans, return of money and interest.
 - Solving various disputes within the group.
 - Once the audit is complete, reporting promptly to the upper authorities.

2. Sub-District Savings Group Committee

- Auditing the savings groups within the sub-district every three months.
- Auditing the summaries of the accounts for annual dividends, signing to acknowledge the summaries.
- Solving problems that arise in the savings groups within the sub-district.

3. District Savings Group Committee

- Checking the regulations for using funds of each budget line of every group.
- Checking the finances of the various savings groups that report to the sub-districts.
- Checking the sub-district banks and signing acknowledgements.
- Solving problems that arise in the saving groups within the district, following up on the use of money for each budget line.

4. District Women's Union

- Checking the finances of the various savings groups that report to the district savings groups.
- Checking the financial status of the network of savings groups at the district level and signing acknowledgements.
- Solving problems of the various savings groups within the district.

5. Province, Prefecture

- Checking the various finances reported to the district Lao Women's Unions.
- Checking the financial status of the district savings groups that report to the district Lao Women's Unions.
- Solving various problems of the savings groups within the prefecture and provinces in accordance with proposals of the district Lao Women's Unions.

6. The Lao Women's Union Centre

- Checking the various finances that are reported by the prefecture and provincial Lao Women's Unions or projects.
- Checking or participating in solving the problems of various savings groups according to proposals of the prefecture and provincial Lao Women's Unions or projects.

Part V

Savings, Loans, Granting of Loans, Determination of Interest Rates and Duration of Loans, Collateral, Withdrawal of Money and Maintaining the Groups' Money

Article 16: Savings

1. Members of the savings groups pay a fee of 2,000 Kip per person and 3,000 Kip per membership book.
2. Members must deposit money every month, at least 5,000 Kip and at most 500,000 Kip.
3. One member can hold no more than 10% of the total savings of the savings group.

Article 17: Determination of Interest Rates and Duration of Loans

1. An interest rate of 1% - 3% as appropriate to the group for agriculture, handicrafts, commerce, education, etc. Loan contracts of three months, six months or one year. Interest rates for loans to pay for expenses due to injury or sickness depend upon the actual situation in each village.

Article 18: Granting of Loans and Collateral

1. A fee of 3,000 Kip for paperwork is collected each time. Members are allowed to borrow money up to three times their savings and two times per year. Loans can be up to 25,000,000 Kip per time per person. Outstanding loans must be repaid before a new loan is granted.
2. Collateral: Members who borrow more than 500,000 Kip must have collateral close to the value of the loan and a certificate for the collateral in order to guarantee the safety of the loan. The certificate for the collateral must be clearly written: example: type of land, land certificate issued in someone's name.
3. A meeting of the committee and advisors must be held each time a loan is granted in order to obtain consensus for approval for the loan. Members taking loans must have a plan for expenditures and the committee must check the plan in detail before granting the loan.
4. All persons taking loans must be members for at least three months and be at least 18 years of age.

Article 19: Withdrawal of Savings by Members

Members can withdraw no more than 60% of their savings and no more than 10,000,000 Kip per time. The committee must be notified two months in advance

before the withdrawal. In cases of necessity notification may be one month.

Article 20: Maintaining Savings

1. The savings group must open a government bank account in their district.
2. Money left over from loans must not be kept with the committee. It must be deposited with the bank where the group deposits its money.

Part VI

Apportion of Benefits

Article 21: Apportion of Income from Interest Received from Loans after 12 months is as follows:

- 1) 65% given out to the members (not more).
- 2) 10% to the Committee (but not more than 6,000,000 Kip per person per year). In cases where there is money left over, 100% is to be distributed as follows:
 - 50% into the savings account.
 - 25% into the education support fund.
 - 25% into the social welfare fund.
- 3) 7% to savings.
- 4) 5% to the social welfare fund.
- 5) 3% to the development fund.
- 6) 3% to the Advisory Committee (but not more than 3,000,000 Kip per person per year). In cases where there is money left over, act as in number 2) above.
- 7) 1% handed over to the four levels of the Lao Women's Union, i.e. village, district, prefecture and Lao Women's Union Centre (implemented according to the membership fees for the Lao Women's Union).
- 8) 2% for administration at the sub-district and district levels (not more than 4,000,000 Kip) in order to fund follow-up and motivate activities of the village savings groups. 100% of the 2% to be distributed as follows:
 - 30% to the District Savings Fund Committee.
 - 70% to the Sub-District Savings Fund.
- 9) 2% to the education fund.
- 10) 2% for administration of Village Savings Fund (to be spent according to monthly plans).

Article 22: Paying Capital and Interest

Members must pay capital and interest according to the time stipulated in the contract. If a member is unable to pay the capital and interest to the savings fund out of necessity or due to a good reason and this doesn't cause hardship to the other members waiting for loans, the committee can extend the contract, but only for one time.

Part VII

Accounting System of the Savings Groups

Article 23: Accounting System of the Savings Groups consists of

1. Member's savings account books.
2. Accounts for loans, paying capital and interest of members.
3. Accounts for income-expenditures of petty cash, daily and monthly.
4. Petty cash accounts and separate accounts.
5. Monthly reports of savings groups.
6. Summaries of the financial status (budget balance) and 3-month, 6-month and annual dividends.

Part VII

Sources of Supporting Income

Article 24: Sources of Supporting Income

- Members' savings.
- Support from the government and private sector.
- Support from each level of the Lao Women's Union.
- Support from various projects.

Part X

Discipline and Praise

Article 25: Discipline

Savings groups that are unable to implement the regulations for conducting the work of savings groups of the Lao Women's Union will be warned and ordered to halt operation temporarily until they are improved and can conduct their work correctly according to these regulations.

- Members who do not act in accordance with these regulations will be warned and must hand over their collateral.
- Committees that do not act in accordance with these regulations will be warned and relieved of their duties.

Article 26: Praise

Savings groups that implement their work correctly and have exemplary results will receive praise according to the policies, as appropriate.

Part X

Appendices

Article 27: Implementation

1. The Provincial Lao Women's Union, Prefecture Lao Women's Union and District Lao Women's Union are assigned to recommend the first steps on their own in order to ask for guidance for carrying out actual implementation.
2. The Lao Women's Union at each level, organizations and assistance programs are to take these regulations and distribute them to savings group committees at every level and all members to be acknowledged, understood and strictly implemented.
3. These rules and regulations can be improved and altered as appropriate according to the actual situation at each stage; each locality recommends points that are inconsistent to propose to a meeting of the upper authorities to examine and correct.
4. The Regulations Regarding the Administration of Lao Women's Savings Groups take effect the day they are signed.

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