



FINAL REPORT
DRAFT

Poverty Reduction Fund III
Component 4: Nutrition Enhancing Livelihood Development
Livelihood Sub-Component
Assessment of SHG and PGs

MARCH 2023

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Abbreviations

| | |
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| PRF | Poverty Reduction Fund |
| MAF | Ministry of Agriculture and Forestry |
| SHG | Self Help Group |
| PG | Producer Group |
| VSMC | Village Self Help Group Management Committee |
| LMFA | Lao Microfinance Association |
| NSO | Network Support Organization |
| SCU | Saving and Credit Union |
| MF | Microfinance |

EXECUTIVE SUMMARY

This assessment report is prepared by the Lao Microfinance Association according to contract engagement with reference Ref. No.: AF-C.042-1 (CLEAR-009) – 2023 Proposal for the Assessment of Self-Help Groups (SHGs) and Producers' Groups (PG) from Poverty Reduction Fund (PRF) website dated 04 January 2023 on Procurement title "the assessment of self-help groups and producers' groups". PROJECT and Objectives of the Assessment. According to the TOR, "Project Development Objective is to improve access to community-prioritized basic services as well as to support the production and consumption of nutritious foods. The project development objective would be achieved through inclusive community and local development processes with an emphasis on ensuring sustainability. For this assessment, it is well understood that the outputs will be used as the basis for designing the CLEAR which is expected to officially launch in Oct 2023. Therefore, the Poverty Reduction Fund (PRF) under Ministry of Agriculture and Forestry (MAF) requires an expert agency/firm to conduct an assessment of the performance of SHGs and PGs. LMFA will conduct the assessment taking into account the processes outlined in the SHG and PG guidelines and their outputs. Given the experience of LMFA concerning institution building and capacity building of similar organizations like the SHGs and PGs. The evaluation was based on the project development objective which is to improve access to community-prioritized basic services as well as to support the production and consumption of nutritious foods in the Project's targeted poor. First, the approach looked at how the relevance of the PDO in terms of its alignment to the 8th NSEDP objectives and also to the Lao PDR financial inclusion roadmap. Second, the evaluation closely examined the aspect of sustainability which is centrally ensuring inclusive community and local development processes to achieve the PDO. The assessment used a purposive non-probability approach in selecting the SHGs and PGs to be covered since this assessment will largely use qualitative information - but to supplement this secondary data will be used from the project MIS. This took into account geographical efficiency given that this assessment time-wise and cost-wise has posed a limitation. In selecting the SHGs factors such as how long the SHG has been operating, the timing of its access to the grant fund, and loan contacts have been taken into consideration. The LMFA team worked closely with the project team in the selection of the SHGs and PGs to be interviewed. The LMFA team used a combination of approaches in primary data gathering to include; i) semi-structured interviews with guided questions, ii) group discussions, and for the PGs specifically, the LMFA team used intensive group discussion with IGA-specific households.

A total of 90 Self-Help Groups(SHG) were interviewed. Most of the SHGs that were interviewed were from Oudomxay(31%) followed by Xiengkhouang(29%).

On the other hand, 11 PGs were interviewed. In addition, a total of 120 members with IGAs were covered in the survey. The majority of the PGs that were covered came from Xiengkhouang(73%). Of the members with IGA, 81% were from Xiengkhouang and the rest are distributed to the 3 other provinces.

The SHG formation process has been largely implemented in a highly satisfactory manner. Moreover, the formation process of SHG involved the delivery of capacity building with specific modules. The timeliness of the training delivery was found to be satisfactory with 56% of the SHGs citing it to be on time and relevant. The benefits of this training are very apparent as reported below where a third said that the training improved SHG operations such as the conduct of regular meetings and savings and lending operations. The rest of the benefits included improvement in accounting and internal control. The accounting and bookkeeping practice is very basic and rudimentary with most SHGs using a single-entry

system. The loan activities of the SHG have been satisfactorily implemented. The average number of borrowers per SHG is 6 members this is more than a third of the SHG membership size which is 15 members. The loan repayment of the members has been excellent with no late payments for SHGs that have disbursed the loan. It must be noted that 21% of the SHGs interviewed do not have loan activity yet. The fund rotation appears to be slow. Thus, this has affected the size of the fund since loans have a 12-month term with interest payments every quarter. The SHGs have established loan client targeting criteria. Inter-lending which the SHGs have not implemented. The main reason cited for not being able to start inter-lending is that SHGs do not have excess funds to lend to other SHGs. The other reason is SHGs have enough funds for lending to members. Most SHGs identified a range of challenges to improve performance. The most reported is improving the maintenance of their accounting books, improving savings mobilization, and implementing inter-lending and loan management performance.

The Producers Group(PG) formation process has been done successfully. The PGs Legal Identity is established. The majority has acquired registration and has their By-Laws, Rules, and Regulation in place. PGs have a good understanding of the organizing process and high satisfactory implemented. The registration complied with Decree 606. PGs were registered at the District level which provided support and it did not cost the PGs anything. The PG governance and management are in place and working. The members can exercise their privilege to choose the PG leaders through an open and transparent election. All of the PGs have developed their shared vision as this is important to achieve solidarity and commitment to work together. Most of the vision shared relates to increasing production and thus generating more income for the members. The training delivery for the PGs was timely and appropriate. All of the PGs have been provided with training IGA-wise. The PGs have benefited from the training they were able to access. The PGs cited the following training that they have received and the benefits that they derived. The most common type of PGs is those that are engaged in livestock production. The majority, 54% were involved in pig raising, and 23% for each of the PGs that was doing poultry raising and others(duck, weaving)Financial reporting is relevant in ensuring transparency and monitoring. About a third of the PGs can produce a financial report and have received financial management training. Similarly, 27% have cited having a surplus. Again while some elements of internal control are being practiced like separation of cash receipt and booking of transactions, the PGs need to strengthen their capacity to implement the standard financial controls needs to be transparent, and reduce the risk of funds getting embezzled. These included doing regular cash counts, maintaining a separate bank account, doing cash reconciliation, and most importantly keeping loose cash in a safe box. The PGs indicated that they need more support, especially in terms of additional seed funding to be able to expand their IGA, linkage to market, and good agricultural practices on climate-smart agriculture.

The SHG institution-building process and the delivery of appropriate savings and affordable loans are closely aligned with the pillars of the Lao PDR financial Inclusion Roadmap. This is an important aspect of SHG performance as it allows members to access and use financial services right at the village level. The financial inclusion achievement has been highly successful but with some operational aspects that must be given focus. The depth of gender reach is very extensive-- the majority of the SHG members are women. In addition, 62% of the members came from ethnic groups thus the quality of social inclusion reach is also highly satisfactory.

The loan product appeared to be suited to the needs of the target household. The depth of outreach to poor households has been highly significant. The scope of outreach needs to be improved. The percentage share of SHG loan portfolio IGA-wise showed that the majority was used for livestock production. Most of the target households with IGA have accessed loans. However, there is still a sizeable percentage that has not borrowed to fund their IGA.

The SHG savings activity has been highly satisfactorily enforced. The average savings per SHG is about 3M LAK while the average member savings amounted to about 360K LAK. When compared as a percentage of the Lao PDR 2021 Gross National Income(GNI) this translates to 1%. This indicator showed that the SHGs are reaching the target poor members. The use of SHG savings is mostly a combination of financing income-generating activities or to provided funds for emergency purposes. This means that the SHGs can support the member's needs for additional cash and also smoothen cash flow especially when they are unforeseen need for extra cash to meet emergency needs. The benefits that members derive from saving in the SHG are very competitive compared to what is the available option in the microfinance market. This is an important step to motivate poor households to accumulate financial micro-investment in the form of shares in the VCS. The majority, 67% of the SHG members cited that the savings activity of the SHG provided a safe place to keep unused funds. In addition, most also cited that the SHG provided easy access to savings facilities at the village level. The enforcement of SHG regular meetings is complied with. Linking to banks' financial services is at a very nascent stage with several SHG members reported to have accessed loans from Nayoby Bank. The total amount of loans accessed was 360M with an average of 16M per borrower.

The level of economic inclusion achieved is highly satisfied with a range of IGAs households can operate. The current level of achievement in this respect is also aligned with the poverty alleviation objectives of the 8th NSEDP. The Family Investment Plan training was found to be beneficial. Ninety-eight percent of the members doing IGA cited receiving FIP training. The SHG performance in terms of loan investment vs. return(interest earning) has been highly satisfactory. The interest rate on a loan per year is 10% and is significantly lower than the prevailing interest rate on loan in the microfinance sector which average a maximum of 36% per annum. Thus, the SHGs can provide affordable loan services to target households. In addition, the credit-to-deposit ratio is 3.4: 1.

Based on the interviews with the SHGs, members were able to effectively gain total additional income through their IGAs. On average, based on the individual member IGA cost and return analysis it showed that they were able to generate additional cash through their IGAs with some significantly contributing to the household cash flow, especially in fish production, poultry training, maize production, and weaving. The income-to-loan coverage shows that almost all of the IGAs that SHG members implemented have a cashflow level that can sufficiently cover to repay their loan. IGA income as a percent of the per capita GNI proved that it made a significant contribution, for most IGAs, to the target household incomes. This is one interesting indicator that relates to economic inclusion is to examine to what extent additional income from IGA contributes to household income. The IGAs of the target households also was able to successfully produce a substantial level of productivity. This is important because it also allowed target households to not only contribute to production but also to access reliable sources of protein for their households. Notably, a total of more than 10Kgs production or an average of 127 kg per household was achieved. The highest level was in Fish production and pig raising at 398kgs on average and 165kgs in fish production and pig raising respectively. This has resulted in better access to meat thus contributing to better food security and nutrition.

The MIS provides relevant information both for project management and for VSMC use. The usefulness and ease of use of the MIS need to be improved to benefit the VSMCs so that they can use relevant information to make decisions in managing the operations of the SHGs. The majority, of the VSMC, however, needs to appreciate the use of the information that is made available for them thus the MIS. The MIS system is always on time as cited. Although it takes an average of 10 days for VSMC to know about late loan payments. While on the other hand, the majority observed that the MIS provides relevant

information for the right people at different levels of stakeholders. The MIS has an extensive scope of information available aside from project monitoring reports but also about loans and savings accounts and SHG performance data. However, the use of this information is more for project administration consumption. The VSMC should be able to learn how to use this information and how it relates to SHG performance.

In conclusion SHG institution-building process, the overall performance was highly satisfied with all of the 5 common principles effectively complied except for the inter-lending approach.

The financial inclusion situation has improved and the SHG has benefited the members to access savings and loans which otherwise would be costly for them if accessed thru other financial services providers. The IGAs funded have provided benefits for additional income and food thus impacting nutrition. In addition, as post-project sustainability, there should be a mechanism to support the VSMC and SHG to access the sustainable capacity building and monitoring support. This can be done by considering linking the VSMC with an MFI or an SCU that can provide capacity-building services and also provide complementary financial services.

Economic inclusion has been achieved as members were able to operate a range of IGAs that have improved access to cash and also to food availability. The Producers Group, although at an early stage of organizational formation, has followed a satisfactory process of formation especially since there is strong participation, well-defined governance, and management in place. There is also a very strong shared vision toward consolidation of their activities and also in other related activities such as procurement and some extent marketing. But this has to be strengthened and well-guided. In addition, there is a need to improve the scope of market linkage.

The training provided has attained its intended outcome but there is a need for follow-up training on good agricultural practices. Lastly, it was not possible to assess the real risk in the loan portfolio but the product appears to be suited to the needs of the PG members with most of those that engaged in an IGA generating an acceptable level of loan-to-income coverage and improved productivity. It is recommended also to increase the amount of loan that can be accessed to make sure that it is sufficient for the need for the IGA to be financed.

1. Introduction

This assessment report is prepared by the Lao Microfinance Association according to contract engagement with reference Ref. No.: AF-C.042-1 (CLEAR-009) – 2023 Proposal for the Assessment of Self-Help Groups (SHGs) and Producers' Groups (PG) from Poverty Reduction Fund (PRF) website dated 04 January 2023 on Procurement title “the assessment of self-help groups and producers' groups”. LMFA is representative body of microfinance sector in the Lao PDR and a technical service provider has the depth of experience and is convinced that we can define a strategic roadmap toward sustainability and provide support to strengthen the SHGs toward better financial and economic inclusion of PRF program by streamlining the ongoing savings-credit program of SHGs, loan from livelihood fund and its timely repayment, regular book keeping, updated MIS and ensure timely decision making. We have strong Lao team and will be able to support the program successfully and sustainability as LMFA is the Lao Organization that will follow up and monitoring the activities in the project and microfinance sector. For this engagement, LMFA has assembled a highly experienced and competent team of experts for this assignment.

2. PROJECT and Objectives of the Assessment

The Poverty Reduction Fund (PRF) as an autonomous body under Ministry of Agriculture and Forestry (MAF) is implementing the third Phase of PRF i.e., Poverty Reduction Fund III -Additional Financing (PRF III-AF)—that the duration of the project is 48 months from the year 2020 to 2024. The project is implemented in 470 villages of 12 districts in 4 Northern Provinces of Phongsaly, Oudomxay, Huaphane and Xiengkhuang with financial assistance from the World Bank.

According to the TOR, “Project Development Objective is to improve access to community-prioritized basic services as well as to support the production and consumption of nutritious foods. The project development objective would be achieved through inclusive community and local development processes with an emphasis on ensuring sustainability. The additional financing (AF) has enhanced the impact of its livelihood and nutrition activities as a contribution to the Government's multi-sector, multi- project nutrition convergence approach to reducing child stunting in 12 priority districts. The project aimed to deliver resources in the form of technical assistance (including training), seed grant, and sub- project grant to SHGs, PGs, and Villages respectively in an efficient and effective manner.”

The PRF III-AF has four components are as follows:

- Component 1: Community Development Sub-Grants;
- Component 2: Local and Community Development Capacity Building;
- Component 3: Project Management;
- Component 4: Nutrition Enhancing Livelihood Development (comprising 2 sub-components i.e., sub-component 4.1 – Livelihood and sub-component 4.2 – Nutrition). “

For this assessment, it is well understood that the outputs will be used as basis for designing the CLEAR which is expected to officially launch in Oct 2023. Therefore, the Poverty Reduction Fund (PRF) under Ministry of Agriculture and Forestry (MAF) requires expert agency/firm to conduct assessment of performance of SHGs and PGs. LMFA will conduct the assessment taking into account the processes outlined in the SHG and PG guidelines and its outputs. Given the experience of LMFA with regard to institution building and capacity building of similar organizations like the SHGs and PGs.

3. TECHNICAL APPROACH and METHODOLOGY

3.1. Over-all Approach

The proposed approach for the evaluation was based on the project development objective which is to improve access to community-prioritized basic services as well as to support the production and consumption of nutritious foods in the Project's targeted poor. First, it looked at how the relevance of the PDO in terms of its alignment to the 8th NSEDP objectives and also to the Lao PDR financial inclusion roadmap. Second, the evaluation closely examined the aspect of sustainability which is central ensuring inclusive community and local development processes to achieve the PDO.

The following key aspects of the evaluation was be done in relation to the following key performance;

- SHG and PG Institution Building
- Financial Inclusion
- Economic Inclusion
- Monitoring and post-project sustainability

3.2. Sampling Frame and Methodology

The assessment used purposive non-probability approach in selecting the SHGs and PGs to be covered since this assessment will largely used qualitative information-- but to supplement this secondary data will be used from the project MIS. This took into account geographical efficiency given that this assessment time-wise and cost-wise has posed a limitation. In selecting the SHGs factors such as how long the SHG has been operating, the timing of its access to the grant fund and loan contacts have been taken into consideration. LMFA team worked closely with the project team in the selection of the SHGs and PGs to be interviewed(see Annexes). A total of 90 SHGs(per SHG 4-5 member including the group leader) with their VSMC will be interviewed while 11PGs(4-5 PG members IGAWise) will be covered. In addition 120 SHG members with IGA was interviewed. This sample size is statistically consistent with the rule of thumb to be able to balance the need for accuracy, representativeness, budget constraints and time limitations.

3.3. Data Gathering Methodology

This assessment generally used qualitative information drawn from the perceptions, opinions, memory recall and general field observation. This was supplemented by quantitative information derived from memory recall(especially in determining IGA incomes and expenses) but was triangulated with data from the MIS and other project sources available.

The LMFA team used a combination of approaches in primary data gathering to include; i) semi-structured interview with guided questions, ii) group discussions and for the PGs specifically the LMFA team used intensive group discussion with IGA specific households.

In addition, LMFA has done the information mapping based on the 4 areas of assessment defined in the TOR and the requirement of the Interim report. Also the mapping has defined the guide questions and the needed support from the project in terms of the documents and information.

4. ANALYSIS of RESULTS

4.1 Distribution of the Respondents

A total of 90 Self-Help Groups(SHG) were interviewed. Most of the SHG that were interviewed were from Oudomxay(31%) followed by Xiengkhouang(29%).

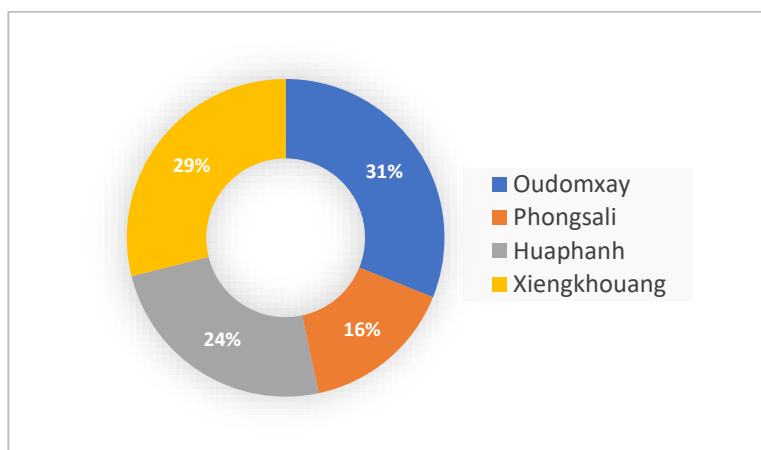


Figure 1. Distribution of the SHG respondents per province

On the other hand, there were 11 PGs that were interviewed. In addition, a total of 120 member with IGAs were covered in the survey. Majority of the PGs that were covered came from Xiengkhouang(73%). For the members with IGA 81% were from Xiengkhouang and the rest are distributed to the 3 other provinces.

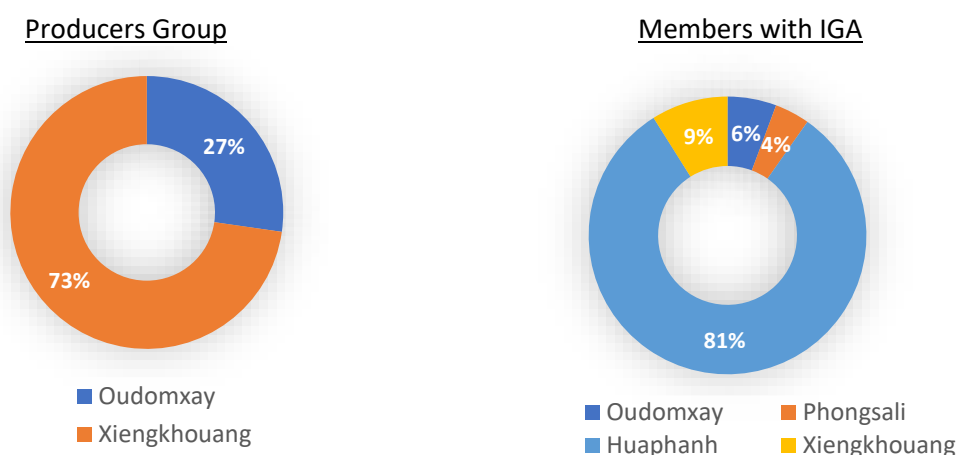


Figure 2. Distribution of the PGs and members with IGAs

4.2. SHG & PG Institution building

The SHGs have largely complied with the 5 Common Principles that is at the core of the approach of the projects institution building process. **The SHG formation process has been largely implemented in a highly satisfactory manner.** About 90% of the SHG that were interviewed reported to have their By-laws in place. In addition, 85% reported that there is a clear governance and management structure in place that is functioning. There is also a qualification criteria for selecting the VSMC as cited by 94% of the respondents. The VSMC members are elected in a transparent manner by the majority. There is a fixed term of service for each member for 3 years as cited by most of the SHG respondents. They also have received training to capacitate them to exercise their functions.

Moreover, the formation process of SHG involved the delivery of capacity building with specific modules completed as follows:

- Module 1 and 2 of SHG Institution Building (IB) training completed in 468 Villages
- Module 3 and 4 of SHG IB training completed in 229 Villages
- Module 1, 2 and 3 of VSMC IB training completed in 229 Villages

The timeliness of the training delivery was found to be satisfactory with 56% of the SHGs citing to be on time and relevant. The benefits of these trainings are very apparent as reported below where a third said that the trainings improved SHG operation such as conduct of regular meetings and savings and lending operation. The rest of the benefits included improvement in accounting and internal control.

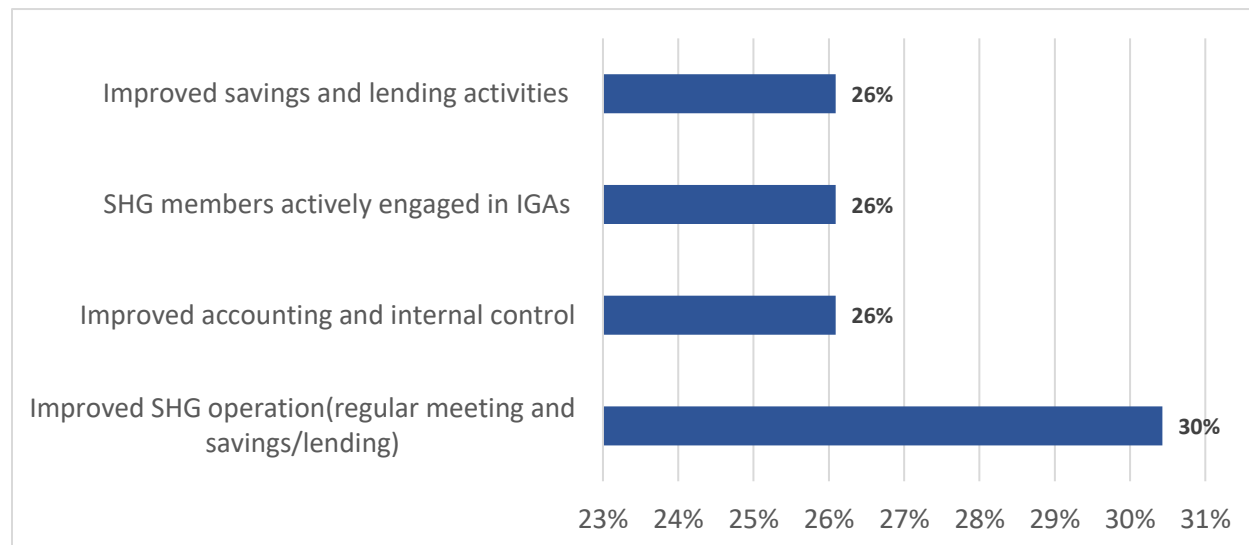


Figure 3. SHG Training impacts

The accounting and bookkeeping practice is very basic and rudimentary with most SHGs using single entry system. It is important that the books of accounts are in place since this will be the foundation for accurate and transparent financial reporting and also for monitoring purposes. Majority of the SHG has yet to have their complete books installed. As of the time of the assessments copies of the books has been deployed on field awaiting to be used by the SHG after their training on accounting.

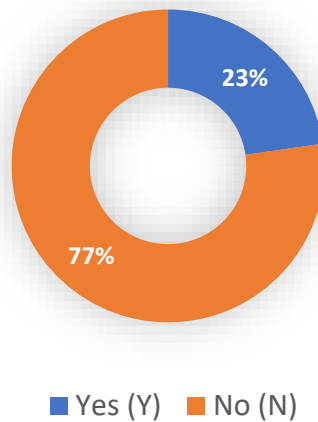


Figure 4. Percent of SHG with complete accounting books

On the other hand, the internal control system and audit has not been fully set in place, but there a specific element of internal controls that have been enforced such separate persons to receive and keep cash and another person to record in the SHG books as cited by 94% of the SHG respondents. Also cash count is practiced regularly.

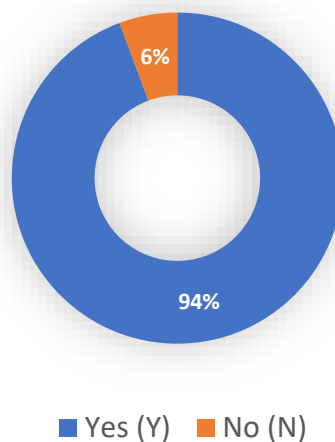


Figure 5. Percent of SHG who has separate persons for cash receipt and cash recording in the books

While on the other hand, 70% of the SHG reported to have the their cash kept by the Cashier of the VSMC or as reported by 18% cash is kept by the group leader and not keeping excess liquidity in a safe box.

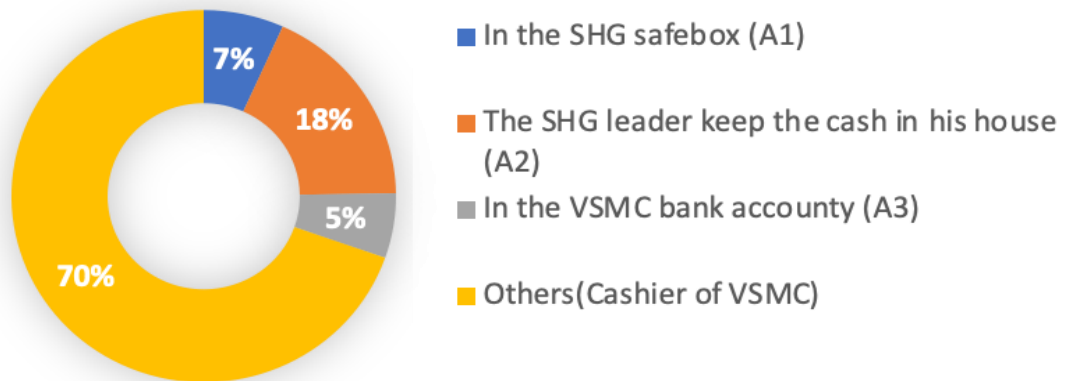


Figure 6. Cash custody in the SHG

The loan activities of the SHG has been satisfactorily implemented. The average number of borrower per SHG is 6 members this is more than a third of the SHG membership size which is 15 member. The loan repayment of the members has been excellent with no late payments for SHGs that have disbursed loan. The reported loan repayment rate is currently placed at 100% of the total loan that have fallen due. It must be noted that 21% of the SHGs interviewed do not have loan activity yet.

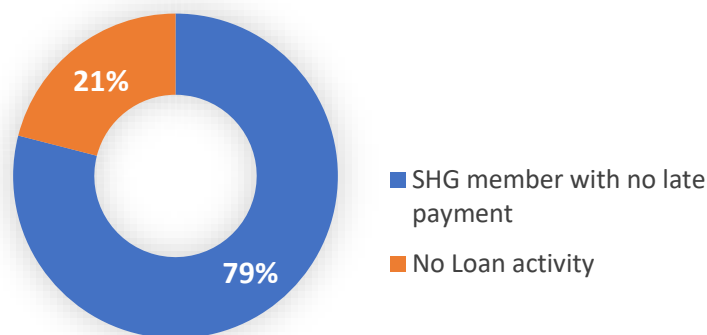


Figure 7. SHG members loan repayment performance(n=90SHG)

The fund rotation appears to be slow. Thus, this has affected the size of the fund since loans have 12months term with interest payment on quarterly basis. Although another factor that drives the growth of the loan fund is the savings from members which if intensified maybe able to increase the fund corpus of the SHGs.

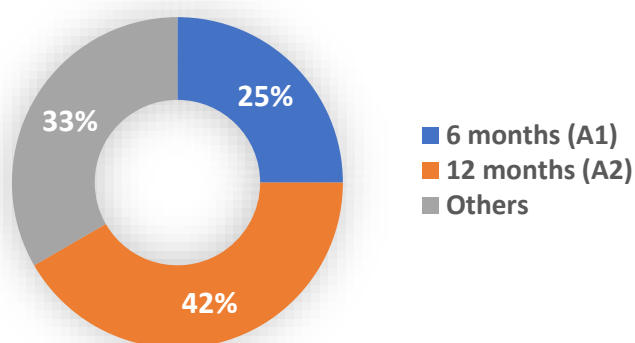


Figure 8. Average Loan term(n=90SHG)

The SHGs have established loan client targeting criteria. Of which 44 % targets those with specific IGA already. Another 15% use the criteria that members must engage in livestock production while another 15% prefer those that do not have engaged in any economic activity yet.

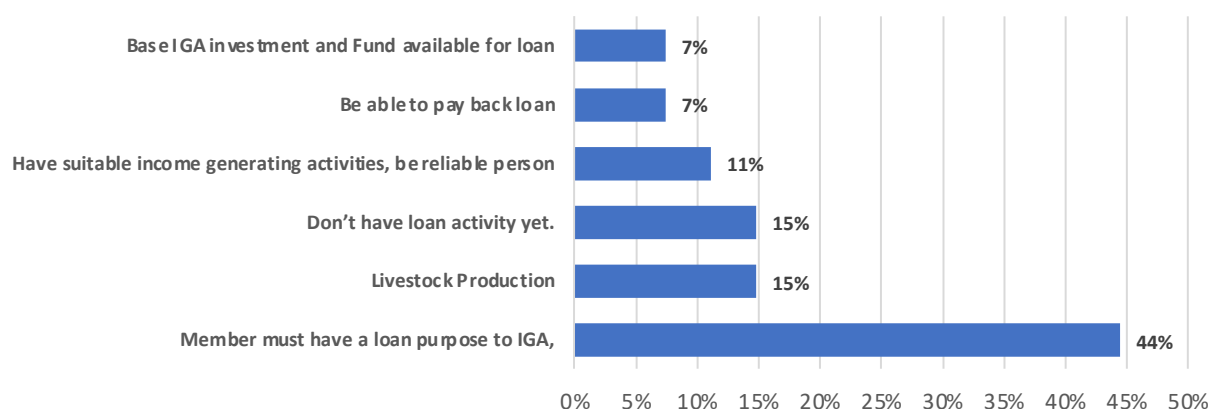


Figure 9.SHG member/borrower targeting criteria

One to the 5 Common Principles is inter-lending which the SHGs have not implemented. The main reason cited by for not being able to start inter-lending is that SHGs do not have excess funds to lend to other SHGs. The other reason is SHGs has enough funds for lending to members.

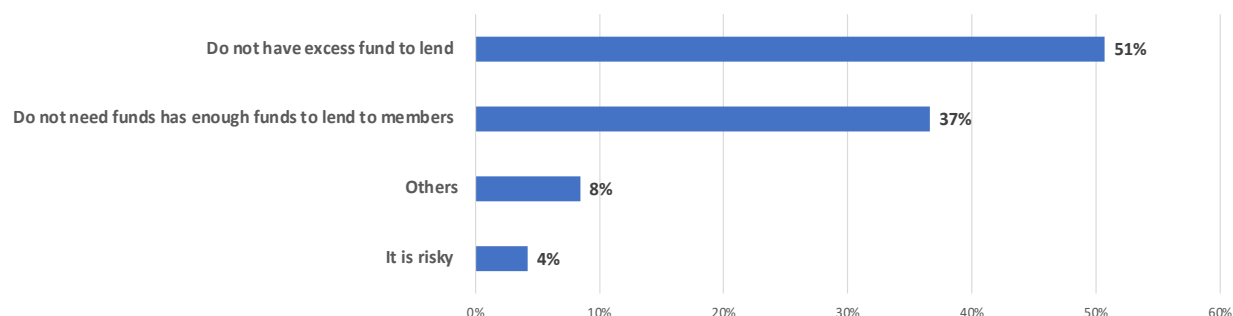


Figure 10. Reasons for not implementing inter-lending

Most SHGs identified a range of challenged to improve performance. The most reported is improving maintenance of their accounting books, improve savings mobilization, implement inter-lending and loan management performance.

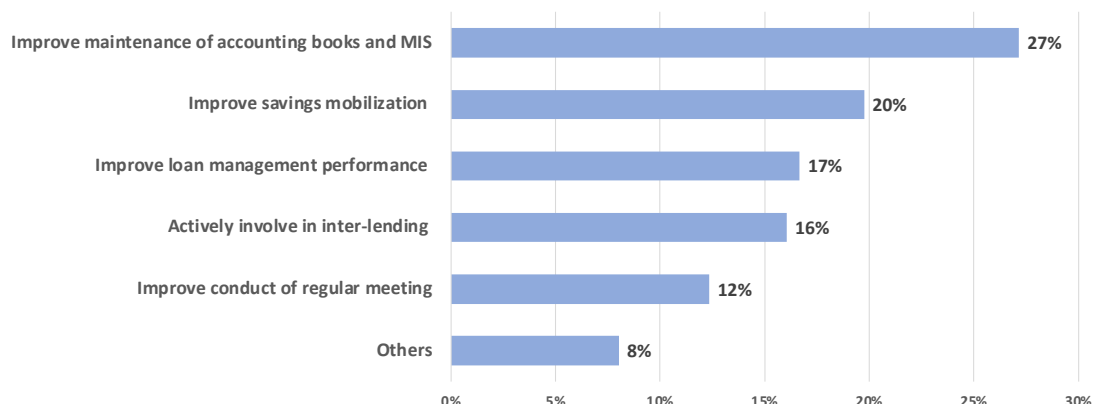


Figure 11. Challenges faced by SHGs to improve performance

The Producers Group(PG) formation process have been done in successfully. The PGs **Legal Identity is established.** Majority has acquired registration and has their Bay-Laws, Rules and Regulation in place. PGs has good understanding of the organizing process and high satisfactory implemented. The registration complied with the Decree 606. PGs were registered at the district level which provided support and it did not cost the PGs anything.



Is the PG registered based on Decree 606-Decree on Groups and Cooperatives?

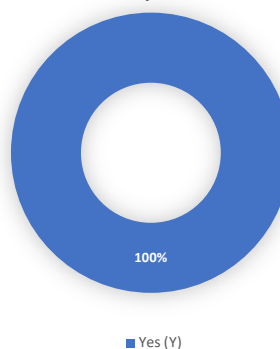
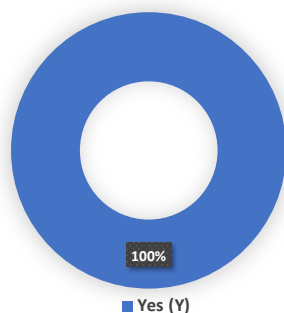


Figure 12. PGs legal identity complied with Decree 606

The PG governance and management is in place and working. The members are able to exercise their privilege to choose the PG leaders through open and transparent election. They are elected by the majority. There is a fixed term of 5 years. There is set criteria that is being implemented to ensure that they meet the needed qualification.

Does the PG has a governance and management structure?

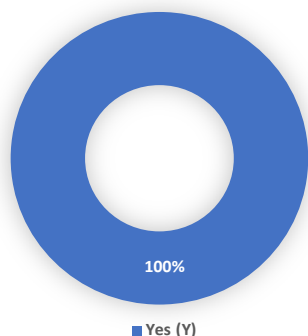


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| Able to represent and lead the group to grow |
| Being active on doing income activity |
| Able to lead a group. |
| Follow the group rules, |
| Have experiences on income activities, well respected by the member |
| Trustful person of the villagers |

Figure 13. Percent of PGs with governance and management in place and criteria for leaders

All of the PGs have developed their shared vision as this is important to achieve solidarity and commitment to work together. Most of the vision shared relates to increase production and thus generate more income for the members.

Does the PG has formulated a shared vision?



| |
|--|
| Make the PG growing and become a core business of the family |
| Create a production group to grow and be able to produce more pigs |
| Grow the PG together to provide pig to the market |
| Increase more income |
| Need a weaving center |
| Adopt new technology to increase production |

Figure 14. Percent of PG with shared vision

The training delivery for the PGs was timely, appropriate. All of the PGs have been provided with training IGA-wise. The PGs has clearly benefited from the trainings they were able to access. The PGs cited the following training that they have received and the benefits that they derived.

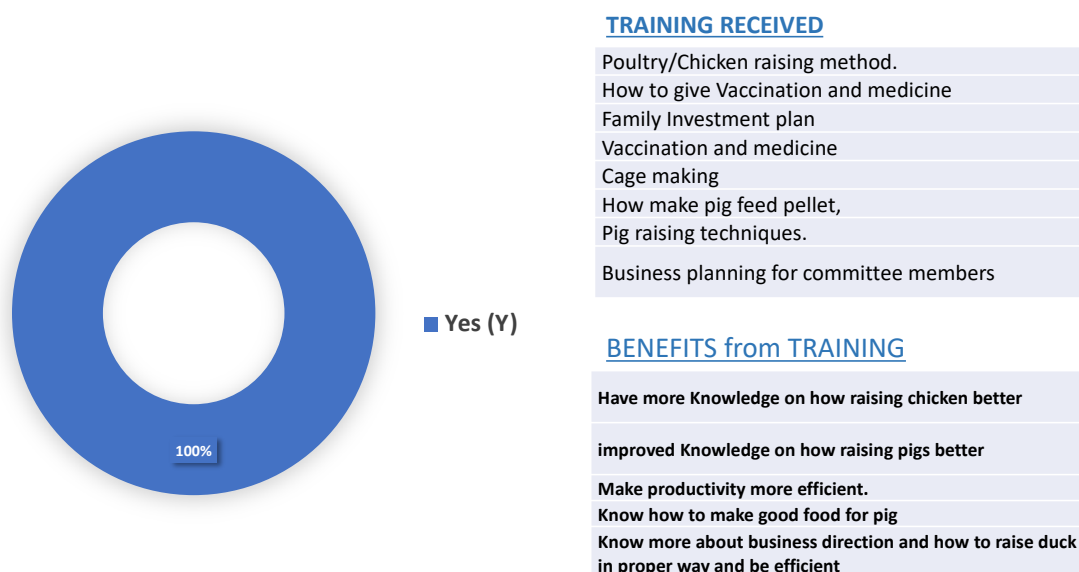


Figure 15. Percent of PGs that have received training, type of training IGA-wise and training benefits.

The most common type of PGs are those that engaged in livestock production. Majority, 54% were involved in pig raising, and 23% for each of PGs that was doing poultry raising and others(duck, weaving)

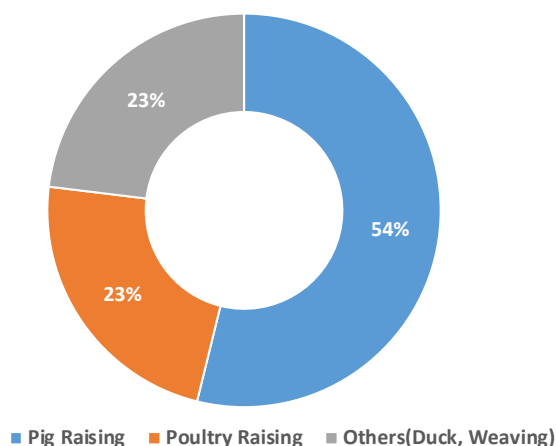


Figure 16. Percent distribution of PGs IGA-wise

Financial reporting is relevant in ensuring transparency and monitoring. About a third of the PGs can produce financial report, and have received financial management training. Similarly, 27% has cited to have surplus.

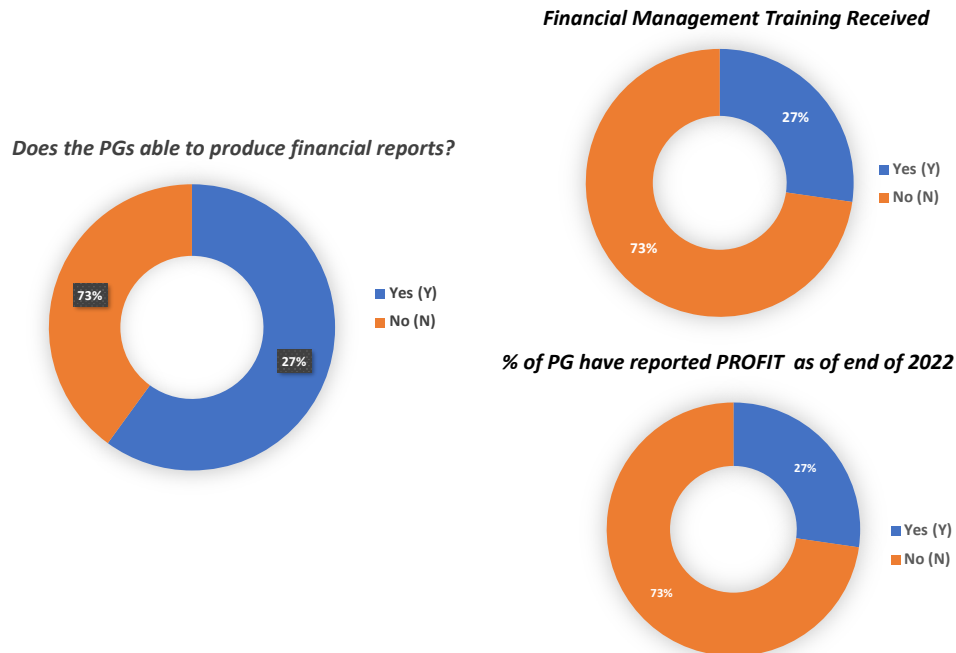


Figure 17. Percent of PGs with Financial reporting, financial management training and reported surplus

Again while some elements of internal control is being practiced like separation of cash receipt and booking of transaction, the PGs need to strengthen their capacity to implement the standard financial controls needs to be transparent and reduce risk of fund getting embezzled. These included doing regular cash count, maintaining separate bank account, and doing cash reconciliation and most importantly keeping loose cash in a safebox.

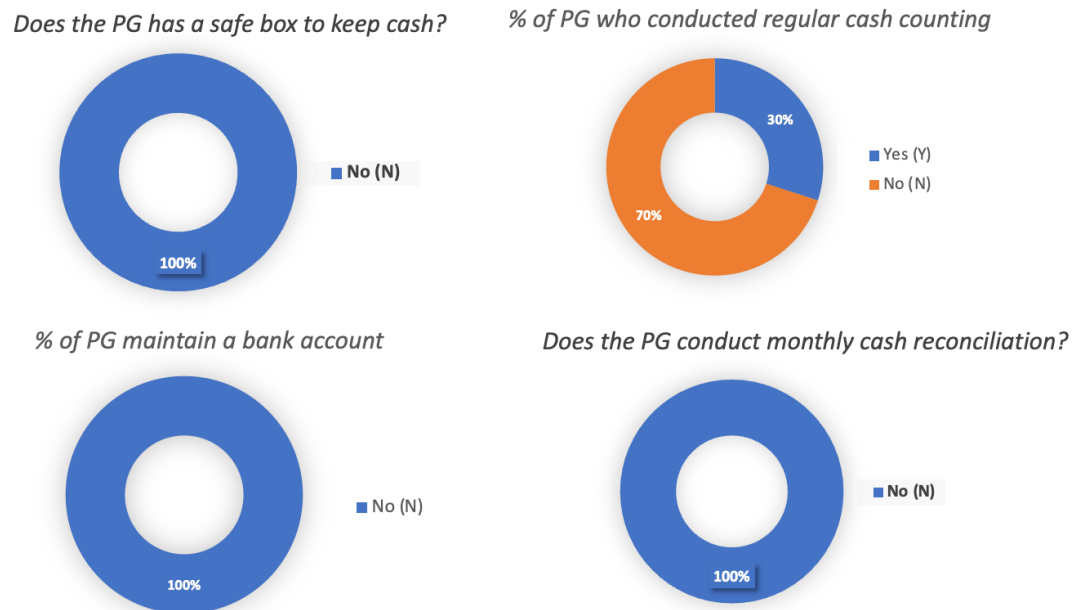


Figure 18. Internal control performance

The PGs indicated that they need more support especially in terms of additional seed funding to be able to expand their IGA, linkage to market and good agricultural practices on climate-smart agriculture.

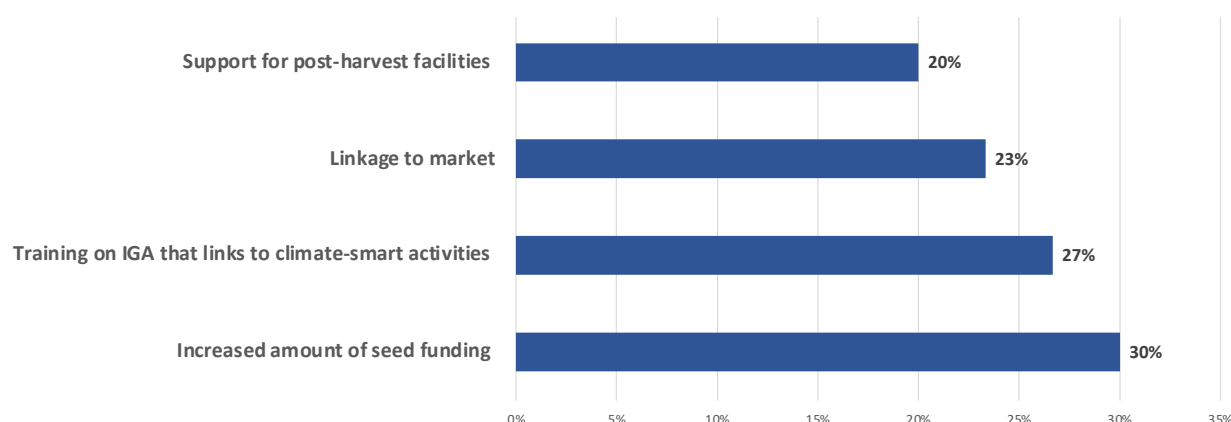


Figure 19. Other support needed by the PGs

Overall Observation in relation to the SHG and PG formation process

For the SHGs that were organized earlier, the process of setup is clear for the target households, there is a clear structure, an organization chart is available, and books of the transaction record. Every committee member maintains and records the books that they are responsible, e.g at the SHG level: record member book and gives to member, record cash book for its Group. At VSMC level: Chair and Vice Chair acted and provided supervision and checks. As cited earlier there are very defined functions--the accountant is responsible for the t, the cashier for the cash book transactions, and the credit officer for the loan/credit book. Nearly 100% are women and very disciplined and very active in their attendance during the monthly meeting. The amount of savings appears small but their regularity instills the saving habit as they save regularly with a proper record in the member passbook. One of the important aspects is that most SHG members have quite a good understanding of the use of savings and what seed grant funds are used for.

Copies of By-laws are available however, most of the members are not aware of them nor have a good understanding. This is due to the fact that only the leaders or chair have the copy and is kept in her residence as there is no available cupboard in the village office to keep the bylaw and any other related document. The physical custody of the records is weak since after finishing the monthly meeting every each one brings the accounting books home, no office or cupboard to keep these records. Thus, the possibility of these records becoming lost or destroyed is high. When it comes to cash handling, especially the savings of members the cashier at the VSMC level has to bring home and if the amount is big it will take several more days before she will deposit it in the bank.

PG members have a very strong motivation to be organized as a group and are generally happy about this approach. Regarding the PGs' training for Business Planning, not all committee members have received training. While members have member need additional training since only training about the PG- activities selection has been given so far for the new PGs.

4.3. FINANCIAL INCLUSION PERFORMANCE

The SHG institution-building process and the delivery of appropriate savings and affordable loans are closely aligned with the Pillars of the Lao PDR financial Inclusion Roadmap. This is an important aspect of SHG performance as it allows members to access and use financial services right at the village level. The financial inclusion achievement has been highly successful but with some operational aspects that must be given focus. For this, the most important key performance indicator to assess is the depth of outreach and the scope of outreach, and the dividend rate of SHG member savings.

The depth of gender reach is very extensive-- the majority,(91%) of the SHG members are women. In addition, 62% of the members came from ethnic groups thus the quality of social inclusion reach is also highly satisfactory.

The loan product appeared to be suited to the needs of the target household. The interest rate is 12% per year with a loan term is 12 months and the loan principal payment is at the end of the term (bullet payment) with interest paid every quarter. This makes the payment of interest more convenient and ensures that should the borrower has extra liquidity and will be able to manage the payment of interest. This also ensures that the SHG has access to liquidity in short cycles.

The depth of outreach to poor households has been highly significant with the average outstanding loan amount as a percent of the per capita GNI currently at 10%. The standard percentage should be below 20% to prove that indeed poor households are reached. The average loan amount borrowed is 4M LAK while the average outstanding loan balance is 3.6M LAK. The average loan amount IGA-wise is between 2.8K LAK up to 5,000,000 LAK.

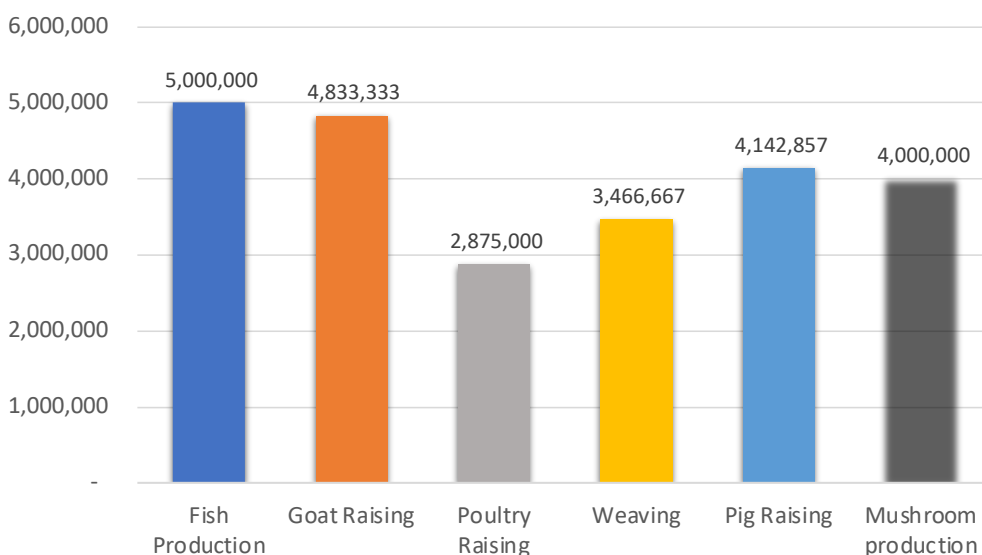


Figure 20. Average loan amount borrowed by members to fund their IGAs

Scope of outreach(Access to loan)needs to be improved with only 38% of all members that engage in IGA have accessed loan as reported by 90 member with IGA that were interviewed. This means that the SHG still has a lot of opportunity for expanding loan portfolio by encouraging more members to access loan to fund their IGAs. The total loan that they have taken to fund their IGAs amounted 176K LAK with a total outstanding balance of 169K LAK. This amount represents the current loan with no late payments reported and with 7M LAK loan repayment for loans that have fallen due.

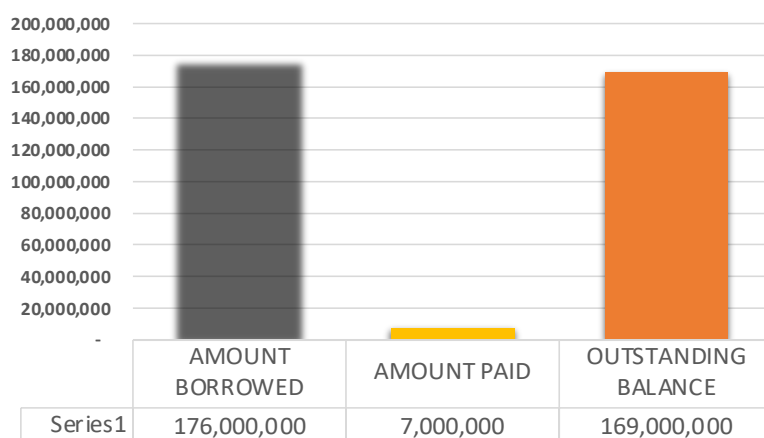


Figure 21. Total Loan Performance based on respondents/members with IGA (n=120 members with IGA)

The percentage share of SHG loan portfolio IGA-wise showed that 50% was used for livestock production. This is followed by cassava production which has 19% share the 12% on fish raising. This proved that the SHGs were able to support the funding requirements of his members for various IGA activities.

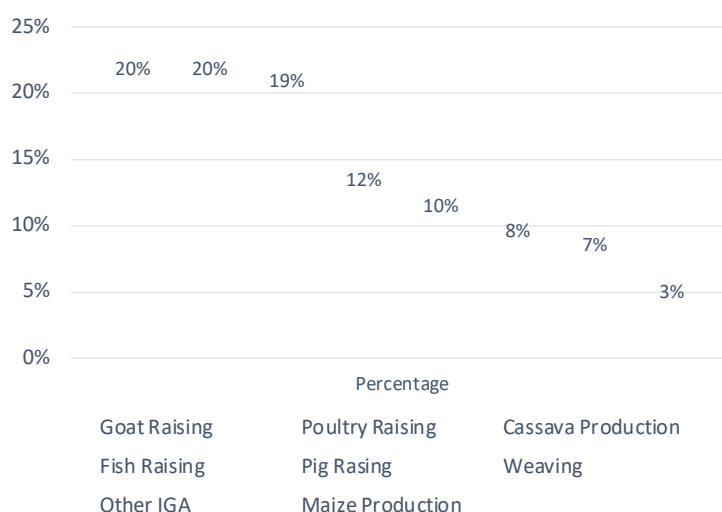


Figure 22. SHG loan investment IGA-wise

Most of the target households with IGA have accessed loan. However, there is still a sizeable percentage that has not borrowed to fund their IGA. One hundred percent of those that involved in fish production accessed loan, 55% for goat raising, and followed by those engaged in weaving at 45%.

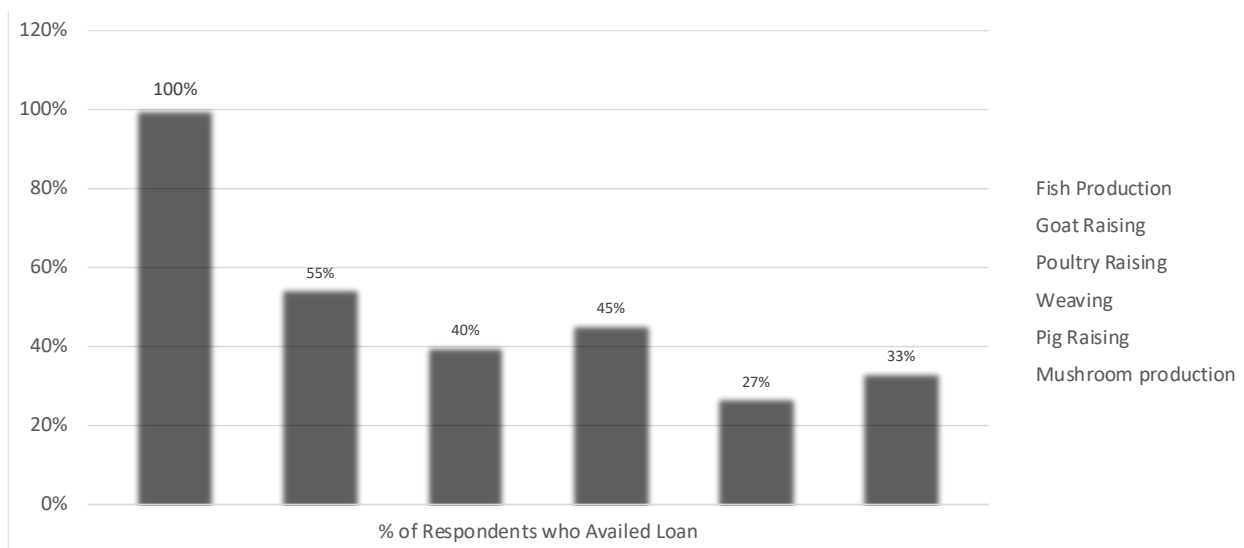


Figure 23. Percentage of member with IGA that accessed loan

The SHG savings activity has been highly satisfactorily enforced. Table 1 below shows the total SHG members savings as reported by the SHGs that were interviewed. The average savings per SHG is about 3M LAK while the average member savings amounted about 360K LAK. When compared as percentage of the Lao PDR 2021 Gross National Income(GNI) this translates to 1%. This indicator showed that the SHGs are reaching the target poor members. In microfinance practice an average savings that is below 20% of the GNI per capita proves that the savers belong to the poorer population.

The benefits that members derive from saving in the SHG is very competitive compared to what is the available option in the microfinance market. The SHG members were able to realized 22% return on their savings which is very attractive rate compared to other option for safekeeping their unused liquidity such as bank deposit. This is an important step to motivate poor households to accumulate financial micro-investment in the form of share in the VCS. The average number of saver per SHG is 12.

| SAVINGS INDICATORS | AMOUNTS(LAK) |
|----------------------------|--------------|
| Total member savings | 272,535,000 |
| Average savings per SHG | 3,028,167 |
| Average savings per member | 360,974 |
| As % of GNI | 1% |
| ROI on Savings | 22% |

Table 1. SHG Savings performance

The use of SHG savings is mostly a combination of financing income generating activities or to provided funds for emergency purposes. This means that the SHGs are able to support the members needs for additional cash and also to smoothen cash flow especially when the are unforeseen need for extra cash to meet emergency needs.

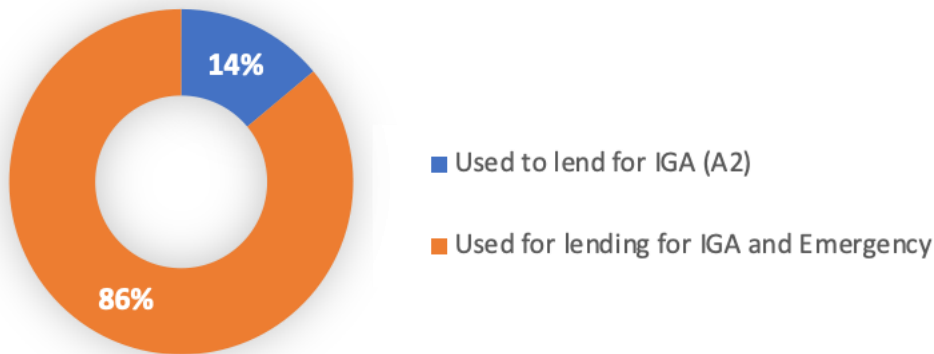


Figure 24. Uses of SHG savings

Majority, 67% of the SHG members cited that the savings activity of the SHG provided a safe place to keep unused funds. In addition, most also cited that the SHG provided easy access to savings facility at the village level. And almost half said that they have benefited from earning interest on their savings. Return on savings in the formal financial system has not exceeded 10% per annum. It is also costly for rural households to access such savings facility because of geographical barriers.

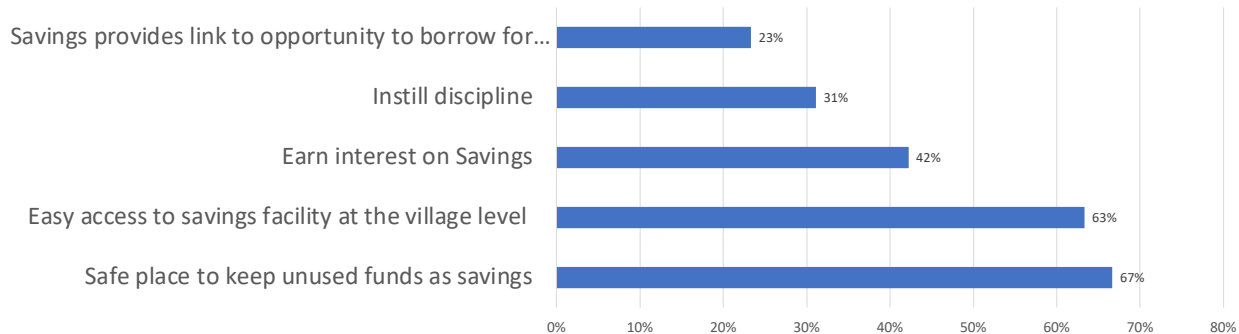


Figure 25. Benefits of saving in the SHG

The enforcement of SHG regular meeting is complied. All of the SHGs cited that they held meetings on regular basis. These meetings are done every month to do transaction and also to interact and learn from each other and share experience in implementing their IGA but also it provides a sense of community and interaction. It is also an opportunity to get information regarding the situation of each member in relation to their future loan repayment performance.

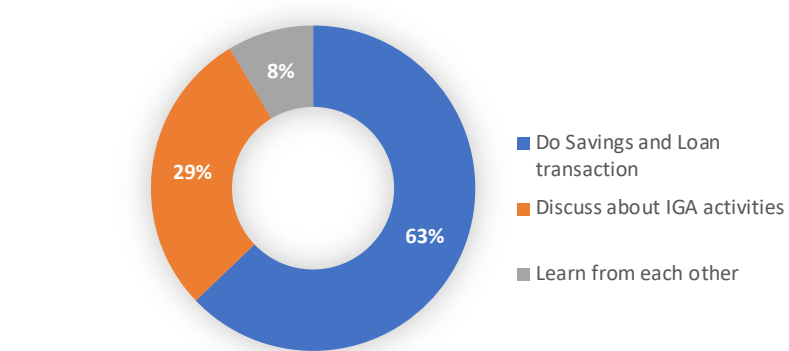


Figure 26. Purposes of SHG regular meeting

Linking to banks financial services is at very nascent stage. There were a total of 22 SHG members reported to have accessed loan from Nayoby Bank. The total amount of loan accessed was 360M with the average of 16M per borrower. Linking to banks is another way to improve financial inclusion as SHG members can access bigger funding support through the formal financial system.

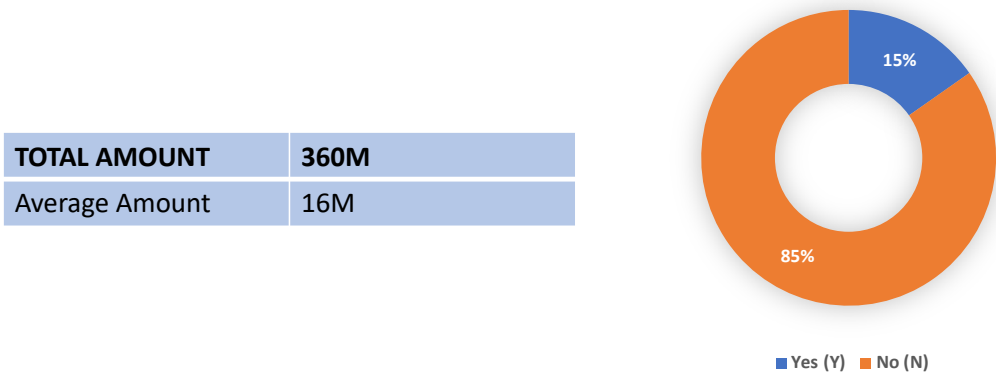


Figure 27. SHG members access to bank loan

Overall Observation in relation to Financial Inclusion

Member actively participating in SHG savings activity and accessing the loan. There have not been any serious issues with the late repayment of the loan. The grant seed money has been disbursed. For PG activities, members are very active and they represent a good example for others in the village by doing IGA. They said that organizing themselves into producer groups is a good approach so that members who have the same IGA can share experiences, and lessons learned and share their plans to improve and how to grow their business. There is a request from PG in pig raising for a pig feed pellet machine that can be owned by the group so that everyone can use it collectively. If they have the machine then it will allow them to apply what they have learned in the training on how to prepare locally produced feeds for a pig--

they have received training on how to make it but have not actually practiced it yet since they don't have the equipment.

SHGs members have access to credit to use to fund their IGA, but some SHGs have a limited fund, and the loan size is not meet and suitable for their IGA. The interest payment term is every 3 months but one SHG collected the total loan interest in advance during loan disbursement and the loan principal is paid at the end of the contract (the loan term is about 6 months and 12 months). The summaries of the total amount of loans and savings cannot easily be looked up/found in the accounting books (loan disbursement and repayment record book). These books are always available--loan disbursement and repayment records for each borrower. For necessary equipment, there is no safe, no cupboard to keep and protect accounting books and even no small calculator is not available for the SHG and VSMC.

For new SHGs, they have not received any training yet. Also, the grant seed fund has not been disbursed and they don't have loan activities yet. The members have started savings, but a still small amount. The accounting books have not been installed so they don't have any VSMC books to record, and when members deposited saving, they just write on a piece of paper or a notebook.

4.4. ECONOMIC INCLUSION PERFORMANCE

The level of economic inclusion achieved is highly satisfactory with a range of IGAs households are able to operate. The current level of achievement in this respect is also aligned to the poverty alleviation objectives of the 8th NSEDP.

The Family Investment Plan training was found to be beneficial. Ninety eight percent of the members doing IGA cited to receive FIP training. This capacitated them to plan their IGA implementation. In addition, it was able to improve their knowledge and skills to engage in a variety of IGAs to improve their household cashflow.

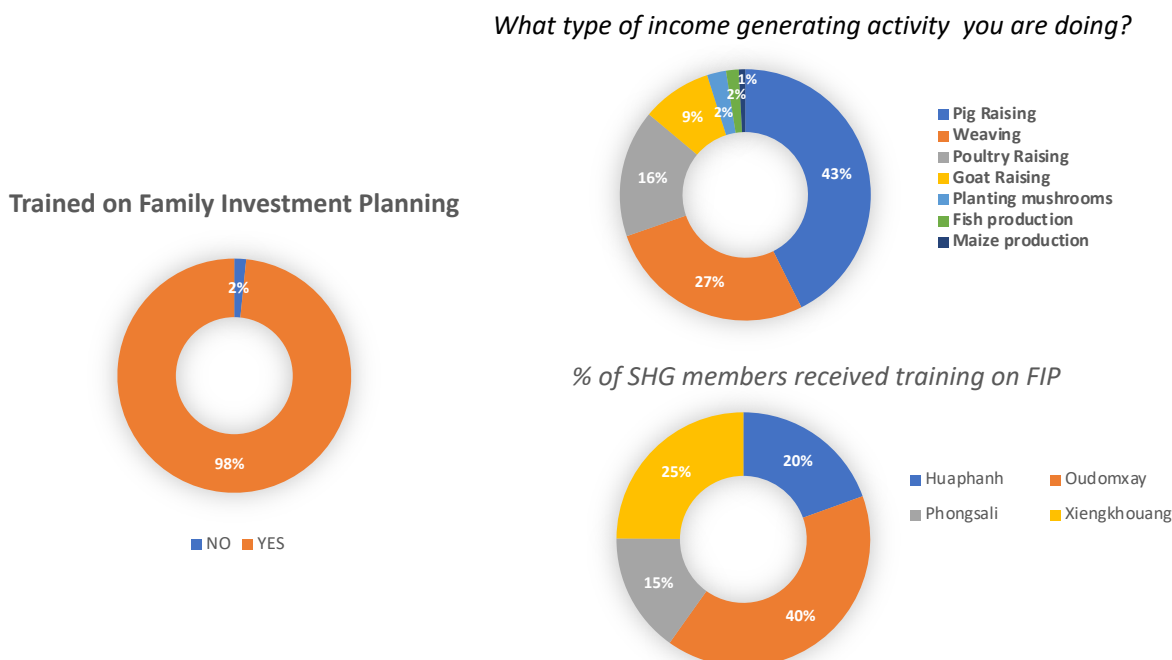


Figure 28. Percent of FIP trained, IGA activities and participants per province.

The SHG performance in terms of loan investment vs. return (interest earning) has been highly satisfactory. Based on the 90 SHGs that were surveyed, the total loan disbursed reached more than 900M LAK while the total loan paid was about 182M LAK. The interest rate on loan per year is 12% thus potentially the rate of return would have reached 18M LAK on the total loan portfolio. The interest rate on loan is significantly lower than the prevailing interest rate on loan in the microfinance sector which average at maximum at 36% per annum. Thus the SHGs are able to provide affordable loan services to target households. In addition, the **credit to deposit ratio is 3.4: 1**. The ideal level should be between 0.8 to 0.9 as a standard practice to ensure that there is enough funds available to meet future funding requirement of members to support their IGA.

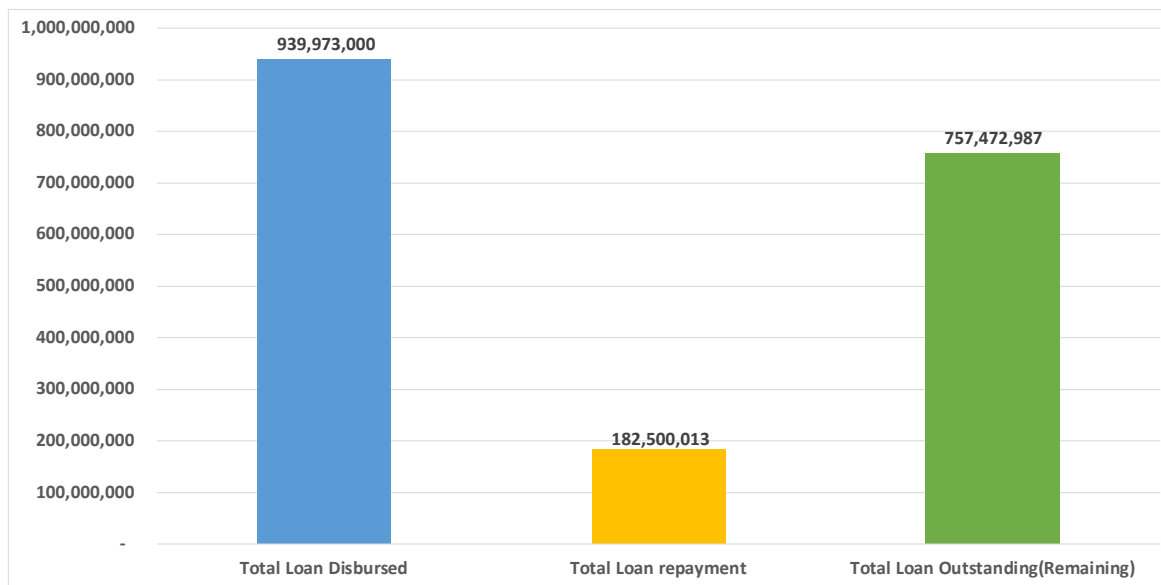


Figure 29. Loan Portfolio performance based on the SHG interviewed (n=90 SHGs) in Lao Kip

Based on the interviews with the SHGs, member were able to effectively gain total additional income through their IGAs. The total increase in income amounted 1.7B LAK. IGA-wise the total income generated is shown below in absolute amount and percentage. Majority of the IGAs generated increased in income more than 100%. For fish production its unusually high since funding enabled members to rear fish in high density stocking and there were high demand.

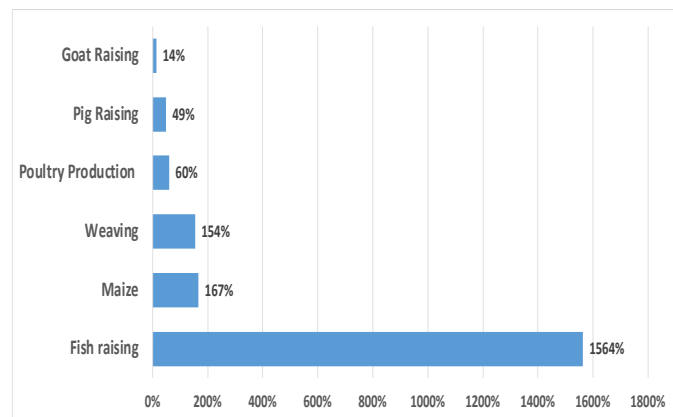
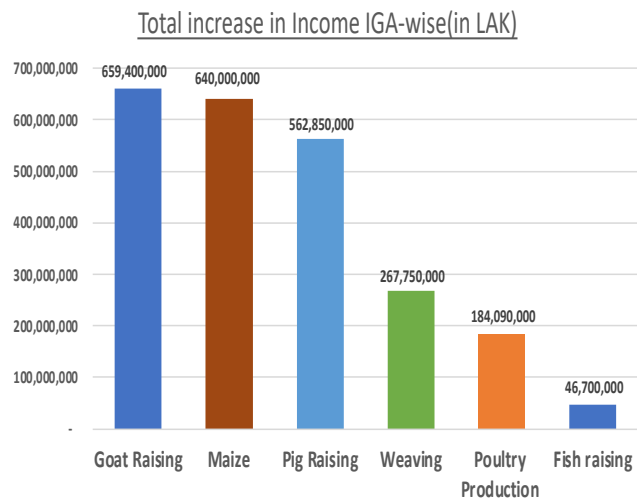


Figure 30. Total income generated from various IGA activities of target households(n=90SHGs)

On average, based on the individual member IGA cost and return analysis it showed that they were able to generate additional cash through their IGAs with some significantly contributing to the household cashflow especially in fish production, poultry training, maize production and weaving. The case of fish production generated huge net income since the demand for fish in Xiengkhoung province is very high so that the producer can command better price. Also for poultry this is one of the produce that has high and constant demand in the local market.

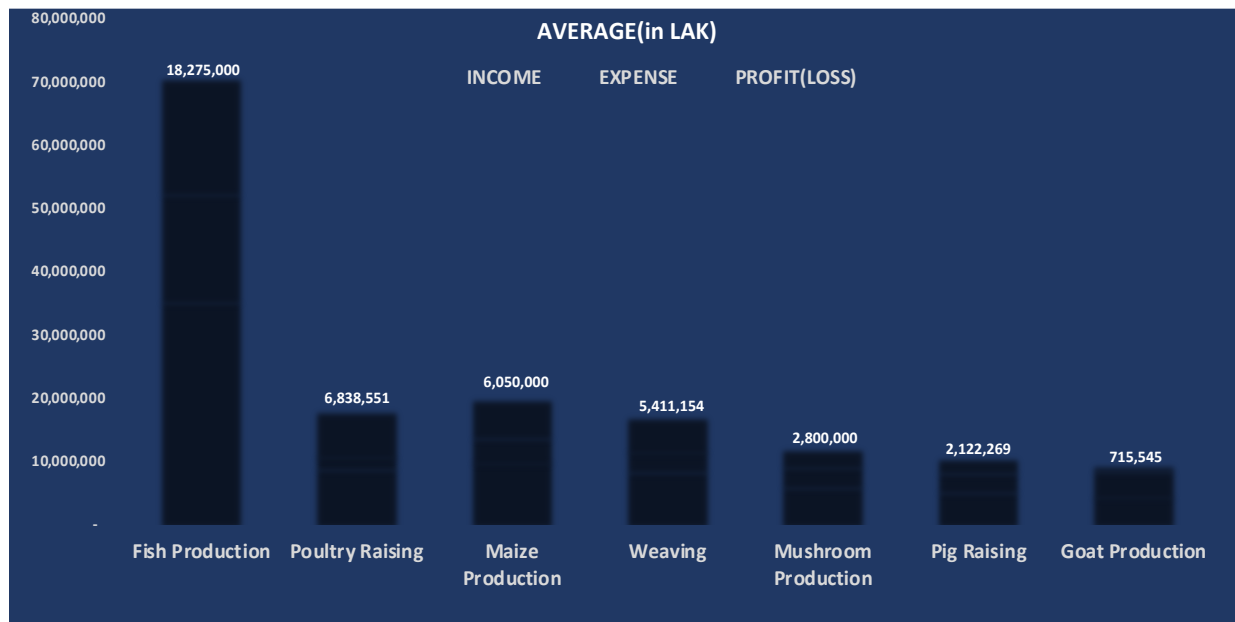


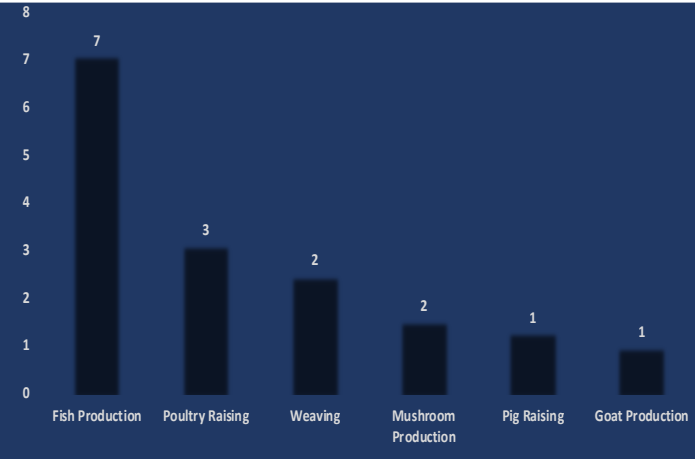
Figure 31. Cost and Return of various IGA by target households (n=120 members with IGA)

Table 2 below shows the details of the income and expense per IGA as reported by the members that were interviewed. It must be noted that these are mainly based on recall since the members do not have concrete record of their IGA cost and benefit.

| Income Generating Activities | INCOME(LAK) | EXPENSE(LAK) | PROFIT(LOSS)(LAK) |
|------------------------------|-------------|--------------|-------------------|
| Fish Production | 35,300,000 | 17,025,000 | 18,275,000 |
| Poultry Raising | 8,899,800 | 2,061,249 | 6,838,551 |
| Maize Production | 9,900,000 | 3,850,000 | 6,050,000 |
| Weaving | 8,517,648 | 3,106,493 | 5,411,154 |
| Mushroom Production | 6,000,000 | 3,200,000 | 2,800,000 |
| Pig Raising | 5,238,942 | 3,116,673 | 2,122,269 |
| Goat Production | 4,636,364 | 3,920,818 | 715,545 |

Table 2. Details of the cost and return analysis IGA-wise

The income to loan coverage shows that almost all of the IGAs that SHG members implemented has a cashflow level that can sufficiently cover to repay their loan. Notably, poultry and weaving having better coverage. In addition, it was proven that the members that have generated additional income form IGA also performed better in loan repayment.



Is the member that have more income from IGA payback better?



Figure 32. Income to loan ratio and repayment performance

IGA income as percent of the per capita GNI proved that it made significant contribution, for most IGAs, to the target household incomes. This is one interesting indicator that relates to economic inclusion is to examine to what extent additional income from IGA contributes to household income.

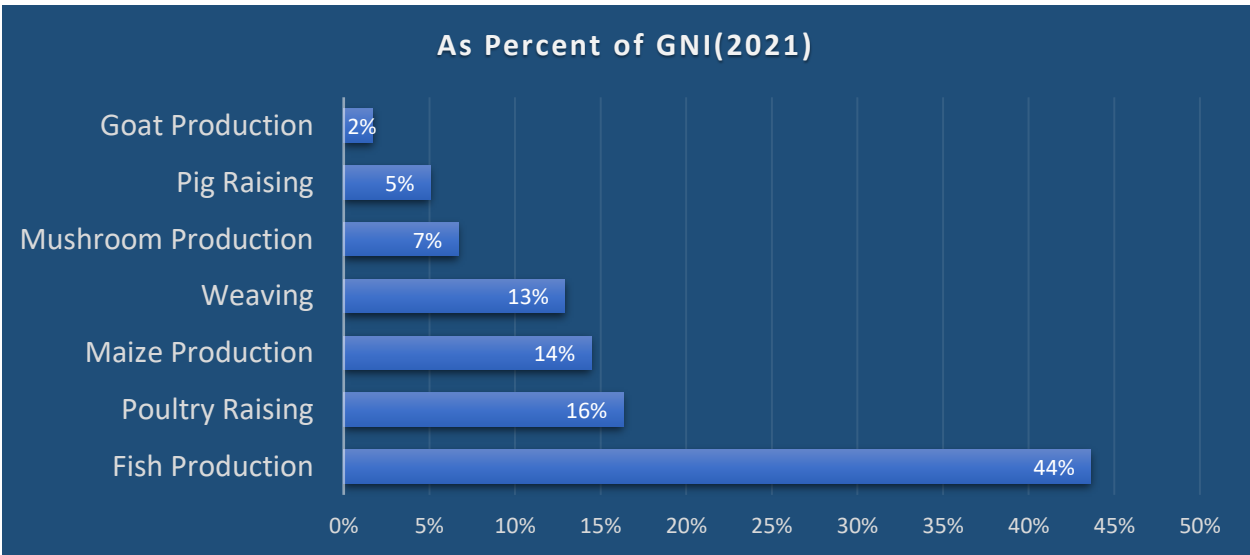


Figure 33. IGA income as percent of per capita GNI

The IGAs of the target households also was able to successfully produce substantial level of productivity. This is important because it also allowed target household not only contribute to production but also to access reliable source of protein for their households. Notably, a total of more that 10Kgs production or an average of 127Kgs per household was achieved. The highest level was in Fish production and pig raising at 398kgs on average and 165kgs in fish production and pig raising respectively. This has resulted in better access to meat thus contributing to better food security and nutrition.

| Livestock | Numbrer of HHs | Total Loan | Number.of Animals | Kgs at Marketable Size | PRODUCTION PERFOMANCE | |
|--------------------|----------------|--------------------|-------------------|------------------------|-----------------------|-------------|
| | | | | | Total Kgs | Average Kgs |
| Chicken Raising | 20 | 23,000,000 | 387 | 1.5 | 581 | 29 |
| Goat raising | 11 | 29,000,000 | 33 | 25 | 825 | 75 |
| Fish raising | 2 | 10,000,000 | 2,340 | 0.34 | 796 | 398 |
| Pig raising | 52 | 58,000,000 | 172 | 50 | 8,600 | 165 |
| Grand Total | 85 | 120,000,000 | 2,932 | | 10,801 | 127 |

Table 3. Livestock meat production volume by IGA

Overall Observation in relation to Economic Inclusion

The training on business planning for the committee(VSMC) and IGA planning for the member is a very effective and good approach. Members were encouraged and are active in implementing the IGA that they selected. Members with the right training and capacity building can increase the productivity of their selected IGA and also provide an additional food source for their family.

For old SHG, only Committee receives training on a business plan. The volume of savings is still low and needed more focus to improve savings mobilization—members tend to depend and wait more on grants. If this situation continues the SHG will experience slow growth, because the demand for funding will continue to increase and there will be not enough money to fund the producers' group and the individual IGAs.

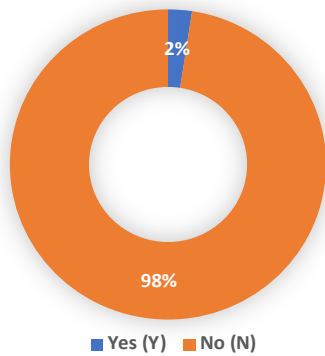
The PGs are still in the early stage of organizational development and still need more support.

4.5. MONITORING and Post-PROJECT SUSTAINABILITY

The MIS provides relevant information both for project management and for VSMC use. The usefulness and ease of use of the MIS needs to be improved to benefit the VSMCs so that they are able to use relevant information to make decisions in managing the operations of the SHGs.

Majority, of the VSMC however needs to appreciate the use of the information that are made available for them thus the MIS. In addition, 72% cited that they find it difficult to use and prepare the reports. Since the maintenance of the accounting books of the SHGs still highly manual and relies of single-entry system which also makes it difficult to consolidate and produce monitoring reports.

VSMC that uses the information it produces



VSMC feel about the MIS—particularly its ease of use

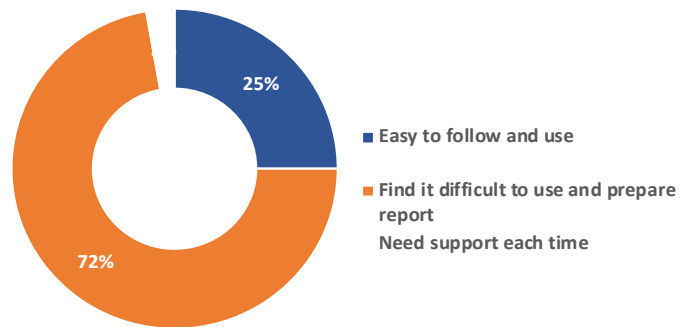
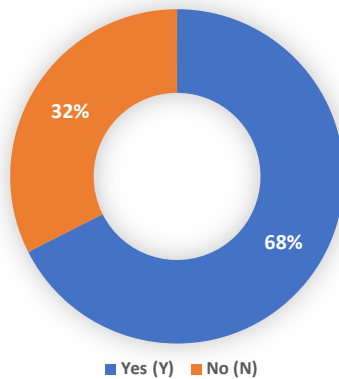


Figure 34. MIS usefulness and ease of use

The MIS system is always on time as cited by 68%. Although it takes an average of 10 days for VSMC to know about late payments on loan. While on the other hand, majority observed that the MIS provides relevant information for the right people at different levels of stakeholders.

Does MIS information reliable and available in a timely manner?



Does MIS provide relevant information for the right people at different levels of stakeholders?

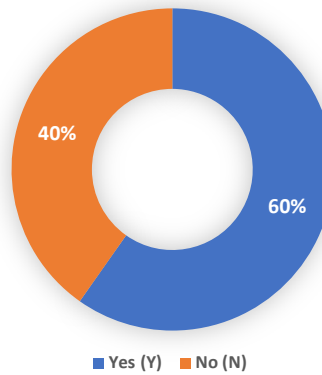


Figure 35. MIS reliability and timeliness

The MIS has an extensive scope of information available aside from project monitoring reports but also in relation to loans and savings accounts and SHG performance data. However, the use of this information is more for project administration consumption. The VSMC should be able to learn how to use these information how it relates to SHG performance.

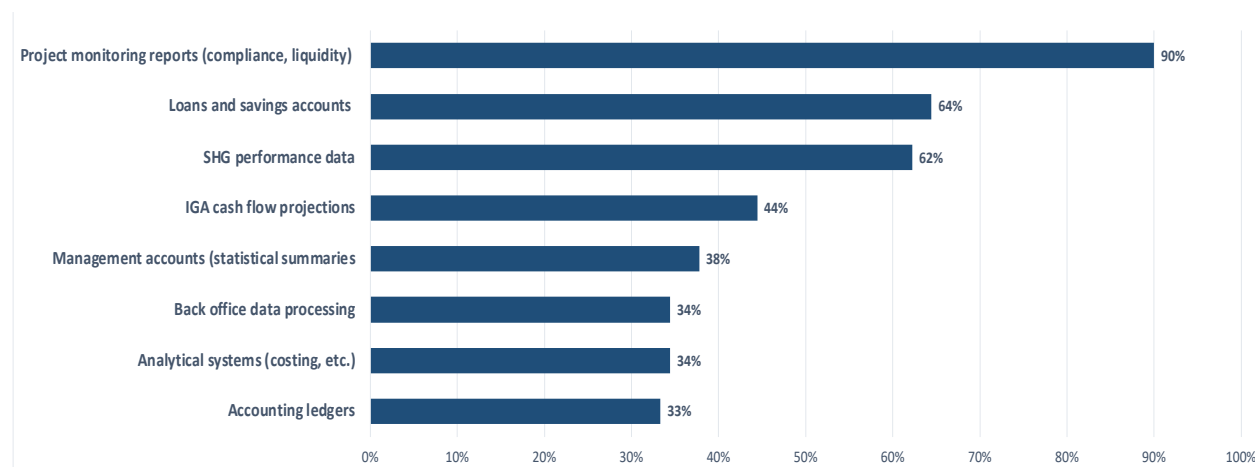


Figure 36. Range of information provided by the MIS by percentage

Overall Observation in relation to Monitoring and Post-project sustainability

Staff is monthly monitoring in the field, fixed date for opening/operating SHG, and collecting savings is an effective approach. However, the staff said that they do monthly excel monitoring, but when the assessment team asked to get the file to check, it took some time to share the information and they write only the information requested on a sheet of paper and give it to the team during the interview and some were provided later.

The savings activity should be intensified to ensure that the SHG will be able to have sustainable funding sources not only from the grant seed fund. It is still too early to tell how well the SHG will be able to attain the level of savings mobilization that can support future funding needs of members to fund IGA and other needs.

In the lending operation, there is a need to strengthen loan management and monitoring, especially the risk in the loan portfolio, and not only depend on the repayment as a measure of quality. It was not possible to measure the risk in the portfolio during the assessment since there was the aging of the loan that has matured hence portfolio at risk cannot be measured. This is one area in which the VSMC must be provided with the training.

The VSMC needs to be able to access continued capacity-building support to sustain the operations of the SHG and safeguard the savings of members. An option is to link them up to an MFI that can provide monitoring and capacity building and also complement the products of the SHG.

5. CONCLUSION and RECOMMENDATION

A. In relation to SHG

In relation to the SHG institution building process, the overall performance was highly satisfactory with all of the 5 common principles effectively complied except for the inter-lending approach as shown in Figure 37 below.

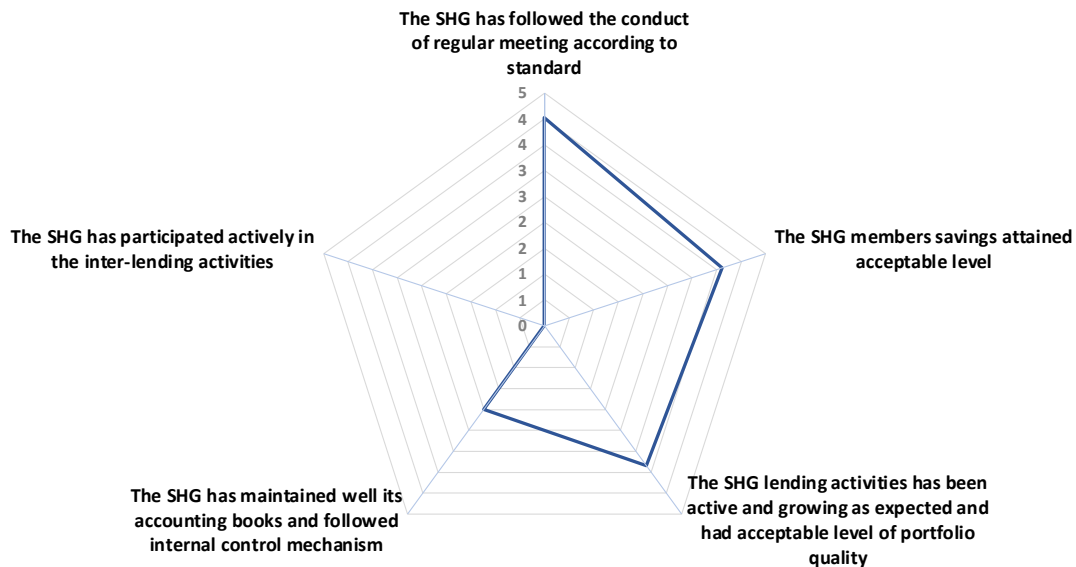


Figure 37. Overall SHG institution building process performance

The financial inclusion situation has improved and the SHG has benefited the members to access savings and loans which otherwise would be costly for them if accessed thru other financial services providers. The IGAs funded have provided benefits for additional income and food thus impacting nutrition. While on the other hand, the SHG was able to attain still a good level of credit-to-deposit ratio of 3.4:1 while providing a positive return to member savings in the form of a dividend. The average savings to GNI per capita ratio of 1% indicates that the VCS is reaching poorer households. While the average loan to GNI per capita ratio of 10% remains within the standard microfinance level of below 20% meaning that poor households are accessing the loans provided by the SHGs.

There are key aspects however that needs need to be given focus and strengthened. The financial controls are still weak and the SHG accounting books need to be improved. It is recommended that the VSMC must have a real-time electronic copy of the SHGs books using a simple excel tool. Also, there is a need to provide the necessary equipment (such as a safebox) and stationary that important for cash and important document keeping.

The SHG must continue to improve its savings and loan portfolio monitoring. Aside from monitoring repayment rate as an indicator of loan portfolio quality, the VSMC must be able to monitor risk in the portfolio through indicators like portfolio-at-risk(PAR) which is commonly used in microfinance to reflect

portfolio risk. There is a need also to provide additional training to the VSMCs on MIS and how to use the information it provides.

In addition, as post-project sustainability, there should be a mechanism to support the VSMC and SHG to access the sustainable capacity building and monitoring support. This can be done by considering linking the VSMC with an MFI or an SCU that can provide capacity-building services and also provide complementary financial services.

B. In relation to Producers Group

Economic inclusion has been achieved as members were able to operate a range of IGAs that have improved access to cash and also to food availability. The Producers Group, although at an early stage of organizational formation, has followed a satisfactory process of formation especially since there is strong participation, well-defined governance, and management in place. There is also a very strong shared vision toward consolidation of their activities and also in other related activities such as procurement and some extent marketing. But this has to be strengthened and well-guided. In addition, there is a need to improve the scope of market linkage.

An important aspect to be supported and improved is the area of financial control which needs to be strengthened.

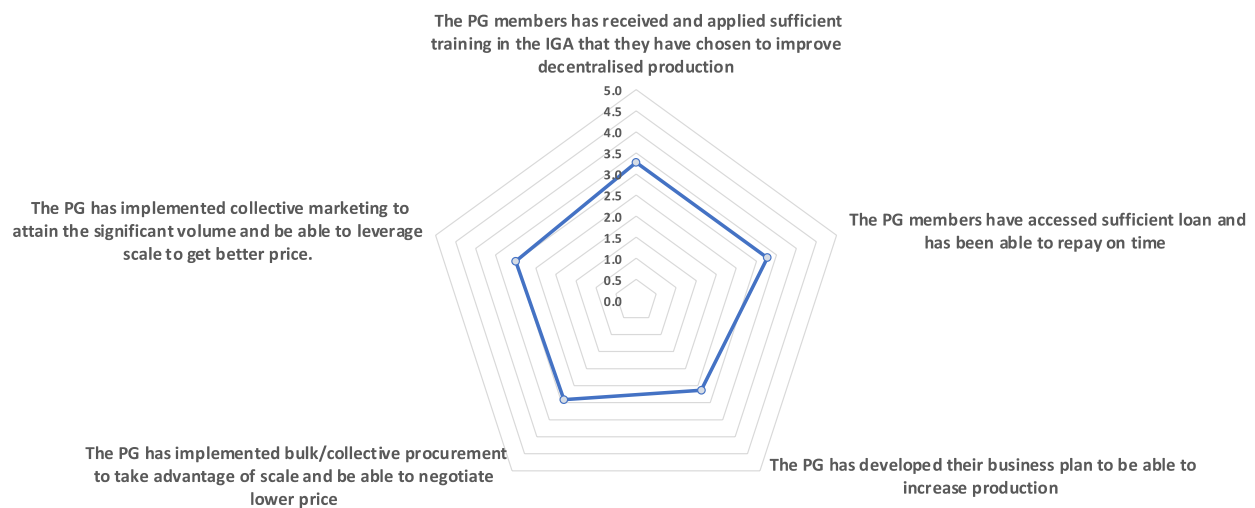


Figure 38. Producers Group overall institution building performance

The training provided has attained its intended outcome but there is a need for follow-up training on good agricultural practices. Lastly, it was not possible to assess the real risk in the loan portfolio but the product appears to be suited to the needs of the PG members with most of those that engaged in an IGA generating an acceptable level of loan-to-income coverage and improved productivity. It is recommended also to increase the amount of loan that can be accessed to make sure that it is sufficient for the need for the IGA to be financed.

C. In relation to Members IGA

The members who are in poor households were able to access funding and implement their IGAs and generate additional cash and secure food. There was sufficient income to loan coverage for some IGA shows that it can be supported with more funding to allow members to expand—especially weaving and pig raising. SHG members were able to engage in an IGA to provide additional income and also to provide food for the family.

The training proved to be useful and improved the knowledge and skills needed to operate their IGAs. However, the level of adoption of good agricultural practices needs to be intensified although there are already good practices in place. The majority felt that there is a need to have more training and extension services to reduce crop loss and product spoilage. It was challenging to have members recall the costs incurred in their IGAs and also the parameters of selling their produce. There is a need to provide capacity-building support for the SHG members to learn how to do cost and return of their IGAs so they know if they get profit or not.

6. ANNEXES

Annex 1- Exit Meeting PPT Deck

Annex 2- Questionnaire for SHG

Annex 3- Questionnaire for PG

Annex 4-Questionnaire for Members with IGA

Annex 5-Schedule of Fieldwork and List of SHGs and PGs Visited