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Does Microfinance Reduce Poverty in Lao PDR?
Case study of Village Development Funds (VDFs) at Sukuma District Champassak Province, Lao PDR

Inpaeng SAYVAYA

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Inpaeng SAYVAYA

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Inpaeng SAYVAYA is a Master's Degree student of Development and Planning Economics at the National University of Laos (Lao PDR). Currently he works as an assistant lecturer at the Faculty of Economics and Management, Champassak University of Lao PDR since he graduated from Bachelor of Economics in 2005.

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For more information, please contact the Technical Coordination and Communication Department of Mekong Institute, Khon Kaen, Thailand.

Telephone: +66 43 202411-2
Fax: + 66 43 343131
Email: library@mekonginstitute.org

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Comments on this paper should be sent to the author
Inpaeng SAYVAYA: Faculty of Economic and Management, National University of Laos, PO Box 7322, Vientiane, Lao PDR. Tel: + 856 20 22070879, Email: inpaeng@yahoo.com

or

Technical Coordination and Communication Department, Mekong Institute

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List of Abbreviations

CPC	:	Committee for Planning Cooperation
CPI	:	Consumer Price Index
FIAM	:	Foundation for Integrated Agricultural Management
HH	:	Household
Lao PDR	:	Lao People’s Democratic Republic
LWU	:	Lao Women’s Union
LCRDPE	:	Leading Committee for Rural Development and Poverty Eradication
LECS	:	Lao Expenditure and Consumption Survey
MINZAS	:	Mekong Institute-New Zealand Ambassador Scholarship
MFIs	:	Micro Finance Institutions
NGPES	:	National Growth and Poverty Eradication Strategy
No	:	Number
OLS	:	Ordinary Least Square
PM	:	Prime Minister
PPA	:	Participatory Poverty Assessment
SHGs	:	Self-Help Groups
VDFs	:	Village Development Funds
VDFSCs	:	Village Development Fund Supervision Committees

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Abstract

The purpose of this study is to present the problems of Village Development Funds (VDFs) members in terms of borrowing money, repaying loans and saving deposit. It also examined the impact of VDFs on poverty in terms of income, expenditures, and savings by adopting the methods used by Coleman (1999). The survey was conducted on June 2012, with 15 villages at Sukuma district in rural area southern of Laos. All these villages have VDFs which were in operation for various lengths of time. The villagers were allowed to decide for themselves if they wanted to be members or not. The sample was conducted in 361 households which included 113 household members and 248 households non-members. The study found that the main problems of members for saving deposit in VDFs is that they have irregular income and the accounting system of VDFs was not clear. They also found it difficult to borrow money from VDFs because first, the loan size was very small and not enough for generating income or running a business; second, they do not have collateral for loan; and third, the steps to borrow money was very difficult. The main causes of difficulty in paying back loans are first, members in household were sick and there was lack of market demand for products of the household; second, they used enterprise capital on consumption; third, the loan activity was not profitable. To analyze the impact of VDFs on household income, expenditure and saving of members, this study shows that VDFs program does not have significant impact on household income, expenditures, and savings. There were also some problems with management of VDFs. Some of the borrowers took loans for non-productive purposes. Thus, in conclusion, the Village Development Funds program might not reduce poverty in Sukuma District, Champassak Province.

1. Introduction

Microfinance is an important source of income for the poor in developing countries. It provides the funding for these people to start income generating activities and to smooth their household's consumption. People considered having low income people have difficulties in obtaining finance from formal financial institutions such as commercial banks, due to barriers such as high collateral requirements and complicated application procedures (Deepty, 2010; Yunus, 2001 and Hulme &Mosley, 1996). However, there is strong demand for small-scale commercial financial services (for both credit and savings) among the economically active poor in developing countries. These and other financial services help low-income people improve household and enterprise management, increase productivities, smooth income flows, enlarge and diversify their microenterprises, and increase their incomes (Robinson, 2001). In order to find impact of microfinance program, impact assessment studies have been done by many authors in different countries. There are various studies which conclude that microfinance program has a significant positive impact in increasing income and reducing poverty. However, other studies have also shown that microfinance is not an effective tool to eliminate poverty.

Sarangi (2007); Yamuna (2007); Katsushi and Md. Shafiul (2011); Hossain (1998); Mishra and Hossain (2001); World Bank (1999); Deepty Bansal (2010); Hulme and Mosley (1996); Khandker (1998) have confirmed that microfinance programs make positive impact on income and poverty. Research by Katsushi (2011) and Khandker (1998); Nguyen Viet Cuong et al (2007); Pitt and Khandker (1998); and Khandker (2003) also found that microfinance could increase household expenditure and Yamuna (2007) in the study of the Coimbatore district, concludes that microfinance programs have positive impact on savings.

However, some studies, such as Morduch (1998) in study of Bangladesh, and Coleman (1999) in study of Thailand, they find no significant impact of microfinance on income and in reducing poverty. Morduch also found that the eligible households that participated in the microfinance programs have strikingly less consumption levels than the eligible households living in villages without the programs. The relationship between microfinance and poverty is still in question and this paper provides further empirical evidence on the poverty-reducing effects of microfinance.

Lao PDR is one of the poorest countries in East Asia in terms of an estimated per capita income of US$ 390 in 2004, and 71% of Lao population lived on less than US$2 a day, and 23% on less than US$1 a day in 2004 (World Bank Vientiane Office, 2006). According to Ministry of Planning Investment (2009), 27.6% of the population lived under the national poverty line; with 82% of the poor living in rural areas. The numbers of poor households are estimated to total 198,676 households[1], which accounts for 18.86% of the total number of households in the country. Many countries recognize that microfinance can play an important role in economic development as one of the tools for poverty reduction. Access to financial services is a major issue for both rural and urban areas of Laos. Consequently, the government of Laos recognizes that access to rural finance and microfinance could be one of the major tools for poverty alleviation and places microfinance activities as one of the priority programs for the agriculture and forestry sector in order to promote sustainable growth and poverty eradication under the National Growth and Poverty Eradication Strategy (NGPES) (2004). Since 1987, the broad approach of microfinance, including in kind and in cash revolving role fund, has been implemented by numerous development projects which includes those of government. However, the microfinance sector is still relatively new in Laos. Although donors have made a significant investment in the last few years in microfinance programs the sector is developing very slowly. About one million economically active people potentially require access to formal or semi-formal microfinance services. However, almost three quarters cannot reach them. Approximately 300,000 people recently accessed loan and savings services. Only 21% have access to microcredit from the formal sector, 33% are dependent on the semi-formal sector and project initiatives and the rest 46% are obtaining financial service from the informal sector. In the Lao PDR there is huge demand for microfinance services. This is reflected in the fact that 80% of the populations in Lao PDR lack access to financial services, in addition to new jobs being created at an estimated rate of 90,000 positions per year that may also require financial services, employment and opportunities for income generation are crucial for poverty reduction (Microfinance Capacity Building and Research Programme, 2005). In 2003-2004 Lao government established Village Development Funds (VDFs) with funding of government's own budget to reduce poverty in the 47 poorest districts of the Lao PDR by contribution was

[1] The Lao National Leading Committee for Rural Development and Poverty Eradication, Lao PDR (2011: 1)

25 billion kip and it was set up at Sukuma district, Champassak province in 2004-2005 with government's fund of 500 million Kip to reduce poverty and to boost the economy.

Very few empirical studies have conducted to examine the effect of microfinance on individual, household, community, or institutional levels in Laos and to test whether or not microfinance is one of tools for poverty reduction. The empirical studies of Lao microfinance such as microfinance on Saithani case[2] by Sichanthongthip (2004) showed a positive impact of microcredit on income level of individual borrower. The study involved evaluating the impact of a microfinance program (Lao Women's Union's Savings Group) in a semi-urban area of Laos using a questionnaire to collect primary household data from members of the microfinance program at two points of time (before and after borrowing)[3]. The result of studying found the program has positive impact on income. However, he did not control for selection bias in the sample. Kyophilavong and Chaleunsinh (2005) estimated the impact of LWU's Savings Group in semi-urban area of Laos by conducting survey for both members and nonmembers of Savings Group. They presented only means comparison of many impact indicators for both members and nonmembers, the results may overestimate the impact of the program.

This study will attempt to examine the impact of microfinance programs in Laos; this study selected the Village Development Funds (VDFs) program in Sukuma district as a case study, which this program focus on poverty reduction in 47 poorest districts by facilitating access to sources of funds to the poor people for production purposes, income-generating activities for household, community, self-employment generating, increase income from cultivation, livestock breeding, handicraft and services under their potential and to also improve their livelihood level to better. Sukuma district is selected for this study because it's a poorest district in Laos and also a poorest of 10 districts in Champassak province, with poor households was 34.61% of total households[4], which accounted for highest percent to compare other districts in Champassak province (see table 1). In addition, some management of VDFs committees were failure on village level, especially credit management etc. Sukuma district is

[2] Saithani case is derived from that the Saithani Small and Rural Development Project (Saithani Project) which was established in 1996. The Project is a cooperative management between Lao Women's Union and the Foundation for Integrated Agricultural Management (FIAM) (Sichanthongthip, 2004:21).

[3] Data before the borrowing was collected by respondent recall.

[4] Assessment of poverty and development under decree, No.285/PM, the Leading Committee for Rural Development and Poverty Eradication (LCRDPE), May 2011.

located in a rural area of Champassak province, southern of Laos; and agriculture is also the main occupation of the people and form the backbone of the state economy of Sukuma district; and it is covering 15 villages with VDFs program for reducing poverty and community's empowerment. However, there is no study about this program whether VDFs has impact on poor in Sukuma district. Therefore, the impact of Village Development Funds program on poor is not well understood.

Table 1. Percent of Poor Households in 10 Districts of Champassak Province in 2011

District	Total number of households	Number of poor households	Percent of poor households (%)
Pakse	12,798	5	0.04
Sanasomboune	12,476	211	1.69
Barchieng Chalernsuk	9,118	522	5.72
Paksong	12,195	3,666	30.06
Pathoumphone	9,771	1,288	13.18
Phonethong	15,543	369	2.37
Champassak	9,980	789	7.91
Sukuma	8,545	2,957	34.61
Moune Larpamoke	5,507	1,114	20.23
Khong	14,389	39	0.27

Source: The Leading Committee for Rural Development and Poverty Eradication (LCRDPE), May 2011

2. Review of Literature

Some key words to be referred in this paper have following definitions:

Microfinance means the provision of a broad range of financial services, such as cash based credit, deposits, insurance, etc., to the poor, low-income households, and their micro-enterprises.

Village Development Funds is an important policy implementation of Lao government with funding from the government's own budget for component to be revolves fund for providing credit, with low interest rates to poor people in the 47 poorest districts of Laos, for production purposes or income-generating activities, to enhance to strengthen communities.

Poverty is the deprivation of basic needs for daily livelihood such as shortage of food that cannot the energy of 2,100 kilocalories per person per day; deprivation of clothes and durable shelter; inability to afford for the health care in case of sickness; inability to afford for elementary education; inability to have the access to public services.

2.1 Overview of Village Development Funds in Laos

Background of Village Development Funds

The National Growth and Poverty Eradication Strategy (NGPES) was approved in 2003 by the 4th Ordinary Session of the National Assembly identifying 47 priority districts for poverty eradication. Regarding the lack of capital for income-generating activities as one of the main obstacles to poverty eradication, the government allocated an amount of 25 billion kip for the 47 poorest districts in the 2003-2004 budget to establish VDFs as a source funds for production and services[5]. This should enable the poor to gradually change from traditional to modern technologies and respond to market demand.

To monitor and supervise the utilization of the budgetary resources, the Government established village development fund supervision committees (VDFSCs) at central,

[5] Notice Letter No. 72/CPC, 28 January, 2004.

provincial and district levels.[6] This was followed by an instruction of the Prime Minister's Office and President of the Leading Committee for Rural Development and Poverty Eradication (LCRDPE) on the financial management of the village funds, issued on 14 January, 2009. So far, the current structure of VFSCs is still in force a presented in Figure 1.

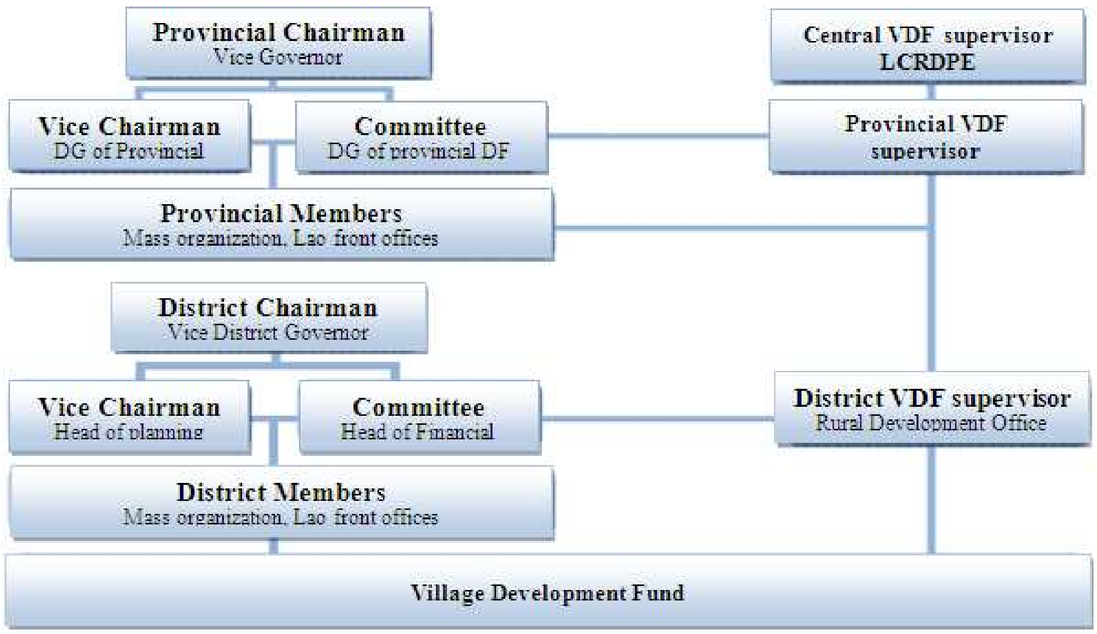

Figure 1. Village Development Fund Supervision Committees (VDFSCs) Chart
Source: Microfinance in the Lao PDR, 2009

2.2 Summary of the Implementation of VDFs in Sukuma District, Champassak Province

From 2004-2005 to 2006-2007 the government allocated some 665.96 million Kip to the Village Development Funds (VDFs) in Sukuma District. 10% of the budget was used for technical support at district levels. 90% was dedicated as seed funds for VDFs.

[6] Decree of the President of the Committee for Planning and Cooperation No. 408/CPC, dated 29 April, 2004

Table 2. Overview of Village Development Funds (VDFs) in Sukuma district, in 2011

Established the VDFs	VDFs started set up in 2004-2005, with government's own budget.
Total amount of budget were allocated to establish and develop the VDFs	2004-2005: allocated of 500 million Kip, ▪ 50 million Kip was used for technical support at district levels ▪ 450 million Kip was dedicated as seed funds for VDFs 2005-2006: allocated of 140 million Kip ▪ 5 million Kip was used for technical support at district levels ▪ 135 million Kip was dedicated as seed funds for VDFs 2006-2007: allocated of 70 million Kip ▪ 4 million Kip was used for technical support at district levels ▪ 66 million Kip was dedicated as seed funds for VDFs
The achieved to establish VDFs in Sukuma district	Established VDFs at 15 villages, which accounted for 26.79% of total villages (total of 56 villages) in the district.
Members and savings	Number of VDFs members: 1,143 households. Savings deposit of members: 180.85 million Kip
Members and loans size	Number of borrowers: 603 households. Total amount of loan provided to members: 791.81 million Kip.
Revolving funds of VDFs	Total revolving funds stood at 831.85 million kip

Source: Rural Development Office of Sukuma district, 2011

Table 3 presents the total number of members in 2011was 1,143 households, which accounted for 31.35% of all households in 15 villages with Village Development Funds, averaging 76 members per VDF, with total savings of 180.85 million Kip, and average 185,000 Kip (US$23.19) per member per year. Of 603 members (52.76% of all members) borrowed money from VDFs, averaging 40 borrowers per VDF; with total loans of 791.80

million Kip and average 1.31 million Kip (US$164.18) per borrower per year, this loan size was very small, which not enough for generating income of borrowers, but contrast they might use loans for consumption.

Table 3. VDFs Covered, Members Access, Savings and Loan In Sukuma District, in 2011

Name of village	Number of households in the village with VDFs	Number of VDFs' members (household)	Amount of Savings of members (Kip)	Number of members borrowed (household)	Amount of loans (Kip)
Hieng	429	202	8,332,000	35	56,089,000
Huaypherng	79	37	3,300,000	28	46,520,000
Nondaengnuea	353	79	8,600,000	28	46,520,000
Parkcharng	207	75	4,500,000	22	41,713,000
Huayhae	403	25	5,580,000	25	40,700,000
Tharddonexai	110	18	3,465,000	18	33,465,000
Donekong	88	39	5,665,000	31	19,226,000
Thardsarmparn	272	75	4,559,000	28	44,059,000
Nonaueng	90	90	20,102,000	50	75,102,000
Phaktop	100	33	1,000,000	26	43,814,000
Saenmaueng	224	96	22,014,000	71	56,709,000
Yarngsao	61	55	8,245,000	28	28,550,000
Nondaengtai	165	97	3,000,000	58	74,515,000
Outhoumphon	358	121	43,968,000	106	88,200,000
Sukuma	707	101	38,521,000	49	96,627,000
Total	**3,646**	**1,143**	**180,851,000**	**603**	**791,809,000**

Source: Rural Development Office of Sukuma district, 2011

2.3 Overview of Poverty in Laos

National Poverty Line and Criteria

The national poverty line has been developed and considered the most appropriate in the situation of the country. According to the real situation of the country, technically poverty is the deprivation of basic needs for daily livelihood such as shortage of food that cannot the energy of 2,100 kilocalories per person per day; deprivation of clothes and durable shelter; inability to afford for the health care in case of sickness; inability to afford for elementary education; inability to have the access to public services.

The poverty measurement basis is the monthly per capita income regardless gender, age and taking the national currency as the measurement unit, which approximately equals to 192,000 kip of income per person per month of which 240,000 kip for urban and 180,000 kip for rural inhabitants. Poverty criteria have been identified at household, village and district levels as shows on table 4.

Table 4. Household, Village and District's Poverty Criteria, Under Decree, No.285/PM

Household's Poverty Criteria	• Considered as poor household, any household that has an average monthly per capita income less than 192,000 kip (240,000 kip for urban and 180,000 kip for rural) per person per month.
Village's Poverty Criteria	• Considered as poor village, any village that lacks of the foundational conditions for the development as the following: – 51% and more of households within the village are considered as poor households. – No primary school, children schooling in the nearest village take more than one walking-hour. – No health care net such as drug revolving fund, drug store; villager going to the nearest health center or

	district's hospital takes more than two walking-hours. – No clean water available. – No all-weather road access.
District's Poverty Criteria	• Considered as poor district, any district that has 51% and more of poor villages within the district.

Source: Decree on Poverty and Development Criteria for 2010-2015. No. 285 of October 13th 2009

2.4 Poverty Trends

Lao PDR has seen a steady decline in national poverty headcount since the first LECS survey in 1992/3. Figure 2 shows the poverty headcount rate at the national poverty line and the international poverty line of $1.25 a day.[7] In 1992/3 almost half of the Lao population lived in poverty according to the national poverty line. By 2007/8 the poverty headcount rate was just above a quarter. The international poverty line shows a similarly dramatic drop, from 56.9% to 37.4%.

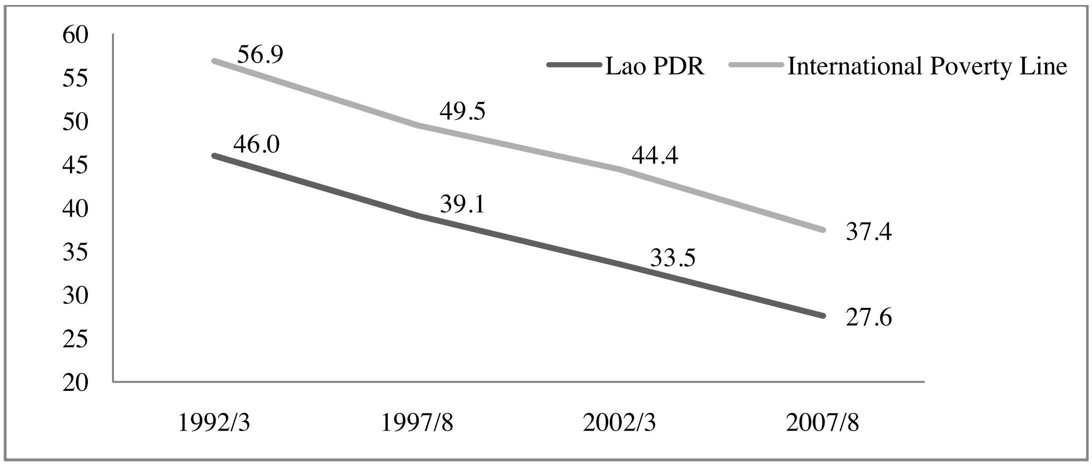

Figure 2. Headcount Poverty Incidence, Lao National Poverty Line and International Poverty Line, 1992/3 to 2007/8
Source: Department of Statistics, Ministry of Planning and Investment, poverty in Lao PDR 1992/3 – 2007/08

[7] The $1.25 poverty line used here was calculated at private consumption purchasing power parity for 2005, then deflated to 2002/3 levels using national CPI data. It was adjusted to account for differences in the cost of living between areas and between and within survey years using the national poverty lines, which already adjust for this temporal and spatial variation.

2.5 Cause of Poverty in Lao PDR[8]

Again based on the PPA, the main indicator of poverty - as determined by the poor themselves - is the degree of rice sufficiency. Thus, commonly cited causes of poverty include insufficient amounts of land for cultivation, and natural disasters, such as flooding or drought. From the core issues and main problems of poverty as identified, the main causes of poverty can be pointed out as follow (according to the level of important indicated by the poor):

1) Problems associate with land;
2) Livestock loss because of lack of veterinary services;
3) Lack of cash investment to make livelihood improvements;
4) Natural disasters;
5) Environmental problems; and
6) Lack of water for agriculture.

Considering the problems and main causes of poverty by region; land allocation and soil depletion problems appear to be especially important to the Northern and Eastern regions; natural disasters are major concern for Southern region; and the large family size is cited as the top concern for people in the Central region. However, common problems for all regions are lack of roads and pests and livestock diseases.

2.6 Impacts of Microfinance on Income, Expenditure and Savings

Impacts of Microfinance on Income

Sarangi (2007) evaluated the impact of microfinance program on rural poor households in some backward regions of Madhya Pradesh in India. Impact assessment results showed a significant positive effect of program participation on increase in the income of the households. Yamuna (2007) studied the changes in the role and status of SHG participants in Solamadevi village of Coimbatore district, and found that all the participants who received bank loans under this scheme started their own businesses have increased in the income level after joining the SHGs. Katsushi S. Imai and Md. Shafiul Azam (2011) examined whether loans from microfinance institutions (MFIs) reduce poverty in Bangladesh drawing upon the

[8] National Growth and Poverty Eradication Strategy (NGPES), 2004, p. 29

nationally representative household panel data covering 4 rounds from 1997 to 2004. They concluded that loans provided by MFIs had significant poverty reducing effects particularly on income in Bangladesh. Deepty Bansal (2010) assessed the impact of microfinance on poverty in rural areas of Punjab. Impact has been measured by comparing the participants of the programme with the non-participants. The comparison is based on the primary data collected from field through an especially prepared schedule. A comparison of programme participants and nonparticipants shows that microfinance programme has increased the individual and household incomes of the participants along with reduction in income inequalities. It has escaped them from financial vulnerability and has reduced their level of poverty. For income-generating activities were through wheat, rice and cotton cultivation etc. which Punjab is also first in average per hectare yield of rice, wheat and cotton in the country.

Mishra and Hossain (2001) assessed the impact on mahila-mandal (a rural SHG in Orissa) in terms of empowerment of rural women and employment generation through programme participation. The study revealed that the average net income per member per year increased from Rs. 6,465 to Rs. 15,325 through scientific cotton cultivation, livestock maintenance and small business like retail shop, dry fish trading etc. The group was maintaining successfully the fair price shop fulfilling the requirements of five nearby villages. Additional employment generated worked out to be 185 person days per member. In this way, the success of these mahila-mandals suggested that these could become a role model for other SHGs. World Bank (1999) conducted for the mid-term review of the poverty alleviation and microfinance project among 675 micro-credit borrowers in Bangladesh found that there had been positive change in the economic and social status of the surveyed borrowers. The survey showed that income had increased for 98% of borrowers; 89% of the borrowers' accumulated new assets; and 29 % had purchased new land, either for homestead or for agriculture. Food intake, clothing and housing had improved for 89%, 88% and 75% of the borrowers. Sanitation conditions improved for 69% and child education for 75% of the borrowers. Hulme and Mosley (1996), conducted various studies on different microfinance programs in numerous countries, and found strong evidence of the positive relationship between access to a credit and the borrower's level of income. The authors indicated that the middle and upper poor received more benefits from income-generating credit initiatives than the poorest. These programs were also examined at the village-level impacts in the study of Khandker et al. (1998) which showed that they have positive impact on average households' annual income, especially in the rural non-farm sector. Copestake et al. (2001), estimated the effect of an urban credit programme – a group-based microcredit programme – in Zambia, and found that microcredit has a significant impact on the growth in enterprise profit and household income in case of the borrowers who have received a second loan. Sichanthongthip's study (2004) also pointed to a positive impact of microcredit on the income level of individual borrowers. This can be seen from the higher monthly income earned after the member accessed credit, in the empirical study of Lao Women's Union on Saithani case. Shaw (2000) studied two microfinance institutions (MFIs) in Southeastern Sri Lanka and showed that the less poor clients' micro-business that accessed loans from microfinance programs could earn more income than those of the poor do. Mosley (2001) evaluated the impact of loans provided by two urban and two rural MFIs on poverty in Bolivia. He found that the net impact of microfinance from all institutions, at the average level, was positive in relation to borrowers' income, even though that net impact for poorer borrowers might be less than the net impact on richer borrowers. Hossain (1988) conducted a study regarding impact assessment of Grameen Bank's microfinance programme in Bangladesh. The study took a comparison between the Grameen Bank members and eligible non-participants in Grameen Bank situated villages. It was found that participation in Grameen Bank's microfinance programme had a positive impact on various economic activities of members and helped in alleviating poverty. The average household income of members was 43% higher than that of target non-participants, and 28% higher than eligible non-participants. However, some studies, such as Morduch (1998) in study of Bangladesh, and Coleman (1999) in study of Thailand find no significant impact of microfinance in generating income and in reducing poverty.

Impacts of Microfinance on Expenditure

Katsushi and Shafiul (2011) examined whether loans from microfinance institutions (MFIs) reduce poverty in Bangladesh drawing upon the nationally representative household panel data covering 4 rounds from 1997 to 2004. They concluded that loans provided by MFIs had significant poverty reducing effects particularly on expenditure in Bangladesh. Pitt and Khandker (1998) estimated the effect of microcredit obtained by both males and females for the Grameen Bank and two other group-based microcredit programs in Bangladesh on various indicators. They showed that the clients of the programs could gain from participating microfinance programs in many ways. It can be seen that income per capita consumption could be increased by accessing a loan from a microcredit program such as the Grameen Bank. Khandker (2003) also conducted research on the long-run impacts of microfinance on household consumption and poverty in Bangladesh by identifying types of impact in six household's outcomes as per capita total expenditure; per capita food expenditure; per capita non-food expenditure; the incidence of moderate and extreme poverty; and household non-land assets.

The research found that the microfinance effects of male borrowing were much weaker than the impact of female borrowing and there was decrease in return to borrowing all the time. Moreover, it is noted that the impact on food expenditure was less pronounced than the one on non-food expenditure. Besides, it is showed that the poorest gained benefits from microfinance and microfinance had a sustainable impact in terms of poverty reduction among program participants. In addition, the author discovered that there was spillover effect of microfinance to reduce poverty at the village level. In contrast, the impact was less noticeable in reducing moderate rather than extreme poverty. Kongpasa (2006) examined the impact of microfinance on household welfare: Case study of as Lao women's Union Saving Group in Naxaithong district, Vientiane, Lao PDR. The results illustrate that the savings group participation has large positive and significant effects on expenditure and household asset, but has negative impact on household yearly income from agriculture. Morduch (1998), however, argued that the eligible households that participated in these three microfinance programs have strikingly less consumption levels than the eligible households living in villages without the programs.

Impacts of Microfinance on Saving

Yamuna (2007) studied the changes in the role and status of SHG participants in Solamadevi village of Coimbatore district. For the purpose of study primary data was collected from 54 SHG members through an interview schedule. The results of the study showed that all the participants who received bank loans under this scheme started their own businesses. There was an increase in the savings, value of assets and household durables after joining the SHGs. One study tried to examine how the Lao Women's Union Savings Group in Laos affects the behavior of member of a village savings group. It showed that the behavior of the village savings group members was changed as a result of participating in a program. While previously savings were kept in the form of gold, livestock, jewelry, deposits in the bank, and savings at home, members now saved in the Savings Group (Kyophilavong and Chaleunsinh, 2005).

3. Research Methodology

3.1 Survey Design and Data Collection

The participants of Village Development Funds (VDFs) program are supposed to utilize microloans to start productive activities, to examine the impacts of the program on income, expenditure and savings of members. Members and non members in the program area with similar characteristics were chosen as a comparison. It might have been better for choosing only members to compare before and after joining the program, because of comparison of members and non members have similar environments as they were sampled , this approach has better reflected to the effect of VDFs program. According to the data from Rural Development Office of Sukuma district, there were 3,646 households (1,143 member and 2,503 non member households) in15 villages with VDFs program at Sukuma district. By using Taro Yamane's equation to determine sample size in this study researcher conducted a survey of 361 households, which including members 113 households and non members 248 households (see table 5).

Questionnaires are done in two sets. One is for households in the 15 villages, which are interviewed for both members and nonmembers. The household questionnaire contained data on household characteristics, income, expenditure, saving deposits, borrowing, reason for participant and non-participant VDF program and the problems of members to save, borrow and pay back loan to VDFs. In each household an adult or household head, who knows almost everything about the household finances, is invited for interview by using 361 questionnaires on the purposes. The second questionnaire is for collecting village information including characteristics of the villages such as distance from village to district center, access to electricity, road, irrigation, school and health care and daily wage in each village etc. This interview was conducted with the 15 head of the villages using one questionnaire per village.

The household surveys are administered by fourth year students of the Faculty of Economics and Management from the Champassak University, together with the author, which conducted on June 2012. These students were trained on how to conduct a survey before interviewing the villagers. During survey period, the author was leader of the team and supervised all students to ensure that correct information was obtained. In addition, the author conducted the village surveys as interviews the head of villages.

Table 5. Sample Size and Population

Name of Villages	**Population**			**Sample size**		
	No. of household as member of VDFs	**No. of household as non-member of VDFs**	**Total household in village**	**Number of household in VDFs**	**Number of nonmember household of VDFs**	**Total of sample size**
1.Hieng	202	227	429	20	22	42
2.Huaypherng	37	42	79	4	4	8
3.Nondaengnuea	79	274	353	8	27	35
4.Parkcharng	75	132	207	8	13	21
5.Huayhae	25	378	403	3	37	40
6.Tharddonexai	18	92	110	2	9	11
7.Donekong	39	49	88	4	5	9
8.Thardsamparng	75	197	272	7	20	27
9.Nonaueng	90	0	90	9	0	9
10.Phaktope	33	67	100	3	7	10
11.Saenmaueng	96	128	224	9	13	22
12.Yarngsao	55	6	61	5	1	6
13.Nondaengtai	97	68	165	9	7	16
14.Outhumphone	121	237	358	12	23	35
15.Sukuma	101	606	707	10	60	70
Total	**1,143**	**2,503**	**3,646**	**113**	**248**	**361**

Sources: Rural Development office of Sukuma district, January 2012 and author’s calculations.

Note: How to estimated total sample size: $n = N/(1 + N * e^2) = 3{,}646/(1 + 3{,}646 * 0.05^2) = 361$

How to divide the sample size for the village i: $ni = (N_i * n)/N$, which i = 1,2,3,…,15.

How to divide the sample size of members for village i:
$ni_{members} = (ni * \% ofmembers)/100$

How to divide the sample size of non-members for village i:
$ni_{nonmembers} = (ni * \% ofnonmembe\ rs)/100$

Total number of members: $n_{Totalmembe\ rs} = \sum ni_{members}$

Total number of members: $n_{Tota\ln onmembers} = \sum ni_{nonmembers}$

3.2 Data Analysis

To examine the impact of village development funds on household outcome such as household income, expenditure and saving, the author applied Coleman's method by conducting a survey on 361 households in 15 villages in rural areas of Laos (Sukuma district). The empirical model estimate, which is based on the Coleman (1999), is as follows:

$$Y_{ij} = X_{ij}\alpha + V_j\beta + M_{ij}\gamma + MAMT_{ij}\delta + \mu_{ij}$$

Where Y_{ij} is an outcome of household I in village j which author wants to measure programme impact; X_{ij} is vector of household characteristics; and V_j is a vector of village characteristics; M_{ij} is a membership dummy variable equal to 1 if household *ij* self-selects into the village development fund program, and 0 otherwise; $MAMT_{ij}$ is the numbers of months as membership of village development fund. Now, δ measures the impact per month of program availability; α, β and γ are unknown parameters and μ_{ij} is error representing unmeasured household and village characteristics that determine outcomes. The empirical model is considerably easier to estimate if Y_{ij} is uncensored, and then OLS is appropriate, according to Coleman (1999).

3.3 Empirical Results and Discussions

Characteristic of Household Members and Non Members

The average income per household per year of members (22,026,000 Kip) is less than 1.65 times of non-members (36,377,000 Kip); the average household expenditure per household per year of members (11,451,000 Kip) is less than 2.21 times of non-members (25,344,000 Kip); and average household saving per year of members (6,765,000 Kip) is less than 1.58 times of non members (see table 8). Thus, the household income, expenditure and saving level of members is lower than that of the non members because the most of members are poor and lower income people. Other hand the committee of VDFs also limited loan size such as not over 2 million Kip or US$ 250.63 per borrower for short term and not over 5 million Kip or US$ 626.57 per borrower for medium term, which not enough for members to take loan for generating income, but contrast they may use loan for consumption purposes. It might one cause that members moved themselves out of poverty slower than non-member.

Table 6. Average household income, expenditure and saving per year *(Thousand Kip)*

Items	**Member**			**Non member**		
	Average	Minimum	Maximum	Average	Minimum	Maximum
Income	22,026	4,021	103,154	36,377	2,000	1,800,000
Expenditure	11,451	1,890	46,500	25,344	1,150	1,507,300
Saving	6,765	200	68,500	10,686	100	353,000

Source: Author's survey data, June 2012

3.4 Problems of VDF's Members in Term of Borrowing, Repay Loan and Saving Deposit in VDFs

Borrowing Money and Sources Loan, Average Loan Size and Loan Purposes

This study found that 84.96% of members borrowed money for using on their household activities, but there were only 44.75% of non members that borrowed money (see figure 3). Most of nonmembers did not borrow money, they gave some reasons such as they did not have collateral, did not want to have debt, did not know how to take loan and for what.

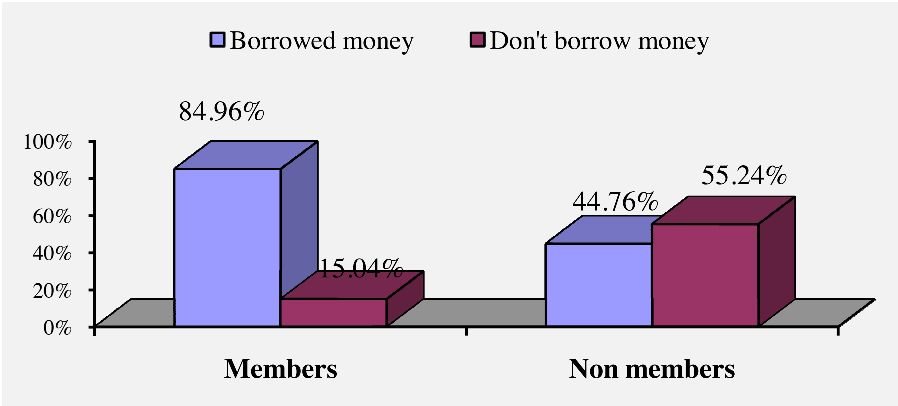

Figure 3. Borrowing Money of Members and Non Members

Source: Author's survey data, June 2012

Table 7 presents the sources loan and average loan size. 96 members (84.96% of members) borrowed money from different sources such as 50.39% of them borrowed from village development funds (VDFs), with an average loan size of 1.79 million Kip (US$ 224.94) per borrower per year; 41.73% of them borrowed from the bank, with an average loan size of 6.43 million Kip (US$ 806.14) per borrower per year. The most of them non members borrowed from the banks, which accounted for 79.46%, with an average loan size of 11.26 million Kip (US$ 1,411.28) per borrower per year; 14.29% of borrowers borrowed from their family and cousin, with an average loan size of 1.63 million Kip (US$ 204.76) per borrower per year.

Table 7. Sources Loan and Average Loan Size of Members and Nonmembers

Source of loan	**Members**		**Non-members**	
	Percent of borrowing from source	Average loan size from sources (Kip)	Percent of borrowing from source	Average loan size from sources (Kip)
The banks	41.73	6,433,000	79.46	11,262,000
The VDFs	50.39	1,795,000	0.00	0
Money lenders	1.57	3,180,000	3.57	2,700,000
Family/cousin	3.15	612,000	14.29	1,634,000
Friends	0.00	0	0.89	10,000,000
Other sources	3.15	1,375,000	1.79	8,500,000
Total	**100.00**	**4,997,000**	**100.00**	**9,606,000**

Source: Author's survey data, June 2012

A perusal of the figure 4 reveals that 57.72% of members and 53.72% of members had taken loan for agricultural production purpose, only 4.88% of members compared to 22.31% of members had taken loan for trading-services, 23.58% of members and 14.88% of members had taken loan for health care or medicines and 8.13% of members and 6.61% of nonmembers had taken loan to buy food for household.

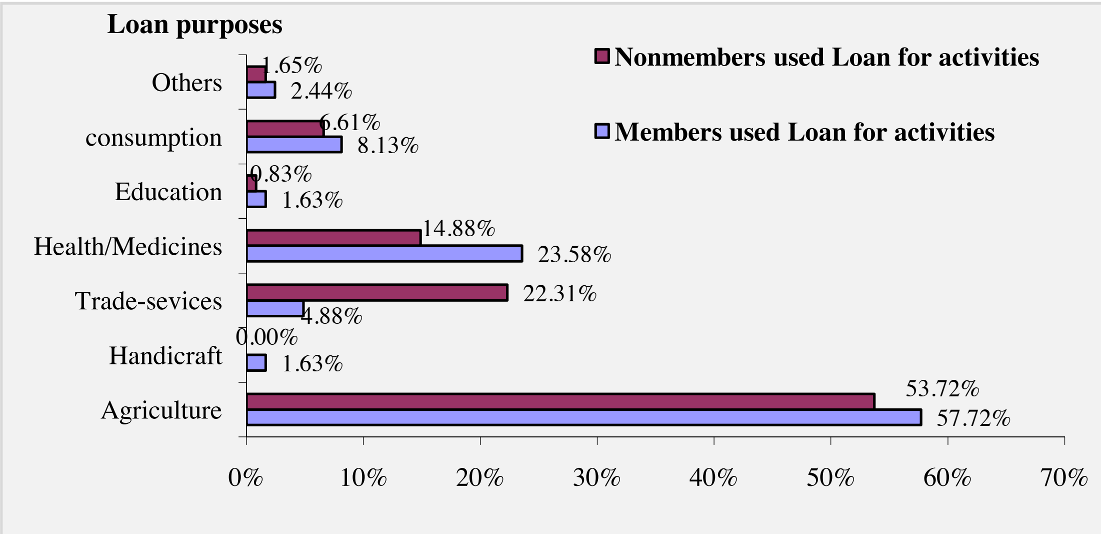

Figure 4. The Loan Purposes of Members and Nonmembers Used for Activities

Source: Author's survey data, June 2012

The villagers have been members of the VDFs. There are different purposes such as easy borrowing money and savings which accounted for 29.95%; with 23.86% to help the poor household through VDFs, 21.32% wanted to borrow money by low interest rate from VDFs and 19.29% wanted to save deposit in VDFs (see table 8).

Table 8. The Purposes to Be Member of Village Development Fund Program

Purposes to be member of Village Development Funds (VDFs)	Percent
Easy borrowing money and saving	29.95
To help the poor household through Village Development Funds	23.86
Wanted to borrow money by low interest rate from Village Development Funds	21.32
Wanted to save deposit in VDF	19.29
Wanted to dividend from share in VDF	5.58
Total	**100.00**

Source: Author's survey data, June 2012

The Main Causes of Non Members Not Participating in VDFs Program

This study found that 89.11% of them do not know the details of VDFs, 2.42% of them gave the reason that their inability to save deposit is because their households have low monthly income, 2.02% gave the reason that the ability of VDFs to provide credit size is very small and 1.61% of them are not confident in the operation's committee of VDFs (see figure 9).

Table 9. Main Causes of Non Members Have Not Participated of VDFs Program

The main causes	**Percent**
Don't know the details of Village Development Funds	89.11
Inability to save deposit (low household income)	2.42
Ability of Village Development Funds to provide credit is very small size	2.02
Not confidence for operation's committee of Village Development Funds	1.61
No comment	4.84
Total	**100.00**

Source: Author's survey data, June 2012

The Problems of Member for Saving and Borrowing from VDFs

The main difficulty of members for saving deposit in VDFs, accounting for 46.92% of members including 42.48% of them said that it is their irregular household income, 4.42% of them found the problem when they took money to save deposit in VDFs the accountant of VDFs recorded on account system was not clear (see figure 4).

Figure 5 presents the difficult of members to borrow money from VDFs accounted for 46.02% of members, which including 23.01% of them need large loan size for running their household owned business but this program limited loan size (provided only 2 million Kip for short term and 5 million Kip for medium term), which not enough for running business, so it was belonging to their problem of them, some of them (17.70%) haven't got collateral for loan, and 5.31% them said that the steps to borrow money from VDFs was very difficult, because some of the committee of VDFs took long time to peruse loan.

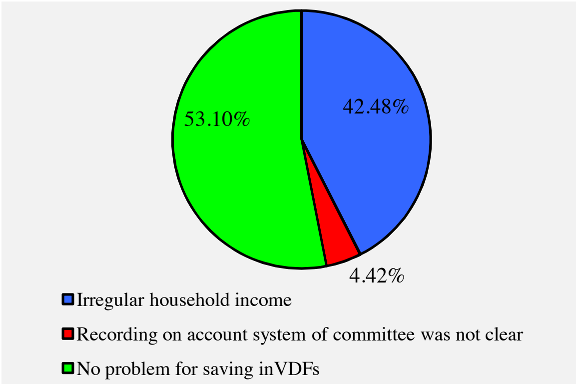

Figure 5. The problems of member to save deposit in VDFs

Source: Author's survey data, June 2012

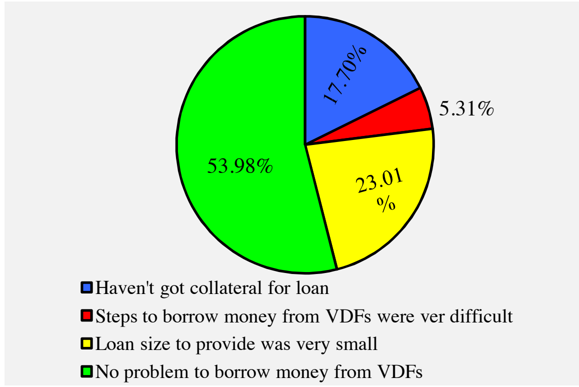

Figure 6. Problems of member to borrow money from VDFs

Source: Author's survey data, June 2012

The Difficulty of Members to Pay Back the Loan to Village Development Fund

31.34% of them had difficult to repay the loan to VDFs (figure 6). The main causes of difficulty for repayment loan to VDFs, found 26.92% of them said, the members of household was sick and lack of market demand for products of household as the same 26.92%, with 19.23% of them were used enterprise capital on consumption, 15.38% had problem as loan activity was not profitable, sold the products on credit and did not get paid back on time, death of member in family and celebration as the same 3.85% for each (figure 7).

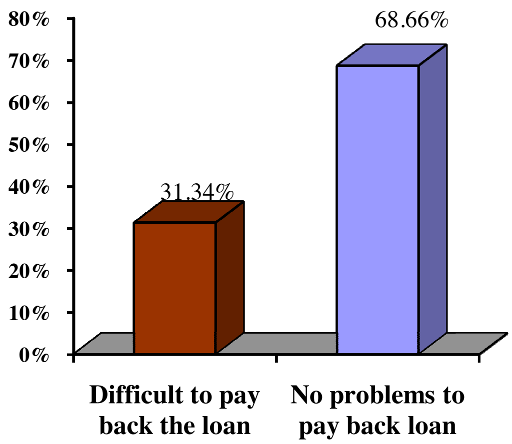

Figure 7. Percent of members took out loan from VDFs had difficult to pay back loan

Source: Author's survey data, June 2012

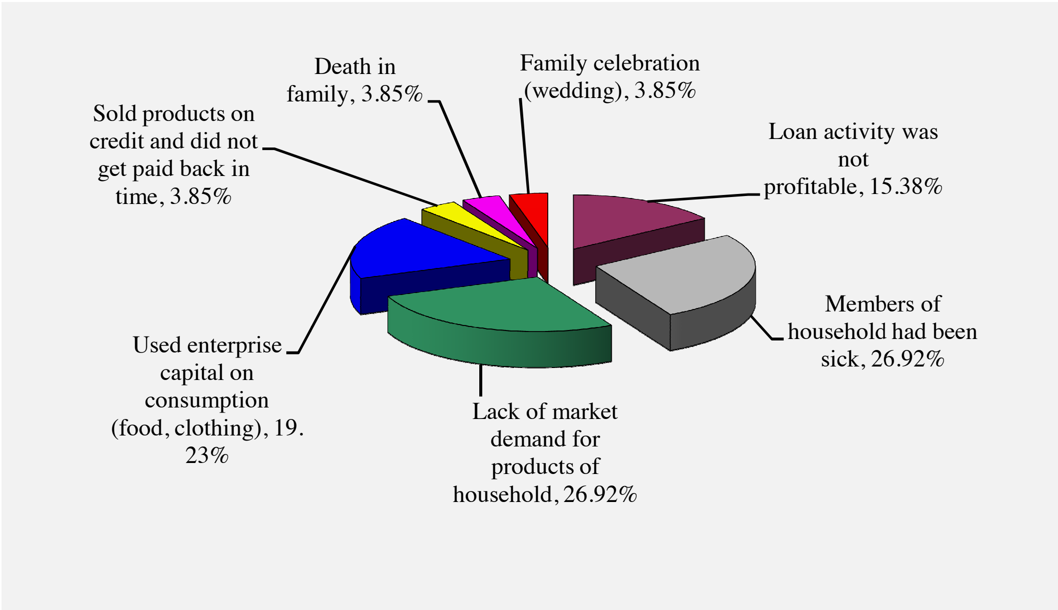

Figure 8. The main causes of difficulty for paying back the loan to VDFs

Source: Author's survey data, June 2012

Estimation to the Impact of VDFs on Household Income, Expenditure and Saving

This study used 33 independent variables from literature, and checked multicollinearity and found out that there are some independent variables are in high correlation with each other. In order to avoid multicollinearity, the author cut some variables out, finally the best empirical result of analysis with 7 independent variables (see table 10).

Table 10. The Variables for Regression

Variables	Definition	Expected sign	Sources
Dependent Variable			
Income per capita	Income/household/year (kip)		
Expenditure per capita	Expenditure/household/year(kip)		
Saving per capita	Saving/household/year (kip)		
Independent Variable			
Household characteristics			
Sex of household head	Female = 1	+	Coleman

Variables	Definition	Expected sign	Sources
Education of household head	number of year education (years)	+	Kongpasa
Household size	number of members in HH	+	Katsushi
Village characteristics			
Village is located in semi-urban	yes = 1	+	Author
Distance from village to district	distance to district center (km)	-	Nguyen
Electricity access to village	yes = 1	+	Nguyen
Household as VDF member.	yes =1	+	Kongpasa

The Impact of Village Development Funds (VDFs) on Household Income

To measure the impact of VDFs program on household income, the regression shows that the VDFs program has no significant on household income, its coefficient is (- 0.0575; p = 0.470). Therefore it is no correlation between VDFs program and household income, it means VDFs program have no contributed to members for income-generating. Coefficient of education level of household heads is (0.0533; p = 0.000), household size is (0.0401; p = 0.007) and village is located in semi-urban is (0.2370; p = 0.006) all of them have positive effect and significant level at 1 per cent. These results are explained that when education level of household head increase one year its effects on household yearly income to increase 5.33 percent. The number of members in the household increase by one person could push up the household yearly income by 4%, and who lives in village is located in semi-urban could income-generate more than who lives in rural area by 23.7%. The electricity access to village has a positive impact on the yearly income of household but it is statistically insignificant at least at the 10 per cent level. However, if we look at *P-value* level, the estimations show this coefficients as (0.1954; p = 0.138) and respectively, implying that this coefficients is acceptable at the 13.8 per cent level. It means that the access to electricity of village could slightly increase the household income.

Table 11. The Impact of Village Development Funds (VDFs) on Household Income

Ln income per capita	Coefficient	Std. Err.	T	P > |t|
Member as village development fund	- 0.0575	0.0796	- 0.72	0.470
Sex of household head	- 0.1158	0.0908	- 1.28	0.203
Education of household head	0.0533**	0.0092	5.78	0.000
Household size	0.0401**	0.0147	2.72	0.007
Village's located in semi-urban	0.2370**	0.0851	2.78	0.006
Distance from village to district centre	- 0.0020	0.0027	- 0.75	0.454
Electricity access to village	0.1954	0.1315	1.49	0.138
Constant	15.9663	0.1808	88.33	0.000
	R-squared = 0.1754			

Note: the superscripts ** denote rejection at 1 percent critical values

Source: Author's survey data, June 2012

The Impact of Village Development Funds (VDFs) on Household Expenditure

This study found that VDFs program has no significant on household expenditure. Its coefficient is (- 0.0872; p = 0.2860). therefore it is no relationship between the program and household yearly expenditure, sex of household head and distance from village to district center, also no significant on expenditure; coefficient of education level of household heads (0.0422; p = 0.000), household size is (0.0442; p = 0.0040), the village is located in semi-urban is (0.4353; p = 0.000) all of them have strong positive effect and significant level at 1percent. How to explain these results, for example if education level of household head increase one year its effects on household yearly income to increase 4.22 percent. The electricity access to village has a positive impact on the household income, but it is statistically insignificant at least at the 10 per cent level (see table 11). It means that the access to electricity of village could slightly increase the household income.

Table 12. The impact of village development fund on household expenditure

Ln expenditure per capita	Coefficient	Std. Err.	t	P>|t|
Member as village development fund	- 0.0872	0.0816	- 1.07	0.2860
Sex of household head	- 0.0940	0.0931	- 1.01	0.3130
Education of household head	0.0422**	0.0095	4.46	0.0000
Household size	0.0442**	0.0151	2.93	0.0040
Village's located in semi-urban	0.4353**	0.0873	4.99	0.0000
Distance from village to district centre	- 0.0088	0.0028	- 3.16	0.0020
Electricity access to village	0.1197	0.1349	0.89	0.3750
Constant	15.5533	0.1854	83.88	0.0000
	R-squared = 0.2256			

Note: the superscripts ** denote rejection at 1 percent critical values

Source: Author's survey data, June 2012

The Impact of Village Development Funds (VDFs) on Household Saving

The study reveals that there is no significant effect on household savings. Its coefficient is (-0.1020; p = 0.4780) it shows that the program was not relationship between VDFs program and savings. Education level of household heads is positive and significant at the 1% level, its coefficient is (0.1015; p = 0.0000); for electricity access to village has a positive impact and it's statistically significant at 10% level, its coefficient is (0.4467; p = 0.0610). It means the village access to electricity; the household could earn yearly income more than household in the village lack of access electricity 44.67% (see table 12).

Table 13. The impact of village development fund on household saving

Ln saving per capita	Coefficient	Std. Err.	t	P>|t|
Member as village development fund	- 0.1020	0.1437	- 0.71	0.4780
Sex of household head	0.0572	0.1640	0.35	0.7280
Education of household head	0.1015**	0.0167	6.10	0.0000

Ln saving per capita	**Coefficient**	**Std. Err.**	**t**	**P>|t|**
Household size	- 0.1086	0.0266	- 4.08	0.0000
Village's located in semi-urban	0.2045	0.1538	1.33	0.1840
Distance from village to district centre	- 0.0202	0.0049	- 4.15	0.0000
Electricity access to village	0.4467*	0.2375	1.88	0.0610
Constant	13.3687	0.3265	40.94	0.0000
	R-squared = 0.2327			

Note: the superscripts ** and * denote rejection at 1 per cent, and 5 percent critical values

Source: Author's survey data, June 2012

This paper reveals that VDFs programs do not have significance on household outcomes, expenditure and saving of members; one of reasons the loan size of VDFs was too small for members to productive purpose (such as short term not over 2 million kip and medium term not over 5 million kip). The second reason was that there were some problems with management of VDFs, because this program has been controlled by villages and districts of village development fund supervisors, which was failure of management of VDFs on village level. Third reason, some of the borrowers took loan for non productive purpose.

4. Conclusions and Recommendations

The study has been conducted to study the problems of VDFs' members in term of borrowing money, repaying loan and saving deposit in VDFs, and also examined the impact of village development funds on poverty of members in rural area southern of Laos, in terms of their household income, expenditure and saving.

The main problems of members for saving deposit in VDFs, most of them said that their irregular household income and moreover, when they took money to save deposit in VDFs, the accountants of VDFs recorded on account system was not clear. For the difficultly of members to borrow money from VDFs, most of them said that the loan size was very small, not enough for generating income or running their household business, but they might use loan for consumption; second, they did not have collateral for loan; and the third, they found that the steps to borrow money from VDFs was very difficult, and some of the committee of VDFs took long time to peruse loan. The main cause of difficulty for paying back the loan to VDFs is first, their household members get sick and there is lack of market demand for products of household; second, they used enterprise capital on consumption (such as by food, clothing etc) the third as loan activity was not profitable.

To measure the impact of VDFs program on household income, expenditure and saving of members, this study has shown that VDFs program does not have significant impact on outcome as household income, expenditure and saving. One of reasons the loan size of VDFs was too small for members to productive purpose (such as short term not over 2 million kip and medium term not over 5 million kip). The second reason is that there were some problems with management of VDFs, because this program have been controlled by villages and districts of village development fund supervisors, which was failure of management of VDFs on village level. Third reason, some of the borrowers took loan for non productive purpose. Of these may, therefore, lead to have no significant impact on household outcomes. Thus, the researcher concludes that the Village Development Funds program might not reduce poverty in Sukuma District, Champassak Province.

This paper also had some limitations. First, this study compared the impact of VDFs at members to nonmembers, it is important to compare the before and after aspects. It might have impact on household outcomes. Second, the sample size was quite small and they need to collect more. Third, the researcher only chose 15 villages. There is a need to examine more case studies. Fourth, there is a need to advance Econometrics Method to examine the impact of VDFs on household outcomes and we need to investigate before and after participation of VDFs program to see how it affects on income, expenditures, and savings.

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MINZAS program is a partnership program of Mekong Institute and New Zealand Embassy in Bangkok. The objective of this program is to enhance research capacity of young GMS researchers by providing a structured learning and filed research application program for 36 master's degree students from provincial universities in Cambodia, Lao PDR, Myanmar and Thailand.

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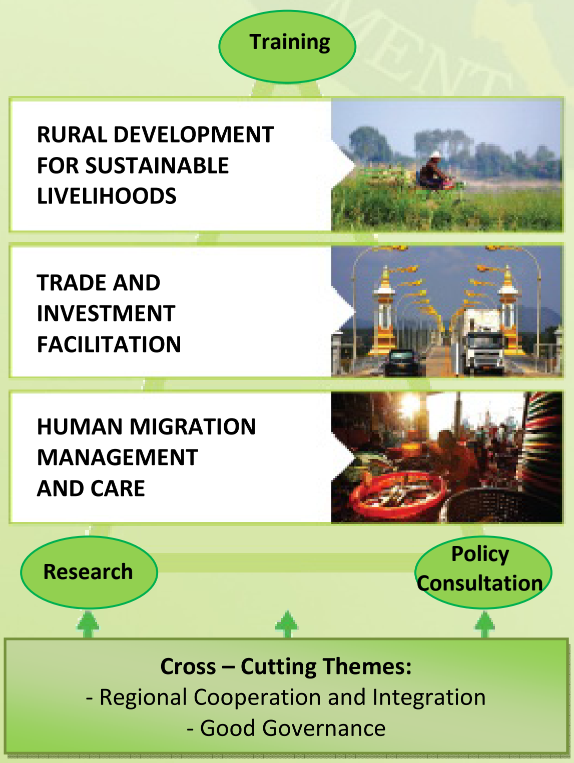

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