

## Results and impact

### Practical results

By early 2014, LAO/021 had established village development funds in all 60 target villages. With a total budget transferred or committed of 1,023,000 EUR. Another 357,000 EUR will be made available for new activities in 2014-15.

Credit schemes have been set up in 32 villages with a total budget of 453,000 EUR or 14,000 EUR per village. In the first credit cycle, 2,252 households took loans from the credit scheme with a repayment of 100% after one year. People spent 70% of the loans on pig and goat-raising, with small amounts invested in cash crops, poultry and marketing. In the second cycle cassava, maize and vegetable are gaining more popularity owing to the quicker return.

The Project has established village grant schemes in all 60 villages with a budget of 570,000 EUR spent or committed for the funding of 184 individual activities. These include latrines for all households in 35 villages, emergency funds in 28 villages, water supply improvements in 21 villages, school improvements in 14 villages, loudspeaker systems in 15 villages, and community facilities in 25 villages. The 2014-15 budget will further improve access to latrines, clean water and school facilities.

### Capacity development

The village development funds have greatly increased the general capacity of villagers, their representatives and government officers. Hence:

- 5,600 villagers from 60 villages took part in the democratic and participatory planning process, which have helped change planning expectations and skills;
- 419 village representatives from 60 villages were trained and gained practical skills in executing the VDF schemes;
- 26 government staff from six line departments have gained practical skills in all aspects of the VDF process.

The skills and experiences gained by the various parties are naturally also relevant to other work, and will for instance be of direct benefit for general village planning.

### Development impact

The village development funds have been effective and efficient in increasing incomes and living standards, but

equally important in the promotion of local democracy, public participation and empowerment (especially of women). Village institutions have been strengthened and the cohesion of communities widely improved. Furthermore, supporting the maintenance and upgrading of existing infrastructure has not only improved these structures, but also strengthened the feeling of ownership and responsibility for such facilities.

The LAO/021 village development funds are large compared to most other projects, while the overhead costs for administration, technical assistance, and external support to the communities are low at only 21% of the overall costs.

### Lessons learned

- The VDFs effectively and efficiently support poverty reduction, local democracy and public participation;
- Particularly the grant mechanism greatly empowered and benefitted women;
- All communities lived up to the trust and responsibility given to them and made informed decisions and responsibly managed the village development funds;
- Low overhead costs could be maintained by budgeting the planning, technical assistance, capacity building, monitoring of the VDF at adequate levels;
- This particular VDF scheme is worth extending to other areas and projects.

### Future challenges

- The village credit schemes must be supported by associations of credit schemes that can give technical, financial and logistic backstopping;
- The long-term responsibilities of government agencies must be clarified;
- A more comprehensive training package for villagers, village representatives, and government staff must be developed.

#### For more information:

Project – LAO/021  
c/o Bolikhamxay Planning and Investment Department  
Pakxan, Bolikhamxay, Lao PDR

Tel | (+856) 54 790887  
Fax | (+856) 54 212203  
Email | LAO021@luxdev.lu

[www.luxdev.lu](http://www.luxdev.lu)



## Village Development Funds

Bolikhamxay Livelihood  
Improvement and Governance Project

# LAO/021



Bolikhamxay Provincial Planning  
and Investment Department



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Luxembourg Agency for  
Development Cooperation



## Introduction

The Bolikhamxay Livelihood Improvement and Governance Project - LAO/021 supports rural poverty reduction in Bolikhamxay Province. The Project focuses on the 60 poorest villages in Khamkeut, Viengthong, and Xaychamphone District with a population of 36,527 people in 5,572 households. Ethnic minorities make up 21,323 people or 58 % of the total, mostly Hmong, but also 8,028 Khamu, Pong and other Lao Theung (Mon-Khmer) people.

The project has three main components: Governance strengthening, infrastructure developments, and the village development funds (VDF) which are described in the following.



## The Village Development Fund approach

The VDF component supports poverty reduction through credit and communal grant schemes. Each village manages the funds directly, but with assistance from the local authorities and the Project Support Office (PSO). The schemes started in 2011 and now cover all 60 target villages (2013).

As a financial norm, 230 EUR are allocated per household, equal to 23,000 EUR for the average village. The global amount for the VDF is 1,380,000 EUR, but management, technical backstopping, logistics, and capacity building will have added another 370,000 EUR to the budget by 2015, i.e. 21% of the total VDF cost.

Each community decides to use the VDF for either income generating micro-finance schemes or for grant schemes that benefit the common good. The credit scheme is a village-owned micro-finance system from which members can take loans of up to 2 million Kip (ca. 180 EUR) one year with an interest rate of 7% per year. However, as very poor families

usually are unable or reluctant to take loans, 20% of the funds must be used for non-credit activities that benefit the poorest households or the village as a whole.

The grant scheme is a fund managed by the Village Development Committee for funding of activities selected democratically by all adults in the village. The grant-funded activities are meant to benefit the village as a whole, but are sometimes used for helping destitute households.

### Grant or credit?

The communities choice between the credit or grant scheme usually depends on their proximity to roads and markets and on how experienced people are with marketing of their products. In some cases, communities chose the grant mechanism because of former mishaps with credit schemes. Hence, 28 of the 60 target villages are using the grant option, whereas 32 villages closer to good roads and markets have opted for the credit scheme (including a 20% grant component). The Village Development Committee is responsible for the grant schemes, whereas a special committee elected by the members of the credit scheme manages the credit scheme.

### Planning process

The selection and planning of activities takes place in each village with the participation of all interested adult villagers supported by a team of 5-6 Project staff and local government officers from Planning Department, Rural Development Office and Lao Women's Union.

The planning starts in the afternoon of the first day with a general introduction to the Village Development Committee along with a verification of basic village data and conditions. In the morning of the second day, the VDF team explain the principles and regulations to the villagers. Then villagers split into smaller, gender-segregated groups to discuss and shortlist proposed activities. Later the shortlists are amalgamated and all participants vote in secret ballots for their preferred interventions. The votes are counted in public and the priority list recorded.

Based on the priority list, the village development committee will make an implementation plan with help from the Project team. The village submits the plan to the LAO/021 Project via the district and provincial authorities, based on which the village chairperson and the Project sign an agreement.

## Training

Village representatives receive training in planning, execution, reporting and financial management of the credit and grant schemes. The training consists of four modules of each 3-4 days given over a period of about eight months. The training includes peer education via visits to neighbouring villages.

Capacity building of the government staff involved in the VDF is mainly through learning-by-doing, supplemented by coaching, technical assistance, and limited formal training.

### Financial mechanism

Based on the agreement with each village, the Project transfers funds to dedicated VGS and VCS bank accounts that are owned and operated by the Village Development Committee and the Village Credit Committee, respectively.

For credit schemes, LAO/021 transfers the full amount at the establishment of the village credit scheme; while it transfers the grant funds annually according to needs and once the village has completed and settled the previous intervention.

### Backstopping and monitoring

The Project support team assists the village representatives throughout the planning, implementation, and reporting on activities. It also monitors progress and checks the finances.

The support team consists of two Project staff and regular government staff from Planning department, Rural development office and Lao Women's union, as well as staff from other line departments called in to help with specialized tasks in e.g. agriculture, education, and health.

