Trailblazer Foundation

Village Fund Status Update

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September 2013

Background

The Village Fund (VF) concept is an innovative approach to microfinance. Trailblazer worked with village leadership to develop the VF concept in 2006 and now there are VFs in 18 villages. It is not a standard Microfinance Institution (MFI), but rather a locally managed village savings account. The initial capital is generated through household payments for subsidized Trailblazer biosand filters (BSFs), wells, solar panels, sewing machines, mosquito nets, etc. From the available capital in the VF, community members can take small bullet loans and finance agreed upon community projects. The VF loans have a fixed monthly interest rate of 2% which was determined through a commune-level decision making process. Typical rates for microloans in Cambodia range from 2% to 4% monthly (MF Transparency, 2012).

Monitoring & Evaluation

Data Collection

For 2013, a Trailblazer staff member has been visiting each VF using survey forms developed to monitor and evaluate the VFs on two levels as follows:

1. Macro-level for fund capital - on-loan, available, income, and expenses
2. Micro-level for individual loans - size, timeline, repayment terms, and purpose

For each VF, a Village Fund Income and Expense Survey is also filled out to track cash flows not associated with loans. These cash flows include income (e.g., from biosand filters, wells, etc.), expenses (e.g., biosand filter steward payments, meeting costs), and projects (e.g., community road improvements). This data is then added to a Village Fund Loan Portfolio spreadsheet. For each new individual loan, a Village Fund Individual Loan Survey form is filled out and maintained until the date the loan is finalized. When the status of a loan changes, the same paper form and line of data in Excel can simply be updated to reflect the change in status. This data is also maintained in the Village Fund Loan Portfolio spreadsheet. So far this year, data has been collected one time for 9 (50%) of the VFs.

Analysis Results

The data collected for VF incomes and expenses is linked to a balance sheet that provides an overview of the VFs by village, commune, and district. All of the data is recorded and analyzed in Cambodian Riel (KHR). Some analysis results are also provided in US Dollars (USD) to the nearest dollar for reference, using an exchange rate of 4,000 KHR per USD. For each village, Figure 1, Figure 2, and Figure 3 provide a summary of the capital and growth of the VF. It can be seen that Sras has the largest VF by a large margin. The Sras VF was the first one Trailblazer helped to set up in 2007, starting with 4,500,000 KHR ($1,125 USD) raised through payments toward BSFs, wells, and equipment for small business ventures (Gupta, 2009). As of the most recent audit, in August 2013, the Sras VF has just over 10,000,000 KHR ($2,500 USD), meaning it has doubled in size in 6 years. This increase since 2007 has largely come from interest income but also some additional program-related payments. Even though the Sras VF is the largest of those initiated in cooperation with Trailblazer, people are still asking for increased capital. Without new projects (BSFs, wells, etc.), the only mechanism for growth is interest payments over time or village-based fund raising. Interest-only growth can still be very powerful though, with an expected annual growth rate of 17% in Sras in 2013.

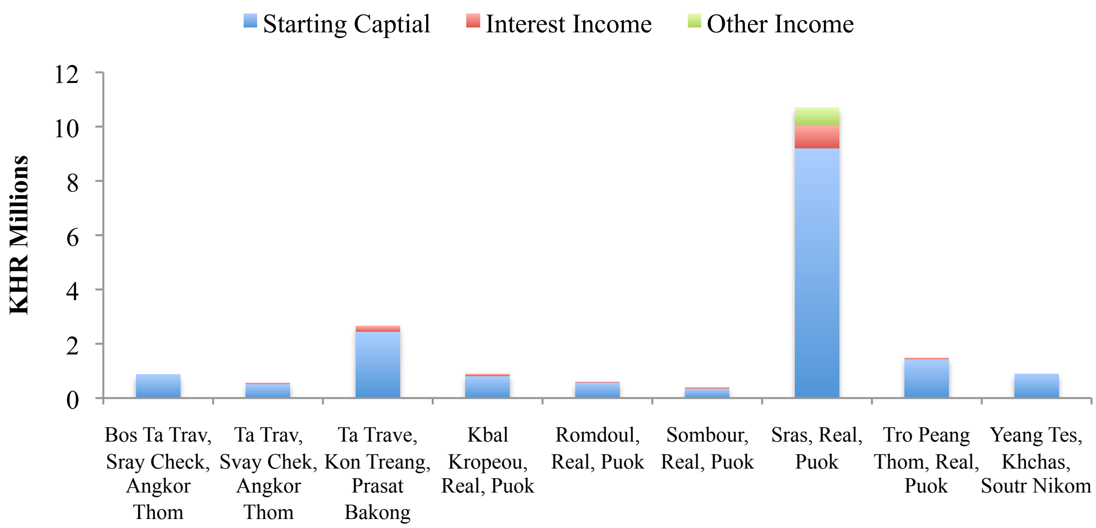

Figure 1 - 2013 Village Fund Capital

Aside from Sras, the remaining VFs audited have fund capital amounts ranging from 400,000 KHR ($100 USD) to 2,660,000 KHR ($665 USD). For the VFs audited so far this year, Sras is the only one with other cash flows - a distribution of 300 subsidized mosquito nets in July for 2000 KHR ($0.50 USD) per net. None of the villages have used their VF for any expenses; they are using them exclusively for microloans. All but three of the VFs currently have more than 85% of the funds on loan, with minimal cash on hand. This scenario allows the VF to grow at a higher rate than if less of the funds are on loan.

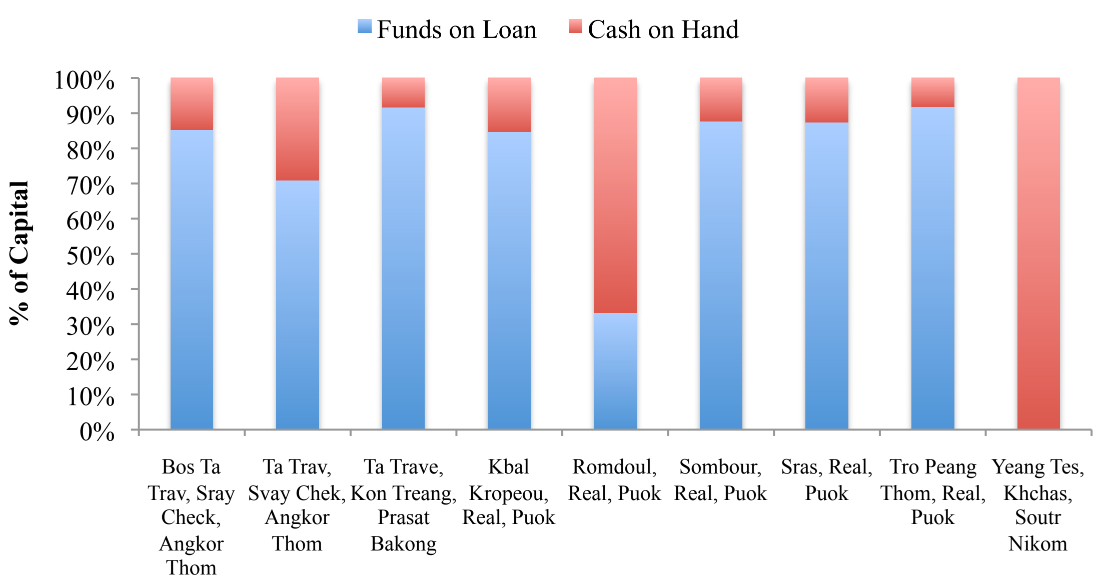

Figure 2 - Village Funds on Loan vs. Cash on Hand

Two villages, Romdoul (in Real Commune, Pouk District) and Yeang Tes (in Khchas Commune, Soutr Nikom District) have a large amount of cash on hand which is restricting fund growth. In the case of Yeang Tes, the VF was only started in 2013 and the fund manager has not yet initiated any loans. During the visit by Trailblazer staff the importance of notifying villagers about the availability of money for small loans was reemphasized.

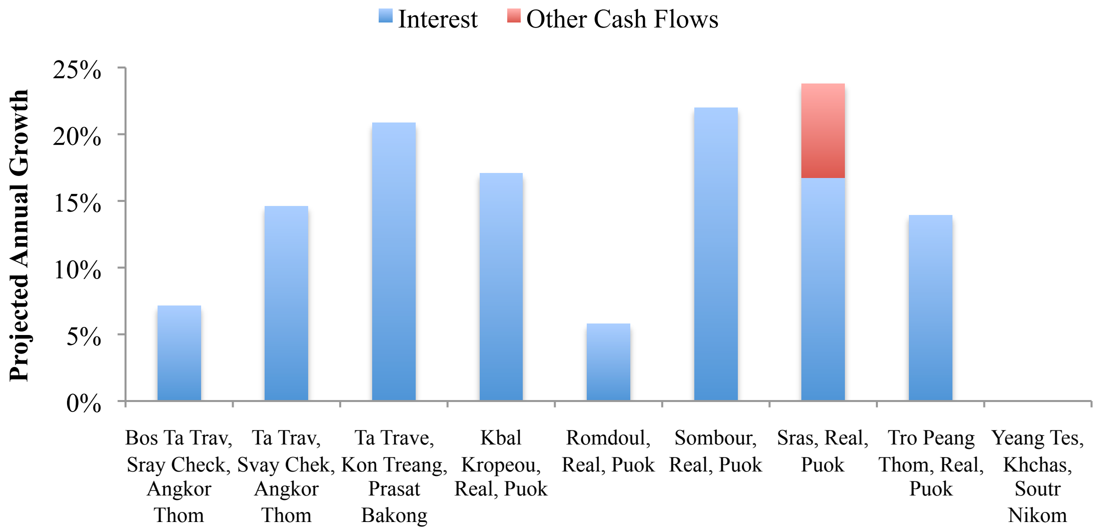

Figure 3 - Village Fund Projected Annual Growth Rate by Income Source

In Figure 3 the projected annual growth for each VF is shown, which is positively correlated with the percentage of funds currently on loan with the exception of Bos Ta Trav. This VF has a high percentage of funds on loan but a relatively low projected annual growth rate due to a difference in loan structure compared to the rest of the villages. Based on the individual loan data, 94% of the loans have a 12-month repayment period. Only Bos Ta Trav (in Svay Chek Commune, Angkor Thom District) has loans with shorter period limits. These shorter repayment periods reduce the *projected* annual growth rate, however, as long as the funds are used for new loans after repayment is complete, the *actual* annual growth rate for Bos Ta Trav should be comparable to that of a VF with similar capital such as Kbal Kropeou (in Real Commune, Pouk District).

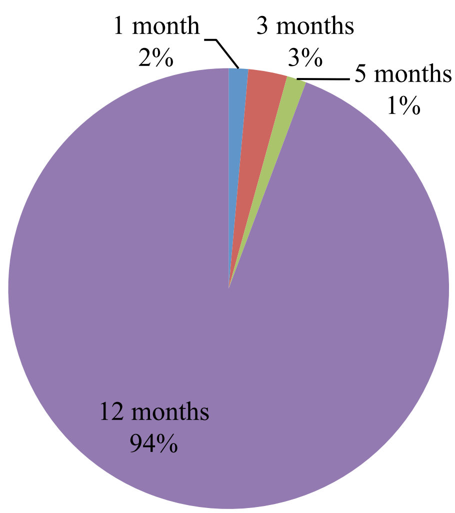

Figure 4 - Distribution of Village Fund Loan Repayment Periods

Figure 5 shows the total number of loans while Figure 6 displays the average loan size by village, commune, and district for 2013 as of the most recent audit. Yeang Tes (in Khchas Commune, Soutr Nikom District) is not included in analysis of individual loan data because there have not yet been any loans this year. Sras, as the oldest VF and the VF with the largest amount of capital, has the greatest number of loans (27) and the highest average loan size (325,185 KHR ($81 USD)). The rest of the villages have a range of two to 15 loans and average loan sizes ranging from 100,000 KHR ($25 USD) to 184,250 KHR ($46 USD).

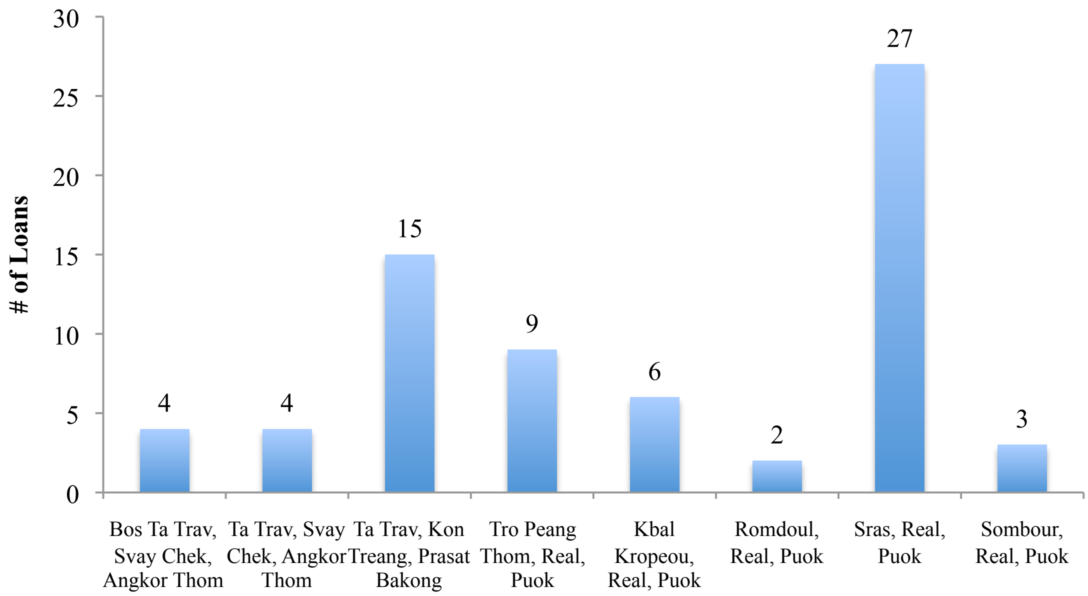

Figure 5 - Number of Loans by Village

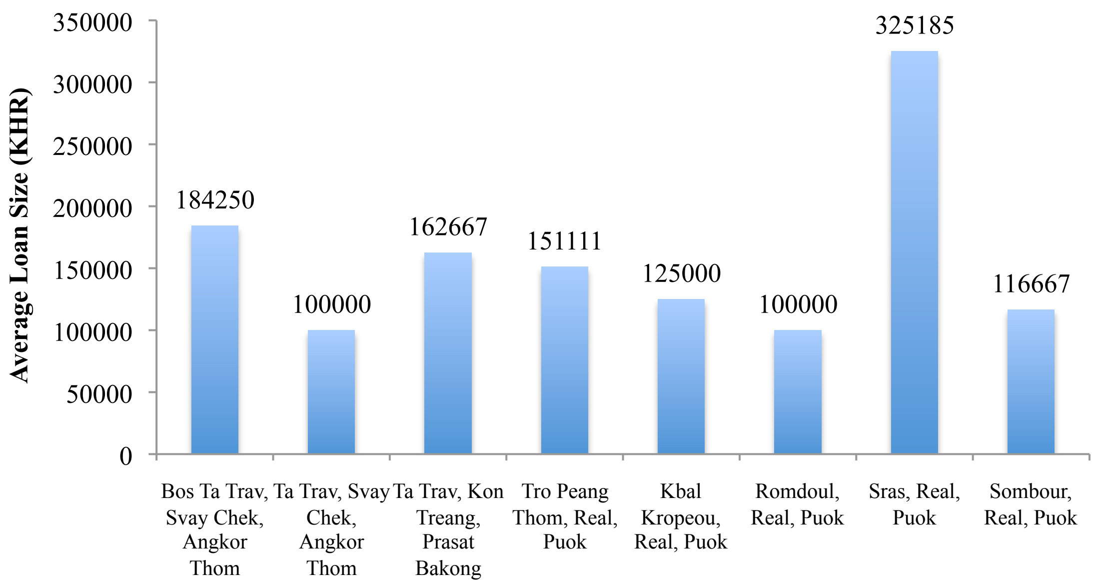

Figure 6 - Average Loan Size by Village

The purpose of each loan is categorized as one of four options including agriculture, business, consumer, and services. Agriculture loans include those used for farming by purchasing fertilizer, equipment, or livestock for example. Loans are categorized as business if they are used for any non-agricultural income-generating investments such as spending money to go to Thailand for higher-paying work or buying items to sell or rent. Consumer loans are those used to buy material goods that will be consumed by the family including food, house materials, bicycles, etc. Finally, loans categorized as services if the money is spent on services rendered by another person such as hospital visits, school fees, ceremony expenses, etc. Figure 7 shows that 58% of all VF loans audited were for agriculture, 10% were for business, 16% were for consumption, and 16% were for services. Of the loans used for agriculture, about half of them were used for livestock while the other half were used for fertilizer, equipment, or land. In two instances, a single loan was taken for livestock and fertilizer.

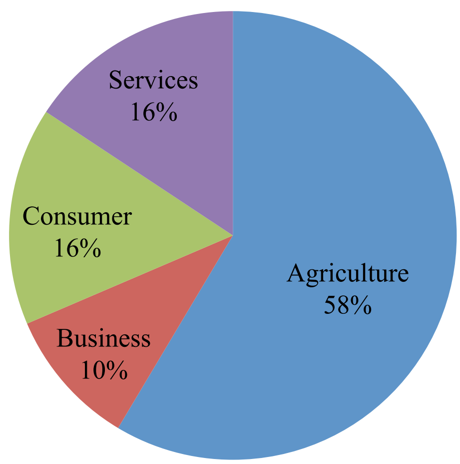

Figure 7 - Distribution of Village Fund Loans by Purpose Category

Due to the nature of many of the loans, it is most convenient for borrowers to make minimal, interest-only payments during the loan period (usually 12 months) and then pay back the loan principal later. As one example, if the loan is used to purchase piglets the income from that purchase comes much later after the piglets are old enough to be sold for a profit. For this reason, so far all of the VF loans are bullet loans, meaning only interest is paid each month with principle paid back by the end of the period limit (e.g., $100 loan at 2% with 12 month period limit - the payment is $2 per month and $100 is paid after 12 months). This is different from standard amortized loans for which the loan and interest are paid in fixed monthly payments during the period limit and the amount of interest paid decreases as the amount of principal owed decreases (e.g., $100 loan at 2% with 12 month period - the payment is $9.46 per month). While the total amount paid over the life of the loan is greater for bullet loans, in comparison to amortized loans, both the borrowers and the VF managers prefer this loan structure. Bullet loan payments are also much easier for the VF managers to calculate and administer.

Figure 8 shows the distribution of VF loans by gender; 67% were taken by female borrowers while 33% were taken by male borrowers. It is important in terms of gender equality to see that more than 50% of loans are for female borrowers because they are more likely to be excluded from traditional financial services (UNDESA, 2009). There is also a difference in the average loan size with male borrowers having loans approximately 25% larger than females on average, as displayed in Figure 9. So overall, women are taking a greater number of loans and men are taking bigger loans.

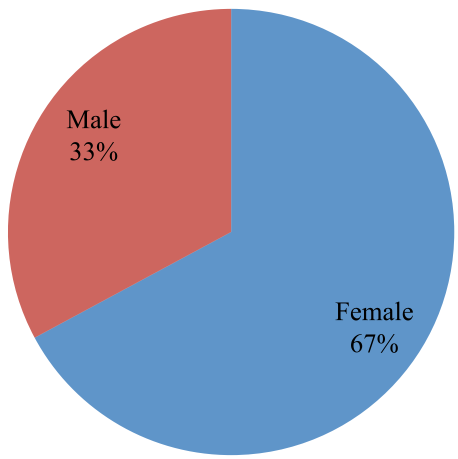

Figure 8 - Distribution of Village Fund Loans by Gender

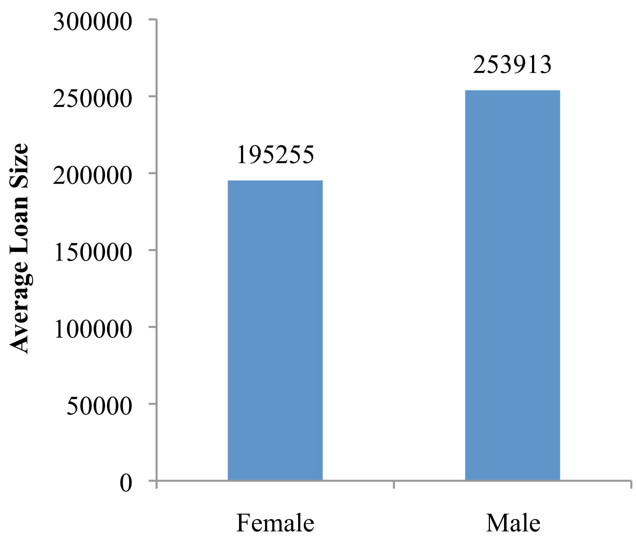

Figure 9 - Average Loan Size by Gender

In terms of repayment, for 2013, all of the VF loans are currently pending with all interest payments being made on time. Repayment data will become available once loan periods are complete. It will be useful to understand what proportion of loans will be paid in full and if there are any issues with repayment that need to be addressed in coordination with any of the VF managers. One each loan is finalized, it can be denoted as repaid, restructured (loan terms are renegotiated), in PAR (will be repaid late), or bad debt (will not be repaid). With all forms of financing, occasional late repayment or bad debt can occur. For the VFs the reason for these occurrences will need to be tracked in order to monitor for common issues that can be addressed through programmatic changes.

Conclusion

The VF component of Trailblazer's programs is innovative and complements Trailblazer's other initiatives for local community development through empowerment. Local ownership of management of the funds for microloans is convenient for villagers because loan terms can be optimized for local needs. Borrowers can interact with a fellow community member for borrowing and repayment and the village fund managers can easily observe how loans are used. Trailblazer's ongoing role in the established VFs is minimal but overall the funds are being used very effectively and the capital is growing substantially every year. It will be important to continue targeted monitoring and evaluation of old and new VFs in order to continually improve the program and provide recommendations and advice for VF managers as needed. It will be particularly illuminating once repayment data is available to understand if any of the VFs have repayment concerns that need to be addressed or not.

Acknowledgements

Lon Sey for data collection
The Village Chiefs and Village Fund Managers
Stephany Olsen & Carolyn Balk (Trailblazer Volunteers)

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