



# Handbook Operating Village Banks



Microfinance in Rural Areas – Access to Finance for the Poor

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# 1 STRATEGIC INTRODUCTION

## 1.1 OBJECTIVES OF THE OPERATIONAL HANDBOOK

The report “Microfinance in the Lao PDR 2012” counted a total of 4,434 village funds, village development funds or village banks throughout the country. Little is known about the quality of operations of these funds.

The Village Bank Operational Handbook sets standards for the organisation and processes to set-up and run a community based village bank. It contains the accumulated experiences and best practices of the GIZ-managed program *Access to Finance for the Poor* (AFP) the currently largest and longest running microfinance project in the Lao PDR. The project is implemented in close cooperation with the Bank of the Lao PDR. It received funding from German and Australian Governments and the private company MMG LXML Sepon.

On village level GIZ founds and promotes savings based, member-managed village banks. This system resembles the approach that was promoted and implemented by different national and international actors. Opposed to that, many funds in the Lao PDR are set up as revolving funds with an initial and one-up capital injection by government or donor agencies. While savings-based village banks are more difficult to manage than revolving credit funds, donor and government grants can be multiplied through the effect of private savings. Additionally the inclusion of private funds tends to have positive effects on ownership and credit discipline. Therefore savings-based village banks are carrying more potential to contribute to the rural development of the Lao PDR than revolving credit funds.

The handbook has the objectives to

- explain Village Bank standard operating procedures and policies,
- provide templates and sample contracts that are useful when operating a Village Bank,
- include – and refer to – material for trainings to village bank committees and staff,
- be a reference for outsiders who want to learn about village bank operations.

The Bank of the Lao PDR’s *Rural and Micro Finance Committee* stated in the year 2003 in the “Policy Statement for the Development of Sustainable Rural and Micro Finance Sector” that “Sustainable rural and micro finance can be effective tools for poverty reduction, which can help Lao PDR to emerge from LDC status by 2020.”

This statement is still as correct as when it was written. Microfinance can help – but in order to ensure, that microfinance does so and does not cause harm instead, a thorough and strict approach is needed.

This handbook was written to enable local communities to independently establish and operate their Village Bank. However, GIZ advocates for regular external supervision as savings-based village banks can be both, difficult to manage and prone to fraud. The supervision could either be provided by local government agencies or as practiced in AFP through privately operated Network Support Organisations. With the mentioned two-tier system GIZ ensures monthly servicing of 390 village banks (June 2014) in 6 provinces of the Lao PDR. GIZ therefore promotes and strongly recommends the establishment of Village Bank Network Support Organisations (NSOs). The operations of such NSOs are described in a separate handbook.

## 2 VILLAGE BANK ORGANIZATION

### 2.1 VILLAGE BANK MEMBERSHIP

Village Banks (VBs) are community-managed organizations, membership is open to all registered residents of the village's community, without regard of gender, age or ethnic origin. Membership is voluntary.

Villagers can become members by signing up and opening a savings account. The Village Bank offers the options to open individual as well as household memberships. All members should be recorded in the VB Register.<sup>1</sup>

Lending is restricted to members who have reached legal age, have no record of crime and are committed to implement the Village Bank's regulations.

VB members have the rights:

- To attend General Assembly meetings and participate actively by sharing their ideas and opinions on issues concerning the Village Bank.
- During General Assembly meetings, to cast their vote at elections and other votes.
- To apply for one loan at the time, according to valid conditions and to above restrictions, a second loan is not possible except in emergency situations.
- To deposit and withdraw savings according to valid regulations and to receive dividends for their savings deposits from the annually distributed profit of the VB, as decided on by the General Assembly.

VB members have the responsibilities:

- To comply with VB bylaws and regulations in general, and in particular with the conditions of their credit contracts.
- To deposit savings according to their ability and the minimum savings regulation decided by the General Assembly.
- To keep safely the membership passbook, and to bring it along to service meetings to document the member's transactions.

Membership is terminated, if the member resigns by withdrawing its savings, if the member is giving up residence in the village, or if the member deceases. Before ending membership, any outstanding loans including interest accrued have to be repaid.

Saving deposits and the obligations of any outstanding credits of deceased members are transferred to their heirs at law.

Upon proposal by the VB Committee, the General Assembly can dismiss a member for serious violations of the VB regulations.

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<sup>1</sup> A village bank member registration form can be found in Annex 1.

## 2.2 ORGANISATIONAL STRUCTURE

The Village Bank itself consists of three bodies: the Generally Assembly of Members, the Village Bank Committee, and the Village Bank Advisors.

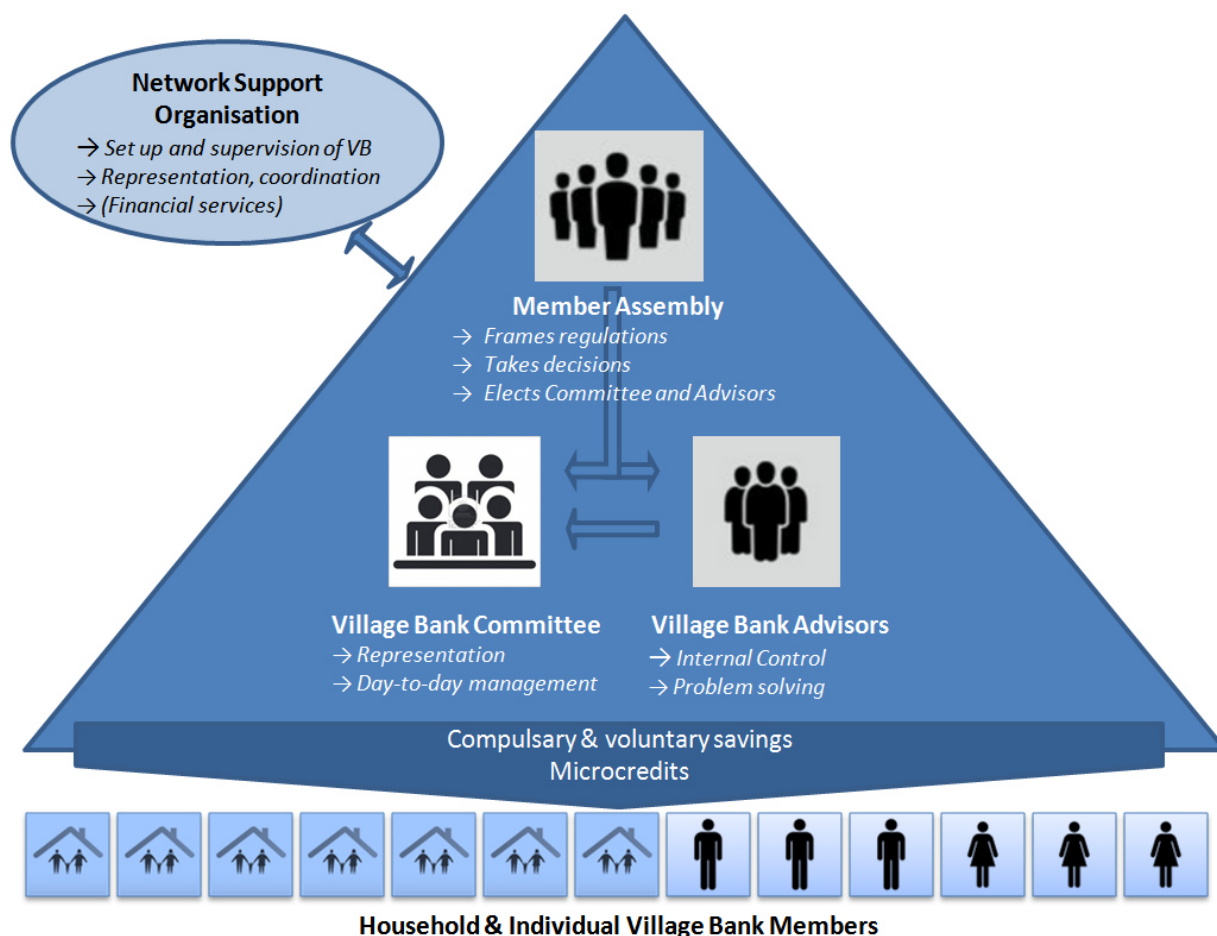


Figure 2-1 Village Bank Organisational Chart

### 2.2.1 THE GENERAL ASSEMBLY OF MEMBERS

The General Assembly is the main governing body of the VB. It consists of all members of the Village Bank.

Assembly meetings are convened at least once every year. The Annual General Assembly (see Chapter 7.1) is organised in between the last service meeting of the past and the first service meeting of the new financial year, and most often in conjunction with one of these service meetings.

For decision-taking, at least 50% of the members have to be present. The General Assembly decides with a simple majority of the present members on the following issues:

- To approve or reject the annual VB report that includes the year-end accounts prepared by the VB committee.
- To decide on the utilization of the annual VB net income for the next banking year (net income is calculated before deducting the financial costs for the deposits and the allowance for the VB committee, but after loan loss provisioning is made for any overdue

loans). Profit distribution is between the depositors (at least 60%), the allowance payment to the VB committee (at least 4%, but not more than 20%), the general reserve and any other purposes that the assembly might agree upon.

- To elect the VB Committee by ballots and to confirm or reject the appointment of VB Advisors.
- To renounce membership of VB members in case of serious violation of the VB bylaws and/or the VB loan contracts, as proposed by the VB committee.
- To decide on actual savings and lending conditions, such as minimum monthly savings rate, savings ceiling, loan purposes, loan interest rates, maximum loan ceilings, maximum loan terms, loan collateral requirements and the introduction of new loan and savings products.
- To decide on any other business proposed by its members, the committee, the VB advisors or external advisors.

The General Assembly decides with a two-third majority on the following issues provided that at least 50% of the registered members attend the meeting:

- To dismiss individual members or the whole VB committee.
- To decide on other changes to the VB bylaws not covered in financial product conditions, including its key operational policies.

In case of extraordinary business beyond the decision-taking competence of the VB committee, an Extraordinary Assembly is convened. Such extraordinary business can be for instance:

- Change of savings and credit conditions.
- Changes in the organisation that require a change of the bylaws.
- Problems that need the vote of the assembly and cannot be postponed until the next regular Annual General Assembly meeting.

Extraordinary Assembly meetings can be convened at any time on request by at least 10% of the VB members, by the VB committee, the VB advisors or external advisors.

### *2.2.2 THE VILLAGE BANK COMMITTEE*

The Village Bank Committee is in charge of the general administration of the Village Bank, with its actual savings and credit operations and the decisions which are related hereto. It consists – depending on the size and work load of the Village Bank – of 4 to 6 committee members elected by the General Assembly. At least 2 members of such committee must be female).

The VB Committee has the following work tasks:

- To promote and to inform members about the Village Bank's objectives and operations.
- To accept and register new members according to membership conditions.
- To organise regular (minimum monthly) VB operating days.
- To perform bookkeeping functions (see chapter 6).
- To collect and manage the savings of the members.
- To carry out loan appraisal, disbursement and follow-up.
- To manage and safeguard the Village Banks assets, incl. its cash stock and its external accounts with banks or MFIs.
- To organise General Assemblies.

There are following representative positions within the committee:

- (1) The VB President is the committee member elected with the most votes. The VB President is the representative and spokesperson of the Village Bank with the overall responsibility for the management of the VB.
- (2) One or two VB Vice-president(s) are the ones elected with second- (resp. third-) most votes. Their task is to assist the President in all issues, and to replace him/her under his/her absence.
- (3) The other elected members are VB Committee Members.

Additionally to their representative positions, the following operational responsibilities are assigned upon the committee's own decision:

- Cashier - with responsibility for cash handling and keeping the cashbook; the VB President cannot at the same time be Cashier though.
- Main Accountant - with overall oversight over the VB accounting and special responsibility for the ledger, balance sheets and income statements. The accountant also has responsibility to update member passbooks during VB operating day.
- Savings accountant - responsible for the collection of savings and keeping the savings book.
- Credit accountant - leading the credit appraisal and responsible for the credit book and for the correctness of credit contracts.

Also the responsibility for safeguarding the cash stock in between service meetings has to be arranged. Responsibilities of the safe box needs to be divided amongst 3 committee members; keeping the safe box, keeping the key and keeping the secret combination. All three persons are to be held equally liable for funds in the safe box.

### *2.2.3 THE VILLAGE BANK ADVISORS*

The Village Bank's Advisors are confirmed by the General Assembly upon selection by the village and local village administration; VB advisors are highly respected representatives of the village community, typically from amongst the village administration and the village elders. There are at least two VB advisors.

The VB advisors are supporting the VB committee in case of disagreement or in case of problems, like repayment problems. The VB advisors also can control the VB Committee, as they monitor whether the Village Bank is operating according to its mission and its statutes.

It is not required that the VB Advisors fully participate in all service meetings, but they should attend regularly to keep themselves well-informed.

## **2.3 VILLAGE BANK BYLAWS**

The bylaws are a set of internal rules agreed upon during the General Assembly with the aim to ensure that VB operates in a transparent and efficient manner. Proposals to change the bylaws can be brought up during the General Assembly by any VB member or VB committee member.

The Village Bank is built on mutual trust. It can only operate for the sake of its members' benefit, if members and committee are committed to implement the rules they have agreed upon



amongst themselves. Violations of the bylaws result in jeopardising the viability of the Village Bank. The bylaws contain the following sections:

**Table 2-1 Exemplary Village Bank Bylaws**

Article 1. Name and location	Article 11. Policy for deposit taking
Article 2. Mission	Article 12. Policy for income-generating loans
Article 3. Services	Article 13. Policy for consumption loans
Article 4. Membership eligibility	Article 14. Policy for emergency loans
Article 5. Rights of members	Article 15. Policy for sound financial management
Article 6. Responsibilities of Members	Article 16. Funding resources
Article 7. Termination of membership	Article 17. Function of NSO
Article 8. Organization structure	Article 18. Function of planned confederation
Article 9. VB General Assembly	Article 19. Payment of NSO services
Article 10. VB Committee	Article 20. Update of the Bylaws

AFP encourages self-managed operations in the Village Banks. Nevertheless, experience has shown that unsupported decision taking is very difficult for a community. There is no formal framework or reference points, thus AFP recommends that all Village Banks use a standardized set of bylaws during the first year of operation. After the first year, members may propose and agree on changes for the next 12 months during their first Annual General Assembly Meeting.

Annex 2 provides standard VB bylaws that should be used in the first year without changes. After operating for one year, the VB General Assembly can vote to change aspects of the bylaws. Particularly a review of the minimum savings rate, credit conditions, interest rates and profit distribution setting should be undertaken.

### 3 FOUNDATION OF A VILLAGE BANK

With support from the local government - district and village cluster level - initial information meetings (at least one meeting per village) in the designated villages shall be organised with the objective to facilitate a decision for the village to proceed with the foundation of a Village Bank, or to postpone it until the conditions have changed sufficiently to make the success of a Village Bank probable.

Invite all young and adult village residents to participate at the initial information meeting. It should as far as possible be conducted under conditions that are convenient for villagers. Avoid high seasons for field or other work and religious events. During the initial information meeting, the villagers shall be informed about the purpose, setup and operations of a Village Bank as well as about available support functions. Most likely a second information meeting should be held to answer questions and concerns of villagers.

In the case of pre-existing village microfinance schemes analysis should be taken of the status of these funds and outstanding problems resolved before foundation of the Village Bank.

#### 3.1 VILLAGE BANK FOUNDATION ASSEMBLY

Once it has been decided to engage in the foundation of a Village Bank, the village needs to consider if additional information is necessary or additional capacity building measures are needed before the actual foundation of the Village Bank.

A study tour to nearby existing Village Banks might be a useful event to increase the initial understanding of the Village Bank approach. Village authorities and key persons, possibly including committee candidates should attend a regular service meeting of a mature, well-performing Village Bank if possible.

In villages with no former exposure to financial services and with a low level of formal education, it could be considered to organize additional information meetings.

In villages with good understanding and high interest for the Village Bank, the foundation assembly can be conducted without further preparatory events.

For the foundation assembly all members of the Village Bank committee and advisors should be present, as well as one representative of the district government should join. The following guidelines can be used to set up an agenda for the Village Bank foundation assembly.

Table 3-1 Sequencing of Village Bank Foundation

1.	Announcement:	Announce the foundation assembly within the village in beforehand, optimally on several occasions the day/evening before and on the morning of the meeting. The use of the public address system (megaphones) installed in many villages is very effective.
2.	Opening of the assembly:	Once the majority of interested villagers and the village administration are present, ask the district representative (or highest-ranking participant) formally to open the session.
3.	Facilitation:	Afterwards the leader of the support team takes over and facilitates the meeting. Briefly explain what will happen today.
4.	Refresher:	Ask questions and show pictures and posters (see figure 2) Once more, briefly refresh essential information about Village Banking in an interactive way (ask questions, or ask for comments): objective, organisation. Explain the main parts of the VB bylaws and regulations.
5.	Explanation of Conditions:	The issues within the VB bylaws that are fixed for the first year: <ul style="list-style-type: none"> <li>• Number of committee members (including 2 females)</li> <li>• Compulsory monthly savings rate</li> <li>• Credit conditions within certain limits</li> </ul>
6.	VB Committee election:	Prepare the list of candidates for the election of the VB Committee; some candidates may be nominated in beforehand by the village administration. Ask the assembly to propose other candidates. Ensure that a sufficient number of female candidates are nominated.  The election is done by ballots. Each participant has several votes, (up to) the number of committee members to be elected. The candidates with the most votes are elected; the candidate with the most votes is automatically the appointed VB President.
7.	VB Advisors:	The VB Advisors, normally two persons, are proposed conjointly by the district and village, and have to be confirmed by the assembly.
8.	VB Constitution:	After the election, the responsibilities of the committee are distributed according to chapter 2.2.2.
9.	Start of services:	When the committee is organised, member registration and savings collection can start. The committee is sitting in single line according to their task within the work process. (see chapter 1 on VB operating day)

This outline can also be used or amended for the VB annual meeting (more details can be found in Chapter 7).








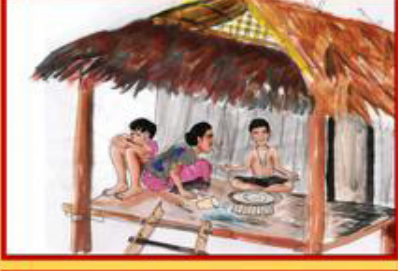






		
<p><b>ການປະຊຸມ:</b></p> <p>ພວກເຮົາໄດ້ຈັດກອງປະຊຸມທະນາຄານບ້ານ ທຸກໆ ເດືອນບໍ່?</p>		
<p><b>ການບັນຊີ:</b></p> <p>ການບັນຊີທີ່ດີ ມີຄວາມສໍາຄັນຫລາຍ ຕໍ່ການບັນທຶກທີ່ຖືກຕ້ອງ ແລະ ອັບປະກັນຄວາມໄວ້ເນື້ອເຊື່ອໃຈ ຂອງສະມາຊິກຂອງພວກເຮົາ</p>		
<p><b>ການຟາກເງິນ:</b></p> <p>ສະມາຊິກໝົດທຸກຄົນເຂົ້າໃຈບໍ່ວ່າ ການຟາກເງິນກັບທະນາຄານບ້ານ ເປັນການຫ້ອນເງິນເມື່ອເວລາຕ້ອງການເງິນ ໃນຍາມຈໍາເປັນ?</p>		
<p><b>ການຫຼິ້ນເງິນ:</b></p> <p>ບັນດາສະມາຊິກທີ່ຈະກູ້ຫຼິ້ນເງິນນັ້ນ ມີແຜນການກູ້ຫຼິ້ນທີ່ດີ ແລະ ຈະຈັງເພື່ອສາມາດກໍ່ໃຫ້ເກີດກໍາໄລໄດ້ບໍ່?</p>		
<p><b>ການປະຕິບັດສິນເຊື່ອ:</b></p> <p>ຂໍ້ຕົກລົງກ່ຽວກັບດອກເບ້ຍ ແລະ ການສໍາລະເງິນກຸ້ອຄືນ ຈຳເປັນຕ້ອງໃຫ້ສະມາຊິກປະຕິບັດ ແລະ ຕິດຕາມ ໂດຍຄະນະກຳມະການທະນາຄານບ້ານ-ອັນນີ້ແມ່ນເງິນຂອງສະມາຊິກທັງໝົດ!</p>		
<p><b>ການບັນທຶກ:</b></p> <p>ພວກເຮົາພໍໃຈກັບເງິນບັນທຶກຄັ້ງຜ່ານມາ ແລ້ວບໍ່? ສະມາຊິກເຮົາໃຈບໍ່ວ່າ ການພ້ອມພຽງກັບຟາກເງິນເປັນປະຈຳ ໂດຍມີການປະຕິບັດໃນສິນເຊື່ອທີ່ດີນັ້ນ ຊ່ວຍເພີ່ມສ່ວນແບ່ງກໍາໄລ ຈາກເງິນບັນທຶກຫລາຍຂຶ້ນ?</p>		

Figure 3-1 Village Banking Concept Poster

## 4 FINANCIAL SERVICES

The following diagram shows a simplistic overview of Village Banking. Members save money at the Village Bank, those savings are then used to make loans. Interest is collected from borrowers and then dividends are paid to members. The following sub-chapters will discuss in more depth the details surrounding this process.



Figure 4-1 Village Bank Operating Mechanisms

### 4.1 SAVINGS

#### 4.1.1 COMPULSORY SAVINGS

The General Assembly decides on the regulations surrounding compulsory savings. Most Village Banks have compulsory savings in their regulations, normally with monthly minimum saving at KIP 10,000 per member. Compulsory savings have the main objective to make members acquainted to regularly setting aside a part of their income for later use.

#### 4.1.2 VOLUNTARY SAVINGS

Beyond the regular minimum savings amount, Village Banks accept unlimited voluntary savings amounts.

Voluntary savings in the VB allow for the buildup of additional capital for lending activity. Increasing savings allows for increased credit disbursement. As long as there is credit demand in the village the village bank should actively encourage savings. However, in villages where the savings demand far exceeds credit demand and surplus liquidity cannot be stored



safely or deposited in a profit bearing account (with support organization or bank), the General Assembly can set maximum limits for voluntary savings deposits.

All savings including the compulsory savings can be withdrawn during and, in urgent emergency situations, outside service meetings. Withdrawal of all savings equals a termination of one's membership. If a member intends to withdraw a large savings amount, s/he has to give notice. Depending on the actual liquidity situation, the total amount possible has to be paid in installments.

Low saving or high withdrawal rates are often symptoms for more systemic problems within the Village Bank that have depleted members' trust in the security or profitability of their deposits. To ask members to save more should only be done after these problems have been detected and addressed.

### 4.1.3 DIVIDENDS

Although VB profits are mainly earned through credit lending activity like a traditional bank, the return on savings is not a fixed interest rate like commercial banks offer. A portion of the village bank's net profits are disbursed to members in the form of dividend payments. Dividends are calculated based on an average annual savings balance. There is no distinction between compulsory and voluntary savings. Dividends are distributed on an annual basis, and they are the compensation to members for saving (see chapter 7 for details of the dividend payment calculation). The dividend ratio paid to the members depends on a combination of:

- Interest rate levels
- Amount of credit disbursed relative to savings deposited (A village bank with high liquidity level that does not use funds effectively will have a lower dividend ratio)
- Overall credit portfolio performance (amount of loan loss provisions needed)

## 4.2 CREDIT

### 4.2.1 GENERAL REMARKS

Thoughtful credit disbursement and stringent follow-up processes are the single most important operation for the success of the Village Bank. Successfully carried out, the capital accumulated by member savings is used to finance activities with a high financial or non-financial benefit to the credit taker. Simultaneously revenue is created to remunerate savings and other resources used to run the VB, and even to finance social activities for the benefit of the community.

### 4.2.2 CREDIT CHARACTERISTICS

The following table represents the typical credit conditions that should be set in the first year of operation. After the first year, VB members can vote to change these conditions at the annual meeting (see chapter 7).



Table 4-1 Proposed Loan Products of VB in the first year

Loan types	Interest Rate per Month	Maximum Loan Term (Months)	Individual Loan Ceiling (Kip)
1. Emergency	1%	6	2,000,000
2. Household (Consumption)	2%	6	2,000,000
3. Income Generating Activities (cash crops, animal raising)	2%	12	5,000,000
4. Trading	3%	6	5,000,000

VB credit is usually disbursed in a bullet loan format. With bullet loans monthly interest payments should be made and one-time principal repayment is due back at the end of the contracted term. Borrowers are allowed to pay back loans earlier than contracted. In that case, interest payments should be re-calculated to reflect a declining balance method, i.e. subsequent interest due is calculated from the remaining principal not the original principle amount.

#### 4.2.3 CREDIT APPRAISAL

Community based microfinance loans are easier to make, less formal and utilize peer to peer pressure to encourage payback.

In general, it is – and should be – easier to obtain a credit in a Village Bank than in a formal bank. Less documents are required, collateral requirements are lower and the disbursement is normally done within a few hours.

The loan appraisal process is inexpensive, and can be more accurate compared to a loan officer, because the VB committee and village administration are usually well-informed about the loan taker's personality and financial situation.

Before disbursing a credit, the VB committee shall make a thorough appraisal of the credit application. The following four main questions need to be answered positively before taking a decision whether the credit is given or not.

- ✓ *Is the applicant eligible for a credit, and are credit conditions conform with the Village Bank's regulations?*
- ✓ *On behalf of the Village Bank: Will the applicant in all likelihood be willing to fulfil the credit contract i.e. to repay the credit under the agreed conditions?*
- ✓ *On behalf of the Village Bank: Will the applicant in all likelihood be able to fulfil the credit contract i.e. to repay the credit under the agreed conditions?*
- ✓ *On behalf of the applicant: Will the applicant in all likelihood have a benefit from taking the loan without suffering unreasonable hardship to repay the loan?*
- ✓ *Does the applicant have outstanding loans with any other institutions or money lenders?*
- ✓ *On behalf of the applicant: Does the applicant fully understand the terms, his obligations and total costs of borrowing?*

In order to respond to the above questions, three factors need to be considered –

1. The personality and personal conditions of the applicant:
  - What are his/her familiar and economic conditions (married/single, poor/better off)?
  - How is the borrower's savings and credit history? – Does s/he save regularly, and have previous loans been repaid according to the contract?
  - What is known about the applicant's character? – Is s/he reliable/unreliable, determined/haphazard in his/her behaviour, industrious or lazy?
2. The income and cash flow of the household business, of which the loan has to be repaid from:
  - What are the present income sources of the applicant? – At what time does s/he have which income and expenses (cash flow)?
  - What will the credit be used for? – Do amount and repayment schedule of the applied credit fit into the cash flow of the activity? – Is the activity expected to be profitable enough to pay for interest and leave a benefit to the borrower?
  - In case the financed activity fails: can the borrower settle his debt without having to sell fixed assets to repay the loan?
3. The collateral the applicant can mobilise in case the repayment plan and alternative income sources fail, OR the credit taker turns out to be unwilling to pay back the loan:
  - What is the general asset (wealth) situation of the credit taker?
  - Which guarantee would be most suitable for the actual loan? – Prefer easily accessible, tangible assets to large assets that are difficult to sell!

**Table 4-2 Golden Rules for Credit Appraisal by VB Committees**

- |  |
|--|
| <ul style="list-style-type: none"> <li>• <i>Be cautious giving money to persons that have previously caused problems! Don't give credit to persons with the sole reason that they have collateral (land) enough for securing the loan!</i></li> <li>• <i>Do not give money to persons that are currently having a credit already (except emergency loans)!</i></li> <li>• <i>No loans to non-members!</i></li> <li>• <i>Make sure that loan size fits to the debt capacity of borrower!</i></li> <li>• <i>Fit loan repayment schedule to expected cash-flow – in terms of monthly payments as well as loan term!</i></li> <li>• <i>Respect the regulations – there are good reasons why you agreed on them!</i></li> <li>• <i>The larger the loan – the higher the risk – the more careful credit assessment has to be applied!</i></li> <li>• <i>Committee must ensure that borrower understands credit contract and its consequences!</i></li> <li>• <i>Solve problems while they are still small – e.g. if a member does not show up to pay his/her interest or installment, go to his/her house the same day to try to solve the problem!</i></li> </ul> |
|--|

When the committee has assessed the loan application, it can take the decision whether

- to approve the loan application in its original form
- to approve the loan application after discussion and agreement with the client on changes (e.g. reduced loan amount, if the risk is considered high, or changed loan term, if it is considered too short or too long for the financed activity)
- to decline the loan application.

When a loan application is approved, ensure that the loan contract and its amendments are filled in and signed by account holder, VB Committee member and stamped by Village authority (usually Nayban), before forwarding it to the cashier for disbursal [see Annex 4 for Loan contract form]. For family accounts male and female account holders have to sign.

In Village Banks with poor credit management, uncritical disbursement of loans can lead to over-indebtedness of members that have received loans beyond their debt capacity. Standard extension of overdue loans can aggravate the situation when some members cannot obtain credits, because others do not pay back in time (see Chapter 8 - Problem Solving - Delinquency Management)

### 4.3 PROJECT GRANTS

Some Village Banks use grants or loans to assist in capital funding, they are subject to requirements from respective donor agencies and must be considered on a case by case basis. Project grants to Village Banks are either given to member households, transferred to the household's savings account, or to the VB as a whole. In the latter case the grant has a separate account either in the ledger or in the savings book.

*Tip: When calculating dividend payments pay special attention to how grant funds might impact the dividend payment. Profits gained from grants or loans may not qualify for dividend payment.*

In both cases the grant cannot be withdrawn without the written accept of the donor or its successor (which is either the NSO or the former project government partner).

If a member that has received a project grant, terminates his/her membership, the vacant grant portion shall be transferred into a separate grant capital account, until a new member eligible for the grant can take it over into its savings account.

In case a Village Bank, that has received project grant, closes, the project grant is transferred into the account holder's ownership before the final dissolution process. Members with delinquent credits will have their debts set off against their savings account including the project grant.

## 5 VILLAGE BANK OPERATING DAY

The Village Bank Operating day occurs periodically for one day per month (in large villages it is possible to extend operations over a two day period.) The operating day is when all members of the Village Bank can attend the banking function (usually in the main town meeting hall or temple (Wat). Here the Village Bank committee sets up the bookkeeping and cash drawers and facilitates the banking transactions on behalf of the members. The following procedures should be followed:

**Table 5-1 Steps for Conducting VB Meetings**

1.	Announcement	Coordinate with the VB contact person the day before the service meeting date. Ask him/her to announce the meeting amongst the members, preferably on several occasions the day/evening before and on the morning of the meeting. The use of the megaphones installed in many villages is very effective.
2.	Preparations	<ul style="list-style-type: none"> <li>• All committee members assemble.</li> <li>• Cash stock and all accounting books are brought along by the responsible persons.</li> <li>• Cash is counted jointly and checked with the cash books, ending balance reconciles.</li> <li>• Any records in the cash book since the last meeting (emergency payments, etc.) are checked and added into the respective accounting books, if not done yet.</li> <li>• Committee members position themselves with their records and tools to support a correct and efficient work flow.</li> </ul>
3.	Opening	The service meeting is declared open. Any new members should be registered using the registration form (Annex 1) and issued a member passbook.
4.	In-payments	<ul style="list-style-type: none"> <li>• The committee accepts incoming payments: savings deposits, interest and fee payments, credit principal repayments.</li> <li>• Savings are recorded in cashbook, savings book and member passbook. Interest and principal payments are recorded in cashbook, credit book and member passbook.</li> <li>• Members who want to apply for a credit can fill the credit application (see Annex 5), possibly with help of the responsible committee members.</li> </ul>

5.	Out-payments	<ul style="list-style-type: none"> <li>The committee issues savings withdrawals, to be recorded in cash-book, savings book and member passbook.</li> <li>The committee completes, if necessary, and appraises submitted credit applications. Approved applications are issued and transferred to the cashier for disbursement. The payment is recorded in the cashbook, the credit book and the member passbook. The credit contract and not approved credit applications are filed separately.</li> </ul>
6.	Closing	Services are closed and payments are no longer accepted.
7.	Payment to NSO or bank	<ul style="list-style-type: none"> <li>Payments made to NSO or bank (NSO fee, interest and credit repayment) are handed over to the responsible NSO staff against invoice and recorded in the cashbook.</li> <li>Payment vouchers are filled</li> <li>If no payment is made, a zero-receipt must be filled and signed.</li> </ul>
8.	Closing the books	<ul style="list-style-type: none"> <li>Cash is counted jointly and checked against the closing balance in the cashbook. The amounts must be identical! The cashbook is signed.</li> <li>Savings book and credit book are crosschecked and summed up. Any inconsistencies are investigated and corrected.</li> <li>Loan Loss Provisions, Monthly ledger records, income statement and balance sheet are calculated and signed. (see chapter 6 - Accounting for Village Banks)</li> </ul>
9.	Data copying (If supporting bodies exist)	The current month's data are entered into the resp. Village Bank data file or to resp. paper formats.
10.	Summary	Discuss with the committee and note any irregularity or unfinished business.
11.	Operations outside service meetings	<ul style="list-style-type: none"> <li>The committee can pay savings withdrawals and loans in emergency cases, according to the regulations. All payments must immediately be recorded in the cash book.</li> <li>Any payments from NSO or bank (withdrawals of deposits, disbursement of wholesale loans) are accepted and immediately put into the safe box and recorded in the cash book.</li> <li>No other in- or out-payments are to be made.</li> </ul>

## 5.1 TRANSACTIONS BETWEEN VILLAGE BANK AND SUPPORT ORGANIZATIONS

As mentioned in the introduction, GIZ uses a two-tier system with Network Support Organizations (NSOs). VB support staffs are agents for payments from the Village Bank to Support Organization (or a partnering bank) and vice versa. Village Banks may have to pay membership fee to the support organizations according to the General Assembly's decision. Normally, the membership fee is payable monthly. VB Support staff must ensure that the VB are paying their fee fully and regularly. In order to balance the Village Bank's requirement for liquid assets, it may deposit surplus cash at the Support Organization or a local bank, or it may take a wholesale loan at the support organization if the available internal capital cannot meet the demand for member credits.

Apart from technical support there are financial transactions between VBs and NSO. Before the VB visit, the support organization staff in charge has to coordinate with the Financial Department of the support organization concerning any payments to be made. Payments from support organization to VB are done at the beginning of the VB service meeting, payments from the VB to the support organization are issued at the end of the meeting. A support organization invoice form has to be filled out at every VB visit with all payments done at the specific day. The invoice has to be signed by the VB cashier and the responsible support organization staff. Figure 5 is a sample voucher used by AFP support staff. It is a numbered form and the VB receives the original while the NSO takes and files carbon copies at the NSO.

*At each visit to the village by support organization staff, a payment receipt must be issued. If no payment has been made, the receipt is crossed with a '0' on the bottom-line (zero-receipt).*




	ສະຖາບັນການເງິນຈຸລະພາກທີ່ບໍ່ຮັບເງິນຝາກ .....		ວັນທີ / ເດືອນ / ປີ	
			(Date of invoice)	
			ສະບັບທີ	
			(document copy)	
			ເລກທີ	
			No.	
<b>ໃບຢັ້ງຢືນຮັບເງິນສົດ</b> (cash paid in voucher)			<b>ໃຊ້ເປັນຫຼັກຖານ</b> (used for evidence)	
ຊື່ຜູ້ໃຊ້ບໍລິການ/ທະນາຄານບ້ານ (Client's name/VB's name)				
ສ/ດ (No.)	ເລື່ອໃນການຮັບ (Description of deposit)	ຈາກເດືອນ from month	ເຖິງເດືອນ to month	ຈຳນວນເງິນ Amount
				ເລກໝາຍບັນຊີ # of Account
1	ຮັບເງິນຄ່າບໍລິການປະຈຳເດືອນຈາກທະນາຄານບ້ານ (Monthly service fee paid from VB to NSO)			121,001
2	ຮັບເງິນຊຳລະດອກເບ້ຍເງິນກູ້ມອບເໝົາຈາກທະນາຄານບ້ານ (Interest payment for WSL from VB to NSO)			101,001
3	ຮັບເງິນຊຳລະຕົ້ນທຶນສິນເຊື່ອມອບເໝົາຈາກທະນາຄານບ້ານ (Repayment of Wholesale Loan from VB to NSO)			434,001
4	ຮັບເງິນຝາກຈາກທະນາຄານບ້ານ (Saving paid in by VB to NSO)			500,201
5	ຮັບເງິນຊຳລະຕົ້ນທຶນເງິນກູ້ລາຍຍ່ອຍ (Repayment of retail Loan )			440,001
6	ຮັບເງິນຊຳລະດອກເບ້ຍເງິນກູ້ລາຍຍ່ອຍ			102,001
7	ຄ່າທຳນຽມເງິນກູ້ (Fee for credit disbursement)			121,101
8	ລູກຄ້າລາຍບຸກຄົນຝາກເງິນຄ້າປະກັນເງິນກູ້ compulsory saving for retail loan guarantee			500,101
9	ອື່ນໆ ( ) (other: )			
ລວມ (Total sum)				
- ຈຳນວນເງິນຂຽນເປັນຕົວໜັງສື (Total amount in words)				
ເຊັນ ຜູ້ມອບເງິນ (Depositor)				
ຜູ້ຮັບເງິນ (Receiver)				
ຫົວໜ້າ ສະຖາບັນ (ຜູ້ທີ່ໄດ້ຮັບມອບສົດ) NSO manage or person who has authorization				

Figure 5-1 Example of a Cash Paid Voucher

## 6 ACCOUNTING FOR VILLAGE BANKS

### 6.1 OVERVIEW

The accounting system for Village Banks is made up of 6 accounting books. These are the single most important management tool for the VB committee, its advisors, support staff and external partners.

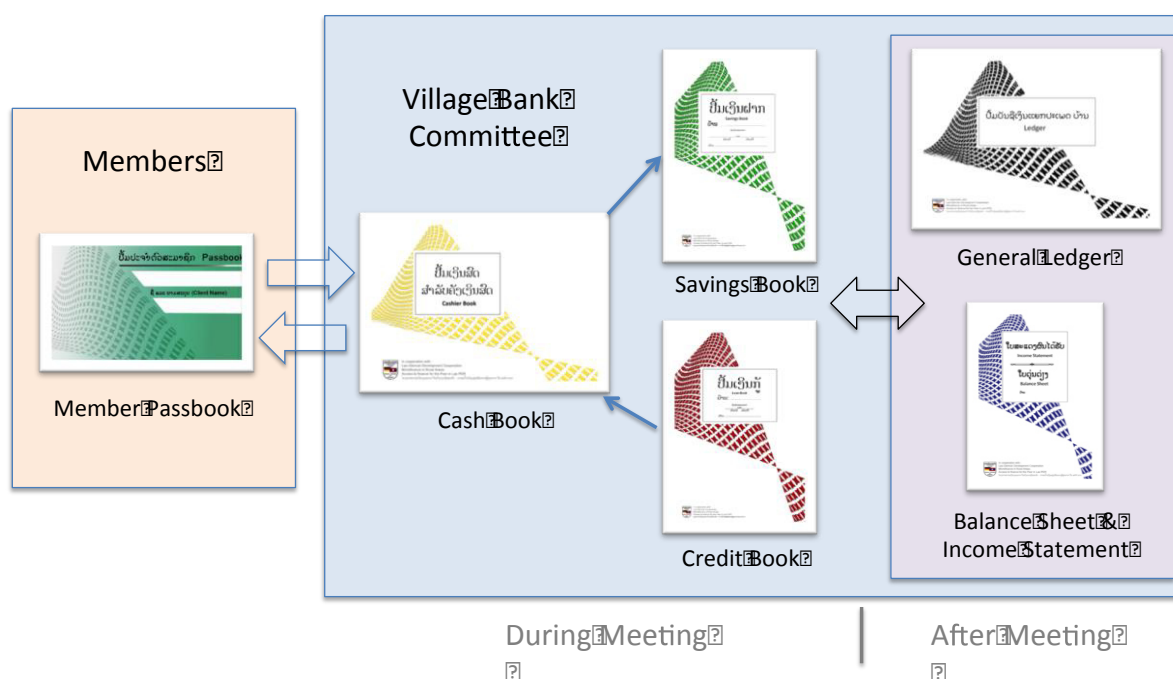


Figure 6-1 Village Bank Accounting System

The accounting system consists of the following 6 Books:

- **Member Passbooks** are the members' documentation for their membership, savings deposits and loans.
- **Cash Book** to record all in- and out payments, and to keep track of cash-in-hand.
- **Savings Book** is where all member savings amounts are recorded and the annual savings dividend is calculated here.
- **Credit Book** is the main document for the management of credits. The most important information on the credits is denoted; the credit book is also used for the supervision of loans. The Credit Contract is a subsidiary document to the Credit Book. It is used as legally binding documentation in case of disagreement between the Village Bank and the credit taker.
- **General Ledger** also called 'Overall Summary Record' sums all financial transactions within the Village Bank, cash and non-cash up to the actual balances of all accounts.
- **Balance Sheet & Income Statement** The Income Statement (Profit/Loss Account) sums up all revenues, expenses and costs of the period. The Balance Sheet gives the full picture of the Village Bank's financial situation on the specific date. It displays where the Village Bank's financial resources are coming from (Liabilities & Equity), and what these resources presently are used for (Assets).

## 6.2 HANDLING OF ACCOUNTING BOOKS

All books and documents, except the membership booklets, shall be kept together in one place, ideally in the Village Bank's safe box. Except in special situations with the special mandate of the support organizations and with acceptance of the VB committee, no person is allowed to remove accounting documents from the village.

## 6.3 CASH BOOK



Figure 6-2 Cash Book Cover

All cash transactions are recorded in the Cash Book. *Cash In* and *Cash out* payments are recorded in the Cash Book by the cashier. The Village Bank Committee Cashier should enter every payment into the cashbook immediately without any delay and in chronological order. Use a new page for every service day.

The next 3 examples show how to make cash book entries for a variety of transactions over the course of a 3 month period (3 VB servicing). Refer to the following procedures and corresponding yellow numbered bubbles on cash book examples to see how to make entries.

## 6.3.1 CASH BOOK ACCOUNTING PROCEDURES

## Cash Book on Month 1

1.	2.	3.	4.	5.	6.	7.	8.	9.
#	Date	Member # / Name	Transaction Description	Cash Received	Cash Paid	Balance	Payer Signature	Receiver Signature
1	15/1/14	10 -Clientname-	Savings Deposit	300,000	-	350,000	sign	sign
2	15/1/14	12 -Clientname-	Savings Deposit	50,000	-	50,000	sign	sign
Total				350,000	0	350,000	0	

Controller Signature: sign

Cashier Signature: sign

14.

14.

## Cash Book on Month 2

1.	2.	3.	4.	5.	6.	7.	8.	9.
#	Date	Member # / Name	Transaction Description	Cash Received	Cash Paid	Balance	Payer Signature	Receiver Signature
			Carryover from previous month			350,000		
3	15/2/14	12 -Clientname-	Savings Deposit	35,000	-	385,000	sign	sign
4	15/2/14	23 -Clientname-	Loan Disbursement	-	200,000	185,000	sign	sign
Total				35,000	200,000	185,000	0	

Controller Signature: sign

Cashier Signature: sign

14.

14.

## Cash Book on Month 3

1.	2.	3.	4.	5.	6.	7.	8.	9.
#	Date	Member # / Name	Transaction Description	Cash Received	Cash Paid	Balance	Payer Signature	Receiver Signature
			Carryover from previous month			185,000		
5	15/3/14	23 -Clientname-	Interest Payment	4,000	-	189,000	sign	sign
6	15/3/14	12 -Clientname-	Savings Deposit	35,000	-	224,000	sign	sign
7	15/3/14	NSO	Fee Payment	-	1,000	223,000	sign	sign
Total				39,000	1,000	223,000	0	

Controller Signature: sign

Cashier Signature: sign

14.

14.

Figure 6-3 Example Cash Book Transactions

## Step-by-step explanations cash book accounting procedures

- (1) Give every entry a running number ①. The running numbers are to be continued throughout the financial year, starting with 1 for the first entry of each new financial year.
- (2) Enter the actual date of the payment ②. If several entrances are made the same day, it is sufficient to enter the date for the first payment and fill the corresponding fields of the column with a vertical line.
- (3) Enter membership number and name of the member correlated to the payment ③. In case the payment is done to or by an external person, like a support organization or a bank, leave the membership number empty, but note down the name of the person and the name of the organisation, s/he is affiliated with.
- (4) Describe in brief the actual purpose or details of the payment, e.g. 'Saving deposit', 'Saving withdrawal', 'Credit disbursal', 'Interest payment', 'Principal repayment', and 'NSO service fee' ④.
- (5) The amount of the payment is written as 'Received' ⑤ for in payments, and as 'Paid' ⑥ for out payments.
- (6) Calculate the actual cash balance ⑦ by either adding the amount from column ⑤ or deducting the paid amount from column ⑥ from the cash balance of the previous row ⑦.
- (7) Payer ⑧ and receiver ⑨ have to sign with their initials or thumb print in the according fields.
- (8) At the designated time, or when after adequate announcement no further members are turning up, VB services are terminated. No further in or out payments are to be done, and the cash book is closed for this day.
- (9) Sum up all in ⑩ and out ⑪ payments of the day and crosscheck by adding the sums to the previous day's closing balance. It should yield the actual closing balance ⑫.
- (10) If the calculated balance is not identical to the counted amount of cash, check for failures. If no accounting failures can be detected, the deficit resp. surplus has to be denoted in an additional entry as 'Difference' ⑬. The closing balance in the cash book must under all circumstances match with the actual cash count.
- (11) Upon closure of the cash book, the 'Controller', a Board member, and the Cashier shall confirm the correctness of the cash book by their signature ⑭.

**Table 6-1 Most Common Mistakes in the Cashbook**

<i>Most Common Mistakes Filling the Cashbook</i>	<i>How to Prevent Mistakes</i>
<b>Payments are not included in the cashbook.</b>	Enter every payment immediately upon receipt, and in chronological order!
<b>Miscalculations</b>	Check the 'Balance' column!



## 6.4 MEMBER PASSBOOKS

Member Passbooks are issued to Village Bank members. One passbook per account (client #). The Passbooks are used to record any savings or loan related transactions and any payment of interest or dividends received from/to the member. There are two separate sections in the passbook: The savings section and the loan section. The following examples show how savings from client #12 are registered, and a loan disbursement to client #23, as well as payment of interest are accounted for.



Figure 6-4 Member Passbook Cover

### 6.4.1 SAVINGS PASSBOOK ACCOUNTING PROCEDURES

#### Savings (Client # 12)

No.	Date	Savings Deposit	Savings Withdrawl	Dividend	Balance	Cashier Signature
1.	Carry-over	2.	3.	4.	5.	6. 7.
1	1/15/14	50,000	-	-	50,000	sign
2	2/15/14	35,000	-	-	85,000	sign
3	3/15/14	35,000	-	-	120,000	sign
4						
5						
6						
7						
8						
9						
10						
11						
12						
8.	Carry-forward balance					

Figure 6-5 Example: Saving Book Transactions



### Step-by-step explanations saving book transactions

- (1) In the case of pre-existing passbooks, carryover balance should be transferred over to the carryover accounts ①. If this is a brand-new account, no carryover balance is needed.
- (2) Enter the actual date of every transaction ②, and begin on the first No. 1. There should be no blank rows left above transaction entries to avoid historical manipulation.
- (3) Enter the amount of transaction in the respective columns ③④⑤. If multiple transactions are made, a new line should be used for each transaction.
- (4) Calculate new balance after each transaction ⑥ (add to balance for deposits, and dividend, subtract for withdrawals)
- (5) VB committee cashier should sign off on every transaction when cash is received or paid to member ⑦ (corresponding entries are made by cashier in the cash book and savings book)
- (6) Once the bottom of the page is reached, totals should be calculated ⑧ and balance carry-forward to next page (or new book if all pages are full).

#### 6.4.2 LOAN PASSBOOK ACCOUNTING PROCEDURES

##### Loans (Client # 23)

No	Date	Loans Disbursed	Loans Repayed	Interest Paid	Balance	Cashier Signature
1.	carry-over					
1	2/15/14	200,000	-	-	200,000	sign
2	3/15/14	-	-	4,000	200,000	sign
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
8.	Balance for Carry-forward					

Figure 6-6 Example: Loan Passbook Transactions

## Step-by-step explanations loan passbook transactions

- (1) In the case of pre-existing passbooks, carryover balance should be transferred over to the carryover accounts ①. If this is a brand-new account, no carryover balance is needed.
- (2) Enter the actual date of every transaction ②, and begin on the first No. 1. There should be no blank rows left above transaction entries to avoid historical manipulation.
- (3) Enter the amount of transaction in the respective columns ③④⑤. If multiple transactions are made, a new line should be used for each transaction.
- (4) Calculate new balance after each transaction ⑥ (add to balance for loan disbursements, subtract for repayments, no change to balance for interest paid)
- (5) VB committee cashier should sign off on every transaction when cash is received or paid to member ⑦ (corresponding entries are made by cashier in the cash book and loans book)
- (6) Once the bottom of the page is reached, totals should be calculated ⑧ and balance carry-forward to next page (or new book if all pages are full).

## 6.5 SAVINGS BOOK



Figure 6-7 Saving Book Cover

The Savings Book keeps track of members' savings deposits and withdrawals. Each set of accounts covers 12 service meetings over the course of the financial year and concludes with the dividend paid to members' savings at the end of the year. The first example shows how to make savings related accounting entries on a monthly basis and second example shows how to make entries for the annual dividend payment (happens during the Annual General Meeting on the 12<sup>th</sup> operating month).

## 6.5.1 SAVINGS ACCOUNTING BOOK PROCEDURES

1.	2.	3.		4.			
Client #	Member Name	Detail	Carryover	Month 1	Month 2	Month 3	Month 4
				15/01/14	15/02/14	15/03/14	
10	-client name-	Savings	0	5. 300,000	0	0	
		Withdrawl		6. 0	0	0	
		Balance		7. 300,000	300,000	300,000	
12	-client name-	Savings	0	50,000	35,000	35,000	
		Withdrawl		0	0	0	
		Balance		50,000	85,000	120,000	
		Savings					
		Withdrawl					
		Balance					
TOTAL		Savings	0	8. 350,000	35,000	35,000	
		Withdrawl		9. -	-	-	
		Balance		10. 350,000	385,000	420,000	

Figure 6-8 Example: Saving Book Accounting Procedures

## Step-by-step explanations of saving book accounting procedures

- (1) At the start of each financial year, the Savings Book has to be set up anew either on a new set of pages within the existing Savings Book, or, if not sufficient pages are available, with a new Savings Book.
- (2) Write down membership numbers ① and names ② of all members in sequential order. For household or family accounts, write name and family name (if available) of both husband and wife. In villages, where the use of nick names is customary, also add the nick name in parentheses. Add also any special liability accounts like undistributed grant fund, external savings or other village funds that are embedded within the Village Bank.
- (3) For each savings account, enter the opening balance carried over from last financial year's savings book ③. In a new-founded VB, the opening balance will be '0'.
- (4) Enter the month of the first service meeting ④; 'Month 1' means the first month of the *financial* year!
- (5) For each member enter the amount of money s/he deposits to ⑤ resp. withdraws ⑥ from his/her account.
- (6) Calculate the actual balance ⑦ by adding the deposit to or deduct the withdrawal from last month's balance or, for the first month, the opening balance ③.
- (7) For closing the Savings Book at the end of a meeting day, be sure that all entries are correct and complete. For members not depositing nor withdrawing carry over last month's balance to the actual month.

- (8) Finally sum up all deposits ⑧, withdrawals ⑨ and actual balances ⑩ of this month, and compare if the ending balance from last month plus the sum of ⑧ minus ⑨ is equal to ⑩.
- (9) Note that the carryover field ③ for total at the bottom of page is used to aggregate all client balances up to that point i.e. not just the total of the current page, but total of all clients up to that point.

### 6.5.2 DIVIDEND ACCOUNTING PROCEDURES

	n11	n12	Member Score	Dividend Payment	Carryover
	15/11/14	15/12/14			
	35,000	35,000	2.	3.	4.
	0	0	28,140,000	427,000	2,772,000
1.	2,310,000	2,345,000			
	0	0	2.	3.	4.
	0	0	3,600,000	55,000	355,000
1.	300,000	300,000			

Figure 6-9 Example: Dividend Account Procedures

- (1) At the end of each financial year, after the 12<sup>th</sup> meeting has been completed, add up all savings balances of the previous 12 months for each account ① and enter aggregated total into the member score ②.
- (2) All eligible member scores are added up as reference for the dividend distribution called the total VB member score.
- (3) The annual dividend set aside during profit sharing is then divided by the total VB member score resulting in the annual Dividend Factor (see Chapter 7 - Dividend Calculation).
- (4) For each member multiply the individual member score ② with the annual Dividend Factor and fill in the result, the member's annual dividend ③.
- (5) The member's annual dividend, if not per standard paid out in cash during the annual meeting, is added to the carryover account balance in the 12<sup>th</sup> month ④, resulting in the closing balance of the account.

\* for more detailed explanation of dividend factor calculation see Chapter 7 - Annual General Assembly.

Table 6-2 Most Common Mistakes in the Saving Book

<i>Most Common Mistakes Filling the Savings Book</i>	<i>How to Prevent Mistakes</i>
Account entries are not complete	Enter every payment immediately upon effectuation!
Miscalculations, especially for the calculation of the actual balance and the dividend	Crosscheck with cash book and ledger. In case of inconsistencies, find the cause!

## 6.6 CREDIT BOOK



Figure 6-10 Credit Book Cover

In the Credit Book the most important information on VB credits are recorded in order to enable the VB committee to carry out effective credit management. The Credit Book is built up to monitor credits over the period of the 12 months of the VB's financial year. At the beginning of a new financial year, un-paid loans have to be carried over into a new book or a new set of pages.

### 6.6.1 CREDIT BOOK ACCOUNTING PROCEDURES

Client #	Loan Details		Carryover	Month		
				15/1/2014	15/2/2014	15/3/2014
2. 23	Name	-clientname-	Total Disbursement		200,000	0
	Activity	Agriculture	Repayment		0	0
	Monthly Interest Rate	2.0%	Outstanding Loan	0	200,000	200,000
	Date of Borrowing	15/2/2014	Interest Due		0	4,000
	Loan Term (Months)	8	Interest Paid		0	4,000
	Repayment Date	15/10/14	Outstanding Interest	0	0	0

Figure 6-11 Example: Credit Book Accounting Procedures

#### Step-by-Step explanations of credit book accounting procedures:

- (1) For every loan paid out, establish one credit record ①.
- (2) Enter the membership number of the person taking the loan ②.
- (3) Enter following information into the corresponding fields ③ according to the loan contract:

**Name of the credit taker**

**Loan purpose or loan activity**

**Monthly interest rate**

**Date of credit disbursal**

**Credit term in months**

**Due date**

- (4) If the loan is carried over from the previous financial year, fill in the opening balance ④ and the amount of unpaid interest ⑤.
- (5) Starting with the first month of the financial year ⑥, write the name of the month in the upper field.
- (6) Fill in the payment data of all outstanding credits into the actual month's column ⑦:
  - Credit amount disbursed**
  - Principal repayment**
  - Loan amount outstanding** (which is the result of adding credit disbursement or subtracting principal repayment from last month's balance)
  - Interest payable** (including this month's interest plus any outstanding interest balance from the previous month)
  - Interest actually paid**
  - Interest overdue** (which is the result of deducting 'Interest actually paid' from 'Interest payable')
- (7) Before closing the monthly accounting, be sure to update the data of each outstanding loan. If there was no payment made, then indicate this by carrying on the principal and add unpaid interest to the actual outstanding interest.
- (8) Sum up all payment data for the actual month at the bottom of book under "Totals" (not shown in example above, but is in the book)

Table 6-3 Most Common Mistakes in the Credit Book

<i>Most Common Mistakes Filling the Credit Book</i>	<i>How to Prevent Mistakes</i>
<b>Entries are not complete, especially for payments made outside of the monthly service day.</b>	Enter every payment immediately upon effectuation!
<b>Miscalculations</b>	Crosscheck with cash book, ledger and the 'Village File'. In case of inconsistencies, find the cause!

## 6.7 LEDGER BOOK

The ledger is used to show money in and money out by the type of item (e.g. membership fees, loans, or interest). Transactions which concern the same item are grouped together in the ledger, and at any given time, the ledger will show the money in or money out relating to a particular type of item.

**Table 6-4 Categories of the Ledger Book**

<u>Assets</u>	<u>Profit Loss</u>
Cash on Hand	<b><i>Income:</i></b>
Savings at Financial Institutions (i.e. Support Organization or Commercial Bank)	Member Loan Interest Income
Member Loans	Return on Deposits or Shares at Financial Institutions
- (minus) Loan Loss Provisions	Other Income
 <u>Equity &amp; Liabilities</u>	 <b><i>Expense:</i></b>
General Provisions	NSO Service Fee
Loan from Financial Institutions (i.e. Support Organization or Commercial Bank)	Administration Expenses
Member Savings	Interest Expense of Loan from Financial Institutions
Grant	Other Expense

For each of these categories, there is a column for “credit” (or the equivalent), a column for “debit” (or the equivalent) and a column for “balance”.

It is important to check that the amounts in the ledger correspond to the amounts in the other record keeping tools: for instance, the items under the heading “Member Loans” must correspond with the final aggregated records in the credit book. The following procedures should be done after the closing of Village servicing day after all entries in Savings Book, Loan Book and Cash book are finished and summarized. The following procedures use the examples from savings and loans transactions made earlier in this manual to illustrate the flow of accounting information.



### 6.7.1 LEDGER ACCOUNTING PROCEDURES

First fill-in the carry-over balance amounts from the previous book or year. If first month, put zero where appropriate. It is important to remember each transaction must be entered in two columns in the ledger, most transactions will effect the “cash” account plus one of the sub-accounts. The amount in [brackets] is to show previous examples from the savings and loans carrying through to the ledger now.

1. Member Savings: Take the **total member savings** amount from *Savings Book* and enter amount in:
  - (+) Cash [ 420,000]
  - (+) Member Savings [420,000]
2. Member Principal Paid Back: Take the **total principal paid** amount from *Loan Book* and enter the amount in:
  - (+) Cash [0]
  - (-) Member Loans [0]
3. Member Interest Payment: Take the **total interest paid** amount from *Loan Book* and enter the amount in:
  - (+) Cash [4,000]
  - (+) Income [4000]
4. Member Savings Withdrawal: Take the **total savings withdrawal** amount from *Savings Book* and enter the amount in:
  - (-) Cash [0]
  - (-) Member Savings [0]
5. Member Loan Disbursement: Take the **total loan disbursement** amount from *Loan Book* and enter the amount in:
  - (-) Cash [200,000]
  - (+) Member Loans [200,000]
6. Support Service Fee: Take current month service fee (calculated from outstanding loan portfolio) enter the amount in:
  - (-) Cash [1,000]
  - (+) Expenses [1000]
7. Loan Loss Provisions: Take current month LLP (calculated from Loan Portfolio at Risk see chapter 6.7.2 Loan Loss Provisions and Portfolio at Risk) enter amount in:
  - (+) or (-) Loan Loss Provisions
  - if decrease of LLP then:*
  - (+) Income [0]
  - if increase of LLP then:*
  - (+) Expense if increase of LLP [0]



8. Other Transactions: There may be other transactions in a Village Bank that are not listed above, these could include interest income from wholesale savings at Financial Institutions or expenses such as interest expense on loans from Financial Institutions or Administrative Expenses. Use the extra lines after line 7 in the Ledger to create additional transactions if needed.
9. Balance Calculations: After entering the appropriate entries, calculate the balances for all accounts and then calculate totals for each account.
10. Profit Loss Calculation: The last column is the Profit/Loss calculation that is simply Income - Expense. The total at the bottom of [8] will show the current net profit of the Village Bank.
11. The preparer of the Ledger and checker of ledger should both sign off on the bottom of the page when accounts are checked and closed.

	Assets										
Detail	Cash			Savings at MFI or Bank			Member Loans			Loan Loss Provisions	
	Received	Paid	Balance	Deposits	Withdrawal	Balance	Loan	Payback	Balance	Change in LLP	Balance
			{1}			{2}			{3}	{15}	{4}
Carryover			0			0			0		0
Date of closing books: 15/3/2014											
1. Receiving of Member savings	420,000		420,000								
2. Memeber Principal Paid Back	0		420,000					0	0		
3. Member Interest Payments	4,000		424,000								
4. Member Savings Withdrawl		0	424,000								
5. Member Loan Disbursement		200,000	224,000				200,000		200,000		
6. Support Service Fees		1,000	223,000								
7. Loan Loss Provisions										0	0
8.											
9. Total	424,000	201,000	223,000				200,000	0	200,000	0	0

Date 15/3/2014

--sign--

Signature of Checker

--sign--

Signature of Preparer

Figure 6-12 Example: Ledger Accounting Procedures #1

Profit/Loss										Date	14/03/2014
Detail	Income			Expenses					Profit/Loss		
	Member Loan Interest Income	Return on deposits or shares at Financial Institutions	Other Income	Total Income	NSO service fee	Admin Exp	Loan interest Exp	Other Expenses	Total Expense	Profit/Loss	
	(8)	(9)	(10)		(11)	(12)	(13)	(14)		(15)	
Carryover				0					0	0	
Date of closing books: 15/3/2014											
1) Receiving of Member savings											
2) Member Principal Paid Back											
3) Member Interest Payments	4,000			4,000						4,000	
4) Member Savings Withdrawl											
5) Member Loan Disbursement											
6) Support Service Fees					1,000				1,000	3,000	
7) Loan Loss Provisions				0					0	3,000	
9. Total	4,000			4,000	1,000				1,000	3,000	

Figure 6-13 Example: Ledger Accounting Procedures #2

Detail	Liabilities						
	General Provisions	Loan from MFI or Bank			Members Savings		Grant
	Balance	Loan	Payback	Balance	Savings	Withdrawal	Balance
	[9]			[5]			[7]
Carryover	0			0			0
Date of closing books: 15/3/2014							
1) Receiving of Member savings				1.	420,000		
2) Member Principal Paid Back							
3) Member Interest Payments							
4) Member Savings Withdrawal					4.	0	
5) Member Loan Disbursement							
6) Support Service Fees							
7) Loan Loss Provisions							
8.							
9.	0			0	420,000	0	420,000
Total							0

Figure 6-14 Example: Ledger Accounting Procedures #3

### 6.7.2 LOAN LOSS PROVISIONS AND PORTFOLIO AT RISK

Once a Village Bank has extended loans to members, invariably interest payments and loan repayments can often be delayed or become delinquent (see Chapter 8.1 - Delinquency Management in Village Banks). To manage the risk that funds are not paid back to the Village Bank a Loan Loss Provision (LLP) expense account is set up as an allowance for bad loans (customer defaults, or terms of a loan that have to be renegotiated, etc). Gains and losses in this LLP account are unrealized (which means no cash is transacted), however they are accounted for in the Ledger, and Balance Sheet and Income statements as real expenses.

The method for calculating the necessary LLP is based on a Portfolio at Risk assessment. Portfolio at Risk (PAR) is a standard international measure of loan portfolio quality that measures the portion of a portfolio, which is deemed at risk because payments are overdue. PAR 30 means the portion of the portfolio whose payments are more than 30 days past due.

The LLP rates used in AFP Village Banks are the rates that the BOL applies for the regulated banking sector. It could be debated whether or not the same rates should be applied to the in-formal sector, but the most important point is that the Village Bank Committee regularly assess the risk in the portfolio and continues to follow-up on delinquent loans.

The following example shows how to calculate the necessary LLP in a village bank (based on PAR of the credit portfolio):

**Table 6-5 Portfolio at Risk (PAR) and Loan Loss Provision (LLP)**

<b>PAR</b>	<b>Loan Portfolio of VB</b>	<b>LLP rate</b>	<b>LLP needed</b>
0-30 days	30,000,000	0%	0
31-90 days	4,000,000	25%	1,000,000
91-180 days	750,000	50%	375,000
180 days+	500,000	100%	500,000
LLP needed for current portfolio			1,875,000
LLP made so far			1,500,000
Change in LLP			+ 375,000

If positive: Increase in LLP -> Increase in this month's expenses

If negative: Decrease in LLP -> Increase in this month's income. Portfolio got better and VBC did a good job

## 6.8 INCOME STATEMENT AND BALANCE SHEET



The Income Statement and Balance sheet is the last book to be filled out after Village Bank Service day. When completed, it will show the Village Bank's current financial position and profit/loss amount. Most of the values are transcribed from the General Ledger, and there are a few calculations to make.

Figure 6-15 Income Statement and Balance Sheet Book Cover

### 6.8.1 INCOME STATEMENT ACCOUNTING PROCEDURES

The income statement is an aggregated statement (which means it is the sum of previous months + current month). See example on next page.

- (1) First Income accounts are filled out ①. These come directly from the Income section of the Ledger. Calculate Total Income at the bottom of section I.
- (2) Expense accounts are filled out ②. These come directly from the Expense Section of the Ledger. Calculate Total Expenses at the bottom of section II.
- (3) Profit-Loss Calculation is made, ③ (Income - Expenses).
- (4) If there are any Retained earnings from previous year, then these should be added to Profit/Loss and resulting total is Profit available for Dividend distribution ④.
- (5) The preparer of the Income Statement should both sign off on the bottom of the page ⑤ when accounts are checked and closed.
- (6) Note that the dividend section greyed out is only used on the 12th month of operation when dividends are paid out (see 6.5.2 on dividend payments).

## Income Statement (15/3/2014)

Item	Amount
<b>1. Income</b>	
① Interest Income from Member Loans	+ 4,000
② Interest Income from Savings at Financial Institution	+ 0
③ Other Income & Income from recovery of written off loans	+ 0
<b>I Total Income</b>	<b>+ 4,000</b>
<b>2. Expense</b>	
④ Support Service Fee	- 1,000
⑤ Administration Expense	- 0
⑥ Interest expense on Loans with Financial Institution	- 0
⑦ Other	- 0
Loan Loss Provision (increase)	- 0
⑧ Loan Loss Provision (decrease)	+ 0
<b>II Total Expenses</b>	<b>1,000</b>
<b>3. III Profit / Loss</b>	<b>3,000</b>
⑨ Retained Earnings from previous year	0
<b>4. IV Profit Available for Dividend Distribution</b>	<b>3,000</b>
<b>Dividend Calculation</b>	
% for member	-
% for committee	-
% for general reserve	-
% for other (e.g. social fund)	-
<b>VI Retained Earnings</b>	
prepare date	-sign- 15/3/2014
	5. -sign- 15/3/2014

Figure 6-16 Example: Income Statement Accounting Procedures



## 6.8.2 BALANCE SHEET ACCOUNTING PROCEDURES

## Balance Sheet

service month: 3/2014

Ledger	Assets	Amount	Ledger	Liabilities + Equity	Amount
1. [1]	Cash on Hand	+ 223,000	[5]	Loans from Financial Institution	+ 0
	Shares with NSO	+ 0	[6]	Member Savings	+ 420,000
2. [2]	Savings with Financial Institution	+ 0	[7]	Grants	+ 0
Current Assets		223,000	Total Liabilities		
3. [3]	Member Loans	+ 200,000	[8]	Profit/Loss	+ 3,000
4. [4]	Loan Loss Reserves	(-) 0	[9]	General Reserve	+ 0
Total loans after LLP		200,000	Total Equity		3,000
Total Assets		423,000	Total Liabilities + Equity		423,000
write-offs		0			

Figure 6-17 Example: Balance Sheet Accounting Procedures

**Step-by-step explanations Balance Sheet Procedures:**

The Balance sheet is the final snapshot of financial position of the Village Bank (Assets, Liabilities and Equity), and all amounts are reported in the Ledger.

- (1) Transcribe Asset accounts data to ① and ②. These come directly from the Assets section of the Ledger. Add together and enter Current Assets.
- (2) Transcribe Asset accounts data to ③ and ④. These also come directly from the Assets section of the Ledger. Add together and enter Total loans after LLP.
- (3) Transcribe Liability accounts ⑤ to ⑦ from the Liability section of the Ledger. Sum for Total Liabilities.
- (4) Transcribe Liability accounts ⑧ and ⑨ from the Profit/Loss section of the Ledger. Sum for Total Equity.
- (5) Calculate total Assets (Current Assets + Total Loans after LLP) enter in ⑩.
- (6) Calculate Total Liabilities + Equity, enter in ⑪.
- (7) Check to see if Total Assets = Total Liabilities + Equity. If these are not equal then there is an error in the Ledger. You cannot close the books if these accounts are not equal! This is the fundamental point of the Balance sheet.

- (8) Write-off amounts can be made in ⑫, but write-offs need to be fully documented. Writing off a loan only means that it is taken off the regular books. The debt is not settled with a write-off and VBC is still responsible to keep up efforts to recollect funds. Every individual write-off loan needs to be discussed in the AGM of the Village Bank and ideally approved by AGM.
- (9) The preparer of the Income Statement should both sign off on the bottom of the page when accounts are checked, balanced and closed.

## 7 ANNUAL GENERAL ASSEMBLY MEETING

### 7.1 PURPOSE, FREQUENCY AND DURATION

At least once per year a Membership Assembly is organized between the last meeting of the completed financial period and, most often, straight before the first meeting of the new period. The meeting should include following points of the agenda:

- Report of the Head of Village Bank Committee on operations in the last year, especially the income situation and credit portfolio quality.
- Distribution of the accumulated profit and remuneration of savings, committee members' and advisors' work.
- Discussion of occurring problems and decisions by the Assembly in this regard (any member can raise issues during the General Assembly)
- Discussion of changes to the VB regulations and decisions in this regard.
- Election of VB Committee and Advisors according to VB bylaws.
- Any other business in relation to the Village Bank (or the community).

In the run-up to the Assembly Meeting VB committee should make a special effort to make defaulters, if any, pay in time until the last service meeting before the assembly in order to maximize profit distribution, that otherwise would be diminished by missing interest payments and an increased Loan Loss Provision. This reasoning and the consequence of escalating the delinquency process by making name and amount of the defaulter public during the meeting will have a motivating effect on many deliberate defaulters.

### 7.2 ORGANISATION AND FACILITATION OF A REGULAR ASSEMBLY MEETING

**Table 7-1 Organisation of Regular Assembly Meetings**

1.	Pushing forward delinquency processes	Already 2-3 months before the annual meeting, intensify delinquency processes: discuss with defaulters and ask to repay before the assembly meeting in order to avoid low dividend payment and the membership's anger towards delinquents.
2.	Last service meeting of the financial year	Once more, make an effort to retrieve as much ordinary revenue as possible.
3.	Prepare year-end accounts	<ul style="list-style-type: none"> <li>• Cross-check all accounting documents and prepare for the meeting. Year-end accounts incl. savings dividends can be prepared according to the rates agreed upon in last year.</li> <li>• Help VB President in preparing the annual report to the assembly.</li> <li>• Ensure that sufficient Loan Loss Provisions are booked (a detailed description can be found in Chapter 6.7.2). Note: LLP shall be booked in</li> </ul>

		every single meeting throughout the year. Still it is of upmost importance to have this provisioning correct BEFORE remuneration and dividend payments are made.
4.	Announcement	Ensure that the assembly day is properly announced amongst the membership, preferably the evening before and in the early morning of the assembly day.
5.	Opening	Once the majority of members are present, ask the highest-ranking participant to open the assembly.
6.	Report	The VB President presents the achievements of the VB throughout the last period, incl. growth, actual data (number of members, balance sheet data, and credit performance) and occurring challenges. Address any other outstanding business.
7.	Dividend Profit Distribution	<ul style="list-style-type: none"> <li>The VB Cashier presents the profit for dividend distribution with proposal for distribution according to decisions made in previous year's AGM.</li> <li>Members, committee and guests can propose changes to the distribution key, and the assembly votes in this regard.</li> </ul>
8.	Discussion and decision-making on actual issues	<p>The performance of the VB incl. possible shortcomings are presented and discussed. Such issues could be:</p> <ul style="list-style-type: none"> <li>Households without VB membership</li> <li>Low savings rate</li> <li>Low demand for credits</li> <li>Repayment issues and credits still overdue.</li> </ul> <p>Members, committee and guests are asked to contribute with their ideas. The assembly takes decisions with simple majority.</p>
9.	Village Bank Planning Discussion	The current Village Bank Committee will present their ideas on the future growth targets to the VB members and present a very basic business plan. The members have a chance to comment and discuss this plan. The final agreements shall be noted.
10.	Changes and adjustments to bylaws and regulations	<p>Based on the point of the agenda before, are there any changes or amendments to the VB's existing regulations? E.g. minimum savings amount, credit conditions, dividend distribution ratios or delinquency measures to be refined?</p> <p>The assembly decides with an absolute, 2/3 majority.</p>
11.	Election of Committee members	Election of VB committee members that are to be replaced according to VB bylaws takes place. Voting is done by secret ballot; every member has

		as many votes as there are vacant positions. The Village Bank will adhere to the rule to elect two female representatives into the VBC.
12.	Any other business	Any upcoming issue with relevance to the VB raised by members, village administration, guests or NSO staff can be presented and discussed.
13.	Official closure of the meeting	The formal part of the meeting is ended by closing remarks by the highest-ranking participant of the meeting.
14.	Annotation and payment (opt.) of dividends and remunerations	<ul style="list-style-type: none"> <li>The profit distribution is carried out by recording dividends and remunerations of committee members and advisors into the respective books (cash book, savings book, member passbook).</li> <li>Members have the option to withdraw the dividend in cash.</li> </ul>
15.	Finalizing year-end accounts	On the basis of above results, the ledger is updated and the year-end accounts are finalized and signed.
16.	Prepare accounting books for the coming year	Prepare for the coming year's accounting: Carry over closing balances of year-end accounts as opening balances in the coming year's accounting books: new pages (Savings and Credit Books) resp. a new book (Ledger).

### 7.3 DIVIDEND PAYMENT CALCULATION

The following procedures are done once at the end of the 12-month cycle to prepare the dividend distribution. This example is intended to illustrate the concept and calculations behind the dividend payment (see Chapter 6.5 - Savings Book accounting to see how this example is implemented in the accounting books).

#### I. Calculate Total VB Dividend Amount that is to be distributed:

1. Take VB net profit (income after expenses and loan loss provisions are made) from the last 12 months
2. Apply dividend ratio according to the VB bylaws

*Example:*

*(note that the VB profit amount is arbitrary and for illustration of calculation only)*

*VB Profit accumulated in last 12 months = 1,000,000*

*VB bylaws state that 70% of profit should be distributed to the members*

*Thus 700,000 is for member distribution*

**II. Calculate Member Scores:**

1. Individual Member Score is the total of 12 month accumulated savings balance for each client
2. VB Member Score is the sum of all individual member scores

**III. Calculate Dividend Factor:**

*Divide total VB dividends by VB Member Score*

*Example:*

*Total VB dividends = 700,000*

*\_\_\_\_\_ = 0.015171*

*VB Member Score = 46,140,000*

*(Tip: you can store the dividend factor value in memory of calculator using M+ then recall the value by using MR this will speed up manual calculations for individual member dividend payments)*

**IV. Calculate Individual Member Dividend Payments**

1. For **each** Member multiply the Dividend Factor with Individual Member Score. (the result is the dividend calculation for the member)

*Example:*

*Client 1:*

*(Member score) x (dividend factor) = Dividend Payment*

*28,140,000 x 0.015171 = 426,918 KIP*

**V. Rounding**

Village bank needs to agree on rounding rules and can decide to round up or down to the nearest 500 Kip value. GIZ-AFP convention proposes to round down to nearest 1,000 Kip to avoid over-paying the total dividend.

*Example:*

*Client 1*

*Calculated Dividend Payment: = 426,918 KIP*

*Actual Paid Dividend: = 426,000 KIP*

## 8 PROBLEM SOLVING

### 8.1 DELINQUENCY MANAGEMENT IN VILLAGE BANKS

If credit takers no longer regularly pay loan interest, the situation becomes a serious threat to the Village Bank's viability. Not only the revenue is diminished, but the credit portfolio itself is in risk of being eroded, and the security of savings is jeopardized.

In case of repayment problems, the Village Bank is (and should be so) proceeding more adaptive to the member's situation.

#### 8.1.1 PREVENTION OF DELINQUENCY

##### 8.1.1.1 Diligent credit appraisal prior to disbursement

Proper appraisal of loan applications can prevent most problems with loan repayment. In many cases, delinquency is predetermined at the time of credit disbursal, e.g. when the loan is given to unreliable persons, or the loan conditions (e.g. loan amount too high, loan term too short, repayment schedule does not fit into household's cash flow) are inappropriate for the applicant's situation.

It is crucial for the success of the Village Bank that the VB committee is familiar with good lending practices as described in chapter 4.2.3.

##### 8.1.1.2 Introduce good payment discipline from the beginning

It is much more difficult and time-consuming to re-establish a corrupt Village Bank than to make VB committee and VB members adopt a good payment discipline from the very beginning. Make sure that the VB committee and the village administration have a good understanding of the risks of a laissez-faire attitude to repayment. Follow up immediately on the first occurring cases of delinquency instead of awaiting the issue to resolve itself.

##### 8.1.1.3 Assessing repeated loans and potential extension of loan terms

Presently most VB only disburse short term loans. In 'exchange' for that, loans are easily extended when the member turns out to be unable or unwilling to pay back in time. This practice makes it difficult to distinguish good from bad loans. In many cases the loan fund does not revolve as intended.

Repeated loans are possible, however the VBC is advised to assess the situation very carefully and diligently to ensure that only clients who are capable of repaying get a renewed loan. If the VBC assumes that the new credit is only needed to repay an old loan the VBC should refrain from approving this. Instead, the VBC should help the member to analyze and understand his financial situation. An agreement should be reached to start repaying the old loan in installments. These installments must match the financial capabilities of the client and client MUST stick to the restructuring agreement (see in addition 8.1.2.3).

VB is advised to give loans with terms that match their clients' plans and repayment capacity (see 8.1.1.4). A fraction of 15% of the credit portfolio of the village bank might be invested in loans that exceed the regular loan term limit of 12 months (up to 24 month). The new term limit needs to be approved by the AGM and it should be agreed in together with the



fraction of the loan portfolio (not more than 20%). Clients that receive a long-term loan must follow the agreed repayment schedule.

#### 8.1.1.4 VB committees should adjust repayment schedule to household cash flow

VB loans have generally monthly interest payments and bulk repayment at the end of the term. In theory this repayment schedule fits into the cash flow pattern of certain agricultural investments resulting in a crop harvested or an animal sold. In practice, however, a credit is only a part of the rural household's portfolio, and the financed activity normally only one amongst several cash income sources. Many loan takers actually deal with exactly the same problem at the end of the term as they did when they took the loan: they have to mobilize a large lump sum of money within short time.

Whenever possible, loans should be repaid in several installments. Alternatively, bulk repayment of agricultural loans should be conditioned by repayment at the time of sale of the product (pig, rice), e.g. *'loan term **up to** 4 months, but not longer than until the sale of the product.'*

#### 8.1.1.5 Introduce incentives for timely repayment

Some VB do have regulations on penalties for delayed payments, but they are normally not enforced. The main enforcement mechanism is peer pressure from the community and the VB committee. Other systems could be used such as a penalty system for overdue loans or an attractive interest discount for timely repayment, e.g. 10% of the total interest.

#### 8.1.1.6 Advise VB committees to give notice to loan takers prior to the due date

Some VB members pay late because of the simple fact that they do not remember the due date, or only remember it with too short notice to collect the necessary amount of cash. This is especially the case for credits with bulk repayment.

The VB committee should give notice to the credit taker that his/her loan will be due one month before due date.

### 8.1.2 RESPONSE TO OCCURRING DELINQUENCY

#### 8.1.2.1 Assessment

The Portfolio at Risk (PAR) in Village Banks should be constantly monitored and assessed by VB committee and its advisors and support organizations if any. The VB committee shall follow up on the delinquency situation in VB according to the table below:

**Table 8-1 Actions in Case of Delinquency**

Threshold	Action
PAR <5%	Focus on prevention of delinquency during regular meetings and immediate follow-up. Participation of VB committee at regular Credit & Delinquency trainings.
PAR 5 - 10%	Organize an extraordinary meeting with VB committee, advisors and Nai-ban on delinquency. Loan disbursements shall become more restrictive.

PAR 10 - 20%	VB Advisors should be physically present during credit disbursal and guide the VB committee in disbursal and follow-up of loans. New loans should not be approved or disbursed in order to exert pressure on delinquent members.
PAR >20%	Mass Default: An extraordinary member assembly meeting has to be organized, where the problems are discussed and addressed. If agreements are taken during the meeting the VB Committee, Advisors and support org need to ensure that zero-tolerance follow-up is applied in the following months.

### 8.1.2.2 Loan-Loss Provision

To provide for possible future loan losses is an accounting measure of financial diligence. Additionally the here practiced floating Loan Loss Provision (LLP is recorded monthly according to the actual PAR see 6.7.2) is an excellent tool to convince committee and members to make an extraordinary effort to bring the level of payment delays down. Loan Loss Provisions for bad credits will reduce the annual profit of the village bank and therefore the remuneration for the committee and the dividend for member savings. If credit quality is improved, Loan Loss Provisions can be released and the profit of the Village Bank will increase and its members and committee will get a higher dividend and remuneration.

In the forefront of the annual meeting, NSO staff and the VB committee should make a special effort to convince delinquents to pay back before the annual meeting to avoid frustration and anger amongst the other members.

### 8.1.2.3 Follow-up procedures for individual delinquency to the VB committees

The awareness of the VB committee on the issue must be increased. At VB assembly meetings, the problem shall be addressed and good practices for occurring delinquency shall be promoted. Key is the consequent and regular follow-up of delinquency by the VB committee.

[ *Problem Indicator: When interest payments fail to be made!* ]

Delinquency starts when payment (in this context repayment of loan principal) is 1 day late. Response to delinquency shall start immediately. If a credit taker is unable to fulfill his/her commitments, s/he shall still attend the VB meeting. Members with due loans not showing up shall be visited at their home to encourage them to come to the VB meeting. If the delinquent also after noticing does not come to the meeting, a committee member shall visit the delinquent after the monthly meeting when the delinquent failed to pay.

Unwilling delinquents shall be made public by name, ideally on a whiteboard or on a poster attached at a public place.

Based on the discussion, a new credit contract, the delinquency contract (see Annex 6), shall be prepared immediately at due date with a realistic repayment schedule in installments based on the member's cash flow. Additionally, collateral requirements are increased, including the member's savings, guarantors and/or clearly determined physical collateral. According to the delinquency contract the VB will be entitled to reimburse the collateral for recovery of the loan without further action, if the delinquent again fails to follow the new contract.

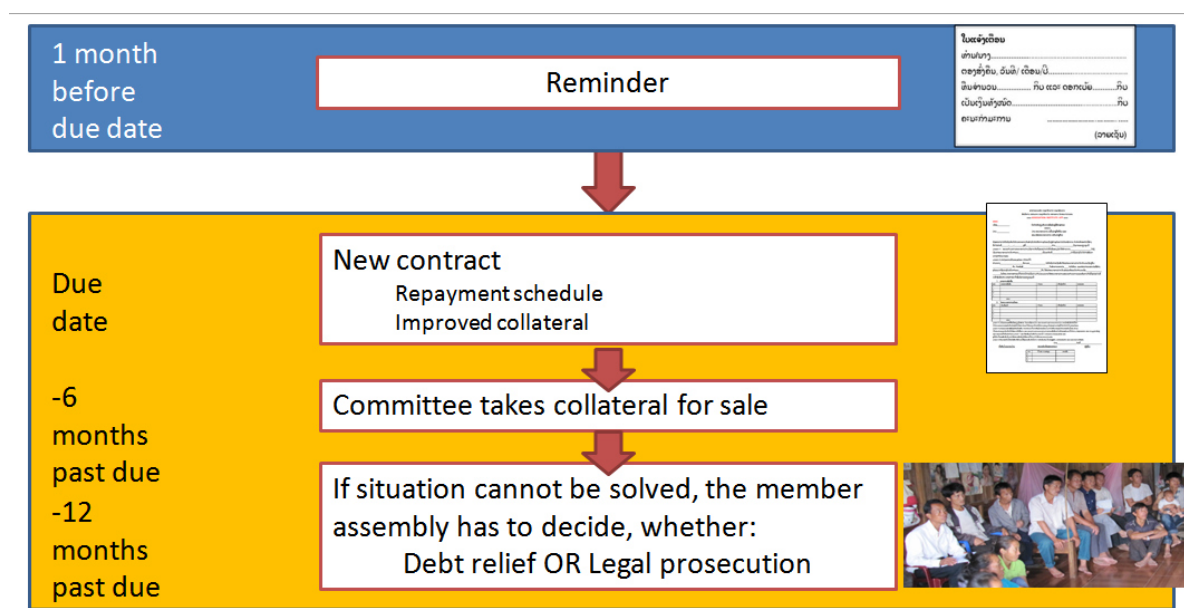


Figure 8-1 Follow-up in Case of Delinquency

If the member also fails to fulfill the delinquency contract, the committee has to decide on further action:

- Taking over and sale of collateral,
- Legal prosecution at the district court, if the delinquent hinders sale of collateral, or
- No further action if chances for recovery are small (very poor people). This has to be approved by the next-coming VB assembly. The credit will then be written off, affecting the Loan Loss Provisions of the VB and the VB's profit. The loan will be taken off the books, however the claim does not expire. If the client for any reason receives funds in the future the VB might then reclaim the written off credit. This would then be treated as "extraordinary income" of the VB (see Ledger).

#### 8.1.2.4 Mass Delinquency

If PAR exceeds 20%, it is called mass delinquency. Credit taking members have probably begun to adopt bad behavior from each other, and the risk of the Village Bank's collapse is inherent. Other options of dealing with delinquency have probably been exhausted. To prevent collapse, and to bring back the Village Bank onto the right track, the VB and external

support organization need to make an extraordinary attempt to solve the situation. Follow these instructions:

1. Invite all members of the VB to an extraordinary member assembly!
2. During the meeting, start to explain the present situation of mass delinquency and the importance of timely and complete payment of interest and capital for the operation of the Village Bank!
3. Present facts: How many members, which total amount are overdue? – Read out loud the names, outstanding amounts, due date, interest due (you have to calculate that before the meeting!), total amount due of delinquent loans.
4. Ask members rhetorically to which extent they are happy about not having the possibility to take further credits, not receiving a dividend, or even running the risk of losing their savings (discontinuing the Village Bank).
5. Discuss: How shall the outstanding credits be treated? Repayment or debt relief (possibly decide case by case)? Present process proposed in 8.1.2.3 (new contract, improved collateral, repayment schedule)!
6. A decision is taken by the assembly, and an action plan is drafted.
7. Directly after the assembly, help the committee to elaborate individual agreements with all overdue borrowers
  - Ask every single debtor for the reason of delayed payment!
  - When can/will s/he repay?
  - How will s/he manage to raise the necessary amount of money?
  - What kind of collateral can be used in case s/he will not be able to repay?
8. Based on the above outcome, prepare individual Delinquency Contracts and publish who are the “good” ones who repaid and who has still not repaid.
9. Make sure to follow up strictly and regularly in the coming period! – Organize regular meetings and immediately follow up on delinquents not living up to the contract.
10. During the retrieval period, no new loans should be issued. Ask field staff for the opportunity to save with the NSO or bank during this period of time to avoid high cash amounts.
11. Organize second member meeting after the agreed upon retrieval period e.g. 3 months to monitor the progress and help to enforce loan contracts, if necessary.

If the situation is solved, discuss arrangements for the prevention of future repayment problems.
12. Write off or fully provide for not collected loans and adjust savings and loan portfolio accordingly.

## 9 CLOSING A VILLAGE BANK

The VB can be closed only for the following two reasons:

- The District Governor withdraws the authorization to the VB to operate as a community-based organization due to repeated non-compliance with the law of the Lao PDR.
- The General Assembly decides with a qualified two-third of all registered members to dissolve and close the VB.

Before dissolving, all outstanding member credits have to be repaid as far as possible.

All external debts (e.g. with the NSO) have to be cleared.

Cash deposits at other financial institutions are withdrawn.

At the dissolution date, a liquidation income statement and balance sheet are prepared. Equity built up by the VB is treated as income. Net profit resp. loss after defrayal of all expenses and loan losses is transferred as dividend to resp. deducted from members' savings accounts. After this, the balance on members' savings accounts incl. project grant is paid out to members in cash.

Detailed minutes of the meeting should be set up. These minutes describe all the decisions taken and state the final financial figures before dissolving. The minutes need to be signed by all VBC members, the village head man and representatives from external support organizations (private or government).

## 10 TRAINING AND OTHER EVENTS FOR VILLAGE BANKS

GIZ-AFP has set-up a series of training materials and training programs for operating and supporting Village Banks. The following is a short overview of the training tools available.

### 10.1 INCEPTION TRAINING

Objective	To introduce main principles and features of Village Banking
Target Group	New VB Committee and Advisors, poss. village administration representatives
Duration	1-2 days
Topics	VB purpose and function VB services and products VB organization: tasks and responsibilities VB accounting (poss. separately, for VB Accountant and Cashier only) 'Good practices' within the VB Introduction to safe credit disbursal

### 10.2 ACCOUNTING TRAINING

Objective	To make key VB committee members familiar with the accounting system
Target Group	VB President, Accountant and Cashier
Duration	1 day
Topics	Presentation of the accounting system, purpose and use Basic accounting principles The single accounting books: introduction and exercises
Training material	<u>AFP training on Bookkeeping</u>

### 10.3 CREDIT & DELINQUENCY MANAGEMENT TRAINING

Objective	To upgrade key VB committee members on how to ensure high loan portfolio quality and low loan losses
Target Group	VB President and key committee members involved in credit disbursal
Duration	1 day
Topics	Review of the VBs' present situation The different aspects of credit risk, what are the causes, what can be the consequences The credit disbursal process Loan delinquency: prevention, dealing with existing delinquency situations
Training material	<u>AFP Credit &amp; Delinquency Management Training</u>

## 11 EVOLUTION OF VILLAGE BANKS

Current working areas and fields in which projects/programs might be supportive:

1. Problem: Savings in Village Banks are based on a dividend. Actual return on savings is unknown in advance; it depends on a variety of factors related to the profitability of the entire Village Bank. Possible Solution: Pilot a term-savings product with set interest rates.
2. Effective, affordable, sustainable fixed deposit products for rural communities.
3. Installment-based credit products that are designed to match the cash-flow streams of certain revenue producing activities.
4. Improved services and equipment for village banks that have member savings beyond a certain threshold.
5. Pilot on VBs as agents of banks using mobile platform for benefits payments and remittances.



Socio-Economic status of the village

Name of the village:....., District:.....

We understood and agreed with the VB By-Laws and would like to apply to become VB member.

	Sex	Name	Date of birth [DD.MM.YYYY]	late Account Opene [DD.MM.YYYY]	Economic Status	Signature
1	Ms					
	Mr.					
2	Ms					
	Mr.					
3	Ms					
	Mr.					
4	Ms					
	Mr.					
5	Ms					
	Mr.					
6	Ms					
	Mr.					
7	Ms					
	Mr.					
8	Ms					
	Mr.					
9	Ms					
	Mr.					
10	Ms					
	Mr.					
11	Ms					
	Mr.					
12	Ms					
	Mr.					
13	Ms					
	Mr.					
14	Ms					
	Mr.					
15	Ms					
	Mr.					
16	Ms					
	Mr.					
17	Ms					
	Mr.					
18	Ms					
	Mr.					
19	Ms					
	Mr.					
20	Ms					

..... Province  
..... District  
..... Village

No.....  
Date .....

*Proposed (Draft) VB By-Laws and policies*

## **VB By-Laws and policies**

### **Chapter I: Name, location, mission and services:**

#### **Article 1. Name and location:**

Name of Village Bank ..... in brief: VB..... . Location:.....; ..... District, Province. Upon its approved establishment by the **district governor**.

#### **Article 2. Mission:**

The mission of the VB is to establish a financial self-sufficient village-based financial system (if good VB is encouraged to take loans from NSO) that serves the financial needs of its members. As key financial needs are defined savings and credit facilities to smoothen household financial flows, to escape the debt cycle from money-lenders by saving and borrowing for social emergencies and to borrow for increasing and diversifying family income-generating activities.

#### **Article 3. Services:**

The VB offers one or more voluntary savings deposit products to its members, including their children.

The VB offers one or more loan products for income-generating activities to its members.

The VB may offer one loan product for consumptive purposes to its members.

The VB offers one or more loan products for emergencies, such as food shortage, accident, sickness, funeral, loss of property by natural disaster, [*villagers may add additional social events*], to its members.

### **Chapter II: Eligibility, rights and responsibilities of VB members:**

#### **Article 4. Membership eligibility:**

Membership eligibility comprises the following criteria:

- Nationality of the Lao PDR.
- Certified village resident.
- No legal record of crime or fraud.
- Minimum age of 18 years for loan application [*depends on socio-cultural village conditions*].
- Sign statement to accept the VB By-Laws.

#### **Article 5. Rights of members:**

Membership offers the following rights:

- One vote per member during VB election or apply as a candidate in order to serve in VB's committee position.
- Share and propose ideas and recommendations on VB activities to the VB committee and during meetings of the General Assembly.
- Access to an emergency loan in the case of an emergency for his/her family (as defined in Art. 3).
- Can apply for one loan at a time for income-generating or consumptive activities for his/her family.
- Receive annual return on his/her proportionate deposits (as defined in Article 9 & 11), as decided by the annual General Assembly.

## Article 6. Responsibilities of members:

Membership bears the following responsibilities:

- Comply with the VB By-Laws, particularly to repay loans fully according to their loan agreement.
- Participate in the monthly meetings and the General Assembly organized by the VB committee. After one year term of each fiscal year.
- Minimum deposit savings per month is ..... kip per member. There is no (maximum) ceiling on monthly savings per member.
- Keep the passbook safely as a verification of all his/her transactions.

## Article 7. Termination of membership:

The following events result in the termination of membership:

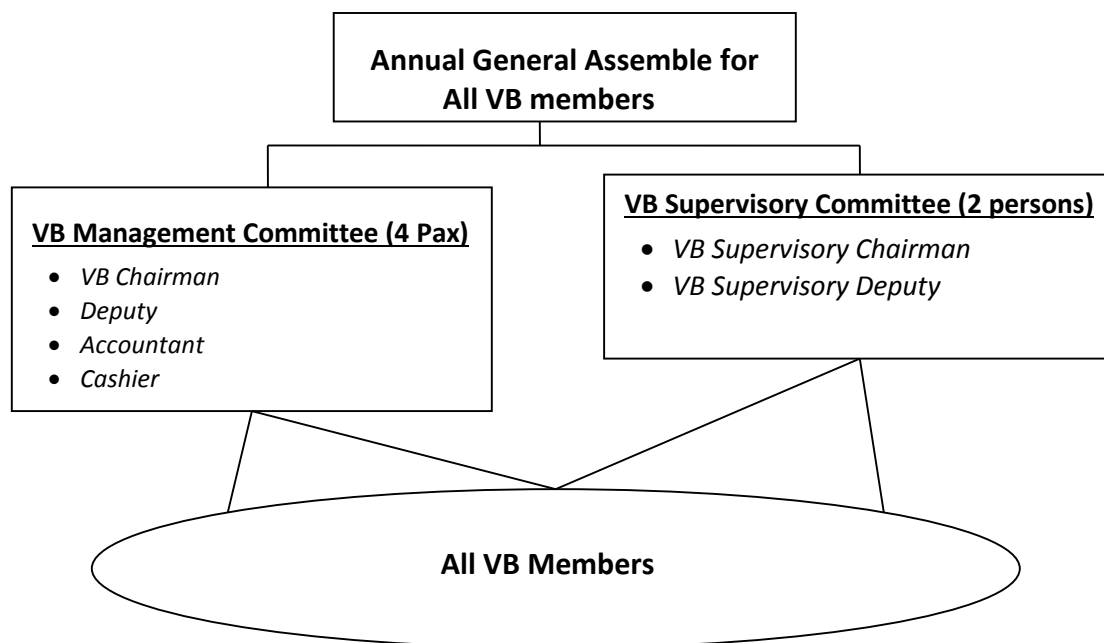
- Resignation by the VB member in writing addressed to the VB chairperson.
- Lose of certified village residency (by moving away from the village).
- Dismissal by the General Assembly for violating the VB by-laws and/or his/her VB loan agreement.
- Death or mental inability (debt and asset concerned to village bank has to transfer to his/her successor).

The member has to repay immediately all outstanding loans and interest accrued with the termination of his/her membership. In the case of death or mental inability, the family members are liable for his/her debt obligations.

## Chapter III: Organisation structure and functions of VB bodies:

### Article 8. Organization structure:

The VB is a village-level savings and credit co-operative that consists of a General Assembly and a VB committee. The VB is also a member of the NSO, representing a confederation of all VBs at given district or provincial level.



### Article 9. VB General Assembly:

The General Assembly is the governing body of the VB. It can convene its annual meeting and extraordinary meetings with a quorum of at least 50% of the registered members plus one. It decides with a simple majority of the present members on the following issues:

- Voting for the member of the VB committee every year one member one vote. VB committee members are usually elected for three years.
- To renounce membership for violation of the VB by-laws and/or the VB loan agreements, as proposed by the VB chairperson.
- To fix the interest rates for income-generating, consumption and emergency loans for the forthcoming year according to the lending policies in Articles 12-14.
- To decide on the change of other lending conditions, such as maximum loan ceilings, maximum loan term, loan collateral requirements for larger loans etc., and the introduction of new loan and savings deposit products.
- To determine the percentage of total loan funds as ceiling for emergency loans (refer to Article 14).
- To approve or reject the annual VB report that includes the accounts and the annual financial statement prepared by the VB committee. Only the full approval will trigger the annual allowance payment for the previous year to the members of the VB committee.
- To decide on the utilization of the confirmed annual VB gross financial income (i.e. income before deducting the financial costs for the deposits and the allowance for the VB committee) between the depositors (70%), the allowance payment to the VB committee (15%), the general reserve (5%); administration costs (5%); and other purposes like: contribute to development work of the village (5%).

The General Assembly decides with a two-third majority on the following issues provided that at least 50% of the registered members plus one attends the meeting:

- To dismiss individual members or the whole VB committee.
- To decide on changes of the VB By-Laws, including its key operational policies.

#### **Article 10. VB Committee:**

**Four** or maximum **Six** of VB committee members (**at least 2 women should join the VBC; including supervisory committee members**) are elected for three years by the General Assembly with the following positions:

- (1) The VB supervisory chairperson is a person who will advise and support the VBC to deal with problems solving within VB and conducts internal control.
- (2) The VB supervisory deputy is a person who assists the VB supervisory chairperson.
- (3) The VB chairperson who hold overall responsibility for the management of the VB.
- (4) The VB deputy chairperson who assists the VB chairperson and responsible for credit (credit management).
- (5) The VB cashier who records all cash transactions in the cashbook and handles the cash in co-responsibility with the VB chairperson. Both together have access to the safe deposit that is located in the house of the VB chairperson<sup>1</sup>.
- (6) The VB bookkeeper (an accountant) who maintains the bookkeeping system and updates it at least every month. S/he prepares the VB financial statements at least annually. In consultation with the VB chairperson, s/he submits the annual financial statement to the General Assembly for approval.

#### **The VB committee has the following responsibilities:**

- Mobilize savings from members, including their children, according to the deposit taking policy and procedures.

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<sup>1</sup> One knows the number combination of the safe box and the other keeps the key to the safe box.

- Grant loans for emergencies, income-generating activities, trading and household consumptive according to the loan management policy and procedures.
- Maintain a proper cash handling and depositing system.
- Maintain the VB accounting system consistently and updated at least monthly and prepare the VB financial statement at least annually.
- Closely monitor the loans outstanding and their impact on the financial status of the VB.
- Prepare and convene monthly meetings and the Annual General Assembly (AGA) on the VB operations and to ensure maximum transparency for all members.
- Comply with all reporting requirements agreed upon with the district office of the NSO located at district level and the district authorities.
- Maintain all documentation, such as savings book, loan book, loan agreements, cashbook, general ledger (chart of accounts) and so forth in an orderly manner and in a safe place from fire and theft.
- Co-ordinate and co-operate with other organizations to raise funds for the VB.
- Prepare for the election of new VB committee members within 3 year term.

#### **Chapter IV: Key operational policies:**

##### **Article 11. Policy for deposit taking:**

***The policy for deposit taking is as follows:***

- All members, including their children, are eligible to deposit savings.
- Savings can be deposited during the monthly meetings of the VB.
- Savings deposited are recorded in the passbook of the member. **Minimum deposit savings per month is ..... kip per member. There is no (maximum) ceiling on monthly savings per member.**
- Member's deposit will be recorded in member passbook.
- Upon one month's notice, savings can be withdrawn during the monthly VB meeting. However, in the case of an emergency, savings can be withdrawn at any time.
- Depositors are paid out at maximum 70% of the annual VB gross financial income, as decided by the annual General Assembly (refer to Article 9).

##### **Article 12. Policy for managing income-generating loans:**

The policy for managing income-generating loans is as follows:

- One member at the time per family can apply for a loan for any kind of income-generating activities that are not against the law.
- A member can only apply for a loan, if s/he has no outstanding loan for income-generation or consumption purposes.
- The loan applicant has to convince the VB committee that the proposed income-generating activity will generate enough income that s/he can meet the loan repayment schedule easily with a high probability. If not, the VB committee must reject the loan application.
- If the VB committee approves the loan application, it will sign a standard loan agreement with the loan applicant that indicates the loan repayment schedule. The Village Chief has to confirm the loan agreement.
- The loan term should be according to the projected amortization period of the income-generating activity for which the loan is requested for, but not longer than the maximum loan term decided by the annual General Assembly.
- **The maximum loan size is set at the tenfold of the savings deposited** and must not exceed an amount to be determined annually by the General Assembly. The proportionate savings amount cannot be withdrawn as long as the loan is not fully repaid.
- The minimum loan interest rate is set at a minimum of 2% in Kip per month in order to cover all financing and operating costs, loan losses as well as the loss by inflation to be determined by the annual General Assembly for the forthcoming year.

- Borrowers have to pay interest monthly and repay the loan principal at loan maturity, as indicated by the loan repayment schedule in the loan agreement.
- In the case of a delayed payment of either an installment or interest by 90 days, the interest rate charged will increase automatically by 50%.
- Interest is calculated on a declining rate basis.
- Early loan repayment is accepted without penalty.
- Loans can only be rescheduled in specific cases that are defined by the General Assembly.
- The General Assembly may define loan collateral requirements for loans above 2 million Kip [e.g. *guarantee from another member, pledge of selected assets, such as motorbike, land title, etc.*].

**Article 13. Policy for managing consumption loans:**

The policy for managing consumption loans differ from the policy of managing income-generating loans as follows:

- The loan term should not be longer than a maximum of six months.
- The minimum loan interest rate is set at a minimum 2%<sup>2</sup> per month in order to cover all financing and operating costs, potential loan losses as well as the loss by inflation to be determined by the annual General Assembly for the forthcoming year.

**Article 14. Policy for managing emergency loans:** The policy for managing emergency loans is as follows:

- Emergency is defined by the incidence of emergency events that threaten the health and livelihood capability of the family of the member concerned: accident, funeral ceremony, sickness, and loss of most assets due to fire, thief, heavy rain, flooding, as defined by the General Assembly.
- One member at the time per family has automatic access to an emergency loan when an above-mentioned emergency event occurs.
- The VB will earmark between 25% of the total funds for emergency loans, as decided by the annual General Assembly.

**Loan Products of VB (loan disbursement) to its members in the first year:**

Loan types	Interest rate per month	Loan term (Month)	Loan Ceiling (Kip)	Collateral Needed (No/Yes)
1. Emergency	1%	6	2,000,000	YES
2. Household (Consumption)	2%	6	2,000,000	YES
3. Income General Activities (Cash crops-Animal raising)	2%	12	5,000,000	YES
4. Trading (Services)	3%	6	5,000,000	YES

**For the upcoming year VB will consider to:**

- The interest rate for each loan is decided by the annual General Assembly.
- The maximum term of each loan is decided by the annual General Assembly.
- The maximum ceiling for each loan is decided by the annual General Assembly.

**Article 15. Policy for sound financial management:** The policy for sound financial management is as follows:

- The VB maintains a consistent and at least monthly updated bookkeeping system (chart of accounts) and prepares at least annually financial statements so as to closely monitor the financial position of the VB.
- The VB charges full-cost covering interest rates for income-generating and consumption loans that cover all financial and operating costs, including loan loss provisions, the projected loss by inflation, the financial and operating costs for the emergency loans and the gradual buildup of general reserves.

<sup>2</sup> The larger the total funds, the smaller the percentage for emergency loans can be. The percentage earmarked for emergency loans also reflect the social commitment of the VB. The higher the percentage, the higher must be the interest rates for income-generating loans as they (partially) subsidise the costs of the emergency loans.

- The VB maintains a sufficiently high loan loss reserve to protect it against potential loan losses.
- Loans must be written off, if they become overdue for 365 days (or 1 year).
- The VB committee will keep a maximum of Kip 5 million in its safe deposit and to disburse to VB members as emergency loans. If over than 5 million kip must deposit with NSO.
- The VB requests at least an annual audit by the NSO and is committed to tackle the problems identified without delay.

#### **Article 16. Funding resources**

The VB has the following two funding resources:

- (1) Deposits by the members, including from their children.
- (2) Wholesale loans from the NSO.

### **Chapter V. Confederation:**

#### **Article 17. Function of NSO:**

The NSO in? District represents the interest of all VBs in the districts concerned towards the government and other organizations. It provides advisory services to the individual VBs on a regular basis and on request. It serves as a platform for mutual learning and exchange of experience among the VBs. The NSO is registered as NDTMFI at the BOL.

All chairpersons of the VBs in the districts concerned elect 07 to 09 representatives of the NSO BoDs among themselves.

#### **Article 18. Function of planned confederation (in a host district-selected as NSO office location):**

The confederation shall be NDTMFI or a limited company licensed by the BOL.

The confederation functions as confederation of all VBs. It provides technical capacity-building services to its members. In addition, it assumes the function of internal control and audit.

It is envisaged that the confederation will serve directly (or via a subcontracted FI) as apex organisation for the VBs by accepting loans from VBs (that face excess liquidity) for an agreed interest rate and lending wholesales it to VBs (that face a lack of liquidity) for an agreed interest rate.

#### **Article 19. Payment of NSO services:**

Every VB as to pay annually 5% service fee based on its total portfolio outstanding to the NSO.

**Loan Outstanding in the period x 5 %**

The formula per month:

$$\frac{\text{Loan Outstanding in the period} \times 5\%}{12} = 0,42$$

### **Chapter VI: Additional provisions:**

#### **Article 20. Update of the By-Laws**

These By-Laws should be updated regularly with approval by the General Assembly so as to comply with the current situation of the village concerned and the priorities of the VB members.

**Article 21.** These By-Laws are including 6 chapters and 21 articles valid from the signing date.

Certified by village chief

VB chairperson

Approved by  
District Governor



**Lao's People Democratic Republic**  
Peace Independence Democracy Unity and Prosperity

District .....

Ban .....

Ref. No.:...../

Date:.....

**Proposal**

To: The District Governor of.....

Subject: Propose to establish a village Bank in.....village.

- Based on the government policy to promote and collect savings for the local social-economic development.
- Based on the village bank By-laws of.....village agreed and accepted during village meeting on.....

Village chief of .....village would like to propose to district governor of .....district to set up the village bank in .....village, A we agreed upon the village meeting involved by all organizations within the village together with villagers dated:.....

Hope fully that you will consider to our proposal.

Sincerely yours,

At Ban.....

Village chief of .....



**Lao's People Democratic Republic**  
Peace Independence Democracy Unity and Prosperity  
--===000===

..... Province  
..... District

Ref. No.:...../DG  
Date:.....

**Agreement**  
**Of the district governor**  
**On approval of establishing the village bank (VB)**

\*\*\*\*\*

- Based on the government policy to promote and collect savings for the local social-economic development.
- Based on the village bank By-laws of.....village agreed and accepted during village meeting on.....
- Based on the proposal to establish a village Bank in.....village, Ref. No.:...../VC; dated :.....
- In order to achieve an objective and reach the progress of the poverty reduction of the poorest step by step.

**District governor of.....agree:**

Article 01: Approve the establishment of village bank in.....village.

Article 02: Government agencies, throughout all level of village authorities and villagers acknowledge and facilitate the operational of village bank management committee, to ensure the village bank is sustainability and strong.

Article 03: This agreement is effectiveness and shall enter into force from the dated of its signature.

**District Governor**

**Lao's People Democratic Republic**  
Peace Independence Democracy Unity and Prosperity

=====000=====

Village bank.....

**Loan Contract**

*between*

Village bank (hereinafter called “Credit Provider”) and village bank member who borrowed money from village bank (hereinafter called “Borrower”)

**Article 1: General Conditions**

The village bank agrees to provide credit to Mr./Ms.:....., member no.: ....., Tel....., No. Of family book/ID card no. ....for the loan amount and conditions agreed as follows:

- 1.1. Loan amount received.....kip. In words:.....Kip.
- 1.2. Use for activity:.....
- 1.3. Interest rate .....% per month.
- 1.4. Loan term.....Month(s). Start from date.....to.....
- 1.5. Place for repayment: pay back directly to village bank (at the meeting location of village bank).
- 1.6. Mode of principal re-payment: ☐ Onetime re-payment ☐ Instalment, but interest shall pay every month.

Table for payment estimation plan of the borrower

DD/MM/YYYY	Amount of loan	Amount of repayment	Interest	Total principal and interest	Remaining amount
Total					

**Article 2: Special Conditions for the borrower:**

- 2.1. In case the borrower pays back late for both principal and interest from one day after loan contract is over, the borrower has to pay interest for two times extra.
- 2.2. In case the borrower could not pay back or s/he moved, the guarantor shall be responsible to pay back the whole amount instead of the borrower.

2.3. The borrower agrees to collateralize the loan as below:

Type of collateral	Descriptions	Value	Remarks
Savings			
Land title			
Vehicle			
Furniture			
Others			
	Total		

- 2.4. The borrower is not allowed to sell collateral before s/he pays all his/her debt or get the permission from village bank committee.
- 2.5. In case the borrower could not pay back his/her principal and interest within the time frame (loan term) the borrower agrees to sell his/her collateral to pay back debt in full amount.
- 2.6. In case the borrower could not sell his/her collateral within one month after the due date to pay back loan. The borrower agrees to hand over his/her collateral to village bank committee to be sold out according to the market price to cover his/her debt.
- 2.7. In case the borrower not comply with **ARTICLE 2: CAUSE 2.6** the borrower agrees for authority to act and use the laws and agrees to pay all costs occur for sentencing to solve his or her case.

### Article 3: Effectiveness

This contract shall become effective from the date of signatures and be terminated after the borrower completely repayed with principle and interests paid all accrued.

The contract made for 2 copies ( 1 copy keeps with borrower and 1 original keep with village bank).

At.....village, Date.....

**Village chief**

**Village bank Committee**

**Signatures & Thumb print (in each box below)**

1.....

Husband:..... Wife:..... Guarantor:.....

2.....

3.....

## Village Bank Term Deposit Application

Name of village bank: \_\_\_\_\_

Date: \_\_\_\_\_



I / we would request you to open a **Term Deposit Account**

For a Fixed Period of \_\_\_\_\_ Months (Maturity Date: \_\_.\_\_.201\_\_)

And the amount of \_\_\_\_\_ kip

Client number: \_\_\_\_\_

Client name: \_\_\_\_\_

Fixed Term Deposit account number of client: \_\_\_\_\_

**Rate of Interest:**                      **On Normal Maturity** .....%                      **on Pre-closure** .....%

**At maturity date total interest of \_\_\_\_\_.\_\_\_\_\_ kip shall be paid to the account of the client.**

I / We have fully read / heard and understood the terms and conditions of this Term Deposit and shall abide by them.

.....

Signature

First / Sole Depositor

.....

Signature

Joint / Second Depositor

.....

Signature

Nominee

## **Features, Benefits and Terms & conditions of the Term Deposit**

1. Save for 3/6/9/12 months to earn the fixed rate of interest, mentioned along-side, from the date of saving till maturity

<b>Savings in LAK</b>	<b>Period &amp; Rate of Interest %age PA</b>		<b>Period &amp; Rate of Interest %age PA</b>		<b>Period &amp; Rate of Interest %age PA</b>		<b>Period &amp; Rate of Interest %age PA</b>	
1,000,000 to 4,999,500	3 Months	6.00	6 Months	6.75	9 Months	7.50	12 Months	7.50
5,000,000 to 9,999,500		6.25		7.00		7.75		8.25
10,000,000 to 14,999,500		6.50		7.25		8.00		9.00
15,000,000 upwards		7.00		7.50		8.50		10.00

2. Start the savings from a minimum of LAK 1.0 Million

3. No withdrawing allowed till the date of maturity of the Fixed Term Deposit to benefit from full interest

4. If money is withdrawn in between, the above rates would not apply and normal savings rate of interest would apply and a small service fee of LAK..... will be collected from the depositor/s

5. Interest rates are fixed and cannot be bargained for any discounts or otherwise, under any circumstances

6. A Fixed Term Deposit Certificate or a Receipt or a Fixed Term Deposit Pass Book would be given to the Depositor/s who should keep the same safely

7. The Fixed Term Deposit Certificate or Receipt or the Pass Book would be signed by the authorised signatories of the VB and only those that have been signed by them are valid. If any Fixed Term Deposit Certificate or Receipt or Pass Book is not signed by the authorised Signatory the same would not be valid

8. Only on production of the Fixed Term Deposit Certificate or a Receipt or a Fixed Term Deposit Pass Book is returned to VB / NSO / CCSA, the matured amount along with interest would be paid

9. If for any reason the Fixed Term Deposit certificate or Receipt or Pass Book is lost, the same should be informed to VB / NSO / CCSA before the maturity date and give a written letter that the same is lost and if found will be returned. The letter also should mention that on finding the lost Certificate. Receipt or Deposit Pass Book a new claim for the Fixed Term Deposit will not be made by the Depositor/s

10. Interest payments and repayment of the savings amount will be made during the respective monthly banking days of the VB.

12. If the depositor fails to collect the savings on the Maturity date or has not informed of a rollover of the deposit, interest would be paid till the date of maturity. The termed savings will from then on until further notice be treated as un-termed savings with the applicable interest rate/ dividend.

14. Depositors can opt for rollover at maturity date of the existing deposit

15. If the depositors opt for automatic rollover along with interest, fresh interest will start accumulating from the date of maturity.

16. Depositors should be members of the Village Bank

17. Fixed / Term Deposit account can be opened by filling this simple application

18. Same person/s can open more than one Fixed Term Deposit for different amounts and different terms of period

19. Depositors are encouraged to nominate another person (maybe one of the parents, wife, son, daughter or other relatives) to receive the Deposit money in case of any unforeseen eventuality

20. Any dispute in regard of the Fixed Term Deposit is within the Jurisdiction of Courts of Law in Laos PDR

Province: \_\_\_\_\_

District: \_\_\_\_\_

Village : \_\_\_\_\_

**Overdue Loan Contract***Between*

**Village bank (Hereinafter called “Credit Provider”) and  
Village bank member (Hereinafter called “Borrower”)**

Both parties agree to this contract to pay back the delinquent loan. This contract was prepared on \_\_\_\_/\_\_\_\_/\_\_\_\_ ; \_\_\_\_\_ village. The details follow:

**Article 1: borrower's data :** village bank committee, village authority allowed Mr./Mrs. \_\_\_\_\_ to borrow money for the amount of \_\_\_\_\_ Kip, starting date \_\_\_\_\_ to date : \_\_\_\_\_ now the duration is over (overdue loan).

**Artical 2: Payment acceptable:** I, Mr./Mrs. \_\_\_\_\_ husband/wife \_\_\_\_\_, membership number : \_\_\_\_\_ agreed to pay back money to village bank according to the remaining amount that i borrowed: \_\_\_\_\_ Kip, In words : \_\_\_\_\_, interest rate \_\_\_\_\_ % per month, and i have to pay interest due up to now for the amount of \_\_\_\_\_ Kip, directly to village bank in each month for the total of \_\_\_\_\_ Kip/month, if i can not pay back according to the amount that i agreed to pay to village bank (village bank committee) and village authority can take over my property/collateral listed in the table below:

**1. List of properties/collateral and household items to guarantee (registered for overdue loan) with village bank**

S/N	Description	Unit	Value (Kip)	Remarks
1				
2				
3				
	<b>Total:</b>			

**2. Duration for payment (installment or monthly basis)**

S/N	Date/Month/Year	Principal(Kip)	Interest (Kip)	Total (Kip)	Remarks
1					
2					
3					
	<b>Total:</b>				

**Article 3: Borrower failure to comply the legal:** if the village authority and village bank committee can not take over my collateral according to the items mentioned in this minute, then I agree to comply and accept sentence according to the law.

**Article 4: Selling of collateral items to guarantee overdue loan:** If I can not pay back in full the amount according to this contract, my family members and I agree that the village authority and village bank committee (credit provider) can sell collateral items according to market price to cover the remaining amount with interest due as mentioned in article 1 and article 2. The borrower (debtor) is not allowed to sell his/her collateral (guarantee in table 1) until the whole amount of overdue loan is paid back (complete on payment).

**Article 5:** This minute shall become effective from the date of signatures and will be terminated after the borrower completely replayed with principle and accrued interest is paid.

At \_\_\_\_\_ village, Date: \_\_\_\_\_

Certified by village chiefVillage Bank Committee(VBC)Borrower

S/N	Name & Surname	Signature
1		
2		
3		