



VDF in Prai village

*A brief for decision makers*

# Resilience building against climate risks and impacts at local and community levels

A role for local financing mechanisms



VDF in Chheutrav village

## Introduction

Rural communities in the Greater Mekong Subregion (GMS)<sup>[1]</sup> are particularly vulnerable to climate-related disasters<sup>[2]</sup>. The Asian Development Bank has long recognized the importance of risk financing in building the resilience of local communities to respond, mitigate and prevent the impacts of climate variability, damaging floods and droughts.

[1] The GMS is composed of Cambodia, the People's Republic of China (PRC, specifically Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam.

[2] ADB. 2015. Risk Financing for Climate Resilience: An Assessment of Opportunities to Strengthen Climate Risk Financing for Rural Communities in the Greater Mekong Subregion. Consultant's report. Manila (TA 7987-REG).

Since climate events are expected to increase in both intensity and frequency, programs have been developed to provide the needed assistance to build resilience. Households and communities are encouraged to prepare for inevitable changes in the future.

Risk financing strategies have been explored in many parts of the world to build the climate resilience of rural communities. Incentivized savings initiatives, disaster funds, and crop and livestock insurance schemes are among the

approaches being applied. By providing financial protection against the impacts of climate-related shocks, these strategies can enable rural communities to better safeguard income and productive assets from climate shocks without resorting to costly coping strategies that compromise long-term welfare<sup>[3]</sup>.

The risk protection effect could provide an incentive for risk-averse households to borrow for higher-risk, higher-return livelihood strategies, contributing both to poverty reduction and development of rural credit markets. In the GMS, however, risk financing strategies targeting rural communities are few and far between and should therefore be more developed. In 2014, the GMS Core Environment Program commissioned a rapid assessment of climate risk financing opportunities for rural communities in Cambodia, the Lao People's Democratic Republic, and Viet Nam. Covering 28 rural communities in the three countries, the study assessed their livelihood strategies, how they manage climate risks, the frequency and severity of climate-related disasters and the impact of these on their livelihoods. It also looked at what climate risk financing strategies could be applied and the potential costs and benefits as well as how local financial institutions such as community development funds cope with climate risks.

The much needed financing mechanism are often beyond the reach of the poor. They are considered unbankable and often banks and micro-finance institutions find it risky to invest in the poor and their efforts to rise out of poverty.

Financing mechanism that are located close to where the community members live are more likely to be accessed by women borrowers. Peer pressure is usually considerable at locally located financial institutions report better repayment rates and financial sound and stable operations. The Village Development Fund and Saving Group supported by the Biodiversity Corridors Project is one such effort that responds to communities at the front lines.

## The ADB support GMS Biodiversity Conservation Corridors Project (BCC) Grant 0241-CAM

The Biodiversity Conservation Corridors (BCC) Project was developed to enhance the management of forest ecosystems in the countries of the Greater Mekong Subregion (GMS). The GMS Governments, with support from ADB, have identified the most important biodiversity conservation landscapes in the GMS that are vulnerable to increased development pressures and environmental degradation. In Cambodia, the Project was designed to address the fragmentation of the biodiversity rich forest landscapes of Koh Kong and Monduliri provinces that may impair their ability to provide critical ecosystem services necessary for sustaining local livelihoods and investments in hydropower, transport, water and food-security enhancing sectors.

Additional co-financing was made available from the Pilot Program for Climate Resilience (PPCR) sources to augment activities in the Greater

[3] ADB. 2015. Risk Financing for Climate Resilience: An Assessment of Opportunities to Strengthen Climate Risk Financing for Rural Communities in the Greater Mekong Subregion. Consultant's report. Manila (TA 7987-REG).

The establishment of the Village Development Funds (VDF) was an important component of this GMS Biodiversity Conservation Corridors Project (BCC). The project was directed by two Project Implementation Units (PIUs), namely General Directorate of Local Community (GDLC) of the Ministry of Environment (MoE) and the Forestry Administration (FA) of the Ministry of Agriculture, Forestry and Fisheries (MAFF). Technical assistance and training for communities for this component was provided jointly by the International Institute of Rural Reconstruction (IIRR) and Cambodian Centre for Study and Development in Agriculture. The initial contract of VDF training assignment (Contract No. CAM2015 08-A3-1) started on 20<sup>th</sup> February 2016 and continued until 31<sup>st</sup> December 2018. Strengthening of VDFSGs and native chicken activities are continued from August to December 2020 through contract variation no. 4 (integrating in the PPCR).

**Mekong Subregion Cambodia Biodiversity Conservation Corridor (BCC) Project that will promote climate resilient agriculture, forestry, water supply and coastal resources in Koh Kong and Monduliri provinces. The PPCR additional financing provided was designed to strengthen climate resilience of communities in the ongoing BCC project and to ensure sustainability of its investments.**

**The PPCR Additional Financing was developed to strengthen climate adaptation measures of the BCC project targeted to benefit a further 4,300 households with diversified livelihood assets and/or income generating opportunities by 2022. The project beneficiaries' adaptive capacity to tackle climate change impacts is expected to be enhanced through specific interventions under the "livelihoods improved and small-scale infrastructure support provided."**

**Village Development Funds and Saving Groups - VDFSGs) were organized in associated villages under Community Protected Area (CPA) and Community Forestry (CF) in Mondul Kiri and Koh Kong provinces. A total of thirty-seven (37) VDFSGs were established during August-December 2016 across the 9 CPAs and 14 CFs in the two target provinces. Of which, twenty-one (21) VDFSGs were established in CFs and sixteen (16) VDFSGs in CPAs. Saving groups were set up as a pre-condition for the communities to receive VDF grant from BCCP.**

**The progress after three and a half years has been impressive. The results speak for themselves.**

- ❑ **Total membership of VDFSGs is 1,827 (66% women), which represent 45 percent of all households within the CPAs and CFs.**
- ❑ **Total number of VDFSG committee members is 179 people and women represent 48%.**
- ❑ **Total members savings is US\$368,322 representing an increase of 250% from the first year. In CFs, total saving capital increased over 28 times, while in CPAs, it increased by 119%.**
- ❑ **Total grant transfers from BCC project to the VDFSGs is US\$372,277<sup>[4]</sup>, of which US\$143,602 for CPAs and US\$228,675 for CFs. It represents 50% of total group capital.**
- ❑ **The total capital (savings and transfer) of the VDFSGs has reached US\$740,230, increasing by US\$634,967 and representing an increase of 603% over the last three and a half years. In CFs, the total group capital of the VDFSGs is US\$377,243 and in CPAs is USD362,987.**

[4] This figure is the total amount of funds actually received in the VDFSGs bank accounts in KHR with the exchange rate from US\$ to KHR, US\$1=KHR4,100.

Capacity building, frequent monitoring and coaching of VDFSG committees in the field is most important to the success of the group management.

- ❑ **Total loans from the VDFSGs by July 2020 amounted to US\$616,589, increasing from US\$103,767 in 2016. In CFs, total loans provided to members is US\$293,318, and in CPAs is US\$323,271.**
- ❑ **By July 2020, a total of 1,131 VDFSG members (62% of the total) had borrowed loans from the group funds. Women comprised 818 of the borrowers so that 68% of the women in the VDFSGs had availed of loans. In CFs, there were 627 borrowers (67% females) received loans from VDFSGs, and 504 borrowers (79% females) in CPAs.**

A wide range of livelihood projects have been supported including native chicken raising (16 farmers in Koh Kong and 14 farmers in Mondulkiri), chick production (8 farmers in Koh Kong and 8 farmers in Mondulkiri), home steads with semi commercial components with fruit trees (428 households in Koh Kong and 344 households in Mondulkiri), and home gardens with drip enabled systems supporting market-oriented vegetable production (34 households in Mondulkiri and 47 households in Koh Kong).



## VDF TRAINING FOR LOCAL COMMITTEES, LOCAL AUTHORITY OFFICERS AND KEY VILLAGERS

Following the ToT, VDF trainings were conducted for CFs/CPAs committees and relevant local authority officers, which was organized at CF/CPA level and aimed to build their capacity on VDF administration and management. In each training, there were around 5-19 participants representing CFs/CPAs committee members, village chiefs and commune councilors. A total of 23 training sessions were delivered to 9 CPAs and 14 CFs in the two target provinces during August-December 2016. A total of 260 participants (30% women) attended the training, of them 158 (32 women) from CFs, and 102 (25 women) from CPAs.

Participatory training methods and visualized tools were used to allow participants to easily understand the contents. Experienced committee members were invited to share their good practices in savings group management during training which allowed the others to learn from real practices.

This training course covered 11 topics as following:

1. Rules and guidelines for administering VDF
2. Savings group formation and management
3. Duties of committee members of VDFSG
4. Procedures of loan application (VDFSG)
5. Procedures of loan application assessment
6. Approval processes of loan applications
7. Disbursing funds to successful loan applicants
8. Procedures of loan repayment
9. Procedures for the VDFSG committee in funds management
10. Record-keeping system for VDFSG
11. Preparing for a monitoring visit.

Both pre- and post-testing provided participants an opportunity to assess learning and acquisition of knowledge and skills. These were basis for determining what additional interventions were needed. Remedial training was provided to groups that were lagging behind (e.g. computer literacy). Records were digitalized and transparency and accountability was ensured.

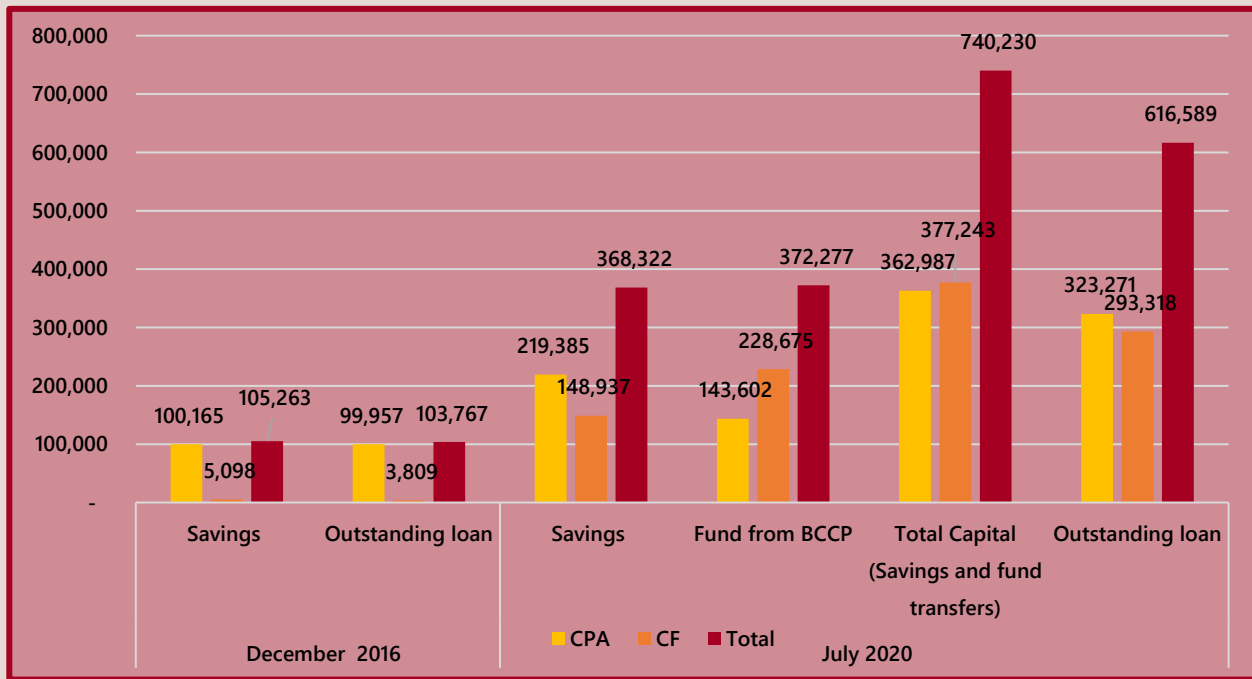


Figure 1: Total group capital and outstanding loans of VDFSGs in CPA and CF in comparison between 2016 and July 2020 (in US\$).

## Key messages

- Inclusive financing mechanisms and support services can nurture climate resilient agriculture and related enterprises. Investments have to be made based on market demand (in this case native chicken, off-season vegetables) and building on local capacities. Enterprises that address climate vulnerability, build assets for a green economy and local food system are increasingly appealing to consumers even in rural areas.

Low carbon development pathways for rural communities do not receive much attention

as it should. There is need to demonstrate/incubate climate resilient options, establish evidence of their effectiveness and potential for sustainability. We need to also demonstrate cost-effectiveness as well as scalability to make a case for further investments in climate resilient options that contribute to a greener economy.

- The economic empowerment of the poor and the vulnerable is a pre-requisite for achieving many of the sustainable development goals (help incentive efforts) using the poor,

especially women as catalyst for development. It is usually accepted and known that women invest a higher portion of their earning in their families, food security and education.

- ❑ Rural people are bankable but they remain an unserved market for financial support services. Access (even in a spatial sense) is critical if the poor are to avail of financial services. Financial services are often expensive and beyond the reach of the poor who cannot build assets. Informal financial service providers focus on the short-term needs of communities. Long-term goals of building assets are often sacrificed as a result. Investing in innovations are deemed risky “ventures.” Here is where Village Development Funds and loaning mechanism, operating at community levels, have served to incubate new ideas (exemplified by the native chicken projects, drip-based market gardens and homesteads with intensified fruit-based agroforestry). Technical training alone is not enough to encourage farmers to apply new innovations. Additional follow-up visits and technical advice by trainers are essential. When farmers need solutions for encountered problems, they need immediate access to advice from trainers, so frequent follow-up visit from trainers make them confident in adopting the techniques.
- ❑ Accessing capital from VDFSGs is preferred to borrowing from MFIs, banks, and private money lenders. The transaction costs from mainstream or/and formal financing institutions are usually higher. Local financing institutions with good data and information systems have early warning systems (e.g. risk of defaulting borrowers). Digital

recording/reporting system is important to substitute the traditional recording by handwriting of common savings groups as it ensure accountable and transparent management. Local committees provide safeguards on the use (or misuse) of loans. As result, repayment is higher. The process of community management of funding resources (assets) helps local communities to increase their solidarity and fosters mutual cooperation for improving household livelihood and building resilience.

- ❑ Digital systems for bookkeeping and reporting is crucial for transparent fund management. These skills can be conferred to rural people especially the youth through informal training and mentoring by local NGOs (or university students). Regular monitoring of financial reports by third parties or service providers should be continued beyond project completion to ensure continued proper functioning and financial viability of local financing institutions (VDFSG).
- ❑ A linkage between VDFSGs and a portfolio of options (e.g. chicken raising farmers) are important to increase savings and credit capital of VDFSGs and strengthen income generation of individual household. Subsequent funding needs can be justified and easily processed (short processing time). Easy and regular and sequential access to funding mechanisms and advisory support builds broad-based support with communities. Local funding institutions can support local communities to achieve an economic scale enabling them to move from subsistence to commercial scale. These

mechanisms are more equitable and inclusive and more likely to support the achievement of the wide range of SDGs.

- ❑ Qualified demonstration farmers can be a positive impact in target villages. The demonstration farmers can convince other farmers to follow their practices if they themselves can show successful practices in their farms. This is a sustainable form of extension (farmer to farmer) beyond the

period of the project. All established demonstration farms play a vital role as the learning sites. Neighboring farmers learn from a demonstration farmer. The trained chick producers can now supply quality chicks, the demand is growing from time to time. Organization of field days and exposure visits can enable interested farmers to try new techniques (farmers can see and hear directly from successful farmers).



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## IMPLEMENTING/SUPPORT TEAM

### IIRR

*Julian Gonsalves  
Sheilah Vergara  
Or Thy  
Sang Kung  
Vath Von  
Soeurng Kol  
Yim Soksophors*

### CEDAC

*Tong Chantheang  
Moeu Sokchea  
Tath Sok  
Pol Samath  
Pol Samol  
Ear Sophal*

### Research/Compilation/Design

*Julian Gonsalves  
Tong Chantheang  
Moeu Sokchea  
Dulce Dominguez*



INTERNATIONAL INSTITUTE OF RURAL RECONSTRUCTION

#16, St. 440, Sangkat Beoung Trabeak  
Khan Chamkar Morn, Phnom Penh, Cambodia  
Mobile No.: (855) 12-985-272  
E-mail: [cambodia@iirr.org](mailto:cambodia@iirr.org)/[orthy.smt@gmail.com](mailto:orthy.smt@gmail.com)  
Website: [www.iirr.org](http://www.iirr.org)



91-93, Street B (Borey Piphop Thmey Boeung Chhouk)  
Kraing Angkrong Village, Kraing Thnong, Po Senchey  
Phnom Penh, Cambodia  
Tel: 855-12 447599  
E-mail: [cedacinfo@cedac.org.kh](mailto:cedacinfo@cedac.org.kh); [www.cedac.org.kh](http://www.cedac.org.kh)

