APPLIED ENERGY LAB BRIEF

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Smart Power Myanmar

# The Community Role in Financing Electrification

## INSIGHT: Lenders should harness the power of community-led committees to accelerate electrification in Myanmar

**Village Electrification Committees (VECs) have the potential to play an increasingly important role in accelerating energy access in Myanmar, and formal financing institutions could do much more to capitalise on this potential.**

To investigate and illustrate this potential, Smart Power Myanmar's Applied Energy Lab (AEL) team examined the experiences of a small number of committees that have taken on responsibility for managing finances or loans for off-grid electrification. Using this analysis, SPM has drawn conclusions about how this unique community structure could be used to greater effect as a vehicle for accelerated energy access, both on- and off-grid.

## CONTEXT

Limited access to finance poses a significant problem for many communities wanting to connect to mini-grids or the grid in Myanmar. Under the country's Self-Reliant Electrification Policy, the financial burden of connecting a village to a mini-grid or the national grid falls to villages themselves. With an average cost of $400 per household connection, more than US$2.5 billion will be required to connect millions of households nationwide. Access to affordable loans for communities to connect to a mini-grid or the grid are not widely available, jeopardising Myanmar's ability to achieve universal electrification by 2030.

Community-managed committees have a special place in the history of development of Myanmar and oversee a range of activities including water and sanitation, agriculture, community decision-making, microfinance and electrification. Numerous non-profit agencies have worked effectively with village committees over the last 25 years to further projects that are grounded in community ownership and oversight.[1] One characteristic that sets Myanmar community structures and governance apart, and makes them particularly powerful tools for achieving development objectives, is a unique community "glue" – community structures are typically well-managed and enjoy strong buy-in and trust. This, in part, is why microfinance and revolving fund programs routinely report repayment rates as high as 98%.

Village Electrification Committees (VECs), typically established by local authorities as part of the state governance structure below township level, are specifically responsible for village-level electrification. This includes engagement with grid engineers extending grid infrastructure and, more recently, working with private developers and technical agencies involved in the planning and execution of on- and off-grid infrastructure. SPM has worked closely with numerous VECs since 2018 to establish innovative financing channels. This includes SPM's work since 2018 in expanding the role of VECs to receive, manage and repay interest-free electrification loans on behalf of village members.

## FINDINGS

For conciseness, information from several on- and off-grid sources has been synthesised into this one single brief.[2]

- **VECs successfully dispersed, managed and repaid loans.** The 45 community loans dispersed by the Energy Impact Fund were distributed by VECs and connected more than 2,100 households impacting 10,306 individuals in need of connection financing. VECs were responsible for collections and ensuring timely loan repayments to lenders and developed creative strategies to do so, including leveraging community sentiment and group dynamics. By January 2021, connection loans dispersed by the Energy Impact Fund and microfinance institutions (MFIs) achieved repayment rates of 96% or higher. A survey of 12 villages where VECs managed loans found that 89% of communities were either satisfied or very satisfied with the financial management process implemented by their VEC. Where communities were dissatisfied, they cited a lack of trust in their VEC or that VEC members were too busy to collect and transfer loan repayments.

**FIGURE 1: Electrification loan repayment rates**

Loans dispersed to VECs by the Energy Impact Fund and microfinance institutions achieved repayment rates of

**96% or higher.**

- **Villagers valued accountability at both the VEC and household level.** To promote accountability at the VEC level, communities stated that VECs should regularly submit financial reports to both communities and lenders. Accountability at the household level is similarly important to communities, and 67% of survey respondents stated that this should be achieved using financial penalties for late- or non-payment. Around 20% stated that financial rewards should be used to encourage on-time payments. A smaller number of people advocated for other approaches, including using village funds to cover payments.

- **In line with the rise of mobile money platforms across Myanmar, these services became increasingly available to and utilized by VECs to manage monthly loan repayments.** Previously, remote VECs had to travel for up to three days to transfer money. This forced them to incur significant safety, accommodation and travel costs and prevented them from carrying out daily business activities. Mobile money platforms eliminated this burden and provided exposure to digital financial services where they were previously unavailable.

**FIGURE 2:** Survey responses to the question, "How should Village Electrification Committees encourage timely repayments?"

**Financial penalties**

**67%**

Survey respondents overwhelmingly preferred for VECs to apply financial penalties to encourage households to pay on time.

## INSIGHTS & FUTURE IMPLICATIONS

1 **VECs should be seen as viable recipients of loans by formal financial institutions in Myanmar, including commercial banks and MFIs.** Smart Power Myanmar's research indicates that the majority of VECs are highly capable of managing loans. Moreover, partial group liability lending models are a common feature of community-based and formal microfinance programmes worldwide and have been found to reduce transaction costs and allow communities to harness local knowledge to improve repayment rates (Ghatak & Guinnane, 1999; Karlan, 2007). Research in India has also found that public trust in specific lenders, combined with communities' desire to receive future loans from those lenders, may also improve repayment rates (Field & Pande, 2008). For these reasons, VECs should be seen as suitable loan recipients.

2 **Guidance on VEC formation should emphasise accountability for representatives.** Smart Power Myanmar's research found that a small number of VEC members neglected some of their responsibilities. In future, this may pose a risk to these villages' creditworthiness and, by extension, their ability to access or manage loans. If communities had greater awareness of the roles and responsibilities that VEC members are expected to perform for managing loans, they could choose members they know could satisfy the requirements of the role. Formalising the VEC selection process with a constitution and training may also serve to improve the calibre of VEC members. This insight is consistent with Pact Myanmar's experience assisting with more than 3,000 village committees and 11,000 committee member elections since 2008 in integrated development programs. Future capacity building of VECs should build from historical experience and learnings.

3 **As the use of mobile financial platforms becomes even more common, the burden of loan management and loan collection on VECs is expected to decrease.** This complements previous research that found these services can eliminate administrative costs for lenders and minimise risks inherent in cash transfers. Deeper penetration of these platforms would also benefit communities more widely, with research indicating that mobile money can serve as a basic bank account for people without previous access, help to increase financial literacy, and encourage savings (GSMA, 2010). In future research, allowing for the impact of the current crisis in Myanmar, Smart Power Myanmar plans to measure the impact of mobile financial services in both communities and households that have recently been electrified.

[1] Our research on village structures and the power of community governance and financing draws on Pact's 25 years of work with village structures in more than 15,000 villages nationwide. Since 1997, Pact's microfinance programs have built up a network of 1 million active microfinance clients. Since 2008, Pact's development programs have established and supported more than 2,700 elected committees and more than 1,300 Village Development Funds (VDFs) that have proven both sustainable and effective at driving and supporting a broad range of village development programs. This work extends to SPM's current work with VECs around Myanmar to support energy access financing of different types.

[2] Some findings were derived from SPM's experiences issuing 45 interest-free loans to VECs through the Energy Impact Fund (EIF) to fund 2,059 connections to solar-hybrid mini-grids starting in late 2018. Other data were derived from the experiences of SPM's Applied Energy Lab. Some information was provided by three microfinance institutions (MFIs) that finance connections to the national grid and allocate limited management responsibilities to VECs. The remaining data originate from a private study that SPM commissioned in 2020 that documented 12 villages' experiences managing solar-hybrid mini-grids.

**REFERENCES**

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