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.

FINDINGS

• 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.

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. 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.

For conciseness, information from several on- and off-grid sources has been synthesised into this one single brief. 
• 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 26% 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?”

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<tr>
<th>Financial penalties</th>
<th>Survey respondents overwhelmingly preferred for VECs to apply financial penalties to encourage households to pay on time.</th>
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REFERENCES

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