Committee members of a village revolving fund are collecting loan repayment and disbursing new loans, Paung Township, Mon State

BRIEFING PAPER 8: FINANCIAL PRODUCTS AND SERVICES

INTRODUCTION

One of the constraints to coastal communities' livelihoods at the time that the Gulf of Mottama Project was designed was a lack of affordable financial products and services, mainly credit. Yet, this was essential for local people to adopt many of the livelihood improvement opportunities offered through the project in farming, fisheries, and new vocational skills. Accordingly, each of the Village Development Committees (VDCs) was provided with seed money for a Village Revolving Fund (henceforward VRF) that would offer loans at an appropriate interest rate. The VRF also served another, potentially more significant purpose: motivating people to come together and discuss how it should be used. In this sense, it represented a tool for introducing new ideas and ways of working. Under the project design, all members of the VDC would be eligible to take small loans from the VRF, as they also contributed to it through mandatory savings. It was expected that with the interest accrued, not only would it be possible to finance further loans, but also communal activities, including ones contributing to biodiversity conservation. Recognizing that the VRF would only ever be able to furnish individuals with small loans, the project also arranged the servicing of larger loans through the micro-finance institution Vision Fund Myanmar. In addition, as the Coastal Farmers Development Association, CFDA and the Fishers Development Association, FDA developed over time, they also started lending to their membership. Thus, four local financing opportunities were created through the project. This paper examines each in turn, drawing from project data, an internal capitalization exercise[i], an external review of project-initiated credit services[ii] and another specific assessment of the VRF[iii]. Prior to this, however, it is helpful to outline how wider events have impacted the national and local economy over the period of project operation.

THE ECONOMIC CONTEXT

At the time of GoMP design in 2015, Myanmar's economy was growing rapidly, with a positive forecast and significant foreign investment. Micro-finance institutions were establishing and starting to offer services in even quite remote rural areas. One of these was the Vision Fund Myanmar, created under the umbrella of the international NGO World Vision. Following regulatory reforms introduced by the Central Bank of Myanmar from 2013 onwards, mobile banking was becoming increasingly popular. In the GoMP area, this was especially useful for households receiving remittances from outside the country – already a strategy quite widely practiced at that time. Nevertheless, in small coastal villages, private moneylenders charging high interest rates were still often the only source of cash, especially in emergencies. The establishment of a VRF was, therefore, greatly welcomed.

Myanmar's positive financial developments continued until the economic crisis precipitated by the Covid-19 pandemic, commencing in early 2020. In the project area, the closing of the Chinese border (thus halting trade) impacted the fisheries sector especially heavily as much of the catch had been exported to China. Numerous men and

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women – not only fishers but those employed in processing and marketing - lost their source of income overnight. For farmers, the cost of inputs (many imported from China) increased dramatically. Many of the coastal people who had been working abroad as migrant laborers returned home, further straining household finances.

The military takeover of the government in February 2021 then brought Myanmar into major economic turmoil. Investor confidence fell immediately, leading to a rapid withdrawal of capital by international investors and a sharp depreciation of the local currency, the Myanmar Kyat (MMK), against major foreign currencies. Rampant inflation ensued. This, in turn, made imports more expensive, driving up domestic prices and further contributing to overall inflation. In the early days after the coup, customers queued long hours at banks, desperate to withdraw whatever cash they could. Many people lost significant savings, and the banking sector has still not recovered from this loss of customer confidence. It is unlikely that inflation will be fully curbed until political stability is restored; meanwhile, there is a thriving black market in foreign exchange. Given the major change in the value of the Kyat over the project period, figures are quoted in MMK; where the USD equivalent is necessary for the discussion, the conversion is given for that point in time.

Shortly after the military takeover, the delta variant of Covid-19 began to spread, causing far greater illness and more deaths in 2021 than the earlier wave of the virus. The combined impact of medical expenses, the loss of income and the higher cost of living created major economic hardship, especially amongst households that were already less well off. In the Gulf of Mottama, the situation precipitated a renewed exodus of labor migration to Thailand, especially amongst younger people. Some also left for other reasons – potentially to take up armed resistance or, on the opposing side, to join the armed forces. The youth exodus was only reinforced by the announcement by the military government of compulsory conscription from April 2024 onwards. As one (elderly) village man put it succinctly, "All those who can run have run".

As far as financial services in coastal areas are concerned, three major issues may be discerned. The first is that at the time of writing in late 2024, there is an even greater need for affordable credit services than before – a need driven by a lack of cash, leaving many with little choice but to take loans. This is evident from the increasing presence of numerous micro-finance institutions competing in rural areas. The second is that regular field visits by project staff and the gathering of people for meetings have been hindered since the arrival of the Covid-19 pandemic, and especially since the military takeover. The security situation in different villages has varied over time and has been difficult to predict. This resulted in very varied levels of support. The third issue is the loss of knowledgeable individuals within the villages – either due to out-migration or to excess deaths from Covid-19. This caused a high turnover of people engaged in project activities and necessitated frequent retraining.

THE VILLAGE REVOLVING FUND (VRF)

As already described in Briefing Paper 1, the GoMP began operations in 30 villages during phase I (2016 – 2018), expanding to a further 30 – thus 60 in total – during phase 2 (2019 – 2021). In each village, a VDC was formed and served as the entry point for project interventions, planned in a participatory manner according to local needs in a Village Action Plan. Since village size varied quite considerably (ranging from roughly 40 to 500 households), so did the number of executive committee members. Their number generally ranged in the beginning between six and 12 individuals, although this changed over time. The project provided seed money for the VRF and basic training in financial management to the executive committee members. This was organized by the local project staff, the Community Facilitator and Monitor (CFM) under the leadership of Township Cluster Coordinators (TCC). They followed a VRF manual that had already been tried and tested in other parts of the country by the project consortium partner, NAG. It required the establishment of a cash book and ledger, in keeping with standard accountancy practices. The manual remained in use throughout the project period but was updated slightly from phase I to II based on project experience.

Credits

It was left to the VDC executive committee members to set the interest rate for loans, and the amount that an individual could borrow, but the concept was always that it should be lower than rates available elsewhere. The rate agreed varied from 1.5 – 2.5% per month. Amounts that could be borrowed were relatively small, and the period of borrowing quite short and never more than a year. In the project concept, these loans were intended primarily for poorer households, as a first step towards improving their situation. VDCs were required to undertake a wealth ranking of all the households within their village, assigning them into four categories: A, B, C or D[iv]. They were encouraged to favour households in the poorer categories, C and D, when allocating loans. In phases I and II, thus up to 2021, all financial transactions in the VRF were guided by the CFM, who made regular visits. Until 2023, the CFM also had a co-signature on the VRF bank account as a security against mismanagement. This requirement was dropped as part of phasing out.

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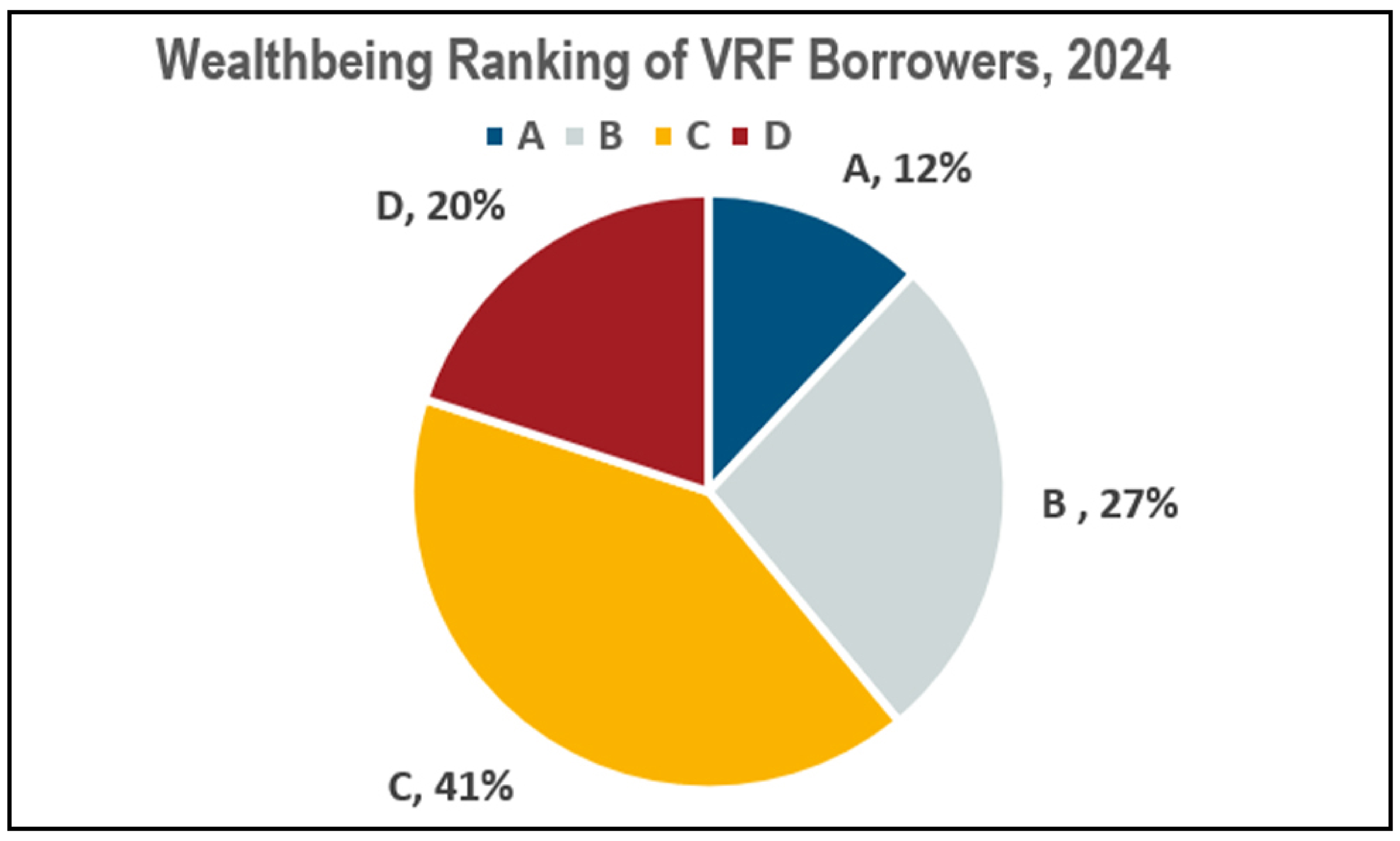
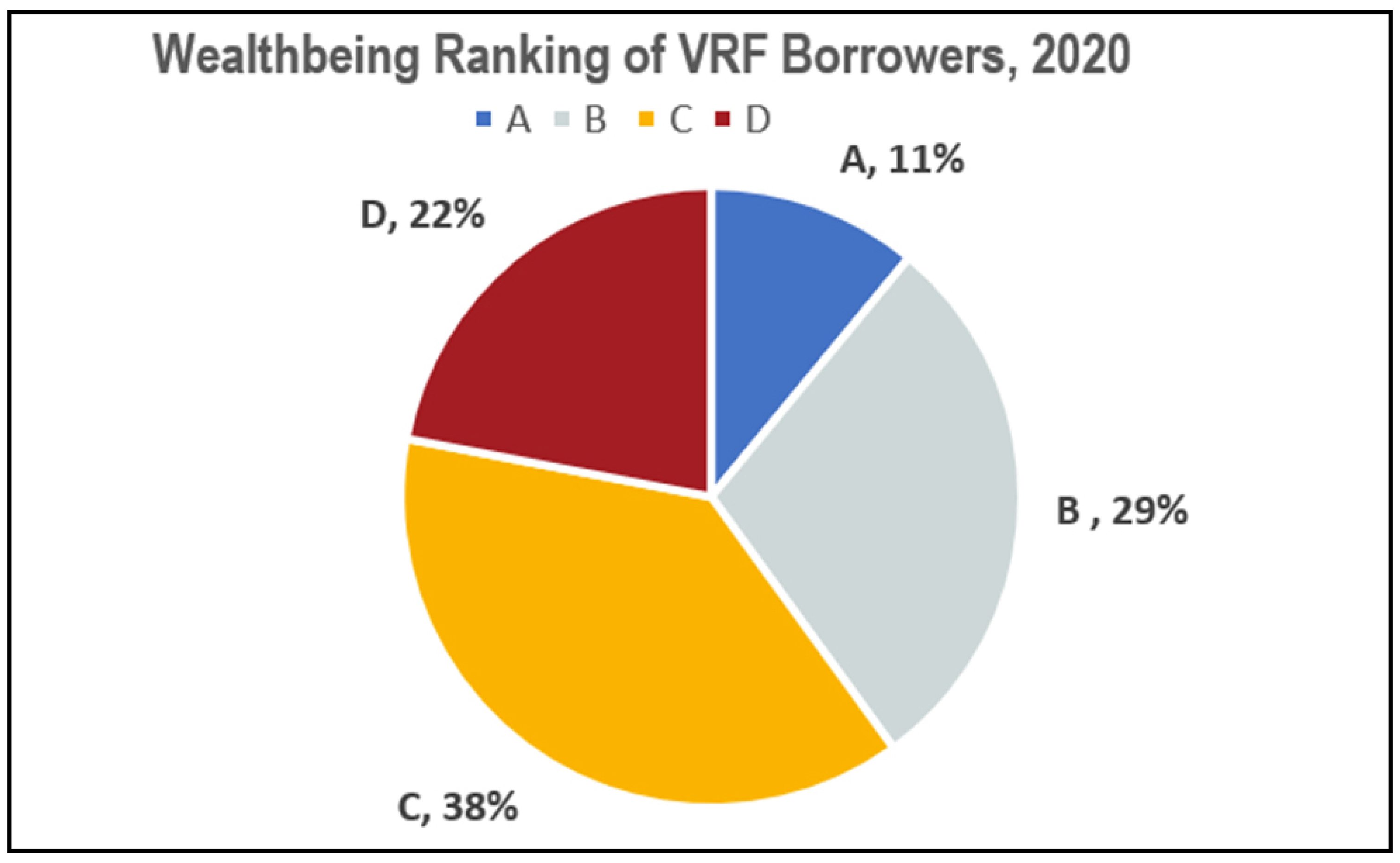
A village revolving fund meeting, Kyiekhto township, Mon State

Project figures show that in early years, most households accessing loans from the VRF fell into categories B and C. The poorest households possibly abstained from taking any credit as they recognized that they would have repayment difficulties. This cautious attitude demonstrates a prudent approach to financial management and a desire to avoid further financial strain.





"Previously, I worked as a farm laborer for others. However, after receiving a loan from the VRF, I started a small pig-raising business with a single pig. I expanded my operation by purchasing a breeding pair. Today, I own a pig breeding business with six pigs." A community member from A Loke

"Previously, with limited capital to invest in fishing net production, we primarily worked as laborers in this industry. Our income was limited to wages paid by fishing net entrepreneurs….. However, VRF loans enabled many laborers to transition into business owners. Now, we produce fishing nets independently and generate higher incomes compared to our previous employment." Group discussion VRF members from Kyauk Seik (Sitt Taung)

Savings

The introduction of mandatory savings schemes played an important role in promoting financial discipline and fostering a culture of saving among the VRF members. By requiring members to contribute a fixed amount at each meeting, these schemes not only encouraged regular saving but also helped individuals to enhance their financial planning and long-term stability. In most cases, members are required to save up to MMK 2,500 per month, considered to be a manageable sum. Nevertheless, not all households have been able to contribute a fixed amount at each meeting, these schemes not only encouraged regular saving but also helped individuals to enhance their financial planning and long-term stability. In most cases, members are required to save up to MMK 2,500 per month, considered to be a manageable sum. Nevertheless, not all households have been able to save; thus, data collected in mid-2024 shows that VRF membership varies considerably by village (see section on social inclusiveness below).

As of 2024, the cumulative amount saved through this initiative totals MMK 164,177,800 which represents approximately 13% of the total income generated by the VRF program. This figure highlights the significant role that these mandatory savings contributions have played in strengthening the overall financial health of the participants, providing them with a reserve that can be accessed for emergencies, investments, or other productive uses. By encouraging a savings culture and ensuring that members have a stake in the collective fund, the project has contributed to enhancing the financial literacy and independence of participants. However, it is important to note that the current sense of community solidarity is limited due to ongoing divisions and tensions in the villages.

Differences between Mon and Bago

The final review of VRF operations under the project notes significant differences in the way in which fund management developed in villages of Bago Region compared with those in Mon State. This in part reflects different social dynamics and different local circumstances; it may also be linked to the different working practices of the TCCs concerned. The review found that the Mon VRFs were far more pro-active and independent than those in Bago, having started savings and even established a rotating loan system before this was instigated through the project. The Bago VRFs, by contrast, only began operations after receiving seed capital from project funds – at which point they distributed loans to all the members quite quickly, completing disbursement within a few loan cycles. The reason for this is that the villages in Bago were mostly recently resettled, poorer than Mon villages, and in need of rapid credit. The Mon VRFs took more time to disburse loans, and truly aimed to prioritise the poorest members. They also emphasized consistent saving throughout the year, reflecting a more long-term financial perspective. They were able to do this as they had relatively better resources and were more stable communities.

CFDA providing input advance to its members, Kyiekhto township, Mon State

The difference between Mon and Bago VRFs is also evident in the way project support was phased out, although this was partly due to differing requirements from the banks concerned. In Bago, VDCs were still required to leave their bank books at the project office almost until project completion. They also had to obtain a letter of recommendation from this office to make financial withdrawals. By contrast, the VDCs in Mon were already, in the third phase, keeping their bank books themselves, withdrawing funds as necessary, and only furnishing copies to the project office. The banks did require project endorsement on withdrawals, but only by telephone. The review found that there was a greater sense of responsibility and empowerment among the Mon VDC membership. However, it also found that the overall membership in Mon was both lower and had a higher level of change than in Bago. This suggests a concentration of power amongst certain households to the exclusion of others.

> “We've already given full authority to the VDC. If they need to take legal action against members who aren't repaying loans, we (project staff) can provide official letters or appear in person as witnesses to support the VDC in court or at the police station.” Project staff, Mon State, quoted in the GRET review.

Eroding social inclusiveness

Any assessment of the current level of social inclusiveness of VDCs and VRFs must consider the changing dynamics of the villages themselves, given Covid-related deaths, absences due to out-migration, and security concerns. These factors have altered the social fabric and participation patterns and influenced the effectiveness and reach of financial inclusion initiatives.

Nevertheless, among the VDCs that remain functioning – 42 out of the 60 – participation in the VRF has become synonymous with VDC membership. Furthermore, in many villages, less than half of all households are accessing the VRF. Figures in this respect vary greatly. The village with the highest participation rate (Mi Lauk, Bago) has a current 82% participation rate with 185 out of 225 households; the lowest (Se Par Lar, Mon) has only a 5% participation rate, comprising 20 out of 400 households.

Sustainability / Future management of the VRF

The total of all funds is valued at MMK 1,086,849,170 and would be valued at CHF 849,101 using a 2016 conversion rate. However, due to inflation over the past eight years, the value has drastically decreased. As of May 2024, the real value of the fund was CHF 310,528. This represents a significant reduction - approximately 63.4% over the eight-year period. Accordingly, the funds can support fewer projects and provide less financial support than originally intended. Nevertheless, participants reported that they have adapted to inflation in various ways, chiefly by reducing their consumption of imported goods. The ability of the villages to maintain and increase their income and fund balances despite inflation indicates considerable economic resilience.

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Pig raising, Bilin township, Mon State

MICRO-FINANCE: VISION FUND MYANMAR

Vision Fund Myanmar (VFM) is one of the largest microfinance institutions in Myanmar, serving low-income households and providing financial services to boost household income, improve child well-being, and unlock the economic potential of rural communities. In partnership with GoMP, VFM expanded its credit services to villages in Bilin, Thaton, and Paung townships between 2017 and 2021. However, plans to extend services to the Bago region were halted due to regulatory constraints on microfinance licenses.

Despite VFM's focus on empowering vulnerable families, under the GoMP it was always anticipated that it would be a credit service for households endowed with some resources and able to take larger loans than available through the VRF. Ideally, thanks to investments facilitated through the VRF, households would graduate to a VFM loan. Unfortunately, significant challenges arose, including strict eligibility criteria, complex application processes, and unfavorable repayment terms. Borrowers also faced issues with collateral requirements and age restrictions. As a result, many villagers chose not to take further loans after completing one cycle. VFM's savings program, offering a 10% interest rate, saw declining deposits from 2022 to 2024. VFM's role in the project was also less integrated than anticipated, with poor coordination and limited presence in the villages.

Overall, the VFM business model demonstrates several strengths. It provided loans tailored to the specific needs of borrowers, with loan sizes adjusted based on individual business plans. It also supported diverse activities, offering loans for livelihoods, social needs, and recovery purposes, thus ensuring flexibility and inclusivity. Its diverse loan portfolio accommodated varying requirements, while members could further benefit by opening savings accounts to earn interest on their deposits. To enhance financial awareness and capacity, all borrowers underwent financial literacy training before receiving loans.

However, the interest rate offered by VFM was higher than that of revolving funds (VRF) by over 2%, making it significantly more expensive. First-time borrowers had to visit the VFM office to obtain their initial loans; the mandatory requirement for all borrowers to participate in capacity-building training was a further limitation for some. Decision-making on loan terms and management is centralized, leaving no ownership of the loan system at the village level. In the fragile context in which the VFM now operates, there are significant challenges in following up on repayments and disbursing new loans. Indeed, by 2024 almost all the GoMP-supported villages lay beyond the area actively served by VFM, rendering its services out of reach.

COASTAL FARMERS DEVELOPMENT ASSOCIATION (CFDA)

The CFDA finance model offers a comprehensive approach to supporting farmers through agricultural input loans tailored to crop cycles, ensuring timely access to necessary resources. With over 1,200 members, the CFDA promotes sustainable farming practices, seed production, and the use of organic fertilizers. Members pay a nominal fee of 1,000 MMK for participation, and the CFDA delivers quality inputs at the village level, providing them at lower prices due to bulk purchasing discounts. This in-kind credit system is complemented by technical support and guarantees on input quality, such as seed germination. Repayments are conveniently collected locally after harvest, reducing logistical challenges for borrowers. CFDA's formal company registration and partnerships, including a collaboration with A-bank, have bolstered financial sustainability, enabling the organization to leverage seed capital, bank loans, and its own investment to expand operations. The partnership with A-bank also enhances access to financial services, improves productivity, and encourages youth involvement, fostering the future sustainability of agriculture in the region.

CFDA's model has a strong foundation for long-term success, integrating banking services and leveraging formal structures to ensure stability. The organization's ability to promote its own products through the credit system, notably rice seed and natural fertilizers, further adds to its financial sustainability. Nevertheless, the model can be criticized from the perspectives of inclusivity and flexibility. Loans are restricted to agricultural inputs, excluding other types of investments, and the quantity of input credit per household is often insufficient to meet all input needs. Moreover, loans are only available to selected association members. Borrowers have limited decision-making power, as credit is provided as predefined input packages, restricting flexibility and choice. Inflation is not considered in the pricing of inputs, impacting the reinvestment capacity of the system, while limited outreach makes it difficult to attract new members. Addressing these issues and adapting the model to account for inflation, improve inclusivity, and enhance data systems would potentially further strengthen CFDA's impact and sustainability.

FISHERS DEVELOPMENT ASSOCIATION (FDA)

The Fisheries Development Association (FDA) provides a diverse range of loans, including those for fishing gear, fishponds, and small and medium enterprises (SMEs), with repayment terms ranging from 6 months to 3 years. Members pay a participation fee of 1,000 MMK, gaining access to loans that support aquaculture and fishing businesses, thereby strengthening the fishery value chain. Loans are offered in both cash and in-kind formats, catering to individual borrowers and groups. While most loans operate on fixed timelines rather than seasonal schedules, the flexibility in loan terms broadens their appeal. Through its partnership with A-bank, FDA has expanded financial access and integrated banking services, enhancing financial sustainability and promoting sustainable growth within the fisheries sector. Loan provision and repayment processes are conducted locally at the village level, facilitated by a management team and monitored by A-bank. This structure is further strengthened by FDA's formal company registration and its potential to operate as either an association or a company.

To summarize, the CFDA provides credit services exclusively for investment in agriculture, while the FDA targets various services, including investment in income generation and businesses beyond the fishery sector. Most of the seed capital for the FDA loans originated from project grants, with a limited contribution from the association. The CFDA has competent technical staff to deliver extension services and manage the credit service effectively. In contrast, FDA credit services were managed by its committee members and faced operational challenges in the initial years. Capacity-building support provided by the project during its final year of operations focused on addressing these issues.

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Fish drying, Chaungzone township, Mon State

KEY ACHIEVEMENTS

Despite the very challenging context from 2021 onwards, the GoMP significantly broadened local access to financial services, thus improving financial inclusion. The village revolving funds (VRF) not only provided credits but also fostered a culture of savings amongst members, facilitating greater financial security and discipline. Many participants accessed affordable credit for the first time – using this to invest in productive activities such as purchasing agricultural tools, starting small enterprises, or improving household resilience. High repayment rates, supported by capacity-building initiatives, ensured the continued functioning of the VRFs at least up to the point that the context changed radically.

One of the project's key strengths was its emphasis on sustainability through the different financing initiatives. The active partnering of the project with local financial institutions deliberately sought to integrate participants into the formal financial system, aiming for long-term viability and scalability. The three additional financial providers - VFM, CFDA, and FDA - significantly contributed to enhancing financial inclusion and supporting livelihoods in diverse contexts. Although the VFM proved limited in scope (primarily due to the changed context), it provided borrowers with loan options tailored to their business plans and needs while promoting financial literacy. The CFDA strengthened agricultural productivity through in-kind loans of high-quality inputs, delivered locally, and integrated technical support to ensure better yields and farming practices. Similarly, the FDA enhanced the fishery value chain by offering diverse loan products. The partnership with the private banking sector fostered by both the CFDA and FDA has certainly enhanced financial sustainability. Collectively, the four mechanisms described have expanded access to finance, empowered participants, and improved economic opportunities across various sectors in the project area.

This paper was compiled by Siham Boukhali, Senior Advisor Financial Inclusion and Business Management, Jane Carter, Senior Adviser Natural Resource Governance, Rakesh Munankami, Chief Technical Advisor of Gulf of Mottama Project, Helvetas. It draws on the contributions of project consortium partners IUCN and NAG and many project stakeholders, too numerous to name, whose insights are gratefully acknowledged.

ENDNOTES

[i]Siham Boukhali, (2024) CAPEX – Access to Finance, Gulf of Mottama Project
[ii]GRET Myanmar, (2024) Assessment of the Village Revolving Funds, Gulf of Mottama Project
[iii]SMART Consultancy, (2024) Evaluation of the project initiated credit services, Gulf of Mottama Project
[iv]There was some local variation in this, with certain villages labelling the poorest households A and the richest D, but the principle of favouring the poorest was maintained throughout.

Highlights of Experience

•The project demonstrated the effectiveness of revolving funds in promoting financial inclusion, especially when paired with tailored capacity-building. Transparent governance structures, regular monitoring, and participatory decision-making processes are critical to fostering trust and accountability within a community. Offering flexibility in repayment terms, especially during the external shocks experienced, was a crucial means of ensuring their accessibility to vulnerable households.

•Strong partnerships with local financial institutions are essential for achieving scale and replicating revolving fund initiatives. Scaling efforts should focus on customizing fund structures to fit local contexts, considering cultural norms, market conditions, and existing financial practices. Although in the case of the GoMP, the partnership with VFM had limited impact, this is explained by the changed context, not the concept of partnership itself.

•Revolving funds should not be established in isolation but rather as part of a comprehensive financial inclusion strategy, creating a pathway for participants to transition into the formal financial sector. In the case of GoMP, the involvement of the VFM, CFDA, and FDA highlights the importance of a diverse range of financial options.

•Usually, aligning local financial mechanisms with national financial inclusion strategies would be part of a sustainable strategy for long-term economic resilience. It is unfortunate that in Myanmar's current context, this has not been fully possible.

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