

# Impacts of the Early Waves of COVID-19 On Microfinance Clients in Rakhine State



November 2021



## Mercy Corps' Market Analysis Unit (MAU)

The Market Analysis Unit provides humanitarian and development practitioners, policymakers and private sector actors in Myanmar with data and analysis to better understand the present and potential impacts of COVID-19, conflict and other crises on:

- Household purchasing power, including coping mechanisms, safety nets and access to basic needs;
- Supply chains, including trade, cross-border dynamics and market functionality (particularly as it relates to food systems);
- Financial services, including financial services providers, household and business access to finance and remittances; and
- Labor markets (formal and informal), with a focus on agricultural labor and low-wage sectors (e.g., construction, food service).

## Acknowledgements

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## List of Acronyms

AA:	Arakan Army
CSO:	Central Statistical Organization
FRD:	Financial Regulatory Department
HVS:	Household Vulnerability Study
IFPR:	International Food Policy Research Institute
IOM:	International Organization for Migration
KII:	Key Informant Interview
MADB:	Myanmar Agricultural Development Bank
MAP:	Making Access Possible
MBEI:	Myanmar Business Environment Index
MFI:	Microfinance Institution
MOPF:	Ministry of Planning and Finance
PGMF:	Pact Global Microfinance Fund
VFM:	VisionFund Myanmar



A person wearing a yellow jacket and dark pants is holding a large bundle of harvested rice stalks. The background shows a field of rice plants under a clear blue sky. The text "Executive Summary" is overlaid on the top left of the image.

# Executive Summary



# Executive Summary

Recent years have witnessed increased financial inclusion in Rakhine State and more broadly across Myanmar, yet the events of 2020 and 2021 have demonstrated the great risk that such gains could be halted or even reversed. With each passing year, more businesses and households in Rakhine State have turned to banks, microfinance institutions and other formal financial services providers for improved economic security, however this trend may soon change. The compounding effects of a global health pandemic, longstanding conflict, periodic environmental disasters and an evolving political and economic crisis have placed extraordinary strain on homes and businesses nationwide. In Rakhine State, business closures during the second wave of COVID-19 and whiplash from events elsewhere in the country have led to reduced income and increased financial insecurity for many. Although political tensions in the state perhaps diminished in late-2020, they remain an unresolved issue and ever-present risk to political and economic stability. Meanwhile, midway through 2021, Myanmar's unpredictable political environment and worsening COVID-19 crisis continues to add greater urgency to the challenges faced by households and businesses in Rakhine State.

This study seeks to assess the effects of the first two waves of the COVID-19 pandemic on borrowers in Rakhine State at the start of 2021, just prior to the events of February 1. The study aims to better understand the business conditions, recent experiences and economic outlook of recipients of business-related microfinance loans in the course of 2020. The study is based on 1,430 interviews with current and former clients of VisionFund Myanmar's (VFM) business-lending programs in four Central and Northern Rakhine State townships: Mrauk U, Kyaukphyu, Kyauktaw and Sittwe. The study population consists primarily of owners of microenterprises, all of whom have received loans from VFM to support their livelihood activities. The study is based primarily on four samples of current or former group borrowers from each of the four separate townships. In Sittwe Township, the study also includes one additional sample of group borrowers in restricted villages (i.e., Muslim communities with formal and informal constraints on entry and exit) and one sample of individual borrowers in unrestricted villages. The data was collected primarily during January 2021.

## Key Findings

### Financial Status of Households

**Borrowers in Sittwe Township reported higher median debt levels than borrowers in Kyauktaw, Kyaukphyu and Mrauk U Townships.** This was true of borrowers in both restricted villages (largely-Muslim communities with travel restrictions) and unrestricted villages, but even more so of individual borrowers who generally operate larger, more mature businesses. Individual borrowers in Sittwe reported a median debt level of 1,500,000 MMK, compared to 600,000 MMK among group borrowers in unrestricted villages and 550,000 MMK among group borrowers in restricted villages. By contrast, group borrowers in the other three township carried slightly smaller median debt levels of 400,000-500,000 MMK.

**Borrowers in Sittwe Township were more likely to have savings than borrowers elsewhere, irrespective of whether they were located in a restricted or unrestricted village.** Sixty-eight percent of group borrowers in Sittwe's unrestricted villages reported having savings, compared to fewer than half of respondents in

Kyaukphyu and Mrauk U Townships and just 19% in Kyauktaw Township. There was little difference between the frequency of saving among individual and group borrowers in Sittwe, however saving was less common in restricted villages than in unrestricted villages (51% and 68%, respectively). The level of savings also varied considerably between restricted and unrestricted villages. Group borrowers in restricted villages reported a median of 70,000 MMK in savings, compared to 200,000-500,000 MMK in savings among group borrowers in unrestricted villages in each of four townships.

**Group borrowers in Sittwe’s restricted villages were more likely to have savings accounts than those in unrestricted villages, as were individual borrowers in Sittwe.** Sixty-one percent of individual borrowers and 49% of group borrowers in restricted villages had an account of some kind, compared to fewer than one-third of group borrowers in Sittwe’s unrestricted villages. Banks were the most common location for savings across groups, with the exception of borrowers in Kyauktaw who rarely used them. Among those with savings accounts, receiving interest payments on deposits and ease-of-transfer were commonly-cited reasons. However, the reasons cited for not having a savings account varied by group, with insufficient funds and lack of familiarity being the most frequent.

**Receiving remittances was uncommon between March and August 2020, when fewer than 15% of group borrowers received them.** During this period, remittances were even less common among individual borrowers and group borrowers in restricted villages at just 6% and 8%, respectively. Among those who did receive them, individual borrowers relied most often on banks to make transfers, while group borrowers in unrestricted villages relied on mobile apps and those in restricted villages relied on informal channels like hundi.

### Livelihood Impacts of COVID-19

**In all four townships, between one-half and two-thirds of respondents faced significant livelihood challenges between August and December 2020.** Poor demand was the most common challenge reported by borrowers in unrestricted villages—particularly among individual borrowers in Sittwe. However, just 3% of group borrowers in Sittwe’s restricted villages reported facing poor demand. Other challenges were quite common across groups, such as government restrictions related to COVID-19 or difficulties with transportation.

**More than 70% of group borrowers in each township reported having less income in 2020 than in 2019, and this was as high as 86% for respondents in Kyauktaw Township.** COVID-19 was widely cited as a source of difficulties in 2020, while armed conflict was generally cited by fewer than 10% of respondents in each group. The key exception was in Kyauktaw, where 36% of respondents attributed their difficulties to armed conflict.

**Most respondents who received remittances prior to March 2020 continued to receive them afterward, but at least one-quarter of group borrowers in each township said their remittances stopped after March.** An even higher 40% of recipients in Kyauktaw Township, and half of recipients in restricted villages, also said their remittances ended after March.

## Adaptation and Assistance

More than half of group borrowers in Mrauk U, Sittwe and Kyaukphyu Townships missed at least one debt payment between August and December 2020, and the same was true of individual borrowers. However, just one-third of group borrowers in restricted villages reported missing a payment in this period. Among group borrowers, the most common explanation for missed payments was inadequate income, while individual borrowers more often said they had other more pressing expenses to tend to.

Between one-third and one-half of group borrowers in unrestricted villages who had savings said they drew on their savings for emergency expenses between August and December 2020. Respondents in Sittwe's restricted villages were half as likely to have drawn on their savings during this period as those in unrestricted villages. Group borrowers in Mrauk U and Kyauktaw were also less likely than those in Sittwe to have done so.

Group borrowers in Sittwe's unrestricted villages were more likely than those elsewhere to have adapted their livelihood activities to the challenges they faced in 2020. Ninety-five percent of group borrowers in Sittwe did so, compared to 73% of individual borrowers, 63% of group borrowers in restricted villages and 64-72% of group borrowers in the other three townships. Between one-quarter and one-third of group borrowers sold business or household assets to deal with their economic challenges, and this was an even higher 43% among respondents in restricted villages.

A small portion of respondents sought new debt between August and December 2020—typically from VisionFund rather than other sources—and most received it. More than one-third of group borrowers in Mrauk U Townships sought new loans in this period, compared to less than one-quarter in other townships. New loans to group borrowers were most often in the range of 400,000 – 700,000 MMK, however group borrowers in Sittwe Township typically reported larger amounts and individual borrowers reported a median loan size of 1,000,000 MMK. This debt was disbursed increasingly as the end of the year approached.

Business owners who adapted to challenges in 2020 often reduced operating hours and in some cases changed core aspects of the business mode (e.g., products, markets or sales channels). For example, 84% of owners in Kyauktaw Township limited operating hours, while between one-half and two-thirds in other townships did this. Reductions in employees were rare, likely because the firms had few to begin with. Relatively few business owners changed key aspects of their business models, such as their primary product, markets or sales channels, although 21% of individual borrowers and 13% of group borrowers in restricted villages changed the markets they served.

Between August and December 2020, many respondents received debt relief beyond the government-mandated pause in collection, and more than half of group borrowers in Sittwe, Mrauk U and Kyaukphyu received new household assistance such as food gifts. Debt relief was very common among some groups, with 99% of borrowers in restricted villages and 96% of individual borrowers saying they received a break on interest payments; however, this was true of fewer than half of borrowers in Mrauk U, Kyauktaw and Kyaukphyu townships. Many borrowers in Sittwe, Kyaukphyu and Mrauk U townships also reported receiving



some kind of household assistance like food gifts. Government was the primary source of assistance to respondents, although restricted villages also often reported receiving assistance from NGOs.

At the start of 2021, many households still felt poorly prepared to handle emergencies, particularly in Kyauktaw Township where three-quarters felt unable to handle a sudden emergency expense. However, challenges related to conflict were a major concern only in Mrauk U and Kyauktaw Townships. On the positive side, one-half to two-thirds of respondents in most groups felt they had sufficient cash access at that time to sustain their livelihood for more than two months longer. However, few borrowers in any group felt they would be able to pay off their debt within six months, and 40-50% of respondents in Kyauktaw and Kyaukphyu believed they may default on their debt.

## Recommendations

This report is intended to help humanitarian and development organizations anticipate the effects of further crises in Rakhine State and offer measures to address the challenges businesses and households face as a result of the COVID-19 pandemic, regional armed conflict and Myanmar's ongoing political crisis. These recommendations are intended only as a starting point based on data from January 2021, and the needs of respondents have surely continued to evolve as later events unfolded. Considerations which emerge from the report findings include:

### Debt Relief

Immediate debt relief and humanitarian assistance may be especially needed for businesses and households in Rakhine State's more rural townships, such as Kyauktaw, Mrauk U and elsewhere. Findings suggest that assistance related to COVID-19 may have had less reach in townships beyond Sittwe, leaving households and businesses in these locations with an even greater need.

Businesses and households will likely require continued debt relief well into the near-term, as compounding economic troubles exacerbate the effects of existing challenges. Reports of missed-payments and skepticism among borrowers about their ability to manage existing debt point to the need for further assistance to prevent businesses from buckling and households resorting to negative coping strategies.

### Targeted Support for Businesses

Rapid support for businesses which are most integrated into the broader Myanmar economy may help reduce the effects of shocks originating from outside Rakhine State. More frequent reports of reduced demand among larger businesses and those in Sittwe suggest that they may have borne the worst effects of the second wave of COVID-19 in Rakhine State. The ability to reach these businesses more quickly may be worth the investment in business-related assistance.

In the medium-term, businesses may benefit from assistance by adapting their business models to Myanmar's new political and economic environment. Businesses which face an existential threat due to changing market conditions may have better odds of surviving by adapting the products, markets and channels on which they focus. However, such adaptation may require additional experience or resources not available to businesses in Rakhine State.

### Long-Term Approaches

Ongoing support where possible for maintaining channels for receiving remittances. To the extent that remittances remain available to households—particularly in Rakhine State, where these more often originate from overseas—maintenance of formal and informal transfer channels may help communities retain sources of financial support during ongoing economic hardship.

Assistance in conflict affected areas—such as Kyauktaw Township—must maintain a long-term focus on conflict-sensitive approaches that take into account these unique challenges. Despite some reprieve from the worst effects of conflict in recent years, businesses in conflict-affected areas of Rakhine State continue to struggle with checkpoints, road closures and other limitations that further complicate the effects of the COVID-19 pandemic and broader economic crisis.

In light of recent developments in Myanmar's banking sector, new long-term strategies are needed for ensuring households and businesses are financially resilient to emerging crisis. As access to cash remains difficult and many households draw down on savings in order to deal with compounding financial hardships, new strategies for financial resilience are needed. Amid a new-normal in which even modest contributions to household savings is extremely difficult or impossible, new strategies may require even greater emphasis on village savings and loans groups and an expanded role for MFIs and other formal non-bank institutions. Moreover, attention should be given to the further exacerbation of existing inequalities in financial inclusion.



A large field of golden rice with a person in the background. The rice is in the foreground, and a person is visible in the distance, working in the field. The background is slightly blurred, showing more of the field and some trees in the distance.

# 1. Introduction and Methodology



# 1. Introduction and Methodology

## 1.1 Borrowing in Rakhine State

The financial security of many households and businesses in Myanmar has improved greatly in recent years, boosted in part by a period of expanding access to financial services. According to one recent study, between 2013 and 2018, access to formal finance among adults in Myanmar rose from 30% to 48% and the portion of individuals using more than one financial product or service increased threefold.<sup>1</sup> Rural financial inclusion increased during this period, owing in large part to efforts by the government of Myanmar to formalize the microfinance sector and improve access through widely-affordable SIM cards. Indeed, formal non-bank financial service providers like microfinance institutions (MFIs) and cooperatives have played a large part in recent gains. Between 2013 and 2018, the number of MFI clients in Myanmar rose from 700,000 to 3 million, and membership in cooperatives rose from 2.2 to 3.2 million.<sup>2</sup> As of July 2019, there were 189 registered MFIs operating in Myanmar.<sup>3</sup> VisionFund Myanmar (VFM) is among the largest of those MFIs and one of two operating in townships like Sittwe, Mrauk U and Kyaukphyu.<sup>4</sup> Microfinance organizations such as VFM have helped extend financial services to households and businesses by capping interest rates and providing more favorable terms which encourage borrowing.

Yet financial inclusion and security remain limited both nationwide, particularly in Rakhine State, with more progress needed to further extend their benefits nationwide. As of 2018, 50% of adults still relied on the informal sector for financial services, often participating in informal savings groups or holding savings in the form of assets like gold and jewelry.<sup>5</sup> More to the point, as much as half of all adults in Myanmar may have no savings at all. Rakhine State is no exception, and is possibly worse off than many other parts of Myanmar. The same study found Rakhine State to be below the median state/region for access to formal or informal banking and it had the highest rate of informal savings of all states and regions at 36%. Moreover, compounding crises such as longstanding armed conflicts, the COVID-19 pandemic and an unfolding political crisis continually threaten to erode the important gains made in recent years. Midway through 2021, these challenges necessitate a continual reassessment of the state of financial security in Rakhine State and Myanmar overall, as well as their impact on the economic security and livelihoods of businesses and households in Myanmar.

## 1.2 The Impact of Crises on Financial Security

Crises can impact the financial security of businesses and households in a myriad of ways and recent events in Rakhine State and Myanmar generally offer numerous examples of this. Armed conflict and the COVID-19 pandemic were probably the key drivers of financial instability for businesses and households in Rakhine State in 2020, however the political developments of 2021 and third wave of COVID-19 have complicated matters further. Today, households and businesses face a suite of challenges that threaten to roll back past gains and prevent future progress toward greater financial security.

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<sup>1</sup> "Making Access Possible: Financial Inclusion Diagnostic – Myanmar." UNCDF et. al., 2018.

<sup>2</sup> Ibid.

<sup>3</sup> "Gender and Microfinance in Myanmar: The Business Case for Action." IFC, 2020.

<sup>4</sup> Pact Global Microfinance Fund also operates in Kyaukphyu Township, while KEB Hana Microfinance also operates in Sittwe and Mrauk U Townships.

<sup>5</sup> "Making Access Possible: Financial Inclusion Diagnostic – Myanmar." UNCDF et. al., 2018.

The COVID-19 pandemic which brought the global economy to a halt for the better part of a year and continues to present immense obstacles in 2021, had disastrous impacts on the Myanmar economy and Rakhine State in 2020. As the global pandemic emerged in early-2020, most attention focused on new cases in Yangon, yet as a second wave unfolded in August 2020, attention increasingly turned to Rakhine State. In late 2020, businesses in Rakhine State saw mandated closures and the widespread adoption of government regulations like mask-mandates, quarantine requirements and travel restrictions. For example, as many businesses remained closed, importing goods became more difficult as shipping providers struggled to move inventory across state/region borders. Despite many challenges, by the end of 2020 many of these COVID-related restrictions were lifted and optimism begun to grow. By January 2021, economic activity in the state had returned (perhaps not to pre-pandemic levels but possibly to early-pandemic levels).

### Box 1. Impacts of COVID-19 on Myanmar's MFI Sector

In 2020, the COVID-19 pandemic not only made borrowing and repaying debt far more difficult for businesses and households, it also made operations more challenging for providers of financial services in Myanmar. During Myanmar's first wave of COVID-19, business closures, stay-at-home measures, reduced remittances and other effects of the pandemic dramatically reduced the ability of borrowers to make payments on loans. The Financial Regulatory Department (FRD) of Myanmar's Ministry of Planning and Finance (MOPF) responded with a number of measures in 2020. Following the first-wave of COVID-19, the FRD announced a pause on the collection of principal and interest during April and May 2020. Financial service providers saw payments fall off significantly, including MFIs. In October 2020 the Livelihoods and Food Security Fund (LIFT) estimated that its partner MFIs missed USD 115 million in loan payments during the first few months of the pandemic.<sup>6</sup> Following the second-wave of COVID-19, the FRD announced another six-month pause on all collections for select locations—including Rakhine State—beginning in November 2020.<sup>7</sup>

Over the course of the first and second waves of COVID-19, reduced payments from borrowers, combined with diminished interest or capacity on the part of international investors to support the microfinance sector, made it even more difficult for MFIs to operate in Myanmar. In response, many MFIs redrew their disbursement and collection procedures to adapt to the new environment and accommodate borrowers' new challenges. Nonetheless, as long as borrowers faced mounting challenges, so too did the microfinance sector. For example, VFM's Kyauktaw office (which had closed in early-2020 due to challenges from armed conflict) was only able to conduct limited operations through much of 2020, and by the end of the year, all new VFM lending in the township was halted. Moreover, all VFM clients were given the opportunity to reschedule their loans in 2020. As 2021 began, new and existing borrowers in Myanmar were forced to manage their debt amid the most difficult lending environment the country had seen in recent years.

The armed conflict, which has afflicted Rakhine State for years, also continued to instigate economic vulnerability in 2020, albeit with perhaps less severity than at other times in recent memory. From January through October 2020, Rakhine State and neighboring Paletwa Township in Chin State were the site of the majority of clashes

<sup>6</sup> LIFT "LIFT Annual Report: 2020." LIFT, 2021.

<sup>7</sup> "Gender and Microfinance in Myanmar: The Business Case for Action." IFC, 2020.

between the Arakan Army (AA) and government forces in Myanmar.<sup>8</sup> VFM recorded 82 armed clashes in Rakhine State during 2020 as part of its own monitoring of the security environment.<sup>9</sup> However, in early-November 2020, disputes surrounding Myanmar's November 8 general election led to a ceasefire between the Tatmadaw and the AA which proved resilient. These developments began to ameliorate some—but certainly not all—of the economic impacts of the long-running conflict. On the one hand, farmers and commodity traders began to report improved transportation and reduced delays at checkpoints throughout the region.<sup>10</sup> On the other hand, conflict-related limits on some commercial activities continued (e.g., the shipment of fertilizers, which could be used in explosives) and safety risks remained prominent. Internet shut-downs also continued into early-2021 and most of all communities in Rakhine State continued to live and work amid fears that armed conflict could upend their lives and work at any moment.

By the middle of 2021, the above challenges had been further compounded by the events of February 1 and the immense political and economic instability created in its wake. Counterintuitively perhaps, many of the difficulties caused by the COVID-19 pandemic and armed conflict appeared to somewhat subside in Rakhine State during the first half of 2021. Pandemic restrictions were lifted, the ceasefire continued to hold, and improvements in transportation were complimented by a repeal of longstanding internet blackouts. Of course, the political events of February 1—in which the Myanmar military took power from the NLD-led civilian government—marked a historic turning point for the country which will continue to have impacts far greater than those of 2020. Massive protests, subsequent crackdowns and economic and security crises across the country have resulted in loss of life, a worsening economic situation and the potential for an even broader humanitarian crisis. Moreover, the resurgence of COVID-19 in a third wave in July 2021 exacerbated the situation further. As these and other factors continue to transform the business and financial environment in Rakhine State and more broadly Myanmar, an assessment of their effects on the financial and livelihood security of Myanmar communities is now more pressing than ever.

### 1.3 Research Objective and Methodology

**Research Objective** – The objective of this study is to better understand the impact of events in 2020 on financial security and livelihood activities of households and businesses in Central and Northern Rakhine State. Specifically, the study seeks to understand business conditions, recent experiences and the future outlook of businesses and households in Rakhine State through the eyes of borrowers. Since business and household finances of microenterprises are frequently intertwined, the study focusses not just on borrowing but on the borrowers themselves, including the livelihood activities which their borrowing supports. As such, the study focuses not just on debt, but also related aspects of their financial activity (e.g., savings, remittances) and livelihoods (e.g., strategies, challenges, adaptation measures). The study seeks to better understand financial security and the business environment by looking at three key topics:

1. Financial activity (including debt, savings and remittances);
2. Impact of the second wave of COVID-19 on livelihood activities; and
3. Future outlook on borrowing and livelihood activities.

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<sup>8</sup> “ACLEDDashboard.” ACLED, 2021. <https://acleddata.com/dashboard/#/dashboard>. Accessed March 21 2021.

<sup>9</sup> VFM Internal source from Vision Fund Myanmar.

<sup>10</sup> “Food Insecurity Snapshot: Rakhine State Farmers (September – December 2020).” Mercy Corps, 2021.



The study is intended primarily for an audience of humanitarian and development organizations, donors and policymakers who may use the information and data to design measures for mitigating the effects of current and future crises on businesses and households in Rakhine State. Given the timing of the data collection (completed in late-January 2021, just prior to the events of February 1), it is also designed to contribute to the understanding of financial security in Rakhine State—by providing a case-study based on the clients of one MFI—on the eve of a transformative period in Myanmar’s recent history.

## Box 2. VisionFund Myanmar

VisionFund Myanmar (VFM) has operated in Myanmar since 1998, and it is among the largest MFIs in the country. VFM first entered Rakhine State in December 2018 (Sittwe, Mrauk U and Kyauktaw Township) and further expanded into Kyaukphyu Township in October 2019. As of January 2021, VFM served 200,000 clients across Myanmar and tens of thousands in Rakhine State. VFM aims to provide financial services to underserved populations with 52 branches and six sub-branches in nearly all of Myanmar’s states and regions. Specifically, VFM targets borrowers who require small loans, who do not have any measurable credit history or assets for collateral, and typically lack access to mainstream financial providers. Its financial services include loans, savings, mobile financial services and more.

VFM serves both individual and group clients. Group borrowers participate in a lending arrangement whereby multiple separate loans are formalized in a single contract guaranteed by the entire group, while individual borrowers take on debt independently and with stricter eligibility requirements. Generally speaking, group borrowers tend to be microenterprises while individual borrowers tend to operate more formal and capital-intensive businesses, yet both receive VFM financial services loans for the purpose of supporting business and livelihood activities

VFM lending is structured to encourage financial inclusion. As per FRD and MOFPI, in accordance with FRD regulation, VFM does not take collateral, loans are capped at 10 million kyat and monthly interest rates are capped at 2.28%.<sup>11</sup> Although VFM does not operate in the commercial banking space, VFM requires clients to deposit 5% of the disbursement amount as savings (which earn monthly interest). VFM loan products are designed with either monthly amortized or balloon repayments in order to accommodate clients’ cash flows and business needs. All compulsory deposits may be withdrawn after the loan is paid off or kept with VFM to accumulate interest over time.

**Research Methodology** – The study is based on a structured phone survey and semi-structured Key Informant Interviews (KIIs).<sup>12</sup> The phone survey was conducted between December 29, 2020 and February 3, 2021.<sup>13</sup> KIIs were conducted from February 8-16, 2021.

**Population and Samples** – The focus population for the study includes current and former recipients of VFM’s business-related loans, most (but not all) of whom are owners of microenterprises. This includes several subgroups, based on geography and loan type. First, the study looks at current and former group borrowers in

<sup>11</sup> This is sometimes described as a 28% annual interest rate, as it does not compound monthly.

<sup>12</sup> Several interviews conducted as part of the phone survey were instead carried out in-person, due to issues of accessibility.

<sup>13</sup> Out of 1,430 interviews, 25 were conducted on February 3.

unrestricted villages in four townships: Mrauk U, Kyaukphyu, Kyauktaw and Sittwe. Second, the study looks at current group borrowers in restricted villages in Sittwe Township.<sup>14</sup> Third, the study looks at current individual borrowers in Sittwe Township. Based on the above subgroups, five samples were drawn for the study. Four samples of group borrowers were randomly drawn from unrestricted villages in each of four townships. These samples were each intentionally structured to include two-thirds current-clients of VFM and one-third former-clients (n=241 to 280). A fourth sample of current group borrowers was also drawn from restricted villages in Sittwe Township (n=268). Finally, a fifth sample of current individual borrowers (n=98) was drawn from unrestricted villages in Sittwe Township. The samples are intended to represent the populations outlined above in general. Sample descriptions can be found in Table 1.

**Analyses** – The above samples provide the basis for three different analyses in the study. These include a comparison of group borrowers across four townships—all of whom are located in unrestricted villages—a comparison of group borrowers from restricted and unrestricted-villages in Sittwe Townships, and a comparison of individual and group borrowers in Sittwe Township.

**Challenges and Limitations** – The study aimed to address several key challenges which should be considered when reviewing the findings. These challenges include the use of small, non-random samples, high rates of non-response among individual borrowers (generally larger businesses who are harder to reach), the potential for response bias due to implementing the survey through an active lender, and interruptions caused by political events in February. The research design and analysis sought to address these challenges in several ways. For example, the report presents summary statistics only for the sample of VFM clients and is not intended for statistical inference to larger populations of Rakhine State or its townships. Furthermore, with few exceptions, the only data collected after February 1 included KIs, thereby attempting to isolate survey responses from the effects of February 1. Nonetheless, these limitations should be kept in mind when interpreting the results of the study. Finally, when comparing findings to statistics for Myanmar generally, readers should keep in mind the narrowly-defined focus population of the current study (all of whom are current or former MFI clients with access to finance).

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<sup>14</sup> In this study, the term “restricted villages” refers to largely-Muslim communities with both formal and informal restrictions on entry and exit.

**Table 1. Respondent Characteristics**

Sample	Sittwe	Kyaukphyu	Kyauktaw	Mrauk U	Individual	Restricted
Sample Size	268	280	241	275	98	268
Response Rate	38%	30%	59%	29%	70%	90% <sup>15</sup>
<b>Basics</b>						
Active VFM Clients	58%	63%	61%	64%	97%	100%
Restricted Villages	-	-	-	-	-	100%
Group Borrowers	100%	100%	100%	100%	-	100%
Female HOH	31%	27%	25%	29%	32%	16%
Female respondent	83%	89%	72%	81%	63%	33%
<b>Ethnicity<sup>16</sup></b>						
Bamar	-	2%	-	-	-	-
Kaman	-	-	-	-	-	21%
Muslim <sup>17</sup>	3%	-	5%	-	-	76%
Mro	-	-	-	1%	-	-
Rakhine	94%	88%	90%	97%	85%	-
Other	-	2%	1%	-	-	-
No response	3%	8%	4%	2%	15%	3%
<b>Business Aspects</b>						
Business Owner	55%	71%	77%	81%	90%	68%
Formal	43%	23%	19%	27%	72%	1%
Median age (years)	7	6	6	7	7	8
Have employees	18%	19%	12%	19%	68%	29%
Employees (mean) <sup>18</sup>	2.78	3.5	2.54	4.4	4.16	1.8
<b>Business Sector</b>						
Agriculture	9%	10%	16%	13%	-	50%
Fish / Livestock	9%	21%	7%	15%	8%	13%
Production	8%	7%	12%	16%	23%	3%
Sales	40%	32%	27%	35%	41%	18%
Services	30%	18%	26%	18%	27%	10%
Other	4%	11%	11%	4%	1%	6%

<sup>15</sup> Interviews with respondents in restricted villages were conducted almost exclusively in-person, and partly due to this response rates were much higher.

<sup>16</sup> Ethnicity was asked as an open question, wherein respondents were allowed to use the term of their choice.

<sup>17</sup> VFM surveyors recorded responses as “Muslim”, although it is possible that some respondents self-identify as “Rohingya.” Ethnicity was asked as an open question, wherein respondents were allowed to use the term of their choice.

<sup>18</sup> Excludes those with no employees.



### Box 3. Financial Inclusion and Gender Equality

Achieving gender equality remains as much a challenge in Myanmar as elsewhere in the world, yet gains in financial inclusion can play a part in reducing gender inequality. According to a 2018 study, access to financial services among women in Myanmar rose from 31% to 37% between 2013 and 2018. The study found this increase was largely driven by greater access to informal financial services and particularly formal (non-bank) financial service providers, such as MFIs. By 2018, the portion of women saving had risen from 38% to 51% and many existing borrowers began to shift from informal to formal non-bank sources of lending. MFIs like VisionFund Myanmar helped contribute to this trend, in part due to their unique lending models. MFIs are prohibited under Myanmar law from requiring collateral, which can disproportionately exclude women from borrowing via conventional sources like banks or informal lenders (e.g., when assets are documented under the name of a male spouse). By contrast, a 2020 study found that women make up more than 90% of group borrowers and 61% individual borrowers at MFIs in Myanmar.<sup>19</sup> Although the current study adopted businesses/households as a unit of analysis rather than individuals (such as women), it reinforces these observations about the role of women in microfinance. Women make up 72-89% of respondents within each of the four samples of group borrowers in unrestricted villages, and 63% of respondents among individual borrowers (women were 33% of respondents in restricted villages). Of course, while the presence of women among MFI clients is clear enough, there remains great need for more research focusing explicitly on the experience of women borrowers in Rakhine State.

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<sup>19</sup> “Gender and Microfinance in Myanmar: The Business Case for Action.” IFC, 2020.

## 2. Financial Status of Borrowers



## 2. Financial Status of Borrowers

Myanmar households rely on borrowing both as a means of managing economic shocks as well as a source of regular working capital. The 2017 Myanmar Living Conditions Survey (MLCS) estimated that 61% of Myanmar households held debt at that time, with even higher levels among poor, rural households engaged in the agricultural sector.<sup>20</sup> This borrowing provides resources for managing economic shocks (particularly non-food shocks), but it also serves a variety of other important purposes. For example, the 2018 Making Access Possible (MAP) study found that common uses of borrowing among adults in Myanmar include the purchase of agricultural inputs or equipment, business expansion, and standard living expenses.<sup>21</sup> The sources of this lending are often diverse. The same study estimated that 22% of borrowers relied on informal lenders, followed by other formal institutions (16%), banks (14%) and friends or family (13%). The 2017 MLCS found Rakhine State is likely on the high-end of states and regions for informal lending, with 87.1% of households holding informal debt and just 37.1% holding formal debt.<sup>22</sup>

Savings are another important resource for mitigating against economic shocks, yet it is one to which many households have little access. The 2018 MAP study estimated that 50% of Myanmar adults had savings of some kind, which would be a significant increase over previous years.<sup>23</sup> That study found that the impetus for saving was often—but not exclusively—the need for unforeseen emergency medical expenses. Yet other purposes include general living expenses (20%), education (13%), and business expansion (9%). However, the study also found that half of all adults had no savings at all. Among adults without savings, the most common reason was lack of funds (90%).

Banking and other formal savings vehicles remain elusive for many Myanmar households. The MAP study found that the great majority of adults, with access to some kind of vehicle for saving, rely upon an informal institution.<sup>24</sup> Just 12% of adults use banks or other formal institutions for saving, while others keep savings at home in the form of cash, gold or jewelry (11%) or with cooperatives and savings groups (27%). The 2017 MLCS also found infrequent use of formal savings vehicles, reporting that just 17% of households had one or more members with a bank account, with the figure even lower in rural areas.<sup>25</sup> As suggested in that study, the reasons for not having accounts may include transaction costs, lack of trust, information gaps, social constraints or behavioral biases.

Finally, remittances also constitute an important component of income for many Myanmar households. The 2017 MLCS found that one in five Myanmar households receive remittances, with a slightly higher frequency of 22.9% in Rakhine State.<sup>26</sup> Nationwide, urban and rural households alike were equally likely to receive remittances, but female-headed and well-off households were more likely. In Rakhine State, remittances make up a slightly smaller portion of household income than the average household in Myanmar, with an average of 8.5% of household income coming from remittances. Rakhine State also differs in the source of remittances. Most remittances in Myanmar come from domestic sources, however two-thirds of remittances in Rakhine State come from

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<sup>20</sup> “Myanmar Living Conditions Survey 2017.” World Bank et al., 2019, pp. 62.

<sup>21</sup> “Making Access Possible: Financial Inclusion Diagnostic – Myanmar.” UNCDF et. al., 2018.

<sup>22</sup> “Myanmar Living Conditions Survey 2017.” World Bank et al., 2019, pp. 64.

<sup>23</sup> “Making Access Possible: Financial Inclusion Diagnostic – Myanmar.” UNCDF et. al., 2018.

<sup>24</sup> Ibid.

<sup>25</sup> “Myanmar Living Conditions Survey 2017.” World Bank et al., 2019, pp. 62.

<sup>26</sup> Ibid.

international sources.<sup>27</sup> The 2018 MAP study found the typical channels for remittances included formal non-bank avenues, followed by banks and friends/family, although channels have become increasingly formal since 2013.<sup>28</sup>

This study—which focuses exclusively on respondents who already have access to formal lending through an MFI—found that at the start of 2021, savings in Sittwe Township resembled the above findings for Myanmar in many ways. However, this was less true of respondents in restricted villages and townships beyond Sittwe.<sup>29</sup> Individual and group borrowers in Sittwe’s unrestricted villages reported rates of savings similar to (or even higher than) the 50% national rate, while respondents in Mrauk U, Kyaukpyu, Kyauktaw and restricted villages in Sittwe reported much lower rates.<sup>30</sup> Group borrowers in Sittwe also reported access to formal or informal savings accounts (49%) similar to the above nationwide figures for saving vehicles (46%); yet rates in the other three townships and restricted villages were much lower among the VFM borrowers. Similar to the broader Myanmar studies, the primary motivation for saving among respondents often involved preparation for emergency health expenses. However, this study also highlights some differences from nationwide studies, particularly with respect to access of formal savings institutions. Among savers, 70% or more saved either with a bank or other formal non-bank institution (quite possibly due to the fact that they already have access to formal lending). Finally, the study found frequencies for remittances in late-2020 (roughly 15%) somewhat lower than the 22.1% for Rakhine State reported in the 2017 MLCS.

## 2.1 Debt

Individual borrowers had the highest level of debt by far, and in general debt burden was highest among borrowers in Sittwe Township than elsewhere. Among four townships, group borrowers in Sittwe reported the highest median debt level at 600,000 MMK, while respondents in Mrauk U and Kyaukpyu Townships reported 500,000 MMK, and Kyauktaw respondents reported 400,000 MMK. The median debt level of borrowers in restricted villages was only just below borrowers in Sittwe’s unrestricted villages, at 550,000 MMK. However, individual borrowers in Sittwe Township reported debt-levels nearly three-times that of group-borrowers in the same township, at 1,500,000 MMK (See Chart 1 below).<sup>31</sup>

Those with debt generally reported having outstanding loans from only one source, excluding standing lines of credit for goods from suppliers.<sup>32</sup> VMF’s loan eligibility requirements allow borrowers to hold debt from up to two additional sources.<sup>33</sup> Thirteen percent of group borrowers in Kyaukphyu Township reported having significant debt from additional lenders, while this was just 4-6% among group borrowers in each of the other three townships. In Sittwe Township, the portion of group borrowers in restricted villages with debt from multiple sources was just 3%, and among individual borrowers in unrestricted villages it was 5%. These other sources of debt included, for example, other large MFIs such as Pact Global Microfinance Fund (PGMF) or occasionally conventional

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<sup>27</sup> “Myanmar Living Conditions Survey 2017.” World Bank et al., 2019, pp. 125.

<sup>28</sup> *Idem*, pp. 23.

<sup>29</sup> It should be noted that some differences are certainly due to research design. For example, most respondents in this study are clients of VFM’s business-lending services clients and served exclusively by formal lending institutions; possibly for this reason their uses of debt skew more heavily toward business and livelihood expenses (e.g., investment in inventory or business-related assets) as opposed to household or medical expenses.

<sup>30</sup> Savings rates should be interpreted as separate from the deposit of 5% of principal for all VFM loans (See Box 2).

<sup>31</sup> It is important to note that the debt levels of respondents are driven in part by loan eligibility. Larger VFM loans may be granted based on a positive borrowing history, therefore townships where VFM or other MFIs have operated longer (e.g., Sittwe) are likely to have more respondents eligible for higher loan amounts than townships where MFIs are newer (e.g., Kyauktaw).

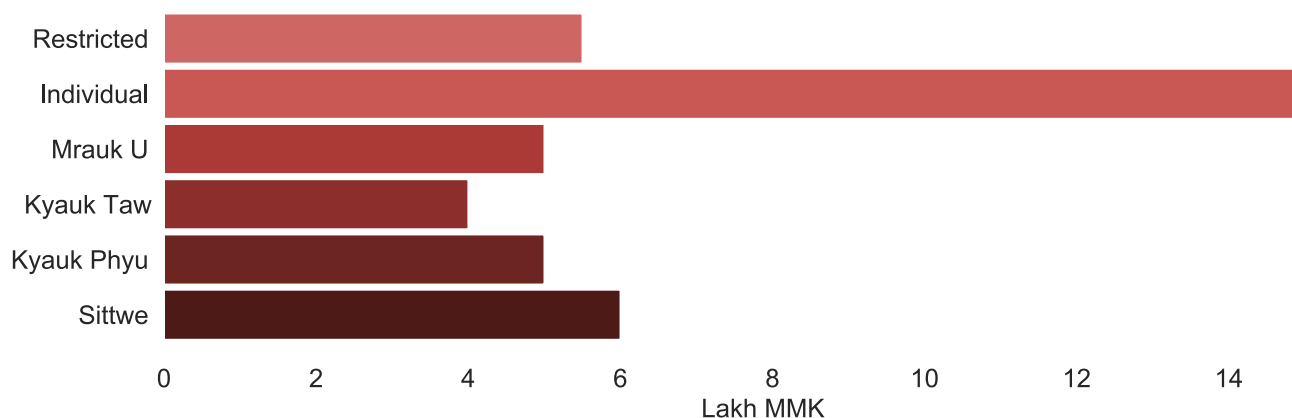
<sup>32</sup> The relatively low proportion of agricultural firms in the samples likely explains the absence of MADB loans reported in the study.

<sup>33</sup> Since the survey was administered by VFM, respondents may have had reason to underreport loans from other sources.



moneylenders.<sup>34</sup> Some who relied on multiple lenders said this was because the loan size from individual lenders was too small for their purposes or because they already had existing debt from conventional moneylenders but hoped to transition to an MFI. On the other hand, reasons given for relying on a single lender included the desire to simplify finances or stick with a familiar and trusted lender. As previously discussed, it is important to note that there are very few MFIs currently offering services in the Rakhine State.

Chart 1. Median Household Debt



Box 4. Perceptions on Collateral Requirements

Although VisionFund Myanmar does not require collateral for offering loans, most respondents felt that collateral is typically necessary to access credit in their township. In Sittwe, Kyaukphyu and Mrauk U, 70-78% of respondents felt that collateral was needed to acquire credit, although this was far lower in Kyauktaw at just 25%. The need for collateral was slightly less frequently reported by respondents in restricted villages (64%) than unrestricted villages (70%), and individual borrowers were marginally more likely to report it was needed (77%). General perceptions about collateral requirements may be based on the perception that MFIs like VFM—which do not require collateral—remain the exception rather than the rule when it comes to lending in Rakhine State. Microfinance institutions are still relative newcomers to the financial sector in Rakhine State, and more conventional sources of lending such as banks or moneylenders generally continue to require collateral (even if survey respondents do not currently access these sources of credit).

The most common purpose for this debt was primarily the purchase of business supplies or to cover the cost of goods sold. In Sittwe, Kyaukphyu and Kyauktaw Townships, 79-81% of respondents borrowed to cover business supply, and this was even more common in Mrauk U Township (94%). Other purposes included operational costs, real estate or other assets (e.g., cars, motorbikes), transportation expenses and non-business expenses (e.g., food, education). Borrowers in restricted and unrestricted villages in Sittwe were similar with respect to the purpose of debt, with 80-85% of respondents in each group using debt for inventory. This was true of individual borrowers in Sittwe as well (79%), although they differed slightly from group borrowers in their other uses of debt. For example,

<sup>34</sup> Based on KIIs with group borrowers.

13% of individual borrowers put debt toward operations (compared to just 3% among group borrowers) and none used debt for personal/non-business expenses or real estate (compared to 7% among group borrowers).

### Box 5. Perceptions of Debt Complexity

In general, respondents across all groups said they perceive borrowing and debt to be “complex.” Across all four townships, 83–93% of group borrowers reported they felt borrowing to be complex. There was not a great difference in the perception of complexity between respondents in restricted (95%) and unrestricted (93%) villages, and even individual borrowers widely felt debt to be complex (90%). For example, some respondents said they found it difficult to provide proof of home-ownership.<sup>35</sup> A more complete understanding of these perceptions is not available from the data, however it is also possible that respondents reported their perceptions of debt from MFIs in particular. There are several reasons borrowers in Rakhine State may perceive MFI debt to be particularly complex. For example, MFI processes often involve more requirements and procedures than alternatives such as traditional moneylenders, and MFIs—particularly those operating on a group-lending model—are still quite new in Rakhine State, dating back to 2018.

## 2.2 Savings

Borrowers in Sittwe Township generally reported higher rates of savings than other townships, regardless of whether the respondent was an individual, group borrower, or located in a restricted or unrestricted village. Sixty-eight percent of Sittwe respondents reported having savings, compared to lower rates in Mrauk U (43%), Kyaukphyu (36%) and particularly Kyauktaw (19%). Borrowers in Sittwe’s restricted villages also reported lower rates of savings (51%) compared to unrestricted villages (68%), although this was still higher than unrestricted villages in other townships. Meanwhile, individual borrowers in Sittwe reported marginally higher rates of savings (73%) than group borrowers in the same township. (See Chart 2). Some of those without savings explained that they simply had no surplus funds to save, or had already allocated all surplus funds to business expansion or other personal investments (e.g., education, assistance to family members).<sup>36</sup> Similarly, those who held savings said this was motivated by the expectation of emergency health expenses, the desire to invest further in business or education, or simply to have a safety net for future shocks (e.g., repeated pandemic-related lockdowns).

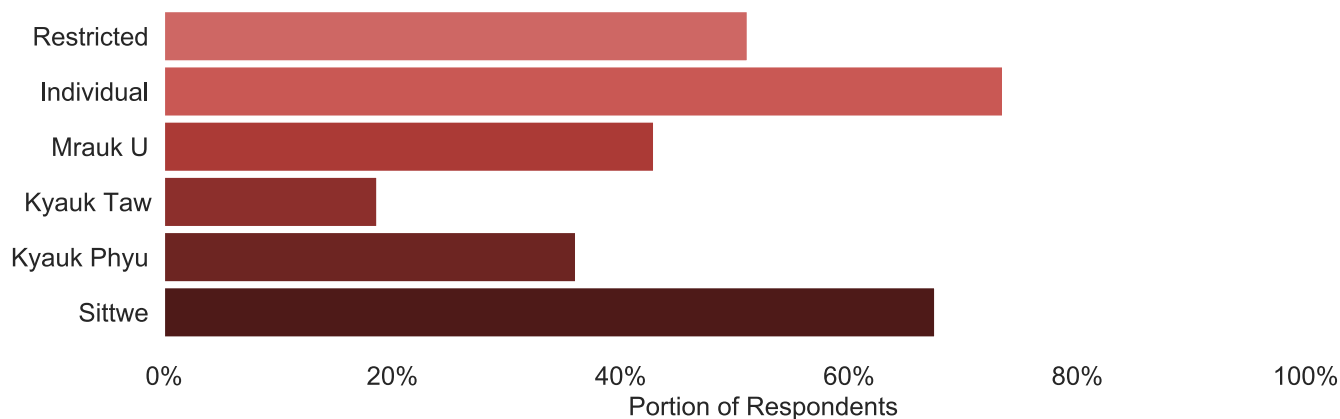
Levels of savings varied significantly by group, with respondents in restricted villages with far less savings and individual borrowers having significantly more. Group borrowers in Sittwe and Mrauk U Townships reported lower overall saving amounts than the other two townships, despite having a higher rate of savings in these locations. Respondents in Sittwe and Mrauk U Townships reported a median savings of 200,000 MMK compared to Kyauktaw which reported 350,000 MMK and Kyaukphyu Township which reported 500,000 MMK. Median savings were far smaller in unrestricted villages, where respondents reported a median savings of just 70,000 MMK, or roughly one-third of the level of borrowers in unrestricted villages. Meanwhile, individual borrowers reported higher median savings of 500,000 MMK, compared to just 200,000 MMK among Sittwe’s group borrowers. The reasons behind the above differences are unclear from the data, however it is possible that lower levels of savings in Sittwe

<sup>35</sup> Based on KIIs with group borrowers.

<sup>36</sup> Based on KIIs with group borrowers.

Township—where there was also more reports of dipping-into-savings (see Section 3)—may be due to greater exposure to the effects of the COVID-19 pandemic.

**Chart 2. Households with Savings**



### 2.3 Savings Accounts

Individual borrowers and group borrowers in restricted villages were more likely to have a savings account—through a bank, mobile platform or other formal or informal institution—than group borrowers in unrestricted villages. In Sittwe Township, borrowers in restricted villages were far more likely to have a savings account (49%) than those in unrestricted villages (26%), possibly due to the increased activity of development organizations there (see below). However, individual borrowers were by far the most likely to have an account, with 61% reporting they have a savings account, or more than double the rate among group borrowers in Sittwe Township. Savings accounts were also much less common in other townships, with 28-32% of respondents in Kyaukphyu and Kyauktaw having one and just 16% in Mrauk U.

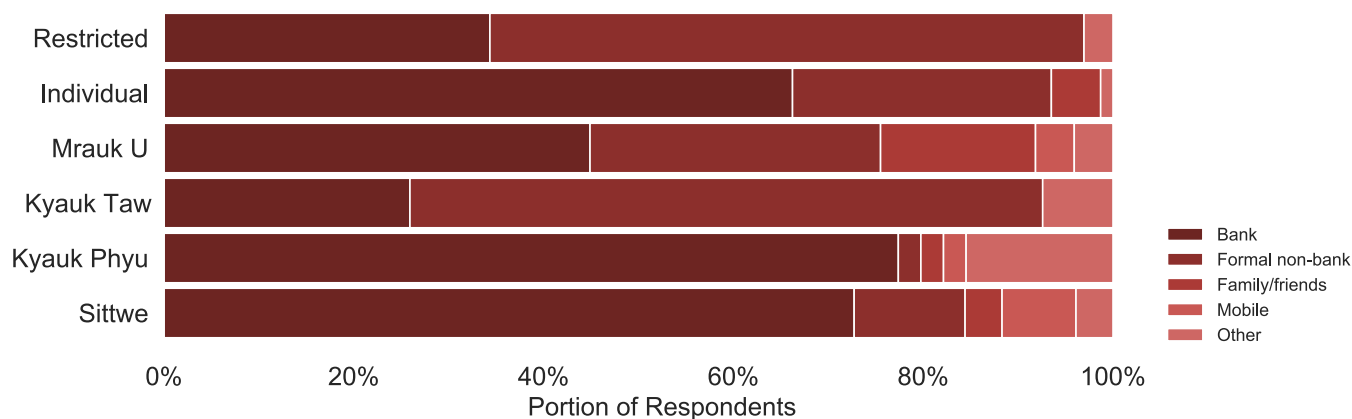
Banks were the most common location of savings, particularly among savers in Sittwe and Kyaukphyu Townships. In Sittwe and Kyaukphyu—where bank branches are more numerous and therefore accessible—73-77% of respondents with savings held it in a bank account, compared to 45% and 26% in Kyauktaw and Mrauk U Townships, respectively. Other formal non-bank institutions were often used in lieu of banks in Kyauktaw Township (67%), but this was less common in Mrauk U (30%) and Sittwe (10%) and very rare in Kyaukphyu (2%). The use of mobile-based savings accounts was relatively uncommon, covering just 8% of respondents in Sittwe and 4% or fewer in the other three townships.<sup>37</sup> Group borrowers in restricted villages in Sittwe—like those in Kyauktaw and Mrauk U—were less reliant on banks (34%, compared to 73% in unrestricted villages), and more reliant on formal non-bank institutions (63%, compared to 12% in unrestricted villages). The sources of savings accounts differed less dramatically between individual and group borrowers in Sittwe. Twenty-seven percent of individual borrowers in Sittwe used formal non-bank savings accounts, compared to just 12% among group borrowers in Sittwe, and none used mobile apps for saving. Banked respondents cited a variety of banks (e.g., KBZ, CB, Ayeyarwaddy Bank, Yoma), while the most commonly referenced mobile apps included WavePay.<sup>38</sup> Some respondents described the

<sup>37</sup> The low frequency of mobile savings accounts may be due to the fact that these are in general quite new in Rakhine State and Myanmar more broadly. That said, frequent internet blackouts in Rakhine State in recent years are also likely to have reduced their rate of adoption.

<sup>38</sup> Based on KIIs with group borrowers.

pros and cons of particular institutions, praising the interest payments and security of banks or the speed, simplicity and accessibility of mobile platforms. (See Chart 3).

**Chart 3. Source of Savings Account**



*\*Data presented as portion of total responses for group.*

Among respondents with savings accounts, the most commonly cited reasons for holding the account included receiving interest on deposits and greater ease of transferring funds. Among those with savings accounts, respondents in all four townships commonly cited interest payments as a key motivator (30-50%), followed by the convenience of transferring funds (20-30%). Group borrowers in unrestricted villages were relatively similar in all four townships with respect to their motive for having an account, with the exception that just 6% in Kyauktaw cited ease of transfer as a reason (compared to 23-36% in the other three townships). Respondents in restricted villages were also unlikely to cite the ease of transfers (3%) compared to respondents in Sittwe’s unrestricted villages (23%). In both cases, this may be because of poorer mobile internet access. Individual and group borrowers differed very little in their motives, although individual borrowers were slightly more likely to cite ease of transfers (34%) compared to group borrowers (23%).<sup>39</sup>

Among respondents who did not have savings accounts, the reasons for this varied somewhat across groups. In Kyauktaw and Mrauk U Townships, 49-61% of respondents cited lack of funds, however this was less frequent among respondents in Kyaukphyu and Sittwe Townships (26-25%). Lack of familiarity with savings accounts was also a common reason reported by 21-35% of respondents in Mrauk U, Sittwe and Kyaukphyu Townships (although it was just 4% in Kyauktaw). Among group borrowers in Sittwe, respondents in restricted villages were more than twice as likely to say it was because of lack of funds (58%), and they less frequently said savings sources were too far away or not well understood). Meanwhile, individual borrowers were half as likely as group borrowers to say this was due to lack of funds (13%, compared to 26% for group borrowers).

<sup>39</sup> Relatively large portions of respondents in each sample (15-30%) selected “other” as their reason for having a savings account, and more than half of respondents in Kyauktaw did so. This cannot be explained by the data, but one possibility is that respondents interpreted compulsory deposits on loans from VFM as equivalent to a savings account and therefore chose this option in effect because they perceived this as required saving.



## 2.4 Remittances

Remittances in the period between March and December 2020—during the first two waves of the COVID-19 pandemic—were relatively uncommon in all townships, and even less common among individual borrowers or borrowers in restricted villages. Fewer than 15% of group borrowers in each of the four townships received remittances between March and December 2020, with slightly lower frequencies in Kyaukphyu and Kyauktaw Townships. Moreover, the portion of respondents in restricted villages who reported receiving remittances in this period was just 8% (below the 13% reported in Sittwe’s unrestricted villages). Individual borrowers were even less likely to have received remittances, with just 6% saying they received remittances between March and December 2020.

The channels for receiving remittances differed notably between groups, with individual borrowers favoring banks, group borrowers in unrestricted villages generally favoring mobile apps, and group borrowers in restricted villages favoring informal channels. In all four townships, mobile applications such as WavePay or KBZPay were the most common source for transferring remittances. Among those who received remittances in this period, roughly 45-55% in each township received them via a mobile money platform. No respondents in Kyauktaw received remittances via banks, however 20-40% of respondents in the other three townships did. Instead, 40% of respondents in Kyauktaw said they relied on informal channels (e.g., hundi), which accounted for fewer than 10% of respondents in the other three locations. Respondents in restricted villages in Sittwe also relied heavily on informal channels (38%), setting them apart from respondents in Sittwe’s unrestricted villages (8%). They also seldom used mobile apps (5%) compared to respondents in unrestricted villages (43%).<sup>40</sup> Some respondents who favored mobile apps said it reduced the time and cost of, involved fewer fees, and had the confidence of neighbors and friends, while others who favored banks cited their reputation for security; some who used both said this was because they used the institution of the party with whom they transacted.<sup>41</sup>

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<sup>40</sup> The portion of individual borrowers in Sittwe who received remittances is probably too small to draw any conclusions, but in general individual borrowers reported relying more heavily on banks relative to group borrowers who relied more heavily on mobile money apps.

<sup>41</sup> Based on KIIs with group borrowers.



# 3. COVID-19: Impacts, Adaptation and Assistance





### 3. COVID-19: Impacts, Adaptation and Assistance

As 2020 drew to a close, fewer businesses in Myanmar were reporting difficulties from COVID-19 than in previous months, yet the effects of the pandemic were still widespread. In October 2020, the World Bank found that 84% of microenterprises (those most comparable to this study) reported negative impacts from COVID-19, with the highest rates in Yangon and among businesses in the service sector.<sup>42</sup> Poor sales was the most common impact on operations voiced by businesses at that time. Ninety-five percent of microenterprises reported reduced sales in October, while other prominent concerns included the supply of inputs (29%) and cash flow shortages (22%). Even before the new challenges that 2021 brought, access to cash may have already been a serious challenge. In October 2020, the Myanmar Business Environment Index (MBIE) found that 64% of businesses faced cash flow problems that threatened the survival of their business.<sup>43</sup> Among microenterprises, 85% expressed some concern about COVID-related government restrictions.<sup>44</sup> In December 2020, the Household Vulnerability Study (HVS) conducted by the Central Statistical Organization (CSO) estimated a 46.5% drop in income for businesses from 2019 to 2020.<sup>45</sup>

In particular, the impact of the COVID-19 pandemic on the financial safety nets of households and business owners—including savings, access borrowing and remittances—was significant. In October 2020, the World Bank found one-quarter of microenterprises were struggling to repay loans or access new credit. In October 2020, the MBEI study also found an increasing number of businesses (54%, at that time) seeking loans and unable to access them.<sup>46</sup> The impact of COVID-19 on remittances was less clear. A July 2020 study from the International Organization for Migration (IOM) found that only 10% of returning migrants received the same amount in remittances as before COVID-19. However, another study in September found few reports of a reduction in remittances among respondents.<sup>47</sup>

The adaptation measures adopted by businesses and households in response to the COVID-19 pandemic took a variety of forms, such as borrowing or reducing labor or operating hours. An International Food Policy Research Institute (IFPRI) study in September 2020 found that common adaptation measures among households included borrowing, reducing non-food spending, and drawing-down on savings (especially among better-off households).<sup>48</sup> In particular, the December 2020 HVS study found that 49.6% of Myanmar households took on new debt since March 2020.<sup>49</sup> Businesses adapted in a variety of ways as well. In October, the World Bank reported that 14% of microenterprises said layoffs were impacting their business, and 17% had experienced at least temporary closures (although this was lower than previous months for businesses in general, outside of the manufacturing sector).<sup>50</sup> The degree to which businesses adapted their fundamental business model was less clear. For example, the MBEI study found no remarkable change in markets or products among respondents, while 5% turned to online sales and 8% adopted mobile payment. On the other hand, the World Bank found that 22% of microenterprises changed products and 24% turned to online sales or payment.

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<sup>42</sup> "The Firm-Level Impact of the COVID-19 Pandemic." World Bank, 2020.

<sup>43</sup> "Myanmar Business Environment Index 2020: Measuring Economic Governance for Private Sector Development." The Asia Foundation, 2020.

<sup>44</sup> "The Firm-Level Impact of the COVID-19 Pandemic." World Bank, 2020.

<sup>45</sup> "Household Vulnerability Survey (HVS)." UNDP et al., 2020, p.15.

<sup>46</sup> "Myanmar Business Environment Index 2020: Measuring Economic Governance for Private Sector Development." The Asia Foundation, 2020.

<sup>47</sup> "Community perceptions of the social and economic impacts of COVID-19 in Myanmar." IFPRI, 2020.

<sup>48</sup> "Poverty, food insecurity, and social protection during COVID-19 in Myanmar." IFPRI, 2020.

<sup>49</sup> "Household Vulnerability Survey." UNDP et al., 2020, p.30.

<sup>50</sup> The MBEI found mixed data on the effects of COVID-19 on employment, depending on the sector and period.

As 2021 began, some businesses and households had already benefitted from the Myanmar government’s response to COVID-19. As of December 2020, an estimated 49.7% of households nationwide had received COVID-19-related cash assistance of 20,000 MMK from the government, and 35.1% had received food assistance.<sup>51</sup> Moreover, 10% of farmers had received a special relief loan (5% interest on 50,000 MMK per acre) and 89.3% had benefitted from reductions in electricity tariffs.

At the start of 2021, the impacts of COVID-19 on borrowers in this study were similar to the above reports, but also more or less severe in particular cases. As elsewhere in Myanmar, weak demand and government restrictions were the most common concerns among respondents. On the other hand, concerns about cash flow were somewhat less common in Rakhine State (except in Kyauktaw Township where this was quite common). Roughly 20-40% of respondents in Mrauk U, Sittwe and Kyaukphyu Townships took on new debt between August and December 2020, compared to 50% of households nationwide between March and October 2020. This study also found fewer reports of households failing to procure new loans than might be expected given nationwide reports of poor access to credit. However, this may be unique to VFM clients, who already have access to credit. As elsewhere in Myanmar, layoffs among microenterprises and business model adaptations (e.g., changing products or markets), however reductions in business hours were common relative to nationwide studies. This study also found reduced remittances for a quarter of recipients in four townships after March 2020—particularly in restricted villages. Finally, as elsewhere in Myanmar this study found more than half of households in Rakhine State received some kind of COVID-related assistance by January 2021, including those in restricted villages.

### 3.1 Livelihood Impacts

**Livelihood Challenges** – Across all four townships, half or more of respondents faced significant livelihood challenges between August and December 2020, most often relating to poor demand, government restrictions on businesses or transportation difficulties.<sup>52</sup> Among borrowers in all groups, 48-67% reported experiencing significant livelihood challenges between August and December 2020. Commonly cited challenges included weak demand, government restrictions related to COVID-19, and transportation difficulties. In Mrauk U, Kyaukphyu and Kyauktaw Township, 53-65% of respondents said they faced weak demand compared to a slightly lower 39% in Sittwe. Individual borrowers were even more likely to face poor demand (64%), but this was surprisingly rare among group borrowers in restricted villages (3%).<sup>53</sup> Government restrictions were universally challenging, affecting 42-55% of group borrowers in each township (although this too was slightly lower in restricted villages at 32%). Transportation challenges affected two-thirds of individual and group borrowers in Sittwe, half of group borrowers in Mrauk U and Kyaukphyu, and one-third of those in Kyauktaw Township. Other challenges—like access to labor, supplies or cash, and dealing with family illness—were generally reported by fewer than 10% of respondents in each township; the one exception to this was poor access to cash, which was reported by 37% of borrowers in Kyauktaw. (See Chart 4).

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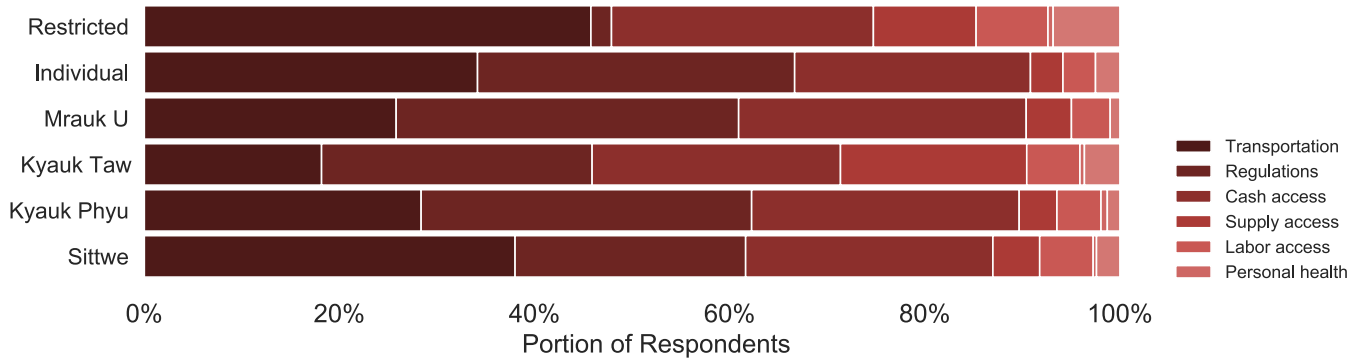
<sup>51</sup> “Household Vulnerability Survey (HVS).” UNDP et al., 2020.

<sup>52</sup> See sector breakdowns in Section 1.

<sup>53</sup> The reasons for this difference are unclear, but it may be that the economies of restricted villages are more insular, or less regionally-integrated, than those of unrestricted villages and therefore more insulated from the effects of the pandemic in Mandalay or Yangon.



Chart 4. Livelihood Challenges (Aug. – Dec. 2020)



*\*Data presented as portion of total responses for group.*

**Changes in Income** – Roughly three-quarters of respondents across groups said they had lower income in 2020 than in 2019, and this was even more frequent among group borrowers in Kyauktaw Township. Among respondents who identified as “business owners”, 86% in Kyauktaw Township said they had less income than a year ago, while this was 71-79% in the other three townships. In Sittwe Township the portion of respondents reporting reduced income was similar between restricted and unrestricted villages (although 8% of respondents in restricted villages also said they had more income than a year ago, compared to just 3% in unrestricted villages). There was little difference between the portion of individual and group borrowers in Sittwe, who said they less income than a year ago. Strictly anecdotally, some respondents described customer traffic in January 2021 as just 30% of pre-pandemic levels, and sales orders just 50% of pre-pandemic levels; others said their income was now reliant on backup wage labor, which paid less than their usual income.<sup>54</sup> Respondents pointed to a variety of reasons beyond the usual business closures, such as the cancellation of festivals, absence of tourists, loss of markets due to school closures, and the inability to build new customer relations amidst pandemic restrictions.

**Source of Challenges** – Respondents across all groups largely blamed COVID-19 for their difficulties although very few outside of Kyauktaw Township pointed to conflict as a major source of challenges. Ninety-seven percent of respondents in Sittwe, Kyaukphyu and Mrauk U Townships attributed their difficulties to COVID-19, while a slightly lower 83% said the same in Kyauktaw. In Sittwe Township, virtually all respondents in both restricted and unrestricted villages attributed challenges to COVID-19, as did individual borrowers. Conflict was often cited as a cause of difficulties in Kyauktaw, but seldom in other townships. Forty percent of borrowers in Kyauktaw attributed their difficulties to conflict, while this was far less common among respondents in Mrauk U (12%), Kyaukphyu (6%) or Sittwe (2%). Virtually no respondents in Sittwe’s restricted villages cited conflict as a major cause of their livelihood-related challenges and just 3% of individual borrowers did so.

### 3.2 Financial Impacts

Half or more of group and individual borrowers in unrestricted villages said they missed a payment between August and December 2020, although the frequency was considerably lower among borrowers in restricted villages. In Sittwe, Kyaukphyu and Mrauk U Townships, 52-62% of respondents with debt said they missed a payment at some point between August and December 2020. In Kyauktaw, just 9% cited they missed a payment, most likely due to

<sup>54</sup> Based on KIIs with group borrowers.

the closure of VFM offices there for much of 2020 and active rescheduling of loans.<sup>55</sup> In Sittwe Township, individual and group borrowers reported virtually identical rates of missed payments. However, respondents in restricted villages in Sittwe were much less likely to have missed a payment between August and December 2020. Just 39% of respondents in restricted villages missed payments between this period, compared to 53% in unrestricted villages.<sup>56</sup>

Between August and December 2020, between one-third and one-half of respondents drew on their savings to cover expenses, with the lowest frequencies among borrowers in Kyauktaw, Mrauk U and Sittwe's restricted villages. In Sittwe, 53% of group borrowers with savings had used it, while this was 46% in Kyaukphyu and around 30% in Kyauktaw and Mrauk U.<sup>57</sup> In Sittwe Township, those with savings were half as likely to report drawing on them in restricted villages (26%) when compared to unrestricted villages (53%).<sup>58</sup> However, the use of savings was just slightly higher among individual borrowers (60%) than among group borrowers (53%) in Sittwe Township.

Across all groups, one-quarter or more of those who received remittances prior to March 2020 ceased to receive them after this time, although some in Sittwe Township also began receiving new remittances. Roughly one-quarter (26-32%) of group borrowers in Sittwe, Kyaukphyu and Mrauk U Townships who received remittances before March 2020 said they stopped after March, and this was true of 40% of respondents in Kyauktaw Township. Among borrowers in restricted villages and individual borrowers this frequency was even higher at 49% and 50%, respectively. On the other hand, a small number of respondents also said they began receiving new remittances from March onward. Among group borrowers receiving remittances as of January 2021, 17% in unrestricted villages and 14% in restricted villages said these began after March 2020. Small portions also began receiving remittances in Mrauk U and Kyaukphyu Townships (3-8%) but none did in Kyauktaw Township or among individual borrowers in Sittwe Township. Some who stopped receiving remittances in this period said it was due to reduced income during the pandemic; others who began receiving remittances said it was because they needed the assistance more than before, or because family did not want them working for health reasons and therefore offered new support.<sup>59</sup>

### 3.3 Adaptation Measures

**All Respondents** – At least two-thirds of respondents in each group adapted to challenges they faced with some new measure, most often by selling a household or business asset to raise needed funds. Ninety-five percent of group borrowers in Sittwe said they adapted to the above challenges in some significant way, compared to 64-72% in the other three townships. Respondents in restricted villages were less likely to have adapted (69%) as were individual borrowers (73%). Across groups, the most common adaptation measure included asset sales (e.g., gold, jewelry or other possessions). In each township, 23-32% of respondents sold assets as a means of addressing their business challenges. Respondents in restricted villages were even more likely to have sold a household or business asset (43%), while individual borrowers were less likely (22%). Other measures were less common, such as

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<sup>55</sup> Operations at the VFM Kyauktaw branch office were limited in early-2020, prior to the pandemic, and remained so until December 2020. Unlike other townships in this study, during this period there was no physical branch office to serve clients.

<sup>56</sup> It is also possible that loan reschedule is perceived as a missed-payment or default.

<sup>57</sup> Importantly, this question excluded those who did not have savings at the time of the study. In other words, it does not account for respondents who may have depleted their savings entirely during the course of the pandemic.

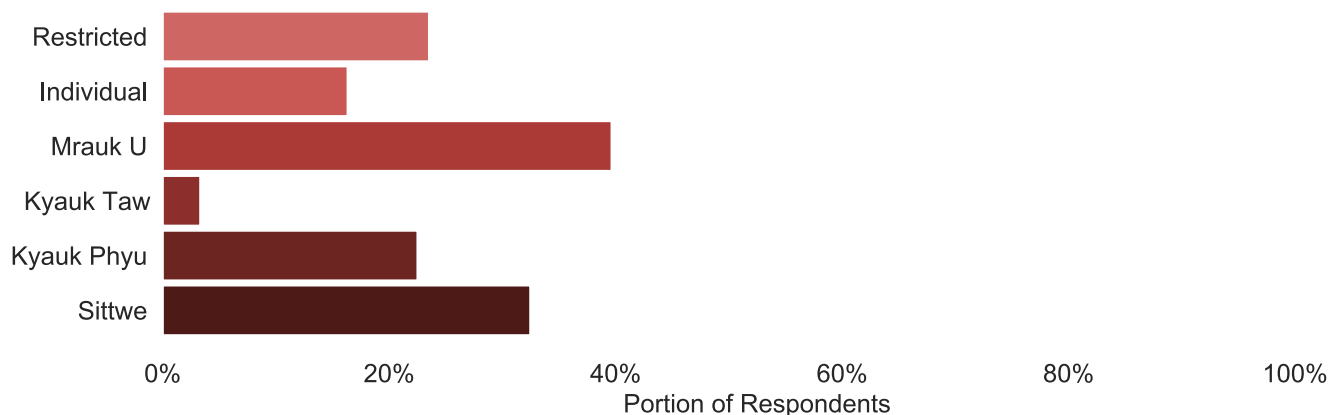
<sup>58</sup> Reasons for the difference in reliance on savings between restricted and unrestricted villages is unclear from the study. For example, it may be that respondents in restricted villages were less exposed to the financial effects of CovidCOVID-19 than those in unrestricted villages because their economies are more insular. On the other hand, it is also possible that respondents in restricted villages simply had more difficulty accessing their savings.

<sup>59</sup> Based on KIIs with group borrowers.

discounting goods or services (fewer than 10% in each group) or skipping interest payments (fewer than 10%, although higher in Sittwe).

A minority of individual and group borrowers sought new debt between August and December 2020—although seldom from sources other than VisionFund—and most were successful. Fewer than half of group borrowers (23-40%) in Mrauk U, Sittwe and Kyaukphyu Townships sought new loans between August and December 2020, and this was particularly rare among those in Kyauktaw (3%) where VFM operations were limited for much of 2020 and new lending was halted in December 2020 (see Box 2). Similar frequencies were reported by individual borrowers (16%) and group borrowers in restricted villages (24%). Overall, fewer than 10% of those who sought new debt during this period said they looked to sources other than VisionFund, although individual borrowers more often did so. Among those who sought new debt, group borrowers in Sittwe had the lowest rate of success (62%), while 81-94% of individual and group borrowers elsewhere—including those in restricted villages—received the loans they applied for. (See Chart 5).

**Chart 5. Households Seeking Debt (Aug. – Dec. 2020)**



Among those who received new loans from VFM between August and December 2020, larger sums were disbursed to borrowers in Sittwe Township than elsewhere, and loans were disbursed increasingly in the waning months of 2020. The median size for new loans to group borrowers in Mrauk U and Kyauktaw Townships was 500,000 MMK; while it was larger in Kyaukphyu (600,000 MMK) and Sittwe (700,000 MMK). In Sittwe Township, group borrowers in both restricted and unrestricted villages had the same median size for new loans, although individual borrowers reported a median of 1,000,000 MMK.<sup>60</sup> Nearly 40% of those who received new loans in this period received their most recent loans in August, after which the rate dropped off during September-November and then grew again in December 2020.

**Business Owners** – Relatively few business owners who faced significant challenges altered key aspects of their business model, such as their primary products, markets or sales channels. Some business owners who faced significant challenges from COVID-19 adapted their business core models in some way. For example, some respondents added new product types in their shop, began delivering to out-of-state locations, or selected new

<sup>60</sup> On the one hand, larger loans in Sittwe may be due to VFM’s longer establishment there, which allows borrowers with good track records to borrow larger amounts. On the other hand, not all loans received by respondents were from VFM (and therefore not subject to the VFM’s cap on loan size).

market or sales locations.<sup>61</sup> The frequency of these measures varied slightly by group, and they were particularly uncommon among group borrowers. Among individual clients, 21% of business owners who faced challenges changed markets, compared to 13% of group borrowers in restricted villages and 5-9% of group borrowers in unrestricted villages. Individual and group borrowers in Sittwe's unrestricted villages were most likely to change their sales channels (10% and 11%, respectively), while this was just 1-3% of all other groups. By contrast, individual borrowers in Sittwe were least likely to change products (2%), while group borrowers were only slightly more likely to do so (4-8%).

Reductions in business hours were common in all locations and particularly in Sittwe and Kyauktaw Townships, however few respondents reported reducing their labor force. Respondents in Kyauktaw and Sittwe were most likely to have reduced business hours at some point (84% and 68%, respectively) while roughly half did so in Mrauk U and Kyauk Phyu Townships. There was little difference between respondents in restricted and unrestricted villages with respect to reductions in business hours, however individual borrowers more often did so (83%). Changes in workforce were very rare among group borrowers, likely because the respondents had few employees to begin with. In each of the four locations, 84-95% of respondents said their employee count was the same as a year prior, and just 5-12% of respondents in each township reduced employees (only 1% increased their workforce). In Sittwe, there was little difference between restricted and unrestricted villages in this respect, however individual borrowers reduced their workforce far more often. Thirty-eight percent of individual borrowers reported fewer employees than a year ago, compared to just 7% for group borrowers. This difference is likely due to the fact that individual borrowers generally had more employees to begin with. No group saw noteworthy increases in labor force size.

### Box 6. Adaptation Through Online Sales

Among business owners in the study, very few relied on online sales or marketing, nor did this increase noticeably during the course of the COVID-19 pandemic. As of January 2021, just 17 respondents who identified as the business owner (2%) marketed their products online. These respondents were split between Kyaukphyu and Sittwe Townships. Moreover, nearly all of them already did so prior to March 2020. That said, 18% of respondents across all groups said they were considering online marketing (80% said they were not). Among the great majority who were not considering online marketing, some said it was not suitable for their products (e.g., grocery sales, transportation services, farming, mechanical repair), they lacked access to the necessary logistical or delivery services to sell online, their sales relied on the strength of their personal networks, or they simply found the technology too unfamiliar.<sup>62</sup>

## 3.4 Assistance to Households and Businesses

Among all respondents, debt relief in the form of reduced-interest was common and it was most frequent among individual borrowers and borrowers in restricted villages in Sittwe.<sup>63</sup> All VFM borrowers saw a pause on payments during part of 2020 as mandated by MOPF (see Box 1 in Section 1), however some borrowers also saw interest reductions—particularly in Sittwe Township. Ninety-nine percent of respondents in restricted villages said their

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<sup>61</sup> Based on KIIs with group borrowers.

<sup>62</sup> Based on KIIs with group borrowers.

<sup>63</sup> It should be noted that for VFM clients, debt relief and loan rescheduling may be negotiated at either the individual- or group-level.



interest payments were reduced between August and December 2020, and 96% of individual borrowers experienced the same. Between 37-43% of group borrowers in Kyaukphyu, Kyauktaw and Mrauk U Townships received a break on their interest, while this was 56% in Sittwe Township. By contrast, debt forgiveness was virtually nonexistent across all groups. Just 7% of group borrowers in Sittwe Township said their principal was forgiven between August and December, and fewer than 1% of respondents in other groups said this.

Between one-half and two-thirds of respondents in most groups reported receiving some kind of new household assistance between August and December—such as cash or food assistance—although this was less common among group borrowers in Kyauktaw and individual borrowers in Sittwe. Thirty-nine percent of group borrowers in Kyauktaw Township said their household received new assistance, compared to 56-64% of respondents in the other three townships. Individual borrowers in Sittwe were also far less likely to have received new household assistance at just 22%. Meanwhile, similar portions of respondents in unrestricted and restricted villages reported receiving new assistance (57% and 53%, respectively). More than 80% of respondents in each group said they received this assistance from government, and there was little difference between unrestricted and restricted villages (87% and 86%, respectively). Assistance from NGOs also reached 7-15% of group borrowers in unrestricted villages in each township (it was 5% among individual borrowers).<sup>64</sup> However, respondents in Sittwe's restricted villages were far more likely to have received aid from NGOs (48%) compared to those in unrestricted villages (13%).

Among respondents who identified as the owner of their business, 19-41% in each group said they received COVID-related business assistance between August and December 2020, most often in the form of debt relief or personal protective equipment (PPE). Between 35-41% of owners in Sittwe, Kyaukphyu and Mrauk U Townships received business assistance, while this was lower in Kyauktaw Township at just 19%. The frequency of such assistance was similar between owners in restricted and unrestricted villages in Sittwe (39% and 38%, respectively), and only slightly lower among individual borrowers (27%). Debt relief was typically the most common form of business assistance received, although in Sittwe's unrestricted villages the portion who received PPE outpaced those who received debt relief. For example, PPE was a common form of assistance for both individual and group borrowers in Sittwe Township (17% and 21% of all owners, respectively) as well as in restricted villages (10%); however fewer than 2% of business owners in townships outside of Sittwe said they received PPE. The frequency of debt relief to business owners varied widely for restricted villages (21%), owners who borrowed individually (7%) and group borrowers across the four townships (9-32%). Other forms of assistance to business—such as tax breaks, provision of goods, or rent relief—were all exceedingly rare.

When asked about the kind of assistance that business owners wanted most, different groups expressed slightly differing views. Business owners across all three groups in Sittwe Township favored PPE provisions (29-43%), but this was less popular in other townships (9-21%). Relief from government fees or taxes was desirable in Sittwe and Kyauktaw (22-26%) but less so in Kyaukphyu and Mrauk U (3-5%). Only in Kyauktaw Township did business owners favor assistance in the form of goods (21%)—possibly due to poorer availability of goods at market—and this was rare elsewhere (2-5%). New lending was the most common form of assistance desired by owners participating in group-lending, particularly in Mrauk U and Kyaukphyu Townships (77-81%) but also in Kyauktaw (66%) and Sittwe (51%).<sup>65</sup> Almost no business owners expressed interest in rent relief. Business owners in restricted villages in

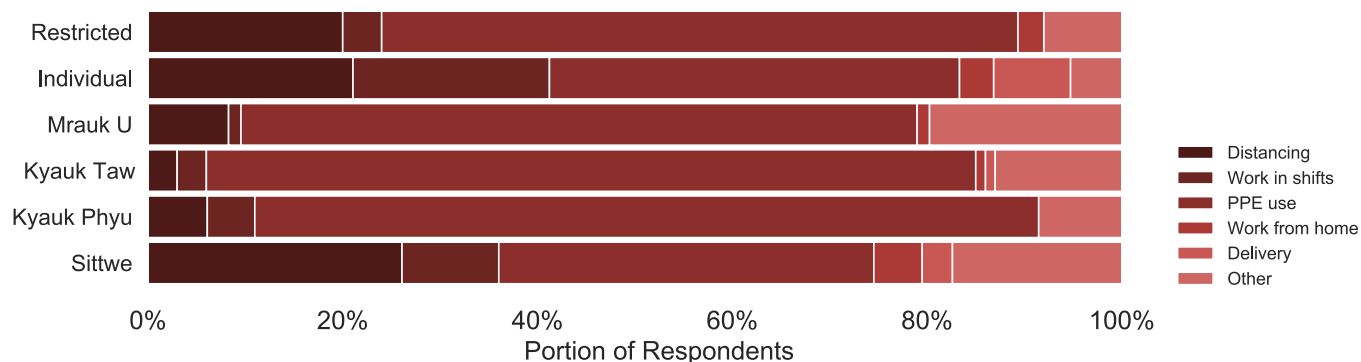
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<sup>64</sup> Respondents may have attributed debt relief to the government due to the government-mandated pause in collection which was highly publicized at the time (see Section 1).

<sup>65</sup> The emphasis by respondents on a desire for additional lending could well be influenced by the knowledge that the study was implemented by an active MFI.

Sittwe—like those among the group and individual borrowers in Sittwe’s unrestricted villages—emphasized new lending, PPE and to a lesser extent, relief from government fees.

**Chart 6. New Biosecurity Measures (Aug. – Dec. 2020)**



*\*Data presented as portion of total respondents for group.*

**Box 7. Adoption of New Biosecurity Measures**

Many Myanmar businesses responded to the COVID-19 pandemic in 2020 by adopting new biosecurity measures for employees and customers. In October, the World Bank found that 92% of microenterprises—which are most comparable to those in this study—required hand sanitizer for employees and 91% required masks, while 69% employed social distancing, 58% actively disinfected of surfaces and 35% reduced work hours or rotated shifts for workers.<sup>66</sup> Other measures such as implementing work-from-home policies were far less common among microenterprises at just 3%.

Individual borrowers in Sittwe were by far most likely to adopt biosecurity measures, while group borrowers in Kyauktaw and restricted villages in Sittwe were least likely to do so. Kyauktaw saw the smallest portion of business owners adopting new biosecurity measures between August and December 2020 (38%), although 55–59% of owners in the other three townships did so. In Sittwe Township, individual borrowers were among the most likely to do so (84%) while respondents in restricted villages were among the least likely (31%).

Among all groups, the new biosecurity measures adopted by respondents largely consisted of personal protective equipment (PPE) use, although individual and group borrowers adopted a broader set of responses. Among those who did so, the use of PPE was by far the most common measure. PPE was widely adopted in Kyauktaw and Kyaukphyu (93–95%) and to a lesser extent Mrauk U (78%) and Sittwe (65%). Two-thirds of individual borrowers and respondents in restricted villages did so. Respondents in Sittwe Township adopted the widest variety of measures, including social distancing in the workplace (37%), working-in-shifts (19%), work-from-home (10%), and delivery rather than in-person sales (11%), however these were all adopted by fewer than 10% of respondents in other townships. Besides PPE, such measures were relatively uncommon in restricted villages. Moreover, other measures, such as health safety trainings or use of screens, were rare in all locations. (See Chart 6).

<sup>66</sup> “The Firm-Level Impact of the COVID-19 Pandemic.” World Bank, 2020.

# 4. Future Outlook

A sunset over a body of water. The sky is a mix of orange, yellow, and light blue. A palm tree silhouette is on the right. In the foreground, there is a dark silhouette of a building or structure on the water's edge. The water reflects the colors of the sky.

## 4. Future Outlook

As 2020 drew to a close, business sentiment and outlook remained relatively pessimistic in the face of challenges presented by the COVID-19 pandemic. According to the October 2020 study from the World Bank, microenterprises expected an average sales decline of 25% in the fourth quarter of the year.<sup>67</sup> Moreover, 35% expected to fall into arrears on their loans within the next three months, and this was particularly true of firms in the agricultural sector. Forty-one percent of firms in general expected not to recover from COVID-19. With respect to the expected timeline for business recovery, the October MBEI study found that 40% of firms believed they would need between three and six months to return to normal operations, while 30% thought they would require even longer than this.<sup>68</sup>

Much like businesses and households in Myanmar generally, this study found that in January 2021, many borrowers in Rakhine State expected medium-to-long-term recovery from the impacts of COVID-19, with few expecting a rapid recovery. Many borrowers felt they would need months or more to pay off their debt, and those in Kyauktaw and Kyaukphyu Townships appeared even more pessimistic about their long-run debt management than borrowers in Myanmar generally. On the other hand, respondents in Sittwe—in both restricted and unrestricted villages—appeared somewhat more optimistic. Ultimately, while 2021 began on perhaps a higher note than much of 2020, a majority of borrowers (particularly in Sittwe) still remained quite concerned about the future impact of COVID-19 on their livelihoods.

### 4.1 COVID-19 and Conflict

As of January 2021, more than two-thirds of respondents remained concerned about COVID-19, particularly among individual borrowers and group borrowers in Sittwe and Kyaukphyu. In Kyaukphyu and Sittwe Township 79–81% of respondents were either somewhat or very worried about COVID-19, while 60–65% of respondents in Mrauk U and Kyauktaw Township said the same. Individual borrowers in Sittwe Township were similar to group borrowers, except fewer individual borrowers were very concerned (5%) compared to group borrowers (13%). Slightly fewer borrowers in restricted villages were somewhat or very concerned (71%) compared to unrestricted villages (79%).

Concerns related to conflict varied more greatly between groups, with Mrauk U and particularly Kyauktaw showing the greatest concern. In Mrauk U and Kyauktaw Townships, 60–72% of respondents were somewhat or very concerned about conflict, while this was much lower in Sittwe (44%) and Kyaukphyu (29%). There was little daylight between the views of respondents in restricted and unrestricted villages, nor between individual and group borrowers in Sittwe. Respondents in Kyauktaw stood out the most, with 39% reporting they were very concerned, compared to 2–12% among other groups.

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<sup>67</sup> “The Firm-Level Impact of the COVID-19 Pandemic.” World Bank, 2020.

<sup>68</sup> “Myanmar Business Environment Index 2020: Measuring Economic Governance for Private Sector Development.” The Asia Foundation, 2020.



## 4.2 Emergency Expenses

In January 2021, many households still felt poorly prepared for emergency expenses, particularly in Kyauktaw Township. Sixty-seven percent of respondents in Kyauktaw said they could not cover an emergency expense in the next two weeks, compared to 31-40% in the other three townships. Respondents in restricted villages were slightly more likely to say they could do so (7%) compared to unrestricted villages (3%), but otherwise there was little difference between the two. Individual borrowers were more optimistic, with just 21% saying they could not and 19% saying they certainly could. Some of those who felt they would be unable to cover an unexpected emergency expense, said that the COVID-19 pandemic had already stressed their income such that additional losses might prove unsustainable.<sup>69</sup>

The expected means for dealing with new unexpected expenses varied considerably between groups, with Sittwe respondents in particular relying more on savings and less on other means. Group borrowers were fairly likely to sell an asset (27-40%), but this was less true of individual borrowers (10%). Instead, individual borrowers in Sittwe were more likely to dip into savings (65%) than group borrowers in Sittwe's unrestricted villages (49%) and fare more likely than all other groups (25-34%). Picking up additional work was the next most common solution among groups, although it was lowest among group borrowers in Sittwe (9%, compared to 16-28% among other groups). Moreover, borrowers outside of Sittwe were most likely to reduce expenses (6-12%, compared to 1-3% among groups in Sittwe). Twelve percent of respondents in restricted villages said they would pursue more debt, while this was fewer than 10% of respondents for all other groups.

As of January 2021, reports of cash access difficulties were by some measures fairly moderate, with one-half to two-thirds of respondents in locations outside Kyauktaw Township able to sustain their livelihood for more than two months longer. Three-quarters of group borrowers in Mrauk U and Kyaukphyu Townships said they could continue their livelihood activities for more than two months with their access to cash at that time, while this was true of 50% in Sittwe and just 25% in Kyauktaw Township. Half of group borrowers in restricted villages also said this, as well as 63% of individual borrowers. Fewer than 20% of respondents in Sittwe, Kyaukphyu and Mrauk U townships said their cash access would be sufficient for less than a month, however this was much higher in Kyauktaw Township (42%). In Sittwe Township, group borrowers in restricted villages were only slightly more likely to face a short-term cash pinch (24%) compared to those in unrestricted villages (19%).

## 4.3 Debt Management

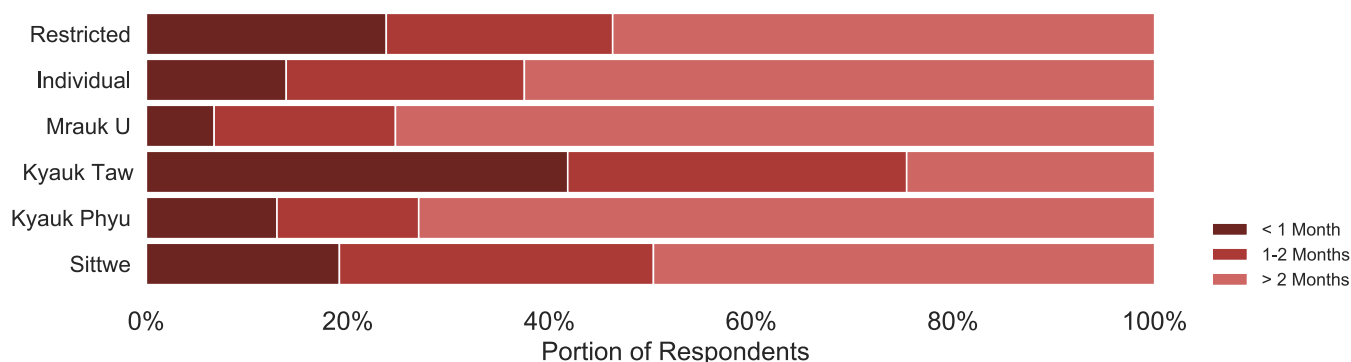
Respondents in all groups felt they would need six months or more to pay off their debt, and those in Kyauktaw and Kyaukphyu were most pessimistic about eventually defaulting on their debt. In Sittwe, Kyaukphyu and Kyauktaw Township, 47-56% of respondents felt they could pay off their debt within six months, although this was just 40% in Mrauk U Township. Slightly fewer respondents in restricted villages said this (36%) compared to unrestricted villages (47%), while individual borrowers were far more likely (62%). Kyaukphyu respondents were most likely to feel they would need more than a year (16%, compared to 1-8% elsewhere). Expectations about default varied greatly across groups. Expectations to default within the next year were highest in Kyauktaw (49%) and Kyaukphyu (40%), while they were lower in Sittwe (20%) and particularly Mrauk U (6%). Individual borrowers and borrowers in restricted villages were similarly optimistic about defaulting in the future (6% and 10%, respectively). Among

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<sup>69</sup> Based on KIIs with group borrowers.

respondents who were confident they could eventually pay off debt, some said their goods were essential and therefore robust to shocks (e.g., food products, clothing), they could further reduce household expenses if needed, they had multiple household earners who could bear the financial burden, or could rely upon assistance from family members if necessary.<sup>70</sup> Among respondents skeptical about paying off their debt, some said they felt their businesses to be particularly vulnerable to shocks (e.g., transportation services, tea shops). (See Chart 7).

**Chart 7. Expected Debt Repayment Period**



Worries about default largely centered around loss of dignity, although some respondents also pointed to loss of property or involvement from the police. In all four townships, 61-86% of respondents said loss of dignity was a concern for them. Individual borrowers had few other concerns than this, although other groups pointed to several possible consequences. Loss of property was often mentioned—possibly due to the reliance on selling or pawning assets—while respondents in restricted villages stood out for their worries about the possibility of police involvement (15%). Violence against them or their families was seldom a concern reported by respondents.

<sup>70</sup> Based on KIIs with group borrowers.



# 5. Conclusion



## 5. Conclusion

The findings of this study are primarily intended to be descriptive of respondents’ perspectives, yet they may also provide some direction for humanitarian and development organizations seeking to alleviate the effects of COVID-19 and other emerging crises on borrowers in Rakhine State. To be fair, further advancing the gains in financial and economic security observed in Myanmar in recent years seems more improbable than it did even in mid-2020, and even more so than it did prior to the first wave of COVID-19. All the same, these mounting challenges make efforts to protect past gains even more pressing, and they make a fuller understanding of the effects of those challenges even more necessary. Of course, strategies for ensuring the financial security of business and households in Rakhine State must be continually adapted as events rapidly unfold. Insofar as conditions for businesses and households in Myanmar have likely worsened since January 2021, the measures outlined here represent only a single input for reinforcing financial security in Rakhine State.

**Table 2. Debt Relief**

Findings	Implications
Assistance related to COVID-19 may have had less reach in Rakhine State townships beyond Sittwe, such as Kyauktaw and Mrauk U, leaving households in businesses here in even greater need.	<b>Immediate Debt Relief</b> – Immediate debt relief and humanitarian assistance may be especially needed for businesses and households in more rural locations.
More than half of borrowers in unrestricted villages in Sittwe, Mrauk U, Kyaukphyu and Kyauktaw Townships missed at least one debt payment between August and December 2020, and many expressed pessimism about eventually paying off their debt.	<b>Sustained Debt Relief</b> – Many businesses and households likely require further debt relief in 2021, as political and economic instability has likely further aggravated existing challenges. For example, debt relief in the form of a pause on interest payments (already in place in some cases) or even targeted debt forgiveness for some borrowers could help alleviate lingering debt burdens.

**Table 3. Targeted Support for Businesses**

Findings	Implications
Businesses in unrestricted villages—and particularly those which took individual loans—more often reported reduced demand due to the COVID-19 pandemic.	<b>Rapid Response to Crises</b> – Businesses which are more integrated into the broader Myanmar economic may be most affected by economic events outside of Rakhine State. In the wake of immediate crises, there may be some economic benefit to providing rapid assistance to businesses in the more accessible urban centers of Rakhine State.



Few business owners adapted their products, markets and sales channels to cope with the pandemic, particularly among group borrowers in Mrauk U, Kyauktaw and Kyaukphyu Townships as well as those in Sittwe’s unrestricted villages.

**Support for Business Adaptation** – While some businesses may not need to adapt their business model, others may simply lack the experience or resources to do so. Businesses may benefit from trainings or expertise that allows them to adapt products, markets, and sales channels to difficult economic conditions that have become the new normal.

**Table 4. Long-Term Approaches**

Findings	Implications
<p>Most respondents who received remittances before March 2020 continued to receive them afterwards.</p>	<p><b>Maintenance of Financial Channels</b> – To the extent that remittances remain available, maintenance of formal and informal transfer channels may help communities retain sources of financial support. This may be particularly useful in Rakhine State, where a larger portion of remittances originate from overseas.</p>
<p>Businesses in some areas of Rakhine State (e.g., Kyauktaw Township) continue to struggle with checkpoints, road closures and other conflict-related limits that complicate economic recovery from the pandemic.</p>	<p><b>Assistance to Conflict-Affect Areas</b> – Assistance to households and businesses in conflict-affected areas remains critical and must continue to employ conflict-sensitive approaches that take into account challenges unique to these locations.</p>
<p>The events of 2020 and 2021 have set households back in their efforts to establish a modest financial cushion in the form of household savings, further reducing their ability to cope with repeated shocks.</p>	<p><b>Financial Planning Strategies</b> – New strategies are needed for ensuring households are financially resilient to existing or emerging crises. Compounding crises have depleted household savings, and ongoing cash shortages and problems in the banking sector have undermined savings-based strategies for managing such shocks. Expanding financial inclusion will be more difficult than ever, and new strategies will likely need to involve village savings and loan associations and a greater role for MFIs and other formal non-bank institutions.</p>

