Microfinance in Myanmar

The Impacts of Conflict on Livelihoods and Debt Repayment

2023

MARKET ANALYSIS UNIT

EXECUTIVE SUMMARY

Myanmar's current political and economic environment presents major challenges for local businesses, particularly those in need of lending. Reduced GDP growth, rising inflation, and currency fluctuations have made operating a business more difficult throughout the country. Microenterprises and households that have been traditionally under-served by conventional financial institutions will today face even greater difficulty accessing the resources they need to survive or grow. At the same time, ongoing armed conflict and the lingering economic effects of the COVID-19 pandemic have made it harder for microfinance institutions to serve businesses and households. Throughout Myanmar, these complex and interlinked factors continue to impact borrowers and their businesses in different ways.

This study aimed to better understand the experiences and challenges of borrowers and their businesses or livelihood activity by surveying 2372 Vision Fund Myanmar clients about their borrowing activity, business performance, and outlook. The study included separate analyses of farmers and non-farmers as well as borrowers in areas with varying degrees of conflict-exposure.

Key findings of the study include the following:

- **One-third of MFI clients had borrowed from multiple sources.** Farmers were more likely than non-farmers to have debt from multiple sources. Forty-three percent of farmers took on multiple loans compared to 29% of non-farmers.

- **Non-farmers were more likely than farmers to take on informal debt.** Among MFI clients with multiple loans, 62% percent of non-farmers borrowed from informal lenders compared to just 40% of farmers.

- **Informal borrowing was more common in high-conflict townships than elsewhere.** Among borrowers who took on additional debt, 62% of borrowers in high-conflict townships looked to informal lenders, compared to just 50% of borrowers in other townships.

- **Borrowers with informal debt were three-times as likely as others to fall behind on debt payments.** Although only 16% of borrowers had informal debt, these borrowers were much more likely to fall behind on payments.

- **Borrowers in areas with more conflict-exposure were 80% more likely to fall behind on interest payments.** Twenty-four percent of borrowers in high-conflict townships had past-due principle compared to 16% of borrowers elsewhere.

- **Borrowers in areas with more conflict-exposure were less likely to have savings.** Borrowers in high-conflict townships were less likely to use mobile apps to hold savings.

- **Eighty-percent of businesses said their business was profitable, but profits were slim.** Among businesses that were profitable, 92% said profits were "small" and just 8% said profits were "large." Non-farmers reported thinner profit margins than farmers.

- **Many businesses still hoped to expand, and few expected to have to close their business in the near future.** Just 2% of borrowers planned to discontinue or reduce the size of their business in the next two years; by contrast, half of all businesses hoped to expand their business.

- **Borrowers in areas with more conflict-exposure were 40% less likely to expand their business.** Just 31% of borrowers in high-conflict townships said they planned to expand their business in the next two years, compared to 51% of borrowers elsewhere.

- **Three-quarters of borrowers said supply and demand were major challenges for their business.** Challenges related to supply and demand were more than twice as common as challenges related to cash, credit, labor recruitment, transportation, or security.

- **Farmers and non-farmers adapted differently to the challenges they faced.** Farmers more often adapted to challenges by reducing input costs, while non-farmers more often adapted by reducing the price of their goods or services.

- **Challenges related to security and transportation were far more common in areas with more conflict-exposure.** In high-conflict townships 39-47% of borrowers with business challenges said this included security and transportation problems, compared to just 10-14% of borrowers elsewhere.

The above findings point to several possible recommendations for lenders, development partners, and humanitarian organizations:

- **Borrowers in areas with more conflict-exposure likely require additional support and services.** More borrowers in areas with high conflict-exposure struggle with debt repayment and business operations. Although these businesses may be harder-to-reach, their needs are often greater. Borrowers in these areas may require more resources to achieve similar outcomes to those elsewhere.

- **Borrowers in areas with more conflict-exposure require lending and savings solutions tailored to their unique circumstances.** Conflict-affected businesses face different challenges and exhibit different business and financial behavior, suggesting the need for uniquely-tailored solutions. A one-size-fits-all approach to lending and/or aid may not have the same impact on borrowers in different areas.

- **Alternatives to mobile-based financial solutions may be necesary.** Fewer businesses in areas with more conflict-exposure used mobile platforms for saving. Although the reasons for this were unclear, it may suggest the need for a variety of savings solutions in order to service businesses and households in different settings.

- **Non-farmers and borrowers in areas with more conflict-exposure may need more avenues to access formal lending.** The prevalence of informal borrowing in high-conflict areas and among non-farmers suggests that barriers to formal lending for these groups may need special attention.

- **Loans intended specifically for business growth may be effective if well-targeted.** While businesses in the most conflict-affected areas may be unlikely to plan for expansion, many other businesses with conflict-exposure may nonetheless seek to grow and therefore benefit from such loans.

- **In-kind support to farmers in the form of agricultural inputs may help them address the financial challenges they face.** Farmers reported adapting to challenges by reducing inputs, which hurts yields in the long-run. Lending to these businesses may be most effective if paired with additional aid which targets such adaptation measures.

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Acronyms

ACLED:	Armed Conflict Location & Event Data Project
CDC:	City Development Council
DAO:	Development Affairs Organization
DICA:	Directorate of Investment and Company Administration
IFPRI:	International Food Policy Research Institute
MCIX:	Microfinance Credit Information Exchange
MFI:	Microfinance Institution
MOI:	Ministry of Industry
SME:	Small and Medium Enterprise
VFM:	VisionFund Myanmar

INTRODUCTION

Recent political and economic events in Myanmar have presented a number of significant challenges for the country's economic development. Since 2020, the global pandemic and Myanmar's evolving security environment have dramatically curtailed the country's previous economic growth. The country's GDP growth stood at just 3% in 2022, down from 6.8% in 2019. To the extent that the Myanmar economy had begun to rebound from the pandemic in 2022, in early-2023 this limited recovery remained inconsistent across Myanmar's industrial, agricultural, and services sector. Myanmar's unstable political and economic environment had continued to present new challenges. In the second half of 2022, the Myanmar kyat lost one-quarter of its value. Combined with rising fuel prices, this depreciation helped push inflation to new highs by the end of the year. Inflation reached 16.5%, up dramatically from 4-8% during 2018-2021. Although the World Bank projected inflation to return to 7% in 2023, as of January 2023 it had forecasted little improvement in GDP for the year ahead.[1]

Protracted economic difficulties have had dire consequences for Myanmar's businesses and households. Businesses across various sectors have had to contend with reduced security, rising input costs, poor sales, and a barrage of other challenges. According to the World Bank, business operations had begun to improve for many firms in late-2022, yet these challenges remained widespread in early-2023.[2] Poor sales, exchange rate volatility, power outages, and exposure to armed conflict remained common operational challenges for businesses in Myanmar, and just 68% of firms were confident they could stay in business for another month. These business- and livelihood-related challenges had serious consequences for households in Myanmar. In December 2022, the International Food Policy Research Institute (IFPRI) found that 46.5% of households reported lower income compared to one year earlier, and two-thirds were income-poor.[3] More than half of all households owed money to a lender in December 2022, and one-in-seven who held debt said it would be very difficult to pay back their loan. Meanwhile, more than half of all households surveyed coped with the challenges they faced by spending down savings or reducing food or non-food expenditures.

Increased hardship for businesses and households has had a dramatic impact on Myanmar's microfinance sector and the underserved populations which it aims to help. As access to formal financial services remained difficult for businesses and households, Myanmar's microfinance sector faced major challenges itself. According to data from the Myanmar Credit Info Exchange (MCIX), the rate of nonperforming loans among MFIs in Myanmar grew from >1% in 2019 to 28% in mid-2022.[4] Increased nonperformance and loan restructuring had reduced profitability in the sector and created liquidity challenges for MFIs, and this in turn hindered their ability to offer new loans to clients. Of course, these challenges in the industry belied underlying challenges for clients and their households, many of whom no longer enjoyed access to financial products. Between 2020 and 2022 the microfinance sector saw an 8% decline in total clients, compared to 15-20% annual growth prior to 2020. In other words, as more and more households struggled to make ends meet, fewer and fewer had access to inclusive financial services that target Myanmar's neediest households.

This study aimed to better understand the experiences of microfinance clients and their businesses or livelihoods at the start of 2023. As the microfinance sector works to recover from recent economic developments and prepare for future political and economic uncertainty, its ability to sustainably serve vulnerable populations in Myanmar will in turn depend upon the ability of clients to overcome the financial and livelihood challenges they face. New digital technologies may help increase value for microfinance lenders and clients—either through digital literacy tools or AI-driven credit scoring and loan-assessment—but doing so will be contingent upon adapting such tools to the specific challenges and circumstances clients face. To that end, this study explores the livelihood- and lending-profile of MFI clients to better understand the factors that impact loan repayment, business profitability, and growth.

The study is structured in four sections. Section One provides context by summarizing the basic business and household characteristics of borrowers in the study. Section Two analyzes these borrowers' basic credit and savings behavior. Section Three looks at business performance and challenges. Section Four provides a brief exploratory analysis of relationships in the data as clues toward further analysis.

Box 1. About Vision Fund Myanmar

"VisionFund Myanmar is an owner-operated mission-driven microfinance network working with caregivers in hard to reach, impoverished locations so they can create secure futures for their children. We are dedicated to working with the most vulnerable families and communities regardless of religion, race, ethnicity gender, to create lasting change in their lives.

VisionFund serves low-income clients living in vulnerable and rural communities by offering financial and livelihood solutions, delivered through our Network, World Vision and partners; empowering families to create income and jobs; and unlocking economic potential for communities to thrive. The products and services offered fall into five broad categories: microloans, savings programmes, microinsurance, training and education. Benefits include sustainable livelihoods, increased economic well-being, improved community well-being, decreased dependence on outside aid and restoration of hope and dignity." – *Vision Fund Myanmar*

Methodology

This study was based on a structured phone survey and semi-structured key informant interviews (KIIs). The phone survey involved a probability sample of 2372 Vision Fund Myanmar clients active as of the last quarter of 2022 (see **Box 1**). The total sample was stratified to provide separate estimates for both farmers and non-farmers as well as clients in townships with low-, medium- and high-levels of exposure to armed conflict (relative to all townships included in the study). The survey was conducted at the end of 2022 with all responses gather by January 1, 2023. The survey response rate was 27%. Supplemental KIIs were conducted following the survey in January-February 2023. The study also benefited from data the Microfinance Credit Information Exchange (MCIX), which compiles information on more than three million borrowers from 52 MFIs operating in Myanmar.

The analysis provides estimates for the study population as a whole as well as several subgroups within the population. Separate statistics are provided

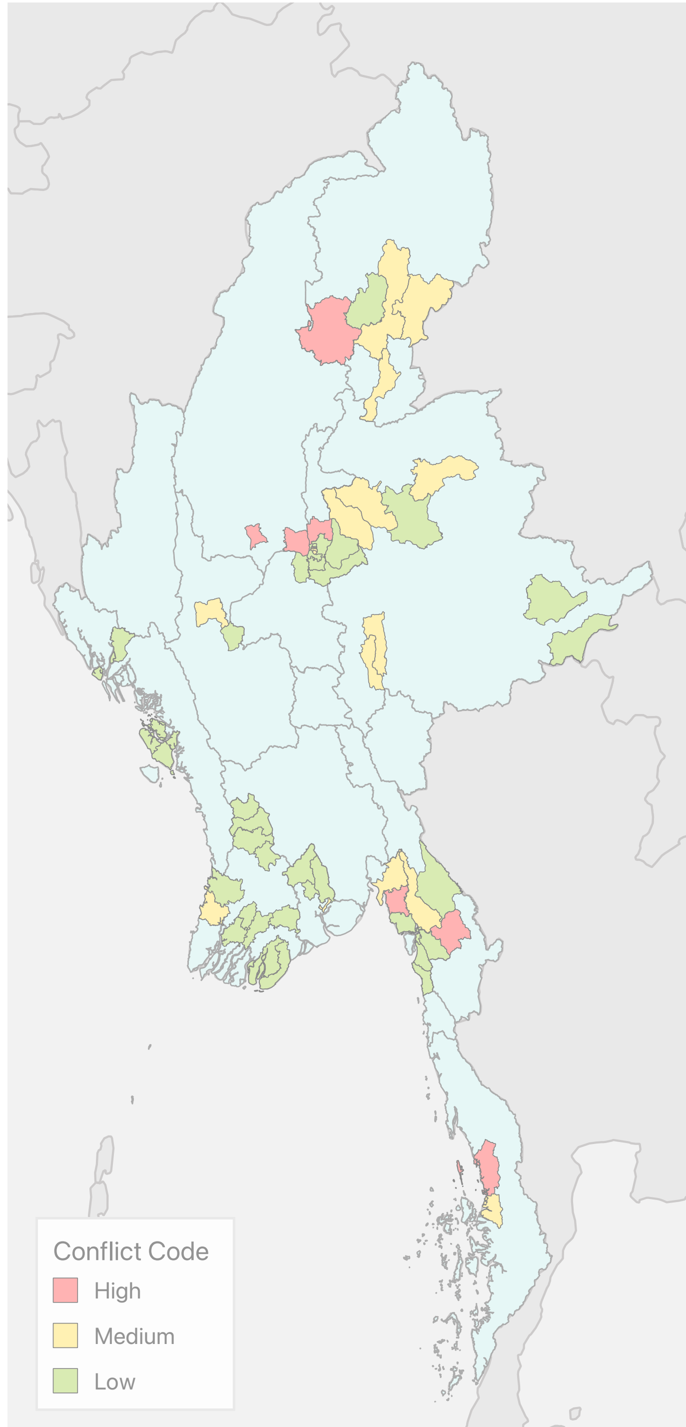
Box 2. Sample Size, by Strata

	Farmers	Non-Farmers
High-Conflict	399	395
Medium-Conflict	392	394
Low-Conflict	397	395

for farmers—or households whose primary source of income is farming or farm wages/salaries—and non-farmers. Separate statistics are also provided for households in townships with low-, medium- and high-levels of exposure to armed conflict, using rough measures based on public data from the Armed Conflict Location and Event Data Project (ACLED). Finally, the study conducts an exploratory regression analysis to consider the relationship between the financial and livelihood conditions of MFI clients and their ability to repay loans and sustain and grow their business or livelihood.

The study faced and sought to address a number of research challenges related to conditions in Myanmar. For example, the implementation of the survey by the clients' own lender presented the risk of response bias for certain questions, and increased economic hardship and security challenges led to increased nonresponse particularly in areas with more armed conflict. The study sought to mitigate the effects of some of these challenges by employing nonresponse and poststratification weights.

Map 1. Study Townships



Section One
BACKGROUND

1.1 Business and Household Characteristics

Vision Fund borrowers live in townships throughout Myanmar, they have diverse individual household characteristics, and they operate businesses across a variety of sectors. This section aims to provide context for subsequent analysis by looking at the household and business characteristics of VFM borrowers as well as their exposure to conflict.

Vision Fund Myanmar lends to borrowers in roughly 70 townships across 12 states and regions.[5] Nearly half of all VFM borrowers were located in Ayeyarwady Region, Mandalay Region, and Kachin State, although Yangon Region, Shan State, and Mon State also had large populations (see **Chart 3**). Sixty-two percent of borrowers lived in village tracts, while 38% lived in town wards (see **Chart 2**). Eighty-five percent of borrowers were women owing largely to the fact that VFM prioritizes lending to women and other traditionally underserved populations.[6] Most borrowers were married, and formal education among borrowers was generally limited.[7] The highest level of formal education was most often primary school (45%), middle school (30%), or high school (16%), and just 7% had college-level education experience. Two percent of borrowers had no formal education.

Most borrowers operated enterprises in the agricultural, trade/retail, or services sector, and most were microenterprises. Nine-in-ten borrowers said their primary livelihood was in the agricultural (37%), trade/retail (32%), or services (24%) sectors (see **Chart 1**). Very few borrowers operated businesses in manufacturing (5%) or construction (2%). The great majority of borrowers in the agricultural sector were farmers directly involved in agriculture, fisheries, or livestock production, however there were also input suppliers and commodity traders. Some borrowers had changed sectors in the months prior to the study, most of whom shifted between non-agricultural sectors like services and retail/trade.[8] Most borrowers operated enterprises with few or no full-time em-

Chart 1. Sector

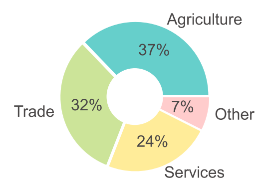


Chart 2. Urban-Rural

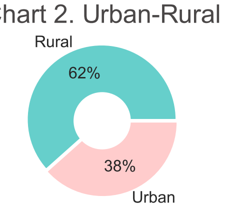
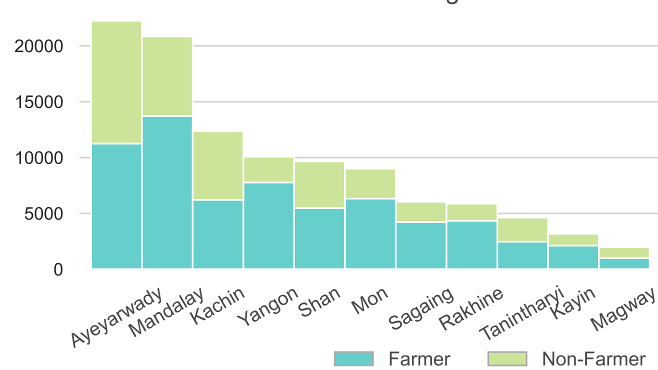


Chart 3. State-Region



ployees. Just 24% of borrowers had two or more full-time employees (excluding the proprietor), and the median number of full-time employees was just one for farmers and zero for non-farmers.

Very few borrowers had any formal business registration, and many enterprises were fully informal. Half of all borrowers operated businesses that were fully informal, and half operated businesses with arguably some kind of formal license or documentation. Forty-two percent of borrowers said they held Form 7 documentation, making it the primary mode of formality among borrowers; this was twice as common among farmers (64%) as it was among non-farmers (29%).[9] Eighteen percent of borrowers had a business license through a Development Affairs Organization (DAO) or City Development Council (CDC), making it the most common form business registration among borrowers. Just 1% of borrowers had registered with the Directorate of Investment or Company Administration (DICA), and just 1% had obtained an SME card from Myanmar's Ministry of Industry (MOI).

The annual household income for most borrowers was 10-40 lakh MMK. Fifty-five percent of borrowers said their average annual household income was 10-40 lakh MMK, while 32% said their annual income was below 10 lakh MMK, and 12% said it was above 40 lakh MMK.[10, 11] There was no measurable difference between the portion of farmers and non-farmers who reported each income level, however borrowers in high-conflict townships reported lower income than others. Forty-nine percent of borrowers in high-conflict townships reported income below 10 lakh MMK, compared to 30% of borrowers elsewhere.

1.2 Conflict Exposure and Displacement

Most borrowers lived and worked in townships which had been affected by multiple conflict-related events between February 2021 and December 2022. According to ACLED data, 62 of 63 townships in the study experienced conflict-related violence between February 2021 and December 2022. Sixty-one study townships experienced at

Box 3. Median Event Count, by Strata

	Low	Medium	High	Myanmar
Protests/Riots	1	7	3	0
Violence	5	17	21	5
Explosions	7	29	46	7
Battles	1	12	47	3
Fatalities	9	57	216	17

least one conflict-related fatality, 58 townships experienced at least one explosion, and 56 experienced at least one battle. The median township in the study reported nine incidents of violence, 24 fatalities, 15 explosions, five battles, and two protests or riots. Each of these indicators was above the median for Myanmar township as a whole during this period, although each was also far below that for the most highly-affected townships in Myanmar (see **Box 3**).

Despite the number of conflict-related events reported in these townships, borrowers often described their local security environment as good. The survey asked borrowers to evaluate security conditions in their township, defined as their ability to travel and work in their township without exposure to armed conflict or violence. Eight-two percent of borrowers described security conditions as “Good” or “Very good”, while 6% described conditions as “Poor” or “Very poor”, and 12% described conditions as somewhere between these (“Moderate”).[12] Relatively few borrowers reported extreme conditions, as just 11% of respondents described conditions as “Very good” and just 1% described conditions as “Very poor.” In general, the township-level aggregate of how borrowers assessed their security environment agreed with the ACLED-based conflict scoring used in the study design (see **Box 4**).

Displacement was relatively rare among borrowers, although it was common in high-conflict townships. Four percent of borrowers had been displaced at some point in the previous six months. In 84% of cases, displacement was due primarily to armed conflict (rather than weather events or other factors). There was no measurable difference in the rate of displacement between farmers and non-farmers or urban and rural borrowers, but displacement was far higher among borrowers in high-conflict townships (19%) than among borrowers elsewhere (2%).

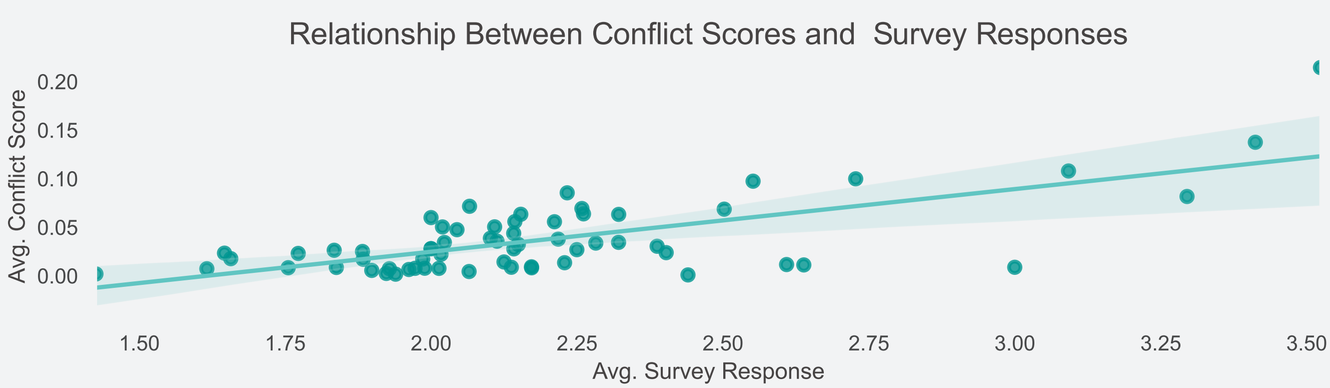
Box 4. Measuring Conflict-Exposure at the Township-Level

This study employed a basic, township-level measure of "conflict exposure" in order to the compare the impact of conflict on borrowers. Measuring the local conflict-exposure of households or businesses presents a number of significant challenges. For example, measuring conflict is complicated by poor data availability, geographic fluidity (e.g., across township borders), developments over time, and the challenges of settling on a suitable definition of the concept. This study did not aim to provide absolute measures of conflict-exposure. The conflict coding employed in this study was intended only to produce a rough, township-level measure of the relative conflict-exposure of households in the study population in order to stratify the sample and compare the experiences of different borrowers.

The study used ACLED data to assign scores to townships based on reported events. Conflict exposure was estimated using township-level incidents of violence, explosions, battles, protests/riots, and fatalities between February 2021 and December 2022.[13] The study used ACLED data to assign conflict scores to each township and then separated townships into three tiers coded as "Low," "Medium," or "High" conflict-exposure.[14] The scoring regime divided the 63 townships in the study into 37 townships with "Low" exposure, 19 townships with "Medium" exposure, and 7 townships with "High" exposure. Nine of 11 states/regions in the study included townships with low- and medium-conflict exposure, while six of 11 states/regions included townships high-conflict exposure.

The conflict scores used in the study generally agreed with respondents' own assessment of local security collected during the study. The ACLED-based conflict scores were strongly correlated with the township-level average of survey responses related local security conditions (correlation coefficient of 0.69).[15] For example, 31% of borrowers in townships coded as "High conflict" described security as "Poor" or "Very poor" compared to just 3% in borrowers in townships coded as "Low conflict" or "Medium conflict", and 43% of borrowers in townships coded as "High conflict" described security as "Good" or "Very good" compared to 84% elsewhere. Although this by no means guarantees the reliability of the scoring regime, it does provide support for the study design absent other available measures of conflict.

The townships covered in this study should not be considered as representative of all townships with exposure to conflict. The townships in this study recorded far fewer conflict-related events (i.e., fatalities, explosions, incidents of violence, protests, and battles) than the most-affected townships in the county, however they recorded more such events than the median Myanmar township. In other words, townships in the study were on average more conflict-affected than Myanmar townships in general, but they were not representative of the most conflict-affected townships in Myanmar.



Section Two

CREDIT AND SAVINGS BEHAVIOR

2.1 Performance on Vision Fund Loans

All borrowers included in the study were current- or recent-VFM clients, many held debt from other formal or informal lenders, and it was common for borrowers to have savings. This section looks at borrowers' performance on VFM loans and their reliance on other sources of debt.

Three-quarters of VFM borrowers were fully up-to-date on their loan payments, and nine-in-ten had recently made a payment. Seventy-eight percent of VFM borrowers had no past-due interest or principal at the time of research. Twenty-four percent of borrowers had benefited from loan rescheduling—meaning the loan term was extended to allow more time for repayment (one-third of whom had subsequently managed to subsequently remain on-schedule). Loan restructuring was quite rare at less than 1% of all borrowers. Although not all borrowers were on-schedule, most continued to make progress toward repayment, and nine-in-ten had made at least one payment the past three months. Ten percent of borrowers became inactive during the period the study was conducted, in most cases because it coincided with the maturity of their loan.[16]

Non-farmers and borrowers in high-conflict townships were more likely to have past-due interest. Twenty-three percent of non-farmers had past-due interest compared to just 8% of farmers. This is largely because farmers' loans do not require monthly repayment of principal, making it somewhat easier for them to stay on top of monthly interest payments. Past-due interest was also more common among borrowers in high-conflict townships (24%) than among borrowers elsewhere (16%).

2.2 Other Debt Sources

One-third of borrowers had additional debt from other formal or informal lenders. Thirty-two percent of borrowers had debt from an additional lender besides VFM.[17] Most VFM clients who took additional debt did so from just one other source, although 9% of borrowers had debt from multiple other sources (i.e., they had a loan from VFM as well as two or more other lenders). Borrowers with additional debt were divided between those who borrowed from other formal lending institutions and those who borrowed from informal lenders like friends, pawn shops, or other businesses (few borrowers took additional debt from both types of lenders, and few borrowers took more than one additional loan). Eighteen percent of borrowers had another formal loan, while 16% had another informal loan. Borrowers with other formal debt usually sourced it from an MFI or other formal financial institution. The median amount for this additional formal debt was 7.5 lakh MMK for group borrowers and 22 lakh MMK for individual borrowers, which was fairly similar to the size of loans each received from VFM.

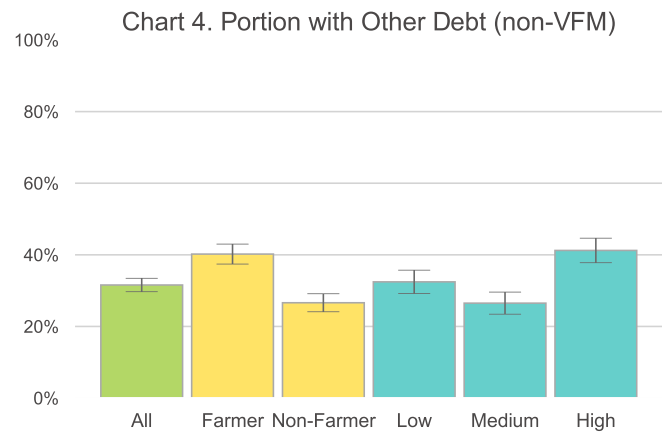
Box 5. The VFM Lending Model

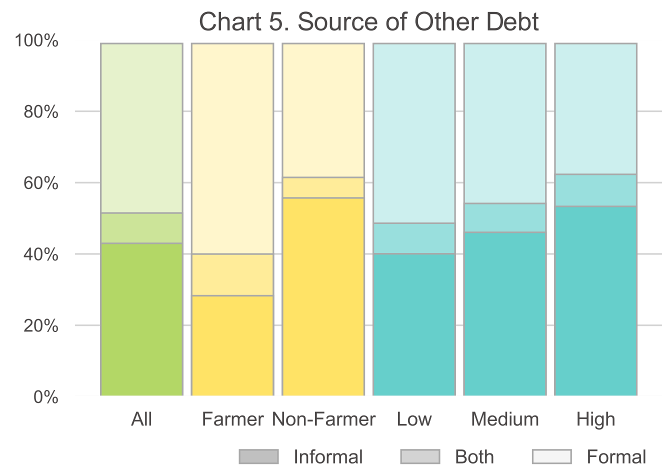
The vast majority of VFM loans are intended to support the business/livelihood activities of borrowers. VFM loans may be used for product development, expansion, asset purchases, marketing, payroll, or various other working capital needs. VFM also offers loans for a number of other purposes, but such loans make up a small portion of all VFM borrowers.

VFM offers both individual loans and group-loans, or loans in which liability is shared jonitly by multiple borrowers. Individual loans are generally larger than group loans, in part due to different caps on loan size. Both categories allow for loans as small as 1 lakh MMK, but group loans are capped at 60 lakh MMK while individual loans are capped 100 lakh MMK. In practice, group loans often range from 3-14 lakh MMK with a median of 6 lakh MMK, and individual loans range from 10-60 lakh MMK with a median of 20 lakh MMK. At the time of research, 91% of VFM borrowers were enrolled in the group system.

Loans mature in periods between six and twelve months, and loan payments are due monthly. Loans for agricultural and non-agricultural purposes are structured differently, as loans for non-agricultural purposes require monthly principal repayment and loans for agricultural purposes do not. Clients who are unable to complete loan payments on time may be eligible for loan rescheduling (i.e., extension of the payment period of the loan). Loan restructuring—altering the size or other conditions of the loan—is quite rare. Borrowers who have successfully repaid their loan may apply for further new loans with VFM; at the time of research, 89% of borrowers had previously taken a loan from VFM.

Farmers and borrowers in high-conflict townships were more likely than others to take on additional debt, although the two groups often did so from different sources. Forty-three percent of farmers took on other debt compared to just 29%





of non-farmers (see **Chart 4**). Farmers also favored formal debt while non-farmers favored informal debt. Among those with additional debt, 76% of farmers took debt from formal institutions compared to 50% of non-farmers; just 40% of farmers took debt from informal institutions compared to 62% of non-farmers (see **Chart 5**). The prevelance of additional debt also varied by level of conflict-exposure. Additional debt was more common among borrowers in high-conflict townships (41%) than elsewhere (31%); that debt was also more often informal, with 62% of borrows in high-conflict township having informal debt compared to 50% elsewhere.

2.3 Savings

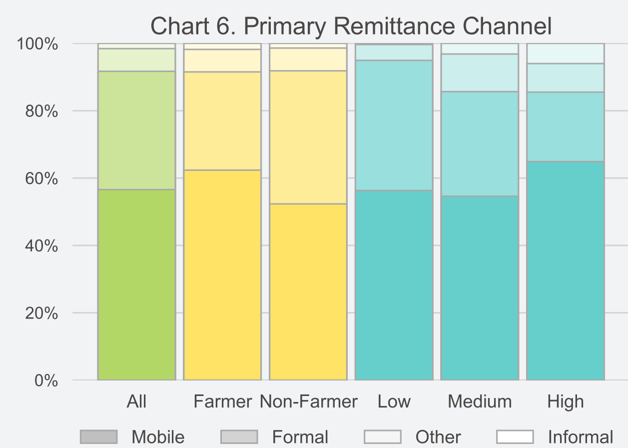
The great majority of borrowers reported having savings, and most held it in a formal non-bank institution. The prevalence of savings was very high among borrowers, most likely because VFM loans are tied to compulsory savings. Ninety percent of households reported having savings in the form of cash, gold, or other jewelry.[18] Among those with savings, 95% kept it in a formal, non-bank institution such as an MFI or savings group (although other savings vehicles were also not uncommon either). Twenty-one percent of borrowers had an informal savings vehicle (e.g., gold, jewelry, or deposits in an informal institution or account), 17% used a mobile savings account, and 8% kept savings in a formal bank account.

Non-farmers and those in high-conflict townships were less likely than others to have savings or to make use of mobile savings accounts. Ninety-three percent of farmers had savings, compared to 88% of non-farmers. This may be due in part to farmers' unique loan structure (which does not require monthly repayment of principle), because they are less likely to need to draw on their compulsory savings to make monthly loan payments. Savings was less common in high-conflict townships, as just 70% of borrowers in high-conflict townships had savings, compared to 92% of borrowers elsewhere. There were also some differences between groups in the adoption of particular savings vehicles, particularly with respect to mobile savings. Among those with savings, mobile savings accounts were less common among farmers (8%) than non-farmers (23%), and they were less common among borrowers in high-conflict townships (13%) compared to those elsewhere (18%).

Box 6. Remittances Among Borrowers

More than one-quarter of borrowers recently received remittances, most of whom received them via mobile platforms or formal channels. Twenty-eight percent of borrowers received remittances in the previous six months, and mobile platforms were the most common transfer channel. Fifty-seven percent of borrowers who received remittances relied primarily on mobile money platforms, while 35% relied primarily on banks or other formal non-bank institutions. Just 8% of borrowers used other channels, including informal channels like *hundi*.

Farmers were slightly more likely than non-farmers to receive remittances. Thirty-two percent of farmers received remittances, compared to 25% of non-farmers. There was no measurable difference in the portion of borrowers receiving remittances in townships with different levels of conflict-exposure, although formal transfer channels were less common in high-conflict townships than elsewhere.



Section Three

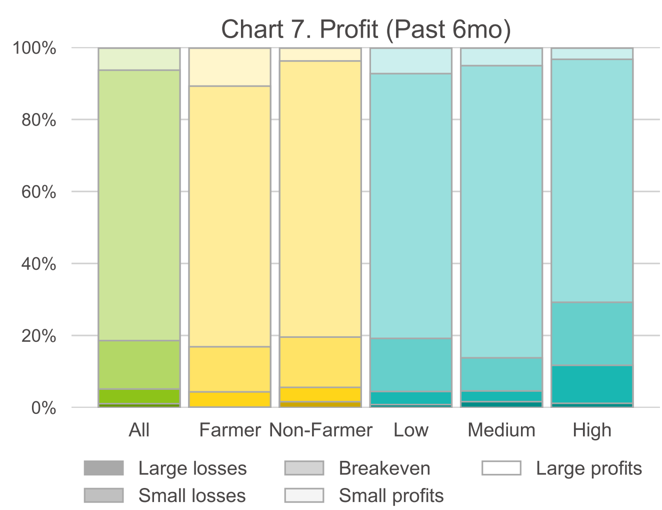
BUSINESS PERFORMANCE AND CHALLENGES

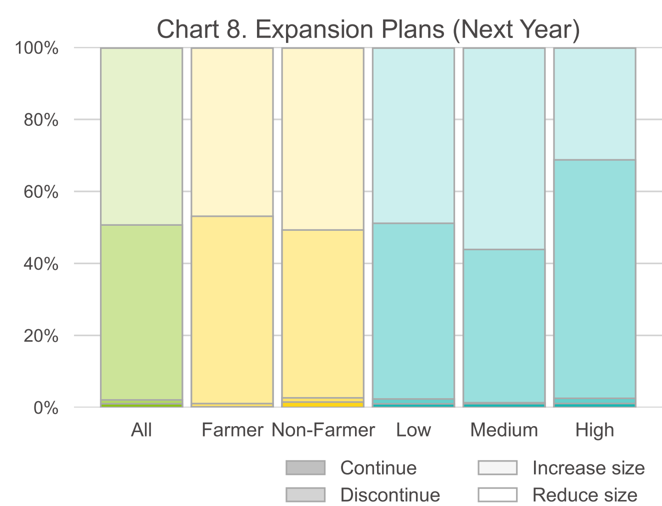
3.1 Business Performance

Many borrowers' businesses remained profitable in recent months, yet nearly all faced challenges related to supply of inputs, demand, transportation, or cash and credit. Many borrowers also adapted their business or livelihood to these challenges, occasionally in ways that differed by location or context. This section looks at business performance, challenges, and adaptation to these challenges.

Most borrowers said their business or livelihood remained profitable, and many hoped to expand operations in the next two years. Eighty percent of borrowers reported earning profits in the previous six months compared to just 6% who reported losses (13% described their business as "breakeven"). Large losses were more common than large profits. Among profitable businesses, 92% described their profits as "small", while just 8% said their profits were "large" (see **Chart 7**). Among unprofitable businesses, 79% described their losses as "small", while 21% said their losses were "large." Moreover, many borrowers appeared optimistic about the future of their business. Just 1% of borrowers said they expected to discontinue their business or livelihood activity in the next two years (see **Chart 8**). In fact, among borrowers who planned to continue operating (which was nearly all of them), just 1% said they planned to reduce the size of their business. Nearly all borrowers planned to continue operating at the current size (49%) or even expand their business (49%).

Farmers fared slightly better than non-farmers with respect to profitability, and borrowers in



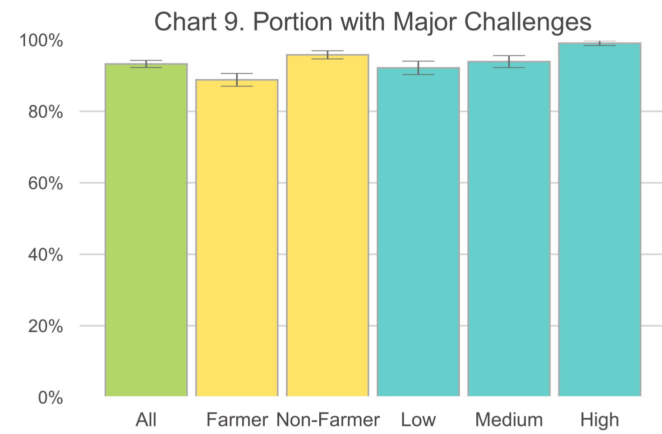


high-conflict townships were much less likely to expand. There was no measurable difference between farmers and non-farmers with respect to the portion who reported profits or losses, but there were small differences in magnitude. Farmers were more likely than non-farmers to have seen large profits, and they were less likely to have seen large losses. Differences in profit between townships with various levels of conflict-exposure were negligible. That said, borrowers in high-conflict townships were far less likely than borrowers elsewhere to expand. Just 31% of borrowers in high-conflict townships expected to expand their business in the next two years compared to 51% of borrowers elsewhere.

3.2 Business Challenges and Adaptation

Business Challenges – Nearly all borrowers faced some kind of major business challenge in the previous six months, and this often related to weak demand or poor access to supply. Ninety-three percent of borrowers had a major business-related challenge in the previous six months (see **Chart 9**). The most common challenges included weak demand (76%) and poor access to supply or inputs (68%). One-quarter of borrowers also said access to cash had been a challenge, although just 6% struggled to access credit. Poor transportation and security affected 18% and 12% of borrowers, respectively. Struggles with finding labor affected just 6% of borrowers (likely because most borrowers operate microenterprises or businesses in the agricultural sector where temporary/seasonal labor is common).

Farmers and borrowers in high-conflict townships were more likely than others to face challenges, but they also faced challenges of a different kind. Challenges were slightly more common among non-farmers than farmers (96%, compared to 89%) and among borrowers in high-conflict townships than elsewhere (99%, compared to 95%). Farmers and non-farmers also reported different kinds of challenges (see **Charts 10-14**). Farmers were more likely to struggle with access to inputs and labor (75% and 9%, compared to 64% and 5%, respectively); non-farmers were more likely to struggle with weak demand and poor access to



cash (89% and 25%, compared to 61% and 16%, respectively). There were also some differences among borrowers based on the level of conflict exposure in their township. Borrowers in low-conflict townships were less likely to struggle with demand (69%, compared to 88%), while borrowers in high-conflict townships were more likely to struggle with security and transportation (47% and 39%, compared to 10% and 14%, respectively).

Business Adaptation – Most borrowers who faced challenges adapted their business in some way, often by cutting costs or reducing the price of their goods or services. Ninety-three percent of borrowers who faced a major business-related challenge responded by adapting their business in some way. Eighty-two percent of borrowers said they reduced the price of their goods, and 66% said they reduced their cost-structure

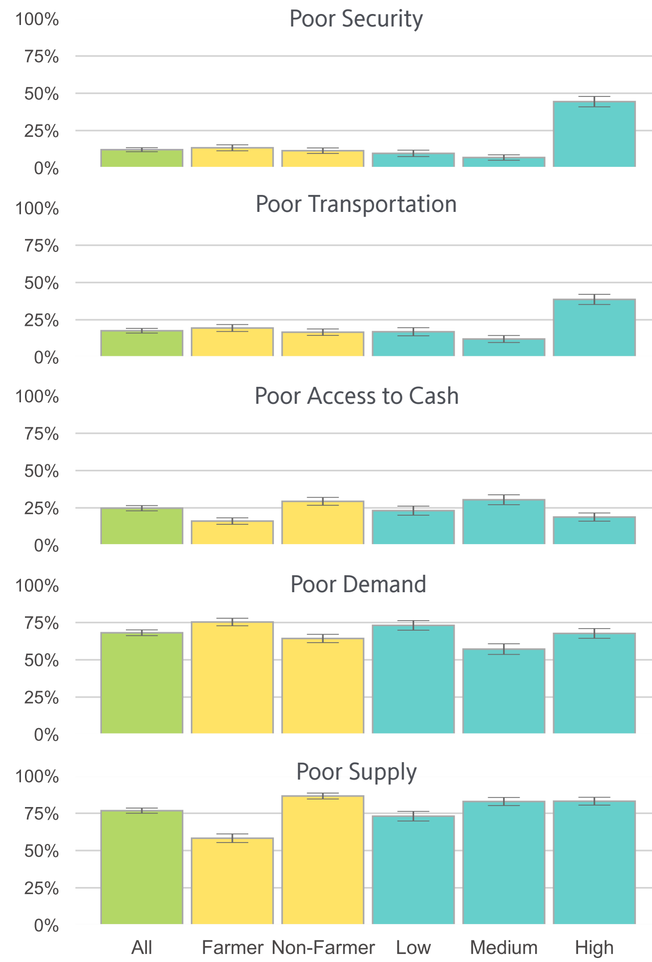
Box 7. Assistance to Households

Very few borrowers reported receiving household- or business-assistance from any entity in the six months prior to the study. Just 8% of borrowers said they received assistance in the form of cash, food or non-food gifts, or debt relief in the prior six months, and there was no measurable difference between groups with respect to the portion who reported receiving such assistance. However, among those who did receive assistance, some modalities were more common than others. Seven percent of borrowers received in-kind assistance, compared to fewer than 2% who received cash assistance. Fewer than 1% received debt relief.

(e.g., reducing cost of goods sold, labor costs). Many borrowers also sold assets (31%) or took on new debt (20%). Borrowers were far less likely to adopt more severe measures which went beyond financials to transform the business itself, such as closing a business (4%), foregoing debt payments (4%), or moving their business location (2%).

Among borrowers who faced challenges, non-farmers and those in high-conflict townships more often responded by adapting their business. Adaptation was slightly more common among non-farmers than farmers (95%, compared to 88%) as well as among borrowers in high-conflict townships compared to those elsewhere (98%, compared to 93%). The nature of that adaptation also differed slightly. Farmers were more likely than non-farmers to reduce the cost of inputs (72%, compared to 63%) and less likely to cut prices or close their business (72% and 2%, compared to 86% and 6%, respectively). There were also some differences among borrowers based on the level of conflict exposure in their township. Borrowers in high-conflict townships were more likely to take on new debt (27%, compared to 18%), sell and asset (42%, compared to 30%), or reduced the cost of goods compared to borrowers elsewhere (81%, compared to 65%).

Charts 10-14. Portion with Various Challenges



Section Four

BRIEF EXPLORATORY ANALYSIS

4.1 Potential Factors in Loan Repayment

Initial analysis points to several potential relationships between loan repayment, business expansion, and conflict. The study employed a simple exploratory regression analysis to detect possible relationships between some of the factors measured in the survey while controlling for various factors.[19] In particular, the study looked at the relationship between conflict-exposure and outcomes such as interest payment and planned business expansion. The results are intended only as exploratory and therefore require further analysis.

Borrowers whose businesses were unprofitable were more likely to have past-due interest. There was a strong association between past-due interest and borrowers' profit/loss in the previous six months. While just 6% of borrowers reported losses, borrowers with even "small" losses were three-times more likely to have past-due interest (relative to those that were breakeven), controlling for factors like conflict-exposure, number of employees, whether or not they were farmers, and whether or not they had additional informal debt. Similarly, profitable businesses were more likely to be on time with interest payments. Borrowers with "small" profits were 50% less likely than those that were merely "breakeven" to have past-due interest.

Borrowers with additional informal debt were more likely to have past-due interest on their VFM loan. Borrowers with informal debt were three-times as likely to have past-due interest, controlling for the factors above. However, the nature of the relationship between past-due interest and informal debt remains unclear: while it is possible that taking on additional informal debt causes borrowers to fall behind on formal debt payments, it is also possible that borrowers take on additional informal debt precisely because they have already fallen behind on formal debt payments, or because of some additional factor that has caused them to miss their debt payment (e.g., an unexpected financial emergency).

Borrowers in high-conflict townships were more likely to have past-due interest. Past-due interest was positively associated with township-level conflict-exposure. Borrowers in high-conflict townships were 80% more likely to have interest past-due compared to those in low-conflict townships, controlling for the other factors mentioned above.

4.2 Potential Factors in Business Expansion

Businesses without positive profits were naturally less likely than others to plan for expansion. Profitability was not-surprisingly positively-associated with business expansion. Businesses with even "small" profits—which were many—were three-times as likely as breakeven businesses to plan to expand their business in the next two years, controlling for business formality, number of employees, and conflict-exposure.

Conflict-exposure was negatively associated with business expansion. Borrowers in high-conflict townships were 40% less likely to plan to expand their business compared to those in low-conflict townships, controlling for profitability and other factors mentioned above. In other words, although some businesses in high-conflict townships managed to remain profitable, they were still less likely to expand compared to businesses in other locations with lower conflict-exposure.

CONCLUSION

Amid Myanmar's ongoing armed conflicts and troubling economic headwinds, borrowers face a broad range of challenges related to debt repayment and general businesses/livelihood success. There is certainly no one-size-fits-all solution to these challenges, yet the above findings point to several possible recommendations to help microfinance institutions, development partners, and humanitarian organizations take into account the effects of conflict when providing support to various kinds of borrowers and microenterprises. Recommendations include:

- **Consider additional support and services for borrowers in more conflict-affected areas.** More borrowers in areas with higher conflict-exposure struggle with debt repayment and business operations. Although these businesses are harder-to-reach, their needs are often greater. Borrowers in these areas may require more resource-investment to achieve similar outcomes to borrowers and businesses elsewhere.

- **Consider unique lending and savings solutions tailored specifically to borrowers in more conflict-affected areas.** These businesses face different challenges and exhibit different business and financial behavior, suggesting the need for uniquely-tailored solutions. A one-size-fits-all approach to lending and/or aid may not have the same impact on these borrowers as on borrowers elsewhere.

- **Explore additional alternatives to mobile-based financial solutions.** Fewer businesses in areas with more conflict-exposure used mobile platforms for saving. Although the reasons for this are unclear, it may suggest the need for a variety of savings vehicles or platforms in order to service businesses and households in different conflict situations.

- **Expand avenues to formal lending for non-farmers and borrowers in areas with more conflict-exposure.** The increased prevalence of informal borrowing among non-farmers and businesses in high-conflict areas suggests barriers to formal lending for these specific subgroups may need additional consideration.

- **Consider targeted loans to support the growth of microenterprises.** While businesses in the most conflict-affected areas may be quite unlikely to plan for expansion, many other businesses with conflict-exposure may nonetheless seek to grow and may benefit from such loans.

- **Consider pairing loans with in-kind support to farmers in the form of agricultural inputs.**

Farmers reported adapting to challenges by reducing inputs, which may hurt crop yields in the long-run. Lending to these businesses may be most effective if paired with additional support which targets these adaptation measures.

Endnotes

[1] World Bank. Myanmar Economic Monitor. January 2023.

[2] World Bank. Myanmar Firm Monitoring Survey. April 2023.

[3] International Food Policy Research Institute (IFPRI). Myanmar Household Welfare Survey. April 2023.

[4] Appui au Développement Autonome (ADA). Myanmar Microfinance Sector Evolution. November 2022.

[5] The population of interest for this study was limited to borrowers in 63 townships across 11 states and regions. The study excluded borrowers in Kayah State and several other townships due to expected difficulty contacting respondents in these locations.

[6] VFM aims for women to make up at least 80% of its borrowers.

[7] VFM provides loans to individual borrowers rather than households (see Box 1).

[8] Due to sectoral shift, farmer and non-farmer strata include some borrowers who no longer belong to their grouping. For example, 13% of farmers had shifted to non-farming activities (typically trade/retail).

[9] Form 7 may be considered as a kind of land title in Myanmar. However, Form 7 does not always indicate land ownership, as this documentation can also be obtained for assets on land such as buildings.

[10] The survey question provided only three choices for average annual household income.

[11] The survey-based measures of security are representative only of borrowers in the study population and should not be considered as representative of all businesses or households within the township.

[12] Some ACLED indicators were excluded when producing conflict scores, such as counts of peaceful protests.

[13] The study classified townships as low-, medium-, or high-conflict relative to the other 62 townships within the study (not relative to all 330 Myanmar townships in the ACLED database).

[14] The question was worded as follows: "*Which of the following best describes the current security environement in your township? Security environment refers to your ability to travel and work without exposure to violence or armed conflict. Very Poor / Poor / Moderate / Good / Very Good.*"

[15] Monthly principal payments are not required for all VFM loans, therefore the portion of loans with principal past-due will be higher.

[16] The study population technically consisted of "recently-active" VFM borrowers, because it also included a fraction of borrowers whose loans recently matured; this should be kept in mind when interpreting statistics.

[17] VFM borrowers are not technically permitted to take additional debt, but there are of course cases of this occuring anyway.

[18] The study did not distinguish between business- and household-savings, because microenterprises often intermingle household and business finances.

[19] The exploratory analysis employed relatively simple logistic regressions with fixed-effects for some predictors. Only statistically-significant coefficients are reported.

The **Market Analysis Unit** is an independent project that provides donors, humanitarian responders, development practitioners and private sector actors in Myanmar with data and analysis to better understand the impacts of market developments, 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 services).

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