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Myanmar's microfinance sector, agriculture, and COVID-19

Emerging insights and new challenges

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ABSTRACT

This Working Paper takes comprehensive stock of the impacts of the first two waves of COVID-19 (in Q2 and Q4 2020) on the microfinance sector in Myanmar. We discuss potential impact pathways, review policy responses to the crisis, and present new quantitative analysis based on a set of surveys with respondents throughout the agricultural value chain. Additionally, we briefly review impacts since the military takeover on February 1, 2021. Overall, various disruptions to the microfinance sector, particularly during peak periods of COVID-19, significantly reduced overall lending from April 2020, onward. These disruptions, along with disruptions to external financing, led to greater informal borrowing, likely greater indebtedness, and lower food security. However, policy responses and financing accommodations to microfinance institutions (MFIs) in Q2 and Q3 2020 cushioned the sector against widespread insolvency. The events since the military takeover are creating new challenges, exacerbating the aforementioned impacts, and raising new risks of MFI insolvency and broader crises around food security, indebtedness, and poverty. Considering these findings, stakeholder recommendations underscore the importance of easing the movement of international and domestic goods. Efforts should be focused on meeting the MFIs' need for loanable funds through mechanisms such as exchange rate hedging, credit guarantees, and loan enhancement, while continuing to encourage flexibility around existing financing. When the time comes for a full recovery, there should be a focus on facilitating additional financial injections so that MFIs can more effectively restart lending operations.

1. INTRODUCTION

1.1 Impacts of COVID-19 in Myanmar: Expectations and potential impacts on rural Myanmar and the microfinance sector

Myanmar was one of the first countries to experience the effects of COVID-19 after the disease emerged in its neighbor to the northeast, China, in late 2019. By late January 2020, mask wearing and other measures such as temperature checks were becoming increasingly common in some urban locations and airports. Over the ensuing weeks, Myanmar's economy faced increasing headwinds as the pandemic spread globally and industries such as travel, tourism, ready-made garments, and fresh produce were amongst the most severely affected. By mid-March 2020, Myanmar had formed a national COVID-19 Central Committee, and its first confirmed cases followed on March 23, 2020. Various policy measures intended to contain the virus, including border controls and lockdowns, were soon followed by economic response measures. Yet, the virus spread slowly in the early months in Myanmar, resulting in less than 300 confirmed cases by the end of June and less than 800 by the end of August 2020, with six confirmed deaths to that point.

Sadly, Myanmar experienced a rapid increase in cases and deaths starting in early September 2020 and renewed lockdown measures were imposed in Yangon and other locations. The country reached a peak of nearly 1,500 recorded cases and 30 COVID-19-related deaths per day by mid-October and then 1,700 cases and 20 deaths per day in early December. Cases and deaths slowly but steadily declined from December 2020 through early February 2021 as a result of lockdowns and other measures. As of February 2021, Myanmar recorded 142,000 cases of COVID-19, and 3,204 deaths. After briefly commencing an immunization campaign in January 2021, Myanmar has been beset by the declaration of a state of emergency and military takeover commencing on February 1, 2021. COVID-19 testing, reporting, and immunization rapidly declined. However, starting on July 28, 2021, the State Administration Council began administering vaccines at broad scale through donations of Chinese-made Sinopharm and Sinovac vaccines and reportedly aims at 50 percent vaccine coverage by the end of 2021.[1]

In this context, we review the impacts of COVID-19 in Myanmar with a focus on the intersection of the microfinance and (rural) agricultural sectors. Microfinance institutions (MFIs) are increasingly important sources of financing in many rural areas, particularly along major population and transportation corridors, and for many urban and peri-urban businesses and consumers. The COVID-19 crisis first emerged in Myanmar during the winter crop season (November to February) and started to have its most severe effects during Myanmar's hottest and driest months, which peak in April. MFIs were largely prevented from operating normally between April and May 2020 due to government mandates. MFIs also began to face serious liquidity challenges as loan repayments were suspended and delayed, and international capital flows were slow to respond due to various institutional and market barriers. These challenges raised concerns about disruptions to the critical May and June planting season in anticipation of the monsoon rains between June and September throughout most of Myanmar. This period is then followed by major annual harvests from September to November (Toth, 2020). MFIs are an increasingly important part of the agricultural market ecosystem as they finance inputs and labor costs, provide consumption support to households over the lean season leading up to harvest, and finance other members of agricultural value chains.

[1] https://www.voanews.com/a/COVID-19-pandemic_junta-faces-difficulties-myanmar-vaccination-program/6209772.html

1.2 Potential channels for COVID-19 impacts: operational barriers, impacts on clients and the broader economy, and disruptions to external finance

A shock like COVID-19 can impact the microfinance sector through several channels. As the effects of COVID-19 began to spread in Myanmar, significant and mutually reinforcing negative impacts began to emerge. Appendix A1 summarizes the important relationships among central participants in the Myanmar microfinance sector.

Disruptions to normal MFI lending and collections operations

First, MFIs faced a liquidity shock. The Financial Regulatory Department in the Ministry of Planning and Finance (FRD-MOPFI), the main regulator of MFIs in Myanmar, instructed MFIs to cease enforced loan collections and acceptance of savings deposits from April 6 through May 15, 2020. This disruption of collections came at what is normally an important period for collections on agricultural loans that were issued during Q4 of the previous year in preparation for distributing monsoon season loans that are normally issued in the second half of Q2. While MFIs generally sought to work with clients by modifying loan repayment schedules based on detailed assessment of repayment capacity, this raised concerns about breaching government regulations and covenant agreements with lenders on portfolio at risk. Similar instructions about not forcing borrowers to repay their debts were repeated in September 2020 during the onset of the second wave.[2] These nationwide and regional moratoria on operations were arguably the biggest challenge that MFIs faced during the first two waves of COVID-19.

Disruptions due to directives to limit the spread of COVID-19

Second, MFI operations were disrupted due to measures limiting the spread of COVID-19. Social distancing procedures were implemented, in-person meetings were cancelled, branches could accommodate only limited staff and customers, and other health precautions such as temperature checks and sanitary practices were established. As lockdowns and quarantine procedures emerged in April 2020, they constrained or cut off physical access to many locations. As of mid-May 2020, 20-30 percent of wards with MFI presence were closed to outsiders, though this had declined to 5 percent by late May (UNCDF-Myanmar 2020). Since microfinance is a model that particularly relies on group meetings for information dissemination and loan collections, these disruptions raised important operational challenges. Yet, many MFIs moved quickly to adjust to the new circumstances, such as through heavier reliance on phone-based interaction with clients and between staff.

Disruptions due to the broader impacts of COVID-19 on the economy of Myanmar

Third, most MFIs' customers were impacted by the economic shocks. If customers did not lose their job or enterprise, then they faced depressed incomes and economic insecurity. These shocks created tremendous challenges for MFIs to accommodate their clients' needs even after the resumption of loan collections in mid-May 2020. In June 2020, the World Bank reduced its 2020 growth projection for Myanmar from 6.8 percent to 0.5 percent (Beck et al. 2020a). In an early analysis, Diao and Wang (2020) estimated that during the most severe two-week lockdown in April 2020, there was a temporary 41 percent decline in GDP. In late 2020, a study also found that Myanmar households experienced a 46.5 percent drop in income from 2019 to 2020, with over four-fifths reporting at least some drop in income (CSO 2020). In a survey with better coverage of large agricultural enterprises, the World Bank found that while agricultural enterprises experienced relatively less significant operational disruptions and reductions in sales, they showed greater financial vulnerability (World Bank 2020a); 42 percent of agricultural firms reported a reduction in access to credit, compared to 29 percent of all firms, and two-thirds experienced cash flow

[2] https://www.mmtimes.com/news/second-wave-COVID-19-hits-myanmar-microfinance-sector.html

shortages, compared to half of all firms. These impacts may have flowed up the value chain to smaller traders and producers, who would be more likely to be microfinance clients.

Like in many emerging markets, the impacts of COVID-19 were felt more severely in Myanmar's urban areas, as rural areas could more easily fall back on a local subsistence economy to meet basic needs. Urban residents, particularly the poor and migratory workers such as those working in garment factories, saw severe reductions in income, enterprise activity, and employment (Beck et al 2020a, UN-Habitat Myanmar 2020). A study with 750 firms in early May 2020 by The Asia Foundation (TAF) found that 29 percent of firms had completely closed, and 92 percent reported lower sales, laying off an average of 16 percent of their employees.[3] Sixty-four percent of firms expected to face cash flow problems that would threaten their survival.

However, agricultural producers were hurt by transport disruptions, both international and domestical, with particularly severe effects on perishables and exports such as watermelon, fruit, and vegetables (Proximity Designs 2020; UNCDF 2020). Overall, the growth of the agricultural sector (22 percent of the economy) was estimated to slow to 0.7 percent in 2020, with slowdowns in livestock and fisheries, while avoiding the contractions in other major sectors such as services (-1 percent) and manufacturing (-0.2 percent) (Beck et al. 2020a). Agricultural producers also suffered from disruptions to the domestic food distribution infrastructure. In addition to transport and export restrictions, there were shutdowns from wholesale markets to restaurants and food distribution points across the country, depressing agricultural demand. Taken together, these impacts put a large portion of MFIs' loan portfolios at risk and led their clients to draw down savings balances. With very limited loan collection, especially during the government-mandated pause on loan collections from early April to mid-May 2020, MFIs faced the tremendous challenge of providing client-specific loan accommodations anywhere from taking full repayment or loan restructuring to full write-offs. This largely happened during what would normally be one of the most important seasons for loan issuance, especially in rural areas.

Disruptions to MFIs' external financing

Finally, MFIs faced disruptions in their access to external capital, particularly international debt, which is a key source of financing for the largest MFIs in Myanmar. As is typical during a global crisis, there is a "flight to quality" as financing flows to what are perceived to be lower-risk assets. This can drive up the risk premium particularly for emerging markets like Myanmar. Furthermore, inward and outward capital flows for MFIs in Myanmar require government approval, a process that can take weeks. At a time when Myanmar's MFIs needed injections of financing, they were facing higher borrowing costs and institutional friction to rapidly access external financing.

Thus far we have provided an overview of the *potential* impacts of COVID-19 on rural finance in Myanmar. In the following sections, we will first review the policy responses that were proposed and implemented to mitigate the impacts of COVID-19. We then review the actual impacts of COVID-19, first by reviewing in detail the results of a rich set of original surveys focused on rural areas of Myanmar. We then synthesize the survey findings with other sources of evidence, addressing several key questions about the impacts of COVID-19. Finally, we provide stakeholder recommendations. While not the focus of this report, we also acknowledge and address the emergency situation across Myanmar since February 1, 2021, particularly with regards to stakeholder recommendations.

[3] https://www.mmtimes.com/news/COVID-19-shuts-down-third-myanmar-businesses.html

2. REVIEW OF COVID-19 POLICY RESPONSES RELEVANT TO MICROFINANCE AND RURAL FINANCE

In this section we briefly review the national policy responses to COVID-19 since March 2020, focusing on policies that are particularly relevant to rural finance and the microfinance sector.

2.1. Government of Myanmar

COVID-19 Economic Relief Plan (CERP)

The major governmental response to COVID-19 was the COVID-19 Economic Relief Plan (CERP), which was announced on March 18, 2020, before the first confirmed COVID-19 case, and formally launched on April 27. The initial short-term response package had a value of 100 billion MMK (0.1 percent of GDP), however by October 2020 the government had spent about 4 trillion MMK (3.4 percent of GDP) under the CERP umbrella. The CERP included a range of fiscal measures: providing relief on electricity charges, tax, duties, and business license charges, medical purchasing and a COVID-19 vaccination fund, insurance for workers, and reallocation of funds across several ministries to fight COVID-19. The plan allocated significant resources to vulnerable households–404 billion MMK in in-kind and cash support from April 2020 to September 2021 and 164 billion MMK through four rounds of cash transfers from November 2020 to December 2020. While this was a historic relief intervention for the country, the CERP was still not enough to meet the needs of many households and it has been widely reported that the targeting of funds to the neediest was mixed.

With respect to the financial and rural sectors, the government made several provisions. This included a transfer of 400 billion MMK to state-owned Myanmar Economic Bank (MEB) for a COVID-19 fund to provide soft loans to affected businesses, including about 100 billion MMK to enterprises in some of the hardest hit sectors such as garments, manufacturing, hotels, and tourism, at 1 percent interest for one year. The government also announced it would guarantee 50 percent of new loans made by private banks to enterprises that were not direct beneficiaries of the government’s COVID-19 fund and provide a six-month loan repayment moratorium. While little of these funds would have gone directly to small borrowers, several MFIs borrow from domestic banks and may have benefited from the relief, thus providing further relief to their clients. The CERP also provided 93 billion MMK in spending programs for the rural and agricultural sectors.

With respect to the MFI sector, in July 2020, the government provided 100 billion MMK in up to three-year loans to MFIs at interest rates below 9 percent with collateral and 11.5 percent without collateral, again through MEB. This program was reinforced by FRD directive 3/2020 on July 23, 2020, giving MFIs the terms to receive these government-supported loans (Bhattarjee 2021). On the same day, FRD issued directive 4/2020, which permitted eligible MFIs to channel loan funds through one-year loans at 1 percent interest to tea shops and restaurants shut down during the COVID-19 pandemic. Borrowing MFIs had to apply to FRD and MMFA for approval and provide loan-use and repayment plans. There were also specific criteria for shops and restaurants to qualify (Bhattarjee 2021). On December 14, 2020, the FRD issued letter (812/2020) confirming that 66.9 billion MMK had been spent thus far out of the 100 billion MMK MFI loan fund to 57 MFIs. The remaining funds were made available for further disbursements to MFIs as well as to grocery stores on the same terms as tea shops and restaurants (Bhattarjee 2021). However, there are anecdotal reports of serious implementation challenges in disbursing these funds.

By Q4 2020 it was announced that Myanmar was developing the Myanmar Economic Relief and Reform Plan (MERRP), which was meant as a successor to CERP, to provide government support for medium- to long-term recovery. However, the fate of this plan is now an open question considering the events since February 1, 2021.

Central Bank of Myanmar

The Central Bank of Myanmar cut the long-standing core policy interest rate from 16 percent to 15.5 percent on March 12, to 14.5 percent on March 24, and then to 1.5 percent reduction on May 1. This rate is important because it sets an upper bound on commercial bank lending rates. While the reduction in interest rates was beneficial to MFIs borrowing from domestic banks, it had the unintended consequence of lowering the interest rate that MFIs could pay on international loans (Slover 2020). At a time of rising global risk premiums, this further tightened the bottleneck on MFIs' ability to access external loan funds, as international lenders would be less willing to supply financing at the lower rates.

Financial Regulatory Department

The Financial Regulatory Department (FRD) in the Ministry of Planning, Finance, and Industry (MOPFI) is the main regulatory authority for MFIs in Myanmar through its Microfinance Business Supervisory Committee (MBSC), and hence led the regulatory response in the microfinance sector. It did so not just in coordination with other authorities in MOPFI, but also in coordination with the COVID-19 Central Committee and Ministry of Health and Sport. Directive No (02/2020), issued on April 6, 2020, was the first major response and mandated the temporary suspension of some licensed activities of MFIs and specific functions of FRD. In particular, it mandated that MFIs could not collect principal or interest "by force," though they could collect voluntary repayments and provide "emergency" loans through April 30. This was reinforced by a further order on April 14 (1/6 (226/220)), apparently based on informal reports of MFIs forcing repayments (UNCDF 2020), though until mid-May no official complaint had been lodged. On April 29 the moratorium was extended through May 15 through order 1/6 (318/2020), when normal repayments commenced, though restrictions meant to control COVID-19 remained in place. On June 14, 2020, the MBSC issued order 1/6 (464/2020) urging MFIs to collect loan repayments only from those who are capable (Bhattacharya 2021).

The FRD also took onboard policy recommendations from international development partners and explored loan initiatives for hard-hit sectors such as tea shops, restaurants, and grocery stores (UNCDF 2020). For example, FRD directive (712/2020), dated September 2, 2020, instructed MFIs to provision for bad debts at a rate of 1 percent through the end of 2021. In normal circumstances, a first-time rescheduled loan would need to have a 50 percent provision booked and a second time would need 100 percent booked.

On September 13, 2020, as the second wave of COVID-19 cases was rapidly emerging, the MBSC issued order 1/6 (785/2020), which warned MFIs that they would be issued administrative penalties if they forcibly collect loan repayments. On October 27, 2020, the MBSC issued Directive (5/2020), which provided for temporary debt relief payments to particularly hard-hit MFI customers in Yangon Region, Bago Region, and Rakhine State, deferring loan payments in November and December 2020 to May 2021 and providing one-year MEB loans to cover the deferrals (Bhattarjee 2021). However, there is anecdotal evidence that this program faced similar implementation challenges to other targeted micro and small loan programs in late 2020 and early 2021, perhaps in part due to delivery challenges in Myanmar Economic Bank.

2.2. International development partners

The multi-donor Livelihoods and Food Security Fund (LIFT) originally estimated a USD 180-200 million shortfall in funding for its affiliated MFIs (Slover 2020), which represent 75 percent of the sector by asset size (UNCDF 2020) and serve over 2.8 million borrowers (Slover 2020). In response, LIFT mobilized USD 5.5 million that leveraged USD 67.1 million in international capital investment in the microfinance sector among its immediate USD 27.8 million COVID-19 response (LIFT 2020).

These funds reached seven LIFT MFIs by June 2020 (LIFT 2020). Clearly, LIFT's estimates only addressed a fraction of the estimated liquidity needed and it was projected that it would take until at least September or October 2020 for funding levels to return to normal. LIFT was also in process of facilitating new financing for its partner MFIs in early 2021. However, this was disrupted by the military takeover on February 1, 2021.

International development partners also advocated for regulatory adjustments that would increase access to liquidity for MFIs. LIFT advocated for temporary loan provisioning relief for overdue and restructured loans, allowing MFIs to go beyond the normal loan provisioning guardrails mandated by FRD (Slover 2020), which was approved by June 2020 (UNCDF 2020). This reduction to 1 percent provisioning provided significant relief to MFIs, which would normally need a 50 percent provisioning for a first-time restructured loan and 100 percent from the second restructuring onward. Without this provision, many MFIs would have been legally insolvent. LIFT also advocated for other adjustments such as allowing international lenders to MFIs to lend at the traditional 16 percent lending rate to remove the bottleneck in access to international debt financing. A team of technical experts from the DaNa Facility, LIFT, and UNCDF, led by DaNa Facility, also made several recommendations to FRD to expand liquidity and on-lending, expedite approvals of incoming financing, expand the MCIX for full industry participation, expand fintech applications, and develop an approach for early detection of failing MFIs (UNCDF 2020).

Other COVID-19 responses by international development partners were not as focused on microfinance or rural finance sectors and focused on health support and cash transfer programs. For example, the World Bank approved a USD 50 million loan to Myanmar in April 2020 focusing on health interventions, cash transfers for 126,000 pregnant women and young mothers in Ayeyarwady Region and Shan State in September 2020, and USD 110 million to a cash-for-work program in rural areas, reaching 390,000 households. However, the same reallocation of funds also supported an emergency village revolving fund "to support farmers and rural producers affected by COVID-19," with at least 135,000 revolving loans. The Asian Development Bank provided USD 289 million to Myanmar under its COVID-19 response plan. The funding was intended to support the CERP and thus included support for MSMEs. Several other international partners also provided various forms of support.

2.3. Domestic and international lenders

Most of the leading domestic banks put in place a six-month loan repayment moratorium starting in March 2020, which benefited MFIs borrowing from domestic banks. There were also negotiations with international lenders, which led to deferred debt financing repayments (UNDCF 2020). However, many small- and mid-sized MFIs had limited access to external financing and thus faced a more severe liquidity crisis (UNCDF 2020).

3. FINDINGS FROM NEW SURVEYS CONDUCTED WITH AGRICULTURAL SECTOR ACTORS

We present new analysis of the impacts of COVID-19 in Myanmar based on a series of surveys conducted by the Myanmar Agricultural Policy Support Activity (MAPSA), which surveyed respondents across a range of agricultural value chains and sectors.

Since May 2020, MAPSA has been conducting a range of original surveys across a number of agricultural value chains and sectors.[4] In this report we derive results from six of the surveys, focusing on questions related to the impacts of COVID-19 on financing, particularly interactions with

[4] For more information, and to review the full suite of policy analyses, please visit: https://myanmar.ifpri.info/

the microfinance sector. We begin with a survey of knowledgeable respondents who could speak on behalf of their community, and then roughly proceed down the value chain: agricultural input retailers, agricultural producers (farmers), rice millers, agricultural traders, and urban food retailers.

The relevant survey questions are organized around the following topics, with respect to the period since COVID-19 first began having serious effects on Myanmar in March 2020:

- **Effects on sources of financing.** Changes in sources of financing–whether respondents became reliant on formal (e.g., MFI, bank, Myanmar Agricultural Development Bank (MADB)) or informal (moneylender, community networks) borrowing, and specifically whether respondents became reliant on microfinance.
- **Effects on servicing debt.** The extent of reduced capacity to repay outstanding loans, which may have led to loan restructuring and/or default.
- **Effects of financing shortages on inputs.** The extent to which access to finance was a constraint for input investments, particularly during the monsoon planting season in May and June 2020.
- **Changes in MADB performance.** MADB is probably the most important single source of financing for small- and medium-holder agricultural producers. Did MADB tend to disburse their loans later than usual this year, perhaps of COVID-19-related challenges?
- **Policy responses.** What do survey respondents think are the optimal policy responses?

Community survey

The National COVID-19 Community Survey (NCCS) is a community-level survey conducted for the first time between June 23 and July 16, 2020. During the first round of the survey, respondents from 89 urban wards and 219 rural villages in about half of Myanmar's 356 townships were interviewed. Despite inclusion of communities across all of Myanmar's States and Regions, the sample is not representative of all communities in Myanmar. Further data was collected through quasi-monthly repeated phone surveys until the end of 2020.[5] Over time, the sample size was further increased. The sixth round of the survey included responses from 111 urban wards and 372 rural villages in a total of 193 different townships. Unlike in conventional household surveys, MAPSA asked respondents not about themselves or their households but about their communities. Interview responses captured community member perceptions of what is happening in their communities, so some responses are at least partially subjective. The specific objectives of the survey were to assess community conditions pertaining to COVID-19 prevention measures, poverty and food insecurity, access to social safety nets or other forms of assistance, migration, agricultural production and marketing, and exposure to different kinds of shocks. For this report, we focus on variables related to financing and agricultural productivity.

We begin by looking at how communities coped with income losses from COVID-19, whether through financing or other strategies, in Table 1 and Table A1. We see that obtaining credit/loans is the dominant coping strategy, at 84 percent and 77 percent of communities in early July and August, respectively, with high levels observed across all rounds (none lower than 70 percent). The rates of reporting this strategy are largely consistent across geographies, including between urban and rural (see Table A1). Help from the government tends to be the second most popular coping strategy in the early rounds, though this is flipped as respondents relied more on own savings in the latter

[5] Times of data collection in 2020 were as follows: Round 1=June 23–July 16; Round 2=August 4–August 22; Round 3=September 7–September 25; Round 4=October 7–October 24; Round 5=November 9-November 25; Round 6=December 7-December 22.

rounds. There seems to be a particular tendency to rely on government support in the Dry Zone and Western regions and to a lesser extent in urban areas (as opposed to rural).

Table 1. Three main coping strategies for income loss, percentage reporting

	Jan-May 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020
Obtained credit/loan (%)	84	77	75	71	70	70
Relied on own savings (%)	18	17	26	43	29	30
Help from government (%)	20	29	27	21	22	19
Work as agricultural wage labor (%)	6	4	4	9	17	17
Reduced food expenditures (%)	19	8	17	14	17	11
Rely on collecting vegetables/fruits from the forest (%)	9	9	18	16	10	11
Sold non-agricultural assets (%)	3	4	5	9	6	5
Reduced essential non-food expenditures (%)	6	12	19	7	5	4
Adult household members took on more work (%)	8	5	3	5	4	2
Help from NGO/other non-government donations (%)	6	3	2	2	2	2
Sold crop stock or livestock or agricultural assets (%)	3	1	2	5	4	4
Number of observations	*308*	*370*	*481*	*486*	*480*	*483*

Source: Myanmar Agriculture Policy Support Activity–National COVID-19 Community Survey.

Reducing food consumption/expenditure is the third most common coping strategy in early July. However, it is quickly overtaken by reducing consumption of non-essentials and then ultimately by sold/exchange/shared assistance (i.e., informal sharing and insurance mechanisms) towards the end of 2020, as the latter overcomes even government assistance and own savings as a dominant mechanism for mitigating the impacts of COVID-19. Having adult household members take on extra work and informal food collection are less common strategies, perhaps because additional paid work was difficult to obtain through much of the crisis.

Next, we study sources of financing in Table 2. Borrowing from friends and relatives is by far the most common strategy, peaking at 92 percent in September and never dipping below 72 percent. There is remarkably little geographic heterogeneity in the figures, even between urban and rural areas (results available on request). Informal borrowing such as from groups or moneylenders is the second most common strategy, rising in popularity from the earlier to later rounds. Borrowing from microfinance institutions is third most popular at 30 percent in July but increasing to 48 percent in December. The tendency for increased microfinance borrowing in later rounds may reflect liquidity injections and greater loan recovery in the sector before the second wave of COVID-19 cases became severe. There is not tremendous variation in these strategies by geography, though informal borrowing tends to be more common in urban areas, perhaps because informal lenders are better financing in urban areas. We observe a moderate rate of receiving MADB loans, generally at 15 percent or below. Other sources of borrowing such as through agricultural traders, input dealers, and formal banks, are the least common, almost uniformly below 12 percent. Taking monetary advances from one’s workplace seems to be almost unheard of as a coping strategy.

Table 2. Main sources of borrowing for community members, percentage reporting

	Jan-May 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020
Relatives or friends (%)	90	91	92	85	72	74
Informal bank / group/ lender (%)	45	42	45	56	59	59
Microfinance institution (%)	30	35	33	29	37	48
Non-agricultural trader (%)	1	4	11	14	15	15
MADB (regular loan) (%)	13	2	10	15	13	13
MADB (special COVID-19 loan) (%)	1	1	9	15	11	13
Agricultural trader or input dealer (%)	4	4	4	12	7	2
Another formal bank/NGO (%)	3	0	2	3	6	8
Number of observations	*308*	*370*	*481*	*486*	*480*	*483*

Source: Myanmar Agriculture Policy Support Activity–National COVID-19 Community Survey.

An important concern for the rural economy was that lockdowns and movement restrictions might prevent the movement of goods and services in and of produce out. This may also impact access to finance, as moneylenders, MADB staff, and microfinance loan officers may be prevented from accessing clients while households may be unable to travel to visit branch offices. In July, 27 percent of households report having had problems accessing banks or other financial institutions to withdraw money or obtain loans since January (Table 3; also see Table A2). This decreased to 6 percent by August, remained below 7 percent for each month until November, then rose to 11 percent in December with the second wave of COVID-19 (notably, 20 percent in Delta, and 21 percent in urban areas in December).

Table 3: Communities with difficulties accessing financial services, percentage reporting

	Jan-May 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020
Difficulty accessing any financial services (%)	27	6	3	4	7	11
Postponed loan officer's visits (%)	12	3	2	4	3	8
Cancelled date of loan distribution (%)	14	3	1	3	1	2
Microfinance office is closed (%)	10	1	0	0	0	2
Loan officer didn't come to village (%)	16	1	1	0	2	1
Shortage of money in ATM (%)	0	0	0	0	1	1
Closed bank (%)	2	0	0	0	1	0
Number of observations	308	370	481	486	480	483

Source: Myanmar Agriculture Policy Support Activity–National COVID-19 Community Survey.

Looking at specific disruptions, a pressing issue between January and May was the closure of microfinance offices (10 percent of all communities). There were even higher shares of communities reporting disruptions to loan officer activities such as lending officers not coming to the village (16 percent), cancelling the date of loan distribution (14 percent), and postponing loan officer visits (12 percent), which are strongly correlated with branch closures. In subsequent rounds, difficulties due to branch closures died down while challenges due to loan officers not coming to the village declined more slowly, followed by a reemergence in November and December.

The August survey round also provides results on challenges in servicing, financing, and accessing MADB loans. For the most part, community leaders reported that people can repay their loans, with 78 percent reporting that people in their location repaid their loans normally or returned to a normal repayment schedule. Those who did not repay normally would either restructure/delay repayment or default. Restructure/delay was most common in Dry Zone and South-east (28 percent each) and least common in North (15 percent). Defaults were reported at a rate of 12 percent overall, most common in North (20 percent), South-East (14 percent), and Delta/South (11 percent), and more common in rural areas (between 14 percent and 6 percent).

Regarding MADB borrowing, on average 51 percent of respondents report an awareness of MADB loans prior to COVID-19 in their community, most common in the Dry Zone (59 percent) and West (64 percent), and much more common in rural areas (between 66 percent and 13 percent). 75 percent of respondents report that MADB loans tend to arrive in time for monsoon planting in a normal year. 78 percent of respondents report that MADB loans generally arrived around the usual time in 2020, with 8 percent reporting a 0-2 week delay on average, and 7 percent reporting a delay of more than two weeks, and another 7 percent reporting a delay of more than a month. While these delays are notable, the rates are low enough that they probably didn't drastically effect Myanmar's expected monsoon agricultural output.

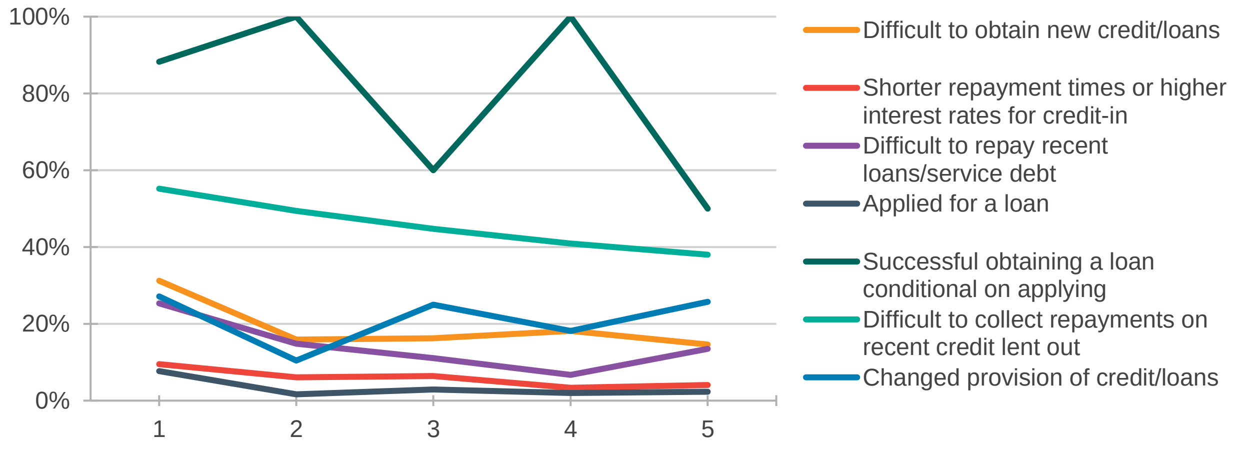
Agricultural input retailers

Agricultural input retailers are typically small and medium enterprises supplying agricultural inputs to a regional area. As many agricultural inputs such as fertilizer and seed can be quite bulky, it makes sense for retailers to be located relatively close to where production happens. Because of the unique timing of agricultural input use, with a few intensive periods of take-up throughout the year, credit can play an important role in the efficient operation of this supply chain. Input retailers may receive trade credit from their suppliers or third-party financial institutions, while they also may sell to farmers and other producers on credit.

To build a sample of input retailers, we compiled phone numbers from three sources: (i) previous value chain studies conducted in person in 2017 and 2018; (ii) government registration lists; and (iii) contacts from the private sector. The final sample covered six states and regions–Shan, Kachin, Bago, Ayeyarwady, Sagaing, and Mandalay–that collectively account for about two-thirds of Myanmar's agricultural production by value, cultivated area, and farmers. We have data from five rounds of interviews starting in mid-May and recurring once every two weeks through July. While the survey was a panel, there was some natural attrition and the sample size was between 149 and 221 respondents per round.

First, we plot trends in credit status in Figure 1, which reports on several variables capturing challenges that input retailers might face in accessing or issuing credit. Overall, most indicators show that a minority of input retailers are affected by credit-related challenges–30 percent or less in most rounds. Over time, the trends are either largely flat, or tend to decline, with a particularly strong decline in most indicators from Round 1 to Round 2 of the survey.

Figure 1. Rounds 1-5 agricultural input retailers: financing experiences



Number of observations: Round 1=221; Round 2=182; Round 3=172; Round 4=149; Round 5=171.
Source: Myanmar Agriculture Policy Support Activity–Agricultural input retailers phone survey

On the credit access side, by Round 2, just under 20 percent of retailers report difficulties in obtaining loans and this tendency is largely flat across the remaining rounds (Figure 1). Less than 10 percent report challenges like shorter loan repayment times or higher interest rates. The tendency to face difficulty with repayment is highest in Round 1 at about 30 percent, then dips as low as 10 percent in Round 4, showing a slight increase again in Round 5. We see that a very small proportion applied for loans, and within that group the loan approval rate is highly volatile, ranging anywhere from 50 percent to 100 percent in a given round. However, this volatility is likely due to very small sample sizes, with less than ten loan applicants in each round.

The numbers are larger if we restrict the sample to the 134 respondents who responded in each of the five rounds, and report on whether they answered "yes" at least once to any of the questions. While their responses are qualitatively similar on a round-by-round basis, we see that 58 percent report difficulty in obtaining credit/loans, 22 percent report shorter repayment times or higher interest rates, and 46 percent report difficulty in repaying recent loans/servicing debt, yet only 13 percent applied for credit overall.

We also have information on where respondents make loan applications, summarized in Table 4. However, we are cautious about interpreting these numbers, as the total number of loans (35) is relatively small. It is notable that there are no applications to MADB, the Green Revolution Fund, or the Government/Department of Cooperatives. It is likely that input suppliers are not directly eligible for such funding. We see a small number of applications to private banks and NGO/MFI, particularly in Rounds 1 and 2. Interestingly, despite their capital intensity, these enterprises seem to rely heavily on informal credit, particularly friends/family, which is the most frequent source of lending. Only three of 35 loans fit in the category of trade credit from traders or another business.

Table 4. Borrowing sources for agricultural input retailers by survey round, percentage reporting

Round	1	2	3	4	5
Private bank (%)	5	0	40	0	50
Friends/family (%)	50	33	60	100	25
NGO/MFI (%)	10	67	0	0	0
Traders (%)	10	0	0	0	0
Private money lenders (%)	10	0	0	0	0
Another business (%)	5	0	0	0	0
Another individual/household (%)	5	0	0	0	0
Other (%)	5	0	0	0	25
Number of applications	*20*	*3*	*5*	*3*	*4*

Source: Myanmar Agriculture Policy Support Activity–Agricultural input retailers phone survey

Referring to Figure 1, on the credit supply side, we see the tendency to report difficulties in collecting on loans lent out steadily declining from nearly 60 percent in Round 1 to below 40 percent in Round 5. While somewhat uneven over time, overall, about 20 percent report changing their provision of credit/loans. Within the sample of 134 respondents who responded in all five rounds, 87 percent report difficulty to collect repayments on recent credit lent out in at least one round and 66 percent report changing their provision of credit/loans.

In Round 5 we further queried respondents about whether they will change their provision or terms of credit in the coming cropping season, to which 35 percent responded "yes". Seventy-eight percent of these respondents reported that they will offer inputs on credit to fewer customers, by far the most common response, which potentially reflects an emerging credit crunch in input supply. The other options received far fewer responses (8 percent would offer inputs on credit to more customers, 3 percent would reduce the interest rate or extend the repayment period, 5 percent would increase interest rate or reduce the repayment period, and 8 percent reported other responses).

Finally, we also query input retailers about their policy preferences to address the crisis. These questions were asked only in Round 2, so relatively early in the crisis, and responses are summarized in Table 5.

Table 5. Policy preferences of agricultural input retailers, percentage reporting

Which policy would be most helpful to your business?	1st	2nd
Allow businesses to stay open during COVID-19 crisis (%)	36	29
Reduce taxes (%)	18	6
Support farmers with cash or loans to increase demand for inputs (%)	13	16
Ease restrictions on imports/exports/border trade of agricultural inputs (%)	11	9
Ease transport and movement restrictions on agricultural inputs within Myanmar (%)	9	8
Government-supported loans to small businesses (%)	8	13
Other (%)	5	19
Number of observations	*182*	*182*

Source: Myanmar Agriculture Policy Support Activity–Agricultural input retailers phone survey

We see that the most preferred policy response is to allow businesses to stay open during the crisis, with 36 percent and 29 percent of respondents stating this as either their first or second most preferred policy, respectively. Sixty-four percent of respondents also stated this policy in at least one round. Respondents express varying levels of support for reducing taxes (24 percent selected this either first or second most helpful policy), receiving government-supported loans (21 percent), and supporting farmers so they can buy more inputs (30 percent). These findings show not only that the most overwhelming preference is support for allowing businesses to remain open but also that there is a diversity of experiences and that input suppliers may be affected in a variety of ways by the crisis, which necessitates a variety of policy responses. However, these results seem to suggest that input supply retailers were not facing an overwhelming credit crunch even after passing through the most important agricultural input supply season in May and June.

Agricultural producers (farmers)

The Agricultural Production and Gender Survey (AgProGrS) focuses on the impact of COVID-19 on rural livelihoods, including agricultural activities and differences by gender. The surveyed communities lie in the catchment areas of two irrigation sites in Myanmar's Central Dry Zone. This sample was purposely chosen because a baseline survey was conducted in January 2020 for a research project related to gender and nutrition, prior to the onset of COVID-19 (Ragasa et al. 2020). The first phone survey was conducted from June 10 to June 17, 2020 and covered the time from February to end of May 2020 (Round 1). In this telephone survey, 1,072 male and female respondents from 606 households were interviewed about their individual and household's experiences related to COVID-19. Subsequent phone surveys have been organized at two-month intervals until June 2021, but the data from 2021 will not be reviewed here (in addition to Round 1, we cover Round 2: July-July 2020; Round 3: August-September 2020; and Round 4: October-November 2020). The same respondents were interviewed in each round, though the sample reduced over time due to attrition. Data are weighted considering attrition to be representative of households in the study communities, but they are not representative for the Central Dry Zone.

The Community Survey questionnaire (discussed above) was also conducted with respondents from four different communities in the AgProGrS sample. This enables situating this sample within the wider national perspective. These data indicate that the AgProGrS communities have a relatively lower share of food insecure households compared to the average profile of rural communities in the Dry Zone and nationwide. This is likely related to greater access to irrigation infrastructure.

Table 6 presents data on loan repayments, and hints at the financing challenges of farmers as COVID-19 had begun to set in. Regarding loans taken prior to June, farmers were overwhelmingly able to pay off their outstanding loans (97 percent), with less than 2 percent reporting loan restructuring or full/partial default. The numbers are similar between landed and landless households. However, 28 percent report that it was more difficult than usual to get loans during June or July, though at double the rate amongst landless households (37 percent to 24 percent). These challenges continue to rise in August-September and October-November, as loan repayment rates are lower (83 percent and 88 percent), renegotiation is higher (10 percent and 4 percent), no/partial repayment rates are higher (8 percent) and difficulties in getting a loan are higher (34 percent and 38 percent), respectively. These struggles tend to be greater among landless households, particularly in struggles with loan repayment and obtaining a new loan.

Table 6. Financing experiences of landed and landless households in Central Dry Zone, June-November 2020

	Jun-Jul			Aug-Sep			Oct-Nov		
	All	Landed	Landless	All	Landed	Landless	All	Landed	Landless
Loans prior to [month]: repaid as normal (%)	97	96	99	83	90	59**	88	91	78
More difficult than usual to get loan in [month] (%)	28	24	37	34	29	48	38	31	64**
Loans prior to [month]: no or partial repayment (%)	2	2	0*	8	4	20	8	4	22*
Loans prior to [month]: renegotiated/ delayed payments (%)	2	2	1	10	6	20	4	5	0**
Number of observations[6]	*543*	*474*	*69*	*503*	*441*	*62*	*493*	*436*	*57*

Note: Asterisks denote significant differences between landed and landless households at *** p<0.01; ** p<0.05 and * p<0.10
Source: Myanmar Agriculture Policy Support Activity–Agricultural Production and Gender Survey

We then focus on landed farmers with crops in the field at the time of the survey in Table 7. Financial difficulties after the onset of COVID-19 was a particular worry in South Asia, which critically depends on the monsoon growing season in the May-to-September period. Across the three survey rounds, 6 percent, 8 percent, and 8 percent, respectively, report investing a lot less than usual, and 8 percent, 18 percent, and 14 percent, respectively, report investing less than usual in agriculture, due at least in part to financing constraints. Across the three rounds, 14 percent, 20 percent, and 17 percent, respectively, report difficulties in purchasing inputs, perhaps because COVID-19-related restrictions affecting input value chains though potentially also related to lower production due to drought in the pre-monsoon season. Overall, it appears that the effects are not negligible, but also not drastic, and while many farmers report disruptions, the majority (roughly 75 percent) of farmers in our sample were able to invest in the monsoon season largely as normal.

[6] Questions regarding loans are only answered if applicable. There is a fairly high rate of NA (about 50%) relative to the number of households responding to the survey listed in the last row of the table.

Table 7. COVID-19 impacts on investment in agricultural inputs, percentage reporting

	Jun-Jul	Aug-Sep	Oct-Nov
No effect (same as normal or access to finance was not a constraint) (%)	86	74	78
Difficulty purchasing inputs (%)	14	20	17
Invested less than usual, partly due to finance constraints (%)	8	18	14
Invested much less than usual, partly due to finance constraints (%)	6	8	8
Number of observations	638	441	616

Note: Investments pertain to crops planted in the past two months for each survey round.
Source: Myanmar Agriculture Policy Support Activity–Agricultural Production and Gender Survey

Table 8 provides an overview of the effects of COVID-19 on household income and borrowing. In the period February through May 2020, 55 percent of households report a decrease in income due to COVID-19, whilst 40 percent report borrowing to deal with the reduction in income. These income effects are relatively more pronounced for landless (71 percent) than landed (48 percent) households. In June and July, similar proportions of 60 percent of households report impacts of COVID-19 on income, with 43 percent report borrowing to deal with the reduction in income. It appears that the distinction between COVID-19 related borrowing and other borrowing is important, as 48 percent report borrowing regardless of income loss, and 55 percent report borrowing overall in June or July. Landless households are more likely to report income loss (77 percent compared to 65 percent) but are less likely to borrow (only 33 percent of landless households vs. 65 percent of landed households).

Table 8. COVID-19 impacts on income and borrowing, for all, landed, and landless households, percentage reporting

	Feb - May			June - July			Aug - Sept			Oct - Nov		
	All	Landed	Land-less	All	Landed	Land-less	All	Landed	Land-less	All	Landed	Land-less
Decreased total household income due to the COVID-19 crisis (%)	55	48	71***	60	54	73**	69	65	77*	66	62	76
Borrowed to deal with income reduction (%)	40	38	43	43	48	35	37	42	26**	27	27	26
Borrowed (regardless of income loss) [a] (%)	n/a	n/a	n/a	48	60	24***	38	46	21***	18	20	11
Borrowed (any reason-total)[a] (%)	n/a	n/a	n/a	55	65	33***	48	55	32***	28	29	26
Borrowing source [b] (%)												
Microfinance organization [a]	n/a	n/a	n/a	27	17	66***	34	29	54*	54	63	33*
Relatives or friends	46	49	44	12	8	28	19	16	32	39	31	62**
MADB (regular loan)	13	24	0	67	82	4***	49	61	3***	14	19	0
MADB (special COVID-19 loan)	0	0	0	38	46	4***	32	41	0***	7	10	0**
Informal bank/group/lender	38	33	43	1	0	5	8	5	20	9	5	19
Agricultural trader or input dealer	2	3	0	0	0	0	1	2	0*	0	0	0
Non-agricultural trader	0	0	0	0	0	0	0	0	0	0	0	0
Another formal bank/NGO	22	17	29	4	4	1	2	2	3	7	5	12
Other	2	4	0**	0	0	2	3	3	3	0	0	0
Number of observations	606	522	84	543	474	69	503	441	62	493	436	57
Number of observations (borrow to deal with reduction)	311	249	62	304	253	51	340	292	48	325	277	48
Number of observations (borrowing source)	131	105	26	335	312	23	271	248	23	146	131	15

Note: Asterisks denote significant differences between landed and landless households at *** p<0.01; ** p<0.05 and * p<0.10.
[a] Question was not asked during round one of the survey.
[b] Round 1 borrowing source is only for those borrowing to deal with a reduction in income, whereas in following rounds this is for any borrowing, either due to reduced income, otherwise or both.
Source: Myanmar Agriculture Policy Support Activity–Agricultural Production and Gender Survey

Between August and November, we see COVID-19 negatively impacting incomes at even higher rates (69 percent and 66 percent, respectively). However, borrowing rates largely declined, especially by October-November. Borrowing rates amongst landless households tended to be much lower. Lower borrowing rates may partly be a function of enhanced household liquidity as they began to harvest crops at the end of the monsoon season, while at the same time other borrowing sources get tapped out, particularly for landless households with lesser ability to provide security for loans.

Next, we look at the sources of household borrowing for those who borrowed. Borrowers were able to report multiple sources. Overall, we see heavy borrowing from informal sources during the early onset of COVID-19 (between February and May, 46 percent from relatives or friends and 38 percent from informal bank/group/ lender). However, we observe a major infusion of loans from MADB starting from June-July, with 82 percent of landed households reporting regular MADB loans and 46 percent MADB COVID-19 special loans. This appears to partly substitute for informal borrowing, which dips under 15 percent in the same period.

MADB borrowing reduced between August and November as expected. As Myanmar shifted into monsoon growing and then harvesting season, we see a gradual recovery in the importance of informal borrowing. Loans from MFIs became more prominent from June onwards, conditional on borrowing, from 27 percent to 34 percent to 54 percent. This trend is perhaps fitting with the liquidity crunch faced by MFIs early in the COVID-19 period, which was lessened by policy interventions in Q3 2020. Borrowing from formal banks or NGOs remained relatively low, peaking at 7 percent in October-November.[7] Interestingly, rates of informal borrowing from traders or input dealers remain negligible at less than 2 percent throughout, though this may be partly explained by seasonality as these respondents were not surveyed during the most intensive pre-planting period. The distinction between landed and landless households is largely as expected; landless households are less likely to borrow than landed households. If they do borrow, this is more likely from MFIs, though there is a notable reversal in October-November.

In June-July we also asked farmers about the performance of the MADB during the primary monsoon lending season (Table 9). Since MADB only lends to landed households, we only report on these households. There are regularly delays in MADB loan disbursements during the monsoon season, with the gap between planting and disbursement often covered through borrowing from informal and other formal (e.g., MFI) sources. We might be particularly concerned about delays during COVID-19, as COVID-19-related restrictions and general uncertainty could multiply the challenges faced by MADB. Based on our sample of farmers, these effects are not negligible, but also not drastic, with 20 percent of farmers reporting delays in receiving loans from MADB, relative to a regular year. 8 percent report a short delay (less than two weeks), while 12 percent report a longer delay (greater than two weeks).

Table 9. MADB lending delays reported by households with MADB loan, June-July 2020

	Percentage reporting
No delay	80
Minor delay (<2 weeks)	8
Significant delay (>2 weeks)	12
Number of observations	273

Source: Myanmar Agriculture Policy Support Activity–Agricultural Production and Gender Survey

We can also provide insights on differences in financing outcomes between households with male and female adults (dual-adult households (DAH)) compared to households where only women adults are present (women adult only households (WAH)). We present the comparisons in Table 10.

[7] This figure is difficult to interpret in Round 1, as microfinance institutions and banks/NGOs were combined in the relevant survey question.

Regarding loans taken prior to June, we see negligible differences in repayment between DAH and WAH. However, WAH are economically and statistically significantly more likely to report greater difficulties in accessing loans in June and July (42 percent to 25 percent). In the following months, we see a notably worsening trend for WAH as the end of the monsoon season approaches. In both August-September and October-November, female-only households are much less likely to repay loans as normal (57 percent for WAH and 86 percent for DAH, and 62 percent to 92 percent, respectively). In August-September this gap is largely made up by much higher renegotiated/delayed payments (31 percent to 7 percent), while in October-November it is largely made up by no or partial loan repayment (36 percent to 4 percent). WAH are moderately more likely to report greater difficulty in accessing loans.

Table 10. Financing experiences June-November 2020, by gender of adult household members, percentage reporting

	Jun-Jul		Aug-Sep		Oct-Nov	
	DAH	WAH	DAH	WAH	DAH	WAH
More difficult than usual to get loan (%)	25	42*	33	40	35	56*
Loans prior to [month]: repaid as normal (%)	97	94	86	57*	92	62*
Loans prior to [month]: renegotiated/delayed payments (%)	1	6	7	31*	4	2
Loans prior to [month]: no or partial repayment (%)	2	0*	7	12	4	36*
Number of observations	484	59	448	55	442	51

Note: DAH=Dual adult households; WAH=Women adult-only Households. Asterisks denote significant differences between DAH and WAH at *** p<0.01; ** p<0.05 and * p<0.10.
Source: Myanmar Agriculture Policy Support Activity–Agricultural Production and Gender Survey

With regards to income losses, there is no significant difference between WAH and DAH in our sample (Table 11). In June-July, WAH are more likely to experience a loss (64 percent to 59 percent), however we revert to WAH being less likely to experience an income loss in Round 3 and Round 4. However, with respect to borrowing we see a notable reversal, with female-only households experiencing less borrowing (to mitigate COVID-19 or not), with many large and statistically significant effects across Rounds 2 and 3. By Round 4, none of the differences in borrowing are statistically significant and women are again more likely to borrow to deal with the reduction income. These patterns may be consistent with greater demand and credit rationing towards enterprises in the early months of the crisis, and a return to more normal conditions before the second wave of COVID-19 cases hit too severely. There may also be normal seasonal patterns whereby female-only households are relatively less likely to receive loans during the heavy monsoon lending season in June and July.

Table 11. Impacts of COVID-19 on income and borrowing response, by gender of adult household members

	Feb-May		Jun-Jul		Aug-Sep		Oct-Nov	
	DAH	WAH	DAH	WAH	DAH	WAH	DAH	WAH
Decreased total household income due to COVID-19 (%)	56	50	59	64	71	57	68	55
Borrowed to deal with income reduction (%)	39	50	47	21 **	39	19 *	25	38
Borrowed (regardless of income loss)[a] (%)	n/a	n/a	51	31 **	40	25 *	18	15
Borrowed (any reason-total)[a] (%)	n/a	n/a	58	37 **	51	32 **	27	31
Borrowing source[b] (%):								
Relatives or friends	45	56	11	27 *	17	40	31	85 ***
Microfinance organization [a]			28	14	37	14 **	62	15 ***
Informal bank / group/ lender	42	17 **	2	0	9	3	11	0 ***
MADB (regular loan)	13	13	67	65	50	33	16	0 ***
MADB (special COVID-19 loan)	0	0	37	42	32	32	8	0 ***
Agricultural trader or input dealer	2	0	0	0	2	0 *	0	0
Non-agricultural trader	0	0	0	0	0	0	0	0
Another formal bank/NGO	21	28	4	0 *	2	3	9	0 *
Other	2	3	0	4	3	0 *	0	0
Number of observations	537	69	484	59	448	55	442	51
Number of observations (borrow to deal with reduction)	274	37	270	34	306	34	292	33
Number of observations (borrowing source)	112	19	304	31	247	24	131	15

Note: DAH = Dual Adult Households; WAH = Women Adult only Households; Stars denote significant differences between DAH and WAH at *** p<0.01; ** p<0.05 and * p<0.10.
[b] This question was not asked during the round 1 of the survey. Round 1 borrowing source is only for those borrowing to deal with reduction in income, whereas in following rounds this is for any borrowing either due to reduced income, otherwise or both.
Source: Myanmar Agriculture Policy Support Activity–Agricultural Production and Gender Survey

Regarding sources of borrowing, there are few significant differences between WAH and DAH in February-May. In June-July and August-September, we find that WAH are significantly less likely to borrow. Regarding borrowing sources, WAH are also less likely to borrow from informal bank/group/lender (17 percent to 42 percent in Feb-May) and are more likely to borrow from friends or relatives (85 percent to 31 percent in Oct-Nov). In August-September, we observe WAH being less likely to borrow from MFIs (14 percent to 37 percent), notable as MFIs tend to have a large female client base.

Rice millers

Myanmar's rice milling sector can be categorized by traditional small-scale mills and modern medium and large-scale mills. While the traditional mills outnumber the modern mills, modern mills produce most of the marketed rice. Modern rice millers typically run relatively large agricultural enterprises as an interface between farmers, aggregators, and distributors. While many mills operate and purchase paddy almost year-round, they face a particularly substantial need for liquidity during the monsoon rice harvest around September, when they seek to purchase large amounts of freshly harvested wet paddy. They also face ongoing investment costs to maintain milling, drying, and potentially distribution facilities.

MAPSA conducted five rounds of phone interviews beginning in July 2020 and recurring approximately every month until November to understand how rice millers were impacted by COVID-19 policy responses. Our sample consists of medium- and large-scale mills in Ayeyarwady, Bago, and Yangon regions, and comes from a 2019 study conducted by the Ministry of Commerce and the International Growth Centre, who partnered with MAPSA for the phone surveys. The sample sizes varied across rounds between 371 and 470 rice millers according to respondent availability and mill closures–mostly due to normal seasonality.

Table 12summarizes the effects of COVID-19 on the financial condition of rice millers, on the demand side. Less than a quarter of millers report being affected by credit access challenges such as difficulties obtaining credit, worse credit terms, or difficulty repaying credit, and these challenges generally decline substantially from Round 1 to Round 2. Consistent with the release of government COVID-19 relief loans to agribusinesses in August and the improved credit conditions loan applications increased by Round 2, it is notable that rice millers experienced much lower success in their credit applications in Rounds 2-4 (57 percent, 52 percent, 31 percent). It is possible that the increase in loan applications was partly driven by less-qualified borrowers, yet it may also be the case that suppliers were also facing increased financial constraints of their own by Round 2. Loan applications then fell in Rounds 3, 4, and 5, likely driven by lower demand as cash flow increased from processing paddy from the monsoon harvests.

Table 12. Credit access for rice millers in survey rounds 1-5, percentage reporting

	Rd 1	Rd 2	Rd 3	Rd 4	Rd 5
Successful obtaining a loan conditional on applying (%)	85	57	52	31	82
Applied for a loan (%)	29	38	16	14	12
Difficult to obtain new credit/loans (%)	22	13	6	11	3
Shorter repayment times or higher interest rates for loans from suppliers (%)	13	6	2	9	3
Difficult to repay recent loans/service debt (%)	18	7	7	6	1
Number of observations	356	252	261	349	396

Source: Myanmar Agriculture Policy Support Activity–Rice miller survey

We can get some additional insight on loan applications and rejections from questions on loan application sources from Round 1 (Table 13). Prior to the release of the broader government COVID-19 relief loans, nearly two thirds of all rice miller loan applications were to private banks. The share of applications to MADB (13 percent) and to MFI/NGOs (5 percent) were much lower. Loan applications had a high success rate to private banks (90 percent) and overall (75 percent), but lower success rates for MFI/NGOs. The pattern of applications and success rates reflects the scale of milling operations and credit amounts required by these medium and large enterprises.

Table 13. Loan application sources and success among rice millers, percentage reporting

	Applied (%)	Successful applications (%)
Bank	64	90
MADB	13	92
Government COVID-19 support	10	70
MFI/NGO	5	40
Gov't Cooperatives Department	1	100
Other	8	75
Number applying	104	
Overall share applying (%)	29	

Source: Myanmar Agriculture Policy Support Activity–Rice miller survey

On the supply side, we see analogous patterns in Table 14, as less than a quarter to a third of rice millers report challenges on the credit provision side (i.e., providing loans through the value chain to their rice suppliers such as traders and farmers). This share declined in later rounds. Repayment difficulties also tended to decline over time and were negligible after the monsoon harvests in Round 5.

Table 14. Credit provision among rice millers in survey rounds 1-5, percentage reporting

	Rd 1	Rd 2	Rd 3	Rd 4	Rd 5
Changed provision of credit/loans	18	n/a	n/a	n/a	n/a
Difficult to collect repayments on recent credit lent out	33	24	12	19	3
Higher demand for credit out	n/a	22	7	8	7
Number of observations	356	252	261	349	396

Note: n/a=Question not asked in survey round.
Source: Source: Myanmar Agriculture Policy Support Activity–Rice miller survey

We also asked millers about what they thought to be the most helpful policy response to COVID-19, allowing for multiple responses (Table 15). As this question was not limited to financing, it allows us to compare preferences for financial support to other means of support. There is a clear preference for new financing or lessening short-term financial burdens, as 81 percent of millers selected government supported business loans, the most of any policy, and 58 percent supported tax cuts or deferrals. Yet only 8 percent selected loan payment deferrals. This may reflect that deferrals were already being provided without additional government action or that rice millers were not carrying excessively heavy debt burdens into the COVID-19 period, which is corroborated by relatively few reporting an inability to repay loans as a key challenge in Table 12Table 12. In any case, it appears that rice millers would particularly benefit from new sources of financing.

Table 15. Most beneficial policy response cited by rice millers, percentage reporting

	Rd1 (%)
Gov't supported business loans	81
Tax cuts or deferrals	58
More consistent electricity	27
Loan payment deferrals	8
Salary subsidies for workers	7
Cash transfers/unemployment	2
Rental or utilities subsidies	2
Lifting travel restrictions/curfews	2
Other	1
Number of observations	356

Source: Myanmar Agriculture Policy Support Activity–Rice miller survey

The government's COVID-19 business loans, first rolled out in August 2020, could be seen as addressing the preference for financing policies. In the November survey round we asked rice millers and 46 percent had applied for the government's COVID-19 relief loans since August 2020, with a 53 percent approval rate conditional on applying.

Agricultural traders

Agricultural traders play a critical role in agricultural value chains, as collectors, aggregators and facilitators of agricultural trade. Traders are often small and medium enterprises that serve as the trade link between individual farmers and other producers, and larger aggregators, wholesalers, and the like. Similarly, to other supply chain members like input retailers and rice millers, the financial needs of traders are particularly pressing at certain times of the year, in this case particularly around harvest season. Traders may receive credit from their larger business partners down the supply chain, while intermediating credit to their producer-clients. On the other hand, the trade sector, particularly larger traders, are known for being quite financially independent, often net savers in the commercial banking system.

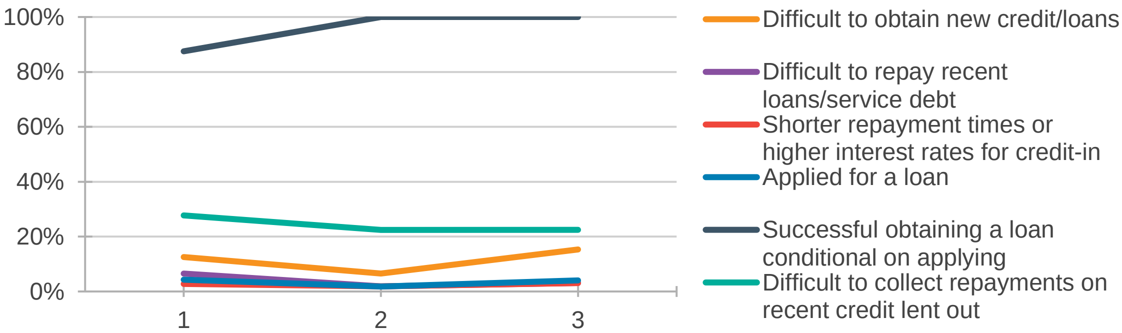
As the basis of the phone survey sample, we used phone numbers from two previous value chain studies covering maize traders in Southern Shan and oilseeds and pulses traders in the Central Dry Zone. We randomly ordered traders within state/region and called traders until we achieved our overall sample target of 150 traders. We have three rounds of data from the agricultural trader interviews conducted in May, June, and August 2020, with 154, 107, and 98 respondents across the three rounds, respectively.

First, we plot trends in credit status in Figure 2, which provides several variables capturing challenges that crop traders might face in accessing or issuing credit. Overall, most indicators show that a minority of crop traders are affected by credit-related challenges, 30 percent or less in all rounds. Over time, most trends are either largely flat, or tend to decline, with a particularly strong decline in most indicators from Round 1 to Round 2 of the survey, though difficulty in obtaining new loans notably increases between Rounds 2 and 3.

On the credit access side, credit access challenges vary between 10-20 percent reporting, with the highest value in Round 3, potentially flagging challenges toward the critical monsoon harvest season. Less than 5 percent report challenges with repaying loans or facing shorter repayment times or higher interest rates on borrowing. We see that a very small proportion applied for loans, less than 5 percent, however within that group the loan approval rate is high, ranging anywhere from 88 percent to 100 percent in a given round.

The numbers are moderately larger if we restrict the sample to the 75 respondents who responded in each of the three rounds, and report on whether they answered "yes" at least once to any of the questions. While their responses are qualitatively similar on a round-by-round basis, we see that 27 percent report difficulty in obtaining credit/loans, and only 12 percent report difficulty in repaying recent loans/servicing debt, with only 5 percent applying for credit overall.

Figure 2. Agricultural Traders Rounds 1-3: Experiences with financing



Number of observations: Round 1=184; Round 2=107; Round 3=98.
Source: Myanmar Agriculture Policy Support Activity–Agricultural commodity traders

We also have information on where respondents make loan applications, reported in Table 16, however we are cautious about interpreting these numbers, as the total number of loans (22) is relatively small. It is notable that there are no applications to the MADB, Green Revolution Fund, the Government/Dept of Cooperatives, or other households.[8] We see a small number of applications to

[8] We omit sources of borrowing with zero applications.

private banks and NGO/MFI. Interestingly, despite their capital intensity, these enterprises seem to rely a lot on informal credit, particularly friends/family, which is easily the most frequent source of lending. Only 3/22 loans fit in the category of trade credit, from traders or another business.

Table 16. Agricultural trader borrowing sources in survey rounds 1-3, percentage reporting

Round	1	2	3
Friends/family (%)	40	25	25
Private bank (%)	10	0	13
Traders (%)	10	0	13
Another business (%)	0	0	13
NGO/MFI (%)	0	25	0
Private money lenders (%)	10	0	0
Other (%)	20	0	0
Number of applications	10	4	8

Source: Myanmar Agriculture Policy Support Activity–Agricultural commodity traders

Referring to Figure 2, on the credit supply side, we see the tendency to report difficulties in collecting on loans lent out steadily declining from nearly 30 percent in Round 1 to near 20 percent in Round 3. Within the sample of 75 of respondents who responded in all 5 rounds, a full 51 percent report difficulty to collect repayments on recent credit lent out in at least one round.

In Round 3 we further queried respondents about the effects of COVID-19 on credit-related issues. On the finance demand side, 11 percent say that a lack of access to credit prevented them from buying as much as they wanted. In regard to trade credit, 18 percent reported that they had to delay payments to sellers since the start of the COVID-19 crisis. Of those, 78 percent faced the need to delay payments in the last 30 days prior to the Round 3 survey. Respondents were also asked about financing specifically from MFIs. 10 percent report having taken out a loan from MFIs in the last three years, while 30 percent report that COVID-19 has caused difficulty in obtaining new credit from MFIs, potentially suggesting that MFIs have been understandably reluctant to take on new clients during the crisis. Of the 10 percent who had an MFI loan in the last three years, 80 percent were current MFI loan holders, and a further 50 percent reported that COVID-19 had affected their ability to repay on time. On the credit supply side, only 4 percent say that COVID-19 has led to an increased demand for credit from them in the last 30 days. Overall, this further confirms that the effects of COVID-19 on financing for agricultural traders was relatively moderate.

Finally, we also query traders about their policy preferences to address the crisis, as reported in Table 17. These questions were asked only in Round 1, so relatively early in the crisis.

Table 17. Most beneficial policy responses cited by agricultural traders

	1st	2nd
Ease imports/exports/border trade of agri. commodities (%)	26	26
Government supported loans to small businesses (%)	20	8
Support farmers with cash or loans to increase supply (%)	14	23
Allow businesses to stay open during COVID-19 crisis (%)	14	18
Reduce taxes (%)	14	12
Ease transport and movement of agri. commodities within Myanmar (%)	11	12
Other (%)	0	1
Number of observations	82	82

Source: Myanmar Agriculture Policy Support Activity–Agricultural commodity traders

We see that the most preferred policy response is to ease movement of agricultural commodities, with 23 percent supporting domestic movement and 52 percent supporting international movement. Respondents express needing support for reducing taxes (26 percent), government-supported loans (29 percent), support for farmers with cash or loans to increase agricultural supply (37 percent), and permission for businesses to stay open during the crisis (32 percent). There is strong support for keeping international agricultural trade flows moving, while on the other hand there is a diversity of experiences and input suppliers may be affected in a variety of ways by the crisis, necessitating a variety of policy responses. However, these results do seem to suggest that agricultural traders weren't facing an overwhelming credit crunch, though the most important agricultural trade season, during monsoon harvest around September/October, may be omitted.

Urban food retailers

Urban food retailers are typically microenterprises, usually family businesses, operated only by family members or a small number of paid employees. While their in-person food service business could be severely affected by lockdowns, online food delivery also opened some new opportunities, though in practice these opportunities were largely taken up by larger food retailers such as modern grocery stores. The disruption to food supply chains and urban food markets also raised challenges for urban food retailers on the supply side. Some would be seeking financing to provide consumption support for their family and mitigate the business downturn.

We partnered with Mom&pop, a Myanmar-based business intelligence firm, to conduct five rounds of phone interviews with between 426 and 440 small, family-owned traditional mixed goods retailers. The sample was randomly select from Mom&pop's network of more than 1100 firms in Yangon and Mandalay–Myanmar's two largest urban centers–after stratifying by township. The results are based on Rounds 1, 3, and 5 of the survey which were conducted in July, September, and October 2020, respectively.

Perhaps surprisingly, COVID-19 appears to have a relatively minor impact on the financing and performance of urban food retailers. Only 18 percent purchase from suppliers on credit, which is perhaps unsurprising as the large urban wholesale food markets typically operate as spot markets with respect to smaller purchasers. Of those who purchase on credit, 95 percent report similar borrowing conditions as prior to COVID-19, with 5 percent reporting lower borrowing, which mainly seems to be due to greater reluctance to lend on the part of suppliers. Rates of participation are also relatively low in credit provision, as 14 percent were selling on credit prior to COVID-19, with 15 percent doing so in the month prior to interview. Only 6 percent report difficulties collecting on credit. These minor effects are in line with respondents reporting relatively minor effects of COVID-19 on sales, as 70 percent reported same, 16 percent reported higher sales, and 13 percent reported lower sales.

Among the households that did not apply for new credit in the last 12 months, 80 percent simply did not have the need, and only small minorities report other reasons (transaction costs, lack of collateral, wariness of taking on debt, etc.). Of those who applied for credit, they are evenly split between NGO/MFI, an individual, a bank, and other sources. 100 percent reported that improving/expanding their business is their motivation to take on new credit. 83 percent report no difficulties with repaying their outstanding loans since COVID-19 hit, while the remaining 17 percent report at least some challenges with loan repayment.

Table 18 summarizes the effects of COVID-19 on the financial condition of urban food retailers, on both the demand and the supply side. On the demand side, less than a 12 percent of retailers are affected by credit access challenges such as difficulty obtaining credit, or difficulty repaying credit, and these challenges decline substantially from Round 1 to Round 5. More tellingly, loan applications were 2 percent or lower in each round. On the supply side, 11 percent of food retailers had difficulty collecting repayment from credit offered out in Round 1, and this problem declines in importance across survey rounds. Overall, this suggests that there were moderate credit access challenges as COVID-19 emerged in Myanmar, but these impacts were mitigated as 2020 proceeded.

Table 18. Credit access and provision for urban food retailers by survey round, percentage reporting

Credit access	Rd 1	Rd 3	Rd 5
Difficult to obtain new credit/loans (%)	11	5	4
Difficult to repay recent loans/service debt (%)	6	1	1
Applied for a loan (%)	2	2	0
Difficulty collecting repayment on recent credit lent out (%)	11	5	2
Number of observations	426	439	431

Source: Urban food retailer survey rounds 1, 3, and 5.

Finally, we also query urban food retailers about their policy preferences to address the crisis, summarized in Table 19. These questions were asked only in Round 1, relatively early in the crisis.

Table 19. Most beneficial policy response cited by urban food retailers

	% reporting
Reduce taxes	40
Government supported loans to small businesses	19
Support households with cash or loans to increase demand	18
Ease transport and movement of agri. commodities within Myanmar	8
Ease imports/exports/border trade of agri. commodities	3
Allow businesses to stay open during COVID-19 crisis	3
Other	8
Number of observations	426

Source: Myanmar Agriculture Policy Support Activity–Urban food retailer survey

The most preferred policy response was to reduce taxes, selected by 40 percent of respondents. The second most preferred policy was government supported loans (19 percent) followed closely by supporting households with cash or loans (18 percent). There is relatively little support for easing transportation either domestically (8 percent) or across borders (3 percent). It is interesting that the most preferred policies are financial support, though given the other credit results for urban food retailers, the responses may have little to do with COVID-19 and may simply reflect firms' desires to bolster their bottom lines more generally.

4. TAKING STOCK: IMPACTS OF COVID-19 ON THE MICROFINANCE AND RURAL FINANCE SECTORS

In this section, we synthesize the impacts of COVID-19 on the microfinance and rural finance sectors in Myanmar considering the discussion in the previous sections: the events surrounding COVID-19, the potential impact channels; the early policy responses that were enacted in response to the pandemic; results from the IFPRI-MAPSA surveys; and other relevant sources of evidence. We structure this section around a set of key questions.

Did COVID-19 cause Myanmar MFIs to lend less in 2020? What about other formal lenders?

Yes, MFIs lent less than expected in 2020, with the drop in lending largely focused on the periods of most severe disruption (e.g., April-May 2020, September-October 2020, post-February 1, 2021), and generally with more severe interruptions in urban than in rural areas (UNCDF 2020). The NCCS documented perceived operational disruptions to MFI operations in the early weeks of the first COVID-19 wave due to factors such as village lockdowns and various mandated disruptions to MFI operations. The LIFT Fund, which supports 22 MFIs in Myanmar, holds 75 percent of MFI assets, and serves 65 percent of the microfinance clients in the country, reported that its partner MFIs missed about USD 115 million in loan repayments during the April 2020 lockdown and government-mandated moratorium on normal operations (LIFT 2020). An additional USD 60 million was projected in the first half of May,[9] though many of these loans were rescheduled and repaid later. In June 2020, LIFT estimated a 60 percent overall reduction in planned disbursements by its partner MFIs in the second half of 2020, with lending initially expected to return to normal by around September or October (UNCDF 2020).[10] It appears that lending levels improved in Q3 2020 as the NCCS and AgProGrS surveys also report more borrowing from MFIs by around September, however the onset of the second wave of COVID-19 in August 2020 caused another major disruption to loan collections.[11] By October 2020, it was estimated that lending for several MFIs was only at 10 percent of the level seen in June,[12] though the decline was much smaller for some MFIs. The directive concerning loans due in November and December 2020 in Yangon, Rakhine, and Bago also particularly impacted MFIs with significant operations in those locations. To the extent that MFIs did new lending, there was demand for business-related borrowing.

One-half to two-thirds of rural households from our Central Dry Zone sample, not limited to microfinance clients, report COVID-19-related income reductions in 2020. The survey confirms that farmers began to face greater credit access and loan repayment challenges as the crisis went on, with relatively greater challenges for landless households and women. In the early months of the crisis in Q2 2020, microfinance clients tended to prefer deferrals of interest/principal payments for several months, rather than refinancing or topping up, to avoid additional debt commitments (UNCDF 2020), although a segment of clients took on new loans, perhaps to restart or diversify their business. MFIs attempted to work with their clients to carefully assess their borrowing capacity, and some have policies meant to limit over indebtedness such as not lending to clients who already borrow from two to three MFIs, taking advantage of the credit bureau maintained through MMFA. Some MFIs experienced that their agricultural clients were relatively less affected by COVID-19 and there are even MFIs that expanded their agricultural lending portfolio.

Larger firms were also impacted, though the magnitude across our agribusiness surveys–rice millers, traders, agricultural input dealers–is around a quarter of the sample affected, and smaller numbers for other outcomes like business investments. A relatively large portion reported receiving government-supported COVID-19 loans when eligible. An early study of 750 firms of all types by The Asia Foundation (TAF) reported that 82 percent of those who had discussed rescheduling had reached an agreement with their lender.[13] TAF also found a doubling in businesses' likelihood of borrowing from MFIs. It appears that medium to large agricultural enterprises with access to formal financing were often able to mitigate the impacts of COVID-19.

In rural areas, the main source of small formal loans is the MADB, particularly for rice small and medium holders. Was MADB lending also disrupted?

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[9] Liu, John. 26 May 2020. "Microfinance institutions in Myanmar face COVID-19 cash flow crisis." Myanmar Times. https://www.mmtimes.com/news/microfinance-institutions-myanmar-face-COVID-19-cash-flow-crisis.html

[10] https://www.mmtimes.com/news/microfinance-institutions-myanmar-face-COVID-19-cash-flow-crisis.html

[11] https://www.mmtimes.com/news/second-wave-COVID-19-hits-myanmar-microfinance-sector.html

[12] https://www.mmtimes.com/news/second-wave-COVID-19-hits-myanmar-microfinance-sector.html

[13] https://www.mmtimes.com/news/COVID-19-shuts-down-third-myanmar-businesses.html

It appears that MADB lending was also disrupted in 2020, but not drastically. The special MADB COVID-19 loan top-ups surely brought extra financing where they were distributed–in the AgProGrS survey, over 80 percent of farmers report getting regular MADB loans and 45 percent reported receiving COVID-19 special loans in the monsoon lending season. Another nation-wide study found that 9.2 percent of rural farmers had received government-provided special relief loans to farmers (CSO 2020), and in the NCCS we find about 50 percent of community leaders are aware of MADB loans and about 15 percent of communities report receiving MADB loans. Our NCCS and AgProGrS survey, less than a quarter of communities report delays in MADB loans of greater than two weeks, compared to the disbursement timeline in a normal year.

A caveat, however, is that MADB loans arrive late in some settings, even in normal times,[14] and so planting investments are often bridged by microfinance and informal loans. If microfinance loans were also disrupted and informal lenders faced their own liquidity challenges, then the MADB delays and the general economic uncertainty may have led to further negative flow-through impacts on access to finance for rural small and medium holders.

If formal lending was disrupted, did borrowers seek out financing elsewhere? Did this lead to more informal borrowing or drawing down savings?

Our survey results show that in general (not just focusing on MFI clients), additional, informal borrowing was an important strategy to cope with COVID-19 across the economy. The NCCS shows that informal borrowing from family and friends was a dominant coping strategy, though its importance tapered over time, in favor of borrowing from informal lenders, such as moneylenders, and MFIs. The NCCS also shows that informal risk sharing between households became an increasingly important coping strategy in the second half of 2020. Another nationwide survey in late 2020 (not limited to MFI clients) found that almost two-fifths of households, and nearly half of poor households, had purchased food on credit or borrowed food from shops or neighbors since March 2020 (CSO 2020).

Value chain financing (i.e., trade credit) was a perhaps surprisingly minor source of borrowing for farmers and in agricultural communities. This may be in part because spot trading is quite common in Myanmar even in normal times, and potential suppliers of trade credit also faced their own financing challenges, as shown, e.g., in our rice mill, trader, and input supplier surveys, especially in the first wave of COVID-19.

The NCCS shows that drawing down own savings became an increasingly important coping strategy in the second half of 2020. In principle, this could involve any source of savings. Although data is not available, there is anecdotal evidence that there was also an uptick in savings withdrawals from MFIs in the early weeks of the crisis in Q2 2020 (UNCDF 2020). However, this uptick in savings withdrawals may have largely reverted to normal by June 2020. There are significant frictions in the savings withdrawal process (e.g., many MFIs restrict savings withdrawals for a period or require full termination of the relationship with the client to allow savings to be withdrawn), though some MFIs weakened these requirements after COVID-19 emerged. Thus, it is likely that savings withdrawals were only a partial shock absorber for MFI clients.

While we don't have data on indebtedness, it is likely that some households took on greater debt while drawing down savings. Within the MFI sector, clients tended to behave conservatively in general, avoiding taking on significant extra MFI loans and making efforts to repay existing loans as soon as possible. The stylized pattern was that non-repayment would spike rapidly after the emergence of a COVID-19 wave or after the military takeover in February 2021. However, households showed a level of resilience in bouncing back and starting to repay their loans within

[14] About a quarter of our NCCS communities report that MADB loans normally arrive after the monsoon planting season has begun.

weeks after the initial shock. It is possible that indebtedness would be more common amongst households without access to affordable sources of financing such as MFI loans. More data and research are needed on the issue of indebtedness since the first wave of COVID-19.

If formal lending was disrupted, especially in the lead-up to the critical monsoon growing season beginning in May-June, was the disruption associated with a reduction in agricultural output for 2020?

Our AgProGrS survey, which draws on a Central Dry Zone sample, found that about a fifth of farmers invested less in agriculture in 2020 due to credit access challenges or faced greater challenges in accessing inputs, whether related to COVID-19 or not. A nationwide study in late 2020 found that 8 percent of farmers reported leaving their farm fallow because of COVID-19, though only 4 percent reported changing their cropping mix because of COVID-19 (CSO 2020). In September 2020, rice production was reported to have shrunk by nearly 810,000 hectares (from 6.12 million in 2019 to 5.35 million in 2020), though it is not clear how much of the decline is directly attributable to COVID-19 and how much to other factors such as idiosyncratic lack of rainfall.[15] Ultimately, aggregate rice production estimates from USDA show only a modest decline of less than 4 percent in 2020 relative to 2019.[16] Hence, overall, it appears that there was not a drastic decline in agriculture output in 2020 as some had worried when COVID-19 emerged prior to the 2020 monsoon season.

With regards to food security, the NCCS found that reducing consumption became an increasingly important coping strategy in the second half of 2020. A nationwide study in late 2020 found that 44 percent of farming households had consumed most of their crop production (nearly 60 percent in households without tractor or tiller) (CSO 2020). The same study found that almost half of all households living in the states reported eating less than usual from March 2020 to late 2020. Many households also substituted more expensive foods in favor of less expensive ones, which could reduce dietary diversity.

If microfinance operations were disrupted, did this disruption present institutional challenges to the MFIs (e.g., solvency risks)?

It appears that the various interventions to support MFIs, including the government's CERP framework, interventions by international development partners like LIFT, allowances by international and domestic lenders, and MFIs' own operational adjustments and continuity measures,[17] were sufficient to allow the sector to largely remain resilient through the first two COVID-19 waves. However, this was done with restricted lending liquidity due to loan forbearance and a lack of sufficient outside financing injections, resulting in significant lending reductions and credit rationing from April 2020, onward. For example, CERP funds for MFIs were targeted to reach about 57 of nearly 200 MFIs in the sector, while the LIFT fund, which works with MFIs representing 75 percent of MFI assets, estimated a USD 150-200 million liquidity gap and was only expected to leverage about 25 percent of the needed additional liquidity (UNCDF 2020). It was expected that some small and medium-sized MFIs, many of which are less experienced and have more limited financing options, would be forced to take more drastic actions, such as cutting staff, and might face insolvency challenges by late 2020 (UNCDF 2020).

Overall, MFIs entered 2021 on remarkably resilient footing, particularly if we focus on the largest MFIs representing most clients in the sector. This is due to several factors, including that a lot of financing is from international lenders who have shown a willingness to work with partner MFIs by

[15] https://www.mmtimes.com/news/myanmar-monsoon-rice-crop-shrinks-due-lack-rain.html

[16] USDA Foreign Agricultural Service (April 6, 2021). Grain and Feed Annual. https://www.fas.usda.gov/data/burma-grain-and-feed-annual-5. It is not clear why the estimated reduction in total yield (4%) is smaller than the estimated reduction in land planted. It is possible that the land left fallow was relatively unproductive.

[17] It appears that many MFIs had automatic stabilizers, such as having lending staff on incentive-based contracts that would automatically generate lower incomes during lending cutbacks.

providing loan extension and covenant waivers (e.g., on portfolio at risk), and the careful financial management undertaken by MFIs themselves. However, the sector is likely to continue to operate throughout 2021 in a highly conservative, liquidity-constrained position. Logistical barriers and increased risk driving up the cost of new financing injections means that it will be virtually impossible for MFIs to secure significant new financing until the situation stabilizes. Limited availability of USD makes it harder for MFIs to repay USD-denominated debts. That said, there is still a basis of strength for the sector to be able to bounce back relatively robustly and play a vital role in a recovery phase if political and economic conditions improve. However, at such time the sector will be carrying an added debt load, so without new financing injections will need to carefully manage the higher debt load alongside attempting to return to higher lending volumes.

On February 1, 2021, the Myanmar military took over control of the government. How has this changed the outlook for rural finance and the microfinance sector?

Operating conditions have become even more challenging than prior to February 1, 2021, reinforcing the impacts of COVID-19, while raising new challenges. On one level, the impacts of political turmoil and protests mimic the impacts of COVID-19, causing greater movement restrictions particularly impacting urban and peri-urban areas. However, there are at least four added challenges. First, there are heightened security and operational challenges. Many workers have been unwilling or unable to come to work, whether due to security fears or joining resistance movements like the Civil Disobedience Movement. Logistical functions like moving physical cash became riskier. Second, and relatedly, it was hard for financial institutions' branches and offices to stay open in the initial months after February 1, 2021, largely bringing the banking and financial system to a stand-still, though effects have been less severe since Q3 2021. Mandated limits on cash withdrawals and movement have made it much harder for MFIs to access the funds they do have in reserve. Third, internet shutdowns have constrained communications, including running core internal management systems, and had serious adverse impacts on other internet-based services like mobile money. This has complicated the positive efforts to MFIs to digitize their operations in 2020. Fourth, the political situation and operational shutdown has raised the risk premium on Myanmar and made it nearly impossible to intermediate new financing, whether through domestic or international sources, as the cost of exchange rate hedging has become prohibitive.

Together these impacts have had wide-ranging implications. Business activities, particularly in urban areas, have been significantly disrupted, once again weakening loan repayments, increasing portfolio at risk, and raising the risks of new lending. Anecdotally, loan repayments seem to be in the 60-80 percent range during this period. While MFIs largely remain solvent, new loan disbursements have declined significantly, in some cases as much as 75 percent. Some MFIs have had to revert to operational strategies more familiar more than a decade ago, before the modernization of many financial and communication systems in the country. For example, due to disruptions to the banking system and withdrawal limits, some MFIs have been forced to physically move cash themselves between surplus and deficit branches, at a time of heightened security risks for moving physical cash, so local loan disbursements are more closely tied to local collections. This increase in handling physical cash raises new reporting and data entry challenges. The operations of government agencies like FRD-MOPFI have also been disrupted, extending approval timelines such as for funding injections. International lenders continue to be willing to provide accommodations on loan repayments in 2021, such as waiving portfolio quality requirements, however new international and domestic financing has largely dried up. Large agribusinesses, typically net depositors with commercial banks, have been greatly disrupted in their ability to withdraw their deposits, putting a tight bottleneck on trade credit and payouts to farmers for delivery of produce.

While there was a slow reemergence of some normal business activities around May 2021, it seems highly likely that the disruptions in the preceding months and ongoing, and the state of the balance sheet of financial institutions, will mean that significantly less credit will have gone out for the monsoon planting season in May-June 2021. Many clients were not able to sell their previous season's crops so were not able to repay loans. While many MFIs are capable of maintaining operations for a few more months, this is at a significantly reduced level of activity, with credit rationing to existing clients, and no prospect to start lending to new clients. Some small and medium-sized MFIs may face insolvency, if they are not there already. In this operating environment, MFIs tend to ration limited liquidity to loans such as business loans that bring immediate repayment, rather than seasonal agricultural loans. Combined with higher input prices (IFPRI-Myanmar 2021), this is likely to lead to reduced food output in 2021, and hence a heightened risk of food insecurity throughout much of the country in 2021 and 2022.

5. STAKEHOLDER RECOMMENDATIONS FOR THE MICROFINANCE SECTOR

The following recommendations consider the combined impacts of COVID-19 and the events following the military takeover on February 1, 2021:

- The biggest challenges currently facing Myanmar are the political unrest and insecurity, which have amplified the challenges faced due to the third wave of COVID-19. The top policy preference from agribusinesses in our surveys was generally to ease international and domestic goods movements, and to be able to stay open. The financial challenges–depreciation of the kyat, scarce access to cash, and even more scarce access to US dollars–raise serious operational and funding challenges for MFIs. The rural and microfinance sectors are just two of the many parts of Myanmar's socio-economy that would benefit from a swift and peaceful resolution to the crisis.
- Efforts should be focused on meeting MFIs' demand for loanable funds. MFIs continue to operate below the lending capacity that had been established prior to 2020. Our surveys found that financial concerns (access to loans and taxes) are also among the top concerns for agribusinesses. The key constraints on loanable funds are currently credit and exchange rate risks. This requires instruments such as exchange rate hedging, credit guarantees, and loan enhancement, which should be the focus of efforts to support the sector.
    - Support to MFIs should be seen as an important humanitarian intervention as they build resilience, support the civilian economy, and give individuals agency over their lives.
    - Efforts already underway to provide loan postponement or adjustments to loan covenants should continue to be strongly encouraged, especially by the international lending community. The flexibility of the international lending community since the first COVID-19 wave should be commended and should continue to be encouraged. While most of the large MFIs continue to be able to operate in the short term, several will be facing scheduled interest and principal repayments over the next 12-24 months. Without additional support, it is possible that MFIs will have to further cut back their lending operations supporting lower-income households in Myanmar, in some cases severely, to meet these obligations. Further credit rationing is likely to disfavor the most vulnerable borrowers.
    - Where possible, external funds to improve MFI resiliency should be encouraged, including minimizing delays in approval of outside financing injections, though since February 1 there has been little to no financing on offer due to high exchange rate hedging costs and structural challenges with domestic banks. MFIs are currently

servicing debt obligations with weak prospects of incoming financing. Intervention from international development partners to provide risk-sharing interventions, such as guarantees or hedging support, should be encouraged. MFIs' partners (e.g., international parent companies) should be encouraged to provide support such as loan guarantees.

  - To mitigate exchange rate risk, investors may want to consider back-to-back loans denominated in US dollars.
  - Continue to encourage regulatory adjustments to allow MFIs to best mitigate balance sheet challenges during the crisis period, such as extending the 1 percent loan-loss provisioning, which continues to allow several operational MFIs to remain legally solvent (Slover 2020).

- Broad-based technical assistance should be a secondary priority for support to MFIs. MFIs representing the majority of borrowers already largely have capacity and access to technical expertise on how to manage the impacts of the crisis. Many of the MFIs lacking the technical capacity to manage the crisis are already likely insolvent.
  - Many MFIs are providing their clients with flexibility on loan repayment and forbearance where necessary. MFIs should be given the support and certainty necessary to provide such loan flexibility, wherever possible.
  - To the extent that assistance is provided to larger MFIs, it should be focused on capacity constraints to maintain financial resilience and access new financing, such as providing support so that MFIs can meet external lenders' demands for frequent financial forecasts (or to advocate to reduce these pressures on MFIs), and to clearly present the expected credit risk of their portfolio to potential new investors.
  - To the extent that it adds value, MFIs could be supported in adopting new technologies that enable operational flexibility at a time of constrained mobility and security challenges, such as digital payment channels. To this end MFIs could benefit from a range of technical support, both on their implementation of new payment channels, and in terms of providing digital literacy support to staff and clients.
- Supporters of the microfinance sector should be cautious about promoting interventions such as new financial products,[18] which could add value and reduce risk in a stable operating environment, but could be disrupted by mobility, security, currency, and other challenges. Unfamiliar innovations are more likely to go to existing clients who are already favored under credit rationing, rather than expanding the client base, and may draw staff resources away from serving the most vulnerable clients. The overall impacts of new innovations should be closely considered, through close consultation with implementing MFIs.
- Broader humanitarian efforts should first be focused on preventing the most tragic outcomes from food insecurity, whether through in-kind, cash, or other transfer and social protection modalities. This needs to be done with a clear understanding of logistical challenges such as the heightened risk and cost of transferring of cash, shortages of cash itself, and the inability of large agribusinesses to access existing savings deposits. Some MFIs have been a conduit for cash and in-kind distribution during previous crisis periods. However, MFI staff resources are currently stretched across Myanmar.

[18] This is not referring to the adoption and scaling of basic digital tools, such as allowing for mobile money payments or disbursements, or communicating with clients through mobile phones.

- When the time comes for a full recovery phase, there should be a focus on facilitating additional financing injections so that MFIs can more effectively restart lending operations.
    - Evidence from relevant crises elsewhere suggests new financing injections can help households “kick start” economic activities, which allows them to both repay old debts and manage new financing.[19]
    - New disbursements can also rebuild clients’ confidence in the viability of MFIs, increasing their confidence to start repayments.
    - To the extent that resources allow, it would be useful to provide cash transfers to help in the recovery process and help households pay down their most expensive debts. While paying off MFI debts could provide some support, if households carry more onerous debts, they may be tempted to take on new microfinance loans to pay off those debts.
    - At that time, institutions supporting the microfinance sector should consider the market conditions for new financing injections, as, for example, a high-risk premium may make hedging costs prohibitive for international debt. There may be a higher value proposition from facilitating financing, such as through exchange rate hedging.

[19] E.g., https://globaldeliveryinitiative.org/sites/default/files/case-studies/rflessonslearned_10-25-17.pdf

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APPENDIX

A.1. Background: The Microfinance Sector in Myanmar

The microfinance sector in Myanmar has experienced rapid growth since 2012/13 when a modern regulatory system came into effect, several new microfinance institutions (MFIs) were launched and donor support to the sector expanded. As of 2019, Myanmar had nearly 200 licensed MFIs operating across 15 states and regions in 252 of 330 townships.[20] As of mid-2019, the sector served 3.4 million members, likely representing around 15 million individuals.[21] The sector traditionally boasts a 99 percent repayment rate[22] and extended more than USD 1.2 billion in loans in 2019 (Slover 2020). As of 2017, the top 18 MFIs represented 81 percent of total MFI assets.[23] The sector has reached sufficient density that in some urban areas, multi-borrowing has started to become a challenge, with clients regularly taking on three or more loans (UNCDF, 2020). While many MFIs were launched predominantly with equity financing, the growth of the sector in recent years has largely been driven by international and domestic debt financing. In 2019, the government mandated a reduction in the maximum microfinance interest rate from 30 percent to 28 percent, which is considered to provide a relatively tight margin for MFIs, especially for those involved in rural microfinance.

Beyond MFIs, the state-owned Myanmar Agricultural Development Bank (MADB) has the largest client base in rural areas and serves a similar market segment (loans under USD 1,000).[24] MADB has branches in about 60 percent of townships, with the majority in rice-producing regions in south and central Myanmar.[25] Some farmers borrow from MADB and then seek additional loan financing from MFIs–in some cases to address temporary delays in MADB loan disbursements.

The potential impact of COVID-19 on MFIs can be analyzed through the lens of the microfinance ecosystem, depicted in **Figure A1Error! Reference source not found.**. MFIs provide a means to intermediate wholesale financing from domestic and international capital sources to borrowers in the form of generally small, retail loans. Wholesale financing can be provided in the form of debt or equity. In recent years, the largest MFIs have tended to be funded by international debt, so the resilience of these lending relationships is an important determinant of the resilience of the sector overall. Debt financing, whether short- or long-term, will have fixed principal payment obligations and interest responsibilities. However, international lenders with a social mission may be forgiving in managing loan extensions and forgiveness. Equity-type investments and ownership shares will obligate the financier to take on a greater share of downside risk, which can reduce the pressures of servicing debt but can make new capital injections more challenging in difficult times. The Central Bank of Myanmar regulates large international capital flows, with the Myanmar Microfinance Supervision Committee in FRD-MOPFI approving changes in MFIs' capital.

MFIs recycle their lending base through collections and disbursements, and increasingly take on savings deposits. During challenging times, MFI customers will surely seek to withdraw savings balances from deposit-taking MFIs, though in some cases there are restrictions on savings withdrawals (e.g., borrowers need to repay their outstanding loans before regaining access to their savings deposits). Meanwhile, salaries to staff (estimated to make up more than 50 percent of the operating costs for some MFIs) and operating expenses, such as rent and utilities, also play an

[20] According to the Financial Regulatory Department of the Ministry of Planning, Finance, and Industry (FRD-MoPFI), which regulates non-bank financial institutions.

[21] This is based on the rough assumption that all households are equally likely to get microfinance loans, so at the average household size of 4.4, 3.4 million borrowers translates into 14.96 total people in a household receiving a microfinance loan. In practice, lending rates, and especially multiple borrowing, are higher in urban areas, where household sizes tend to be smaller, so it's likely that 15 million is somewhat of an overestimate.

[22] https://www.mmtimes.com/news/growth-potential-seen-microfinance-sector.html

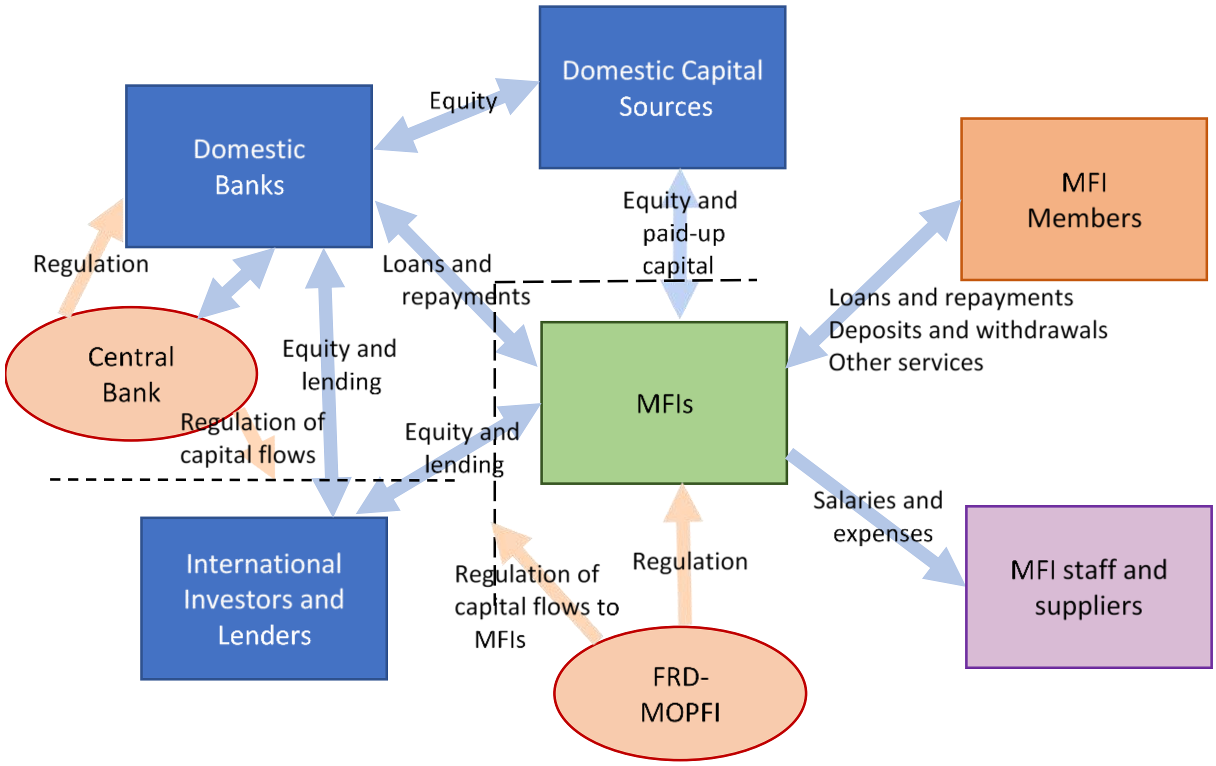
[23] https://www.myanmarmfa.com/en/financial-inclusion-myanmar

[24] The MADB offers some larger mechanization loans, but the vast majority of borrowers receive seasonal or short-term crop loans.

[25] About 90 percent of MADB clients are small-to-medium holders in the rice sector.

important role in MFIs' financial management. During difficult times MFIs may seek to reduce this expenditure burden, such as by furloughing staff.

Figure A1. The microfinance ecosystem in Myanmar



Note: MFI=microfinance institution; FRD-MOPFI=Financial Regulatory Department of the Ministry of Planning, Finance, and Industry.
Source: Author's construction.

A.2. Appendix Tables

Table A1. Three main coping strategies for income losses by urban and rural designation, percentage of communities reporting

	Jan-May 2020		Aug 2020		Sep 2020		Oct 2020		Nov 2020		Dec 2020	
	U	R	U	R	U	R	U	R	U	R	U	R
Obtained credit/loan (%)	87	84	75	78	79	74	75	70	76	68	77	68
Relied on own savings (%)	17	18	11	19	28	25	49	41	31	29	34	28
Help from government (%)	26	17	30	28	29	26	21	22	29	20	23	18
Reduced food expenditures (%)	20	19	5	8	23	16	17	13	23	15	15	10
Reduced essential non-food expenditures (%)	9	5	10	13	18	19	8	6	5	4	8	3
Adult household members took on more work (%)	6	9	1	7	7	2	6	4	2	5	1	2
Help from NGO/other non-governmental donations (%)	9	5	3	3	1	2	5	2	5	1	3	2
Sold crop stock, livestock, or agricultural assets (%)	1	3	0	1	0	2	2	6	1	5	1	5
Sold non-agricultural assets (%)	7	1	4	4	9	4	15	7	10	5	10	4
Work as agricultural wage labor (%)	0	8	1	5	3	4	3	11	4	21	9	20
Rely on collecting vegetables/fruits (%)	2	11	4	10	6	22	8	18	3	12	6	12
Number of observations	89	219	93	277	115	366	110	376	110	370	111	372

Note: U= Urban communities; R= rural communities.
Source: Myanmar Agriculture Policy Support Activity–National COVID-19 Community Survey.

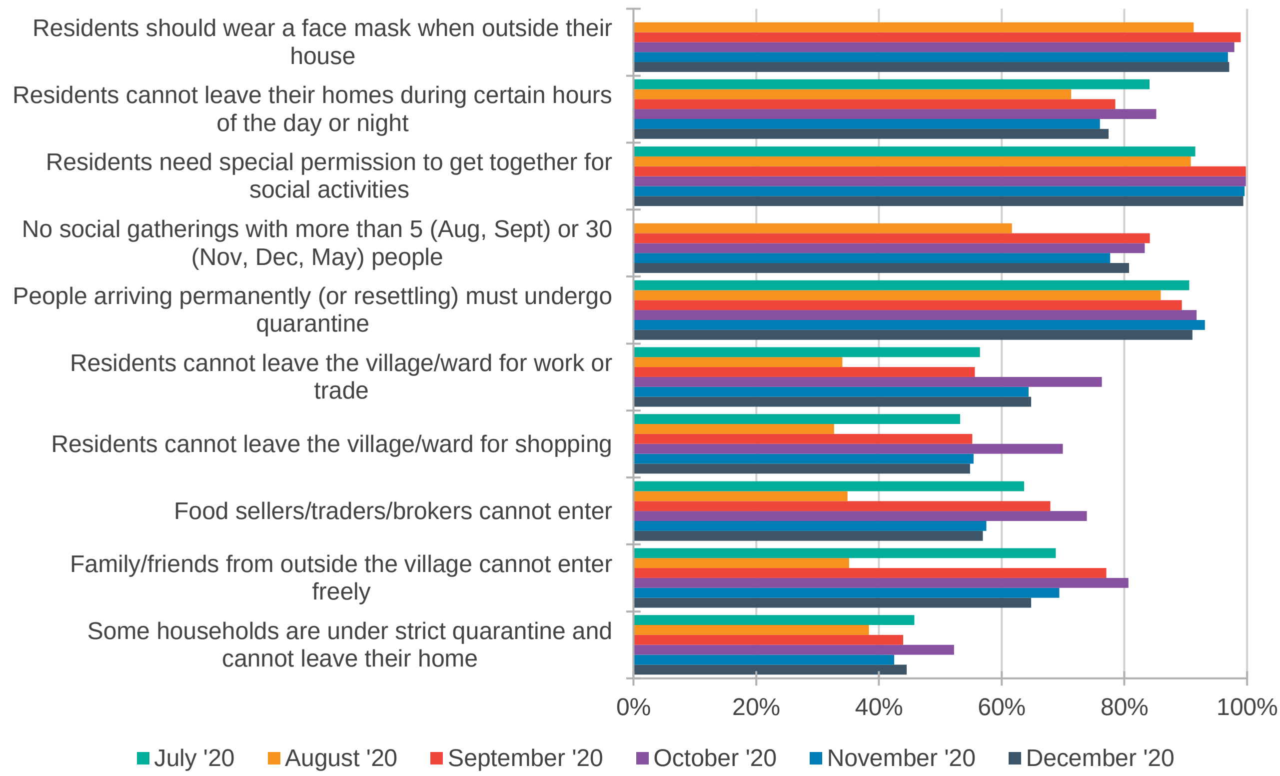
Table A2. Difficulties accessing financial services, by urban and rural designation

	Jan-May 2020		Aug 2020		Sep 2020		Oct 2020		Nov 2020		Dec 2020	
	U	R	U	R	U	R	U	R	U	R	U	R
Experienced difficulties accessing financial services (%)	30	26	7	6	3	4	4	4	12	6	21	8
Cancelled date of loan distribution (%)	17	13	3	3	2	1	3	3	0	1	3	2
Loan officer doesn't come to village (%)	16	16	2	1	1	1	0	1	2	2	4	1
Postponed loan officer's appointment date (%)	11	12	4	3	2	2	4	3	4	3	14	6
Closed microfinance office (%)	10	10	0	1	0	0	0	0	0	0	5	1
Closed bank (%)	4	1	0	0	0	0	0	0	5	0	0	0
Shortage of money in ATM (%)	0	0	0	0	0	1	0	0	5	0	5	0
Number of observations	89	219	93	277	115	366	110	376	110	370	111	372

Note: U=Urban communities; R=rural communities.
Source: Myanmar Agriculture Policy Support Activity–National COVID-19 Community Survey.

A.3. Other Appendix Figures

Figure A3. COVID-19 restrictions experienced by communities July–December 2020, percentage share reporting



Source: Myanmar Agriculture Policy Support Activity–National COVID-19 Community Survey.

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