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Myanmar: Analysis of the Economic Fallout & Food Insecurity

In Wake of the Takeover

April 2021

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Key takeaways

- Prior to 1 February 2021, 2.8 million people were considered food insecure in Myanmar. WFP estimates that 1.5 to 3.4 million additional people could be at risk of food insecurity and in need of assistance due to the economic slowdown provoked by the political crisis in the coming three to six months. This is largely because poor people have lost jobs and income, making it harder to afford food.
- Vulnerable people in urban areas affected by the economic standstill are at greatest risk, while longer term impact on food systems will also add pressure on rural populations' food security.
- In addition to job and income loss, increasing food and fuel prices, disruptions in trade, slumping economic growth, and internal displacement of ethnic minority groups bode ill for Myanmar's poor. The latest forecast from the World Bank indicates a GDP contraction of 10% in 2021.
- Market prices of rice and cooking oil have increased across all monitored markets since the start of February 2021 by 5% and 18%, respectively; however even higher increases were registered in border states including Rakhine, Kachin and Chin. Given the importance of rice and cooking oil in diets and the expenditure of poorest households on rice, continued price increases will likely further impact household food security.
- Myanmar's economy was already severely impacted by the COVID-19 pandemic in2020; a quarter of the country's population were poor and a further third were vulnerable to poverty.
- The current situation is extremely precarious and there may be additional short- and long-term impacts on Myanmar's food security and poverty levels.

This brief provides an analysis of the short-term, immediate food security impacts of the current events and perspectives for the longer term to inform WFP operations. Considering the fluidity of the current situation and the lack of fresh primary data on affected populations, the analysis builds on secondary data and employs a broad set of assumptions.

1. The situation since 1 February 2021

The socio-political crisis prompted by the takeover by the military on 1 February has created significant economic disruption.

Most healthcare service providers as well as educational institutions are closed.[1] Approximately 2,000 private banks are not operational with only a few branches open, at minimal capacity, creating a substantial backlog of international payments, withdrawals and interbank transfers.[2] With international money transfers disrupted, sending remittances to relatives inside Myanmar is becoming increasingly problematic for the more than four million Myanmar living abroad[3].

It is estimated that up to 90% of national government activity has ceased. Many factories are closing; in early March more than 13 were reported closed in Yangon alone[4], and the national business registry recorded less than 190 new registrations in February - significantly fewer than the nearly 1,300 the year before[5]. Transport and freight have been limited with significant increase in logistic costs. According to WFP Supply Chain reporting, only 25% of the regular transport services based in Yangon are operating with a limited number of truckers still in employment. Factories in the industrial zones continue to operate with much uncertainty.[6] In consequence, growth is likely to suffer grave impacts; the World Bank is forecasting that Myanmar's GDP could contract by a staggering 10% in 2021[7].

2. Myanmar's economy and food security - brief background

Myanmar is a **low-middle income country** and emerging economy dominated by the garment industry, oil and gas, gemstones, infrastructure, and tourism. Illegal drug trade is also significant[8]. The service sector makes up about 42% of GDP, followed by industry with 36% and agriculture with 22%[9]. The country exports textiles and clothing as well as natural gas and raw materials. Myanmar's international trade relations are highly regional, China being the key trade partner with a share of 31% for exports and 34% for imports, followed by Thailand and Singapore in terms of trader volume in 2019. Similarly, Myanmar's foreign investment comes mostly from the region as Hong Kong accounted for 26% of approved investment in the previous year, closely following Singapore, the biggest foreign investor, at 34% according to the World Bank.

The COVID-19 pandemic has had a significant impact on Myanmar's economy**.** Although the impact of the first wave of COVID-19 was not as grave as expected, the second wave took a toll on the economy which was met by sluggish domestic consumption and hampered exports due to stunted global demand for apparel. Accordingly, IMF projected **economic growth** of 3.2% for the FY 2019/2020 -less than half of the 6.8% growth rate recorded in the FY 2018/2019 -and a mere 0.5% for FY2020/21. As is the case across the globe, the pandemic and associated containment measures have already led

[1] "Myanmar military occupies hospitals and universities ahead of mass strike", CNN (8 March 2021)
[2] "Military piles pressure on private banks to reopen – or else", FRONTIER Myanmar (23 March 2021).
[3] 'How will they survive?' Myanmar coup cuts lifeline for migrants' families. Reuters (3 March 2021)
[4] Thousands to lose jobs as 13 Yangon factories shut down. Myanmar Now (6 March 2021)
[5] Myanmar protesters hit the military where it hurts: by shutting down the economy. The Irish Times (19 March 2021)
[6] "Factbox: The foreign firms doing business in Myanmar", Reuters (9 March 2021)
[7] "Myanmar's economy to contract 10% this year amid turmoil - World Bank", Reuters (26 March 2021)
[8] UNODC (2021): Myanmar Opium Survey 2020 . Cultivation, Production and Implications.
[9] The World Bank (December 2020)*: Myanmar Economic Monitor. Coping with COVID-19*

to extraordinary **job losses**, amounting to approximately 3.1 million full-time equivalent jobs in Myanmar, according to the latest estimates from ILO[10].

Remittances provide an important source of income for millions of people in Myanmar; upwards of ten million people mention it as one of their income sources[11], 2.2 million of which are living below poverty line.[12] About 60% of the remittances are domestically generated, while the rest flows from abroad.[13] International remittances to Myanmar were estimated at 2.23 billion USD in 2020, or 2.9% of the country's GDP; a decline from 2.40 billion in 2019.

Prior to the COVID-19 pandemic, around a quarter of Myanmar's population was considered to live in **poverty**, e.g. below the national poverty line, and about a third of the population was considered vulnerable to poverty[14]. The COVID-19 pandemic and subsequent economic slowdown has halted the downward trajectory of poverty that Myanmar had seen in recent years. In December 2020, the World Bank estimated that poverty would increase to 27% in FY 2020/2021[15]. Adding to this picture, the Household Vulnerability Survey undertaken in December 2020 reported that over 80% of households had experienced a reduction in their monthly incomes, 46.5% on average, between 2019 and 2020[16].

Vulnerability to natural hazards, conflict and inter-communal tensions, and the economic impact of COVID-19, were main drivers of **food insecurity** in Myanmar up to January 2021. Before the pandemic, it was estimated that around 4% of population had poor food consumption and an additional 21% had borderline food consumption (as measured by the food consumption score)[17]. In June 2020, WFP estimated that 758,000 additional people were at risk of falling into food insecurity due to the impacts of COVID-19. The combination of baseline and COVID-19 impact puts the estimates of the number of food insecure people at the peak of COVID-19 at about 2.8 million[18].

The 2019 Fill the Nutrient Gap study documented that a healthy, nutritious diet remains unattainable for many in Myanmar due to its cost. While nine out of ten households can afford a diet that meets energy needs, only four out of ten households can afford a diet that meets nutrient needs[19]. This is against a backdrop of high market dependency, with previous food security surveys indicating 80% of households' food is purchased from markets while own production account for 14%[20].

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[10] https://ilostat.ilo.org/data/

[11] Central Statistical Organization (CSO), UNDP and WB (2020). Myanmar Living Conditions Survey 2017: Socio-economic Report", Nay Pyi Taw and Yangon, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB.

[12] Central Statistical Organization (CSO), UNDP and WB (2020) "Myanmar Living Conditions Survey 2017: Socio-economic Report", Nay Pyi Taw and Yangon, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB.

[13] FinScope Survey of 2013, United Nations Capital Development Fund

[14] Myanmar Living Conditions Survey 2017 (MCLS). According to the MLCS 2017, approximately 33% of the population are in the 'non-poor insecure' group, meaning that their expenditures are below 1.5 times the national poverty line.

[15] The World Bank (December 2020)*: Myanmar Economic Monitor. Coping with COVID-19*

[16] Ministry of Planning, Finance and Industry, Central Statistical Organization (CSO) and UNDP (December 2020): *Household Vulnerability Survey.*

[17] WFP's Food Security and Poverty Estimation Surveys, 2013-2017.

[18] The 2021 Humanitarian Needs Overview indicated 783,000 people need assistance under the food security sector. This number is based on the Delphy methodology, which relies on expert judgement in the absence of validated food insecurity data. This estimate primarily consists of internally displaced populations and non-displaced vulnerable stateless people, concentrated in the Rakhine and Kachin states. It does not include people who might have become vulnerable and in need of assistance due to Covid-19.

[19] Fill the Nutrient Gap, 2019. WFP and Ministry of Health and Sports.

[20] WFP's Food Security and Poverty Estimation Surveys, 2013-2017.

3. How is the current situation likely to impact food security in the short run?

How the current situation will ultimately impact food security is influenced by a host of factors and subject to much uncertainty. This paper examines the *potential immediate, direct impact* risking household food security: We assume that the major impact on food insecurity runs through loss of income, which limits household economic access to food. We narrow down to two key ways through which people experience income losses as a result of the current situation: lost jobs (as people do not go to work, and workplaces such as factories shut) and lost remittances (as bank activities are seizing and money wiring halted).

Job losses: The current situation is disrupting economic activity, including factory closures and stalling of foreign investment flows, which in combination with the strike and protests lead to lost jobs. To gauge what these job losses imply for food insecurity, we focus on job losses amongst the working poor[21] population. We assume that if a person is living in working poverty, and then loses his/her job, he/she will be at risk of food insecurity, as will his or her dependents (dependency ratio). We also assume that there will be larger job losses in some sectors (e.g. manufacturing) compared to others (e.g. agriculture).

Remittance losses: Remittances form an important income source for millions of Myanmar. With the private banks joining the CDM and most banking services halted, many remittance recipients have been adversely affected despite informal channels potentially serving as a cushion[22]. About 2.2 million people below poverty line are remittance recipients[23]. We assume that if a poor remittance recipient no longer receives money transfers, he or she will be at risk of food insecurity. We also assume that formal remittances are more severely affected than informal remittances.

We distinguish between **3 and 6 month scenarios**; in the scenarios, the current situation extends for an additional 3 or 6 months from end of March 2021. The scenario estimates differ both in duration and in the severity of the underlying assumptions. To estimate the impact from job losses, we apply job loss shares for each sector based on qualitative information, with the largest losses occurring in manufacturing, trade and transport, and public administration. We assume that the job losses by sector will increase significantly if the current events continue for 6 months. To estimate the impact from the lost remittances, we assume that while formal remittances are impacted the same, informal remittances will be more severely affected if the current situation continues for 6 months, as compared to 3 months.

[21] Working poverty is defined as *Employed persons living in households in which per-capita income/expenditure is below the poverty line.*

[22] "'How will they survive?': Myanmar coup cuts lifeline for migrants' families", By Beh Lih Yi, Nanchanok Wongsamuth, Thomson Reuters Foundation (3 March 2021)

[23] Central Statistical Organization (CSO), UNDP and WB (2020) "Myanmar Living Conditions Survey 2017: Socio-economic Report", Nay Pyi Taw and Yangon, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB.

WFP estimates that lost jobs and remittances are likely to make 1.5 million people food insecure in three months, increasing to 3.4 million in six-months. While the figures are national, **the impact is expected to be more severe in urban areas.** Urban populations are three times more likely to hold a primary job in manufacturing, construction or services sector, and are as such more exposed to job losses[24]. The current situation is therefore more likely to impact the food security of urban households than rural populations in the near term.

The estimates are based on secondary data and a set of assumptions found in the annex. The calculations are not based on economic modelling and are hence not able to take economic multiplier effects into account. Food insecurity is likely to be affected by price increases. The following section describes some of the wider impacts the current situation is likely having on the economy and food security.

4. Additional factors affecting the economy and household food security

In addition to the estimates of how food security is likely affected by immediate income losses, a host of other factors are likely to also affect household food security. While it is outside the scope of this analysis to quantify these effects, the below describes some of the likely shorter- and longer-term impact channels, that are likely to exacerbate the immediate effect of income losses.

Shorter-term food security impacts

Inflationary pressure. WFP's price monitoring shows that since January, the average retail price of rice has increased 5% across monitored markets[25], with higher increases in central Rakhine (7%), Chin (8%) and Kachin (11%). Over the past two months, the average price of cooking oil has increased by 18%. Higher than average increases over the past two months in the price have been observed in Magway 23%, central Rakhine 26%, Kachin 32%, and in the price of mixed oil in southern Rakhine 22%, northern Rakhine 30%, and in the Southeast 20%. Year-on-year comparison shows that the average retail price of mixed oil across monitored markets in Kachin state was 42% above the average price in March 2020, in Mon state 30% higher, in Rakhine state 27%, in Tanintharyi region 27%, and in Shan 13% higher compared to same time last year. Fuel prices have increased by 20% on average since the beginning of February.

Increased food prices hit poor populations harder. Households living at the national poverty line spend approximately 65% on food, and about 82% of caloric intake comes from rice, pulses, nuts and cooking oil. The poorest 20% of households spend up to 35% of their expenditures on rice, pulses and nuts, and in the 2017 Myanmar Living Conditions Survey, households reported food price spikes as the most commonly experienced negative shock. This illustrates how price increases for basic foods can have significant impacts on households' ability to cover their most essential needs and amplify vulnerability to food insecurity[26].

[24] Central Statistical Organization (CSO), UNDP and WB (2020) "Myanmar Living Conditions Survey 2017: Socio-economic Report", Nay Pyi Taw and Yangon, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB.

25 Data from markets covering 10 states/regions, 64 townships, 102 markets, 241 traders/shops.

[26] Central Statistical Organization (CSO), UNDP and WB (2019) "Myanmar Living Conditions Survey 2017:

Weakening local currency. The local currency has lost 6.5% against the US dollar in the formal market (1,316 kyat/USD to 1,400 kyat/USD) since the takeover, while there are reports of steeper falls in the informal market.[27] As Myanmar imports most of its fuel and cooking oil from abroad, this could increase inflation despite subdued demand.[28]

Disruption in trade. Transporters and bureaucrats have joined the labor strike, creating a significant backlog in international and domestic supply chains. Exports are estimated to be at 10% of the typical level.[29] As the ports and customs are operating with reduced personnel,[30] significant delays in the clearance of imported raw materials are leading to factories having to close temporarily or operate at reduced capacity.[31] This has a heavy impact on unemployment as the manufacturing sector creates over 10% of the jobs in the country.[32] Moreover, shortages of essential imported goods could further reinforce the inflationary pressure.

Population displacement. Increased conflict in border areas is likely to result in further population displacement, particularly among ethnic minority groups, who are twice as likely to live below the poverty line than those who live in the central region.[33] Without financial resources that could sustain livelihoods, it is highly likely that the displaced ethnic minorities will become more food-insecure.

Longer-term economic impact

Food security of smallholder farmers. 80% of the farms in Myanmar are run by smallholder farmers.[34] Strikes in the banking sector including microfinance institutions are likely to impede farmers' access to credit and their ability to purchase agricultural inputs in preparation for the main cropping season. This could have a direct impact on the food security and livelihoods of smallholder farmers, particularly on those who are in the poorest quintiles.[35]

Challenges in agricultural systems. Mid-March is the harvest season for summer rice in Irrawaddy Delta region. The current situation may have made it difficult for farmers to hire necessary laborers, which could impact the crop harvest. Moreover, if the instability continues, it could pose challenges to prepare the land for the main rice crop that starts around May and June.

Poverty Report", Nay Pyi Taw and Yangon, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB, and "Myanmar Living Conditions Survey 2017: Technical Poverty Estimation Report", same authorship/2017.

[27] "Coup in Myanmar shows immediate economic consequences", Economic Intelligence Unit (5 February 2021)

[28] "Economic pressure is unlikely to force Myanmar's junta to retreat", The Economist (18 March 2021)

[29] "'Nothing is moving': CDM freezes foreign trade, raising fears of shortages", FRONTIER Myanmar (12 March 2021)

[30] "For Foreign Businesses in Myanmar, Coup Creates 'Unworkable' Situation", The Wall Street Journal (21 March 2021)

[31] "Thousands to lose jobs as 13 Yangon factories shut down." Myanmar Now (6 March 2021)

[32] ILO-STATISTICS, Myanmar Labour Force Survey (LFS) 2017

[33] Central Statistical Organization (CSO), UNDP and WB (2020) "Myanmar Living Conditions Survey 2017: Poverty Report", Nay Pyi Taw and Yangon, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB.

[34] Myanmar Census of Agriculture 2010, Ministry of Agriculture and Irrigation Settlement and Land Records Department of Myanmar

[35] Myanmar Living Conditions Survey 2017: Socio-economic Report from the World Bank Group (2020) indicates that at least twenty percent of the crop output is for self-consumption for more than half of the farmers in the poorest quintile.

Slump in foreign investment. Amid the political turmoil and economic uncertainty, investment is forecast to drop by 20% in the financial year 2021/22.[36] The recent attacks on foreign businesses, in particular Chinese-funded factories, are likely to deter foreign investors until the violent clashes abate. Some foreign firms have started retreating from Myanmar in response to the military takeover.[37] [38]

Looming economic recession. The World Bank estimates that the economy will contract by 10% in 2021, following the regime change, a sharp adjustment from the previously reported growth forecast of 5.9%.[39]

5. Next Steps

With the situation evolving day by day, there is high uncertainty around the political trajectory of Myanmar. The impact of domestic and international factors on the economy in the medium and long run is uncertain. WFP will continue to monitor the overall economic and market situation and is undertaking household data collection to better understand the impact on household food security. A more sophisticated modelling approach using household data to estimate food security impacts will be explored.

[36] Economist Intelligence Unit. Myanmar Country Report (19 March 2021)
[37] "As Myanmar protesters torch Chinese factories, workers are caught in spiraling crisis", The Washington Post (17 March 2021)
[38] "Amata halts Yangon estate after coup", Bangkok Post (3 February 2021)
[39] "Myanmar's economy to contract 10% this year amid turmoil - World Bank", Reuters (26 March 2021)

Annex

The table below shows the data sources and detailed method and assumptions.

Data sources	
Job losses	**Lost remittance income**
a. Number of employed; Job losses due to COVID; Working poverty rates: ILO Stat b. Total population: World Development Indicators	a. Number of poor; Percentage of remittance recipients: Myanmar Living Conditions Survey 2017 (Myanmar Ministry of Planning, Finance and Industry, UNDP and WB) b. Percentage of remittance recipients by channel: FinScope Survey 2013 (UNCDF) c. Total population: World Development Indicators 2019
Detailed method and assumptions	
Job losses	**Lost remittance income**
General	
We use the 2019 number of total employed people by broad sector as our starting point. We subtract COVID-19 job losses (est. by ILO) from the 2019 figure; these losses are distributed by sector according to each sector's share of total employment, in order to arrive at an estimate for total employment by sector pre-takeover, post-COVID. We multiply the job losses for each sector by the working poverty rate, to arrive at 'vulnerable earners suffering job loss' who are at risk of food insecurity. We multiple this figure by the dependency ratio to arrive at our final figure. The 'dependency ratio' is computed as total population to total earners (employed plus poor remittance earners). We assume: a. Sectors of the economy are impacted differently by the current events which translates into different degrees of job loss by sector. We apply a percentage loss by sector to estimate the numbers of jobs lost. b. Job losses driven by the current events hit equally across the income distribution amongst employed (a working poor is as likely to lose their job as a working non-poor) c. The working poverty rate at 2019 value is underestimating actual working poverty in Myanmar, considering that current events have already affected populations vulnerable to poverty. We hence apply an 'adjusted working poverty rate', calculated as the combined rates of extremely and	We apply the share of poor people reporting remittances as one of their income sources to calculate the total number of poor people who have remittance income. We assume that if a poor person loses their remittance income, they will be at risk of food insecurity. Number of poor is calculated using the population figure published in 2019 multiplied by the percentage of the poor from the MLCS 2017. We assume that the remittance channel preference is homogeneous across different expenditure groups, applying a share of 32% formal remittances and 68% informal remittances, as reported by the FinScope Survey from 2013. Given the current situation and reports, we assume that the formal remittance channel is operational at 5% capacity while the informal remittance channel's capacity is adjusted for the 3 and 6-month scenarios. We further assume: a. Expenditure matches income closely among the poor; b. There is no substitution effect between formal and informal channels in the 6-month period; c. Remittance recipients below poverty line will cope with the remittances shock by adjusting their expenditures on both food

moderately working poor (below 1.9 USD/day and between 1.9 to 3.2 USD/day, respectively) and 1/3 of the near-working poor (between 3.2 – 5.5 USD/day). This final working poverty rate is 19.8%. d. Once a working poor person has lost their job, they remain at risk of food insecurity for the full period	items and non-food items proportionately, which results in reducing the calories they consume; d. Remittance recipients below poverty line will be unable to secure additional income to substitute the lost income in the absence of remittances; e. Once remittance income is lost, the person remains at risk of food insecurity for the full period.
3 month scenario	
Sector impact – percentage job losses Agriculture = 1 % Manufacturing = 10 % Construction = 5 % Mining = 1 % Trade, transport etc. = 10 % Public adm. = 10 %	Informal channels operational at 80% capacity
6 month scenario	
Sector impact - percentage job losses: Agriculture = 2 % Manufacturing = 50 % Construction = 20 % Mining = 2 % Trade, transport etc. = 40 % Public adm. = 40 %	Informal channels operational at 50% capacity

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