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Monitoring the Agri-food System in Myanmar

Agricultural Commodity Traders – March 2021 survey round

To understand how Myanmar's crop marketing system has been affected by political instability, telephone interviews were conducted in March with 108 agricultural commodity traders.

Key Findings

- Approximately one-third of the traders interviewed are no longer active in the market due to disruptions since 1 February 2021. Many who remain active have reduced the geographical scope of their purchases.
- The main constraints to trading are, in order of importance, liquidity constraints due to restrictions on access to cash withdrawals from banks, higher transport costs, and lack of access to price information.
- To address the banking crisis, traders are increasingly resorting to the old system of Hundi payments, which in March were used for one-third of all payments. The share of cash trades also increased, adding a security risk for traders having to physically move large volumes of cash.
    - Payment constraints faced by agricultural traders could be alleviated if banks allowed them to withdraw the same amount of cash as registered companies—20 million MMK per week instead of 2 million MMK.
- With the exception of maize, farmers are receiving lower prices and traders are earning lower margins as a result of the disruptions. These conditions reduce their incentives and ability to invest in future production and trading operations, respectively.
- Current trading conditions and, in consequence, accumulating debts between farmers and traders will likely result in less credit offered to farmers by traders for the coming monsoon season.

Introduction

The crop trading segment of Myanmar's food supply chain is at risk from multiple shocks stemming from the political problems initiated in February 2021. Threats include restrictions on cash withdrawals and limited banking sector operations, export and import disruptions both by land and by sea, increases in fuel costs, restrictions on movement of agricultural commodities, and forced closures of some domestic markets. To shine light on the effects of these disruptions to the agri-food system, we conducted a rapid telephone survey with more than 100 crop traders who connect farmers to domestic and international markets. They comprise the mid-stream of Myanmar's food supply chain, providing essential links between farms and food processors, exporters, commodity exchange centers, and urban food markets. Thus, frictions and disruptions to the operations of agricultural traders likely indicate disruptions both to farm prices and to prices for consumers.

This research note presents results from a telephone survey of crop traders from Shan, Mandalay, Sagaing, and Magway.[1] The interviewed traders are mostly located in urban areas. About two-thirds of our sample operate in state or regional capitals and one-third in smaller towns and cities. The survey is a continuation of a panel survey conducted in 2020 to understand the impacts of COVID-19, though the latest round–conducted between 18 and 21 March 2021–focuses on the disruptions to crop trade since 1 February 2021. It also captures price data for important agricultural commodities.

We find significant disruptions to crop trade: transportation costs increased significantly–up by 23 percent within the same state or region compared to 2020; cellphone network and internet outages made it difficult to coordinate trade and to gather price information; and traders had difficulties recovering repayments on credit lent to farmers–27 percent expect to decrease their credit offered out in coming months. The banking sector shutdown has had the greatest impact–57 percent of traders said it was the largest disruption to their activities since 1 February. Inter-branch bank transfers, the main method of payment for trade, fell to near zero and the use of cash increased. Payment using the Hundi network–an informal guarantee to pay at a later date–emerged as a major method of payment.

Of the 108 traders interviewed, 38 had not actively traded since 1 February (Table 1). The buying and selling activities of traders typically reflect the crop calendar and harvest seasons, so in February and March most traders are usually actively trading crops from the monsoon harvests. However, in our sample, only two respondents stated that seasonality was the reason for their not trading. All other reasons were related to disruptions after 1 February, with the most common answers being safety concerns (26 percent) and bank closures (21 percent).

Table 1. Number of interviews with crop traders and main crops traded in March 2021 by state/region

	All	Shan	Mandalay	Magway	Sagaing
Actively trading since 1 February	70	20	15	13	22
Not actively trading since 1 February	38	10	5	18	5
Total	108	30	20	31	27
Main crops traded (% of traders)					
Pigeon pea	40	50	20	19	67
Maize	31	100	5	3	0
Sesame	22	0	20	32	37
Groundnut	17	0	25	16	30
Chickpea	10	0	10	3	30

Source: Crop traders phone survey March 2021 survey round

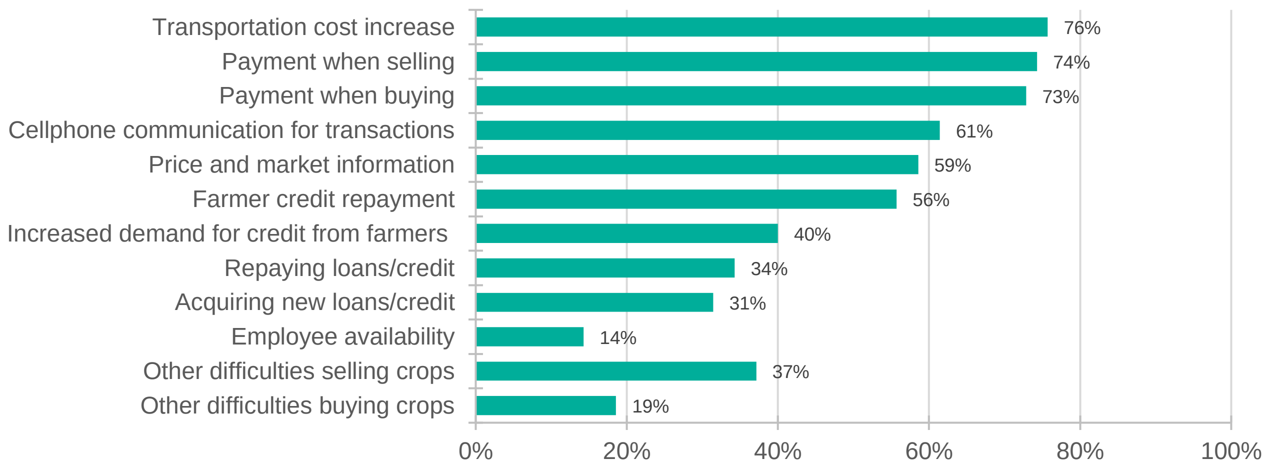
[1] We use a broad definition of traders that includes wholesalers that buy, store, grade, and sell commodities and brokers that facilitate crop sales on commissions.

The most prevalent crop traded after 1 February was pigeon pea, which has high shares of traders selling in Shan (50 percent) and Sagaing (67 percent), but is also traded in Mandalay and Magway (approximately 20 percent). The other main crops traded are more regionally differentiated. Maize is sold by all traders in Shan, but by very few traders in the Dry Zone (Mandalay, Magway, and Sagaing). Conversely, sesame, groundnut, and chickpea are sold a significant share of traders in the Dry Zone, but not in Shan.

Crop trader business disruptions since 1 February

To help identify the impacts of political instability on crop trade, we asked traders whether they had experienced business disruptions since 1 February (Figure 1). Nearly everyone was affected. More than half the sample experienced multiple types of disruptions, notably increased transportation costs, challenges with payments, cellphone coverage disruptions affecting coordination of trades, access to price and market information, and recovering repayment from credit lent out to farmers. Other credit disruptions included an increased demand from farmers for credit, difficulties repaying their own business debt, and acquiring new credit.

Figure 1. Disruptions experienced by crop traders since 1 February 2021, percent of traders

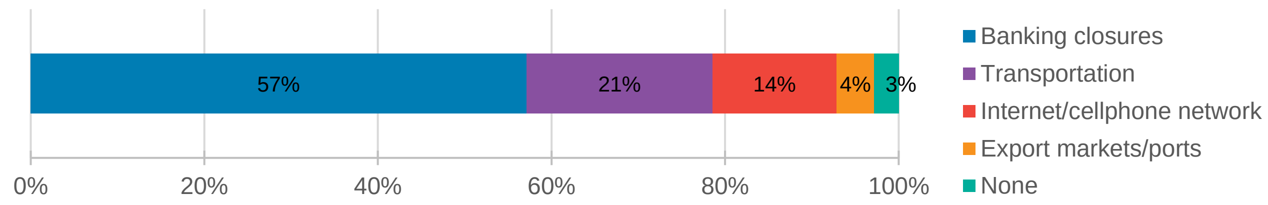


Source: Crop traders phone survey March 2021 survey round

Interestingly, employee availability was not a major disruption. Crop trading enterprises are generally small enterprises and employ on average only about two permanent and two temporary employees. Finally, difficulties in selling crops–which were mostly related to safety concerns and political unrest–were more commonly reported than difficulties in buying crops. This highlights the current safety discrepancies between rural and urban areas—traders typically buy crops from farmers in rural areas where protests are less common and sell crops in markets and exchange centers located in more populated areas.

To understand the relative magnitudes of these disruptions on trading, we asked traders which category of disruption had the greatest impact on their businesses. The biggest disruption, by a large margin, was banking restrictions and branch closures, reported by 57 percent of traders (Figure 2). Transportation costs and disruptions was the major constraint for 21 percent of traders, while cellphone network and internet cuts were the main challenge for a smaller share of traders. Strikingly, only 3 percent of traders reported no major disruptions.

Figure 2. Main business disruption since 1 February



Source: Crop traders phone survey March 2021 survey round

The magnitude of the disruption to the business of agricultural traders due to bank restrictions is reflected in the dramatic decline in inter-branch bank transfers (Table 3). The share of such transfers fell from 30 percent of buying transactions to just 3 percent, and from 50 percent of selling transactions to just 7 percent. Inter-branch transfers require the presence of banking staff to receive and implement client instructions, but equally importantly, recipients can withdraw only a maximum of 500,000 MMK per day or 2,000,000 MMK per week. Mobile payment withdrawals are subject to the same constraints and include an additional 1.5 percent transaction fee.

Table 3. Payment methods in January and March 2021, mean share of payments

	Buying			Selling		
	January 2021	March 2021	Change	January 2021	March 2021	Change
Cash	64	71	7	43	56	13
Inter-branch transfer	30	3	-26	50	7	-43
Mobile payment	3	4	1	3	4	1
Hundi	3	22	18	4	32	28

Source: Crop traders phone survey March 2021 survey round

Faced with such severe restrictions on cash withdrawals relative to the value of their transactions, traders have increasingly resorted to the old system of Hundi payments, the use of which increased seven times for purchases and eight times for payments since January 2021. The share of cash trades also increased, especially for sales, adding a security risk for traders having to physically move large volumes of cash. These constraints could be alleviated by allowing registered traders to withdraw the same amount of cash as registered companies—200 million MMK per week, ten times more than other clients.

Table 4. Credit situation for crop traders, March 2021

	Share (%)
Current debt on recent loans received	27
Expect to fully repay on time	62
Current credit out to farmers	61
Some credit out past due or late	77
Expect to be fully repaid	76
Expected change in credit offered to farmers in 2021	
Decreased credit offered	27
No change	69
Increased credit offered	4

Source: Crop traders phone survey March 2021 survey round

Trader liquidity is hindered by debt as well as by the limited functioning of the banking sector. More than a quarter of traders owe money, but only 62 percent expect to be able to repay their debts on schedule (Table 4). A similar share of traders has current loans out to farmers (61 percent). More than three-quarters of these loans are overdue, although traders expect eventual full repayment in the majority of cases. As a result of liquidity constraints and repayment risks, a quarter of traders anticipate a decrease in credit offered to farmers for the coming monsoon season, compared to just 4 percent who anticipate an increase.

Transport costs have risen dramatically compared to the same period last year. For transport within the same region, costs have risen by an average of 23 percent. For transport across regions the cost increase has been even higher–39 percent on average. Transport supply has been affected by widespread truck driver strikes,[2] while the larger increase in cross-region transport rates may reflect the curfew restrictions under which only military-owned transport companies can operate at night. It is important to remember that transport costs were high relative to other countries even before these increases. Approximately two-thirds of traders focus within the region, many even within the same township, while one-third focus on cross-region trade.

Crop prices and trader margins

Prices for all crops except maize have declined over the first three months of 2021 (Table 5). In terms of prices paid by traders, chickpea prices have fallen the most during the quarter, with a 10 percent decline, followed by sesame and pigeon pea. Looking back over the past year, sesame buying prices have declined the most, by 21 percent. This price drop is likely linked to slower border trade overland to China, the primary export market for Myanmar's sesame, caused both by COVID-19 restrictions and instability. Only maize prices have increased over the past three months, reflecting strong demand from Thailand, which continued to import maize during the month of February.

Table 5. Crop price and margin changes in March 2021 relative to January 2021 and March 2020

		January to March 2021			March 2020 to March 2021		
Crop	Traders (N)	Buying price (%)	Selling price (%)	Δ in % margin	Buying price (%)	Selling price (%)	Δ in % margin
Pigeon pea	42	-2	-9	-3	-2	-6	1
Maize	33	6	10	1	10	6	-1
Sesame	21	-3	-9	-4	-21	-29	-3
Groundnut	18	0	-6	-1	4	4	-1
Chickpea	11	-10	-12	0	-10	-10	0

Source: Crop traders phone survey March 2021 survey round

Overall trader selling prices have fallen by a higher percentage than buying prices, implying decreasing gross margins for traders. Taking into account the rise in transport costs, traders' net margins will have fallen even more. This may explain the large share of inactive traders compared to a year ago.

[2] USDA. 2021, March 5. United States Department of Agriculture, Global Agricultural Information Network. Report number: BM2021-0009.

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