

SNAPSHOT OF MARKET ACTORS' PERSPECTIVES: RAKHINE STATE CONSTRUCTION SECTOR (APRIL 7-11, 2021)

Mercy Corps - Market Analysis Unit

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During April 7-11, 2021, Mercy Corps' Market Analysis Unit (MAU) conducted phone interviews with construction companies which execute government tenders for road, bridge and building construction.¹ Questions focused on measuring the impact of recent events on the sector and workers who rely upon it for their livelihood. Data are based primarily on KIIs with 21 companies operating in 12 townships of Central and Northern Rakhine State.

Key Highlights

- **Almost all respondents saw their business income decline in 2020** and all reported additional major businesses challenges in the first quarter of 2021;
- **Almost all respondents struggled with high costs of materials and poor cash access** since February, although weak demand and limited supplies were also challenging;
- **Bank withdrawal limits have strained operations during peak construction season**, contributing to project delays and jeopardizing project completion;
- **Suppliers of materials in Sittwe report 25-30% increases in cement and steel prices** since February, reducing the profitability of projects;
- **Two-thirds of respondents may lay off workers in the next thirty days** in order to adapt to current challenges, and almost all say there are not enough jobs to meet demand;
- **Roughly half of all respondents believe cash or credit assistance is needed** in the sector, such as higher ceilings on bank withdrawals or more low-interest loans;
- **Difficulties in the sector may lead to job loss and unmet infrastructure needs**, such as road construction in the region.

I. Overall Sector Health

Respondents describe a construction sector in Central and Northern Rakhine State that struggled in 2020 and continues to face even greater challenges in 2021. Virtually all respondents said their business income was lower in 2020 than 2019.² Most respondents reported reductions in income of 50% or less, although one respondent reported experiencing an even larger contraction. Changes in income in the first quarter of 2021 were less clear, largely due to the seasonality of the sector.³ Just four respondents chose to report their change in income since January, yet all four reported further declines in this period. That said, most respondents remain in a relatively stable cash position. Two-thirds said their business can operate for two or three months more with their current access to cash, while others said they can operate for even longer.

Since January, the most common challenges cited by respondents included rising prices for construction materials, costly transportation and limited access to cash. Nearly all respondents found these to be major challenges in recent months. One-third of respondents also said lack of demand / tenders and insufficient access to supply of materials presented challenges.

¹ Most interviews took place during April 7-11, however three final interviews were conducted on April 19.

² The one exception declined to respond.

³ Peak construction season occurs during March-May, so companies may be unable to estimate profits in early-April (see Box 2).

More than one-quarter of respondents also highlighted serious delays in government approval of project budgets, although it was unclear if this is a new development. By contrast, none of the respondents reported struggling with high wages or limited availability of labor.

Respondents were unanimous in pointing to recent political events as the most common source of recent challenges in the construction sector. Only one respondent said Covid-19 continued to present a challenge to their business operations, and none said armed conflict is currently a challenge.

II. Key Challenges

Access to Cash – All but one respondent said access to cash was a major challenge for their construction business in recent months. Many respondents said 20 million MMK—which is the maximum weekly bank withdrawals allowed for businesses by the government at present—is badly insufficient to cover operating costs, particularly during peak construction season (March to May). Moreover, suppliers have increasingly required cash payment for supplies, further increasing the working capital requirements of companies. Many respondents said this has slowed the pace of construction and pushed projects closer to the monsoon season. It has also added to operating costs for some companies which must seek other sources of cash for operations. For example, one respondent adapted to recent working capital shortages by taking on additional high-interest debt, thereby reducing the profitability of his projects.

Price of Materials – All respondents reported rising prices for construction materials since January and nearly all reported rising shipping costs. According to respondents, prices for imported construction materials like cement and steel have risen aggressively since February. Additional interviews with materials suppliers suggest that the retail price of cement in Sittwe rose 25% since January (climbing from 6800 MMK/bag to 8500 MMK/bag). Retailers also report that the price of 16mm mild steel rods—which serve a variety of functions in construction—rose nearly 30% (climbing from 680,000 MMK/ton to 880,000 MMK/ton). Several respondents attributed the rising cost of materials to exchange rate changes and rising transportation costs (see *March 12 MAU Snapshot*). Some companies who said they face losses on fixed-price tenders due to rising costs have adapted by reducing labor expenses (see below) while others say they intend to absorb the losses for fear of jeopardizing their competitiveness for future tenders.

Box 1. Availability of Skilled Labor

More than three-quarters of respondents said their company faces longstanding challenges accessing skilled labor for construction projects in Rakhine State.⁴ Most of these respondents identified masonry, carpentry and welding of steel structures as the core skills that are in short supply, while some also added the operation and maintenance of heavy machinery like backhoes. One-third of respondents said they address these skills gaps by providing on-the-job training of their own workers, while others said they recruit skilled workers from other states and regions in Myanmar. According to respondents, most workers recruited from outside of Rakhine State are skilled workers who occupy roles such as machinery operators, masons and steel workers.

⁴ To be clear, respondents did not say that the lack of skilled workers was a new development in recent months.

III. Expectations and Assistance

The most common concerns voiced by respondents for the next thirty days involve access to cash and timely government approval of project budgets. Roughly half of all respondents said their largest concern was poor access to cash, and the same proportion also said delays in budget approval or government department endorsements threaten project completion. The next most common concern among respondents involved further increases in the price of materials.

Workforce Changes – Two-thirds of respondents said they may lay off workers in the next thirty days in order to adapt to challenges. Three respondents confirmed they already plan to lay off workers, while ten others said this is a possibility. Roughly half of all respondents also said they may need to temporarily furlough workers, although just three said they are considering reducing wages. Moreover, nearly all respondents said they believed there will not be enough jobs available in the construction sector to meet worker demand in the next thirty days.

Needed Assistance – Roughly half of respondents identified cash or credit support as the most pressing form of assistance needed to address current challenges in the sector. Several respondents proposed increasing the cash withdrawal limits at banks or providing access to additional low-interest loans. Other measures proposed by respondents included action to prevent further increases in the price of imported materials and adjustments to the tendering process to streamline government approval of project budgets. With respect to increasing job opportunities in the sector, several respondents suggested providing support for skills training and making administrative changes to increase the speed and volume of construction projects.

IV. Implications

Business Profitability – Rising costs for materials and project financing may jeopardize the financial health of the sector. Companies unable to generate profits may exit the market at least temporarily, leading to job loss and unmet infrastructure needs in Rakhine State.

Reduced Household Income – Workers in Rakhine State’s construction sector may find themselves with reduced seasonal income if projects are delayed or halted. If projects remain unfinished when the monsoon season arrives, men and women working in the sector may be left with less seasonal income than usual, straining household budgets in the coming months.

Poor Infrastructure – Lower rates of project completion in the construction sector may stymie critical infrastructure development in Central and Northern Rakhine State. Slowing the construction of roads and bridges may have the medium- or long-run effect of reducing economic activity and output in the region.

Box 2. Respondent Characteristics

Data in this report are based on interviews with 21 construction companies. Characteristics of these companies are as follows:

- **Projects** – Almost all respondents construct roads and three-quarters construct buildings. Some respondents also build bridges or other infrastructure (e.g., water).
- **Markets** – The companies operate in 10 central and northern Rakhine State townships, including Sittwe (9), Rathedaung (8), Minbya (6), Buthidaung (6), Mrauk U (6), Pauktaw (6), Kyauktaw (5), Mungdaw (5), Ponnagyun (4), and Myebon (3). Most companies work in two or three different townships, however the Sittwe-based companies operate even more broadly.⁵
- **Customers** – All respondents receive tenders from the Rakhine State Government (RSG), while three also receive tenders from the Union Government. Most do not serve private clients like businesses or households.
- **Labor Supply** – Respondents' companies have on average 16 permanent employees as well as 67 temporary employees working on each individual construction project (a project generally employs 25-200 temporary workers, recruited by local foremen). Roughly one-third of temporary workers are women, with a higher proportion in road construction. Almost all respondents hire workers from neighboring Rakhine State townships, although just two recruit more than half of their workers from outside the project township. Two-thirds of respondents recruit workers from other States or Regions, although this is typically only for smaller numbers of skilled workers.⁶
- **Supply of Materials** – All respondents rely upon construction materials imported from outside of Myanmar. This is typically steel from China or cement and paint from Thailand. Some companies also source electrical equipment like transformers and cables from Thailand or Vietnam.⁷
- **High season** – Most construction activity in the region begins in November after monsoon rains have ended and tenders are awarded. January sees an increase in activity with the bulk of construction occurring during March-May.

⁵ Respondents' companies were based in 11 townships, with more based in Mrauk U (4), Buthidaung (3) and Sittwe (3) and just one or two based in each of the remaining townships.

⁶ In general, workers are recruited by supervisors, although in some cases they are recruited through other social or professional networks. Very few respondents said they rely on labor exchange offices.

⁷ In many cases these materials are purchased from suppliers in Rakhine State, however two-thirds of respondents also purchase materials directly from suppliers located elsewhere in Myanmar.

Mercy Corps' Market Analysis Unit (MAU)

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

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

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