

SNAPSHOT OF MARKET ACTORS' PERSPECTIVES: RAKHINE STATE SHIPPING PROVIDERS (FEB. 26-MAR. 4, 2021)

Mercy Corps - Market Analysis Unit

March 12, 2021

During February 26 - March 4, 2021, Mercy Corps' Market Analysis Unit (MAU) conducted phone interviews with 25 shipping providers serving humanitarian and commercial clients in Rakhine State and elsewhere. This included seven Yangon-based interstate providers and 18 local providers in nine townships. The MAU asked respondents about changes in business conditions from January to February. It is the second MAU snapshot of shipping providers.¹

Key Highlights

- **Rising fuel costs and limited access to cash remain the largest challenges** for most shipping providers, although Yangon providers face other mounting challenges too;
- **Political turmoil is the main cause of difficulties for providers at present**, while challenges from conflict and Covid-19 restrictions have largely receded;
- **Prices are up 20-50% for interstate shipping and 10-25% in Sittwe**, while local providers report smaller increases of around 5%;
- **Demand is down 50% for interstate providers and 10-40% for some Sittwe providers**, although local Rakhine State providers report better demand in February than January;
- **Some interstate providers now have just several weeks of cash available**, and most providers interviewed are pessimistic or uncertain about the future of their sector;
- **March and April could see higher prices and reduced supply of interstate shipping**, as well as stricter terms of payment due to cash shortages.

I. Summary

Overall Changes – Events in February impacted local and interstate providers to different degrees, with interstate providers in Yangon more often reporting new challenges than local providers in Rakhine State. Six of seven interstate providers in Yangon said shipping was more difficult in February than in January. By contrast, nearly half of Rakhine State providers said shipping was actually easier in February. Sittwe-based providers were roughly split between those who said it was easier or harder, while township-based providers were split between those who said it was easier and those who said it was the same as January (none said it was more difficult).

Most providers reported similar challenges in February, although Rakhine State providers worried most about fuel costs while Yangon providers cited a wide range of difficulties. Yangon providers said rising fuel costs, plummeting demand, new safety concerns for employees and general uncertainty about the business environment were all major concerns. In comparison, most Rakhine State providers said the cost of fuel was their largest concern. That said, Rakhine State providers also voiced uncertainty about the general business environment, and two Sittwe-based providers emphasized banking worries, particularly poor access to cash, and the inability to receive bank transfer payments from NGO clients.

¹ See the MAU *Snapshot of Market Actor Perspectives* released October 21, 2020.

Source of Changes – Five of six Yangon providers said political events in February had a large impact on their services, while most Rakhine State providers said recent events had a small or in some cases a medium impact. Two of four Yangon providers who did not ship in February did so in support of the ongoing civil disobedience movement (CDM).² Rakhine State providers reported many of the same challenges as Yangon providers (e.g., rising fuel costs, limited cash), yet most said the impact was small, and just three described it as medium.³

Nearly all providers said conflict and Covid-19 had little or no impact on their services in February, although several said past difficulties were reduced. Some Rakhine State providers reported faster processing at conflict-related checkpoints in February, and both Rakhine State and Yangon providers reported lax enforcement of Covid-19 restrictions. These changes were more impactful for Rakhine State who were less affected by other political events. However, respondents otherwise made little reference to Covid-19 or even conflict, possibly due to the benefits of the ceasefire that began in November.

Box 1. Company Profiles – Shipping providers in this snapshot are grouped as Yangon-based providers (7), Sittwe-based providers (9) and local providers in Rakhine State townships beyond Sittwe (9). This is due to distinct business environments and operations that make comparisons difficult. Characteristics of these groups is as follows:

- **Activity** – Three of seven Yangon providers actively shipped in February, while all but three Rakhine State providers did so. Two-thirds of Rakhine State providers shipped 8-20 days in February, while the rest shipped >20 days. Two Yangon providers shipped >20 days and one shipped fewer than eight.
- **Routes** – In February, two Yangon providers shipped to Rakhine State and three shipped elsewhere. Half of Sittwe providers shipped goods to Sittwe from other States/Regions, and most shipped onward from Sittwe to other townships. Local providers shipped almost exclusively from Sittwe or other townships to neighboring townships. Only two of fifteen active Rakhine State providers shipped outside of Rakhine State, and no providers shipped internationally.
- **Mode** – Among both Rakhine State and Yangon providers, two-thirds shipped by road and two-thirds shipped by waterway. None shipped by air.
- **Products** – Three-quarters of Rakhine State providers shipped dry or packaged food and construction materials in February, while one-quarter shipped non-food consumer goods and one-quarter shipped medical supplies. Yangon providers shipped packaged food, medical supplies and construction materials.
- **Customers** – Most Rakhine State providers served business clients in February and half served NGOs. Two Yangon providers served NGOs and two served business clients.

² Among six Yangon-based shipping suppliers who declined to interview for the study, four also indicated that they were inactive in February due their support for the civil disobedience movement.

³ Caution should be taken in reading too much into these responses. On the one hand, providers in Yangon and Rakhine State may have different benchmarks for what constitutes a "large" impact (particularly as providers in Rakhine State more often face challenges from armed conflict). Furthermore, it is also possible that Rakhine State respondents may be more or less likely than Yangon respondents to openly express their views on politics or conflict due to unique political sensitives in Rakhine State.

II. Business Operations and Regulations

Business Operations – Fuel prices and access to cash worsened for nearly all providers in February, while other operational difficulties were felt almost exclusively by interstate providers in Yangon. Virtually all respondents felt the pains of rising fuel prices, and three-quarters said their cash flow position had worsened. However, access to cash did not worsen as dramatically among local providers in Rakhine State, half of whom said this was unchanged since January (perhaps due to lower capital requirements, relative to interstate providers). Other operational challenges were felt almost exclusively in Yangon. Most Yangon-based providers cited worsening conditions for internet, labor, drivers and vehicles, all of which were generally unchanged for providers in Rakhine. The one exception to this involved access to credit (see below), which worsened for four of eight Sittwe-based providers.

Shipping providers both in Yangon and Rakhine State detailed a variety of operational challenges experienced in February. Local providers in Rakhine State mostly cited fuel costs, but two also said bank closures delayed payments and limited their access to cash. Sittwe-based providers also emphasized these concerns about bank transfers. Two providers said bank closures reduced their access to goods due to insufficient payment options, while another said some wholesalers will no longer provide goods on credit. Fuel prices were a prominent concern in Sittwe. One Sittwe provider reported having a three-month supply of fuel which insulated him from rising prices but worried about exhausting it. Meanwhile, the challenges faced by interstate providers in Yangon include the above and many more, from labor shortages and safety concerns for drivers to poor internet connectivity in morning office hours following nighttime cutoffs.

Government Regulations – A national curfew presented challenges for interstate providers in Yangon and Sittwe in February, however Rakhine State providers welcomed easier Covid-19 restrictions and faster checkpoints. The nationwide curfew increased shipping times for interstate providers but had less impact on local providers (see below). Otherwise, the greatest regulatory impact was the relaxation of Covid-19 restrictions. One-third of providers—from both Yangon and Rakhine State—said Covid-19 restrictions were either loosened or unenforced in February, compared to January. Checkpoints also improved in Rakhine State, although worsened elsewhere. One-third of providers in Rakhine State said checkpoints improved, while three of five Yangon providers said checkpoints were a new challenge for them in February.⁴ Three Yangon providers and two providers in Sittwe also said route closures were more severe in February than January; however, two Sittwe providers also said their routes improved.

III. Shipping Supply: Travel Times and Prices

Shipping Times – Interstate shipping times worsened in February due to a nationwide curfew, however Rakhine State providers reported stable or faster local shipping times. Five of six Yangon providers reported slower shipping times in February, as curfew limited the hours that vehicles may be on the road. However, the impacts of the curfew on interstate shipping appeared less problematic within Rakhine State, where local providers cover shorter routes and often already avoid nighttime travel due to risks from armed conflict. Most Sittwe providers reported no change in shipping times and township providers reported stable or faster times. Three local providers said checkpoints operated more quickly, and one Sittwe-based provider said newly opened routes helped as well.

⁴ The Rakhine State checkpoints mentioned here are related to armed conflict. By contrast, it was unclear from interviews whether the checkpoints referenced by interstate providers were longstanding checkpoints or new ones related to current political events.

Shipping Prices – Higher fuel prices drove up shipping costs for providers everywhere in February, increasing prices for interstate shipping and to a lesser extent intrastate shipping too. Five of six Yangon providers said shipping prices increased by 20-50% in February, due largely to higher fuel prices but also longer transport times. Rakhine State providers also suffered higher fuel prices, but price increases were less dramatic. Three Sittwe-based providers said shipping prices rose 10-25% in February, although several who said they had not yet increased prices planned to do so soon. Prices were more stable for township-level providers. Just two of eight providers reported 5% increases in prices, and several cited long-term, fixed-price contracts and local competition as reasons for maintaining January prices.

Other Shipping Conditions – Other shipping conditions—such as minimum freight requirements, availability of warehousing, or route availability—were largely unchanged in February. One Yangon-based transporter did report route changes, and one reported improved availability of warehousing, but otherwise these aspects of shipping services were unchanged in February. No providers reported changes in minimum shipping requirements.

IV. Shipping Demand

Demand Reductions – Local and interstate shipping providers reported different changes in demand in February, with Yangon providers experiencing poorer demand and local providers in Rakhine State seeing stable or even slightly greater demand. Yangon providers estimated February demand to be down 50% from January levels, keeping in mind that January demand was already 25-50% lower than usual due to the impacts of Covid-19. Yangon providers said new demand reductions were rooted largely in political events (e.g., safety concerns, reduced exports due to customs closures). Meanwhile, half of Sittwe providers reported no change in demand, while the other half estimated a 5-20% reduction in demand due to political instability and clients' limited access to cash. By contrast, local township providers actually reported demand increases of 10-40%, due to increased interest from NGO clients, better mobility from relaxed Covid-19 restrictions, as well as seasonality in the construction sector.

V. Future Expectations

Business Environment – Yangon-based interstate providers expected political events to further limit shipping services in March, although Covid-19 restrictions were expected to continue to recede in their importance. Four of seven Yangon providers expected political events to worsen in March, while all other respondents (including all Rakhine State providers) expressed uncertainty. On the positive side, only one respondent expected the impact of conflict to worsen in March. Furthermore, more than half of all respondents—particularly those in Rakhine State—voiced optimism that Covid-19 restrictions would be less of a burden in March. With respect to other government regulations, Sittwe providers expected continuity while Yangon providers voiced deep uncertainty. Two Yangon providers emphasized that they had little idea what regulatory changes the current government might make.

Business Operations – Three-quarters of providers planned to continue offering shipping services in March, despite mounting challenges for interstate providers, and many voiced uncertainty about the sector. Six of seven Yangon provider said operations would be more difficult in March (Rakhine State providers were uncertain). In particular, providers voiced pessimism about customer demand and access to working capital. Three-quarters of Rakhine State providers said they had enough cash to operate for one month more, however two Yangon providers said they had enough for several weeks only and four others were uncertain.

VI. Implications

Improved Local Mobility – The continued ceasefire in Rakhine State and loosened regulations related to checkpoints and Covid-19 restrictions could improve last-mile delivery in Central and Northern Rakhine State. Reports of faster checkpoint processing, more route options and less enforcement of Covid-19 restrictions (notwithstanding the public health implications) could improve shipping access and times in Rakhine State.

Rising Prices – Although prices for local shipping in Rakhine State have not yet risen substantially, this may change in the near future. The mounting burden of higher fuel costs will either be passed along to customers or cause more financial stress for local providers. This may replicate problems in the local shipping market that already exist in the interstate market.

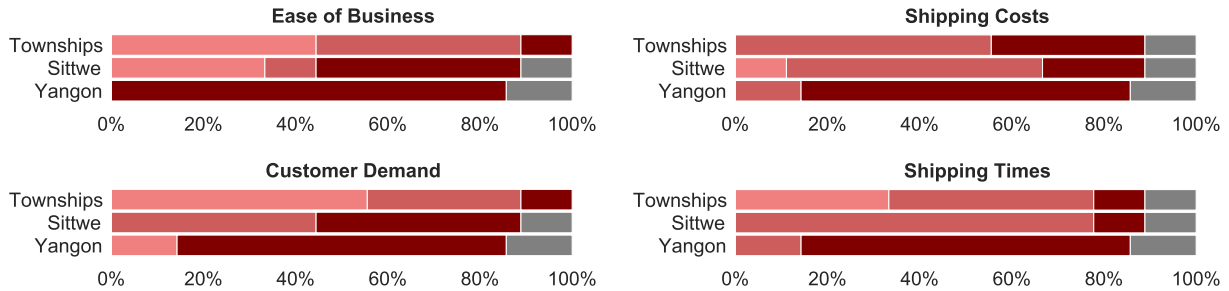
Stricter Terms of Payment – Ongoing problems in the banking sector may motivate Rakhine State providers to prioritize clients with the ability to pay cash. With signs of tighter credit and limited access to cash, cash-strapped Rakhine State providers may be unable to service clients who cannot pay cash. While there is currently no sign of limited shipping capacity in Rakhine State, this could eventually limit available services for some clients.

Limited Supply – Compounding operational challenges and a protracted civil disobedience movement could cause interstate suppliers to exit the market at least temporarily in the coming weeks or months. The combination of poor demand, rising fuel prices, limited access to cash, difficulty accessing vehicles and labor, and overall regulatory uncertainty may cause more providers to suspend operations in the short- or medium-term. This will be particularly true if the banks remain closed and the CDM continues.

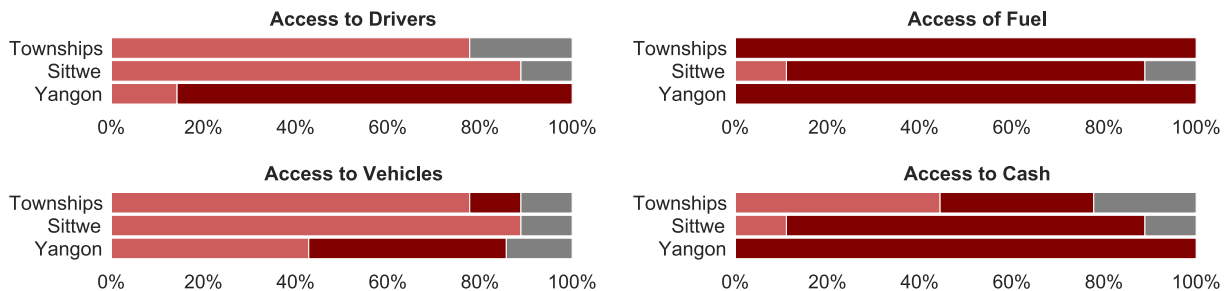
VII. Selected Charts

The following charts provide a simple count of responses for selected questions, grouped by the location of the shipping provider (see Box 1). Charts 1-10 compare conditions in February against January, while Charts 11-13 ask about February only. Because the data are based on a small number of interviews (25) they are intended to provide general impressions only.

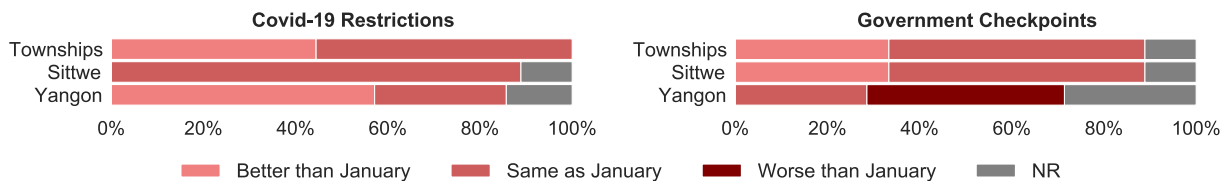
Charts 1-4. Overall Business Conditions



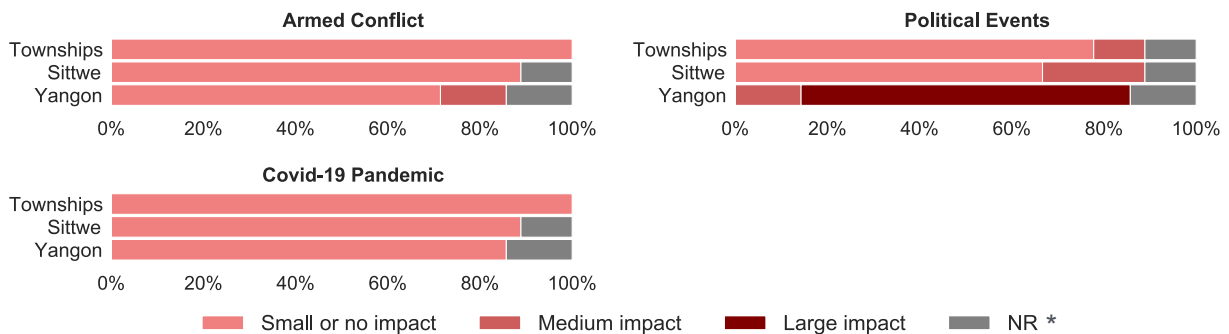
Charts 5-8. Business Operations



Charts 9-10. Government Regulations



Charts 11-13. Size of Impact on Business, by Source (February)



* "NR" indicates item nonresponse.

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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