

# SNAPSHOT OF MARKET ACTORS' PERSPECTIVES: RAKHINE STATE AGRI. INPUT SUPPLIERS (OCT. 29-NOV. 1, 2020)

## Mercy Corps - Market Analysis Unit

November 30, 2020

*During October 29 - November 1, 2020, Mercy Corps' Market Analysis Unit (MAU) conducted phone interviews with 29 agricultural input suppliers in Rakhine State to measure the impact of conflict and COVID-19 on agricultural supply chains in October 2020. Data are based on a convenience sample of 10 suppliers from Sittwe and 19 suppliers from seven additional townships, most of whom supply inputs to both paddy farmers and winter crop farmers.*

### Key Highlights

- **Seventy-two percent (72%) of suppliers reported lower revenue in October** relative to last year, and 56% reported lower revenue on the paddy season to date (July-October);
- **Seventy-five percent (75%) reported lower October sales for fertilizer** compared to 2019, and 50-60% reported lower sales for vegetable seed and other agrochemicals;
- **Half of all suppliers say they have cash on hand to operate for “months or longer”**, while 10% say they have enough cash to operate for “weeks”;
- **Fertilizer and vegetable seed prices stabilized in late-October**, although restock times remain long for Rakhine State suppliers outside of Sittwe, particularly for fertilizer;
- **Transportation challenges and weak demand were common challenges in October**, although supply disruptions and required business closures were also factors;
- **Forty-six percent (46%) of suppliers adapted their business model in October** to address challenges, such as by increasing mobile payment solutions;
- **Half of suppliers expected challenges from COVID to remain the same or improve** in November, compared to just 7% who expect challenges from conflict to improve;
- **Thirty-eight percent (38%) of suppliers expected labor challenges in November**, compared to just 25% who reported experiencing labor-related challenges in October.

### I. Overall Business Health

**Revenue and Cash Flow – Agricultural input suppliers report lower revenue for the 2020 paddy season, but cash flows remain sufficient to prevent immediate business closure.** Seventy-two percent of suppliers reported lower revenue in October relative to the same month in 2019 (Chart 1). This is slightly worse than the 56% who reported lower revenue for the entire paddy season to date (which began around July), probably due to the fact that the worse effects of COVID set in during August. Just 10% reported higher revenue in 2020, both for October and the season as a whole. In follow-up KIIs, some suppliers estimated the magnitude of the reduction, putting October 2020 revenue at just 50-66% of October 2019 levels. Nonetheless, few suppliers appear to be at risk of immediate business closure. Fifty-two percent said they could continue operating for “months or longer”, while 10% said they had cash to operate only for “weeks”.<sup>1</sup>

<sup>1</sup> A fairly large 38% of respondents did not answer this question, choosing to respond “I don't know / prefer not to say.”

## II. Business Challenges in October

**Sources and Types of Recent Challenges – Ninety-seven percent of suppliers reported significant challenges related to COVID and/or conflict in October.** Ninety-three percent experienced challenges stemming from COVID in October, while 41% experienced challenges tied to conflict (one respondent said neither posed challenges in October). In KIIs, suppliers described serious ongoing difficulties from conflict made worse in recent months by COVID. According to suppliers, reduced land access from conflict has in turn reduced farming activity and input purchases. Meanwhile, COVID-related concerns stemmed from reduced customer traffic in towns, which suppliers attribute to COVID regulations mandating shorter market hours and reduced passenger transportation from villages to towns (where suppliers are located).

**Transportation limits and reduced demand were the most common challenges cited by input suppliers in October.** Ninety-three percent of suppliers cited reduced demand, while 90% cited limited transportation and 76% cited supply disruptions (Chart 3). Challenges from government-mandated business closures or labor shortages were lower at 60% and 24%, respectively; this is perhaps due to suppliers' limited reliance on labor and the easing of some COVID regulations in October. KIIs suggest that COVID-related transportation difficulties have had a supply-side impact for many input suppliers (besides the demand-side impacts mentioned above) in the form of longer restock times for goods shipped from Sittwe, Mandalay and Yangon.

**Impact on Prices and Sales – Prices for agricultural inputs appeared relatively stable in October and comparable to 2019 levels, yet sales remain low.** Roughly 50-60% of suppliers said prices for fertilizer, vegetable seed and agrochemicals (i.e. pesticides, fungicides, herbicides) remained stable from September to October. Only 5-15% of respondents reported facing higher prices for each of these three products, and an even smaller number reported lower prices. Compared to October 2019, a narrow majority of respondents said prices were roughly the same, based on recollection. Fertilizer stood out the most, with 39% reporting higher prices in October 2020 than last year. However, KIIs suggest that price increases for fertilizer have been fairly modest at around 5%. Seed prices have risen as well (e.g. one supplier cited a 10-20% price increase for bitter gourd seed) although suppliers say prices stabilized in late-October. Nonetheless, sales are low for many suppliers. Seventy-five percent reported lower sales for fertilizer compared to October 2019, while 50-60% reported lower sales for vegetable seed and agrochemicals (Chart 2). In KIIs, one supplier said fertilizer sales for October fell to 33-55% of October 2019 levels and attributed this largely to reduced demand from farmers.

**Impact on Restock Times – Some suppliers reported longer lead times for restocking agricultural inputs in October, particularly for fertilizer and townships other than Sittwe.** Roughly 40% of respondents said fertilizer, vegetable seed and agrochemicals faced longer restock times than in October 2019, with the remainder reporting lead times similar 2019 (none cited shorter restock times). Three-quarters of suppliers had restocked vegetable seed and/or fertilizer in the past two months (i.e. September-October), and while most were able to restock within days, lead times for fertilizer were sometimes longer. Seventy-seven percent said they could restock vegetable seed within days, compared to just 55% for fertilizer, and 14% said fertilizer had taken more than a month. In KIIs, one supplier tied these delays to increased within-state shipping times, arguing that recent shifts from road to waterway freight had increased unloading times in Sittwe and delayed delivery (see Oct. 21 MAU Snapshot). As a result, goods which once shipped from Sittwe in two or three days could take weeks to arrive. With respect to vegetable seed shipped by road from Mandalay and Yangon, another respondent said lead times stretched from days to weeks in September but had begun to normalize in late October.

**Box 1. Credit and Borrowing – Challenges tied to providing / receiving credit were not the foremost concern for suppliers in October, despite signs that credit has tightened.**

In general, more suppliers cited difficulty offering credit than receiving it. Sixty-eight percent of suppliers said they had difficulty collecting on credit offered to farmers in October, while a slightly lower 61% of suppliers said they struggled to pay their own creditors. However, receiving credit was not without its challenges. Sixty-one percent of suppliers said they faced difficulty locating credit for themselves in October, and 50% said they sought new or additional borrowing in order to address challenges they faced. By contrast, changing the terms of credit appears relatively uncommon for input suppliers. Just 29% of suppliers said they faced challenges stemming from their lender changing the terms of credit, and just 25% said they themselves changed the terms of credit they offer to farmers.

### III. Responses and Expectations

**Recent Adaptation Measures – Suppliers responded to challenges in October by reducing operations and implementing safety measures but also by adapting their business models.**

By far the most common adaptation measures included reducing business hours (79%) and implementing new safety measures (71%), however many suppliers also increased borrowing (50%) or adjusted their business model and sales channels (46%). KIIs suggest that suppliers increasingly relied on existing solutions such as mobile sales and waterway delivery to address the challenges they faced. As sales agents limited travel to reduce health risks, suppliers accepted more phone orders and mobile money payments on platforms like Wave Money. In tandem with this, input suppliers increased delivery to customers unable or unwilling to travel to town, particularly through increased use of existing waterway routes.

**Expectations – Suppliers appeared cautiously optimistic that challenges from COVID would stabilize in November, although they remain bearish about the impacts of conflict.**

One-third of suppliers expected challenges from COVID to worsen in November, while one-third expected these factors to remain the same, 14% expected the situation to improve, and 17% refused to answer (Chart 5). By contrast, a much larger 59% of suppliers expected challenges from conflict to worsen in November, while 7% said it would remain the same and none expected improvement (a fairly large 34% refused to answer). According to KIIs, suppliers worry that input sales will not rebound until displaced farmers are resettled and can return to growing and/or increase the acres they cultivate. With regard to specific challenges expected in November, 76% of suppliers expected demand and/or transportation to be problematic, and a slightly lower 59% expect challenges related to supply (Chart 4). Most notably perhaps, 38% of respondents expected labor-related challenges in November, compared to just 25% who reported challenges from labor in October. Overall, KIIs suggested that suppliers are cautiously optimistic that transportation will improve but remain pessimistic that demand will improve.

### IV. Implications

**Market Stability – Suppliers suggest that the worst fears of long-term price increases for agricultural inputs may be avoidable, indicating resilience in supply markets.** While there were reports of higher prices in 2020, these increases appear to be small in magnitude for fertilizer and short-lived for vegetable seed. This does not mean that the market for these inputs is resilient

enough to withstand future shocks should they arise during the winter season, but it may be a promising sign for the short-term health of agricultural input suppliers in Rakhine State.

**Agricultural Productivity – Reduced sales of agricultural inputs during the 2020 paddy season point to the risk for reduced output or yields this year.** If reports from agricultural input suppliers are accurate, paddy farmers may have significantly reduced the application of inputs per acre and/or acres cultivated in the 2020 season. Reduced input application can result in lower output or yields for paddy production, hurting agricultural productivity and ultimately food security in Rakhine State. The same risk applies to the approaching 2020 winter crop season.

**Technology Adoption – Increased mobile sales and payment spurred by COVID may boost the long-run adoption of mobile money solutions in Rakhine State’s agricultural sector.** While it is possible that adoption of these technologies may last only as long as COVID-related challenges persist, it is also possible that such adaptation measures gain a foothold that enables long-term efficiency gains for agricultural input supply in Rakhine State. However, such solutions nonetheless face limited reach in communities where the government has limited telecom access.

## V. Respondents

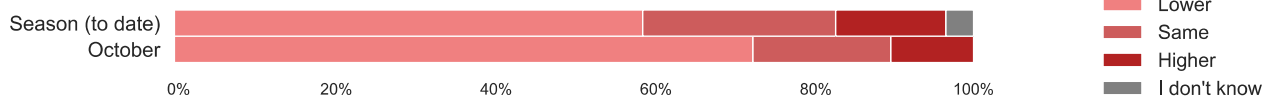
The MAU interviewed 29 Rakhine State input suppliers to collect the data in this snapshot. The table below briefly summarizes the business profile of the suppliers interviewed.

**Table 1. Summary of Input Supplier Characteristics**

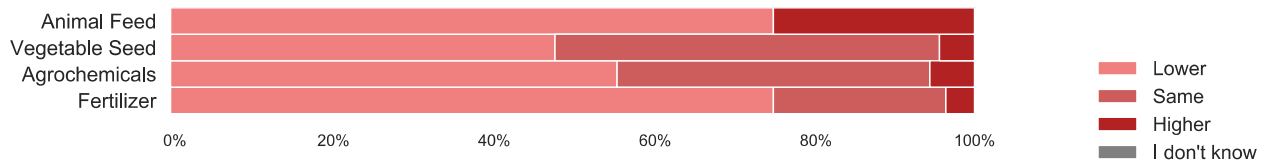
<b>Location</b>	Suppliers are located in Kyauk Taw, Muangdaw, Minbya, Mrauk U, Pauktaw, Ponnagyun, Rathedaung and Sittwe Townships.
<b>Firm Age</b>	Firm age is unknown, however all respondents also supplied inputs to farmers in 2019.
<b>Operating Season</b>	Ninety percent of respondents supply inputs in both the paddy and winter crop seasons (the remainder supply only in one of the two).
<b>Labor Size</b>	Ninety-five percent of respondents have less than five permanent employees (31% have none); 21% have permanent female employees.
<b>Products Sold</b>	Suppliers sell products such as fertilizer (90%), vegetable seed (80%), agrochemicals like pesticide/herbicide/fungicide (60%) and animal feed (38%).

## VI. Selected Charts

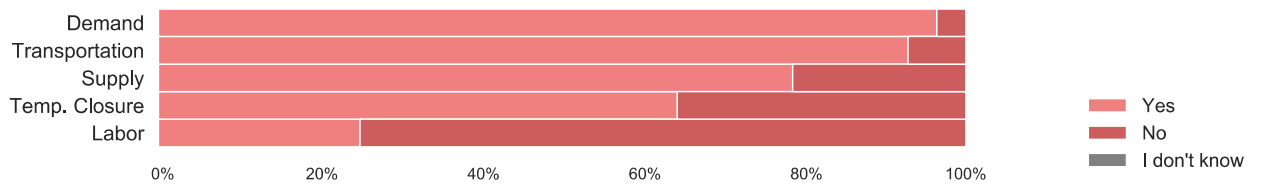
**Chart 1. 2020 Sales Revenue (compared to 2019)**



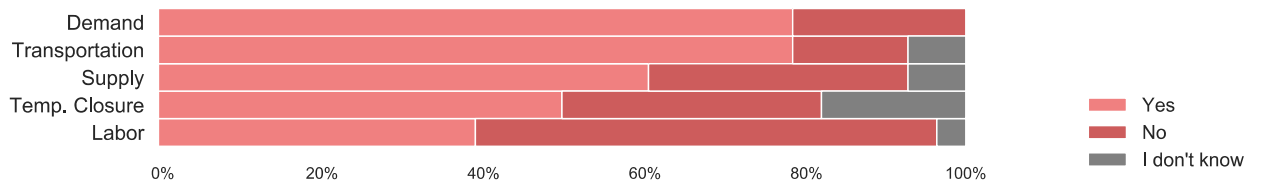
**Chart 2. 2020 Sales for Select Products (compared to 2019)**



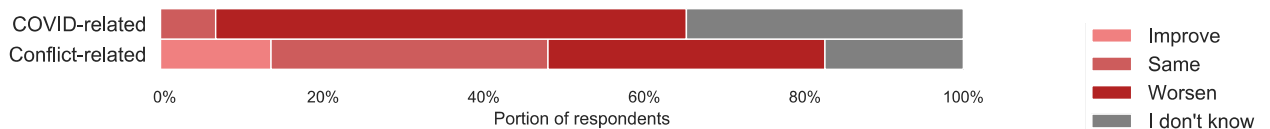
**Chart 3. Challenges, by Type (Experienced in October 2020)**



**Chart 4. Challenges, by Type (Expected in November 2020)**



**Chart 5. Challenges, by Source (Outlook for November)**



## **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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