



Impact of the twin crises on human welfare in Myanmar

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Contents

3	Key Messages
4	Executive Summary
5	01 - Background and Objectives
6	02 - Methodology and assumptions
9	03 - Results
15	04 - The potential impact of rising poverty on human capital – transmission mechanisms
20	05 - Limitations
21	06 - Conclusions
23	07 - Technical Appendix

Key Messages

- Poverty headcount is likely to return to the levels not seen since 2005, effectively erasing the benefits of the pre-COVID-19 unprecedented economic growth;
- Similarly, poverty depth will revert to levels not seen since 2005. Put simply, a significant amount of money (4.5% of pre-COVID-19 GDP) would be needed to bring the new poor above the poverty line. This additional spending is sizeable, given that pre-COVID-19 spending on social transfers was less than one percent of GDP;
- In addition to child poverty, urban poverty is likely to increase three-fold, also impacting the overall security of urban areas;
- The poorest states and regions prior to COVID-19 and the military takeover are likely to still remain poor, with poverty exacerbated in these areas;
- The poverty gap (measure of depth of poverty) is likely to remain high in the poorest states, though it is likely to increase by a higher margin in states and regions such as Mandalay and Yangon.
- The highest number of poor people will be living in Ayeyarwady, followed by Yangon and Sagaing.
- When considering the state/region breakdown, the highest amount of resources needed to bring the poor over the poverty line will be needed in Yangon, influenced partly by conflict-related concentrated violence.

“ The rising levels of poverty and insecurity are expected to impact upon access to nutrition, health and education, **negatively impacting the human capital of the next generation.** ”

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Executive Summary

Myanmar's recovery from the COVID-19 induced economic crisis received a setback in early 2021. On 1st of February, the military of Myanmar staged a coup d'état, effectively stalling the democratic transition that the country had embarked upon. The effects of the combined crises (COVID-19 and military takeover) are still being felt throughout the country, with the World Bank predicting an annual economic contraction of up to 18 percent. In the same vein and earlier in the year, a UNDP analysis warned that half of the population in the country could be living in poverty by early 2022 under a pessimistic scenario.

Against this background, this policy brief provides an update of the initial findings on the impact of the combined crises on poverty. More specifically, it provides an additional robustness to the findings from the initial report by drawing on primary data collected in May-June, 2021. This updated analysis suggests that poverty headcount rates could increase by 20 percentage points (relative to the 2017 levels – the last time welfare in Myanmar was assessed). In other words, about 46 percent of the population in the country could be living below the national poverty line by early 2022, reconfirming the pessimistic scenario from the earlier report published in April, 2021. The additional analysis conducted for this policy brief also suggests a significant increase in other poverty indicators: extreme poverty and poverty gap. The results reported in this brief confirms the earlier findings that the combined crises will effectively erase the progress made over the last two decades vis-à-vis poverty reduction.

Furthermore, disaggregated analysis indicates that the urban poverty headcount could increase threefold, coupled with additional increases in rural poverty. As a direct result of this, the poverty headcount is expected to spike in more urbanised states and regions such as Yangon and Mandalay. Poverty is also expected to increase in the traditionally poorest parts of Myanmar (Chin and Rakhine), rendering poor over two thirds of the people living there.

Finally, in addition to the contemporaneous effect, this policy brief also asserts that there is a much more profound longer-term effect of the rising poverty rates. With over half of the children in the country projected to be living below the national poverty line, there are worrying trends which are likely to worsen the quality of human capital of the next generation. These trends are arising because the rise in poverty is forcing people to adopt negative coping strategies which are impacting upon all stages of human capital building, from increasing nutrition-related deficiencies and stunting physical growth, to increasing high school drop-out rates and worsening education outcomes. Ultimately this could result in suboptimal medium-to-long term economic growth, which, in turn, could see many households stuck in permanent poverty for the years to come.

Background and Objectives

01

The events on and after 1st of February, 2021 are creating significant headwinds on the decade-long economic gains, driven by economic reforms, gradual opening to the world and democratic reforms¹. The military of Myanmar staged the coup d'état as the hopes of emerging out of the COVID-19 pandemic were increasing. This double crisis (COVID-19 and military takeover), therefore, was projected to have a significant impact on the economic activity and livelihoods of the people of Myanmar². Earlier in the year, in an initial study to estimate the impact of the double crisis on poverty, UNDP projected that, in the worst case scenario, poverty may see a two-fold increase, relative to the latest available welfare assessment in the country³. More specifically, the report argued that in the worst case scenario, almost half of the population in Myanmar could be living below the national poverty line⁴ by early 2022.

Against this background, the aim of this policy brief is two-fold: (i) to provide an update of the earlier assessment on the impact of the compounded crises on poverty rates in Myanmar. In doing so, we rely on primary data gathered between May and June 2021, which further increases the robustness of the earlier analysis⁵; and (ii) to assess the potential impact of the rising poverty rates on access to education and health, thus impacting upon human capital in the medium-to-long run.

“Almost **half of the population** in Myanmar could be living below the national poverty line by early 2022 in the worst case scenario.”

1 https://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/covid-19-coup-d-etat-and-poverty-impact-on-myanmar.html

2 <https://www.independent.co.uk/news/un-report-says-myanmar-poverty-could-double-from-coup-chaos-myanmar-bangkok-aung-san-suu-kyi-zoom-atms-b1840041.html>

3 https://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/covid-19-coup-d-etat-and-poverty-impact-on-myanmar.html

4 The national poverty line in Myanmar is 1590 kyat per day (roughly 1.17 USD per day).

5 The timeframe for this analysis is 2020 until mid-2021 and it takes into account the compounded effect of the first and the second Covid-19 as well as the events associated with the military takeover, which occurred on the 1st of February, 2021.

Methodology and assumptions

02

In estimating the effect of the double crisis on poverty rates in Myanmar, we rely on a ‘bottom-up’ approach which utilizes available survey data collected before and during the two crises. In this exercise, we rely on the following surveys: Myanmar Living Conditions Survey (2017) and Household Vulnerability Survey (2020) to estimate the effect of COVID-19. In addition, we couple the data above with the People’s Pulse Survey (May-June, 2021) in order to analyse the compounded effect of COVID-19 and military takeover on poverty rates. It is important to note that in this paper we provide an updated set of assumptions on the impact of the economic crisis associated with the *military takeover*⁶, while the assumptions on the effect of the initial waves of COVID-19 on welfare correspond to those in the initial assessment published in April, 2021 (see UNDP, 2021)⁷. In other words, we focus on the events since February 1st, 2021, their impact on economic activity and, ultimately, their impact on welfare and livelihoods (further details of the exercise are provided in the Technical Appendix).

We base our analysis on the MLCS 2017 – a nationally representative survey capturing various aspects of households’ living conditions in Myanmar. To our baseline (MLCS, 2017) we apply a few assumptions (anchored in HVS, 2020) to estimate the drop of income due to COVID-19. When estimating the effect of the loss of income on poverty and welfare, there are two additional issues to take into consideration: first, the nature of the crisis (e.g., its duration or its intensity); and, second how people cope with

it. In the case of COVID-19, we assume the crisis to be sharp though transitory in nature (to some extent this is evident by the coping mechanisms people reported in HVS 2020). In other words, we assume that households can smooth their consumption by relying on savings or borrowing from friends and family.

The newly calculated income and consumption aggregate (after taking into account the effect of COVID-19), in turn, represents the baseline for deriving the effect of the second shock (i.e. military takeover) on both, income and consumption. Building on the methodological approach adopted in the previous exercise (see UNDP, 2021) and using the results from the People’s Pulse Survey (2021), we use the following assumptions on losses of income as a result of the military takeover:

- (i) Reduction in income of non-farm businesses of 50 percent. As evidenced by the data from People’s Pulse, this is the economic activity which has received a significant hit as a result of the events that unfolded since February 1st, 2021. This assumption is supported by additional data that has emerged since then. A recent World Bank publication suggests that services and, in particular, retail trade (which includes most of the small, family-owned businesses) have been affected by reduced mobility and demand, disruptions to key business services, and protests and security concerns⁸. The disruptions of internet services have had a significant

6 The set of assumptions on the impact of the military takeover in the previous publication were almost entirely based on anecdotal evidence collected in the early days of the military takeover.

7 In addition, during the time of writing, the third wave of Covid-19 was in full swing, which may further exacerbate the ongoing situation.

8 World Bank MyanmarEconomicMonitor, July 2021.

additional effect on the small and medium size business that are internet dependent.

- (ii) Reduction in wages of 25 percent. There are two reasons for making this assumptions on wage related income. First, as indicated by People's Pulse, income from a job remains the most significant source of income (about 52.8 percent of respondents indicated this is as a primary source of income for their household). In addition, while 42 percent of respondents have said that household's income has fallen as a result of decreased revenues from household businesses, only 15 percent have said that reduction of income is due to lost job, while 13 percent have claimed that losses of income is due to reduced salary. Second, a recent report by the World Bank corroborates the finding above stating that since April workers in the manufacturing sector have returned to factories, while there has also been an increase in new orders.
- (iii) We assume a reduction in agricultural income of 25 percent. We make this assumption because of two reasons. First, nearly 21 percent of respondents stated that the loss of household income is due to decreased revenue from household farm.

Furthermore, as indicated by existing research, farmers have been affected by: (i) declining incomes because of lower farm-gate prices for some produce (especially perishable items like tomatoes and onions); and (ii) higher prices for key inputs such as fertilizer, fuel, seeds and equipment, as well as food items of which they are net buyers (such as cooking oil, as well as rice in certain regions)⁹. Reduced incomes and higher costs, in combination with financial constraints and output market uncertainties, are also reducing the ability and appetite of farmers to invest.

- (iv) Finally, and given the evidence from People's Pulse Survey (2021) we assume a 10 percent reduction in remittances and social transfers. Remittances are taking a significant hit and are likely to fall further, including due to industrial slowdowns, impact on businesses, and disruptions in the banking system¹⁰. Additionally, social transfers are also likely to be negatively affected due to ongoing disruptions in the financial system¹¹. These assumptions are strongly in line with the results stemming from the People's Pulse survey.

When applied to the baseline data (after taking into account the effect of COVID-19),

50% Reduction in income of non-farm businesses

25% Reduction in agricultural income

25% Reduction in wages

10% Reduction in remittances and social transfers

⁹ <https://www.ifpri.org/news-release/monsoon-rice-crop-peril-farmers-hit-coup-turmoil-frontier-myanmar>

¹⁰ <https://www.reuters.com/article/myanmar-migrant-economy-idUSL8N2KU0K9>

¹¹ Discussions with UNICEF reveal that the payments of current social protection programmes, i.e., Maternal and Child Cash Transfers and Social Pension have been paused since the civilian government was overthrown. Most of the staff from the Department of Social Welfare (DSW) support the Civil Disobedience Movement, causing difficulty for the Ministry of Social Welfare, Relief and Resettlement to process those payments.

these assumptions imply an income drop of 22.3 percent as a result of the economic crisis associated with the military takeover. This is in line with the average income drop registered through the People's Pulse Survey (2021)¹².

As noted above, the extent to which household consumption (and therefore poverty) will be responsive to drops in income, depends on a couple of factors¹³: (a) duration of the compounded crisis; and (b) the magnitude of the crisis and, ultimately, how people cope with it. Unlike the case of COVID-19 where the crisis was assumed to be temporary, the effect of the ongoing political crisis is set to be longer in duration and more severe in magnitude. This would result in significant slowdown and further reduction in income-generating activities. More importantly, coping with the crisis might be more difficult in this scenario, resulting in a permanent downward shift in consumption patterns (see the Technical Appendix for further details). This assumption is further confirmed by the results stemming from People's Pulse Survey (2021). For example, over two thirds of households have started cutting down on

non-food consumption, with an additional third of households using reduction in food consumption as a coping strategy. Moreover, while a fraction of the population has relied on savings and borrowing to make ends meet, the feasibility of these coping mechanisms is decreasing. In addition, close to 40 percent of households who have used savings have no savings left. Thus, when estimating the effect of the military takeover, we assume that a unit drop in income would result in a unit drop in consumption, and based on this, we estimate the new consumption aggregate.

Similarly to the methodological approach adopted in the initial publication¹⁴, we used the national poverty line and the newly calculated consumption aggregates to compute poverty headcount rates which would take into account the compounded effect of COVID-19 and the military takeover.

“ Unlike the case of COVID-19 where the crisis was assumed to be temporary, **the effect of the ongoing political**

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