



Digest 9

COVID 19 Impact on low income population **Micro-Merchants**

INN  **VISION**
Research | Technical Assistance | Project Management

A rapid survey on occupational groups

Micro-Merchants

Background

Innovision Consulting is undertaking primary research on low income occupational groups to assess the impact of COVID 19 on their livelihood. We expect that our analysis will provide useful insights to policy makers and relevant private, NGO, civil society stakeholders to safe guard the livelihood of these people with appropriate interventions. These digests provide in-depth insights on how the income and expenditure patterns of low-income population are shifting as a result of shut down, how the households are coping, and what measures should be undertaken to support them.

Importance of the micro-merchant segment

The retail sector has contributed to an average of 13% to GDP of Bangladesh each year since 2012-2013 financial year. It is comparable to the RMG sector as it has accounted for growing at a rate of 12.85% annually from 2007 to 2016. The retail sector's micro-merchant segment delivered an annual turnover of USD 18.42 billion in 2018 (UNCDF, 2018)¹.

Around 2 million people are directly engaged in micro-merchant businesses and nearly 50,000 new entries are taking place each year. These merchants are a strong delivery channel to reach the last mile population in Bangladesh. Financial support for this segment is also minimal due to their informality, lack of collateral and documents, and overdependence on cash-based transactions. The collapse of this segment would cause imminent poverty among the millions whose livelihoods (employees, dependants, household members, etc) are connected to it. Given the importance of this sector, Innovision aims to identify the key challenges faced by the micro-merchants during the Covid-19 crisis and probe in the possible solutions which can lead to faster recovery from this crisis.

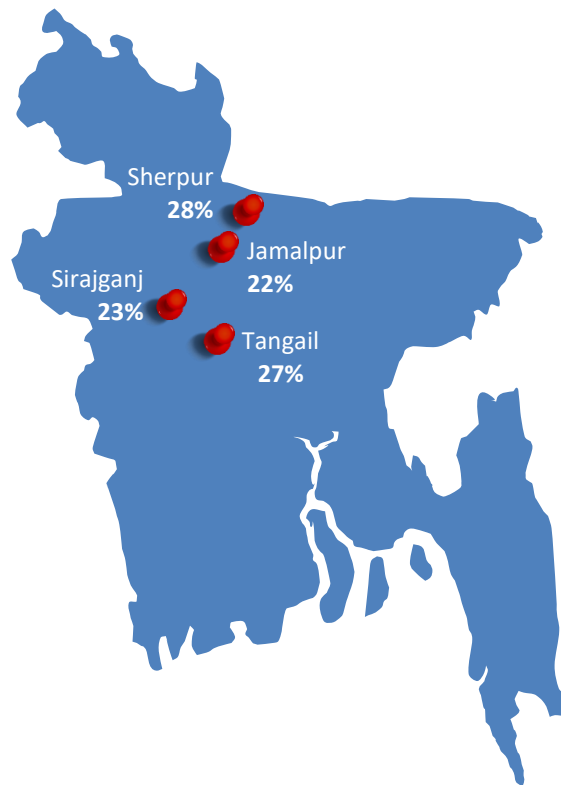
Sample overview

A random survey on 100 micro-merchants was undertaken in 4 districts: Jamalpur, Sherpur, Shirajganj and Tangail. The study team used Computer Assisted Personal Interviewing (CAPI) method for the survey. An experienced team of enumerators conducted the survey via telephonic interviews, while responses were stored in the cloud by using KoBoToolbox. The data was collected from 10th – 14th April 2020.



¹ UNCDF. (2018). Landscape assessment of retail micro-merchants in Bangladesh. Retrieved from: <https://www.uncdf.org/article/3986/micro-merchant-research-into-action-series-landscape-assessment-of-retail-micro-merchants-in-bangladesh>

The sample contains 94% male respondents and 6% female respondents. Innvosiion had a database of more than 1500 micro-merchants. Out of which only 28 respondents were female. To ensure a proper gender representation, the study team attempted to reach out to all 28 of the female micro-merchants. We could successfully contact only 6 of them. The rest of the female micro-merchants could not be reached. Either because they were not willing to participate in a telephonic survey with an unknown person due to traditional values or the male household head incharge of the shop did not allow the female micro merchant to attend the survey. We will keep the report focused on the analysis of the overall respondents, and where needed across regional line and typology as well.





Along the geographical line, 22% of the respondents were from Jamalpur, 28% from Sherpur, 23% from Sirajganj and 27% from Tangail. About 68% of the micro-merchants are grocery shops, and 32% were telecom & top-up shops. 99% of the respondents were owners, and only 1% was the manager of the shop.

Key findings

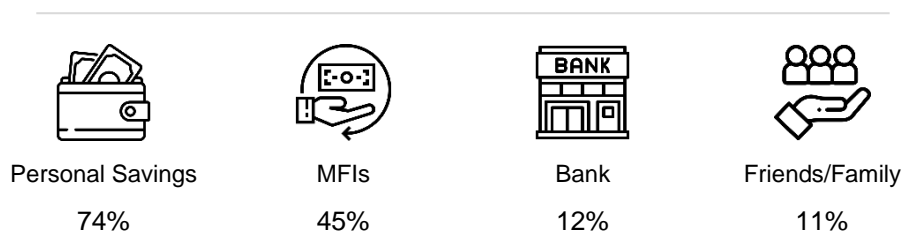
The COVID-19 pandemic and subsequent shutdown are gravely impacting the micro-merchants.

Losses. Limitation of business hours is found to be the most dominant reason behind the losses; average per day loss incurred is around BDT 1,889. There is significant loss in revenue: daily average revenue dropped from BDT 2,820 per day to BDT 844. Results indicate a credit requirement of at least BDT 68,400 on average to recover the losses. Although 56% respondents reported they can continue business if losses continue for a month, 86% reported inability to continue operations should losses continue for two months. Even loans of around BDT 110,450 would not be enough for the micro-merchants to cope from the losses.

 Daily Average Revenue BDT 2,820	Average per day Loss incurred BDT 1,889	56% can continue business if losses continue for 1 month
 BDT 844	Average Credit required to recover loss BDT 68,400	86% Cannot continue operations if losses continue for 2 months

Working capital constraints. Micro-merchants struggle from lack of access to working capital. 74% respondents identified personal savings as the main source of working capital, compared to MFIs (45%), banks (12%) and loans from family/friends (11%). During the trying times of the crisis, personal savings are used to meet household's basic requirements: 44% using savings to cope with the reduced expense, 7% loaned money from family members and 5% loaned money from MFIs to cope with the reduction in income. As savings are depleting, the chances of recovering from the losses are decreasing. Despite the lack of working capital, these micro-merchants are largely untapped by the formal financial sector due to their informality and cash-driven business.

Main Source of Working Capital



Trimming expenses. 96% of the respondents have reduced their business expenditure, particularly on utilities (electricity), rent and acquiring new supplies. Household expenditure drop is more alarming as 93% of micro-merchants reduced food expenditure, of which 87% reduced protein consumption (e.g. chicken, beef, fish, etc.). Further, more than half of the respondents (62%) reduced expenses related to children's education. Such drastic reductions will lead to spill-over effects leading to long-term impacts on the family's nutrition and development. Key measures need to be formulated and implemented for the millions of households connected to the micro-merchants.

Struggling to survive. More than half of the micro-merchants are surviving with borrowed funds from debtors. 43% respondents reported that they can survive for less than 15 days with the money available, while 4% could survive only up to 15 days. Only 11% reported that they could survive for 40 days with the available money. Despite not having enough savings or income to support their livelihoods, the increase in debt during these periods will further cripple these merchants. Ultimately, the increased debts will impact their ability to recover in the post-crisis period. This means at the time of publication of this report (May 12th) a further 47% of the micromerchant might have gone onto debts for survival.

The following section elaborates on the impacts of COVID-19 on the micro-merchants' livelihoods.

Immediate impact of COVID-19 on the livelihood of the micro-merchants

Status of shop after the lockdown

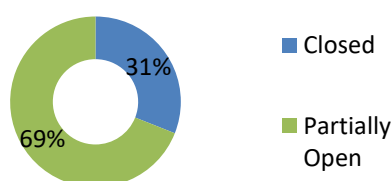


Figure 1: Status of shop during lockdown

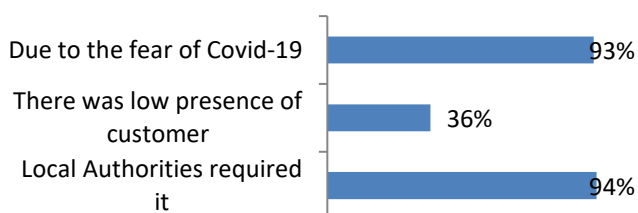


Figure 2: Reason for closing the shop/ limit hours (N=100)

- All of the respondent micro-merchants had to either reduce their operational hours (69%) or close the shop entirely (31%) during the lockdown. All of the respondents reported making a loss due to the lockdown.
- Among the reasons to close down shop/reduce business hours, 94% of the micro-merchants reported requirement by local authorities. Almost similar proportion (93%) of respondents reported fear of contacting Covid-19 to be one of the reasons. 36% also mentioned the low presence of customer as a reason to close shop/reduce business hours.
- Of the partially open shops, 99% reported limitation on business hours to be a reason for the loss. As multiple responses were allowed, 93% also reported a low number of customers to be a reason, while 46% reported insufficient supply to be causing the loss.
- Of the shops partially open, the average hour of operation is five (5) hours.

Impact on revenue

- Before the lockdown, surveyed micro-merchants had daily average revenue of BDT 2,820 per day.
- In the early stage of lockdown, their average revenue per day was BDT 844.
- During the survey period, the micro-merchants had much lower average revenue per day at BDT 657.
- Before the lockdown, on average, 141 customers arrived daily to the surveyed micro-merchants.
- By the early stage of lockdown, the number dropped to almost a third (56) of that number of customers daily.

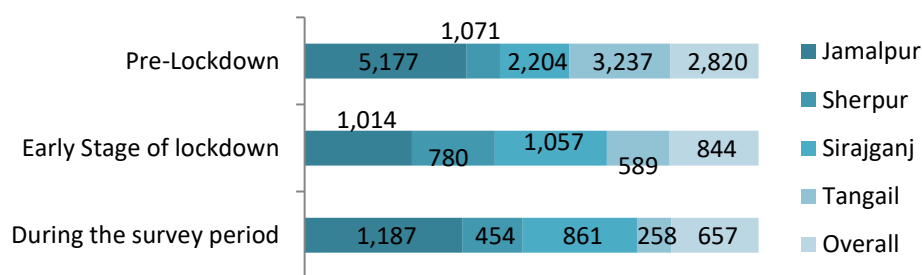


Figure 3: Transition in the level of average revenue (BDT) - district wise

- During the survey period, the respondents had nearly the same (50) average number of customers daily.
- Before the lockdown, surveyed micro-merchants from Jamalpur had the highest (BDT 5,177) average daily revenue, followed by micro-merchants in Tangail (BDT 3,237), Sirajganj (BDT 2,204) and Sherpur (BDT 1,071) respectively.
- Respondent micro-merchants in all the districts, except Jamalpur, had a gradual drop in revenue and number of customers through the early stage till the days of the survey.
- The micro-merchants in Jamalpur had a sharp drop from pre-lockdown average revenue of BDT 5,177 to BDT 1,014 in the early stage of lockdown. However, the average revenue made a marginal bounce back to BDT 1,187 during the survey period.

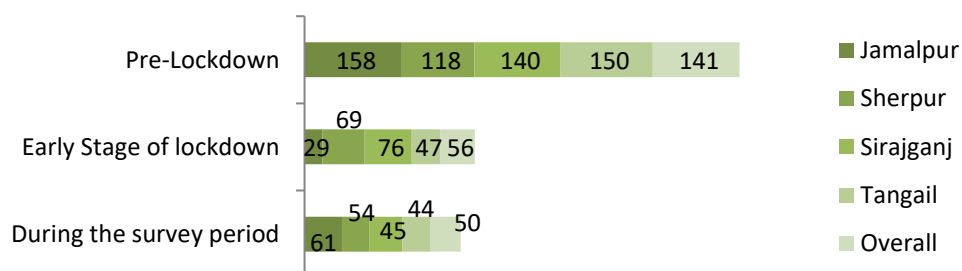


Figure 4: Transition of average number of customer

- The telecom & top-up shops have been hit harder than the grocery shops.
- The grocery shops had a drop in average revenue per day from BDT 2,022 before lockdown to BDT 1,044 during the early stage of lockdown. By the time of the survey period arrived, the revenue further dropped to BDT 748.
- Meanwhile, the telecom & top-up shops had higher average revenue per day at BDT 4,516. By the early days of lockdown, the revenue dropped to a mere 10% of its original level of revenue (BDT 417). It further decreased to BDT 325 per day, by the arrival of survey period.

Impact on expense

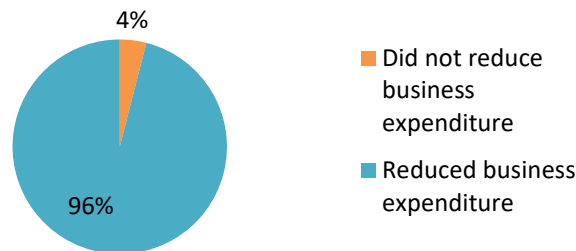


Figure 5: If business expense is reduced

- 96% of the respondents have reduced their business expenditure.
- Of them, majority of the respondent (61%) reduced their electricity expense. 25% reduced their rent payments for the month by requesting the owner of the premise. 5% reduced costs of acquiring new products by reducing new supplies.

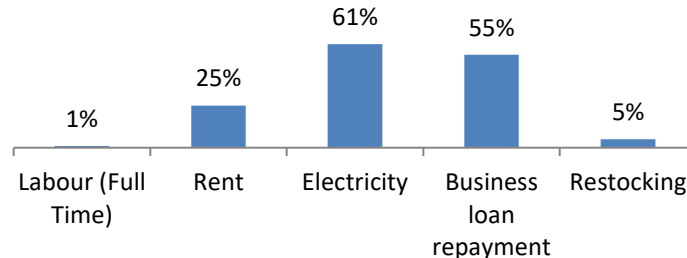


Figure 6: Type of expense reduced

- 51% of the surveyed micro-merchants reported that rent of the shop had to be paid despite the drop in revenue caused by the lockdown. Almost a quarter (24%) of the respondents could defer rent payments.
- A third of the respondents (33%) said electricity bill must be paid regardless of the lockdown. 60% reported that they could defer payments for electricity bills.
- 58% could defer business loan payments. 4% reported business loan payments must be paid regardless of the Covid-19 crisis.

Impact on household and personal expenses

- 95% respondents reported a reduction in overall household income.
- 97% of the respondents reported reducing their household expenditures.
- 93% of micro-merchants reduced food expenditure.

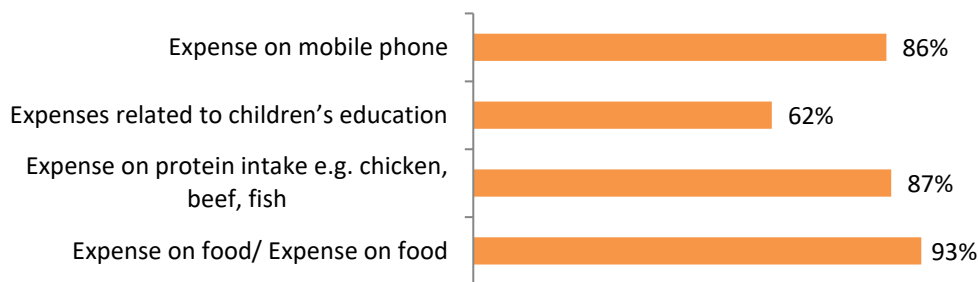


Figure 7: Household expenditure reduced

- 87% of the respondents reduced protein consumption (e.g. chicken, beef, fish, etc.)
- More than half of the respondents (62%) reduced expenses related to children's education.
- 86% reduced expense related to mobile phone.
- Average expenditure on mobile before the lockdown used to be BDT 329.
- The average expenditure on mobile reduced to BDT228, after the lockdown.
- The average expenditure on mobile internet before the lockdown was BDT 152. The amount almost remained the same (BDT 141) despite lockdown.

Coping mechanism

- More than half of the surveyed micro-merchants (64%) are coping with the drop in income by collecting cash from the debtors.
- Along with that, 44% used savings, 7% loaned money from family members, 5% loaned money from MFIs.

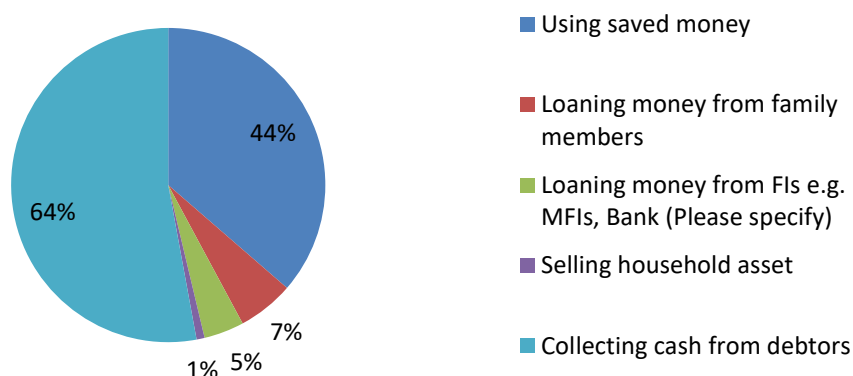


Figure 8: Coping mechanism of the micro-merchants

- 28% of the respondents have enough money available to run their household expenditures. The respondents from Tangail had the lowest incidence (7%) of micro-merchants reporting enough money to run household expenses. Meanwhile, Sirajganj had 9%, and Jamapur had double that proportion (18%). In contrast to the already mentioned district, Sherpur had a staggering 71% of the respondent micro-merchants reporting sufficient money available to run their household expenses. Across typology, a higher percentage of grocery micro-merchants (34%) had enough money for household expenses, compared to the telecom & top-up micro-merchants (16%).
- The respondents reported they had multiple methods of keeping that money. Of the ones with available money, 93% kept it in cash form. 36% kept it in mobile banking account, and 21% kept it in bank.

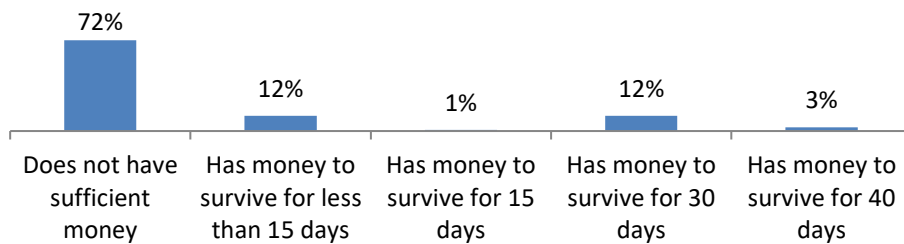


Figure 9: Sufficiency of money to survive the lockdown

- Of the ones with enough money to survive, 43% reported that they could survive for less than 15 days with the money available. Only 4% could survive only up to 15 days. Another 43% said they could run their families for 30 days with it. Only 11% reported that they could survive for 40 days with the available money.

Recommendations

The findings from this study indicate shortage of working capital as one of the major challenges for micro-merchants to revive and recover their business in the post-crisis period. The increasing reliance on personal savings for meeting working capital requirements as an immediate response in the short-term is depleting resources needed to meet household demands and expenses. The average working capital requirement reported by the micro-merchants for recovery after the lockdown is BDT 107,700. An alternative for personal savings need to be identified for the micro-merchants to meet their business and household requirements during the recovery phase. Below are some potential recommendations for enhancing access to finance for micro-merchants:

1. Supply chain financing: About 5% of the respondents reported they are reducing their expenses related to storing new goods to cope with the business expenses. During the post-crisis period, micro-merchants may not have sufficient money to pay suppliers at the rate at which they used to pay back.

The usual length of the product delivery to invoice dates is unlikely to be sufficient for the micro-merchant to payback given the working capital crisis. As the suppliers are also running low on cash, depending on the size of the supplier, it might be difficult for the supplier to give any extension on time for payment. In this case, the banks can step in to help with supply chain financing. The banks can pay back the suppliers at the point of delivery, and then the bank can receive the payments from the micro-merchants on a date later than the usual invoice payment date.

This would allow the micro-merchants to have better liquidity conditions for the time being.

2. Short-term loan: There are platforms through which working capital support is provided via short term loans. 'Shop-up' is one such example, in which the shops with monthly revenue of BDT 10,000 to 15,000 can acquire a loan of BDT 30,000 or more within a week of applying for it at 14% annual interest rate². The size of the loan can increase if the revenue amount is higher. As the surveyed micro-merchants had an average revenue of BDT 657 daily, the revenue per

² <https://shopup.com.bd/eloan/>

month can reach around BDT 18,000 or more. Even if we assume the sales amount is remaining the same, the micro-merchants can acquire a loan of more than BDT 40,000 on flexible terms of paying back within half a year or eight months.

Such short terms can solve the urgent working capital need for micro-merchants and solve the liquidity crisis.

3. Bailout package for MSMEs: The government bailout packages have the provision of loans to be provided via banks to various segments of the economy. The support system created for the RMG sector is crucial and much welcomed. As mention in the background section, the size of the micro-merchant segment of the retail sector makes it as important, if not more. Therefore, government bailout funds can specifically target the above-mentioned stimulus mechanisms through the banks, other non-banking financial institutions, MFIs, online e-loan platforms, etc.

The garment factories are being loaned the salary payments by directly paying the workers through a bank account instead of transferring it to the factories. Supply chain financing can similarly loan the money to the micro-merchants by directly paying the amount to the suppliers. It can reduce the interest payments for the micro-merchants compared to regular loans.

This would make it easier for the micro-merchants to acquire a loan to solve the working capital crisis that too at interest cheaper rate.

4. Easing of regulatory barriers for micro-merchants to access formal financing: a large number of micro-merchants operate in cash and do not have the required documents (trade license, comprehensive transaction records, etc) to access finance from the formal financial sector. The regulators can ease the requirements for micro-merchants to apply for credit from banks/NBFIs. This will however require a comprehensive roadmap for improving coordination among the relevant stakeholders, and strategic advocacy for adjusting the existing legal and regulatory frameworks to remove the barriers. .

This will pave the way for the financial sector to develop tailored products and services for reaching unbanked merchants and extend credit.

ANNEX

Demographic overview of the sample

Age: Of the interviewed respondents, 22% is 25 or below. 52% is within the age group of 26 to 35 years, and 19% belong to the age group of 36 to 45 years. Only 7% is above 45 years of age. Average age of respondent is 33.

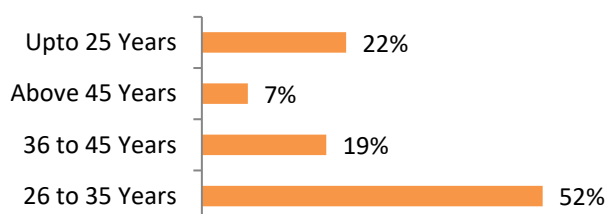


Figure 12: Age of respondents

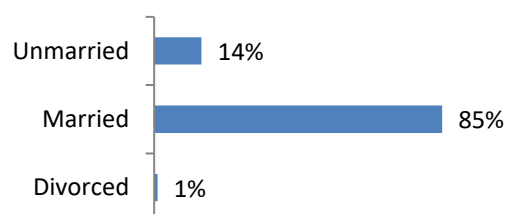


Figure 13: Marital Status

Marital Status: 85% of the respondents are married, and 14% unmarried. 1% reported being divorced.

Education: Among the respondents, 9% had no schooling experience. About 13% had passed class 8, and 33% passed SSC or equivalent degree. 26% passed HSC or equivalent. 10% of the respondents had honours or equivalent degree, and only 4% had masters or equivalent degree.

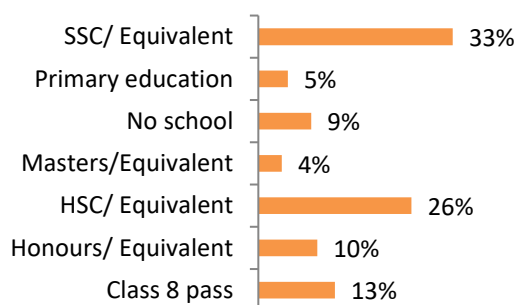


Figure 14: Level of education

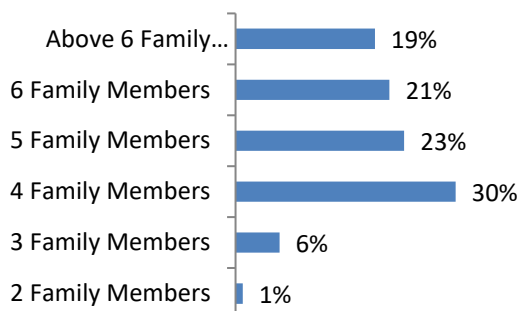


Figure 15: Household size

Household size: Of the overall respondents, 30% had four-member household. 23% had five-member household, and 21% had six members in their households. Nearly a fifth of the respondents had more than six members in their household. Only 1% had a two-member (2) household and 6% had three members in their household.. Average household size is five (5).

Operational Overview of the Micro-merchants

Income

- All the respondents reported that the micro-merchant shop was their primary source of income.
- Only 12% of the respondents reported having another source of income.
- Of the overall respondents, 6% has agriculture as the secondary source of income, 4% has other businesses, 1% has a job and the same proportion of respondents work as a teacher (1%).

- More than half of the respondents (58%) with secondary income reported that it is providing for them despite the lockdown.

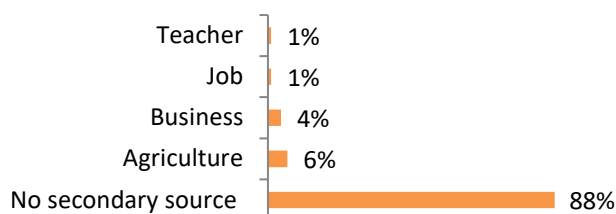


Figure 16: Secondary Source of Income

- The respondents from Sirajganj reported the highest incidence of secondary source (43%) of income amongst the four districts. Only 5% and 4% of respondents from Jamalpur and Sherpur respectively, and none of the respondents from Tangail had secondary income source. About 16% of grocery shops and only 3% of telecom & top-up shops reported a secondary income source.

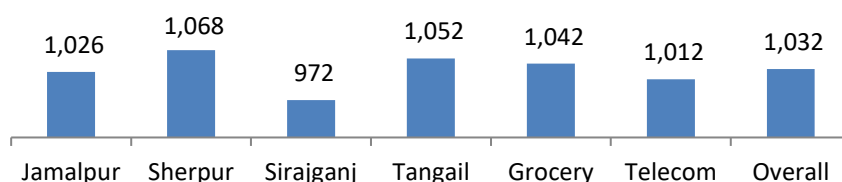


Figure 17: Average daily income of micro-merchant from the shop

- The average daily income of a micro-merchant is BDT 1,032. Along the geographical line, micro-merchants from all the districts except Sirajganj, had average daily income within the range of BDT 1,026 to BDT 1,068, for Sirajganj it was slightly less at BDT 972. Grocery shops (BDT 1,042) and telecom & top-up shops (BDT 1,012) almost had the same average daily income level.

Business Expenditure

- Rent payment per month is BDT 1,462 on average. Tangail has a higher average rent (BDT 1,750) compared to the other districts. The average per month rent for micro-merchants in Sherpur is BDT 1,516, Sirajganj is BDT 1,391 and Jamalpur is BDT 1,114.

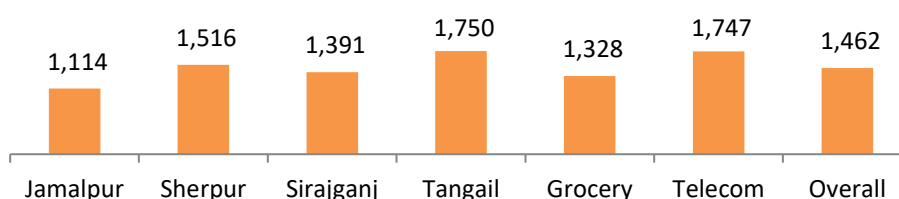


Figure 1: Average shop rent per month - district and micro-merchant type wise

- Average electricity expense is BDT 893 per month.
- Fluctuations among the districts are quite significant. Micro-merchants in Sherpur had the highest average electricity expenditure (BDT 1,202). Tangail and Jamapur follow it at an average electricity expense of BDT 893 per month each. Sirajganj has the lowest average electricity expense per month (BDT 441).

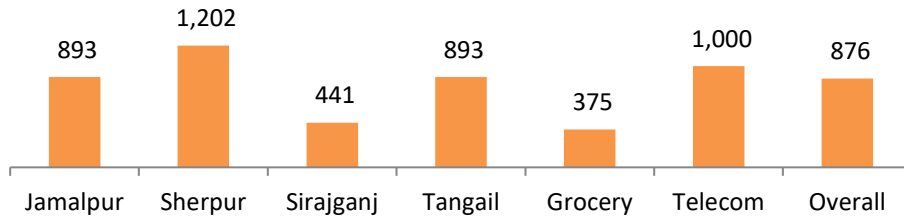


Figure 2: Average electricity expense - district and typology wise

- Average monthly expense on full-time labour is BDT 11,182.
- For security and cleaning services, on average, BDT 452 is spent per month.

Employees

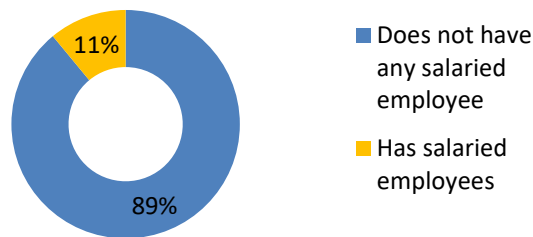


Figure 20: Salaried employees

- Only 11% of the respondents had salaried employees.
- The average number of full-time employees is two (2). None reported having part-time employees.
- Majority of the respondents (61%) had one of their relatives working as free labour. More than a third of them (38%) had their brother working for them. While 26% had their father and 23% had their son working for them. A small percentage had their spouse (8%) and daughter (3%) working at their shops.

Working capital

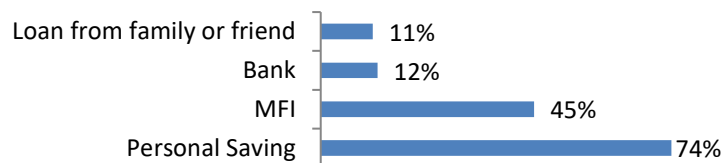


Figure 21: Sources of working capital

- The interviewed micro-merchants were allowed to report multiple sources of working capital. Majority (74%) reported personal saving to be the source of working capital. Less than half (45%) mentioned MFIs, and only 12% and 11% reported banks and loan from family or friends to be their sources respectively.

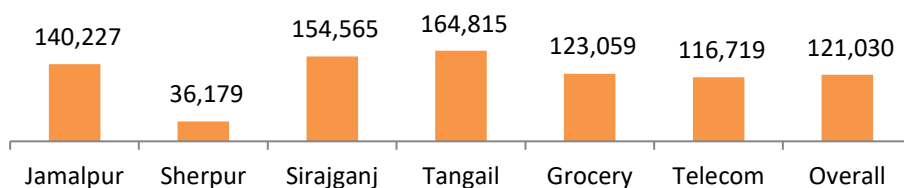


Figure 22: Monthly working capital requirement

- On average the micro-merchants need BDT 121,030 in working capital to run the business per month. Without much difference across grocery shops (BDT 123,059) and telecom & top-up shops (BDT 116,719), along geographical lines, respondents from all the districts except Sherpur, had average working capital need ranging from BDT 140,227 to BDT 164,815 per month. Sherpur had a significantly low working capital requirement at BDT 36,179.

Savings

- 55% of respondents save on a monthly basis. Average monthly saving is BDT 1,323
- Only a third of the respondents (34%) reported having institutional savings. Of them, majority (61%) saved at MFI, only 14% saved at a bank. A small proportion saves at non-banking financial institutes (6%) and cooperatives (8%). The average value of institutional saving is BDT 45,303.
- Majority of the micro-merchants (67%) are saving via monthly deposit scheme, and only 11% is maintaining a savings account.

Loan

- 67% of the respondent micro-merchants reported having business loans.
- Only 8% of the micro-merchants had taken loans from banks. All the respondents reported the purpose of bank loan to be business expansion. Of them, 38% of the bank loans are from BRAC Bank, followed by 25% from Islami Bank, 25% from Shonali Bank and 13% from Krishi Bank. 88% could defer their bank loan payments.
- 58% of the respondent micro-merchants spend on business loan repayment from their monthly income.
- Average monthly expenditure on business loan repayment is BDT 6987.
- 22% of respondents spend on repaying loans taken for household expenses. Average monthly amount for household loan repayment is BDT BDT 5,584

Access to mobile banking account

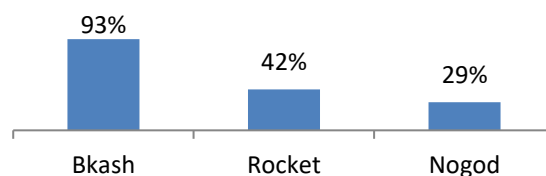


Figure 23: Mobile banking service

- 84% of the micro-merchants have mobile banking account.
- Of them, 92% reported using Bkash , 43% Rocket, 29% Nogod.
- 37% of the micro-merchants with mobile backing account use multiple services.

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