

## THE IMPACT OF COVID-19 ON INFORMAL SECTOR

### **Background**

Between April 27 and May 1 2020, Development Solutions NGO, with technical support from People In Need, conducted a survey of micro businesses operating in the informal sector on the impact of the novel coronavirus pandemic (2019-nCoV/Covid-19) on their operations. The goal was to capture data on needs and expectations with regard to the measures the development and social projects should take to assist them.

### **Survey content**

The survey questionnaire was separated into two thematic areas, including:

1. 13 questions designed to define the background information of the survey respondents.
2. 25 questions to capture the challenges informal sector encounter with their business activities

As background data, respondents were requested to provide information on their organisation's size and type (company/other organisation), primary operating field. The effects of the outbreak were analysed by requesting respondents to estimate its impact on their organisation's sales, employee numbers and future expectations.

In addition, respondents estimated whether the outbreak caused a shortage of materials or components, problems in logistics or reduced their order backlog. They were also requested to provide information on how they aimed to mitigate the risks caused by the outbreak.

### **Survey sample**

Survey interviewees included business owners and financial officers representing micro businesses operating in the informal sector. In the survey, snowball-sampling technique, where the respondents refer other respondents for data collection, is selected. The data was processed and results were tabulated using SPSS, a professional statistical software program.

A sample of 145 SMEs was collected, including: 46 informal businesses from UB and 99 informal businesses from eight aimags<sup>1</sup>.

No	Locations	Sample size	Share in total sample size
----	-----------	-------------	----------------------------

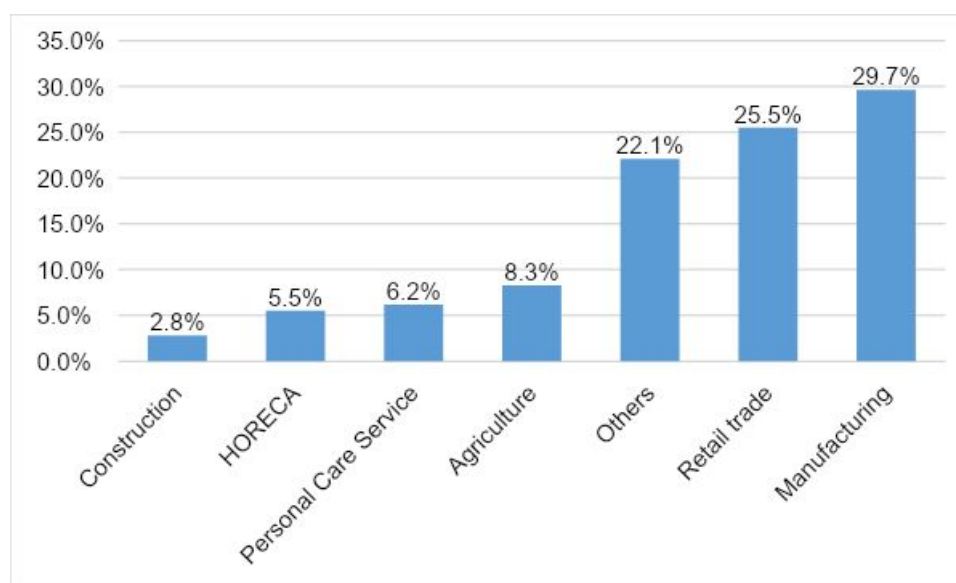
---

<sup>1</sup> Aimag=province

1	Bayankhongor	9	6.21%
2	Darkhan	10	6.90%
3	Dornod	9	6.21%
4	Dornogovi	18	12.41%
5	Khovd	19	13.10%
6	Orkhon	19	13.10%
7	Selenge	10	6.90%
8	Ulaanbaatar	46	31.72%
9	Zavkhan	5	3.45%
<b>Total</b>		<b>145</b>	<b>100.00%</b>

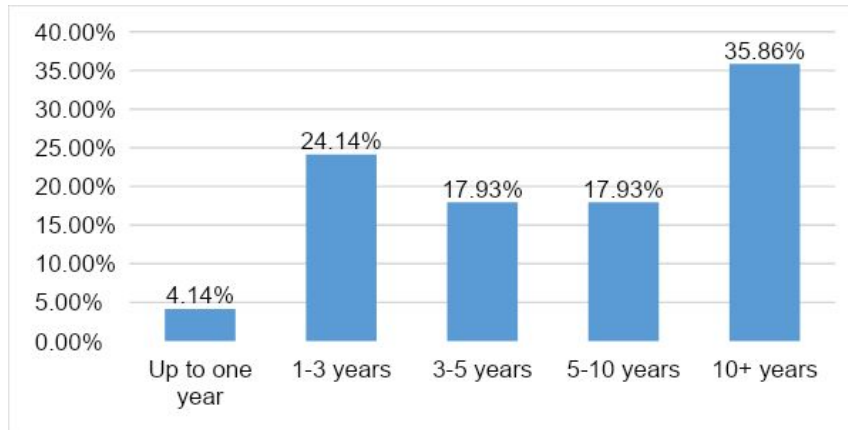
DS staff conducted the survey in the UB and eight aimags via one-on-one interviews. Out of the total survey participants, 76% or 110 were women and 24% or 35 were men.

**Figure 1: The Survey Respondents by Economic Sector**



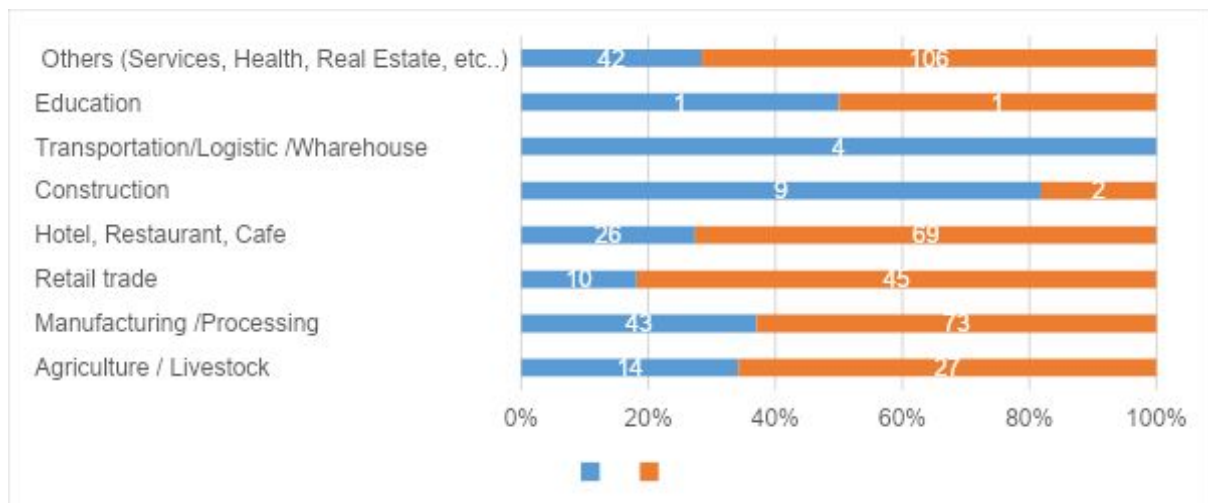
The informal businesses that participated in the survey were divided into seven categories of economic activities, depending on the economic sector in which they operate (see Figure 1). The largest share of respondents (29.7%) were from manufacturing businesses; followed by 25.5% from retail trade; 22.1% from others (health, rental, education, transportation etc.), 8.3% from agriculture businesses; and 6.2% from personal care services.

**Figure 2: The Survey Respondents by Number of Years in Operation**



The informal business with 10+ years in operation claimed 36% of the total respondents, followed by the businesses in 1-3 years operation. Meanwhile, the majority (104 or 72%) of the survey respondents operate a business with an average annual sales income of up to MNT 10 million while the remaining 41 operate a business with an annual sales between 10-50 million.

**Figure 3: The Number of Staff employed by the Survey Respondents by Gender**

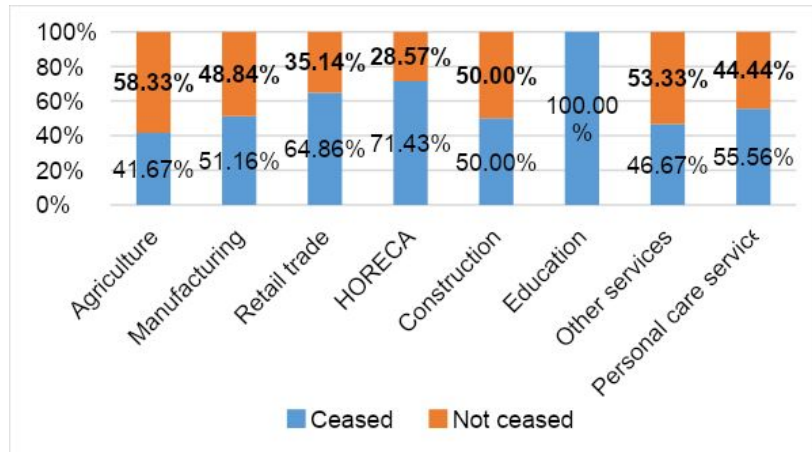


A total of 472 staff are employed by the survey respondents. Of those employees, 68% are women and 32% are men. Figure 3 illustrates that the percentage of women employees is higher in retail trade and HORECA compared to other sectors. (Figure 3)

### **Results of the survey**

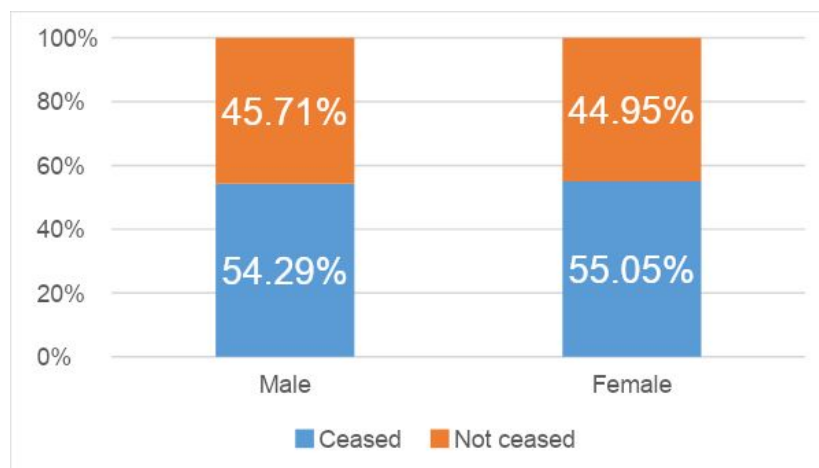
More than half of informal businesses (54.1%) responding to the survey indicated that they had encountered temporary closure of their business due to the Covid-19 pandemic.

**Figure 4: Distribution of business closure by sector**



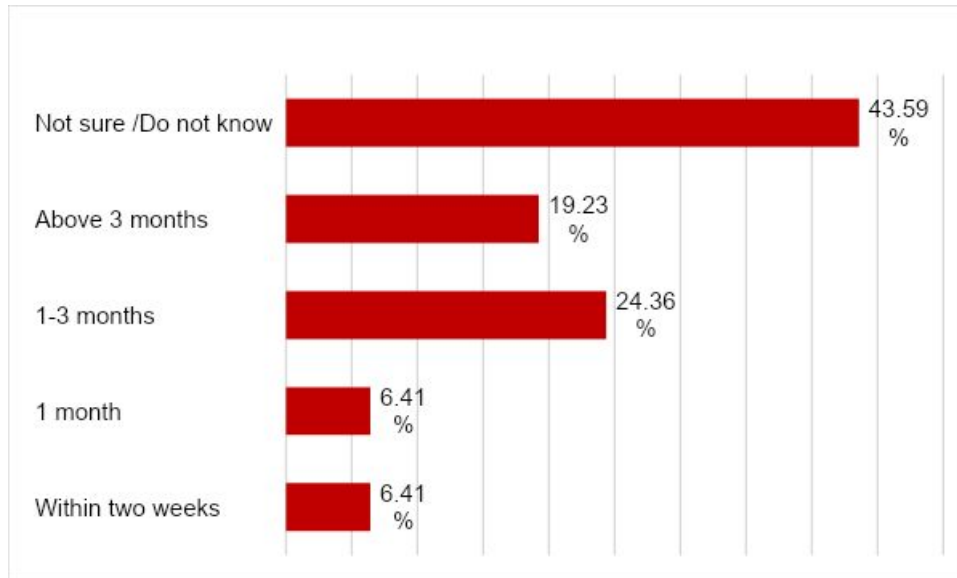
A closer examination of the Covid-19 impacts on the businesses operating shows that challenges businesses face are differed across the economic sectors. According to the respondents, the businesses operating in education, HORECA and retail trade had faced more closures than other sectors.

**Figure 5: Distribution of business closure by woman-led and man-led business**



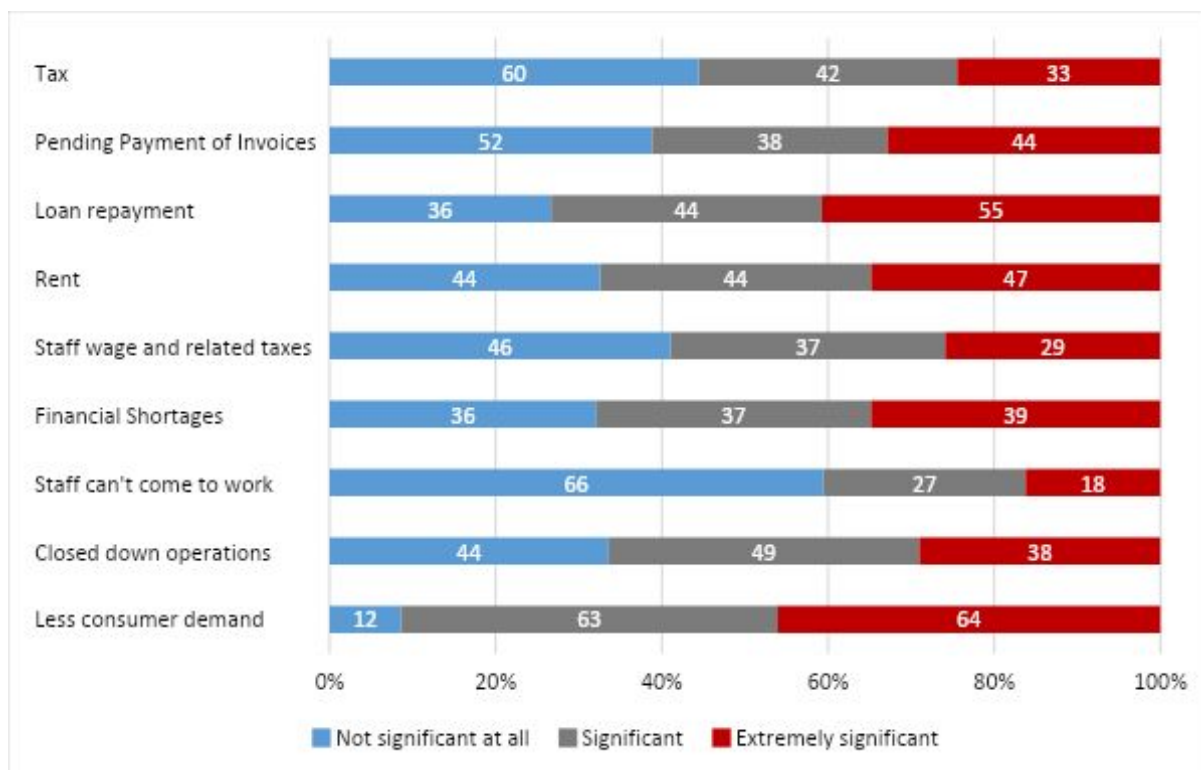
Looking at the gender, there is no considerable gap between woman-led and man-led businesses in terms of business closure.

**Figure 6: Expected time for the business recovery**



As we look ahead to the expected recovery period, the majority (43.59%) of the businesses whose operation ceased were not able to give a definite timeline on their recovery. Moreover, a small percentage (13%) of the respondents are expecting that their businesses will recover within a period of 1 month.

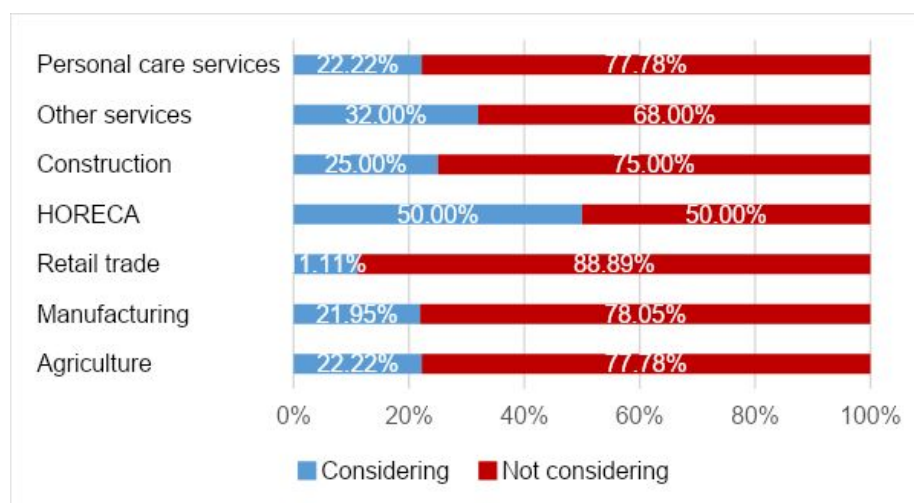
**Figure 7: Primary concerns and challenges faced by the respondents**



Informal businesses were asked to assess challenges they have faced on a scale of 0-2, where “0” means not challenging at all. Responses are illustrated in Figure 7.

The majority of respondents (46%) indicated that the less demand from consumers or customers is the biggest obstacle they face during the pandemic. This was followed by the loan repayment (40%). Meanwhile, the unavailability of employees coming to work, costs related with wage and taxes were considered the least concerning challenges among respondents.

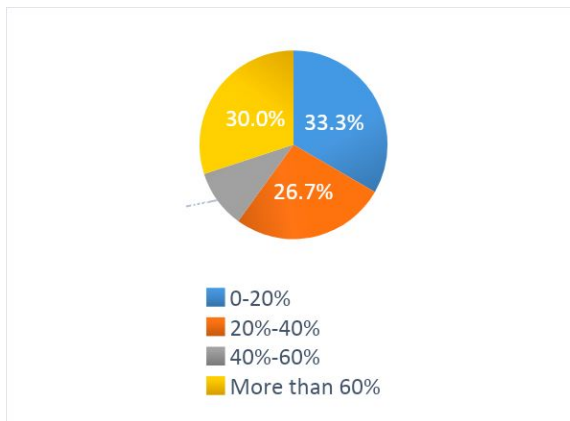
**Figure 8: Consideration of layoff or wage reduction by Economic Sector**



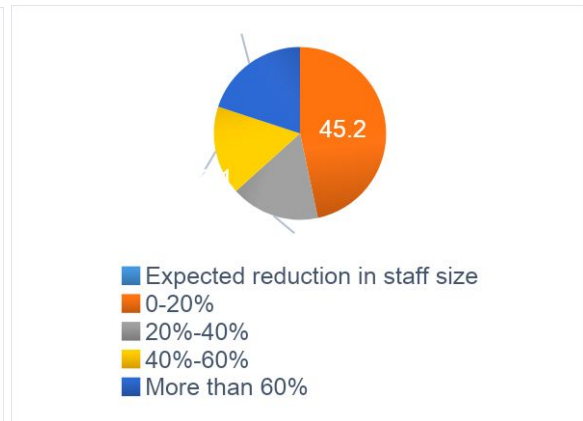
According to the survey respondents, nearly one-fourth (23%) of the informal businesses indicated that they are considering layoff or wage reduction to mitigate the impacts of the Covid-19. Among informal businesses, microbusinesses operating in HORECA and other service industries are more likely to reduce the size of their staff compared to other sectors.

As for the surveyed businesses operating in the HORECA industry, they employ more women (73% or 69) than men (27% or 23). This could mean that more women are at risk of unemployment or layoff according to the survey result.

**Figure 9: Percentage of wage reduction**

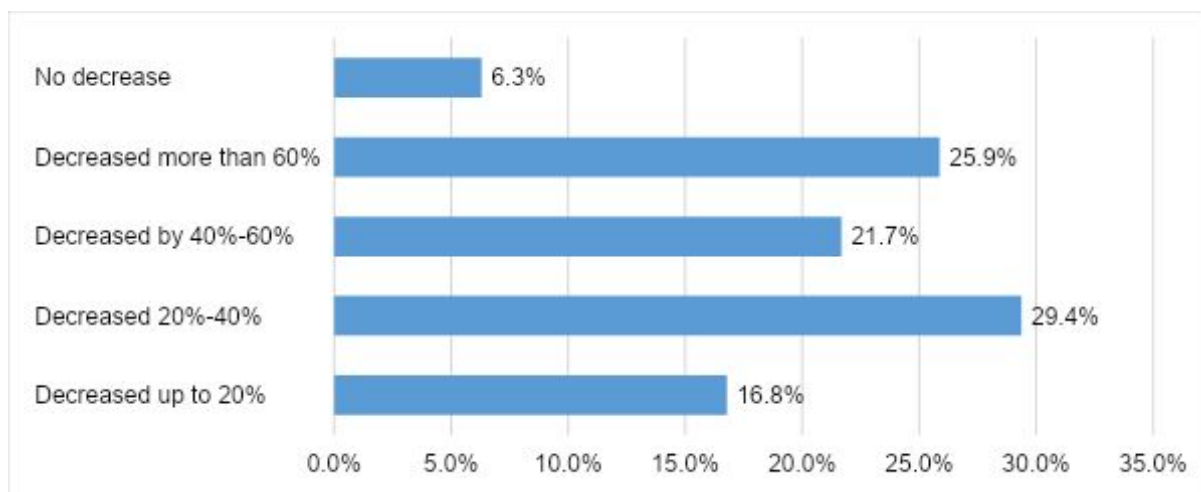


**Figure 10: Percentage of layoff in total employees**



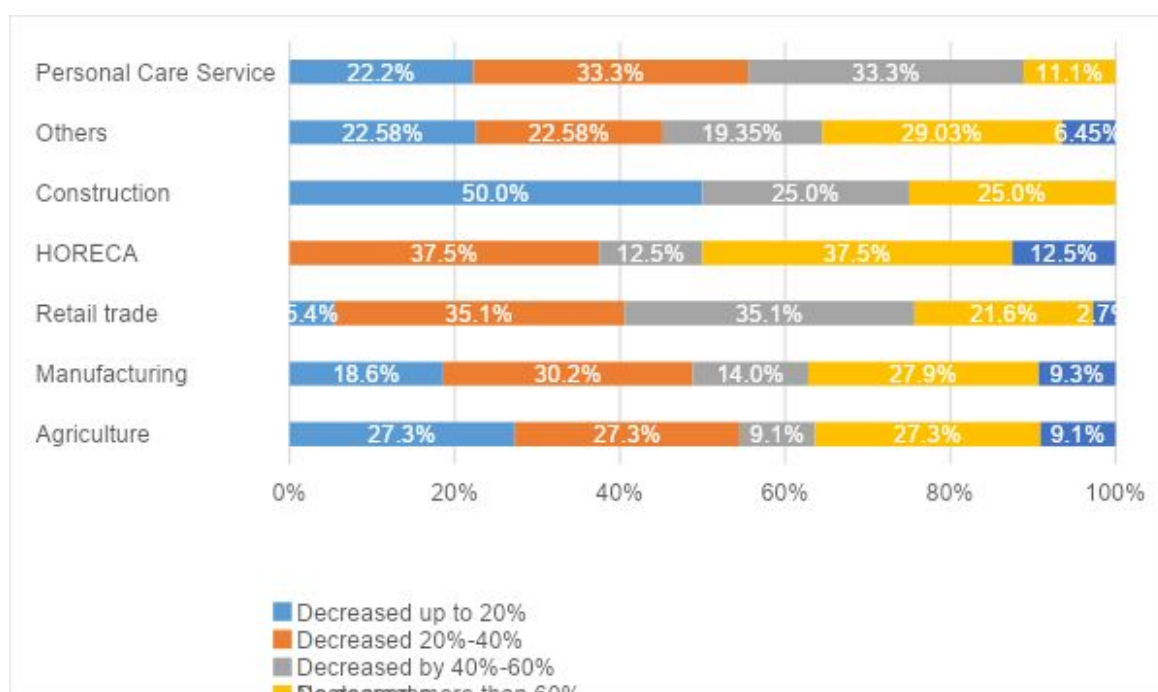
Of those considering layoff, nearly one-fifth are considering reducing the size of total staff by more than 60% while nearly half of them are speculating up to 20% reduction in their staff. As for wage reduction, one-third are expecting to cut their wage cost by 20% while 30% believe that it is necessary to cut their wage cost by more than 60%.

**Figure 11: Change in Business Revenue**



More than 90% of the survey respondents reported a decrease in their business income, whereas only 6.3% of them indicated Covid-19 had no effect in their business income.

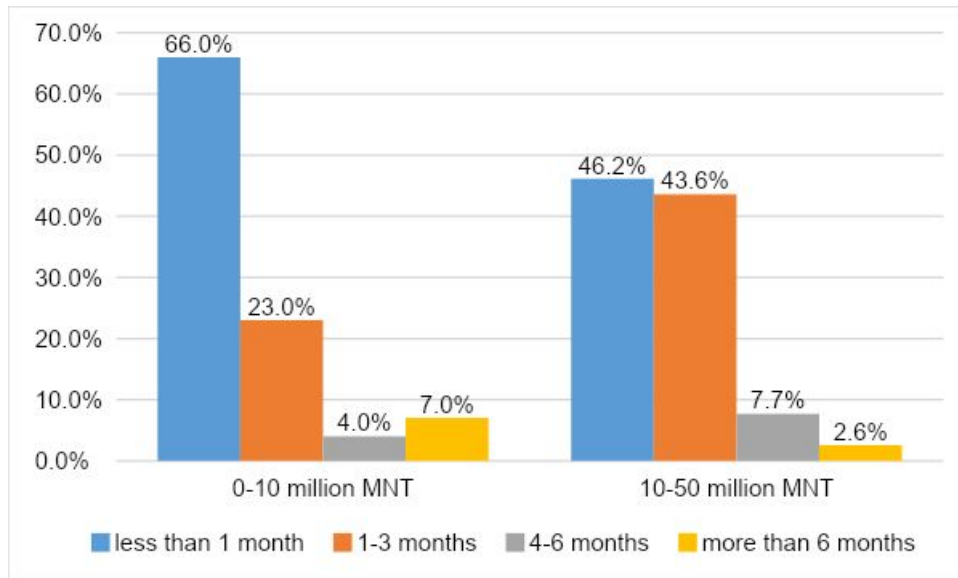
**Figure 12: Distribution of Change in Business Revenue by Economic Sector**



According to the survey, informal businesses from all sectors showed signs of decrease in business income. Particularly, informal businesses operating in HORECA reported more revenue loss with 87.5% of them reporting their revenue decreased by more than 20%. These dramatic reductions in revenue drive the informal businesses' expectation that their staff were at risk of unemployment or layoffs.

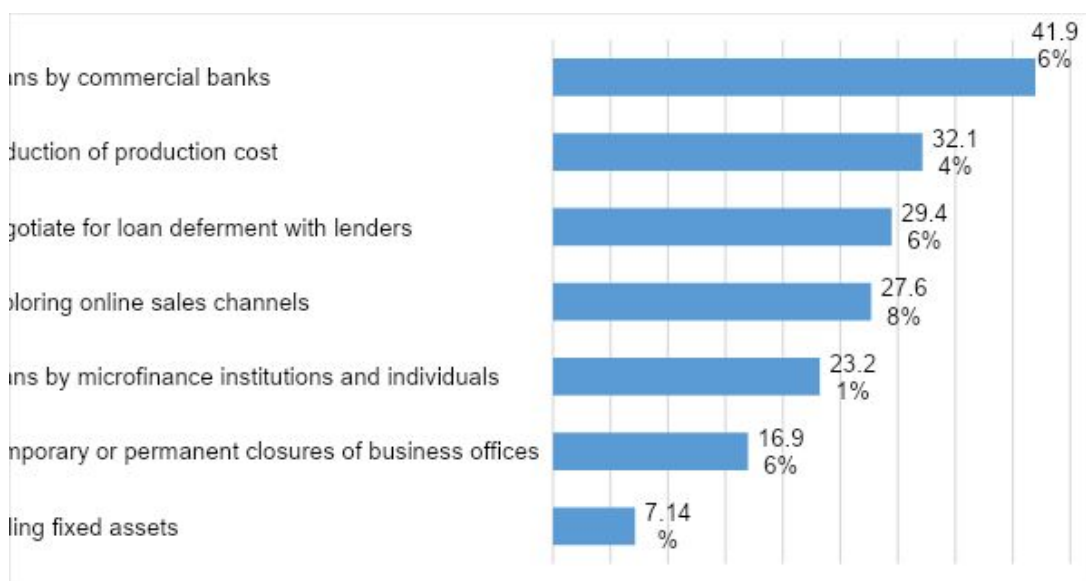


**Figure 13: How Soon Current Cash Flow would maintain the Business Operation**



More than half of the respondents claimed that current cash flow would maintain the business operation for up to month. Specially, two-thirds of businesses with up to MNT 10 million annual business revenue indicated that they would be at risk of closing permanently if business disruption continued at the current rate for more than 1 month. As for relatively larger businesses, more than 80% of them are at risk of going bankrupt if business disruption continues up to 3 month.

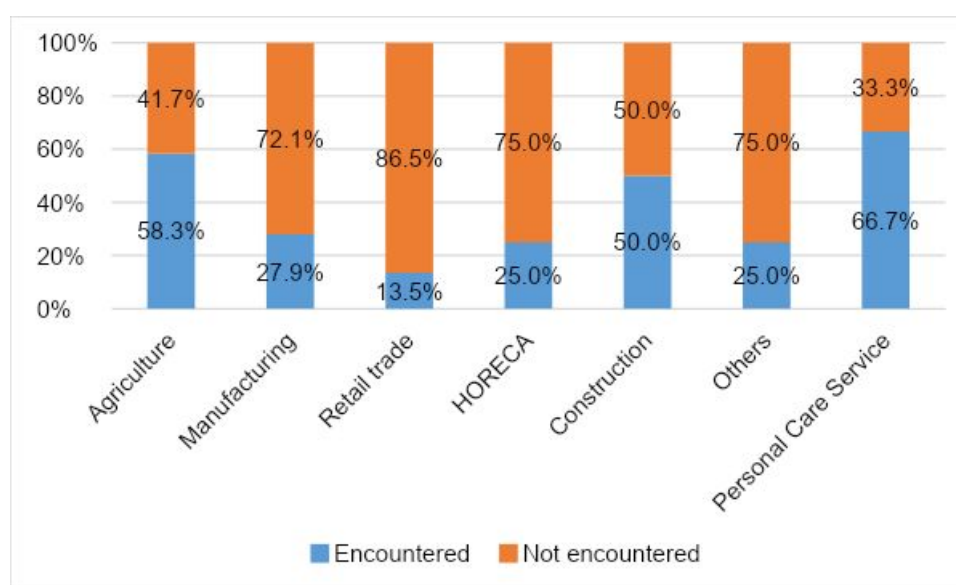
**Figure 14: Measures the Businesses Consider for Dealing with Cash Flow Problems**



Almost two-third (62%) of the respondents are seeking additional financing from banks and other financial institutions to secure the continuity of their business, almost one-third of the respondents cut their production cost. Other notable measures include negotiation for loan deferment with lenders and exploring online sales channels.

42 or 29% of the total survey respondents claimed that they encountered the problem related to accessing raw materials. As for microbusinesses operating in personal care services including hair barbers and nail salons, the percentage of businesses encountering problems with raw materials are higher than other sectors.

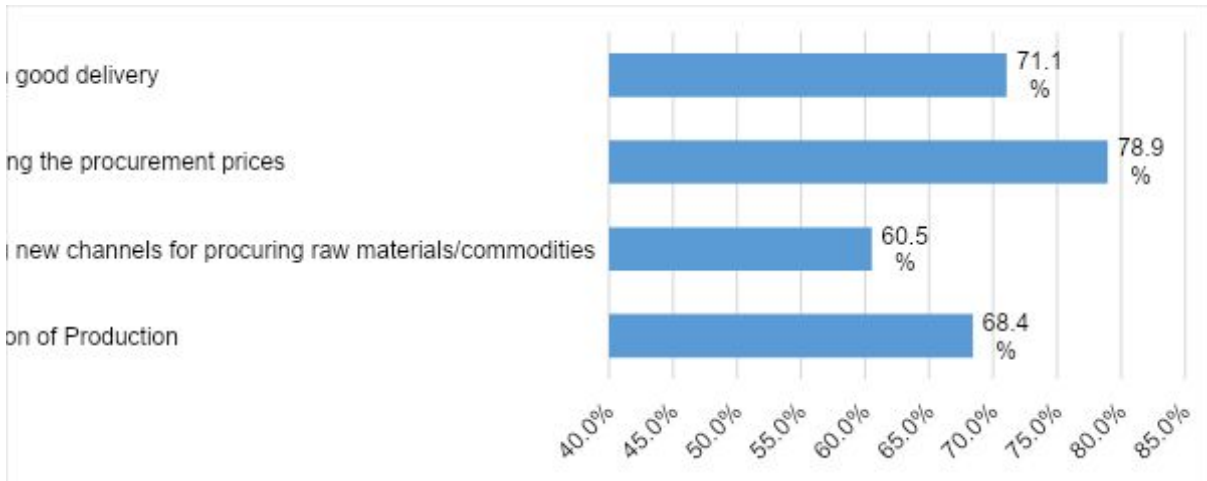
**Figure 15: Distribution of the Businesses Encountering Cash Flow Problems by Economic Sector**



Those who encountered problems cited price increase in raw materials as their main problem. The data collectors prompted the respondents to share detailed data on the change in raw materials price. According to their estimates, the average mean of increase in raw materials price was 38% with ranging from 6% to 125%.

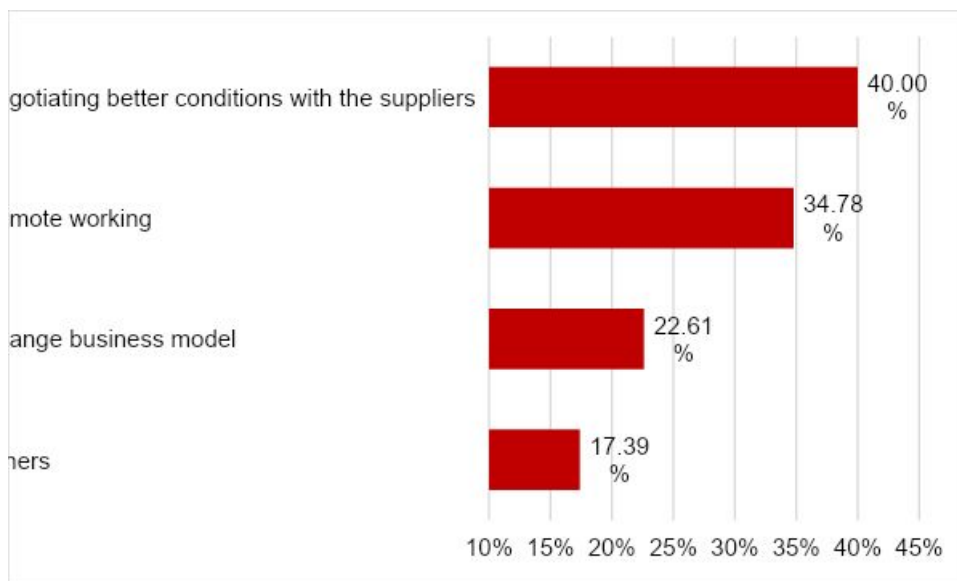
In response to price increase in raw materials, the informal businesses indicated that they increased their product price by average of 20% with a maximum of 50% price increase reported.

**Figure 16: Common Responses to the Problems with Raw Materials**



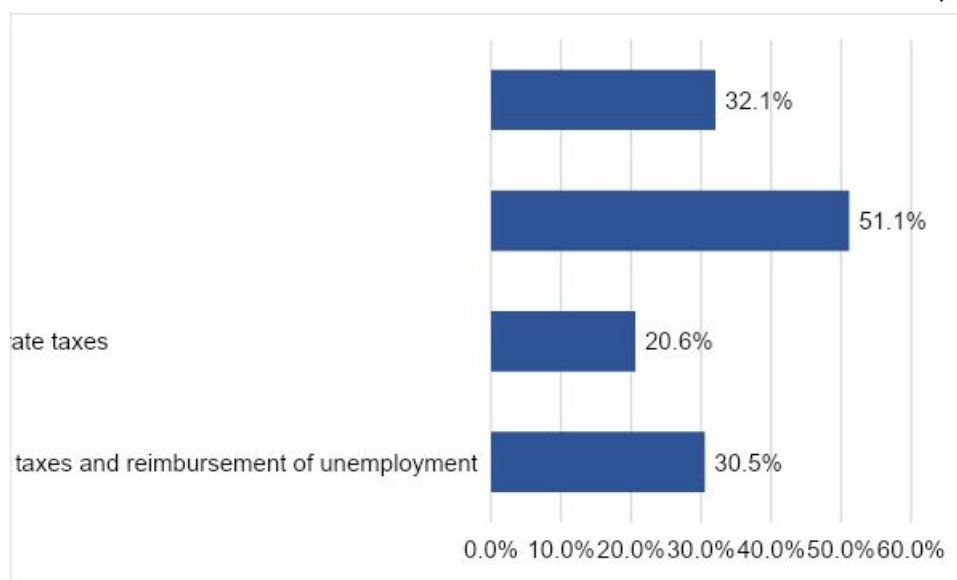
Because of shortage in raw materials, 78.9% of the survey respondents claimed that they increased their bid price for purchasing of raw materials, followed by experiencing delay in good delivery. Meanwhile according to the survey result, one-third of the informal businesses cut their production due to lack of raw materials in the market.

**Figure 17: Adaptive Measures taken by the Respondents**



According to the survey respondents, informal businesses are forced to introduce some new changes into their operation to mitigate the risk of exposure to the novel coronavirus. Most common measures taken by informal businesses include negotiating better conditions with the suppliers, remote working and changing their business model. Other measures include working time reduction and introducing online sales channels.

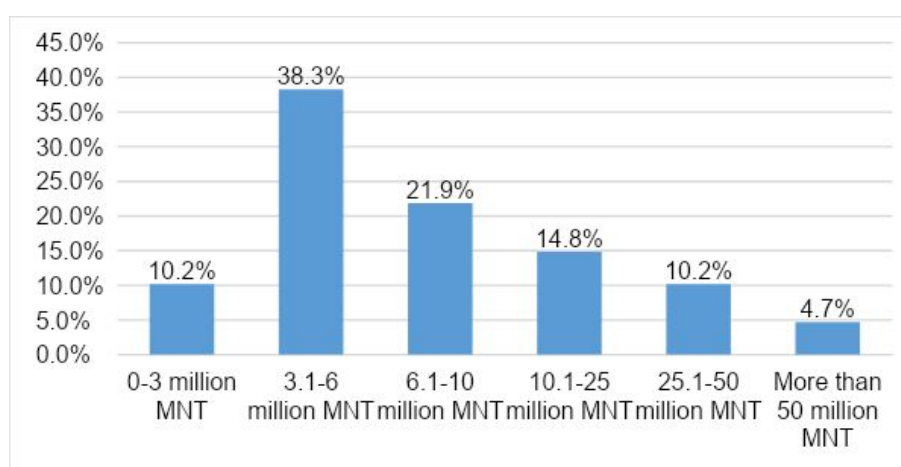
**Figure 18: Most Significant Relief Measures by the Government**



The survey respondents were asked to select two of the most effective relief measures among the Government’s coronavirus stimulus package. Loan deferment by commercial banks is regarded as the most beneficial with 51% of the respondents, followed by providing cash support for retaining jobs (32%).

Meanwhile, half of the respondents claimed that concessional loan will be the most welcome measure during the Covid-19 pandemic, and 43.2% of the respondents mentioned cash grant as the most welcome.

**Figure 19: Value of Financial Assistance Needed for Full Recovery**

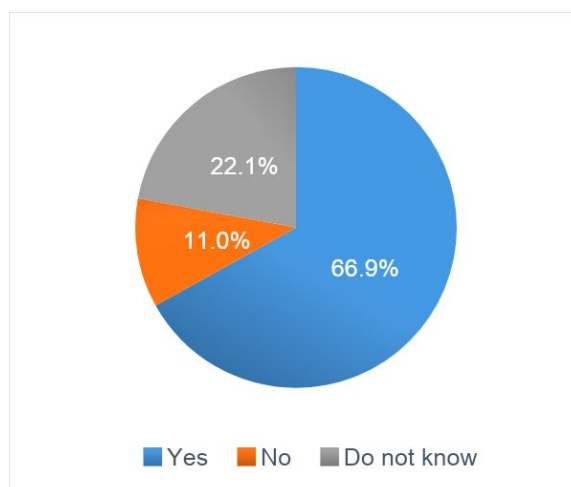


The survey respondents were requested to provide a value of financial assistance that are needed for making a full recovery. 38.3% of the respondents reported that they are in need of financial assistance with a value of MNT 3-6 million. The average mean of necessary financial assistance is MNT 17.5 million as the median value equals MNT 7.5 million.

Among 145 survey respondents, only 5 informal businesses insisted that they have business continuity plans to help them cope with the emergency situations such as Covid-19

pandemic. Majority (84% or 122) of the respondents expressed an interest in participating in the capacity building intervention related to creation of such a plan.

**Figure 20: Willingness to Transition into Formal Sector**



Two-third of the respondents said that they are willing to transition into the formal sector while 22% of them were unsure about the transition. With a high percentage of the informal sector willing to transition into the formal sector, it is an encouraging sign not only of economic development but also economic governance. There are several benefits for businesses that operate formally, particularly as the formal sector tends to be more productive than the informal sector.

### **Main findings**

This survey indicates that thousands of informal businesses will be at huge risk of closing permanently if the current situation continues for just a few months.

Covid-19 has had a devastating impact on the revenue generated by the informal sector, and thousands of people, particularly women employed by the informal businesses are already at risk of unemployment as a result.

The disruption in supply chain caused by Covid-19 is hindering informal businesses from accessing working capital.

Business owners of the informal businesses primarily need additional external financing / financial assistance with a favorable term and penalty free loan deferment on their already obtained credits.

The international organizations need to invest in informal businesses' education and financial and technical assistance rather than pull back spending on those projects.