



MICRO BUSINESS EMPLOYMENT TRENDS - A CASE DURING CRISIS!

Vengadesh is one of million entrepreneurs that make up India's service sector which contributes to 30% of the country's GDP. He employs seven people in his welding workshop in the small town of Tirunelveli in Tamil Nadu. All of them have worked with him for over a decade and four of these are migrants. On being asked how COVID has impacted his business, he said, "Due to the lockdown and transport restrictions, business orders have reduced, leading to a cash crunch. Even with restrictions easing up, the footfall of customers has been limited to 2-3 per day; mainly those who come for urgent repair work." This scarcity in demand has led to low incomes for many like him. His average daily income has plummeted from Rs. 3000 per day prior to the lockdown, to a meagre Rs. 500 a day.

"Despite this situation, I did not consider laying off my workers. Instead, I had a conversation with my workers about their preferences. Based on that discussion, I continue to pay two of my staff members who were willing to come in for work and retained the others without salary."

The others who come from nearby villages face transportation issues and Vengadesh is counting on taking additional orders once the situation eases up to compensate for their losses during this lean period. Interestingly, 81% of the businesses in our study echo Vengadesh's optimism and are confident of business revival.



About

LEAD at Krea university in partnership with the Global Alliance for Mass Entrepreneurship is conducting a national level COVID-19 impact study which aims to capture the status of micro-enterprises in India during the current crisis. Through this dynamic multidimensional survey various micro businesses will be interviewed over a period of six months. The survey assesses the impact of the lockdowns and other policy restrictions on business operations, employment practices, and income.

Explore the full data-set and through this interactive dashboard:
<https://dashboard.massentrepreneurship.org/>

There are many like Vengadesh who have been deeply affected by the ongoing pandemic, but have refused to back down from their duties to their community values. Unlike workers in the formal sector who are facing large-scale layoffs, in our qualitative interviews, we observe that the informal sector is prioritizing retention without salary or with reduced incomes. To understand the impact of COVID-19 and policy measures such as lockdowns on the micro business segment, LEAD at Krea University is partnering with the Global Alliance for Mass Entrepreneurship (GAME) to conduct a national level COVID-19 impact study. In this piece, we shed some light on the employment trends of micro businesses during these times.

Micro businesses prefer loyalty over layoffs in a devastated economy

It is important to note that India had been witnessing a slower economic growth and rising unemployment, even before COVID. Between 2015 and 2019, economic growth fell from 8% to 4%, and as of 2018, the unemployment rate was 6% (ILO, 2020). Even micro businesses were already facing issues in accessing financing and maintaining liquidity, which was only worsened by the nationwide lockdown. In terms of employment trends, as per CMIE, unemployment was as high as 20% with more than 120 million jobs lost in April 2020. However, with trade and mobility restrictions easing up, particularly from June to July, unemployment fell from 11% to 7%. Interestingly, this recovery has been majorly credited to the informal sector.

Despite suffering a significant lull in business due to the pandemic, Satish, a paint workshop owner from Trichy, Tamil Nadu, continues to pay his four employees on a weekly basis.

“My staff has been working with me for close to four years. How could I suddenly abandon them in tough times? I dipped into my savings to pay their dues and asked them to come to work once the business resumes operations.”, adds Satish.

75% of the micro businesses in our study reported that they did not lay off any workers between during the survey period of mid-April to mid-May 2020. It can be said that most workers in micro businesses are prone to economic fallouts in pandemics due to their non-regular employment and lack of contractual social protection. However, ‘goodwill and loyalty’ have emerged as the foundation for supporting workers in adverse

times. Another testament to that is that 14% of the micro-entrepreneurs from our sample retained employees without a salary.





45-year old Chandra, is the proprietor of a tailoring unit in Karur District. “I cannot afford to pay my staff their full wages; but I pay them 50% of their pay, even though some of them are not coming to work.” Chandra believes that her employees are the foundation of her enterprise, and with their support the business has seen tremendous growth in the last four years.

Chandra moved out from her home-based business seven years ago to set up a tailoring unit with the help of her spouse and son. The revenue from this micro business is their primary source of income. Prior to the lockdown, she had led a staff of 15 employees. With tailoring orders dwindling during the lockdown, as well as her employees finding transit difficult due to government restrictions, only six of her employees are actively engaged in work.

Her lifestyle has not changed much, juggling her time between household and business responsibilities. She wakes up at 6 a.m. everyday to attend to household chores, heading to her shop after finishing up. By 8.30 p.m., she shuts up her shop and heads back home. What has changed now? “We used to see a healthy fluctuation in cash inflow - with peak and lean periods based on seasonality. Since March (2020), business has been consistently slow, this is a concerning factor.” On being asked if they leveraged any government support, she said “Banks are a mediator for us to avail schemes. Though

approaching them is a long-winding process at times. I wish it was not that hard.”

Some left with no option due to disrupted demand and cash crunch

Not all micro businesses enjoy the privilege of retaining their employees, around 11% of our sample laid off employees, like Nashim who runs an electrical repair shop in New Delhi. He had employed four staff and had to lay off everyone. Was it difficult?

“For two years we have been eating together - just like friends. With the lockdown, my business was out of any work and had zero cash inflow. How would I pay them a total of Rs. 20,000 for their work? It was impossible. All of them understood my situation and migrated back to Bihar.”

If the demand goes up, we enquired, won't he face a workforce shortage? “My workers went with a plan to come back post Diwali for work, hoping business restarts by then. But I can not say anything for certain”, says Nashim with a sigh. It is clear that the nature of labor in micro businesses lacks social protection coverage for both the employee and the employer in times like these.

Murugan is in the garment business, from Tiruppur in Tamil Nadu. His business was partially opened during the month of June (2020) due to COVID-19 lockdown. "The situation is very bad. The total turnover was reduced by 40% compared to before lockdown similar to the decrease in percentage of profit. Our staff's strength was sixty with twenty north Indians (from Bihar and Odisha) and forty local persons working as full-time staff. But now only forty local staff are working as the other twenty north Indian staff went to their native place. Due to the lockdown, there was no business, and it was impossible to pay salary for all. When the twenty staff expressed interest in heading back home, I supported their decision. I do hope they will come back after the lockdown ends, but we have not said anything explicitly. There could be a labour shortage problem once business resumes as normal. But, there are no savings with me presently as I have gotten loans for personal needs and paid the salary to the remaining staff, despite the cash crunch."

Kishore from New Delhi, a footwear manufacturer had to lay off all of his ten employees who migrated back to Bihar to do agricultural work in the village. Similarly, Fateh from New Delhi, a metal workshop owner,

says "Earlier I had five workers, now I have only three - who I am giving pocket expenses to. Before I used to give Rs. 9000 per month but now I am giving very less to cover basic expenses. I do not have any plans to hire more people as work is not like before. Laying off is a tough decision."

Why? "It feels sad. But I believe business will begin by September (2020) only, so I had to lay them off." Did you provide any support to help your workers find alternate jobs? "Yes. The two employees who I laid off because I did not have money to pay - were workers from Bihar and Uttar Pradesh. Luckily both of them found private jobs from our common networks in Delhi itself."

Micro businesses are not one segment - a suggested pathway for policy makers

For micro businesses, financial institutions are the primary gateway to accessing government schemes. But the system, as Chandra highlighted, is riddled with potholes, hindering easy and quick access to financial aid or credit access. There is a need for policy makers to open up credit channels at the earliest to

combat the cash flow crises which, in turn, will also reduce burden on micro-entrepreneurs who are dipping into their savings to support their workers.

Apoorva Aggarwal from Aye Finance, upon being asked to comment on the employment trends in microbusinesses,

adds "Within the micro businesses, we need to look at different segmentations and strategies instead of the sector as a whole. Targeted policies should be based on threefold factors of 1) type of business involved in 2) risk appetite and 3) digital adoption."

Aye Finance has also adopted a cluster approach. Apoorva further elaborates on cluster-wise trends, "Some trends we noticed are - the manufacturing segment is affected by decreasing sales and the challenge of migrant workers moving out. As regards the trading segment - we see that most of them have family members supporting the business. In the case of the piece-rate manufacturers, the employees do not have a formal contract but are mostly piece-rate workers. The retail kirana segment - about 30% of our portfolio, covered under essential services - is here to stay! Across the board we see more interest in moving to digital since top lines are affected with reduced sales and stretched cash flows." She believes that segmented strategies are the best solutions to provide support to microbusinesses in these troubled times.



The COVID-19 pandemic has brought the resilience and versatility of micro businesses to the forefront. Chandra has probably put it best

“Everything is so uncertain that nothing can be said about the future. But we are taking a long-view of the situation and planning for the next four months. Nothing can be normal this year, but surely from 2021, we will be back on track! Meanwhile, being empathetic with your staff will help.”



The Government of India has come up with a stimulus package for the MSME segment with the goal of speeding up economic recovery. The stimulus package focuses on strategies to restore jobs, support incomes of both enterprises and workers for re-establishing supply lines and building back demand as well as protect incomes of workers (and their families), especially the migrants in the informal economy. While entrepreneurs are trying to retain employees, being loyal, dipping into savings to pay salaries, among others, we need to ensure immediate support to them. In the short-term, rigorous data can help

identify which sectors and enterprises have the potential to retain employees and hence focus on opening up credit pathways for them. This is to say that micro businesses could get more support in the forms of payment recovery, especially in these times as MSMEs do need timely payments so that they can pay their employees. This would have helped many avoid the brunt of financial shock. Similarly, social security or micro insurance for salary support should be contemplated. In the long-term, these mechanisms will ensure a greater push for entrepreneurship in the country, in turn leading to increased employment.

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