LANDSCAPE ASSESSMENT OF RETAIL MICRO-MERCHANTS IN BANGLADESH

RESEARCH BRIEF

UN CDF | SHIFT
SHAPING INCLUSIVE FINANCE TRANSFORMATIONS

ABOUT THIS RESEARCH BRIEF

This Research Brief highlights the key research findings from the first comprehensive study of micro-merchants in Bangladesh engaged in the retail sector, particularly in Fast Moving Consumer Goods (FMCG) operating mostly in rural areas. It addresses gaps in data and contributes to understanding of the market size, the nature of micro-merchant operations and opportunities for employment and entrepreneurship. By providing clear and transparent data on the micro-merchant segment engaged in the retail sector in Bangladesh, the United Nations Capital Development Fund (UNCDF) hopes to support policy makers, business partners and development partners take greater interest and action on their behalf.

Through this study UNCDF contributes to the body of knowledge about retail micro-merchants in Bangladesh consistent with the UNCDF's objective of stimulating investment, business innovations and regulatory reform to expand economic participation and opportunities for women, and small and growing businesses.

This research was made possible through UNCDF's "Merchants Development Driving Rural Markets" project funded by the European Union under the Poverty Reduction through Inclusive and Sustainable Markets (PRISM) action. UNCDF commissioned Org-Quest Research Limited to design the study and undertake data collection. Org-Quest Research Limited developed a sampling framework and accordingly sampled 2,100 retail micro-merchants across the country, executed the data collection in the field, and compiled the data set derived from this primary research. Most analysis of the data was provided by Org-Quest Research Limited and interpretation was undertaken by UNCDF.

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ABOUT THE UNITED NATIONS CAPITAL DEVELOPMENT FUND

UNCDF makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise and local infrastructure levels, UNCDF contributes to the Sustainable Development Goals (SDGs), particularly Goal 1 on eradicating poverty and Goal 17 on the means of implementation. UNCDF also contributes to other SDGs by identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access.

ABOUT SHIFT SAARC IN BANGLADESH

The Shaping Inclusive Finance Transformations (SHIFT) programme framework for the South Asian Association for Regional Cooperation (SAARC) countries is a regional market-facilitation initiative aiming to improve livelihoods and reduce poverty in SAARC countries by 2021. SHIFT SAARC seeks to stimulate investment, business innovations and regulatory reform to expand economic participation and opportunities for women and help small and growing businesses to be active agents in the formal economy.

SHIFT SAARC is currently implemented in Bangladesh where it has two major streams of work: 1) accelerating the uptake and usage of digital financial services (DFS) to respond to the needs for greater digital financial inclusion; and 2) enhancing the growth and competitiveness of retail micro-merchants through the "Merchants Development Driving Rural Markets" project. SHIFT SAARC does this through growing the awareness and demand for DFS through communication, advocacy and industry research. SHIFT SAARC also stimulates expansion of digital technologies for micro-merchant segments by encouraging innovation and linkages between retail and financial services industries.

RESEARCH HIGHLIGHTS

The retail landscape in Bangladesh is changing. A sector long perceived as having little scope for expansion, retail has contributed an average of 13 percent each year to the Bangladesh Gross Domestic Product (GDP) since 2012/13.[1] This is comparable to the fast-growing ready-made garments industry, which grew an average of 12.84 percent annually from 2007 to 2016. Micro-merchants in the retail sector have the potential to become key players in the next growth area in Bangladesh.

The businesses of retail micro-merchants at the individual level may be small – only one of countless neighbourhood roadside shops (*Mudi Dokans)* – but collectively this group represents an enormous market force, with estimated total market size in annual sales turnover of $18.42 billion in 2018. Micro-merchants likely conduct millions of transactions with customers on daily basis. As they are present everywhere, micro-merchants are becoming more instrumental for accessing millions of customers as well as developing brand and customer loyalty. Industries are increasingly looking to these micro-merchants to access a vast untapped consumer base. The financial services sector can offer savings and credit product and expand digital financial services. Fast Moving Consumer Goods (FMCG) companies can reach more consumers with products sold by micro-merchants such as oil, rice, tobacco goods, packet biscuits, soup, fruit juice, tea, coffee, sugar, hand cream, detergent and candy – and at the same time help micro-merchants expand their businesses.

Lack of data, however, presents an obstacle to expansion. Due to extremely limited data about the retail segment in general, and micro-merchants in particular, financial sector and FMCG businesses struggle to see the value proposition offered by the micro-merchant segment of the retail sector. Moreover, policy makers struggle to see ways this segment can spur economic growth and development. To fill this data gap, the United Nations Capital Development Fund (UNCDF) embarked on a nine-month investigation into the micro-merchant segment, the results of which include the present report on the *Landscape Assessment of Micro-Merchants in Bangladesh*. The assessment applied a mixed-method approach involving 2,100 micro-merchants across the country.

1. Centre for Policy Dialogue (2016). *State of Bangladesh Economy*. Retrieved from: https://cpd.org.bd/wp-content/uploads/2016/05/IRBD-FY16-Third-Reading-FINAL_Revised.pdf

KEY FINDINGS

1. MARKET SIZE AND POTENTIAL

The micro-merchant segment of the retail sector delivered an annual turnover of $18.42 billion in 2018. Almost 2 million people are directly involved in micro-merchant retail businesses and almost 50,000 people are entering the area each year. The micro-merchant segment of the retail sector offers entrepreneurship and employment opportunities, creates demand for finance and accounts for millions of transactions with customers daily.

1,310,000
NUMBER OF MICRO-MERCHANTS

$18.42 BILLION
ANNUAL TURNOVER

$16.71 BILLION
ANNUAL VALUE OF INVENTORY

44% MICRO-MERCHANT BUSINESSES WITH ANNUAL SALES OVER $1,900

56% HAVE A TURNOVER LOWER THAN $1,900

1,918,200
PEOPLE INVOLVED IN THE MICRO-MERCHANT SEGMENT OF THE RETAIL SECTOR
(micro-merchants, employees, unpaid family labour)

74,905
PAID
FULL-TIME EMPLOYEES

743,300
UNPAID
FAMILY LABOUR

94,800
WOMEN INVOLVED IN MICRO-MERCHANT BUSINESSES

675,715 MICRO-MERCHANTS WHO TOOK LOANS

$778 MILLION
CREDIT MARKET

2. MICRO-MERCHANT PROFILE

A typical micro-merchant is male, aged 38 and has been in business for nine years or less. Most are educated and can read in Bangla.

38 YEARS AVERAGE AGE

35.2%
YOUTH MICRO-MERCHANTS (AGED 16 TO 30)

65%
COMPLETED AT LEAST PRIMARY EDUCATION

84% MARRIED

9 YEARS
AVERAGE PERIOD IN BUSINESS

RUNNING A SMALL SHOP IS ONE SOURCE OF INCOME

73.1% MICRO-MERCHANTS HAVE ADDITIONAL INCOME SOURCES

65.6% HAD A TRADE LICENCE AT SOME POINT

MOST SHIFT TO RETAIL FROM OTHER AREAS OF WORK

3. WOMEN MICRO-MERCHANTS

The estimated number of women involved in micro-merchant businesses is 94,800. Retail micro-businesses may be a way for women to transition away from subsistence farming, as men have done. Though the sample size was too small to draw conclusions, interviews with 31 women suggest that most women micro-merchants:

WOMEN RUN INFORMAL BUSINESSES AND FEW HAVE A TRADE LICENSE

WOMEN OBTAIN LOANS FROM MICROFINANCE INSTITUTIONS THAT TRADITIONALLY FOCUS ON SERVING FEMALE CLIENTS

WOMEN HAVE LOW OWNERSHIP OF FORMAL BANK ACCOUNTS

WOMEN HAVE LIMITED ACCESS TO MOBILE FINANCIAL SERVICES (MFS) ACCOUNTS

WOMEN HAVE NO FORMAL EDUCATION

WOMEN HAVE MOBILE PHONES, BUT LIMITED INTERNET ACCESS

4. BUSINESS OPPORTUNITIES FOR THE FMCG SECTOR

Micro-merchants wish to grow their businesses and earnings, but they face significant barriers. Access to finance is among their biggest concerns followed by a need to improve their business operations, such as cash, inventory and finance management. The top five FMCG sold by the micro-merchants surveyed are tobacco goods, oil, rice, packet biscuits and flour. Several actions can be taken by the FMCG industry that will benefit both the FMCG and micro-merchant businesses:

Build brand loyalty and reach last-mile customers in partnership with micro-merchants. Micro-merchants keep few written records and base sales decisions on observation and intrinsic knowledge. They rarely introduce new products or brands to their customers, yet this knowledge offers industries (such as financial sector and FMCG) opportunities to reach untapped or hard-to-reach market segments.

Introduce digitization of stock ordering process for micro-merchants by partnering with technology developers and FinTechs[2]. Ordering from their suppliers is most often manual and in cash, yet almost all micro-merchants have mobile phones. For the FMCG sector, digitization would improve capacity to evaluate stock-outs, forecast future demand and introduce new items, among other benefits, leading to e-commerce. For micro-merchants, digitization would improve integration within the FMCG supply chain and support their business growth.

Enable micro-merchants to digitize credit sales records. Micro-merchants struggle with keeping track of credit sales, which are 73.1 percent of sales. There may be a room to consider digitization of credit sales records in partnership with the financial sector, technology providers and FinTechs. This would enable innovation of the payment instruments on offer, and introduction of more convenient ways of payment both for customers and micro-merchants, e.g. person to business (P2B) payments through a mobile platform as well as a development of a credit scoring system using credit sales records. Digitization of credit sales records would benefit all involved in the supply chain: micro-merchants would expand payment options to customers, the financial sector would introduce new payment instruments and expand market access, and FMCG companies would ultimately be able to sell more products, as micro-merchants would be able to access new credit lines.

Introduce digital platforms to enable micro-merchants to grow their businesses. Micro-merchants could improve cash management and bookkeeping and reduce costs by using digital resources, especially though smart phones. This would improve the functioning of the FMCG supply chain and provide deeper market penetration and easier market expansion for FMCG companies. It would also enable micro-merchants to transition from a very small enterprise type to a larger one (i.e. it would promote business growth).

60-80% OF ALL PRODUCTS IN A STORE ARE FMCG

$3,195 AVERAGE MONTHLY SALES PER INDIVIDUAL MICRO-MERCHANT

(BDT 4,000), WITH A RANGE FROM $49 TO $12,805

$2,887 AVERAGE MONTHLY INVENTORY

MOSTLY CASH UP-FRONT PAYMENTS

60% PAYING FOR STOCK IN INSTALMENTS

STOCK ORDERING OPTIONS: IN PERSON

SUPPLIER CREDIT:
ONLY HIGHEST 20 PERCENT CAN ACCESS CREDIT FROM SUPPLIERS

73.1% CUSTOMERS CREDIT:
REGULARLY SELL ON CREDIT TO CUSTOMERS

98% OWN A MOBILE PHONE

30% OWN A SMARTPHONE

2. FinTechs (financial technology) is a new technology and innovation that aims to compete with traditional financial methods in the delivery of financial services. FinTechs use technology to improve activities in finance.

5. BUSINESS OPPORTUNITIES FOR THE FINANCIAL SERVICES SECTOR

The majority of micro-merchants are financially excluded, with 57 percent of micro-merchants having no bank accounts. This is even more so for women micro-merchants. There are many actions that the financial services sector can take:

Expand credit to micro-merchants: Micro-merchants need more finance to grow their businesses than currently available from the microfinance institutions they most often use.

Partner with FMCG companies for greater penetration and use of MFS accounts. Some 30 percent of micro-merchants have a mobile financial services account yet only 5.6 percent use it to pay suppliers. FMCG companies and the financial services sector could come together to increase MFS use, to the benefit of all.

Improve understanding of the benefits of MFS merchant accounts. None of the micro-merchants had an MFS merchant account yet many of them were at some point *de facto* formal businesses. Demonstrating the benefits of having such an account may increase their use by micro-merchants.

6. REGULATORS' ROLE IN MICRO-MERCHANT ADVANCEMENT

Suggested actions to be taken by regulators are based on the study results as well as from other research studies. Regulators should consider the following measures:

Learn more about common risks facing micro-merchants. Micro-enterprises are commonly very vulnerable to shocks (e.g. health, death, loss of business, etc.). A better understanding of their vulnerability would help shape policy to address common risks and enable the financial sector to design appropriate financial instruments.

Promote digitization of small businesses. A national push from policy makers for a merchant MFS account expansion would support uptake, leading to digitization of business to business (B2B) payments with benefits to many sectors.

Recognize the potential of micro-merchants in the retail sector. Regulators should ensure that retail sector can continuously innovate (such as e-commerce) and policies should enable growth and innovation with the sector.

Generate regular data about micro-merchants. Regular data about the retail sector would enable accurate understanding of the market size and growth. More in-depth analysis of micro-merchants is needed, differentiated by income level (categories) and gender.

43% HAVE A BANK ACCOUNT

MAIN USE OF A BANK ACCOUNT IS PERSONAL

23% OPEN A BANK ACCOUNT FOR ACCESS TO LOANS

53% OPEN A BANK ACCOUNT FOR SAVING

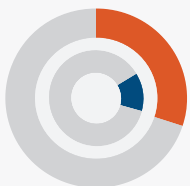
61% BORROWED OVER THE LAST 12 MONTHS

68% BORROW FROM MICROFINANCE INSTITUTIONS

13% OF THOSE WITH BANK ACCOUNTS BORROWING FROM BANKS

$1,116 AVERAGE BUSINESS LOAN SIZE

$872 AVERAGE PERSONAL LOAN SIZE



30% HAVE AN MFS ACCOUNT

43% OUT OF THOSE USE IT FOR BUSINESS

5.6% USE MFS ACCOUNT TO PAY SUPPLIERS

LESS THAN 1% HAVE INSURANCE

RECOMMENDATIONS

Large businesses and leading economic sectors such as RMG are often the centre of attention within discourse in Bangladesh.

However, our research shows that, collectively, small micro-merchant businesses in the retail sector can have a significant ripple effect on the country's economy.

Micro-merchant businesses often provide more employment opportunities for unskilled workers and can therefore have positive effects on the overall level of employment in Bangladesh.

These micro-merchant businesses are also very important for the business landscape in general, as they are last-mile transaction points with customers across the country.

This suggests they can be a major source of innovation for the industries they operate within. **Micro-merchants are an important, growing sector of the Bangladesh economy – an economic force – yet it is a sector that needs action to stimulate its further growth and development.** Below are key recommendations to support the sector's growth and prosperity, resulting in benefits for micro-merchants and their families as well as the economy of Bangladesh.

RECOMMENDATIONS FOR THE FMCG SECTOR

1. LEVERAGE MICRO-MERCHANTS TO **BUILD BRAND LOYALTY AND REACH LAST-MILE CUSTOMERS**

i. Make them **know they are valuable** actors in the FMCG supply chain.
ii. Invest in **improving** their marketing skills.
iii. Talk to them periodically to **see how to leverage their position** in the retail sector more effectively.

2. INTRODUCE **DIGITIZATION OF THE STOCK ORDERING PROCESS** ALL THE WAY TO THE MICRO-MERCHANT LEVEL

RECOMMENDATIONS FOR DIGITAL PLATFORM DEVELOPERS INCLUDING FINTECHS

1. PARTNER WITH FMCG COMPANIES AND FINANCIAL SERVICE PROVIDERS TO **ENABLE MICRO-MERCHANTS TO DIGITIZE CREDIT SALES RECORDS**

2. INNOVATE AROUND NEW PAYMENT INSTRUMENTS TO MICRO-MERCHANTS' CUSTOMERS **ENABLING MORE CONVENIENT WAYS OF PAYMENT** BOTH FOR CUSTOMERS AND MICRO-MERCHANTS

3. OFFER DIGITAL PLATFORMS TO ENABLE MICRO-MERCHANTS TO **MANAGE CASH, ACCOUNTS AND INVENTORY THROUGH SMARTPHONE APPLICATIONS**

RECOMMENDATIONS FOR THE FINANCIAL SERVICES SECTOR

1. **EXPAND CREDIT** TO MICRO-MERCHANTS
   i. Market **current product offerings** to micro-merchants more effectively.
   ii. Undertake **market research of the segment** to develop tailored financial products to address working capital and cash-flow needs among businesses owned by men and women.
   iii. Pilot **alternative credit assessment approaches** utilizing micro-merchants' data and transaction records. Most micro-merchants keep written records of credit transactions with their customers. These transactions can be digitized and used to develop new ways of assessing credit worthiness of micro-merchants.
   iv. Consider **using technology to expand lending to micro-merchants** thus lowering the costs of serving this segment; for example, pilot a small loan through a mobile phone platform.

2. **PARTNER WITH FMCG COMPANIES** FOR GREATER PENETRATION AND USE OF MOBILE FINANCIAL SERVICES ACCOUNTS
   i. Jointly invest in **platform development** to digitize payments.

3. IMPROVE UNDERSTANDING OF THE **BENEFITS OF MOBILE FINANCIAL SERVICES MERCHANT ACCOUNTS**
   i. Undertake **below-the-line and above-the-line marketing** and demonstrate benefits of these accounts to motivate uptake of MFS merchant accounts.

RECOMMENDATIONS FOR REGULATORS

1. PROMOTE DIGITIZATION OF BUSINESSES

i. A national push from policy makers for **expansion of merchant MFS accounts** would go a long way to create awareness and support uptake of these accounts.

2. ACT ON FINANCIAL LITERACY

i. Set **financial literacy objectives** for men and women in Bangladesh.
ii. Work with development partners, the private sector and government ministries to **achieve literacy objectives**.

3. SUPPORT GROWTH OF THE RETAIL SECTOR

i. Ensure and enable **continuous innovation** (such as through e-commerce) and **growth within the retail sector,** in particular among men and women business owners in the micro-merchant segment.

4. COLLECT GENDER-DISAGGREGATED DATA ON THE RETAIL SECTOR THROUGH PERIODIC SURVEYS

i. Commission **nationally representative surveys** of the micro-merchant segment (and/or introduce set of questions about this retail segment within economic census) to be undertaken periodically by national authorities to generate up-to-date datasets.
ii. Include **collected data in government databanks online**, available for public use.

5. ENABLE ACCESS TO BUSINESS AND FINANCIAL MANAGEMENT TRAINING FOR MICRO-MERCHANTS, WITH SPECIFIED INCLUSION OF WOMEN MICRO-MERCHANTS

i. Call on Business Development Services providers and organizations that promote Micro, Small and Medium Enterprises (MSMEs) to extend skilling and capacity development opportunities to micro-merchants.

RECOMMENDATIONS FOR RESEARCHERS

1. CONDUCT RESEARCH ON WOMEN MICRO-MERCHANTS.

i. Address the **lack of data and analysis.** Identify barriers to and opportunities for the greater participation of women in the retail sector.

2. LEARN MORE ABOUT COMMON RISKS FACING MICRO-MERCHANTS.

i. Address the **limited understanding of the vulnerability of micro-merchants,** and use this knowledge to inform policy decisions and to design appropriate market-based instruments to enable them to manage risks.

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