| RESEARCH ARTICLE

Impact of COVID-19 on SMEs of Bangladesh: How Well have they Coped with the Situation?

Wasik Sajid Khan[1] ✉ **and Asif Haider[2]**

[12]Department of Economics, Faculty of Arts and Social Sciences, Bangladesh University of Professionals, Bangladesh
Corresponding Author: Wasik Sajid Khan, **E-mail**: wasik.sajid@bup.edu.bd

| ABSTRACT

Like all other sectors of the economy, the halt in economic activities due to the outbreak of COVID-19 in Bangladesh has adversely affected SMEs. Despite constituting over 90 percent of business enterprises in the country, this sector has not grown enough due to a variety of reasons. Coupled with these, the pandemic has had a major effect on the operation of SMEs. Using a descriptive analysis method, this study tries to find the effect on enterprises, the way they have tried to cope with the situation, and the extent to which they have recovered from the phase. While the Government announced stimulus packages in different rounds, the study has found that commercial banks' perception and reluctant attitude towards small and medium entrepreneurs worked as the main reason behind enterprises' failure to receive the money. The study argues that the SME Foundation of Bangladesh needs to play a proactive role in minimizing the gap between the enterprises and banks, and a separate state-owned bank needs to be determined through further research and analysis.

1. Introduction

A crucial role is played by small and medium enterprises to ensure the development of a country and comprise a significant part of the existing industries. In Bangladesh, there are about 8 million small and medium enterprises, 94% of which are small enterprises (SMEF, 2017). SMEs account for over 97% of all enterprises in Bangladesh. The contribution of SMEs to GDP is about 25%, and it is growing over time (ADB, 2015). SMEs are growing faster in the present world because of the low cost of capital, fewer employees, and technological innovations. The number of SMEs is also increasing in Bangladesh due to the stated reasons. This sector is flourishing due to advancements in technologies and the zeal of entrepreneurs.

The outbreak of COVID-19, like all other countries of the world, hit a heavy blow in Bangladesh's economy. The country went under lockdown; shops were closed, production stopped in factories, offices were shut, etc. A halt came in the production of the SMEs in Bangladesh as well. Some of the enterprises stopped production due to low demand and panic about the disease. Many workers lost jobs or found their wages slashed due to this shock. Except for the enterprises related to agriculture and medical products, the majority of them failed to maximize their sales during major festivals in 2020.

The government came forward with monetary assistance to help SMEs survive. In May 2020, a stimulus package of Tk20,000 crore to save Bangladesh's SMEs from the impact of COVID-19 was declared. An addition of a Tk1,500 crore package was announced in January 2021 in the second phase to support the CMSME sector. However, disbursing this money among SMEs has been found to be a gargantuan task due to several impediments.

The World Bank SME Finance Report (2019) suggests that the sector in Bangladesh faces a financing gap of $2.8 billion. They also found that almost two-thirds of SMEs owned by females are denied access to finance due to collateral issues. SME foundation of Bangladesh is working to solve the issues and mitigate the loss brought about by the pandemic. It has come into agreement with several banks to disburse the loan to enterprises at the grassroots level.

As Bangladesh is expecting to graduate from the United Nations list of Least Developed Countries (LDC) by 2026 and has set its goal to become an upper-middle-income country by 2031, a strong and resilient SME sector must be ensured for strengthening local economies and creating employment. The motivation of the study is to investigate the effects of the pandemic on SMEs, the challenges they face, and their current state. Based on the evidence from primary and secondary data, some suggestions for future development have also been made.

1.1 SMEs of Bangladesh

The definition of SMEs varies from country to country, even within different institutions of the same country. The World Bank has its own definition of SMEs. In Bangladesh, the Ministry of Industries and Bangladesh Bank have also defined SMEs on different criteria. In this study, the definition of SMEs given in the National Industrial Policy of Bangladesh 2016 by the Ministry of Industries will be considered. According to this policy, SMEs are not public limited companies, and their classifications are given in the following table:

Sector	Sub-sector	Fixed assets, excluding land & building	Employees	Loan Limit
Small	Services	BDT 1m to 20m	16-50	BDT 5 crores
	Trade	Less than BDT 1m-20m	0-15	BDT 25 lakh
	Manufacturing	BDT 7.5m-150m	31-120	BDT 20 crores
Medium	Services	BDT 20m -300m	51-120	BDT 50 crores
	Manufacturing	BDT 150m-500m	121-300	BDT 75 crores

Table1: Classification of SMEs
Source: Ministry of Industries, 2016

1.2 Overview of SME Clusters

In a study of SMEF carried out throughout the country, it was found that there are 177 SME clusters, 129 of them come under SME booster sectors, while the rest 48 are under non-booster SME sectors. These clusters include 69,902 enterprises which have generated employment for 1,937,809 people and have an approximate annual turnover of Tk.295150.66 million. Each cluster has 394 enterprises on average, and each enterprise has an average workforce size of 28, while the figure for each cluster stands at 10,948. Among the workforce, 26% are female, and 74% are their male counterparts.

The identified clusters, classified into the booster and non-booster sectors, can be listed as follows:

Sl. No.	Name of Sector	No. of Clusters
A	**SME Booster Sectors**	
1	Agro-processing/Agri-business/ Plantation	34
2	Light engineering and metalworking	31
3	Knitwear and RMG	22
4	Designer and personal care consumption goods	16
5	Leather making & leather goods	13
6	Healthcare and diagnostic	5
7	Electronics and Electrical	3
8	Plastic and other synthetic products	3
9	Educational service sector	2
	Total(A)	**129**
B	**SME Non-booster Sectors**	
1	Handicraft and Miscellaneous	38
2	Handloom and Specialized Textiles	10
	Total(B)	**48**
	Grand Total	**177**

Table 2: Summary of SME Clusters in Bangladesh
Source: SME Foundation, 2017

2. Literature Review

In most developing countries, SMEs play a pivotal role in rapid economic growth and industrial development. Because of low initiation capital and fewer workers, SMEs are expanding rapidly in developing countries. Although SMEs play a crucial role in creating employment and eradicating poverty, enterprises are subjected to numerous obstacles. Such barriers include access to finance, access to energy, and so on. In any economic shock, SMEs are the most vulnerable sector of a country (Shimul and Azhar, 2017).

Besides contributing to the economy, SMEs create other non-economic benefits like independence and self-reliance for the marginal group of people like women, widows, ethnic minorities, the elderly, etc. These personal values are essential for the progress of society (Ahmed, 2016). The significant constraints in the SME sector of Bangladesh have been found to be a lack of adequate investment, lack of modern technology, high rates of interest on Bank loans, inadequate supply of power, poor infrastructure, high transportation costs, inadequate raw materials, lack of skilled labors, credit constraints, etc. (Miah, 2006).

Commercial banks do not consider lending to SMEs an attractive and profitable investment and are highly reluctant to disburse their credit facilities. As the SMEs cannot meet the banks' collaterals, banks find it challenging to expand credit facilities to the SMEs. In addition to this, the monitoring and supervision costs of SMEs are also higher for banks (Chowdhury, 2007). A comparative analysis of SMEs in three countries argued that the SMEs in Bangladesh need to be moved to a legislation procedure, and financial institutions should be established to ensure easy access to finance (Khandker, 2016).

With the increasing diversification of customer demand, ICT use in the SME sector can salvage the sector from vulnerability and make an enterprise fit to face any challenge. The use of ICT can improve the financial, strategic, technical, and operational performances of SMEs. There should be the adoption of ICT facilities in the SME policies of Bangladesh (Rahman and Chowdhury, 2016). Due to the information gap and effective marketing strategies, access to foreign markets for Bangladesh's SMEs is still a daydream. Giving importance to experiential market knowledge will help us to overcome the situation (Hasan, 2017).

Due to mortgage issues and a time-consuming, complex sanction process, most SMEs in Bangladesh do not pursue banks' credits. Self-financing, taking loans from informal lenders, and micro-finance institutes are the primary financing sources for SMEs. Microfinance institutions can play a pivotal role in SMEs' credit financing (Khalily and Khaleque, 2013).

In Bangladesh, most SMEs do not prepare any formal financial statements, while many SMEs do not maintain a proper license. These reduce the credibility of SMEs to banks and other credit providers (Roy et al., 2015). The main reason behind this is a lack of knowledge and the indirect costs associated with the registration process (Giorgi and Rahman, 2013). In many cases, the SME loan is disbursed based on nepotism and favoritism in Bangladesh (Khan et al.,2012).

In a study on the impact of COVID-19 on SMEs in Zimbabwe, it was found that most enterprises had to lay off workers and halt their production, and government support was a crying need to increase long-term productivity (Nyanga and Zirlima, 2020). Another study on Chinese SMEs argues that expansionary fiscal policy and preferential policies may affect the operation of

enterprises during a pandemic as crucial factors while, insurance policy, support from public administration, capital support packages, and the role of professional association also play an important role in this regard (Ba Huyen et al., 2020).

A study on Nigerian SMEs has identified that technology may leave an impact in helping small and medium entrepreneurs. With the help of social media platforms, they can address upcoming challenges as well as business transactions and cash flow problems (Musa and Aifuwa,2020). Thematic analysis from the literature has identified cost-and-finance-related challenges, disruption of SME activities amidst the pandemic, and digital technologies as some of the vital crises emerging out of the pandemic for SMEs (Shrivastav, 2022).

3. Methodology
This study is a descriptive one, primarily based on the data collection by surveying a number of SMEs on the spot and over the phone. The data have been collected through a semi-structured questionnaire. Data from 265 SMEs could be collected within a limited time and resources. The semi-structured interview is a widely accepted and utilized technique to extract the required information and get a clear scenario within the time constraint. (Gnanarajan et al., 2020; Hitchcock and Hughes, 1995; Kengatharan, 2019). To better understand the overall scenario of SMEs in the country, secondary data from the Ministry of Industries, GoB, has been taken.

4. Results and Discussion
Out of 265 enterprises, 127 are from different Dhaka city locations, and the rest are from different districts of the country. It has been tried to ensure diversity in the type of enterprises. Enterprises of jute products, agro-machineries, handicrafts, finished goods from leather, and so on were surveyed. Most of the surveys were conducted over the phone.

4.1 Impact on Workers
The study has found that 104 out of 265 enterprises (39%) have laid off workers during the pandemic. SMEs related to agricultural and livestock products performed better in this aspect. One of the enterprises increased its workforce during this period. On the other hand, 43% of the enterprises tried to mitigate the adverse effect due to the shock by reducing their salary. The percentage of reduction varied from 10% to 40%. Seventy-one enterprises (26.7%) employed both strategies.
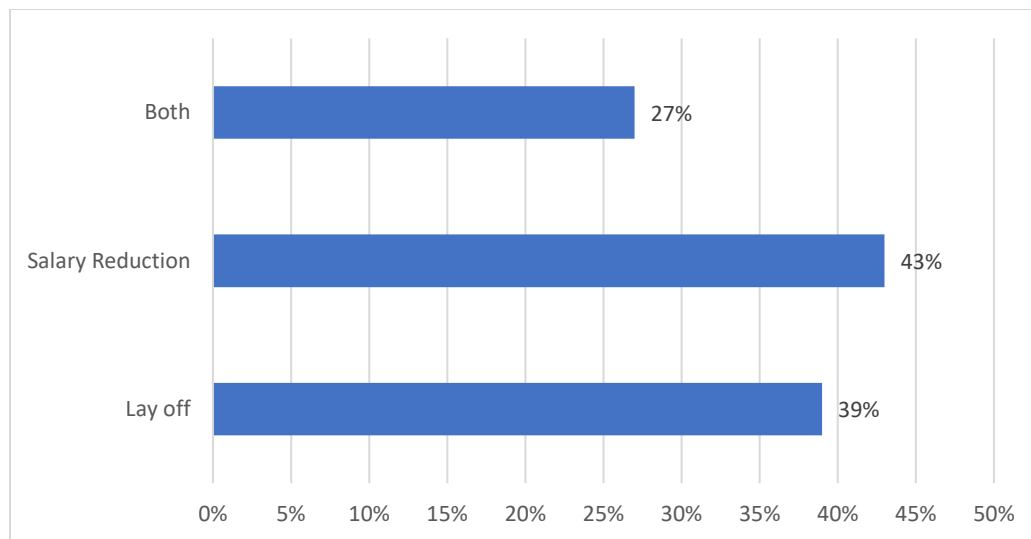

Figure 1. Firms' strategy regarding workers during a pandemic

4.2 State of Sales Revenue
To understand the impact on businesses during the pandemic and their current scenario, the enterprises' sales revenue for February, March, April, and July of 2019, 2020, 2021, and 2022 have been collected. 2019 was a typical year before the pandemic hit the economy of Bangladesh. COVID-19 was first detected on March 08, 2020. A nationwide lockdown was imposed to curb the spread of COVID-19 by the last week of March and withdrawn on May 31, 2020. Data for the month of February has been taken as it was the month before COVID-19 was detected in Bangladesh. The month of March has been considered as the detection period, while data from April has been taken to have an idea of the sales revenue during the lockdown period. The account of June's sales revenue was considered to analyze the SMEs' rebounding situations.
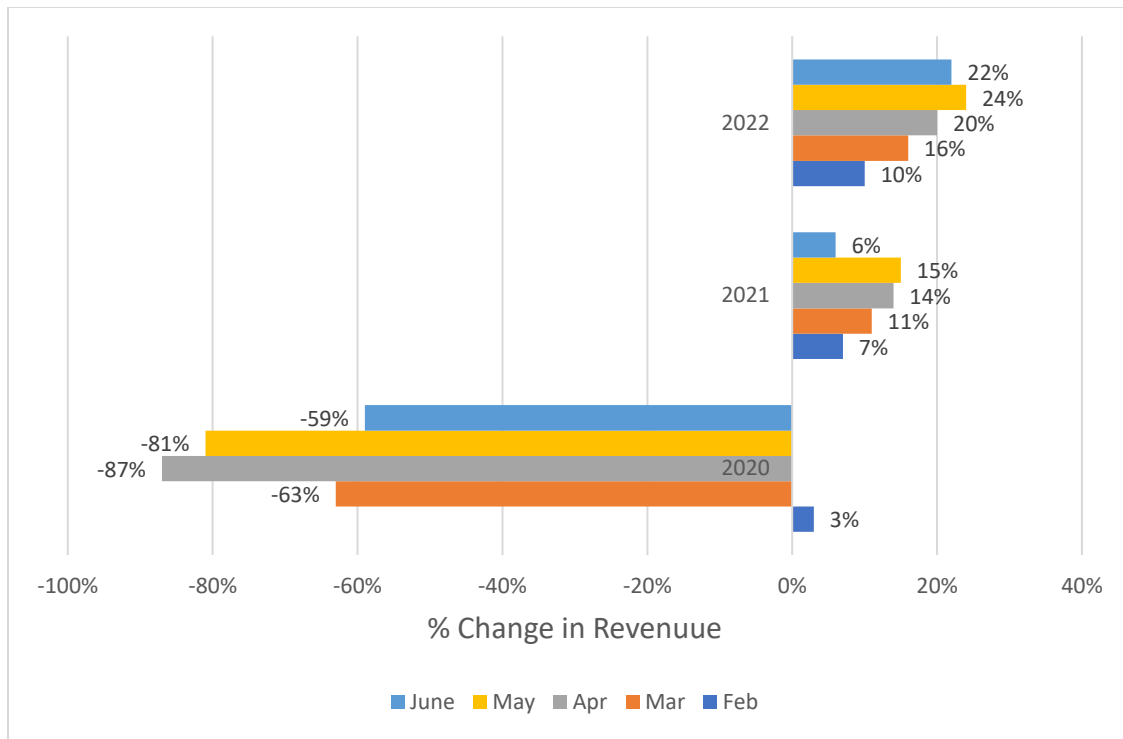
Figure 2. Month-wise change in revenue compared to 2019

As the chart shows, in 2020, the month of February's average sales revenue increased by 3% from 2019 to 2020, thanks to the 'National Jute Fair 2020' and 'National SME Fair 2020' within a month. Then, due to the continuous cancellation of export orders, postponement of different national programs in March, and panic among the people regarding COVID-19, sales dropped by more than 60% compared to the previous year. During the complete lockdown, revenues continued to decrease compared to 2019. After the lockdown was withdrawn on May 31, the scenario in the month of June became better compared to the previous three months, but the figure was much less (59%) than that of 2019.

Businesses have been found to recover the losses and enjoy growth in the same months of 2021. Revenues went up by 14% and 15%, respectively, during April and May of this year due to normal activities and two major cultural and religious festivals of the country. The same thing happened during the specified months of 2022 as well. Revenues have gone down after June due to incidents like price hikes, fuel, electricity cutdowns, potential risk of a recession which do not have a direct relation with the COVID-19 pandemic.

4.3 Disbursement of Stimulus Package

A stimulus package worth Tk 20,000 crore for the MSME sector was announced in 2020. Banks were allowed to charge a 9% interest rate while the borrowers got the loan at a 4% interest rate. The government came forward with the remaining amount (5%) as an interest subsidy. SMEs had to prove that they faced loss due to the pandemic to get the loan. Their previous year's financial statement also needed to be submitted. One of the conditions of the loan was that it could not be used to pay out other loans. Expansion of business activities or starting a new business was also prohibited. The goal was to ensure that this loan gets utilized as working capital only.

Among the 265 enterprises, almost all were faced with losses. But only 58 got the loan from the stimulus package. The enterprises that received the stimulus package's money informed that this package's money had been given to them, adding to the previous loans. The SME foundation helped some of the enterprises in getting loans.
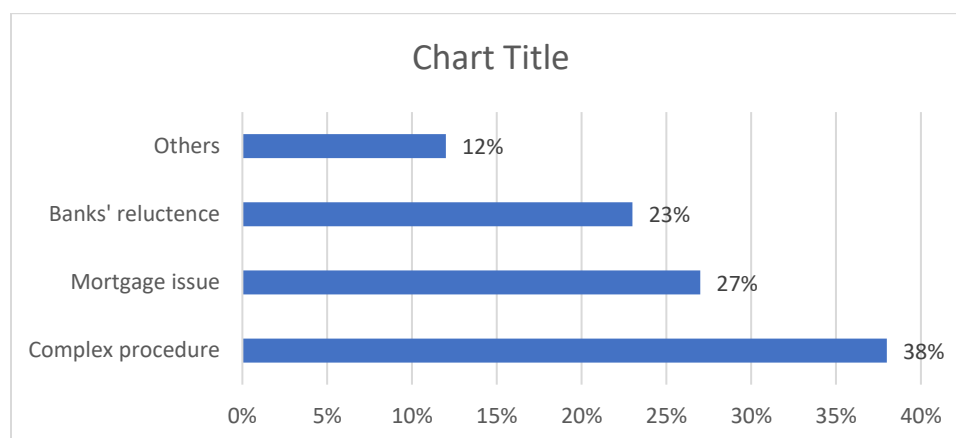
Figure 3. Issues faced by enterprises to get a loan from the stimulus package

Some of the non-recipient enterprises did not apply for the stimulus package due to complex procedures. Moreover, some of the enterprises did not apply to avoid the burdens of different debts. The owners' association of some enterprises either were unaware of this package or did not play any active role in getting the loan. Some SMEs were deprived of this package money because they did not have any mortgages. Some of the enterprises alleged that the package amount was minimal for their enterprises. It failed to cover their costs. Few award-winning national entrepreneurs did not receive the money due to mortgage issues and non-cooperation from the banks.

5. Conclusion

This study aimed to investigate the impact of COVID-19 on businesses and employment related to SMEs in Bangladesh, the extent to which they have coped with the situation, and the role of the stimulus package in the survival and recovery phase. As a byproduct of this work, potential loopholes in the existing banking system for SMEs were expected to be exposed from the receivers' end.

It has been found that the pandemic took a heavy toll on almost all SMEs in terms of revenue and employment. Salary reduction was more common that laying off employees to curb losses. Many firms adopted both strategies to survive. Average revenue during the lockdown period went down by as much as 87% in the worst case. But most of the enterprises started to recover and see growth compared to the year prior to the pandemic. The average revenues of the firms are up by a maximum of 24% during major festivities in the year 2022. The enterprises welcomed the stimulus packages but had mixed responses regarding the disbursement of loans. Despite having a good reputation and recognition from the authority, many failed to get a loan due to mortgage issues. The process of applying for the loan and getting it was found to be complex by some, while banks showed reluctant attitudes towards many SMEs.

To save this critical sector from future economic shocks and make SME loans easier to get for enterprises, a compact plan should be made and implemented. As it has been observed, the country's existing commercial banks have not been able to meet the need properly in the disbursement of the stimulus package. The necessity of a separate state-owned specialized bank for the SMEs of Bangladesh has been felt in this situation. The SME Foundation can assist this bank.

Digital financing systems can play a vital role in such situations. A database consisting of the digital footprints of SMEs should be used. They can help to reduce the SME financing gap and enable smaller enterprises to look for alternative sources of funding. Enhancing the skills of the workers in the SME sector and transforming to a digital platform will surely minimize the losses in case of any impending shocks in the future.

There is no alternative to keep an emergency fund maintained by the government for this sector against any kind of economic shock. To achieve and continue the GDP growth of 8% and to achieve the goal of becoming a developed country within 2041, special attention needs to be given to the SME sector, and appropriate policies and initiatives need to be taken.

Finally, this study is based on primary data collected from a limited number of SMEs. Moreover, revenue data from five months from four consecutive years may not represent the actual summary of the situation they have been through. To get the overall scenario of the SMEs and how they have faced the challenges during the hardest times and coped with the situation, a further comprehensive study is to be done on a larger scale.

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