

Impact of Covid-19 in SMEs of Bangladesh: A Pre and Post Pandemic Performance Analysis

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The purpose of this review article is to analyze the pre and post-pandemic problems of SMEs in Bangladesh. Before the pandemic of Covid-19, access to formal credit, lack of skilled manpower, high operating cost, low-quality products, lack of financial literacy, etc., were the key impediments to the growth of SMEs. After this global pandemic SMEs are facing a capital shortage, higher operational cost, workers lay off. Analyzing the previous paper on SMEs and using the secondary data from various sources we found that the SME sector requires a new dimension of a policy framework to bring post-pandemic economic resilience. Proper usage of government stimulus funds must be emphasized to keep the SMEs into the business. Addressing those problems this paper suggests, enhancing access to SME finance through a digital payment system like - Nagad, Bkash, Rocket may be a helpful tool. Also, providing managerial training to entrepreneurs, training for workers, arranging product fair, seeking new markets, incorporating microfinance will be fruitful to resolve the problems.

Keywords: COVID-19, SME finance, MFI finance, Economic resilience

INTRODUCTION

Small and Medium Enterprises (SMEs) are one of the major sources of economic growth and development. Globally SMEs are considered a key source of innovation and entrepreneurship. The recent economic growth of Bangladesh is laid on the progress and flourishing of SMEs. The economy of Bangladesh has faced a structural change from agricultural-based to industrialized, manufacturing, and serviced sector-based, SMEs contribute most in this case. The relative

share of SMEs in the manufacturing sector is much higher and it is estimated to vary between 45 to 50 percent totaling value added by the manufacturing industrial sector (Alauddin & Chowdhury, 2015). 80 percent of industrial employment comprised of SMEs. Their contribution to export earning varies from 75 to 80 percent. Around 31 percent of the country's GDP comes from the industrial sector which is generally connected with SMEs. About 60 - 65 percent of SMEs are located outside metropolitan areas of Dhaka and Chittagong

(Ministry of Planning, GoB). To achieve sustainable development goals, SMEs can be a playing card for Bangladesh but due to several issues this sector is facing lacks difficulties to grow. SMEs have limited access to financial resources. Around half proportion of SMEs do not possess access to formal sources of raising finance (Raihan, 2001). Banks and other financial institutions are not interested in providing loans to SMEs because of the high risk and uncertainty associated with this. Further, the problem is going to be more acute shortly as the banking sector of Bangladesh is facing a lack of cash liquidities and overdue loans. According to Bangladesh Bank (2019) report, the total amount of outstanding loan was TK 10.18 trillion out of which TK 943.31 billion was classified as a nonperforming loan. It indicated the fragility of the banking sector.

Another component of the story originates with the onset of Covid-19. The virus induced disease promulgated a slowdown of global economic growth projecting the world economy towards a massive economic crisis. Bangladesh, being dependent on export-oriented and remittance earnings is already started to feel the heat of the global economic crisis. According to ILO (2020), more than 25 million people will lose jobs all over the world. ILO estimates the loss of workers will be \$860 billion to \$3.4 trillion by the end of the year 2020. This will

hugely affect the business and economy. Bangladesh's government has taken some steps to tackle this situation. The government of Bangladesh (GoB) has announced some stimulus packages to revive the economy. These stimulus packages will be transmitted to the beneficiaries through the banking channel. As the banking sector of Bangladesh seems to be more fragile it will create more uncertainty to use the available funds of these stimulus packages. Tk 20000 crore has been allocated for the SME sector from the stimulus package, but banking has been always reluctant to finance SMEs, it will surely raise questions on the benefits of this monetary injection. During and after the pandemic the dimension of the SME financing will be changed. Therefore, it is necessary to identify the possible gaps and opportunities to finance the SMEs. Addressing the economic importance of SMEs, this paper will analyze the context of SMEs in Bangladesh during this pandemic. As SME finance has always been an issue, with the help of secondary data and considering the previous works in this paper, we will seek the action which may be useful for SME financing.

RESEARCH RATIONALE

SMEs will be hugely affected by this global economic crisis. As 4 out of 5 jobs in Bangladesh are linked to the industrial sector it is important to look into this matter profoundly.

Financial constraints will be more acute shortly for SMEs. Though the Bangladesh government has announced to finance the SMEs with TK 20000 as working capital with a 9 percent interest rate in which the government will subsidize 5 percent of the interest rate and 4 percent interest rate will be paid by concerned firms and industries. This mechanism may not be appropriate as the government chooses this fragile banking system as a solo instrument. Post pandemic SME financing will require new strategies to bring the economic resilience. Therefore, it requires new strategies to finance SMEs in post-pandemic situations.

LITERATURE REVIEW

Financial constraints and a lack of financial resources are major impediments toward SME's development. Raihan (2001) found 50.53 percent of SMEs have no access to the formal source of finance. 35.79 percent can enjoy formal credit opportunities. Around 59.6 percent of SMEs seek finance for their working capital needs from banks, although only half of them make it. SMEs get low distribution of loans than industrial loans (Bosri, 2016). Chowdhury & Ahmed, (2011) tried to identify the problems and prospects of SMEs in Bangladesh. They observed non availability of adequate credit, paucity of working capital, poor salary structure, lack of coordination

among SME related organization, inadequate infrastructure is common in almost all types of SMEs. Hasan and Islam (2008) found that usually, banks are not interested to provide loans to SMEs. The reason finds this conservative view is the high risk associated with SME business. Rouf and Islam (2015) directed an analysis to assess various respondents about the significance of SME service by categorizing them on the basis of occupation and gender. The data was collected with a planned questionnaire by utilizing direct interview method. The result from the collected data shows that a large portion of the respondents (i) oppose to the terms of SME loan (ii) suffer due to complex application and dispensing system of loan and (iii) cannot afford high charges of interest. The authors concluded stating dissatisfaction of the respondents implying to the fact that SME Banking services are not fit for addressing the clients' needs. It requires proper measures for improving SME Banking administration as soon as possible. Describing the role of Bangladesh Bank (BB) in support of SME Finance in Bangladesh, Aziz and Siddique (2016) stated that favorable SME strategy support alongside a good administrative system can be a route toward sustainable SME development. BB with the support of the government of Bangladesh have together taken various steps for the

advancement of SMEs with special interest on women entrepreneurship. However, the anticipated outcome from BB needs support from non-financial businesses like, innovation boost, advertise development, rise and advancement in productivity and so forth to quicken SME development and expand budgetary incorporation of the private sector in Bangladesh. A study by Islam and Rahman (2015) identified the development of SME sector and the present position and contribution of the banks. The study concludes agreeing to the fact that even though SMEs could have played a vital role for sustainable industry development and economic growth, Bangladesh could not successfully derive the benefits out from this sector. Banks being the largest source of financing SMEs, are not interested to support SMEs with loans due to occasional complications in repayments. With an aim to investigate the prime constraints for SMEs in Bangladesh, Zaman and Islam (2011) conducted a study that suggests that the first step before implementing policy for mitigating the constraints of the SMEs, it is necessary to update data collection. Furthermore, in addition to updating existing policies, the institutions should be divided into finance, technology and skill development. Public private partnership (PPP) should be explored more for finding better scopes of developments. Maniruzzaman

(2017) investigated the required working capital by the SMEs as well as the constraints faced by the SME entrepreneurs for getting finance. The study suggested that with proper access to finance from banks with comparatively lower interest rate, SMEs can boost up and contribute to GDP, per capita income, standard of living and creation of employment opportunities.

Alamgir (2014) conducted a study with objectives to observe the role of SMEs in the economy, to explore the framework and issues regarding SMEs, to identify the current situation and constraints in financing that is hampering the way of sustainable development of the SMEs. The study states there should be easy access to information, counseling, finance, technical support and promotion for the SME entrepreneurs to achieve sustainable growth in this sector. Taking the role of SMEs in the economic growth of Bangladesh, Alamgir (2015) in his study stated that there should be easier and cost effective access to finance for the SME entrepreneurs. This paper suggested that SMEs in Bangladesh can perform better if they can recreate the practices of SMEs of the developed countries. Implying the realistic and applicable suggestions can lessen the financing constraints for the SMEs and also ensure efficient utilization of fund leading to ultimate sustainability of SMEs in Bangladesh. Analyzing the existing literatures, it is clear that

the main constraint of SME development is the financial constraint, along with easy access to information, lack of managerial skills, technical support and poor infrastructure. In this paper we want to investigate how these problems are affecting the SMEs during this pandemic and will sought out post pandemic solutions for this.

RESEARCH METHODOLOGY

Data have been collected from the secondary sources for the analysis. We collected data from different governmental organizations, research articles, daily newspapers, various non-government

organizations. This study aims to provide a qualitative research. Hence, this study analyses research articles, newspapers, reports, websites on the effects of COVID-19.

Classification and Definition of SMEs in Bangladesh

According to ADB (2004), the total number of SMEs is estimated to be 79,00,000 establishments of which 93.6 percent are small and 6.4 percent are medium. Bangladesh Bank refers to small enterprises as firms/business are not a public limited company and follows the following criteria (Table 1).

Table 1

Small Enterprises

Serial no.	Sector	Fixed Asset other than Land and Building (in TK)	Employed Manpower (not above)
01	Service	50,000-50,00,000	25
02	Business	50,000-50,00,000	25
03	Industrial	50,000-1,50,00,000	30

Source: Bangladesh Bank

Medium Enterprises are referred to firms/business which are not a public limited company and follows the criteria as provided in Table 2. This criterion involves evaluation of an enterprise from the twin perspectives of Fixed Assets deployed (other than land and building) and the level of Employed Manpower in the

business. These limits have been scientifically devised so as to provide adequate benefits to the emerging ventures while excluding the wealthy and the established businesses out. Such evaluation assists in solving the problem of the crowding out effects and provide more visibility to the emerging businesses in the economy.

Table 2*Medium Enterprises*

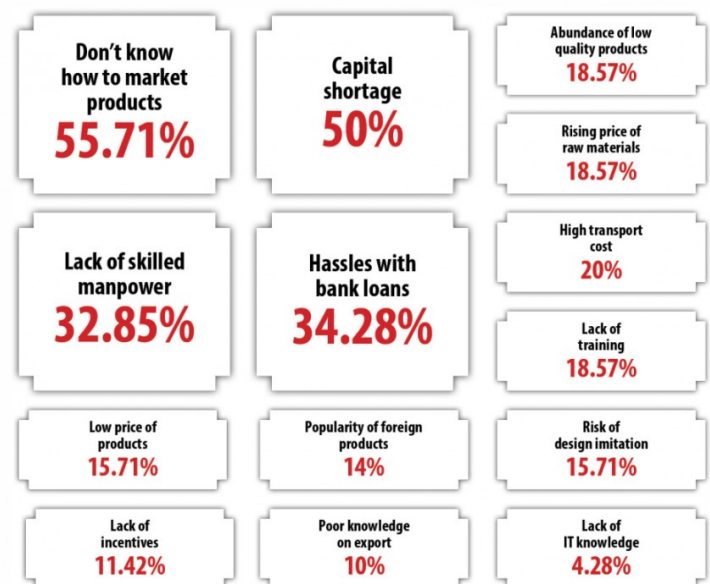
Serial no.	Sector	Fixed Asset other than Land and Building (in TK)	Employed Manpower(not above)
01	Service	50,000-10,00,00,000	50
02	Business	50,000-10,00,00,000	50
03	Industrial	1,50,00,000-20,00,00,000	150

Source: Bangladesh Bank

RESEARCH ANALYSIS

COVID -19 become a severe threat to the global economy. Almost every country is affected due to lockdown. Global output has fallen. Emerging markets and developing countries will be hit most during this time. Four out of five jobs are affected by this pandemic (IMF, 2020). Bangladesh has an economic growth rate of 8.5% has been also affected. As the country's huge labor force works in the industrial sector, lockdown and economic crisis cause them to lose their jobs. According to a survey (before pandemic) by Daily Star (2019) have identified several problems in SME sectors. 50 percent of the total response says that they face capital shortage and 55.71 percent of firms do not know the marketing process of their products. Here lack of manpower and hassles with bank loans still comprises significant firms. After the lockdown global supply chain has been disrupted. Although SMEs face a high price of raw materials it is

going to be more acute in upcoming days due to economic slowdown. The high cost of operation (transportation cost, low price of products) is another problem for firms to stay in the business.

Figure 1*Different problems of SMEs*

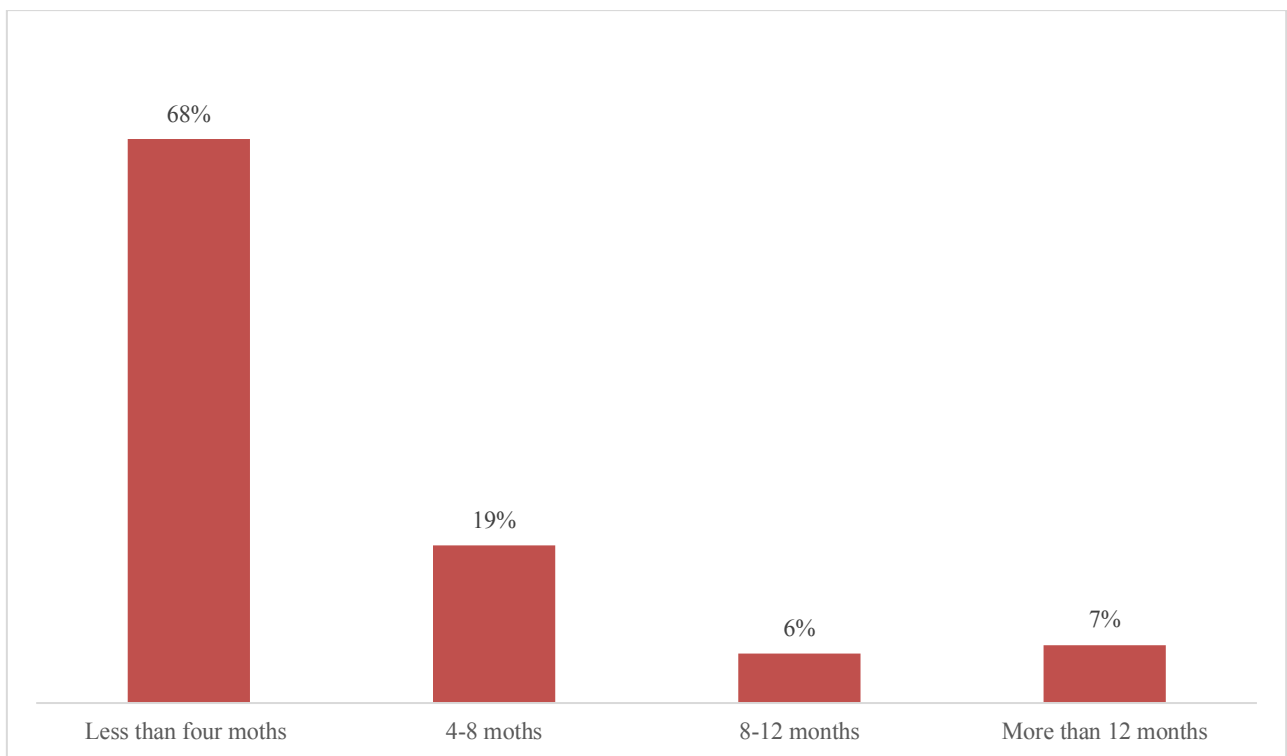
Source: The Daily Star, available at <https://www.thedailystar.net/business/news/problems-smes-face-bangladesh-1768354>

Another recent study by Light Castle Partners and Sheba.xyz (2020) on 230 SMEs over 8 divisions of Bangladesh observed the cries of SMEs during this pandemic. Agriculture, poultry, dairy, fisheries, jute diversified product, retail stores, food processing, & services (tailoring, electrical, laundry, mobile recharge & MFS shop) were selected randomly. The research indicates some insights like – Half of the respondents completely shut down their business. Cash reserves are fading over time. Service industry

took a heavy shock due to lockdown, 27% of service sector business had been shut down while it is 25 percent for manufacturing and business sector. 68 percent of SMEs will not be able to survive more than four months (Figure 2). 46 percent of SMEs will have to lay off more than 50 percent of workers (Figure 3). Around 70 percent of SMEs seek working capital. Mostly service sector enterprises are seeking soft loans at the lower interest rate. (Figure 4)

Figure 2

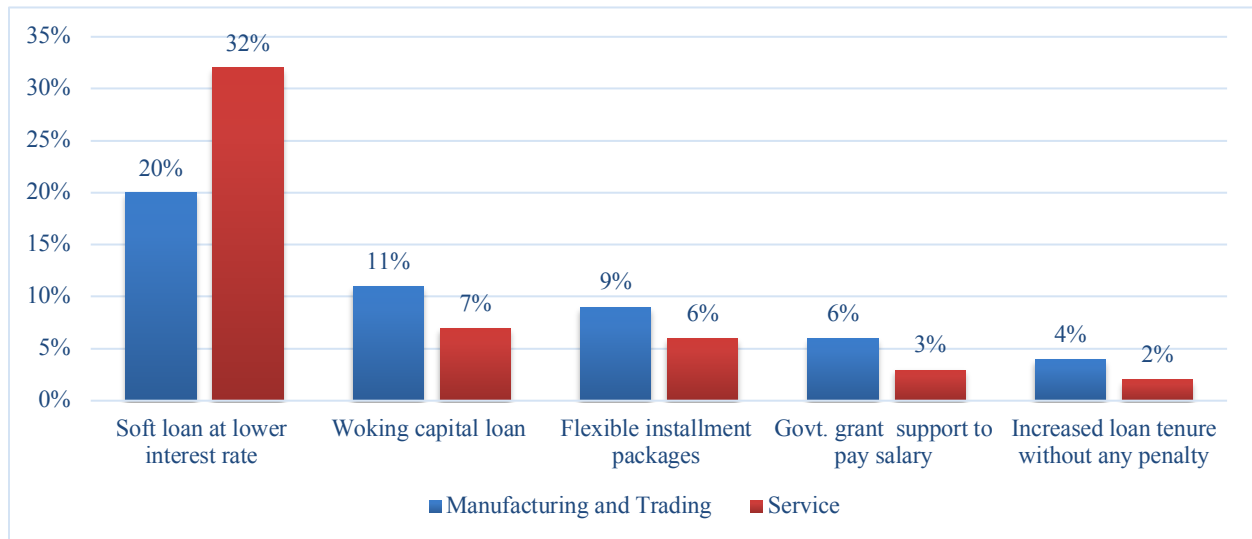
Survivability of SMEs



Source: LightCastle Partners and Sheba.xyz Primary Survey conducted on April 6-8, 2020 (n=230)

Figure 3

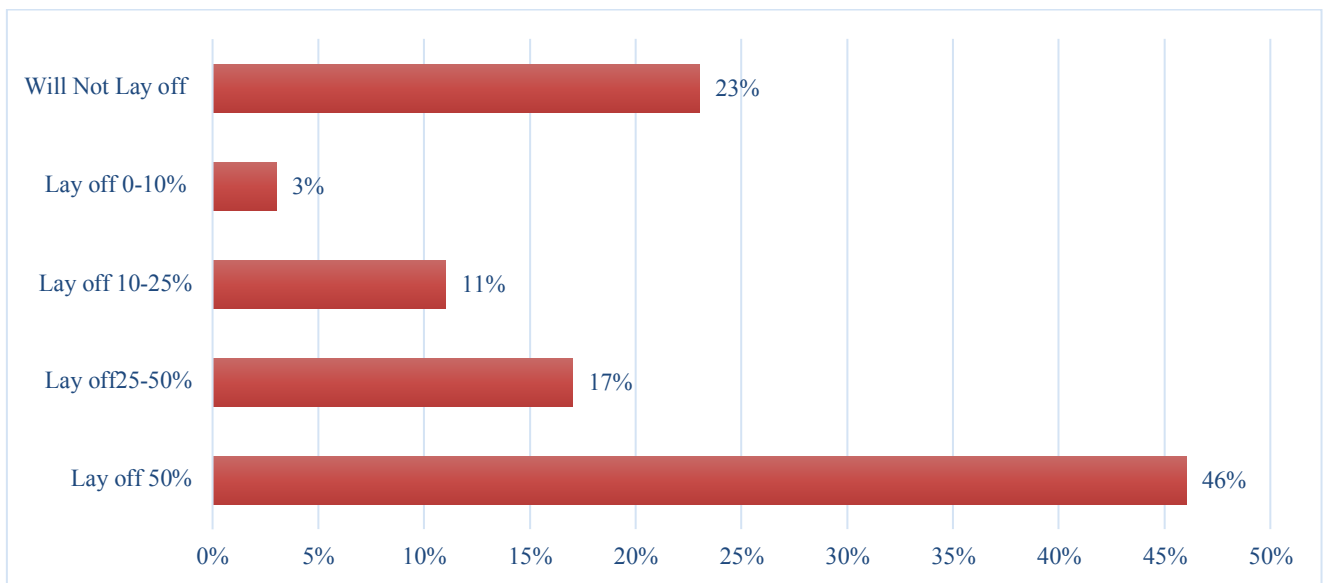
Possible workers' layoff by SMEs



Source: LightCastle Partners and Sheba.xyz Primary Survey conducted on April 6-8, 2020 (n=230)

Figure 4

Different Loan Demand by SMEs



Source: LightCastle Partners and Sheba.xyz Primary Survey conducted on April 6-8, 2020 (n=230)

As the government has planned to allocate TK 20,000 for the SME sector, and this money

is going to be circulated through the banking sector. The problem arises here. In recent years

we have seen default loan issues and a fragile banking system causes a bubble in the economy. The banking sector has failed to provide enough transparency in providing loans. From the current practice and previous experiences, we can say that it will be much more difficult for SMEs to get loans from banks. Moreover, the current stimulus package is going to be transmitted through the banking channel and its bank will be providing loans to their graduate clients. Besides banking sector is going through a liquidity crisis and it will not provide loans without any guarantee from the clients, but these SMEs depend on short-run cash and asset, therefore most of the SMEs will fail to attain the borrower eligibility criteria of banks. This Study shows that pre and post-pandemic performance of SMEs consists of some common challenges like –

Access to formal credit: Previous studies (Raihan,2001) have argued that the major problem of SMEs is the lack of access to formal credit. During this pandemic, this situation will get worse if these small firms and enterprises don't get enough capital funds. From a recent study, it is clear that many small firms and enterprises have already shut down or on the verge of shutting down, and to continue operation they require short term capital support.

High operating costs: SMEs have high operating costs than large -scale firms. During this pandemic, they have failed to earn revenues and it puts pressure to cover their fixed costs. Most of the SMEs will not be able to survive if it continues to operate with these high-cost issues.

Lack of skilled manpower: SMEs consist of the high unskilled labor force. The problem has become more acute with laying off workers. Due to the lack of skilled manpower, these firms will have to bear the burden of productivity loss

Lower price and demand for the products: Our previous study shows 15.71 percent of SMEs faced low demand and price for their products. Due to the global crisis, most of the people are facing a drop in their income, therefore it may reduce a further drop in the demand for and SME products and their respective prices. Hence, the small firms will face low demand and price and will not be able to cover their costs.

As these SME firms highly depend on capital funds, the current situation requires proper and adequate funding opportunities to stay in the business. Moreover, these impediments will create challenges for SMEs in future operations. Proper implementation of government funds can be a viable solution to these constraints. Bangladesh government has

selected the banking sector to transfer this TK 20,000 crore stimulus fund to finance SMEs but this may not come handy as SMEs are facing constraint to this formal financing. Besides, as SME business concerns with high risk, banking sectors will not provide loans to the clients with appropriate measurements. The government can introduce a direct digital cash transfer program through Nagad, Bkash, Rocket, etc. to the most affected SMEs by setting a regulatory authority and policy framework. SMEs have a lack of financial knowledge. Modern business decisions require managerial skills in marketing, finance, planning but these managerial capabilities are very hard to find in SME entrepreneurs of Bangladesh (Alauddin & Chowdhury, 2015). Therefore, they are likely to be unable to absorb market shock. Post pandemic financial literacy will be required to stay in the business. Poor financial knowledge of entrepreneurs will further impose a threat to the survival of the firms. Emphasizing and providing training on financial and managerial capabilities is highly required for SMEs. Unskilled workers are common in SME firms. Firms also face problems in technological advancement (Rahman & Mahmood, 2007) Due to low skilled labor small firms cannot produce high-quality products and therefore it faces market constraints to sell and export the products. Workers training programs must be

prioritized. Microfinance is regarded as a useful tool in many countries. The post-disaster role of microfinance was very effective for entrepreneurs. In Bangladesh microfinance is also very much popular. Past studies on the role of microfinance show a very significant in bringing economic resilience after any natural disaster (Becchetti & Castriota, 2011; Briceno, 2005). Microfinance may be a helpful tool to provide a direct cash transfer program to the effected firms (Toth, 2020) but in Bangladesh, there are institutional and policy gaps to establish a bridge between SMEs and microfinance (Hasan & Islam, 2008). To bring economic resilience, microfinance and SME financing should be brought under a national policy framework. After pandemic SME products will face constraints to capture the attention of potential customers. Hence the products need good exposure to the buyers. Arranging product fairs, seminars, workshops on product development, and seeking potential markets will be effective for the entrepreneurs.

RESEARCH LIMITATIONS

This study is based on analyzing some existing literature and secondary data. Various newspaper articles have been observed to collect data and information. The study postulates a qualitative research based on the available information in current time. Most

advanced research can be done in this sector to find the appropriate policy for SME growth.

CONCLUSION

Most of the small and medium enterprises provide support to our informal economy. These SMEs are a key element of creating jobs and employment in Bangladesh. Recent economic shock imposes a threat to the existence of these SMEs. Lack of financial resources is the major problem of SMEs. As SMEs are mainly dependent on short term cash or liquid assets, fall in product demand, supply chain disturbance, high operating cost will push the SMEs to be out from the business. Therefore, to ensure economic resilience during and after this pandemic proper policy and short term cash transfer program is highly required. The banking sector of Bangladesh is not enough to provide support to these SMEs. Banks will provide loans to their graduate customers. As most of the SME businesses are at a high-risk bank will not provide enough loan opportunities after the pandemic. With unskilled labor, high cost of operation, lack of credit opportunities are SMEs are facing threats. Digital and direct cash transfer program, ensuring managerial training, training for the workforce, arranging product fair to seek potential buyers and markets may come handy to solve the problems of SMEs.

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