

# Impact of COVID-19 pandemic on micro, small & medium enterprises (MSMEs)

Bangladesh Report

September 2020



## MSMEs during COVID-19

CHAPTER 1.  
Recommendations

CHAPTER 2.  
Impact of COVID-19 on MSMEs

CHAPTER 3.  
Coping strategies of MSMEs

Annexes



# Bangladesh report

Provides a detailed country-level view\* of the impact of COVID-19 on MSMEs, their coping strategies and recommendations for policymakers and financial service providers to support them

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\*Our study primarily focuses on the micro and small enterprises in Bangladesh. The research findings may not be valid for medium enterprises.



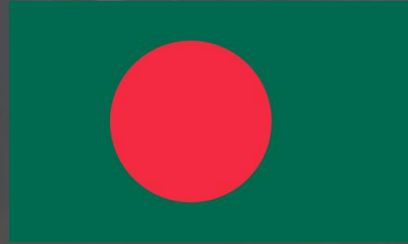
## MSMEs during COVID-19

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## Bangladesh

At the time of data collection (April-May, 2020), the Government of Bangladesh exclusively allowed businesses classified as “essential services” to operate for limited hours. Government announced “general holidays” from March 26, 2020. All other businesses were shut. Therefore, in our sample, 69% of businesses, largely dealing with retail trade in essential commodities, were operating while the remaining 31% were shut.

# Increase access to proven lending models: SME Foundation's credit wholesale program and salary advances to the staff members of MSMEs

## Measures to expand access to unsecured loans

### Key insights

- Many MSMEs are unable to offer collateral to access loans
- Potential loan default is a big concern for banks in designing any credit-based package for MSMEs

### Recommendations

**1** Banks may consider replicating the "Credit Wholesale Program (CWS)" of SME Foundation. Under the program, banks offer unsecured group-based loans (five firms form a group) in MSME clusters. Loans under the CWS program have a repayment rate exceeding 95%.

**2** The moratorium period for the stimulus loan may be extended to one year to ensure enterprises have enough time to resume their production and start earning. Banks should expand the moratorium across intermediaries, banks, as well as NBFCs.

## Measures to provide support to the MSME labor force in the long run

### Key insights

- 96% of MSMEs reported a decrease in income. Notably, the MSME sector employs more than 40% of the labor force in Bangladesh.
- The RMG sector could successfully deliver wage payment in the MFS accounts of RMG workers using the sanctioned loan under the government's stimulus package.

### Recommendations

**1** Given the high labor force in the MSME sector, the Bangladesh government can sanction fresh stimulus loans and allocate an appropriate portion (of total expenses) to pay the wage bill for up to six months across sectors (RMG and the leather industry, among others). Wage bills can be disbursed directly to the employees' bank or mobile account in the long term. This will decrease the possibility of any leakage from the relief and the government can monitor the salary advance initiative and layoff situation.

# Need an integrated effort to formalize the informal economy—the spectrum where most of the microenterprises belong

## Measures to increase the formalization of enterprises

### Key insights

- Banks have stimulus funds for MSMEs, but cannot disburse these to enterprises without a valid trade license and tax identification number, etc.
- 38% of MSMEs are not formally registered and will be unable to reach out to banks, thus missing the opportunity to avail the benefits of a stimulus package.

### Recommendations

- 1 Involve the SME Foundation, Ministry of Commerce, and other key stakeholders, such as MIDAS to conduct enterprise mapping of MSMEs digitally to identify each business.
- 2 Union Digital Centers (UDCs) and Union Nirbahi Officers (UNO) can be used to register informal and unregistered enterprises. These bodies along with third-party agencies can be used to collect data on unregistered MSMEs at the village or block level, as an extension to registration of beneficiaries done by these local bodies for 5 million low-income families

## Measures to ensure adequate monitoring of fund disbursement

### Key insights

- There is a high risk of misuse of funds when loans are disbursed from the perspective of banks and clients.
- Already, reports of corruption at various levels—especially for the cash assistance—are all over the media

### Recommendations

- 1 The government can implement systemic changes to audit the stimulus package at the union, district, and central level. During any crisis, the MFIs offer flexibility with loan repayment and access to emergency funds. The government can consider MFIs to serve the newly formalized MSMEs, which are affected most by the pandemic
- 2 Ensure simple processes for unorganized enterprises registered formally to seek COVID-specific loan disbursement. Use this opportunity to register and monitor the microenterprises database

# Ensure access to finance for MSMEs through a range of financial institutions

Measures to boost access to finance through such as MFIs, FinTechs, and SME-focused banks

## Key insights

- ▶ While MFIs serve the micro-enterprises, small and medium enterprises are typically served by the banks.
- ▶ Because of high risks associated with these small and medium institutions due to the pandemic, the banks are unwilling to lend, which leads to serious issues around liquidity and working capital for them.
- ▶ The high cost of funds coupled with regular payment obligations have added to the financial burden of these enterprises.

## Recommendations

- 1** The government can introduce initiatives to provide interest subvention on loans and additional subvention on timely repayment, to micro and small enterprises by MFIs, thus providing enterprises access to funds
- 2** The government can allow MFIs to continue the loan moratorium on a case-to-case basis for at least another six months. This will provide MSMEs some liquidity in the short term
- 3** MFIs should develop their capacity to offer customized products to micro and small enterprises to re-build their business due to the impact of the pandemic. The experience of MFIs in Africa and India would also prove valuable for MFIs in Bangladesh to offer individual loans to enterprises.
- 4** The government can promote collaboration of FinTechs with banks to enable identification of right SMEs and supporting them in underwriting SMEs with alternate data records

# Enterprises need a cushion to bear the financial burden, which is mounting as a result of the pandemic

Measures to reduce the financial burden through an extension of tax return

## Key insights

- ▶ [The National Board of Revenue \(NBR\)](#) is not involved in the economic recovery plan at the moment—businesses are still liable for full tax, value added tax (VAT), and advance income tax (AIT).
- ▶ Some enterprises had almost zero business despite bearing the full burden of cost. Dhaka alone has approximately 10,000 restaurants that employ 300,000 people. While the businesses were shut down, the restaurants were still liable for rent.

## Recommendations



1 The government can increase the depreciation of assets for the upcoming two years, extend the deadline for tax payments, reduce penalties on late payments, defer advance income tax, ensure prompt IT refunds, and provide relief from penalties and interest for tax-related payments till December, 2020 and deferred payment of quarterly Advance Income Tax (AITs) till September, 2020.

2 Extension of VAT and income tax obligations for MSMEs with a yearly turnover to a certain level (for example, BDT 20 lakh or USD 23,588) will help reduce the immediate financial burden of MSMEs.

3 Entrepreneurs of small businesses, with monthly revenue of less than BDT 5 lakh (USD 5,897), can be considered for rent subsidy during the lockdown period.

4 The Government can set up a “[Fund of Funds](#)” initiative to infuse equity in MSMEs to ensure the survival of the sector that is at stake due to the pandemic. The initiative can also help MSMEs augment their capacity and provide an opportunity to meet operational liabilities, purchase raw materials, and restart their business.



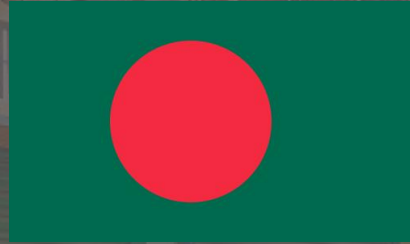
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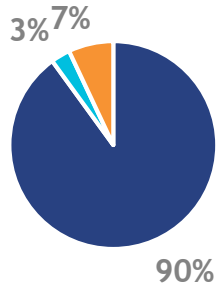
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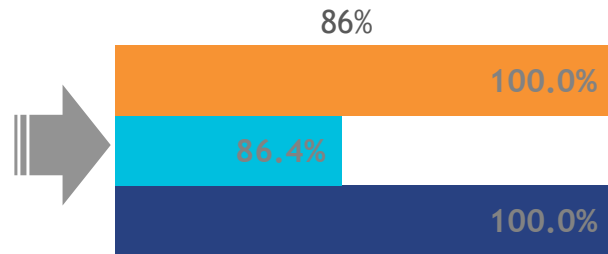
# 96% of the MSMEs reported a decrease in income due to the fall in demand

90% of businesses reported a decrease in customer footfall



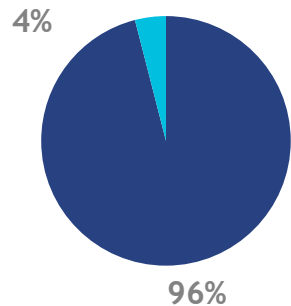
■ Decreased ■ Increased ■ Same as before ■ Rural ■ Semi-urban ■ Urban  
n=100

For enterprises that reported a decrease in the customer footfall, the decrease is of a median value of 86%



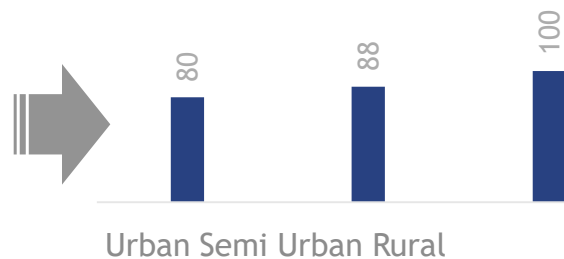
More than 95% of the enterprises reported a decrease in income

■ Decrease ■ Same as before



n=100

100% of rural businesses saw a decrease in income



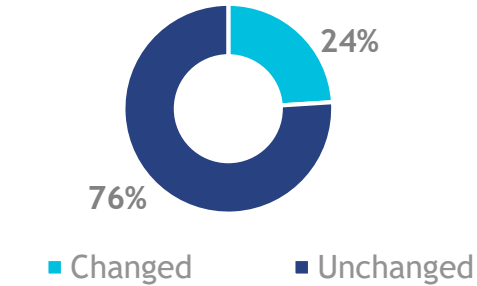
## Service enterprises were at the brink of dissolving

- 96% of MSMEs reported a decrease in income; The loss in business was in the range of 10% to 100% with a median value of 82%. Customer footfall decreased by 67%.
- The impact was most severe among service-based businesses and retailers who sell non-essential items. The most impacted retailers were from services, such as tailoring, catering, and laundry, among others.
- Owners of non-essential businesses were worried—their businesses might just dissolve if the pandemic situation does not improve in a couple of months. MSMEs and other businesses gradually opened in last three months.
- Most business owners lacked a secondary source of income—only 7% had financial support from their family in the villages in the form of livestock and agricultural lands

“Though I am in the business of something as essential as medicine and I can keep my shop open—I have lost income. Low-income people have now stopped buying medicines just to keep going”- Pharmacy owner in Dhaka

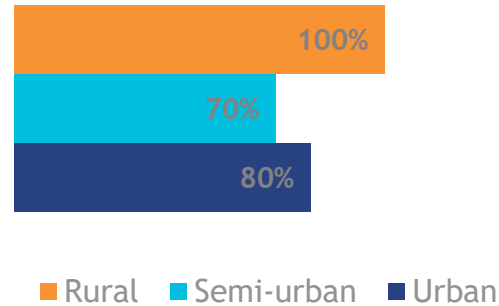
# Disrupted supply chains were making retailers go the extra mile—literally

Three-fourth of the businesses reported that supplies were unavailable

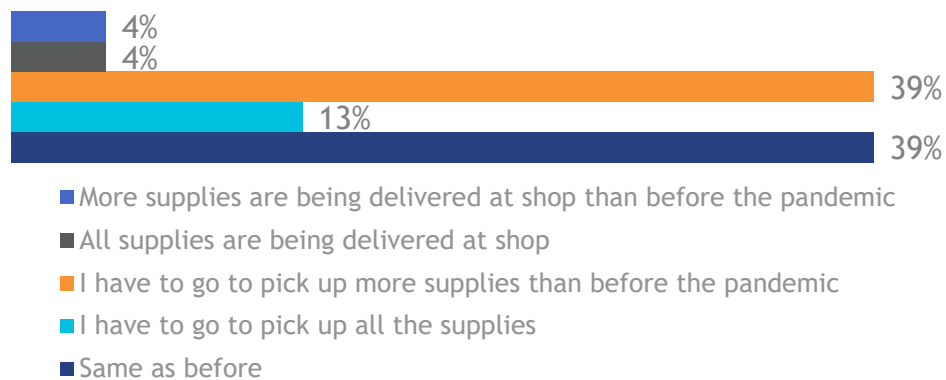


n=100

For enterprises that reported a decrease in volume of supplies, the decrease is of a median value of 71%



Change in delivery of supplies after COVID 19: 39% of enterprises had to pick up most of their supplies



n=100

## The supply chain in rural areas had suffered more

- In the rural areas, while supply was still at an acceptable level, the grocers must travel themselves to collect the supplies from the central depot.
- Pharmacy owners complained that imported medicines are out of stock as the import of medicines has stopped. Grocers shared a similar sentiment on imported food items.
- The lockdown (or closure) was less stringent in cities as compared to rural or semi-urban areas. Hence, though the same rule regarding business hours applied to both urban and rural businesses, the retailers in urban areas were able to operate for extra hours.

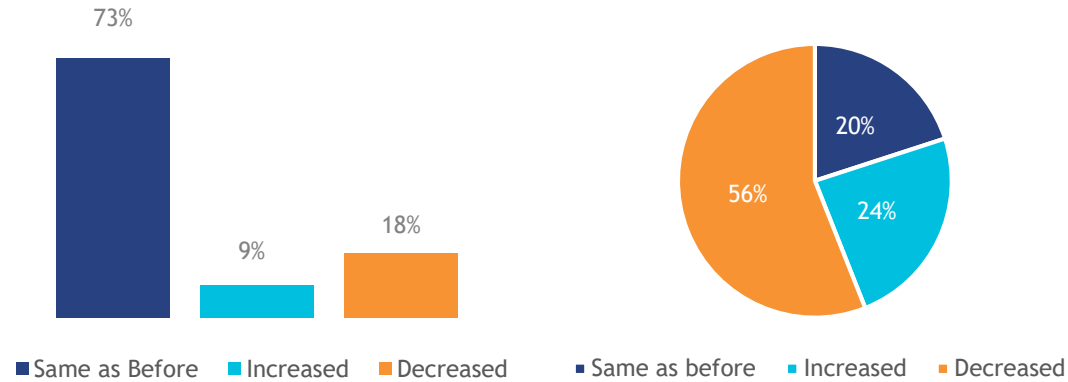
“My terms with my supplier has not changed so I still get products delivered at my store. I am being a bit prudent with the supply of non-essential items” - a grocer in Dhaka city

“Previously the distributor came to my shop and delivered the goods. Now, I am expected to go to a central depot to collect all the supplies in this difficult situation” - a grocer in a rural area, Narshindi

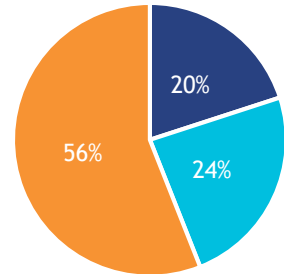
# Transport has become more expensive but businesses have saved on utility bills



Change in price of items sold



Change in credit sales



n=100

## Price of items sold

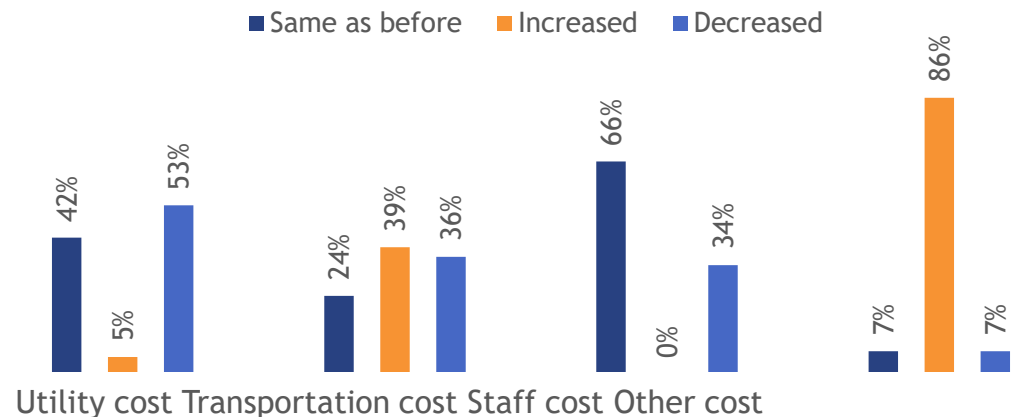
- Interestingly some urban businesses were seen selling at a higher price than before, but many rural businesses had reduced price as a result of slow sales. But for most, pricing remained consistent.
- Urban businesses have taken advantage of panic buying, which has created an artificial increase in demand for certain goods.

## Change in cost of business operations

- As a result of supply-chain disruptions, transport costs had risen. However, MSMEs had saved on utility bills due to fewer business hours and some have less staff to pay salaries to.

“I am only allowed to keep my shop open till 2 pm, which is less than half of my usual business hours—the savings in utility cost is nothing compared to the business I am losing. I do not need as many staff now but cannot fire them out of a sense of obligation.”- a grocer in Savar

Transportation costs increased as a result of supply-chain disruptions while the cost of utility decreased



n=100



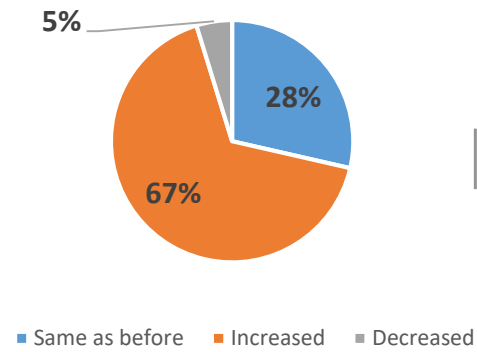
# A decline in the availability of supplier credit alongside pending receivables has hurt cash flows



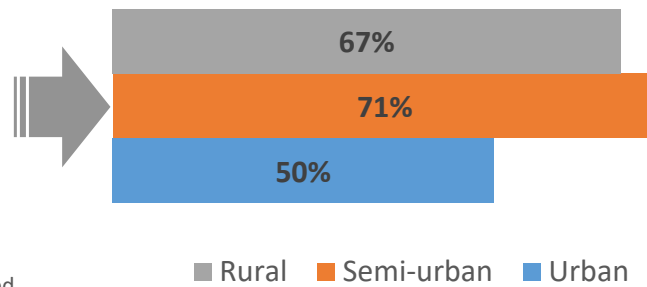
Though **28.6%** of enterprises reported the same situation as before in terms of credit from suppliers, **36%** reported facing challenges on this front



**67%** of enterprises reported an increase in the cost of supplies



Semi urban enterprises had seen higher cost of supplies compared to others



n=100

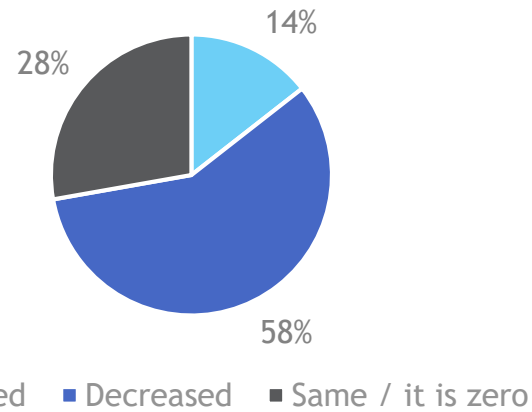
## Even suppliers did not want to risk it

- More than two-thirds of the retailers reported an increase in the cost of supply due to disruption in production and an increase in the cost of transportation. Even in urban areas, half of the businesses faced the same situation.
- One-third of suppliers did not offer credit due to the fear of not being paid by their end customers in the pandemic. It was a matter of concern that they were only in the early stages of lockdown and with continuing pandemic more suppliers would shy away from offering credit.
- Small grocers said that suppliers of essential goods, especially food, increased the prices of different products anticipating a rise in demand as a result of panicked people buying in bulk. Moreover, suppliers had stopped offering stocks on credit, which was a huge problem for the retailers.
- Manufacturing business owners had found it difficult to make loan payments in due time. Some of them also mentioned that they would need to take new loans to maintain liquidity or working capital to survive and keep the production running.

# Adverse cash flows along with increased household expenses have forced enterprises to cut down on expenses

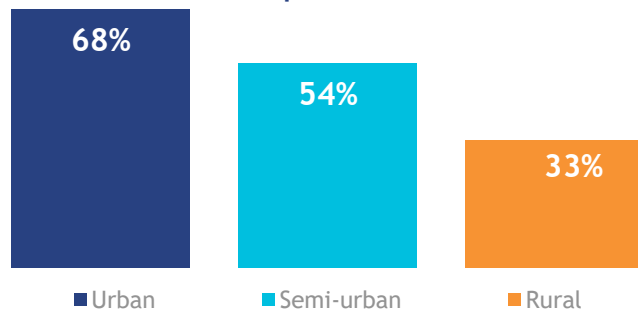


Most the respondents reported a reduction in household expenses



n=100

Interestingly, more urban households had seen a fall in their expenses compared to their rural or semi urban counterparts



n=100

## Business owners had less income at their discretion

- Reduced business income had made enterprise owners cut down on their household needs to bare necessities, which had led to a reduction in the overall household expenses.
- A portion (28%) of enterprise owners remarked their costs had remained the same even as their earnings had dropped, making it difficult to survive.

“My children cannot afford to drop out of school. Even if their father has less income now, we cannot suddenly change our behavior and learn to live without electricity” - Grocer from Chittagong

“Meat is for the rich. The middle-class people cannot afford to eat it anymore. I am incurring losses from almost no sale. As a result, I have also cut down on my household expenses”- Poultry farmer in the outskirts of Dhaka.

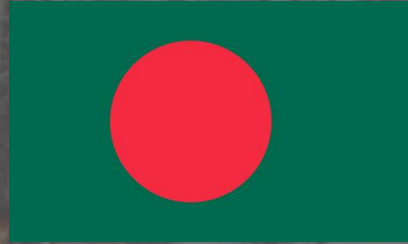
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# In the absence of any cure for COVID-19 in the foreseeable future, the uncertainty among MSMEs is palpable



## The economic damage in the sector transcends beyond days, weeks, and months

Expected time for businesses to return to normal

One month after lockdown

Months beyond lockdown

Some businesses are affected because of operational limitations, such as fewer opening hours and issues in the supply chain, among other factors. Meanwhile, other non-essential businesses are at a greater risk of permanent loss of customer base.

- **Essential businesses:** They believe as soon as the lockdowns are lifted, their businesses will return to normal within 30 days. Though some have expressed concerns that people have lost the ability to spend and that will eat up business in the long run.
- **Service providers** Many service providers are at the risk of shutting down as the demand for in-person services like catering, salons, or painters is not likely to return anytime soon. These items typically fall under discretionary expenses for customers. These enterprises expect job losses and disruption in business even when the lockdown is over.

## Back to normal in 2020?

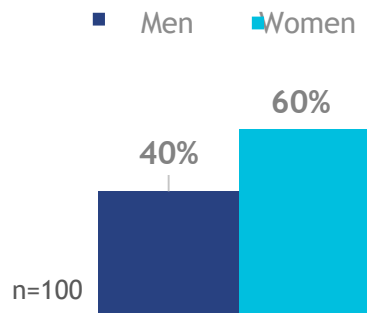
- **A tailor in the outskirts of Dhaka** noted that service-based entrepreneurs like him are the ones who have suffered a great deal in a crisis like this as there is no demand for tailored clothing even if people can afford it. People would only want to limit their spending on necessities and food supplies rather than on clothing. Furthermore, going to the tailor now would only mean taking unnecessary health risks. He also mentioned that he gets the highest number of orders before Eid in a year. The profit he earns during the festive season offsets the losses incurred if any, during the rest of the year. However, due to the limited nature of Eid celebrations in 2020, it was a difficult year for the tailor.
- **The owner of a sand and cement manufacturing unit** feared massive financial loss on goods he already sold to many construction companies on the assumption that builders would pay him after the work is completed and they are paid. If the lockdown persists, his clients would not be able to pay his dues as all development projects have been halted.



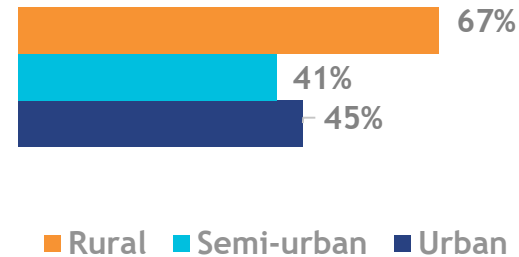
# MSMEs are yet to find a practical and effective business coping strategy

MFIs have been salvaging the situation for micro and small enterprises

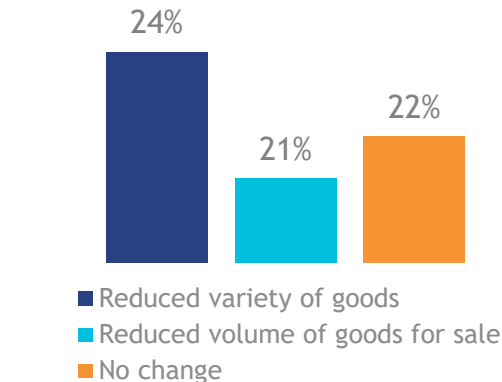
60% of women prefer to borrow to sustain their enterprises compared to only 40% of men



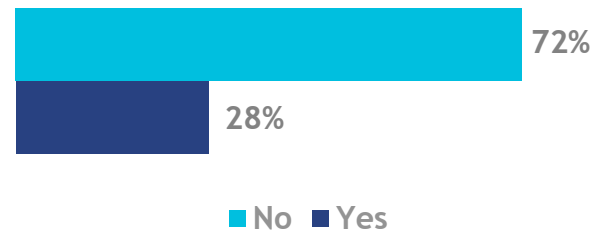
Borrowing for business is more pronounced in rural areas



24% prefer reducing variety, and 21% have opted to reduce overall stock



A quarter opted to limit their sales to specific products



## Is there scope for new possibilities?

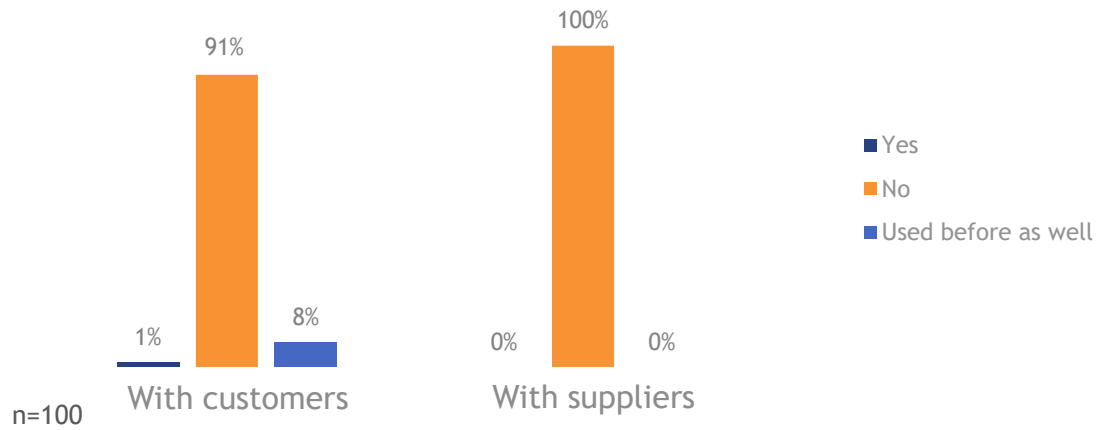
- The MSMEs are only beginning to realize that this crisis is real, and it is going to affect everyone. Until the fourth week of April 2020, the MSMEs had not planned or implemented effective business coping mechanisms.
- People in rural areas are more likely to borrow for business than those in the cities. Interestingly, women prefer to take credit more than men. This could be possibly because women have a better relationship with MFIs and cooperatives.
- Only 15% of all Bangladesh Bank refinance funds for the MSME sector has been allocated for women entrepreneurs.
- All banks and financial institutions have been instructed to consider authorizing loans for women entrepreneurs up to BDT 2.5 million (~USD 30,000) without collateral, against a personal guarantee under the refinance facilities provided by Bangladesh Bank.

“We have already planned to apply for our first loan from a local NGO. We heard that the government is also offering low-cost funds. We will definitely consider the best financial option” -A woman tailor in Savar

# MSMEs suffer the perils of being analog in a digital world

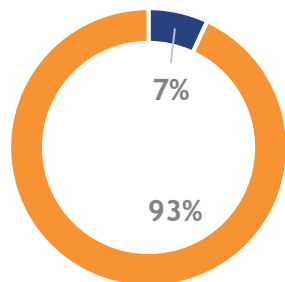


9% of businesses rely on digital media to communicate with customers—Social media adoption has not happened at any level for MSMEs



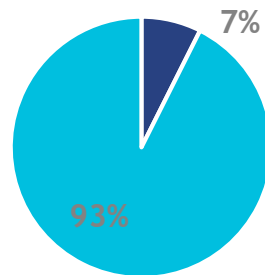
7% of entrepreneurs have established links with the e-commerce providers

■ Yes ■ No



7% of entrepreneurs have started selling new products or services

■ Yes ■ No



## Bangladeshi enterprises fail to seize the power of digital

### Low social media adoption

- No enterprises were found using social media to communicate with suppliers
- About 10% used social media to communicate with customers, but they do not see it as a strategy to cope with the situation. Considering Bangladesh has among the highest numbers of Facebook users (33 million) in the world—it looks like a missed opportunity.
- However, in India, almost a third of enterprises had started using social media, such as WhatsApp and Facebook to communicate and accept business orders during COVID-19

### Digital players do not share their pie with MSMEs

- Digital grocers have mushroomed during the COVID-19-induced lockdowns, especially in the cities. However, only 7% of legacy grocers have been supplying to e-commerce platforms

### Benign presence of digital payment among the enterprises

- For Bangladeshi MSMEs, digital payments only had a theoretical existence with lack in regular practical application for business transactions with suppliers, wholesalers, transporters, and vendors.
- Cash remains the king for entrepreneurs in Bangladesh.





# Annexes



# A herculean undertaking from the government



## Direct Cash

## Credit related (short term and long term)

### Government & Bangladesh Bank



- Prime Minister Sheikh Hasina has launched the disbursement of USD 148-million cash assistance among 50 lakh poor families hit hard amid the COVID-19 pandemic, which includes owners of microenterprises
- Bangladesh Bank (BB) announced a moratorium on loan payments until 30 September, 2020 and announced that such borrowers will not be in default.
- Nagad, a mobile financing service run by the Bangladesh Post Office, has cut down cash-out charge to USD 0.14/BDT 11.50 for small and medium enterprises (SMEs) whereas the market standard is USD 0.21/BDT 17.50.
- Banks will have to provide 70% loans of their yearly target to the cottage, micro and small enterprises while the rest 30% loans should be provided to the medium enterprises.

### Private sector



- The accumulated financial stimulus packages and relief initiatives announced, as of 14th of May, stand at almost USD 11.7 billion. Out of this, nearly 43% will be financed by Bangladesh Bank, while the rest will be supported by the country's fiscal budget. From which, around 70% of the stimulus will be disbursed through commercial banks, while 22% will be disbursed by the Bangladesh Bank.
- 27.5% of the stimulus package is directed toward SMEs
- CMSMEs are entitled to USD 2.4 billion from commercial banks as loans at a designated rate of 9%, of which the government will pay 5% as the subsidy to the banks while the borrower will pay 4% to the bank.
- Farmers who are suffering due to the lockdown will be provided loans at 4% interest from a USD 590 million agricultural stimulus package.
- Micro and marginalized businesses will also be eligible for refinancing programs of USD 354 million through MFIs.
- Banks will also be entitled to a refinance program from USD 118 million fund at 4% interest for up to 50% loan portfolio from Bangladesh Bank to provide this working capital for the next three years.
- **On 5th June, 2020**, the government has formed district committees to oversee loan disbursement activities in the MSMEs sector.

# Status of the MSME sector in Bangladesh



## Official definition of MSME\*

**Micro** Investment BDT 1 million - 7.5 million, team size: 16-30

### Services

**Small** Investment BDT 1 million-20 million, team size: 16-50

**Medium** Investment BDT 20 million-300 million, team size: 51-120

### Manufacturing

**Small** Investment BDT 7.5 million - 150 million, team size: 31-120

**Medium** Investment BDT 150 million-500 million, team size: 121-300

## Proportion of MSMEs



Number of MSME\*\*

970,431



93%



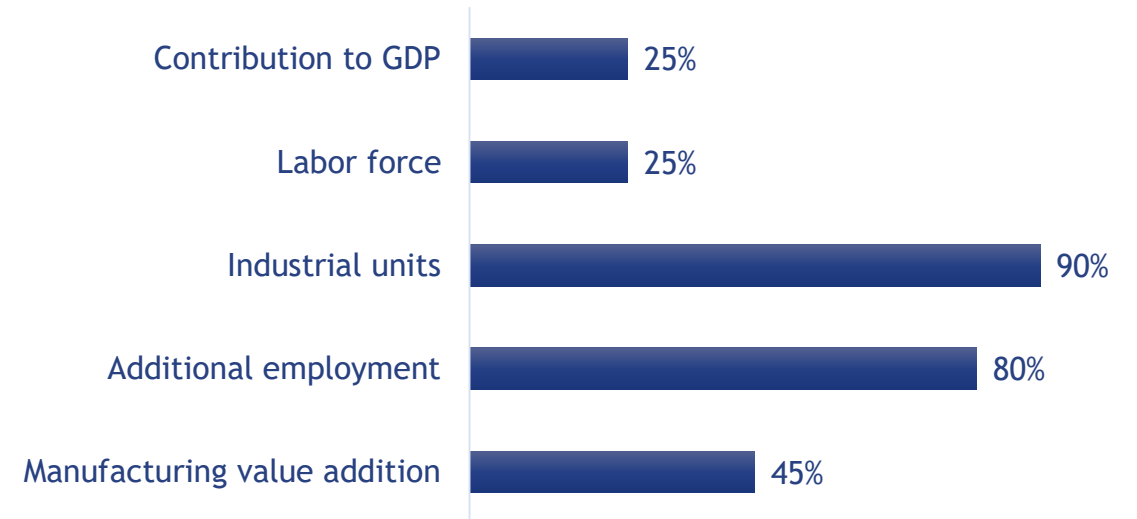
07%

Micro enterprises

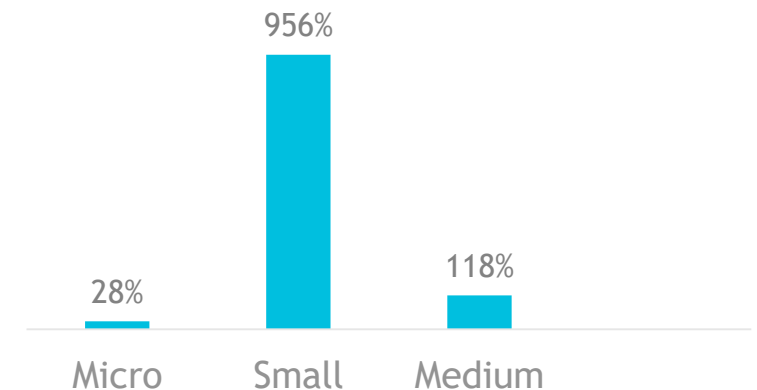
Medium enterprises

Small enterprises

## MSMEs' contribution to the economy



## Growth of MSMEs during 2003-13



\* National Industrial Policy 2016 <https://www.thefinancialexpress.com.bd/views/msmes-both-a-choice-and-a-reality-for-bangladesh-1566055028>

\*\* National Economic Survey 2013

\*\*\* Mapping the Market Potential and Accelerating Finance for Women Entrepreneurs in Bangladesh, IFC 2016

# Assessing the economic impact of COVID-19 on MSMEs



## The objective of the research



- Understand and quantify the impact of COVID-19 on MSMEs.
- Inform policy and support subsequent efforts to rebuild the MSME segment
- Assess the impact of COVID-19 on:
  - Revenues and costs
  - Supply chains
  - Business activities and product ranges
  - Liquidity management
- Explore options for minimizing threats and maximizing business opportunities
- Assess gender implications
- Understand the usage of communication channels and opportunities to be leveraged
- Understand the role of entrepreneur's networks and trust around COVID-19 and its impact on them

## Research coverage



- Research country: Bangladesh
- Locations: Rural, semi-urban and urban areas
- Quantitative sample size: 90 respondents
- Qualitative sample size: 15 respondents

## Approach



We have adopted a two-pronged approach:

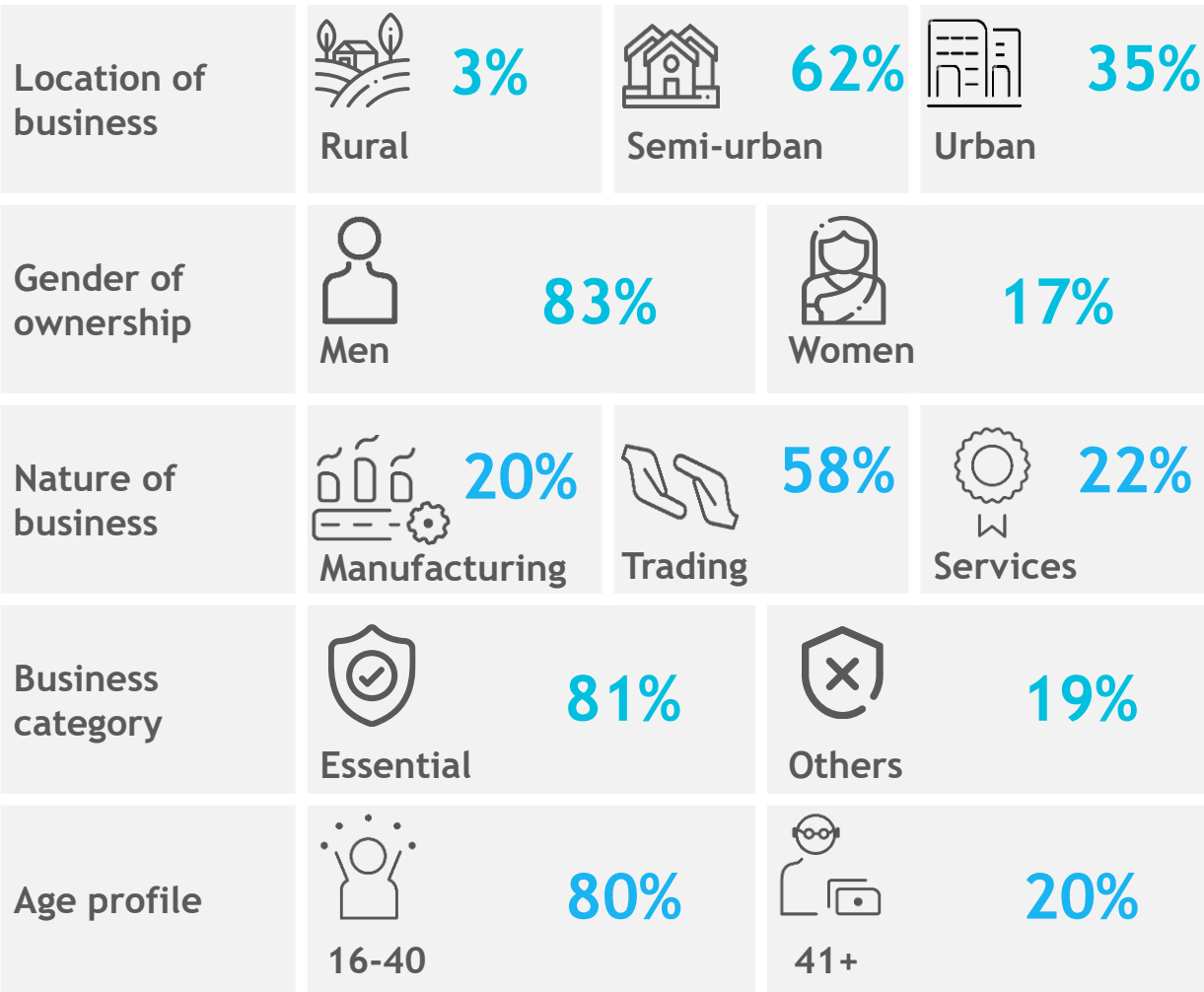
1. Quantitative survey administered by branch managers of MFIs and enumerators of survey agencies
2. A qualitative panel of 15 MSMEs interviewed by MSC staff at the beginning of the pandemic



# Respondents' profile



## Quantitative research: Sample profile of 90 MSMEs



## Qualitative research: Sample profile of 15 MSMEs



# MSC is recognized as the world's local expert in economic, social, and financial inclusion



International financial, social, and economic inclusion consulting firm with **20+** years of experience



**180+** staff in **11** offices around the world



Projects in **~65** developing countries

## Our impact so far

**550+**  
clients

**>850**  
publications

Assisted development of digital G2P services used by **875 million+** people

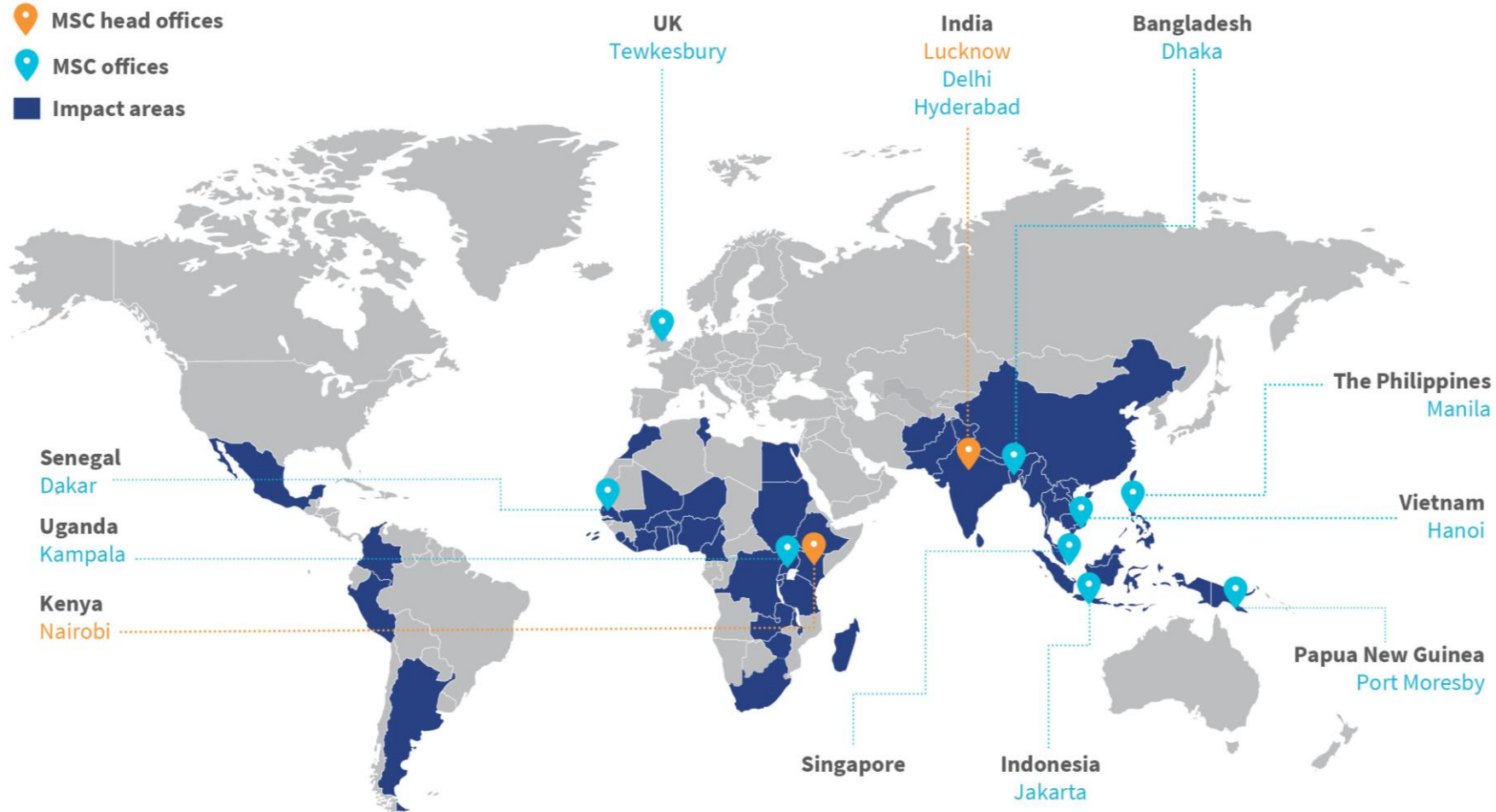
Implemented **>850 DFS projects**

Developed **275+ FI products** and channels now used by **55 million+** people

**Trained 9,000+** leading FI specialists globally

## Some of our partners and clients





MSC corporate brochure | Contact us at [info@microsave.net](mailto:info@microsave.net)

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