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The COVID-19 Fallout on the CMSMEs in Bangladesh and Policy Responses: An Assessment

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Abstract

This note attempts to assess the fallout of the COVID-19 to the CMSMEs, status of stimulus package, resilience of credit policies, loan disbursements and its contribution to the economy. The analysis suggests that the stimulus package, credit guarantee scheme, collateral free loan, concessional interest rate (4 percent), and start-up fund along with the existing credit policies are quite supportive and resilient to the pandemic stricken CMSMEs. Available data show that about 74 percent of stimulus fund has been disbursed to 96 thousand entrepreneurs till May 2021. The activities of the CMSMEs have started to revive from Q3 of 2020 reflected in loan disbursement amount as growth of loan increased to cottage, micro and small enterprise in Q4 of 2020 over Q4 of 2019. It is likely that the access to loan by the CMSMEs expand in the coming quarters as broad based economic activities picking up.

I. Introduction

The CMSMEs has emerged as an engine of growth in Bangladesh like other any developing countries. The sector's contribution in terms of employment generation, economic value addition and business activities is enormous. But the COVID-19 has hit the CMSMEs hard and impacting them on several dimensions, i.e., business shutdown, output and job loss, sale and income fell because of nationwide shut down of 66 days during the second quarter in 2020. In response to the fallout of the COVID-19, Government and Bangladesh Bank took several polices for the CMSMEs to mitigate their distress including stimulus package of BDT 200 billion working capital financing with 4 percent interest rate, refinance scheme of BDT 100 billion against this working capital financing, credit guarantee scheme and start-up-fund apart from existing financing facilities.

The shocks of the COVID-19 pandemic were divergent and varied over larger to smaller firms. The effects on cottage, micro, and small enterprises were more severe because of higher levels of vulnerability and lower resilience related to their size. The several studies find that most of the firms loss their output, revenue reduction due to shrunken demand, pending payments, widened income gap across gender, access to bank finance difficulties, concentration of stimulus packages to the larger firms, and most importantly the lack of a proper database of all categories of enterprises and slow recovery of the smaller firms. Many think-tank, policy maker and researcher argue that the current CMSMEs policies and financing need some revisions to cope with the pandemic induced losses. In this backdrop, this note attempts to assess the fallout of the COVID-19 on the CMSMEs, status of stimulus package, resilience of credit policies, loan disbursements and its contribution to the economy.

II. The Contribution of CMSMEs to Economic Growth and Employment Generation

Real GDP grew, on average, above 7.0 percent up to FY19, since FY16. The growth slipped to 5.24 percent in FY20 from 8.15 in FY19 owing to the fallout of the COVID-19 pandemic. However, it was ranked in the top five fastest-growing emerging economies (World Bank, 2019). The Major portions of the growth came from the industry sector particularly from the manufacturing which comprised with cottage, micro, small and medium-sized enterprises (CMSMEs). The manufacturing sector has registered a growth rate of 14.70 percent in FY19 (BB, 2019-20) making it the main contributor to the growth of Industry sector. With about 7.8 million CMSME

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units the sector is contributing almost 25 percent of GDP, 11 percent of total industrial establishment, 30 percent of total industrial employment and 40 percent of total manufacturing output (ADB, 2015; BBS, 2013). Basically most of the establishments of the CMSMEs are labour intensive which creates employment opportunity for available and cheap labour force. In the same time the cheap labor has made the CMSMEs the fastest growing sector. However, CMSMEs growth decelerated somewhat by the COVID-19 pandemic.

Table: 1 CMSME Establishments and Total Person Engaged by Categories

Type	Establishments		Total Person Engaged (TPE)			
	Total	Percent	Total	Percent	Male	Female
Cottage	6842884	87.52	13168327	53.75	11759565	1408762
Micro	104007	1.33	558870	2.28	435043	123827
Small	859318	10.99	6600685	26.94	5844088	756597
Medium	7106	0.09	706112	2.88	538526	167586
Large	5250	0.07	3466856	14.15	1871910	1594946
Total	7818565	100	24500850	100	20449132	4051718
CMSMEs	7813315	99.93	21033994	85.85	18577222	2456772

Source: Economic Units Census -2013, Bangladesh Bureau of Statistics

Table: 2 Growths of CMSMEs in Bangladesh

Economic Units	2013	2003	Annual Growth Rate during 2003-2013 (In percent)
Total	4514091	2991249	4.20
Cottage + Micro	3731676	2911359	2.51
Small	770063	72935	26.58
Medium	7105	3266	8.08

Source: Economic Units Census -2013, Bangladesh Bureau of Statistics and Author's calculation

Table: 3 Employment (TPE) Growths in CMSMEs in Bangladesh

Economic Units	2013	2003	Annual Growth Rate during 2002-2013 (In percent)
Total	19062978	9702282	6.99
Cottage + Micro	8499449	6861796	2.16
Small	6390577	1304935	17.22
Medium	706111	221123	12.31

Source: Economic Units Census -2013, Bangladesh Bureau of Statistics and Author's calculation

Sector wise establishment of economic units data show that most of the CMSMEs are cottage industries which constitutes almost 87 percent to the total establishments. These cottage industries play a vital role in employment generation as more than half of the employment came from this subsector (Table 1). The growth trajectory of CMSMEs shows that small industries grew faster with 26.58 percent growth during 2003-2013 followed by medium industries (8.08 percent). Employment generation growth is also larger in small industries between 2003 and 2013 (Table 2 - 3).

With the contribution of the CMSMEs to industrial growth and employment generation, a multipronged strategy has been adopted of which are: The National SME Policy 2019 has been framed; creating equal opportunities for all and ensuring economic empowerment through increased involvement of women in the SME sector; the cluster-based SME Development Strategy is going to be adopted by identifying 117 clusters throughout the country. The government is putting on its endeavor to enhance the contribution of this sector to 32 percent by 2024 (Budget Speech, 2021-2022). To counter the adverse economic impact of the COVID-19 pandemic, a BDT 200 billion capital stimulus package was introduced in April 2020. A broad based strategy are set in the 8th Five Year Plan, 2020-2024, which are : Top most attention will be given to protect the jobs and enhance new jobs in the cottage, micro and small enterprises (CMSEs) that presently employ an estimated 21 million people. This will be done immediately through the provision of low-cost loans through the banking sector. The Bangladesh Bank will work with commercial banks and the non-bank financial institutions how this can be done in a flexible and low-cost manner (GED, 2020)

III. An Assessment of the Impact of COVID-19 to the CMSMEs

The CMSMEs was hit hard by the COVID-19 pandemic. There is no concrete estimate of losses of the CMSMEs. The extent of severity of losses of CMSMEs has varied as reflected some studies and, research report conducted by the different research organizations, think-tank and researcher. To assess the pandemic effect on CMSMEs and awareness of stimulus package, a policy brief based on research report is given below.

Hussain (2020a) conducted a survey on 216 firms in 16 BSCIC industrial states to assess the impact of COVID-19 on CMSMEs during the year 2020. The major findings of the survey include:

- The small firms lost their output up to 26 per cent by the end of December 2020 because of the COVID-induced 'holiday' and its subsequent consequences.
- During the period, the micro and medium firms lost 20 per cent of their output as the government had imposed restrictions on movement and shutdown for the months between March and May last year to avert the spread of the corona virus.
- However, 74 per cent firms on an average were more or less affected by the pandemic, according to latest research findings released on Sunday.
- During the three-month period from March to May last year, some 96 per cent of such types of firms (SMEs) were affected
- The micro and medium enterprises have performed better than the smaller ones at the recovery stage.

SANEM (2020) conducts a firm level survey regarding the COVID-19 and Business confidence in Bangladesh and finds that on an average, the large firms performed better compared to the Micro, Small, and Medium enterprises. According to the survey large enterprises are more capable of acquiring the stimulus packages than Micro, Small, and Medium enterprises. Micro and small firms received 18.4 percent of stimulus package provided by the government to address the adverse impact of the pandemic. With regard to medium enterprises, around 42.3 percent firms received benefits from the package. On the other hand large firms acquired 57.3 percent.

Iqbal, et al. (2020) used pre-pandemic survey as baseline and interviews 375 enterprises and 360 workers and finds that the owners predicted a two-third reduction in revenue compared to 2019. According their survey about 74 percent of the CMSMEs was aware of the government incentive package. The predicted reduction is lower for the larger sector. Three in every four SMEs had unsold products in stock that they could not sell due to lockdown. The amount of unsold goods was about 17 percent of the revenue of 2018. Nearly similar portions (15 percent of the revenue of 2018) of enterprises have a sizable amount of pending payments that are likely to be received soon.

Hossain, (2020b) reveals that access to bank finance is the main obstacle for implementing stimulus package for CMSME sector. They also found that less than 40 percent SMEs have access to finance in Bangladesh, and if micro businesses are included, the percentage of small enterprises staying out of bank coverage will be much bigger. As most of them have no access to bank finance, they find it hard to get the stimulus loan. In that case more than 70% MSMEs will be left out of the benefit of the government's COVID-19 stimulus for the MSME sector.

Khatun, et. al, (2020) thinks that it is important to ensure speedy disbursement of the subsidized credit among eligible SMEs They also think that a database of all categories of enterprises, including MSMEs needs to be prepared on an urgent basis. Though the government allocated funds for women entrepreneurs under stimulus packages meant for CMSMEs, 58 per cent of them have not heard about it and 93 per cent women enterprises have not applied for any loan under the government support scheme. A separate stimulus package should be implemented for the woman entrepreneur. Moreover, the study recommended extending the loan repayment deadline for three years for SMEs to fight the fall out of the COVID-19 fall out. 94 per cent of the beneficiaries of loans under the stimulus package provided by the government were male and 6.0 percent were female.

Islam, et al. (2020) conducted a survey on small enterprises, mostly light engineering firms and young workers across 18 districts in Bangladesh in view of understanding the COVID-19 effect on MSMEs. They find that because of the COVID-19, small enterprise and informal enterprise faced massive drops in their sales which are about 55% relative to pre-COVID level. Compared to pre-COVID level, income dropped 60% and 65% for

male and female, respectively. Income recovery for the male workers is higher, compared to their female counterparts. Female workers are facing a 52% drop in income after the end of the lockdown and their income recovery is very poor. The study finds that lockdown measures caused the majority of small enterprises shut down, and during the early period of relaxation the lockdown, one third of the enterprises were operating at limited capacity. Survey shows that 63 % know (17% know how to get the support) about the Govt. initiative and 81 % reported that it is quite difficult to get the support. Survey also shows that 31% applied for the support and 1 owner received the support. Moreover, proper maintaining of data infrastructure is needed for further implementation of policies.

PRI (2019) conducted a study for understanding the access to finance for SME and its impact on job creation. The major findings of the study are:

- 7% employment growth in all sample enterprises from inception to 2019
- Female-owned sample businesses led employment growth at 146.2 %
- The largest employment growth was in the service sector 174.2 % followed by manufacturing sector 131 %

The key issues of the above studies and surveys include the situation faced by the CMSMEs after the COVID-19 fallout. Loss of output of most of the firms, slow recovery of the smaller firms, revenue reduction due to shrunken demand, pending payments, widened income gap across gender, access to bank finance difficulties, concentration of stimulus packages to the larger firms, and most importantly the lack of a proper database of all categories of enterprises are the key findings of those above studies. It is observed that the CMSMEs have been most affected during the first wave of COVID-19 and also afterwards; their challenges continued as Bangladesh suffers from the ongoing second wave of the pandemic.

IV. Policy Measures for CMSMEs in Response to the COVID-19 Pandemic Fallout

Stimulus Packages: The Government has responded with a hefty stimulus package of BDT 1.28 trillion (US\$ 14.6 billion) to recover the economic shock from the COVID-19 pandemic fallout. Of this package BDT 200 billion working capital has been allocated to the CMSMEs sector to revitalize CMSMEs from pandemic adversity. This fund has been implemented through commercial bank with concessional interest rates at 9.0 percent. Out of these rates, entrepreneur will pay only 4 percent and government will give 5 percent as subsidy to the commercial banks. The package has been extended till 30 June, 2021 because about 72.31 percent of the total target has been implemented up to 31 March, 2021 (SMESDP Circular No-3, April 12, 2021).

Besides the stimulus package for CMSMEs, Bangladesh Bank has undertaken various policies/ initiatives in line with its existing ones for expanding credit facilities and easy accessing to credit of CMSMEs. These policies are very pragmatic and help CMSMEs to mitigate their distress faced by the COVID-19 pandemic.

Refinance: Since Commercial banks are implementing stimulus package of CMSMEs, Bangladesh Bank formed a revolving refinance scheme of BDT-100 billion from its own source for commercial banks for providing the working capital disbursements to the entrepreneurs with effect from 26 April 2020. The validity period of this fund is three years.

Start-up Fund: Bangladesh Bank has established five-year revolving refinance Fund titled ‘Start-up Fund’ amounting BDT 5 billion for commercial banks for disabusing loan to start-up entrepreneurs/ innovative initiatives. This sector is promising for creating self employment opportunities for youth and to create new entrepreneurs’ (SMESDP Circular No-4, April 19, 2021).

Bangladesh Bank has also instructed to the scheduled banks to form start-up fund for 5-year tenure by transferring one (1) percent of the yearly operating profit from 2021 to 2025. The banks will disabuse loan to the start-up entrepreneurs’ from this fund with maximum 4 percent rate interest. Out of the fund 10 percent loan will be disbursed to the start up women entrepreneurs’ (SMESDP Circular No-5, April 26, 2021).

Credit Guarantee Scheme: BB has undertaken the Credit Guarantee Scheme (CGS) policies and already initiated a CGS of BDT 20 billion to encourage commercial banks to provide loans to micro, cottage and small enterprises.

Priority to the Women Entrepreneurs in CGS: Regarding Policy of Credit Guarantee Scheme for Cottage, Micro and Small Enterprises (CMSE), women-owned Cottage, Micro and Small Enterprises (CMSE) will get priority to obtain CGS facility. Under the said instruction to ensure collateral free loan/investment for Women-owned Cottage, Micro and Small Enterprises (CMSE), henceforth the participatory financier institutions (PFIs) have to earmark at least 5% (five percent) of their Portfolio Guarantee Limit (PGL) (SMESPD Circular No. 05, May 9, 2021).

Waiver of Bank Charge or Fee for Loan Processing of CMSMEs: Bangladesh Bank has recently revised scheduled bank charge where banks are instructed not to take any charge or fee for loan processing, rescheduling/restructure for CMSMEs (BRPD Circular No. 11, June 10, 2021).

The Pertinent Prior Policies of the CMSMEs

Along with the above policies during COVID-19 pandemic Bangladesh Bank has adopted several credit policies/ schemes/ programmes to flourish and expand CMSME sector from the very beginning. Some pertinent major credit policies are highlighted below:

Increased credit disbursement target: Banks are instructed to increase CMSMEs yearly credit disbursement target to 25 percent of the total disbursement by 2024 with minimum 1 percent increment in each year.

Sector-wise credit distribution target: To ensure sector-wise distribution of overall SME credit portfolio, a target for at least 40 percent for manufacturing, 25 percent for Service and a maximum ceiling of 35percent for trading has been instructed by Bangladesh Bank to be achieved by all Banks/NBFIs within 2021.

Special Attention to Small Enterprises: Banks and NBFIs are instructed to disburse 50 percent of the total CMSME loan to Cottage, Micro and Small sector by 2021.

Providing Grace Period: Banks and NBFIs are instructed to provide 03 to 06 months grace period to small enterprise for short to long term loan repayment.

Cluster Development Policy: To expedite cluster-based financing to CMSME sector, Banks and NBFIs are advised to formulate a cluster development policy for strengthening existing clusters and developing new clusters.

SEIP Project for CMSME Sector Employment: A project has been undertaken named 'Skill for Employment Investment Programme (SEIP)' by the Government with the assistance of Asian Development Bank. Under this programme, as of February 2020, 11, 484 trainees have been trained in different technical courses and out of 11, 246 certified trainers 7,685 have been employed in different SME sectors and 2,283 have become self-employed. Among them 32 percent were women.

Forming Women Entrepreneur Development Unit and Dedicated Desk: Bank and financial institutions are advised to form Women Entrepreneurs Development unit and Dedicated Desk in the regional offices including the head office of banks and financial Institutions and arrange necessary training facilities for women entrepreneurs Bangladesh Bank has allocated 15 percent of total refinancing scheme for women entrepreneurs and necessary instructions have been given to the banks and financial institutions to provide this loan(SMESPD Circular NO. 02, September 05, 2019)..

Group based loan disbursement: Women entrepreneurs in cottage and micro sector have been given a policy of disbursing group based loans of minimum BDT 50000 or above.

Collateral: Lack of collateral is one of the major obstacles for CMSME sector. To address this BB has introduced collateral free credit facilities for CMSMEs up to BDT 1 million which can be increased up to BDT 2.5 million upon personal guarantee.

Rate of Interest on CMSME Credit: Although the operating costs of the financial institutions are high for the small entrepreneurs BB has instructed the financial institutions to keep the interest rate for CMSMEs within a tolerable level. As for this BB is providing refinance facility to financial institutions at bank rate (at present 4 percent) in CMSME sector. The fund obtained at bank rate through BB refinance window should be disbursed at bank rate plus not more than 5 percent interest rate to the client level. Moreover, Bangladesh Bank has instructed all the scheduled banks that in all categories of unclassified loans/investments but credit card, the maximum rate of interest/profit is set at 9 percent (Bangladesh Bank. BRPD Circular No-3, February 24, 2021).

The ongoing refinance Schemes of Bangladesh Bank for CMSMEs: To expand access to finance for CMSMEs several refinance schemes have been introduced before the on-set of COVID-19 which has been facilitated CMSMEs access to credit. A brief description is given in Table 4.

Table: 4 Refinance Schemes of BB for the CMSMEs

Name of Fund	Size of Fund (In billion BDT)
1. Refinance Scheme for New Entrepreneur in Cottage, Micro, and Small Enterprise Sector.	0.5
2. Refinance Scheme for Setting up Agro-based Product Processing Industries in Rural Area	7.0
3. Small Enterprise Refinance Scheme	8.5
4. Refinance Scheme for Shariah Based financing in Agro-based Industry, Small Entrepreneurs and New Entrepreneurs in Cottage, Micro and Small Enterprise Sector	Initially 3.75 billion At present 1.25 billion

Source: SMESPD, Bangladesh Bank.

V. Trends in Credit disbursement in the CMSMEs

A. Credit disbursement by Banks and NBFIs

Available data show that banks and NBFIs disbursed about BDT 14.74 billion to 93919 beneficiaries of CMSMEs till May 2021 under the stimulus package which was 73.70 percent of the package. Out of the total loan disbursement BDT 7.44 billion (50.47 percent) loans disbursed to 5252 women entrepreneurs (Table 5).

In line with stimulus packages, BB has strengthened its loan disbursement and refinances under CMSME credit policies. During the on –set of COVID-19 , loan disbursement of CMSMEs slowed in first two quarters due to national lock down of more than two months during the second quarter of 2020. Afterwards, business activities started to opening and loan disbursement also started to increase since Q3 of 2020. Total loan disbursement of BDT 1534.96 billion went to 785858 entrepreneurs in 2020 compared to BDT1679.70 billion and 774122 entrepreneurs respectively in 2019 (Table 6). The highest share of disbursed loan went to the small enterprises which accounts for 57.66 percent in 2020 and 60.49 percent in the previous year. Micro and cottage enterprises received 12.40 and 0.80 percent share of the total loan disbursement which is higher than the previous year’s of 9.82 and 0.76 percent respectively reflecting that the economy is enlivening.

Table: 5 Disbursement Status of BDT 20 billion CMSMEs Stimulus Package (Amount in billion BDT)

As on	Total Amount of Disbursement Under Stimulus Package	Total Amount of Disbursement to Women Entrepreneurs	Total no of Beneficiary Entrepreneurs	Total no of Beneficiary Women Entrepreneurs
Up to March 2021	12.510	7.05	82815	4969
May 2021	14.742	7.44	93919	5252

Source: SMESPD, Bangladesh Bank.

Table: 6 Category wise Loan Disbursement of CMSMEs (Amount in billion BDT)

	CMSME		Cottage Enterprise		Micro Enterprise		Small Enterprise		Medium Enterprise	
	Number of Enterprises	Disbursement Amount	Number of Enterprises	Disbursement Amount	Number of Enterprises	Disbursement Amount	Number of Enterprises	Disbursement Amount	Number of Enterprises	Disbursement Amount
2019Q1	187506	372.87	3242	2.01	70298	39.18	104355	220.70	9611	110.98
2019Q2	220021	431.55	11165	3.75.86	81015	44.81	116744	260.28	11096	122.70
2019Q3	182099	392.90	5500	3.71	59559	29.14	105730	246.03	11310	114.00
2019Q4	189962	486.50	5387	3.32	75537	54.05	99913	293.85	9125	135.28
2019 Yearly Total	774122	1679.71	25088	12.75	283512	165.03	424480	1016.01	41041	485.91
2020Q1	179796	377.62	9588	2.40	71051	44.57	90927	215.64	8230	115.01
2020Q2	139754	280.64	8535	2.28	52885	30.04	69615	156.97	8719	91.35
2020Q3	197700	386.89	9942	2.60	73247	46.50	104075	227.38	10436	110.41
2020Q4	268608	489.81	14815	5.04	106127	69.20	136901	285.05	10765	130.51
2020 Yearly Total	785858	1534.96	42880	12.31	303310	190.32	401518	885.05	38150	447.29

Source: SMESPD, Bangladesh Bank.

Loan Disbursement to New Entrepreneurs

BB's credit policy for new entrepreneurs spurred the expansion of the CMSME credit coverage which is evident from the loan disbursement to new enterprise data (Table 7). During the pandemic year, 2020 more than 0.1 million new CMSME entrepreneurs were financed which is 5.78 percent higher than the previous year's inclusion of new entrepreneurs. Of the total loan disbursed to new enterprise in 2020, the highest percentage of share (58.97 percent) went to the small industries, followed by the medium industries (21.40 percent), micro enterprises (17.85 percent) and cottage enterprises (1.78 percent).

Table: 7 Status of Loan Disbursements to New Enterprises by Categories (Amount in billion BDT)

Year	CMSME		Cottage		Micro		Small		Medium	
	Number of Enterprises	Disbursement amount	Number of Enterprises	Disbursement amount	Number of Enterprises	Disbursement amount	Number of Enterprises	Disbursement amount	Number of Enterprises	Disbursement amount
2019	131003	233.24	7781	3.71	47572	35.18	69947	140.50	5703	53.84
2020	138572	182.19	14160	3.24	57949	32.52	62522	107.44	3941	38.99

Source: SMESPD, Bangladesh Bank.

Refinance Scheme for New Entrepreneurs

To perk up the CMSMEs in the pandemic situation BB has widened refinance schemes to new entrepreneurs. A total of 644 new entrepreneurs received more than BDT 404 million through BB's refinance scheme which reflects the widening of access to finance for CMSMEs. Moreover, providing 23.3 percent working capital of total loans for small enterprises helped them to smooth running of their businesses.

B. Loan Disbursement by SME Foundation

The SME foundation also works for the development of CMSME sector of the country. The foundation has been providing necessary support to entrepreneurs doing business under small to medium and cottage industries. Through market expansion and capacity building on various aspects it assists the entrepreneurs to start up and grow their business. By maintaining 26 percent of total beneficiaries for women SMEF contributes to women empowerment. Moreover, under stimulus packages SMEF had been allotted BDT 3 billion to disburse among entrepreneurs (The Daily Star, 08 January, 2021).

VI. Conclusion

The main objectives of the note were to assess the fallout of the COVID-19 and policy responses of CMSMEs including stimulus packages, loan disbursement, and recovery of the CMSMEs. The analysis suggests that the stimulus package, credit grantee scheme, collateral free loan, concessional interest rate (4 percent), and start-up fund along with the existing credit policies are quite supportive of building resilience of the CMSMEs during the pandemic. Available data show that about 74 percent of stimulus fund have been disbursed to 96 thousand entrepreneurs till May 2021. The activities of the CMSMEs have started to revive from Q3 of 2020 reflected in the loan disbursement amount. The growth of loan increased to cottage, micro and small enterprise in Q4 of 2020 over Q4 of 2019. It is likely that the access to loan by the CMSMEs expand in the coming quarters as broad-based economic activities continue to pick up.

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