

Effects of COVID-19 on CMSE Sector in Bangladesh

Ashraf Al Mamun, Ph.D.

*Associate Professor & Director
(Research, Development and Consultancy), BIBM*

Md. Mosharref Hossain, Ph.D.

Associate Professor, BIBM

Maksuda Khatun

Assistant Professor, BIBM

Md. Sharafat Ullah Khan

Director, Bangladesh Bank

Suman Chandra Saha

Deputy General Manager, SME Foundation

Anwar Faruq Talukder

Senior Executive Vice President, Dutch-Bangla Bank Limited



Effects of COVID-19 on CMSE Sector in Bangladesh

Ashraf Al Mamun, Ph.D.

*Associate Professor & Director
(Research, Development and Consultancy), BIBM*

Md. Mosharref Hossain, Ph.D.

Associate Professor, BIBM

Maksuda Khatun

Assistant Professor, BIBM

Md. Sharafat Ullah Khan

Director, Bangladesh Bank

Suman Chandra Saha

Deputy General Manager, SME Foundation

Anwar Faruq Talukder

Senior Executive Vice President, Dutch-Bangla Bank Limited



BANGLADESH INSTITUTE OF BANK MANAGEMENT (BIBM)

Dhaka, Bangladesh

Effects of COVID-19 on CMSE Sector in Bangladesh

Research Team **Ashraf Al Mamun, Ph.D.**
Md. Mosharref Hossain, Ph.D.
Maksuda Khatun
Md. Sharafat Ullah Khan
Suman Chandra Saha
Anwar Faruq Talukder

Editors **Ashraf Al Mamun, Ph.D.**
Associate Professor and Director (Research, Development & Consultancy), BIBM

Support Team **Md. Al-Mamun Khan, Publications-cum-Public Relations Officer, BIBM**
Papon Tabassum, Research Officer, BIBM
Sk. Md. Azizur Rahman, Research Assistant, BIBM
Md. Awalad Hossain, Computer Operator, BIBM
Md. Morshadur Rahman, Proof Reader, BIBM

Design & Illustration **Sk. Md. Azizur Rahman, Research Assistant, BIBM**

Published in May, 2023 (Online)

Published by Bangladesh Institute of Bank Management (BIBM)

Plot No. 4, Main Road No. 1 (South), Section No. 2

Mirpur, Dhaka-1216, Bangladesh.

PABX : 88-02-48032091-4, 88-02-48032097-8, 48032104

E-mail : bibmresearch@bibm.org.bd

Web : www.bibm.org.bd

Copyright © BIBM 2023, All Rights Reserved

Printed by

The views in this publication are of authors only and do not necessarily reflect the views of the institutions involved in this publication.

As part of the ongoing dissemination of BIBM research outputs, the present research monograph contains the findings of the research project titled “Effects of COVID-19 on CMSE Sector in Bangladesh”. The study was conducted in 2021-22 and the paper was presented in a seminar held in November 2022. The study was motivated to explore the effects of COVID-19 on the CMSE sector of Bangladesh.

It gives me immense pleasure to publish and distribute this research output to the practitioners of the banks and financial institutions, regulatory agencies, academics and the common readers. I hope this monograph will be a valuable resource for professionals, especially for the banking community for developing effective business model to finance the CMSME sector in Bangladesh.

Md. Akhtaruzzaman, Ph.D.

Director General, BIBM

Acknowledgement

We would like to extend our gratitude to Dr. Md. Akhtaruzzaman, honorable Director General of BIBM for his valuable guidance and suggestions to complete the study comprehensively.

We would like to thank the respondents of our questionnaires and the learned discussants, who provided their valuable inputs for the successful finalization of the report. We are also thankful to all our colleagues for their cooperation and support.

Our honest indebtedness goes to research assistants, who have facilitated us to get very much useful information from different stakeholders across the country. Our sincere appreciation goes to Ms. Papon Tabassum, Research Officer, BIBM; Mr. Sk. Md. Azizur Rahman, Research Assistant & Enumerator, BIBM and Mr. Md. Awalad Hossain, Computer Operator, BIBM for their support.

Finally, we would like to thank all of those who, directly and indirectly, extended their cooperation in our research work.

Ashraf Al Mamun, Ph.D.
Md. Mosharref Hossain, Ph.D.
Maksuda Khatun
Md. Sharafat Ullah Khan
Suman Chandra Saha
Anwar Faruq Talukder

RESEARCH MONOGRAPH 67

Effects of COVID-19 on CMSE
Sector in Bangladesh

Foreword	iii
Acknowledgement	iv
Acronyms and Abbreviations	x
Executive Summary	xi
Section 1: Introduction and Background	1
Section 2: Extant literature on Effect of COVID-19 on CMSMEs	4
Section 3: Major Initiatives of Bangladesh Bank and Status of CMSME Financing: Before COVID-19 and Onward	6
Section 4: Stimulus Packages and Policy Initiatives of the Government of Bangladesh, Bangladesh Bank and Selected Asian Countries	10
Section 5: Effect of COVID-19 on CMSEs: Finding and Analysis	14
Section 6: Summary of the Key Informant Interview from Banks	28
Section 7: Recommendations and Conclusion	30
References	32
Appendices	34

Lists of Tables

Table 1.1	The Distribution of Sample across Divisions	3
Table 2.1:	Challenges of CMSME Credit Operations in Banks	4
Table 3.1	Status of Total Loan, CMSME, Small and Women Owned Enterprises:Banking Sector (BDT in Crore)	6
Table 3.2	Total CMSMEs Loan and Recovery of Financial Sector (BDT in Crore)	7
	Table 3.3: Total CMSMEs Loan of Financial Sector and CMSEs' Share by Urban and Rural (BDT in Crore)	7
Table 3.4	Total CMSEs Loan by Banks and NBFIs (BDT in Crore)	7
Table 3.5	Industrial Term Loan and Working Capital of Banking sector (%)	8
Table-3.6	Sector-Wise Distribution of CMSME Loans of Financial Sector (BDT in Crore)	8
Table-3.7	Category-Wise Disbursements of CMSME Loans of Financial Sector (BDT in Crore)	8
Table-3.8	Status of Women Enterprise Financing: Disbursement, Outstanding and Recovery (BDT in Crore)	9
Table-3.9	Loan Disbursement to Women-Owned New Small Enterprise and without Collateral (BDT in Crore)	9
Table 3.10	CMSME Loan Outstanding and Classified Loan (BDT Crore)	10
Table 4.1	Summary of Stimulus Packages of Government and Bangladesh Bank (BB)	11
Table 4.2	CMSME Stimulus Package Implementation Status During COVID-19 (BDT Crore)	12
Table 4.3	Bangladesh Government's Initiatives Compared to Selected Asian Countries	13
	Table 4.4: Policy Initiatives of the Governments and Central Banks in SAARC Countries	14
Table 5.1	Respondents' Profile	15
Table 5.2	Change of Different Financial Parameters during March 2020-March 2022	20
Table 5.3	Effects on Living Standard	22
Table 5.4	Problems Faced with Your Buyer during March 2020-March 2022	23
Table 5.4	Problems Faced with Your Buyer during March 2020-March 2022	22
Table 5.5	Change of Business Regarding the Following during March 2020-March 2022	24
Table 5.6	Challenges Faced during March 2020-March 2022 (Mixed Response)	26
Table 5.7	Future Outlook as Viewed by the CMSEs	27
Table 5.8	Expectation Regarding Banking and Government Assistances	27
Table 6.1	Bankers' Opinion on 'Effect of COVID-19 on CMSEs	29

Lists of Figures

Figure 5.1	Need for Borrowing	15
Figure 5.2	Obtain Loan from Any Sources	15
Figure 5.3	Average Debt to Equity Ratio	16
Figure 5.4	Sources of Business Finance	16
Figure 5.5	Current Status of Business Operation	16
Figure 5.6	Change of Production Level during March 2020-March 2022 (N=156)	17
Figure 5.7	Change of Number of Product during March 2020-March 2022	17
Figure 5.8	Changes of Workers Productivity during March 2020-March 2022	18
Figure 5.9	Problems Faced to Procure Raw Materials for Business Operation (Mixed Response)	18
Figure 5.10	Means to Deal with the Shortage of Raw Materials/Stock	19
Figure 5.11	Change of Cost of Production during March 2020-March 2022	19
Figure 5.12	Strategies Undertaken for Increasing Sales Revenue during March 2020-March 2022	20
Figure 5.13	Cost Saving Measures conducted to survive during March 2020-March 2022	21
Figure 5.14	Change of Employees during March 2020-March 2022	21
Figure 5.15	Change of the Total Salary and Compensation of your Employees during March 2020-March 2022	22
Figure 5.16	Effects on Marketing and Distribution Channel	23
Figure 5.17	Problems Faced with Supplier during March 2020-March 2022 (Mixed Response)	23
Figure 5.18	Problems Faced Regarding Export Operations during March 2020-March 2022 (Mixed Response)	24
Figure 5.19	Problems Faced with Lenders during March 2020-March 2022 (Mixed Response)	25
Figure 5.20	Effects on Competitive Strength, Buying Equipment and Quality of Products	26
Figure 5.21	Experience with Banking Services and Obtaining Loans other than Banks	27
Figure 5.22	Problem to Get Loan under the Stimulus Packages of Government during March 2020-March 2022	27
Figure 5.23	Approach of Bank Representative for Taking Loan under the Stimulus Packages of Government and Cash Assistance or Subsidy from Government or Central Bank during March 2020-March 2022?	28

Acronyms and Abbreviations

BB	Bangladesh Bank
BDT	Bangladeshi Taka
BIBM	Bangladesh Institute of Bank Management
CMSME	Cottage, Micro, Small and Medium Enterprise
CMSE	Cottage, Micro and Small Enterprise
EMI	Equal Monthly Instalments
FB	Foreign Commercial Bank
FIs	Financial Institutions
GDP	Gross Domestic Production
GOB	Government of Bangladesh
IBs	Islami Banks
NBFI	Non-bank Financial Institution
NGO	Non-government organization
OECD	Organization for Economic Cooperation and Development
PCB	Private Commercial Bank
PKSF	Palli Karma Sahayak Foundation
SB	Specialized Bank
SE	Small Enterprise
SME	Small and Medium Enterprise
SMESPD	SME & Special Programs Department
SOCBs	State-owned Commercial Banks

Executive Summary

Irrespective of the size of economy, CMSME sector plays the pivotal role in accelerating economic growth and driving inclusive growth. The CMSME sector as estimated around 7.5 million constitute a substantial component of economic enterprises and accounting more than 97% of all enterprises in Bangladesh that contribute about 25% to national GDP. due to the effects of the COVID-19 pandemic the GDP growth rate became 5.24% in 2019-2020 compared to 8.15% in 2018-2019 (GoB, 2020). As happened in many other countries, Bangladesh economy also adversely affected from the hit of COVID-19 pandemic.

In order to combat the impact of COVID-19 pandemic, the Government and Bangladesh Bank (BB) announced several stimulus packages for the CMSME sector and BB has formulated different implementation strategies. The government of Bangladesh has so far publicized 28 economic stimulus packages in order to alleviate the adverse effects of the pandemic on Bangladesh economy and to enable faster economic recovery from the large shock. The size of the entire stimulus packages is BDT 2004.29 billion which is equivalent to 5.68 percent of FY21 GDP. Out of these packages, BDT 400 billion announced as working capital loan for CMSME sector in two phases where up to March 2022, the 76.93 percent in the 1st phase and 44.4 percent in the 2nd phase have implemented (Bangladesh Bank, 2022). Besides, commercial banks and other financial institutions also come forward with a good number of initiatives for CMSME sector to get smooth recovery from the economic meltdown. However, the big concern is to measure the extent of impact the CMSME sector receive and whether these initiatives are sufficient enough to get back the CMSMEs in their normal business operation. Based on these realities, the study attempted to explore the impact of COVID-19 on the CMSE sector of Bangladesh.

The contents of this report are organized into six sections. Section -1 covers the introduction, objectives and methodology; Section-2 presents the existing literature regarding the COVID-19 impact on CMSME sector; Section-3 discusses the status of CMSME financing before COVID-19 and onward; Section-4 documents the stimulus packages and the initiatives of government, Bangladesh Bank and selected countries; Section-5 presents the findings and analysis of the study and finally Section-6 concludes with the recommendations.

Both primary and secondary sources were considered in order to achieve the study objectives. The study followed survey method for collecting primary data from the CMSEs. For this purpose, a set of structured questionnaires (Appendix I) has been developed. For collecting the information from the CMSEs, the study followed the purposive sampling

method. In this process, the survey was carried out in 39 districts (Appendix II) covering eight divisions of Bangladesh. Different sectors of CMSEs such as manufacturing, trading and service were considered. Moreover, the study covers Key Informant Interviews (KII) from different banks.

Although most businesses have been severely affected, the CMSME sector received a larger shock due to their higher vulnerability and lower resilience. The dimension of pandemic seriously hit the CMSME sector through business closures, many job losses, and reduction in sale and income of many business. The overall observation reveals that most of the businesses faced production failures, revenue reduction, business shutdown, delays in payments, increases in the gender income gap, problems in access to bank finance, out of work places and slow recovery of bank loans. This study analyzed the effects of COVID-19 on CMSEs in terms of Operation, Products and Productivity, Financials, Employment and Employee's Benefits, living standard, Marketing and Distribution Channels, Business due to Supplier and Buyer, Economic Impact, Export, Borrowings with lenders, Challenges Faced, Future Expectations.

The CMSEs have credit needs from the formal and informal financial sector. But the formal sources are not sufficient enough to provide adequate and required loan to the CMSEs. About three-quarters (63%) of the sampled firms had the need for borrowing (Figure 5.1). About 48% respondents opined that they obtained loans from any other sources available than banks (Figure 5.2). It may be due to the absence of banks in those areas or easy access to loan from other sources like NBFIs, NGO-MFIs, money lenders, multi-purpose cooperatives, samities, etc.

The average debt to equity ratio of the sampled CMSEs was 32 percent (Figure 5.3). While (68%) had their own source of funding, the others obtained loans from banks (13%), NBFIs (4%), NGO-MFIs (12% and others (3%). It is important to note that the 19 percent CMSEs were borrowing from other than banks, i.e. they are borrowing either from NBFIs or NGO-MFIs or other sources (Figure 5.4). This may be due to the lack of banks' presence in those areas or lack of proper attention by banks to offer their services to those CMSEs and easy access of entrepreneurs to non-bank sources.

Looking into the effects of COVID-19 on the CMSEs, it is evident that at present, 67% CMSEs are operating fully in their business location while 23% CMSEs are using on-site and online operation (Figure 5.5). Table 5.6 shows the change of production level during March 2020 to March 2022. The production level increased up to 10% in case of 25% CMSEs and around 13% respondent reveals that their production level increases ranging from 10% to 20% and above. However, 48% CMSEs experienced decrease in production

level in varying percentage. The production level was unchanged for 13% CMSEs. 50% CMSEs did not have any change in their number of products and 26% experienced decline (Figure 5.7) during March 2020 to March 2022. While, only 20% CMSEs responses that their number of products has increased. During March 2020 to March 2022, 37% CMSEs feels that their workers' productivity remains unchanged and productivity of the workers decreased by 31% CMSEs. In case of 32% CMSEs, their workers' productivity increased in varying percentage (Figure 5.8).

The CMSEs cited a number of problems in terms of procuring the raw materials for their enterprises during March 2020 to March 2022 as shown in Figure 5.9. The major problems include shortage of raw materials, delay of materials supply, lack of money to procure raw materials, increased carrying cost, lack of capital, did not get required amount to purchase raw materials and so on.

It is evident (Figure 5.14) that majority of the CMSEs employment and employee benefits have been heavily affected. Besides, the salary and benefits given to their employees need to be curtailed in a greater extent. The CMSE entrepreneurs' living standard dropped in terms of health services, food and nutrition facilities, and children's education facilities (Table 5.3). The housing facilities of the entrepreneurs were least affected. Considering the economic impact, the CMSEs experienced mixed impact (Table 5.5). This is evident that the most of the CMSEs are gradually recovering from the adverse economic impact of COVID-19 pandemic.

The CMSEs experienced a number of changes in their financial parameters (Table 5.2). It is observed that majority of the CMSEs' sales, profit, asset have significantly dropped during March 2020 to March 2022. They encountered heavy increase in overall cost, accounts receivables and accounts payables. It is evident (Figure 5.14) that majority of the CMSEs employment and employee benefits have been heavily affected. Besides, the salary and benefits given to their employees need to be curtailed in a greater extent.

The CMSE entrepreneurs' living standard dropped in terms of health services, food and nutrition facilities, and children's education facilities (Table 5.3). The housing facilities of the entrepreneurs were least affected.

The present study highlights on the effects of COVID-19 on the CMSEs in Bangladesh. The survey results showed that demand for different types of loans for CMSMEs decreased during the lock down situation, however, the bankers predicted that the demand for loans will be increasing gradually. In terms of recovery and quality of different types of CMSE loans, banking sector is experiencing low rate of recovery and high NPL due to COVID-

19 situation. Regarding the Stimulus packages of Government and Bangladesh Bank, there is still scope for utilization of this package. All the respondents predicted an improved situation of the CMSE sector in 2022 onward compared to COVID-19 situation. However, the existing fuel price hike and forex risk may pose challenge for the CMSEs in streamlining their business operation and model. All the stakeholders including Government, Bangladesh Bank, SME Foundation, CMSME businesses owners, Commercial Banks and others should take proactive approach for overcoming the challenges of COVID-19 pandemic. Government and regulators should continuously monitor the different incentives, programs and evaluation of those. Considering the past experience of managing the crisis, innovative strategies are to be formulated. Based on the comments and suggestions given by the sampled CMSEs, the study formulated a set of recommendations. In this regard, the recommendations mentioned in the paper may be considered for future policy formulations.

Effects of COVID-19 on CMSE Sector in Bangladesh

1. Introduction and Background

Irrespective of the size of economy, CMSME sector plays the pivotal role in accelerating economic growth and driving inclusive growth. With the annual growth at around 6% or more, CMSME sector day by day becomes the engine of economic growth. CMSMEs largely contribute to the economy not for itself but also for the other economic sector through its contribution as a backward linkage industry. In future, the CMSME sector may lead the economy if properly nurtured to capture export opportunity due to the declining role of RMG and remittances in the GDP (Hossain, 2021). The CMSME sector as estimated around 7.5 million constitute a substantial component of economic enterprises and accounting more than 97% of all enterprises in Bangladesh that contribute about 25% to national GDP. In terms of employment creation, this sector employs about 24 million people, out of them more than 23% are involved in manufacturing SMEs (Hossain, 2021).

Bangladesh achieved a stable economic growth rate from 6% to 8% during the last decade. This kind of industrial growth is mainly achieved due to the growing numbers of CMSMEs, as more than 80% of the industrial sector's employment is in the CMSMEs (Hassan et al., 2020; GoB, 2017). However, due to the effects of the COVID-19 pandemic the GDP growth rate became 5.24% in 2019-2020 compared to 8.15% in 2018-2019 (GoB, 2020). As happened in many other countries, Bangladesh economy also adversely affected from the hit of COVID-19 pandemic. However, given the role and importance of small and medium enterprises in employment generation and ensuring livelihoods, SME sector could be essential in helping the economy make a turnaround.

Although most businesses have been severely affected, the CMSME sector received a larger shock due to their higher vulnerability and lower resilience. The dimension of pandemic seriously hit the CMSME sector through business closures, many job losses, and reduction in sale and income of many business. From the beginning of the COVID-19 pandemic to date, many researchers, academics, policymakers and institutions conducted different surveys and research to study the effect of COVID-19 on the MSME sector. The overall observation reveals that most of the businesses faced production failures, revenue reduction, business shutdown, delays in payments, increases in the gender income gap, problems in access to bank finance, out of work places and slow recovery of bank loans. Various studies indicate that CMSME sector are largely impacted from different aspects. However, the nature of the impact mostly deepens on the categories of business, geographic location, business size, production and distribution process, entrepreneurial innovative and adaptive capability during the crisis period, and so on.

In order to face the challenges of COVID-19 pandemic, the Government and Bangladesh Bank (BB) declared a number of stimulus packages for the CMSMEs and BB has articulated various implementation strategies. The size of the entire stimulus packages is BDT 2004.29 billion which is equivalent to 5.68 percent of FY21 GDP. Out of these packages, BDT 400 billion announced as working capital loan for CMSME sector in two phases where up to March 2022, the 76.93 percent in the 1st phase and 44.4 percent in the 2nd phase have implemented (Bangladesh Bank, 2022). Besides, commercial banks and other financial institutions also come forward with a good number of initiatives for CMSME sector to get smooth recovery from the economic meltdown. However, the big concern is to measure the extent of impact the CMSME sector receive and whether these initiatives are sufficient enough to get back the CMSMEs in their normal business operation. Based on these realities, the study attempted to explore the impact of COVID-19 on the CMSE sector of Bangladesh.

1.1 Objectives

The main objective of the study is to examine the effects of COVID-19 on the CMSE sector of Bangladesh. Thus, the specific objectives of the paper are to:

- (i) highlight the status of CMSME financing both before COVID-19 and onward.
- (ii) show the stimulus packages and initiatives of the government and the Bangladesh Bank for CMSME sector.
- (iii) analyze the responses of CMSEs regarding the impact of COVID-19.

1.2 Organization of the Study

The contents of this report are organized into six sections. Section -1 covers the introduction, objectives and methodology; Section-2 presents the existing literature regarding the COVID-19 impact on CMSME sector; Section-3 discusses the status of CMSME financing before COVID-19 and onward; Section-4 documents the stimulus packages and the initiatives of government, Bangladesh Bank and selected countries; Section-5 presents the findings and analysis of the study; Section-6 offers summary of the Key Informant Interview from banks and finally Section-7 concludes with the recommendations.

1.3 Data and Methodology

Both primary and secondary sources were considered in order to achieve the study objectives. The study followed survey method for collecting primary data from the CMSEs. For this purpose, a set of structured questionnaires (Appendix-I) has been developed. For collecting the information from the CMSEs, the study followed the purposive sampling

method. In this process, the survey was carried out in 39 districts (Appendix-II) covering eight divisions of Bangladesh. Different sectors of CMSEs such as manufacturing, trading and service were considered. Moreover, the study covers Key Informant Interviews (KII) from different banks.

Although the term CMSMEs is commonly used in different literatures and studies of Bangladesh, the present study focuses on CMSEs only for the survey and analysis. However, throughout the report the term CMSMEs also used in some relevant areas as required. The total number of 983 questionnaires has been distributed among 39 districts (including women entrepreneurs), out of which 502 questionnaires were received. Therefore, the response rate was 51.06%. From the received questionnaires, 13 questionnaires were rejected due to missing data and lack of needed information. Finally, 489 questionnaires were used for the analysis purposes. To assess the effect of COVID-19 on CMSEs, the study covered two years of data before starting the COVID-19 (i.e. March 2018–March 2020) and another two years of data (i.e. March 2020–March 2022) after stating the COVID-19. The distribution of the sample is presented in Table-1.1.

Table 1.1: The Distribution of Sample across Divisions

Sl.	Name of Division	Number of District	Number of Enterprise
1	Dhaka	10	113
2	Chattogram	5	56
3	Rangpur	6	101
4	Rajshahi	4	54
5	Barishal	4	47
6	Sylhet	3	27
7	Khulna	4	38
8	Mymensingh	3	53
Total		39	489

Secondary information has been used to show the present status of CMSMEs' financing both in before COVID-19 and onward. Moreover, secondary information from different sources were used.

2. Extant Literature on Effect of COVID-19 on CMSMEs

The COVID-19 pandemic has had a major impact on businesses and change to people's lives nationally, regionally, and globally due to lockdown, social distancing and changing pattern of doing business. The pandemic caused a major economic crisis by stand-stilling in production in affected countries, which induced a great degree of uncertainty.

In the context of Bangladesh, Mamun et al. (2020) find that the CMSMEs identified several challenges during March to May, 2020 as “the bankers faced decreased repayment of loans, stopping new loan disbursement and increase in overdue loans. The respondents predicted that during June to December, 2020 the situation may be improving due to implementation of the Bangladesh Bank stimulus package. The respondents expected better experiences during 2021 compared to 2020”. The challenges (Mamun et al., 2020) are summarized in Table-2.1.

Table 2.1: Challenges of CMSME Credit Operations in Banks

Already Experienced (March to May, 2020)	May Experience (June to December 2020)	May Experience During 2021
➤ Renewing of current credit facility hindered.	➤ Disbursing new loan including Bangladesh Bank's stimulus packages.	➤ Disbursing quality new loan.
➤ Reduction of loan repayment	➤ Loan approval, disbursement process, monitoring and recovery will be affected.	➤ Loan approval, disbursement process, monitoring and recovery will be affected if the COVID situation continues
➤ Sanctioning of new loan reduced.		➤ Maintaining health of CMSME loan Portfolio.
➤ The amount of overdue loan increased.		

Source: Mamun et al. (2020)

The research conducted by LightCastle Partners (2020) and Sheba.xyz covering 230 SMEs located in eight divisions of Bangladesh from April 6 to 8, 2020 revealed that 52% of the sample firms were completely shut down, 28% of the businesses lost their sale revenue which ranges between 50% to 99%, 24% firms cut down their employee benefits, 42% firms reduced their marketing and distribution expense, around 68% of the SMEs may not survive the lockdown situation if it is continued for more than 4 months, 46% employers expected around 50% layoff in case of the lockdown prevail for the next 4 months, and 47% claimed the disruption in supply of raw materials.

Kader and Pattanayak (2020) conducted a rapid survey of 500 MSMEs in Bangladesh to assess the impact of COVID-19 covering their operational status, impact on sales, impact on employment, channels affecting operations, and survival of firms. In terms of sales, 94% of firms experienced a sharp decline compared to pre-lockdown scenario. During the lock-down period about 79% firms managed to remain open and 21% were temporarily

closed. 70% of workers were in a susceptible position as their workplaces were temporarily closed or are partially open. 67% firms were adversely affected in terms of operations, (e.g. reduction in hours worked and availability of inputs, reduction in demand, decrease in cash flow and availability of financial services).

BRAC Bank Limited (2020) surveyed of their 5105 SME clients across eight SME regions covering 15 industrial segments. The results revealed that, nearly 67% of SMEs were shut down, 63% employees were absence in work, 82% experienced sales reduction, 61% had one month equivalent worth of stock, 84% firms failed to collect their receivables, 82% businesses can maintain their operational expenses for 1 to 2 months, and 63% firms have the capacity to pay their existing debts for hardly a month.

Hossain and Chowdhury (2022) in assessing the impact of the COVID-19 pandemic on 216 MSMEs from Bangladesh during January to March 2021, they found that the MSMEs were gradually recovering from COVID-induced losses after the lifting of lockdown in June 2020. In exploring the role of Fintech, in particular mobile financial services (MFS) on “firms’ production, sales, and profit for three periods: lockdown (March–May 2020), limited lockdown (June–September 2020) and the reopening period (October–December 2020)” their study showed a significant and positive impact from the use of MFS on the production, sales, and profit of firms during the COVID-19 pandemic.

Islam et al. (2022) based on the survey of 2238 Light Engineering (LE) firms in Bangladesh identified a number of problems during the COVID-19 restrictions in Bangladesh. Their study identified major problems the LEs faced during 2020 such as reduction of orders (75.26%), unable to pay employees and maintain business operation (40.26%), shut down of operation (39.29%), raw materials became very expensive (25.20%), clients not paying outstanding bills (22.40%), travel restrictions (18.67%), credit related complexities (9.75%) and so on.

In the Philippines, Shinozaki and Rao (2021) finds that MSMEs are confronting with a sharp drop in their demand as well as their revenue, employment layoffs and wage cut. While Abrigo et al. (2020) also finds that, the pandemic may potentially cost the Philippine economy at least P150 billion as there was a decline in household-consumption.

Covering 500 listed firms from 10 emerging economies during April 2020, Beck et al. (2020) find that the widely held firms were negatively affected by COVID-19 in terms of sales and employment among. Christine et al. (2020) provides the first comprehensive short-term impact of COVID-19 at the global level covering more than 100,000 businesses across 51 countries (primarily low- and middle-income countries) during April through August 2020. This study covers manufacturing, services and agriculture sector and as well

as different levels of exposure to the COVID-19 shock. It finds persistent negative impact on sales, employment adjustment in terms of leave of absence and reduced working hour/layoffs, financial constraints, increasingly relying on digital solutions as a response to the shock, greater uncertainty about the future survival.

An OECD (2020) survey¹ based on SMEs identified several impacts on their businesses during COVID-19 as shown in the following table. The study shows that majority (ranging between 60 to 96%) of the SMEs in OECD countries had significant impacts such as decrease in production, sales and profitability, supply chain disruption, layoffs, decline in turnover, cash flow problems (Appendix-III). The mentioned studies reveal the policy measures that has been taken by different countries around the globe. This may be a support for the affected CMSMEs to revive their business. Nevertheless, it is critical to better understand how accessible and effective current support policies are.

3. Major Initiatives of Bangladesh Bank and Status of CMSME Financing: Before COVID-19 and Onward

Bangladesh Bank is playing crucial role in streamlining the financing in CMSME sector in Bangladesh and formulating different initiatives² time to time. This section summarises the status of CMSME financing in Bangladesh in different Tables. It is evident from the Table 3.1 that compared to previous years, percentage of total loans disbursed to CMSMEs declined in 2020 as well as in 2021. During this period, Bangladesh experienced COVID-19 and several lockdown/limited lockdowns was imposed by the Government. The percentage of loan disbursement in small segment and Women-led enterprises declined in 2020, however it started to increase in 2021, a sign of recovery from COVID-19 period.

Table 3.1: Status of Total Loan, CMSME, Small and Women Owned Enterprises: Banking Sector (BDT in Crore)

Year	Total Loan of Banking Sector	Total of CMSME		Small		Women-owned Enterprises	
		Amount (Outs.)	% of TL	Amount	% of CMSME	Amount	% of CMSME
2016	713600	165419.0	23.18	64765.8	39.15	5155.5	3.11
2017	848720	192596.2	22.69	85690.6	44.49	5313.1	2.76
2018	968500	212341.6	21.92	96548.3	45.46	6094.1	2.87
2019	1083680	209179.5	20.23	114772.0	54.86	7645.6	3.65
2020	1175000	227289.1	19.34	122029.0	53.68	8008.2	3.52
2021	1324410	240804.5	18.18	138405.0	54.90	9862.07	4.09

Source: SME & Special Programs Department, Bangladesh Bank and Financial Stability Report, 2021, Bangladesh Bank

¹ The survey was conducted among the OECD countries during February to June, 2020.

² Please see Appendix IV.

Although the number of enterprises increased in 2020 compared to 2019 (Table-3.2), the total CMSMEs' disbursement decreased due to COVID-19 pandemic. The recovery amount shows a positive trend compared to 2019 and onward.

Table 3.2: Total CMSMEs Loan and Recovery of Financial Sector (BDT in Crore)

Year	Number of Enterprise	Total CMSMEs Disbursements	Recovery Amount	New Enterprise Disbursements	Without Collateral Disbursements
2017	744544	161777.32	133911.43	25227.37	19026.05
2018	687522	159510.09	114683.16	26977.59	24456.89
2019	774122	167970.67	133100.32	23323.62	26787.47
2020	785858	153496.15	149774.61	18218.62	21033.51
2021	939131	185428.48	171730.02	25691.19	25946.71

Source: SME & Special Programs Department, Bangladesh Bank

In terms of urban and rural loan disbursement to CMSEs, 2020 experiences slight decrease over 2019 (Table 3.3). However, rural CMSEs' loan increased significantly compared to 2020. This is a positive indication that banks are going to finance the rural CMSEs.

Table 3.3: Total CMSMEs Loan of Financial Sector and CMSEs' Share by Urban and Rural (BDT in Crore)

Year	Total CMSMEs Disbursements	Share of CMSEs (%)	Share of Urban CMSEs (%)	Share of Rural CMSEs (%)
2017	161777.32	59.1	83.6	16.4
2018	162643.10	64.7	82.9	17.1
2019	167970.67	71.2	81.7	18.3
2020	153496.15	71.0	81.0	19.0
2021	185428.48	73.2	74.09	24.91

Source: SME & Special Programs Department, Bangladesh Bank

Considering the disbursement status between Banks and NBFIs, Table-3.4 shows that the Banks are much better position compared to the NBFIs in 2020. But in 2021, the NBFIs' percent of market share increased significantly in 2021. However, share of banks experienced decrease in 2021.

Table 3.4: Total CMSEs Loan by Banks and NBFIs (BDT in Crore)

Year	Total CMSEs of Financial Sector	Share of Banks (%)	Share of NBFIs (%)
2017	95,616.1	94.3	5.7
2018	101,343.3	95.2	4.8
2019	119,379.3	96.1	3.9
2020	108,767.6	97.2	2.8
2021	135,776.7	95.1	4.9

Source: SME & Special Programs Department, Bangladesh Bank.

In case of industrial term loan and working capital loan, all the industry categories experienced decrease in 2020 and 2021 excepting the service industry (Table-3.5).

Table 3.5: Industrial Term Loan and Working Capital of Banking sector (%)

Size and Nature of Industrial Credit	2018		2019		2020		2021	
	Term Loan	Working Capital	Term Loan	Working Capital	Term Loan	Working Capital	Term Loan	Working Capital
Large Industries	66.00	62.94	67.11	63.99	67.58	64.07	69.36	63.57
SMEs	18.34	22.05	16.55	19.61	16.76	18.26	15.01	18.91
Cottage and Micro	0.50	0.21	0.17	0.22	0.14	0.25	0.15	0.19
Service	15.16	14.80	16.17	16.19	15.53	17.43	15.48	17.34
Total	100	100	100	100	100	100	100	100

Source: Schedule Bank Statistics

Table-3.6 shows the sector-wise distribution of CMSME loans of the financial sector, from where it is observed that during COVID-19 restriction, service, trade and manufacturing sector receives lower disbursement compared to previous years. In later year, all the sectors debounced to increased disbursement by the financial sector.

Table-3.6: Sector-Wise Distribution of CMSME Loans of Financial Sector (BDT in Crore)

Year	Service	Trade	Manufacturing
2017	22507.66	96934.79	42334.87
2018	36834.20	66936.21	55739.61
2019	36732.99	72522.37	58715.31
2020	33808.77	63262.30	56425.07
2021	40962.35	77663.58	66802.55

Source: SME & Special Programs Department, Bangladesh Bank

Compared to before 2020 (Table-3.7), cottage, small and medium categories enterprises' disbursement decrease in 2020. But in 2021 the enterprises of all categories shown a positive degree of increase.

Table-3.7: Category-Wise Disbursements of CMSME Loans of Financial Sector (BDT in Crore)

Category	2018	2019	2020	2021
Cottage	1917.60	1275.33	1231.11	2066.12
Micro	19117.12	16502.73	19031.88	22902.27
Small	92994.10	101601.23	88504.63	110808.29
Medium	45481.24	48591.39	44728.53	49651.81
Total	159510.06	167970.68	153496.15	185428.48

Source: SME & Special Programs Department, Bangladesh Bank

In case of financing the women-led enterprises both the disbursement and recovery dropped in 2020, due to COVID-19 pandemic and restrictions (Table-3.8). The disbursement and recovery get momentum in 2021 indicating the sign of improvement compared to 2020.

Table-3.8: Status of Women Enterprise Financing: Disbursement, Outstanding and Recovery (BDT in Crore)

Year	Financial Sector			Banking Sector		
	Disbursement	Outstanding	Recovery	Disbursement	Outstanding	Recovery
2016	2079.65	2341.71	1862.43	1826.76	2021.51	1543.88
2017	2050.45	2661.99	2038.17	1813.17	2291.70	1675.38
2018	2799.41	2982.58	1813.57	2494.12	2612.30	1530
2019	6108.98	8512.73	5516.14	5524.38	7645.56	4869.14
2020	5390.47	9063.38	5245.75	4840.19	8008.22	4694.65
2021	6802.09	9862.07	6616.53	6135.94	8741.22	5918.67

Source: SME & Special Programs Department, Bangladesh Bank

Table-3.9 highlights the disbursement to women owned new small enterprise financing and the financing without collateral. The data indicates that compared to pre COVID scenario, loan disbursement to new enterprises was reduced in 2020 and again increase in 2021. The same trend is observed in case of disbursement without collateral.

Table-3.9: Loan Disbursement to Women-Owned New Small Enterprise and without Collateral (BDT in Crore)

Year	New Enterprise		Without Collateral	
	No. of New Enterprise	Loan Disbursed	No. of Enterprise	Loan Disbursed
2016	5303	553.35	6372	392.69
2017	4164	469.99	3898	433.02
2018	2861	436.88	2827	398.25
2019	3523	416.55	3882	550.76
2020	3065	365.90	3648	485.30
2021	4131	576.0	4039	650.00

Source: SME & Special Programs Department, Bangladesh Bank

Considering the negative impact of COVID-19 on the CMSME sector Bangladesh Bank Issued BRPD Circular No. 17, Dated 28.09.2020 (Loan Classification) in order to keep the impact of COVID-19 on the CMSME sector at a manageable level. For this, the loans which were unclassified in 01 January 2020 should remain unclassified until 31 December 2020. At the same time the new loan has also been disbursed. As a result, the size of the

outstanding loan increased whereas the classified loan remains unchanged. Therefore, the aggregate percentage of classified loan in 2020 declined at 13% which was 14% in previous years for the entire financial sector. However, the size of classified loan subsequently increased in 2021 and 2022 (Table 3.10)

Table 3.10: CMSME Loan Outstanding and Classified Loan (BDT Crore)

	2018			2019			2020			2021			2022 (Up to June)		
Type of CMSME Bank/ FI	Loans Outs.	CMSME CL	% CMSME Loans Outs.	CMSME CL	% CMSME Loans Outs.	CMSME CL	% CMSME Loans Outs.	CMSME CL	% CMSME Loans Outs.	CMSME CL	% CMSME Loans Outs.	CMSME CL	% CMSME Loans Outs.	CMSME CL	% CMSME Loans Outs.
SOCBs	28,395.45	11,443.70	40	37,253.13	14,049.32	38	41,468.89	13,421.00	32	44,265.17	14,321.19	32	45,337.99	15,131.28	33
SBs	1,257.34	199.67	16	1,710.02	221.38	13	2,082.49	185.83	9	2,804.76	216.92	8	3,839.95	357.75	9
FBs	2,064.49	303.08	15	2,103.19	228.72	11	2,524.59	206.81	8	2,362.70	250.17	11	2,311.04	247.46	11
PCBs	94,595.65	9,398.05	10	110,558.39	10,716.72	10	118,117.2	10,787.29	9	124,146.0	13,725.42	11	132,519.41	16,802.02	13
IBs	52,164.31	5,044.42	10	57,554.79	5,084.97	9	63,095.97	4,813.99	8	67,225.76	5,763.39	9	75,073.61	6,553.87	9
NBFIs	9,768.22	705.72	7	10,114.46	987.05	10	10,364.30	1,434.88	14	11,277.62	2,018.71	18	12,366.58	2,318.10	19
Total	188,245.4	27,094.64	14	219,293.97	31,288.16	14	237,653.4	30,849.80	13	252,082.0	36,295.79	14	271,448.58	41,410.48	15

Source: SME & Special Programs Department, Bangladesh Bank

4. Stimulus Packages and Policy Initiatives of the Government of Bangladesh, Bangladesh Bank and Selected Asian Countries

4.1 Stimulus Packages and Policy Initiatives of the Government of Bangladesh and Bangladesh Bank

During the pandemic, the Government of Bangladesh took numerous policy measures in overcoming the adversative economic effect. Being the central bank of the country, Bangladesh Bank played a remarkable role in streamlining the credit flow, overall business and banking operations and issued several circulars³. All the initiatives were targeted to revitalize the economy of Bangladesh. In order to combat the impact of COVID-19 pandemic, the initiatives by Government and Bangladesh Bank are summarized in Table-4.1.

³ SMESPD Circular No. 3, 27 July, 2020; BRPD Circular No.03_Dated 31.01.2021; BRPD Circular No.05_Dated 24.03.2021; BRPD Circular No. 04_Dated 19.03.2020 (Loan Classification); BRPD Circular No. 13_27.06.2021; BRPD Circular No. 13_Dated 15.06.2020 (Loan Classification); BRPD Circular No. 17_Dated 28.09.2020 (Loan Classification); BRPD Circular No. 19 dated 26.08.2021; BRPD Cir. No.14_22.06.2022_Loan Classification; BRPD Cir. No.50_14.12.2021; BRPD Cir. No.51_29.12.2021; BRPD Cir. No.52_29.12.2021.

Table 4.1: Summary of Stimulus Packages of Government and Bangladesh Bank (BB)⁴

	Initiatives
Government	<ol style="list-style-type: none">1. Prime Minister announced BDT 20000 crore fund to provide working capital loan facilities to SMEs through banking sector. Under this package, Banks & FIs should disburse loans from their own fund to the entrepreneurs at 4% interest rate. The Government provides 5% to Banks & FIs as an interest subsidy.2. BDT 2000 crore for agricultural production, agro-based service, small business, and cottage industries through Palli Sanchay Bank, Probashi Kallyan Bank, Karmasangsthan Bank and Palli-Karma Sahayak Foundation (PKSF).
Bangladesh Bank	<ol style="list-style-type: none">1. BB has developed a Revolving Refinance Scheme of BDT 10000 crore to support the liquidity need of Banks & FIs for successful implementation of the aforesaid stimulus package.2. BB has also increased the fund sizes of three (03) existing refinance schemes (from Tk. 1,600 crore to Tk. 3,000 crore) to meet up the term loan (including working capital) requirement of the CMSMEs. At the same time, the interest rates of those schemes have been reduced (From 9% to 7%).3. A credit guarantee scheme has been introduced worth Tk. 2000 crore for the entrepreneurs in the cottage, micro and small (CMS) sector to help them tackle the ongoing crisis due to COVID-19 pandemic. The scheme primarily give coverage to the fund, which is being disbursed from the stimulus package of Tk 20,000 crore for the CMSE sector. Banks & FIs have been instructed to provide guarantees to at least 10% of their portfolio limit to women entrepreneurs under this scheme. (SMESPD Circular No. 3, 27 July, 2020).

In Mamun et al. (2020) study, the respondents were asked ‘whether stimulus package for CMSME is sufficient or not?’. In response, around 32% of the respondents opined that this package is enough and most of the respondents (68%) raised their concern about the implementation of the stimulus packages (Mamun et al. 2020). The implementation status of the CMSME stimulus package is presented in Table 4.2 where it is evident that 76.93% of the stimulus package was achieved in June 2021 and 76.88% was achieved in June 2022. It demonstrates that the full stimulus package of Bangladesh Bank is yet to be achieved.

⁴ Details of the policy response of Bangladesh Bank to support CMSMEs affected by COVID-19 pandemic are placed in the Appendix V.

Table 4.2: CMSME Stimulus Package Implementation Status During COVID-19 (BDT Crore)

Type of Bank/ FI	30/6/2021		30/6/2022		30/9/2022	
	No. of Beneficiary	Amount Disbursed	No. of Beneficiary	Amount Disbursed	No. of Beneficiary	Amount Disbursed
SOCBs	31,956	1,865.33	30,959	2,333.51	3,023	222.04
SBs	9,468	392.74	5,884	248.61	1,082	43.02
FBs	370	118.13	2,826	86.70	2	0.52
PCBs	40,335	8,566.18	30,235	8,094.91	1,336	308.02
IBs	12,794	3,813.64	11,949	3,841.71	390	87.68
NBFIs	2,891	630.70	3,400	770.14	203	48.62
Total	97,814	15,387	85,253	15,376	6,036	710
% Achieved		76.93		76.88		

Source: SME & Special Programs Department, Bangladesh Bank

Further, Mamun et al. (2020) finds that the entrepreneurs suggested for EMI based term loan in place of working capital for 2-3 years instead of 1 year tenure and for increasing the percentage of allocation for trading sector.

4.2 Stimulus Packages and Policy Initiatives of Some Asian Countries

Different countries have declared stimulus package to help the CMSME sector. Table 4.3 highlights some of the stimulus package initiatives among selected Asian countries (India, Malaysia, Indonesia, and Thailand) compared to Bangladesh. The stimulus packages declared in selected countries are designed based on their own country perspective. The common pattern in these stimulus packages is that all the initiatives accommodated the soft/concessional loan, refinancing of loans, working capital loans, and moratorium of loan repayment for few months. However, only Indonesia proposed tax relief for the CMSMEs.

Table 4.3: Bangladesh Government's Initiatives Compared to Selected Asian Countries

Country	Types of Measures	Focus of the Stimulus Package
Bangladesh	Concessional loans, Refinance loan, Working capital finance.	The stimulus package caters to the CMSMEs, low-income people, farmers, and micro/marginal business by varied type of schemes and financing
India	Refinancing loan, 3-month moratorium of loan repayments.	The primary focus has been to back workers in the informal sectors who have experienced a steep decline in income or have lost jobs.
Malaysia	Working capital loan	The stimulus package will available for early stage and growth-stage Malaysian companies.
Indonesia	Tax relief, Soft loans, 2-month moratorium on loan repayments.	The package provides a range of fiscal and non-fiscal incentives in addition to a special stimulus for start-ups and small and medium-sized businesses.
Thailand	Soft loan at 2% with initial 6 months interest payment deferred. 6 months loan payment holiday.	Package to support SMEs especially tourism-related businesses.

Source: LightCastle Partners (April, 2020), based on Bangladesh Bank, Media Room Circulars & IMF, Policy Responses to Covid-19. Available at: <https://www.lightcastlebd.com/insights/2020/04/25/covid-19-impact-on-bangladeshs-sme-landscape>

The Governments and the Central Banks of the South Asian Association for Regional Cooperation (SAARC) countries took different policy initiatives to address the challenges of COVID-19 in this region, which is shown in Table-4.4.

Table 4.4: Policy Initiatives of the Governments and Central Banks in SAARC Countries

Country	Policy Responses of the Government and Central Banks
Afghanistan	The authorities of Afghanistan spent about 2.2 percent of GDP to fight in 2020, including a health package of around Af 10.9 billion of which Af 2.6 billion of building hospitals and provincial clinics; the social package of around Af 14.7 billion, of which Af 2 billion on the bread distribution program and Af 12.7 billion on the World Bank supported social distribution program, transfers to provinces to finance COVID-19 response of about Af 1.3 billion; support to agriculture and short-term jobs of about Af 5.2 billion and Af 1.0 billion respectively.
Bangladesh	Bangladesh Bank (BB) and other financial sector regulators have made coordinated efforts with the Government on various fronts by combining fiscal and monetary stimulus, regulatory and supervisory measures and economic policy innovations to overcome the adverse impacts of the pandemic on our economy. With the collaboration of the Bangladesh Bank, the Government of Bangladesh has announced a series of stimulus packages and refinance schemes equivalent to BDT 1284.4 billion, which is 4.59 percent of GDP, to recover from the COVID-19 related economic losses.
Bhutan	The Government of Bhutan and the Royal Monetary Authority have come together to put in place several fiscal and monetary measures in light of the COVID-19 pandemic by ensuring adequate relief measures and safeguarding the people's livelihood.
India	The Government of India and Reserve Bank of India recognized the disruptive nature of the pandemic and announced a range of policy measures to support the economy, such as monetary policy, liquidity, business continuity, regulatory for balance and fiscal stimulus measures, with emphasis on social security in the form of cash transfers, provision for additional employment under various schemes and other supportive initiatives for NBFCs, MSMEs, business enterprises, individual loans, among others. The fiscal and monetary measures announced, taken together, cumulated to 15.7 percent of GDP1, including liquidity and other actions taken by RBI.
Maldives	The Government of Maldives has taken measured steps to mitigate the socioeconomic impact of COVID-19 by supporting households and businesses while protecting the health of individuals during the COVID-19 pandemic. To address the economic consequences of mitigating the virus, the Government has formulated an Economic Relief Package for different stakeholders of the economy. USD 28.9 million, rapid credit response loan by IMF in April 2020, USD 50 million, combined grant and loan by ADB in July 2020, USD 250 million domestic treasury bond by State Bank of India USD 47.5 million by Japan International Corporation Agency, USD 20 million by OPEC fund for international development and USD 10 million by World Bank were announced.

Nepal	The government of Nepal and the Nepal Rastra Bank have taken a number of effective policy measures to curb the COVID-19 pandemic. The government of Nepal had initially announced a stimulus package exceeding Rs 210 billion in the budget for fiscal 2020-21 to help businesses cope with unfavourable circumstances created by the COVID-19 pandemic and boost the economy. The government has earmarked Rs 100 billion in the budget for refinancing facilities at a five percent interest rate to industries/businesses affected by the coronavirus.
Pakistan	A relief package worth Pakistani Rupee (PKR) 1.2 trillion (2.9 percent of GDP) was announced by the Government of Pakistan on March 24, 2020. Key measures include: (i) elimination of import duties on emergency health equipment (extended until December 2020); (ii) cash transfers to 6.2 million daily wage workers (PKR 75 billion); (iii) cash transfers to more than 12 million low-income families (PKR 150 billion); (iv) accelerated tax refunds to exporters (PKR 100 billion); and (v) support to SMEs and the agriculture sector (PKR 100 billion) in the form of power bill deferment, bank lending, as well as subsidies and tax incentives.
Sri Lanka	Sri Lankan Government took several fiscal measures such as COVID-19 Healthcare and Social Security Fund, granting tax exemptions on importation and supply of pharmaceutical machinery, medical instruments and drugs required for the provision of the COVID-19 pandemic, Cash allowance for low-income families, relief measures for SMEs. The Central Bank of Sri Lanka deployed monetary and financial policy measures in response to COVID-19, such as, to reduce the interest rates, improving the market liquidity, providing required financial support to the Government through the purchase of Treasury bills, implementing a debt moratorium to COVID-19 affected businesses and individuals, etc.

Source: SAARCFINANCE Cell (2021), Bangladesh Bank. Available at:https://www.bb.org.bd/pub/special/covid19_06072021.pdf

The policy initiatives of different countries to overcome the challenges of COVID-19 pandemic is praiseworthy. These supports to the different stakeholders including the CMSMEs may contribute in their survival and recovery.

5. Effect of COVID-19 on CMSEs: Finding and Analysis

This section presents the study findings and analysis based on the survey questionnaire.

5.1 Respondents' Profile

Almost all the respondents were either involved or tried to be involved with the formal financial sectors. Table 5.1 shows the profile of the respondents – the age of the business, types of business, category of business, location of business, and status of trade license.

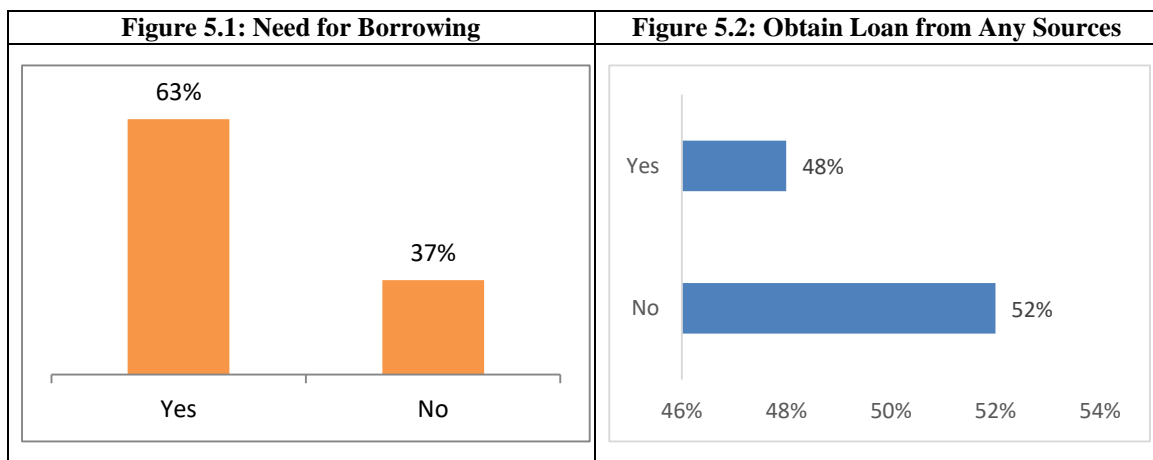
About 53% firms have long business experience in terms of their age of business ranging between 11 years and more than 20 years age. The survey included three types of business sectors, i.e., manufacturing, trading and services sectors. 21.27 % of the sample firms belongs to manufacturing sector, 70.14 percent in trading sector and only 10.63 percent in the services sector. Considering the category of business, 3.48 percent firms were in cottage segment, 30.47 percent in micro segment and the rest 66.05 percent in small segment. Since the study conducted a survey in all divisions of Bangladesh, the location of rural, and urban areas has been considered. Among the sample, 43.15 percent firms were located in the rural areas whereas and 56.85 percent firms were in urban areas. The study also found that majority of the firms (90.18%) had trade license.

Table 5.1: Respondents' Profile

Demographics		Frequency (N = 489)	Percentage
Age of business	1 - 5 years	88	17.99%
	6- 10 years	145	29.60%
	11 - 15 years	132	26.90%
	16 - 20 years	80	16.35%
	More than 20	44	8.99%
Type of business sector	Manufacturing	104	21.27%
	Trading	343	70.14%
	Service	52	10.63%
Category of business	Cottage	17	3.48%
	Micro	149	30.47%
	Small	323	66.05%
Location of business	Rural	211	43.15%
	Urban	278	56.85%
Gender	Male	402	82.21%
	Female	87	17.79%
Have trade license	Yes	441	90.18%
	No	48	9.82%

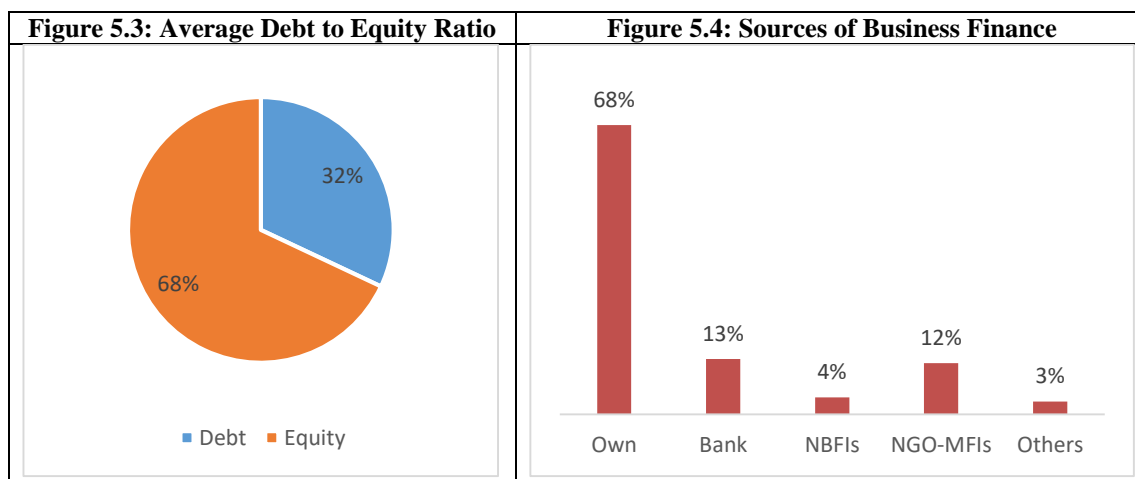
5.2 Need for Borrowing and Obtain Loan during March 2020 – March 2022

The CMSEs have credit needs from the formal and informal financial sector. But the formal sources are not sufficient enough to provide adequate and required loan to the CMSEs. Although banks are coming forward with a good number of lending packages, entrepreneurs sometimes faced difficulties with the cumbersome process of lending and different mechanisms or lending strategies that banks follow. About three-quarters (63%) of the sampled firms had the need for borrowing (Figure-5.1). About 48% respondents opined that they obtained loans from different sources (Figure-5.2).



5.3 Capital Structure and Sources of Business Finance

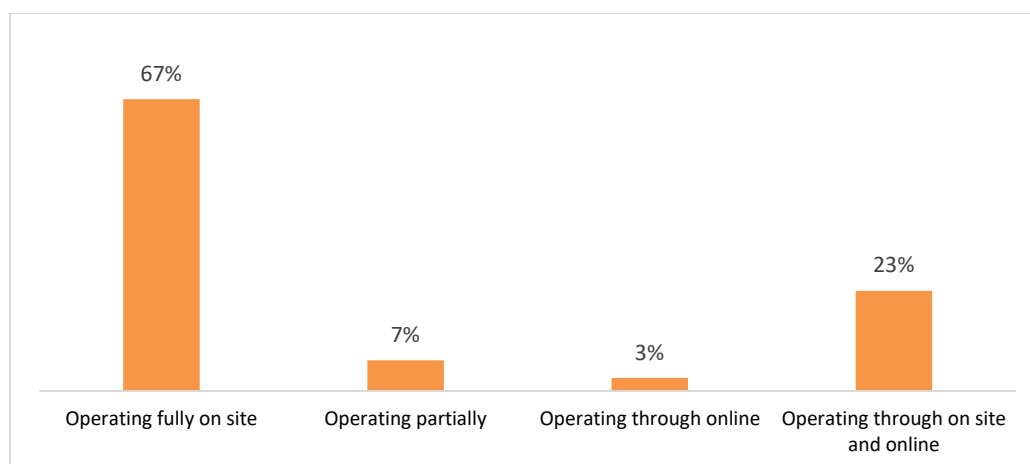
The average debt to equity ratio of the sampled CMSEs was 32 percent (Figure-5.3). While (68%) had their own source of funding, the others obtained loans from banks (13%), NBFIs (4%), NGO-MFIs (12% and others (3%). It is important to note that the 19 percent CMSEs were borrowing from other than banks, i.e. they are borrowing either from NBFIs or NGO-MFIs or other sources (Figure-5.4). This may be due to the lack of banks' presence in those areas or lack of proper attention by banks to offer their services to those CMSEs and easy access of entrepreneurs to non-bank sources.



5.4 Effects on Operation

Looking into the effects of COVID-19 on the CMSEs, it is evident that at present, 67% CMSEs are operating fully in their business location while 23% CMSEs are using on-site and online operation (Figure-5.5)

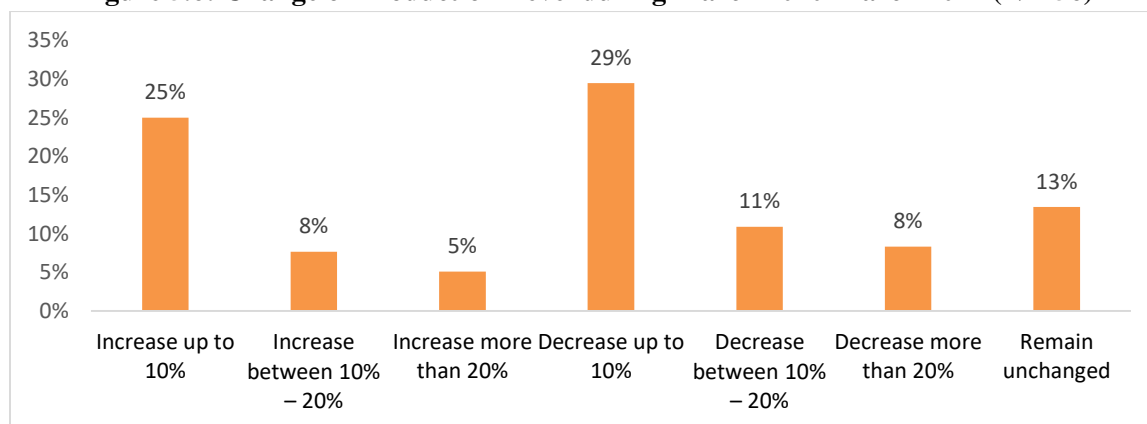
Figure 5.5: Current Status of Business Operation



5.5 Effects on Products and Productivity

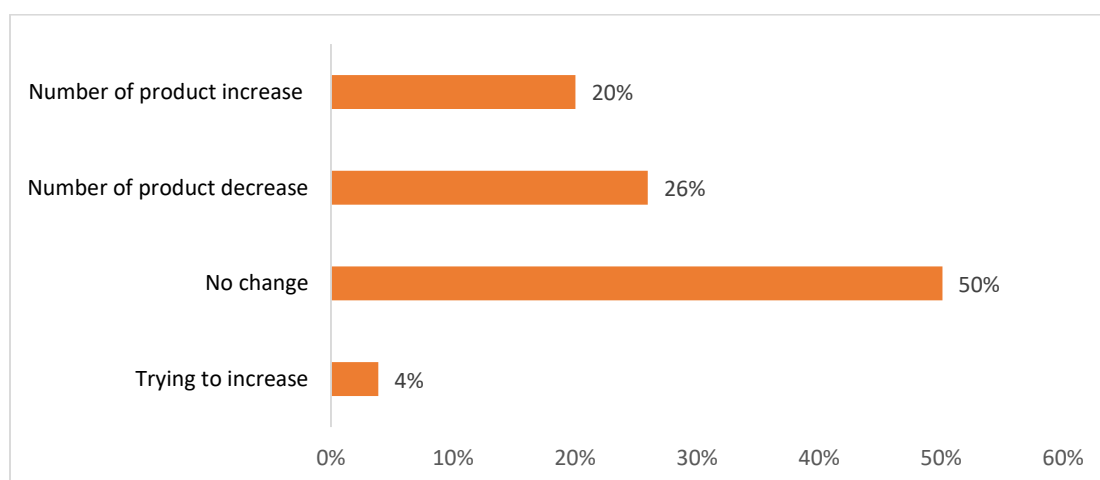
Table 5.6 shows the change of production level during March 2020 to March 2022. The production level increased up to 10% in case of 25% CMSEs and around 13% respondent reveals that their production level increases ranging from 10% to 20% and above. However, 48% CMSEs experienced decrease in production level in varying percentage. The production level was unchanged for 13% CMSEs.

Figure 5.6: Change of Production Level during March 2020-March 2022 (N=156)



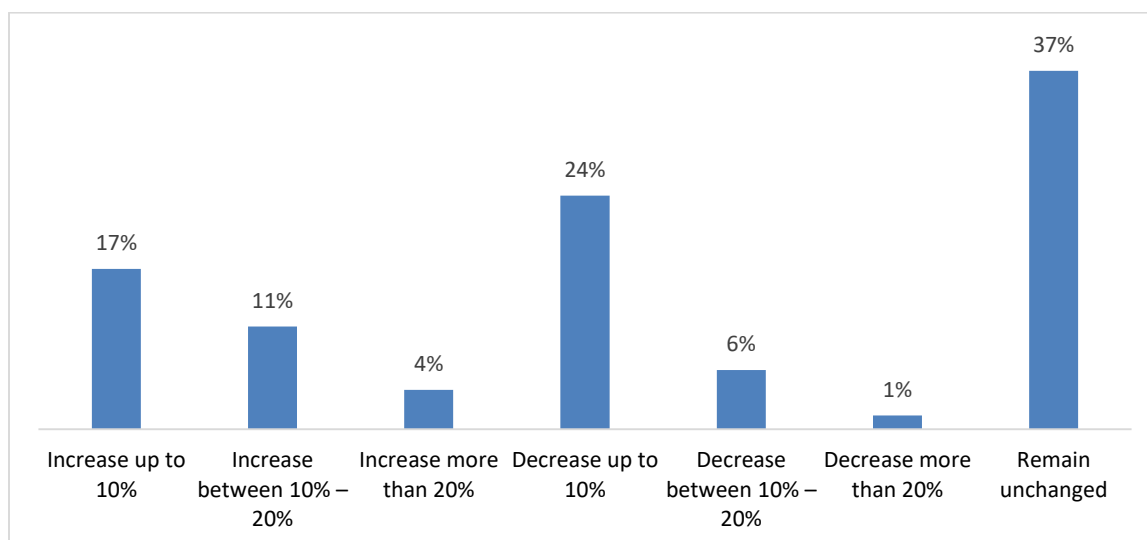
50% CMSEs did not have any change in their number of products and 26% experienced decline (Figure-5.7) during March 2020 to March 2022. While, only 20% CMSEs responses that their number of products has increased.

Figure 5.7: Change of Number of Product during March 2020-March 2022



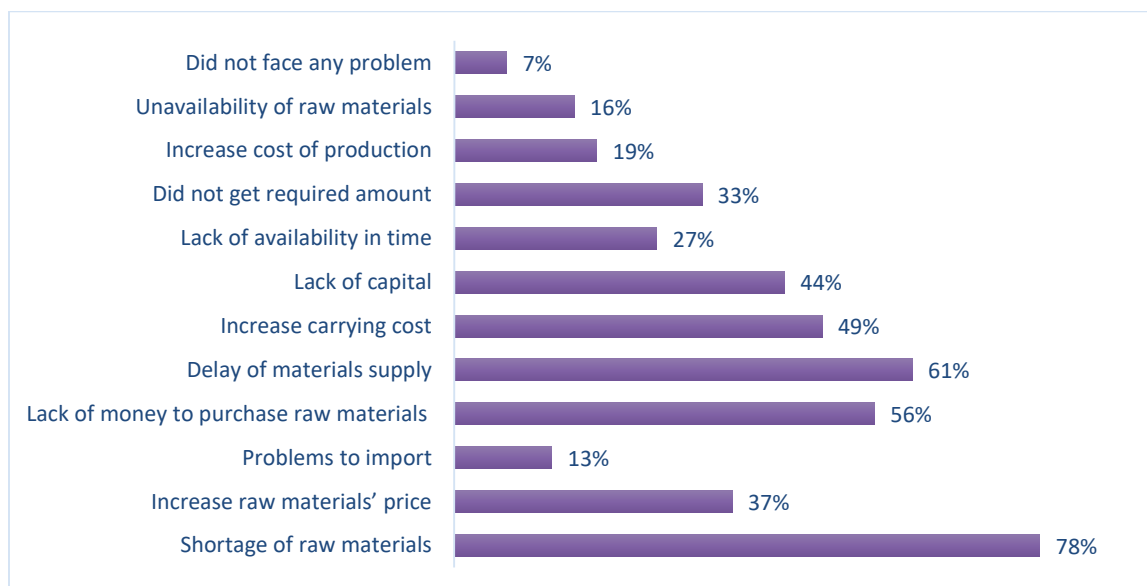
During March 2020 to March 2022, 37% CMSEs feels that their workers' productivity remains unchanged and productivity of the workers decreased by 31% CMSEs. In case of 32% CMSEs, their workers' productivity increased in varying percentage (Figure-5.8).

Figure 5.8 Changes of Workers Productivity during March 2020-March 2022



The CMSEs cited a number of problems in terms of procuring the raw materials for their enterprises during March 2020 to March 2022 as shown in Figure 5.9. The major problems include shortage of raw materials, delay of materials supply, lack of money to procure raw materials, increased carrying cost, lack of capital, did not get required amount to purchase raw materials and so on.

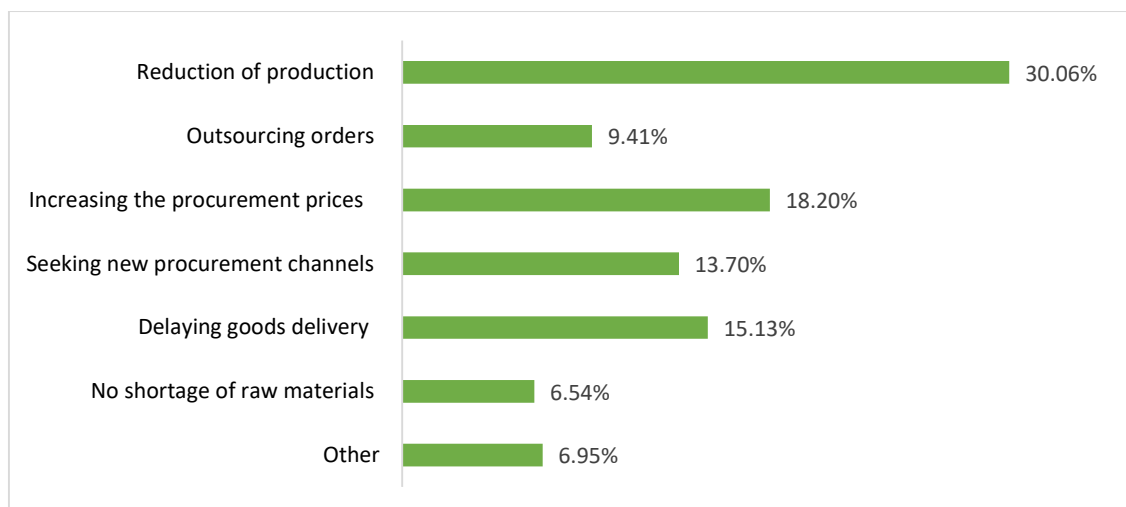
Figure 5.9: Problems Faced to Procure Raw Materials for Business Operation (Mixed Response)



Due to the problems to procure the raw the materials, the CMSEs took different measures to overcome this situation depicted in Figure-5.10. The CMSEs reduced their level of

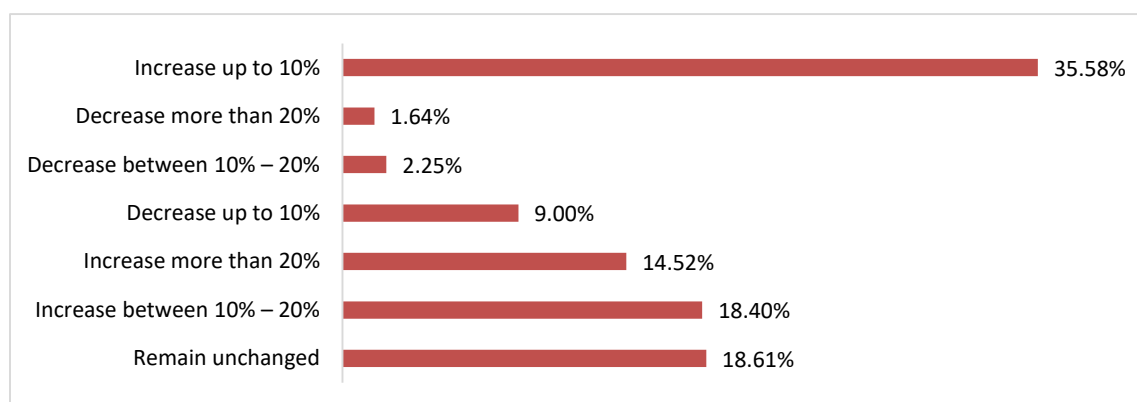
production, increased the procurement cost, sought new procurement channels, delaying delivery of goods etc.

Figure 5.10: Means to Deal with the Shortage of Raw Materials/Stock



The majority of the CMSEs experienced an increase in their cost of production as shown in the Figure-5.11.

Figure 5.11: Change of Cost of Production during March 2020-March 2022



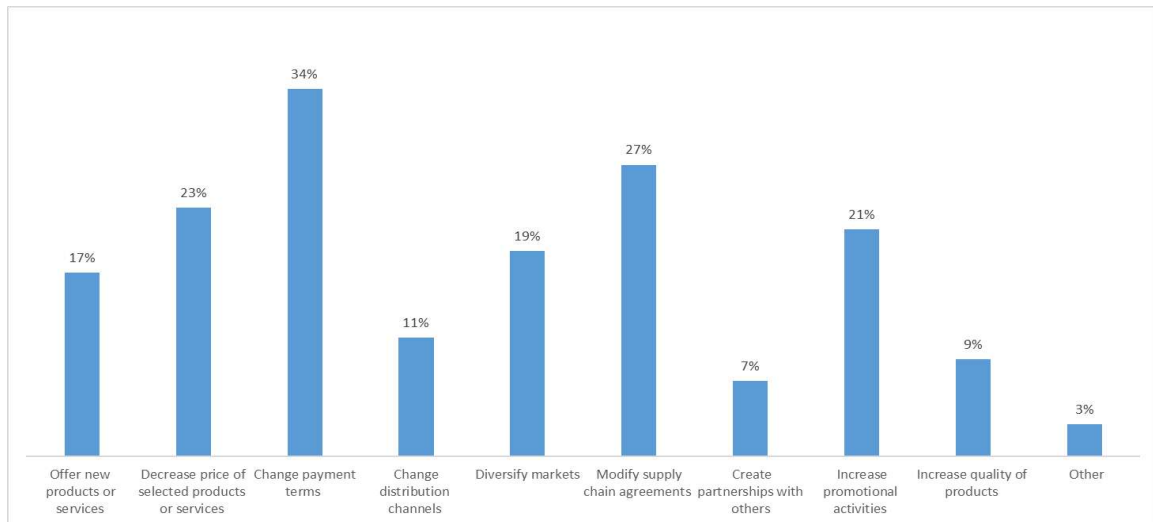
5.6 Effects on Financials

The CMSEs experienced a number of changes in their financial parameters (Table-5.2). It is observed that majority of the CMSEs' sales, profit, asset have significantly dropped during March 2020 to March 2022. They encountered heavy increase in overall cost, accounts receivables and accounts payables.

Table 5.2: Change of Different Financial Parameters during March 2020-March 2022

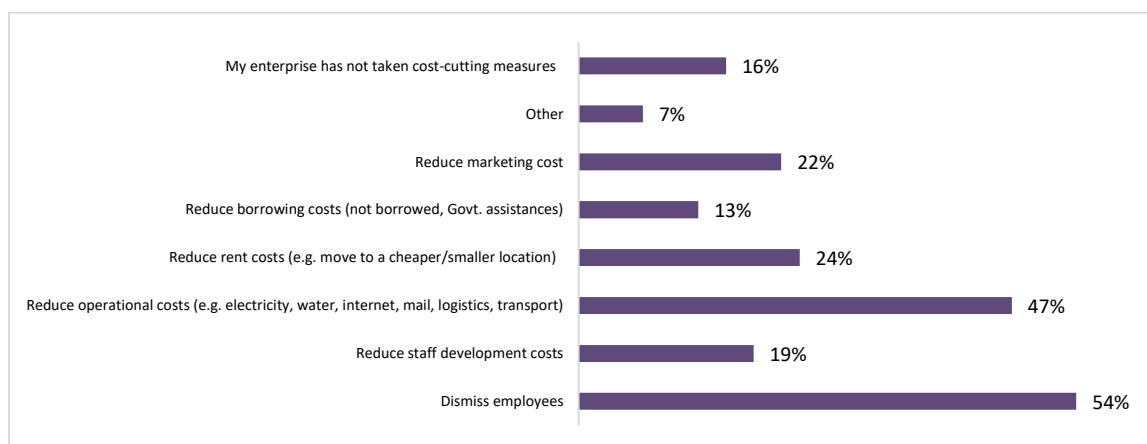
Parameters	Increase up to 10%	Increase between 10% – 20%	Increase more than 20%	Decrease up to 10%	Decrease to between 10% – 20%	Decrease more than 20%	Remain unchanged
Change in Sales	13.1%	11.5%	6.5%	32.9%	19.0%	9.6%	7.4%
Change in overall cost	42.3%	18.8%	17.6%	7.8%	4.3%	2.5%	6.7%
Change in profit	14.1%	10.4%	7.6%	38.2%	16.6%	10.4%	2.7%
Change in assets	13.3%	8.8%	2.2%	33.3%	14.5%	7.8%	20.0%
Change in accounts receivables	39.1%	17.8%	7.0%	5.5%	2.7%	2.5%	25.6%
Change in accounts payables	37.8%	17.8%	9.0%	7.2%	3.7%	1.6%	22.9%

To increase the sales revenue, the CMSEs have undertaken a number of strategies (Figure-5.12), i.e. change in payment terms (34%), modification in supply chain agreement (27%), decrease price in selected products and services (23%), increase in promotional activities (21%) and other initiatives.

Figure 5.12: Strategies Undertaken for Increasing Sales Revenue during March 2020-March 2022

To be competitive and survival in the industry, the CMSEs have taken different cost saving measures during March 2020 to March 2022 (Figure-5.13), which include dismissal of their employees (54%), reduction in operational cost (47%), reduction in rental cost (24%), reduction in marketing cost (22%) and others.

Figure 5.13 Cost Saving Measures conducted to survive during March 2020-March 2022



The findings of the study also show that on an average 27.25% of the account receivable were turned into bad debts during March 2020-March 2022. On the other hand, around 12% of the account payable were stuck up in the same period.

5.7 Effects on Employment and Employee's Benefits

It is evident (Figure-5.14) that majority of the CMSEs employment and employee benefits have been heavily affected. Besides, the salary and benefits given to their employees need to be curtailed in a greater extent. (Figure-5.15).

Figure 5.14: Change of Employees during March 2020-March 2022

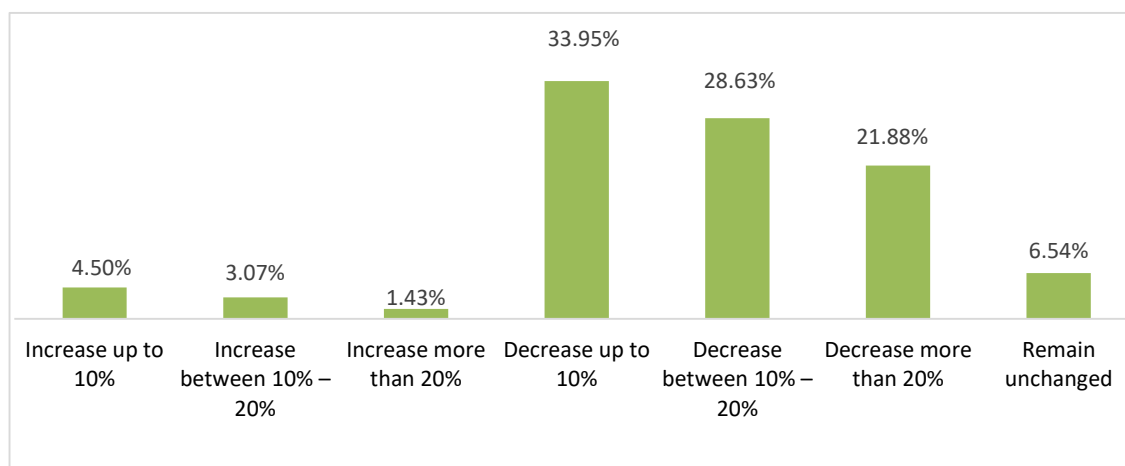
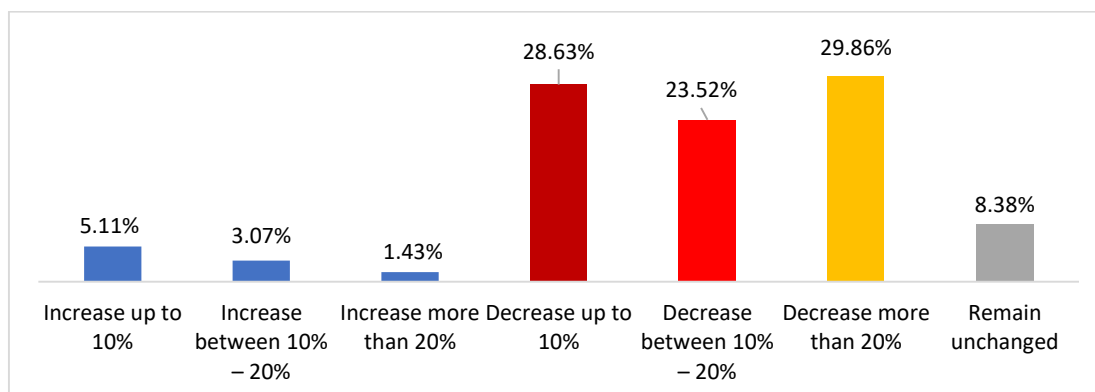


Figure 5.15: Change of the Total Salary and Compensation of your Employees during March 2020-March 2022



5.8 Effects on Living standard

The CMSE entrepreneurs' living standard dropped in terms of health services, food and nutrition facilities, and children's education facilities (Table-5.3). The housing facilities of the entrepreneurs were least affected.

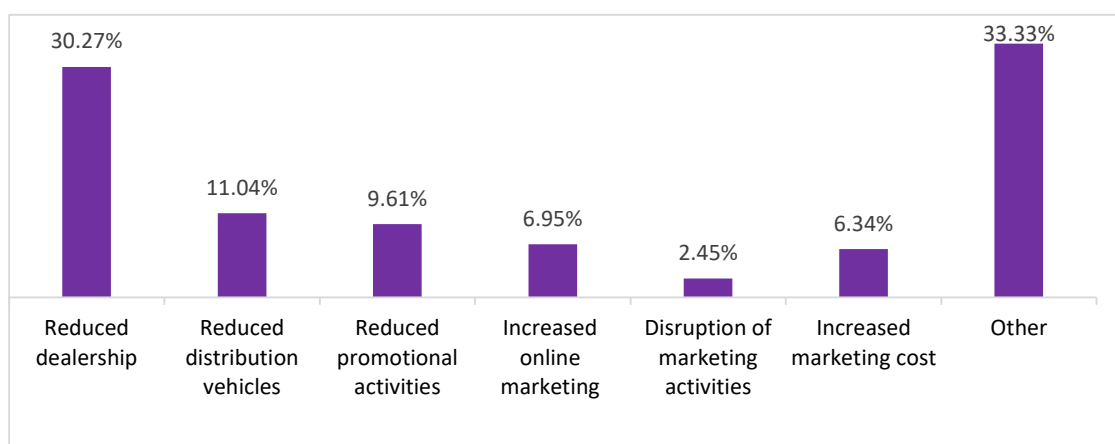
Table 5.3: Effects on Living Standard

Parameters	Highly Increased	Moderately Increased	Slightly Increased	Highly Decreased	Moderately Decreased	Slightly Decreased	Remain unchanged
Housing facilities	2.86%	8.38%	6.95%	3.48%	7.57%	7.57%	63.19%
Health services	2.25%	11.36%	17.13%	19.29%	23.82%	8.59%	16.56%
Food and nutrition facilities	1.23%	14.72%	12.03%	24.50%	18.59%	14.82%	14.11%
Children's education facilities	4.29%	4.91%	9.41%	7.07%	9.27%	9.41%	55.64%

5.9 Effects on Marketing and Distribution Channels

Figure-5.16 shows the effects on marketing and distribution channels which were mainly due to COVID-19 pandemic.

Figure 5.16: Effects on Marketing and Distribution Channel



5.10 Effects on Business due to Supplier and Buyer

The CMSEs were severely affected in doing their business during March 2020 to March 2022 which is shown in Figure-5.17 and Table-5.4, respectively.

Figure 5.17: Problems Faced with Supplier during March 2020-March 2022 (Mixed Response)

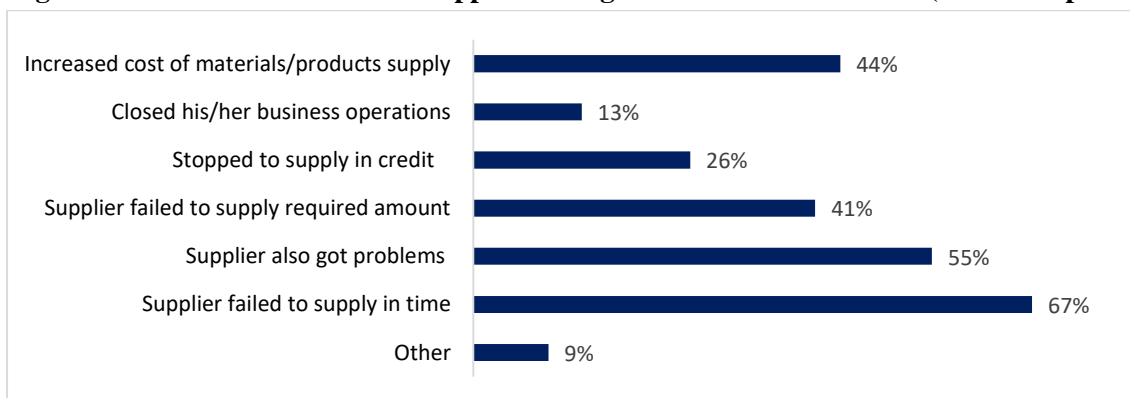


Table 5.4: Problems Faced with Your Buyer during March 2020-March 2022

Parameters	Percentage
Discontinue to buy	43%
Reduced number of fixed buyers	17%
Ordered a smaller number of products	28%
Stopped to buy my products	19%
Demand of the customers had shifted	8%
Reduced sales for increasing price of products/services	31%
Other	5%

5.11 Economic Impact

The CMSEs experienced mixed impact (Table-5.5). This is evident that the most of the CMSEs are gradually recovering from the adverse economic impact of COVID-19 pandemic.

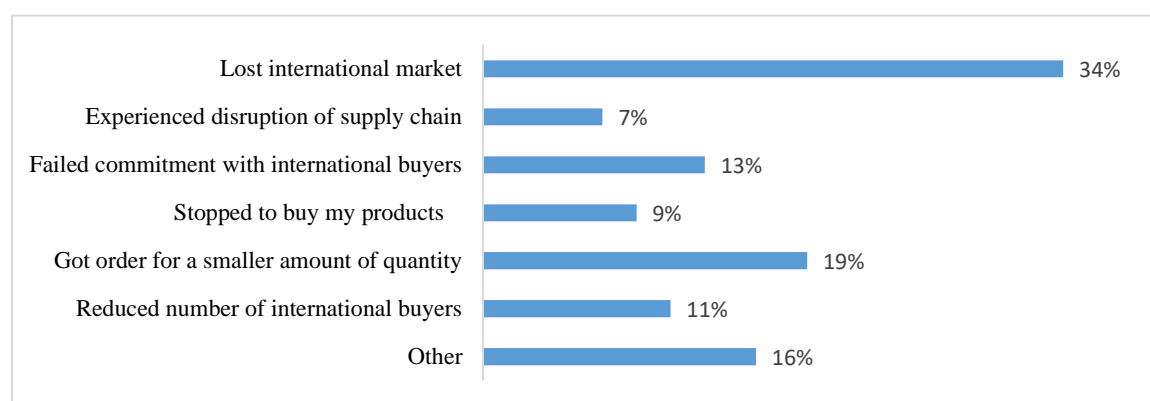
Table 5.5 Change of Business Regarding the Following during March 2020-March 2022

Parameters	Increase up to 10%	Increase between 10% – 20%	Increase more than 20%	Decrease up to 10%	Decrease between 10% – 20%	Decrease more than 20%	Remain unchanged
Business opportunity	18.40%	36.20%	7.77%	3.48%	25.77%	6.13%	2.25%
Market opportunity	7.36%	32.11%	15.75%	22.09%	15.54%	5.32%	1.84%
Personal savings	11.86%	25.97%	35.58%	15.54%	7.57%	2.45%	1.02%
Backward linkages	38.65%	18.00%	25.56%	0.20%	11.25%	5.11%	1.23%
Forward linkages	32.31%	15.75%	25.77%	0.41%	15.54%	9.41%	0.82%
Business opportunity	18.40%	36.20%	7.77%	3.48%	25.77%	6.13%	2.25%

5.12 Effects on Export

The Figure-5.18 shows the problems that the exporting CMSEs encountered during March 2020 to 2022.

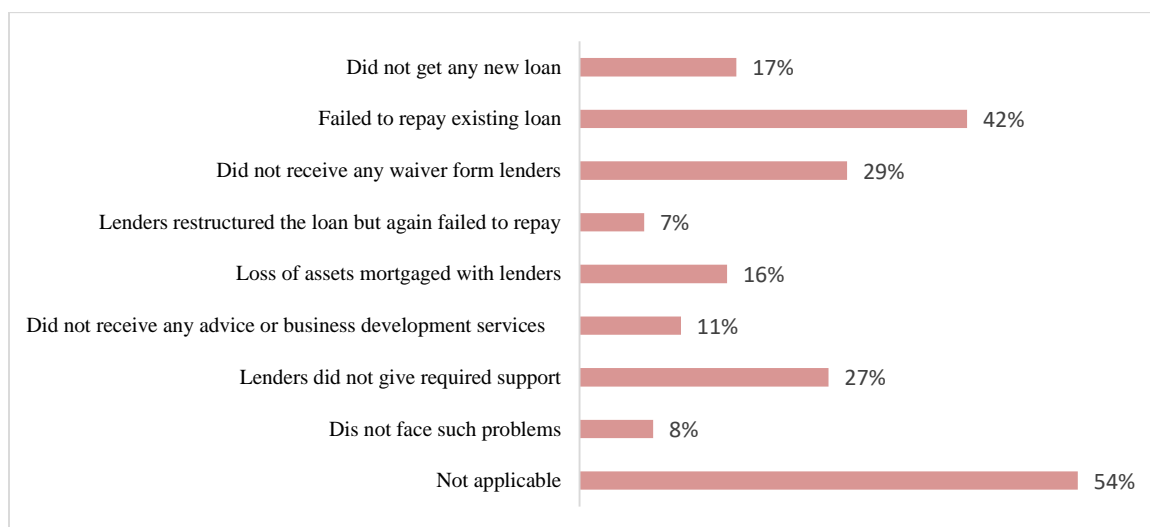
Figure 5.18: Problems Faced Regarding Export Operations during March 2020-March 2022 (Mixed Response)



5.13 Effects on Borrowings with Lenders

The CMSEs was affected in terms of taking new loan, repaying the existing loan, loss of assets in mortgaged loan and others, as shown in Figure-5.19.

**Figure 5.19: Problems Faced with Lenders during March 2020-March 2022
(Mixed Response)**



5.14 Challenges Faced

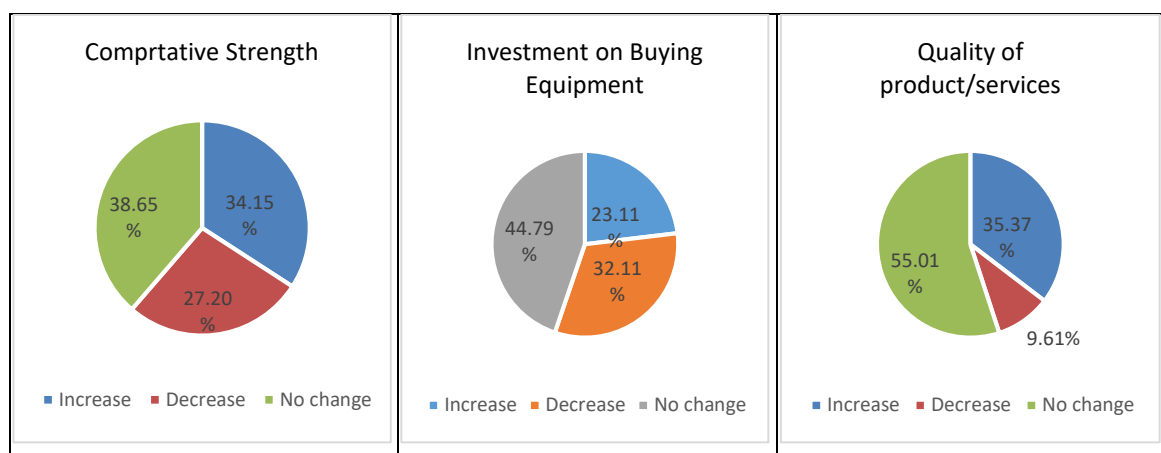
The CMSEs faced numerous challenges during March 2020 to March 2022, which is shown in Table-5.6.

Table 5.6: Challenges Faced during March 2020-March 2022 (Mixed Response)

Sl.	Challenges	%
1	Cash flow to maintain staff and business operations was inadequate	73
2	Experienced employees those were layoff, do not come back again	11
3	Raw materials/stock were not in supply or became very expensive disrupting operations	46
4	Suppliers were unable to provide inputs	39
5	Business partners have been badly affected and discontinued the operation	17
6	Customers / clients were affected and demand was lower than normal	21
7	Inability to deliver existing orders	28
8	Increased difficulty of financing	43
9	Existing loans cannot be extended	23
10	Upstream and downstream chains were disrupted	54
11	Logistic support was disrupted	25
12	Others	9

The CMSEs' competitive strength, investment on buying equipment and quality of services slightly decreased during March 2020 to March 2022. However, the scenario is mostly positive for the majority of sampled CMSEs as shown in Figure-5.20.

Figure 5.20: Effects on Competitive Strength, Buying Equipment and Quality of Products



5.15 Future Expectations and Other Findings

The CMSEs outlook for the future outlook is positive as it evidenced in Table-5.7. This demonstrate that most of the CMSEs are gradually trying to recover from the adverse economic impact of COVID-19 pandemic.

Table 5.7: Future Outlook as Viewed by the CMSEs

Sl.	Parameters	Increased	Decreased	No change
1	Business opportunity	72.82%	18.38%	8.79%
2	Market opportunity	68.23%	24.41%	7.36%
3	Sales and profit	54.23%	36.56%	9.20%
4	Capability to borrow	29.65%	42.13%	29.86%
5	Product/service demand	84.05%	5.11%	10.84%
6	Competitive strength	84.25%	5.32%	10.43%

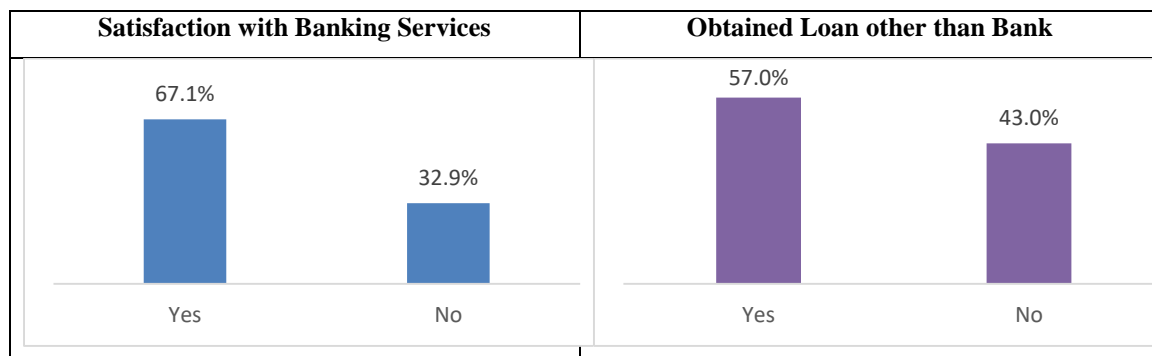
Expectations of the CMSEs regarding banking assistance as well as Government assistances are summarized in Table-5.8

Table 5.8 Expectation Regarding Banking and Government Assistances

Sl.	Expectation Regarding Banking Assistances	Sl.	Expectation Regarding Government Assistances
1	Loan with soft terms and conditions	1	Availability of subsidised loan
2	Training and advocacy services	2	Import restriction for some finished goods
3	Small ticket loan without collateral	3	Reduce import duty for importing raw materials
4	Easy availability of loan	4	Reduced Tax rate
5	Loan with low interest rate	5	Long term loan from stimulus packages
6	Low documentation formalities	6	Free of cost-free industrial training
7	Loan against NID	7	More loan from credit guarantee scheme
8	Shorter loan processing time	8	More cash incentive for CMSE exporter
		9	Offer entrepreneurship reward
		10	Incentives for lost business reintegration

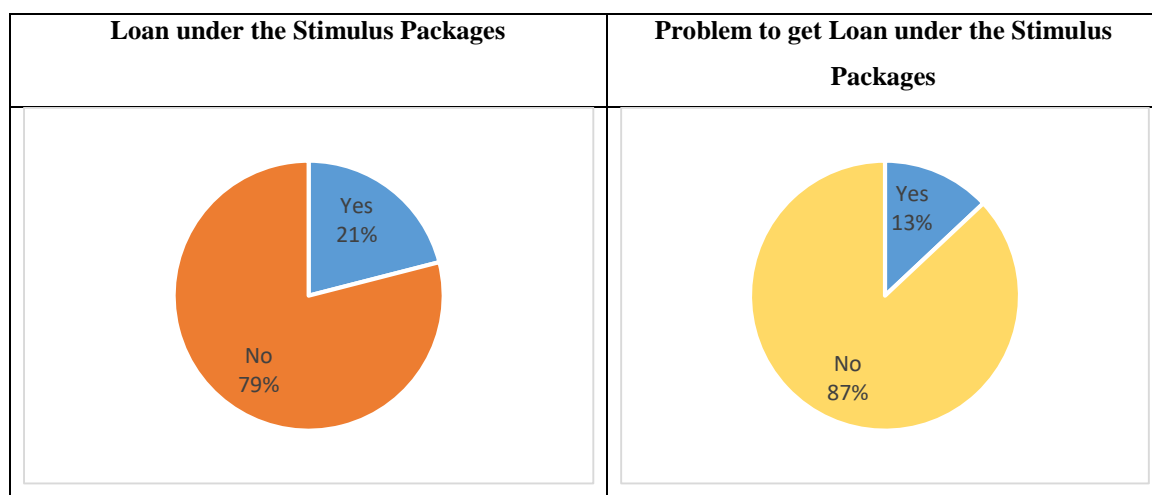
Regarding banking services during March 2020-March 2022, around 67% of the CMSEs were satisfied although 57% of the sampled firms took loan other than the banking source (Figure-5.21).

Figure 5.21: Experience with Banking Services and Obtaining Loans other than Banks



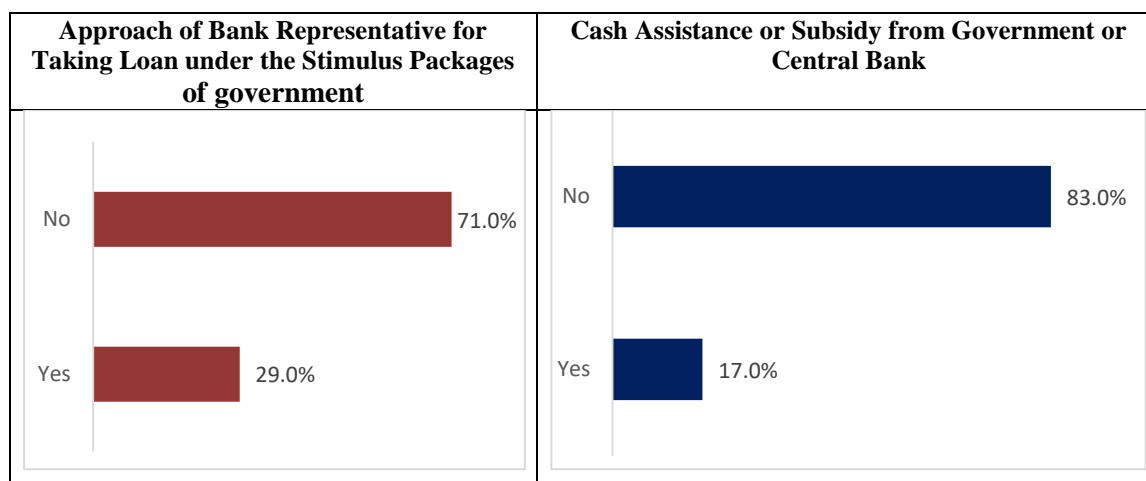
During March 2020-March 2022, 21% of the sampled firms obtained loan under the stimulus packages of government and of them 87% did not face any problems to avail such loan (Figure-5.22).

Figure 5.22: Problem to Get Loan under the Stimulus Packages of Government during March 2020-March 2022



Regarding the loan under stimulus packages of government 21% respondents opined that no bank representative approach them to get loan. On the other hand, 83% of the respondents claimed that they did not get any cash assistance or subsidy from the government or central bank (Figure-5.23).

Figure 5.23: Approach of Bank Representative for Taking Loan under the Stimulus Packages of Government and Cash Assistance or Subsidy from Government or Central Bank during March 2020-March 2022?



6. Summary of the Key Informant Interview from Banks

The summary of Key Informants Interview is shown in Table-6.1.

Table 6.1: Bankers' Opinion on 'Effect of COVID-19 on CMSEs

Key Areas	Way Forward
Some specific sectors (Pharmaceuticals industry, Hospitals, ICT Sector, Grocery business) showed high demand for the loan and loan demand for some regular demanding sector declined significantly.	<ul style="list-style-type: none"> Identification of affected CMSMEs and implementation of stimulus packages offered by Government and Bangladesh Bank based on that selection. Examining effects of COVID-19 on selected CMSME sectors. Bank should design more tailor-made products and services to fulfill the needs of demand side. Implementation of Credit Guarantee Scheme declared by Bangladesh Bank. SME Bankers should change the mindset and take business friendly measures so that affected CMSME entrepreneur may survive in this critical condition.
Quality of the loans declined significantly.	<ul style="list-style-type: none"> Bank should emphasis on the quality of the loan and recovery of overdue loans carefully. BB may provide strict policy support to the commercial banks as well. Ensure enhanced due diligence before going for any fresh loan. It is emergency to concentrate on finding new market and products. Bank may introduce different types of incentives for new businesses and also can arrange various training programs for encouraging new entrepreneur. The percentage of loans in trading sector to be increased as most of the micro and small enterprises belongs to the trading sector in our economy.
Repayment of loans decreased significantly and volume of overdue increased.	<ul style="list-style-type: none"> Constant follow up with client is necessary to ensure win-win situation for all parties. Bank also can introduce some digital payment methods for smooth recovery of the existing loans.

Key Areas	Way Forward
	<ul style="list-style-type: none"> ▪ Borrower may fail to repay within stipulated time frame. Extension of tenor required to support those borrowers.
Loan approval, disbursement process, monitoring and recovery are affected.	<ul style="list-style-type: none"> ▪ Bank should introduce automated score card-based approval system to address the delay of approval and loan sanction process. ▪ Banks may take friendly initiative in terms of documentation to escalate the disbursement process. ▪ More vigorous efforts are necessary for monitoring and recovery of the existing loans. ▪ Constant follow up and supervision of banks and BB is necessary for proper recovery of the loans.
Liquidity Crisis became worsen.	<ul style="list-style-type: none"> ▪ A crisis brings new opportunities. Bank should introduce Fin-Tec based digital deposit products. ▪ Introduction of mobile financial services, app banking, Interactive Teller machine (ITM), cashless transactions, online utility bill payment facility to attract the deposit customers.
Renewal of existing credit facility hampered during general holidays due to COVID-19.	Special onetime renewal of for all existing clients can be done to avoid probable threat of classification.
NPL rises overtime due to non-repayment of the client though it is showing in good shape due to BB barrier in CIB report.	<ul style="list-style-type: none"> ▪ Bank should intensify their monitoring effort without any negligence so that loan recovery will not be affected. ▪ Transparency and accountability mechanisms should be ensured for all liquidity support. No defaulters should be allowed in any of these packages.
Distribution of loans hampered due to rotation work by the employees and also by fear, sickness and death of valuable banking employees.	<ul style="list-style-type: none"> ▪ Ensure good working environment for employee mental health, employee engagement and employee wellbeing. ▪ Ensure employee salary, incentive and promotion. ▪ Managing remote work. ▪ Recruitment and selection, retention and development of the employees with digital and professional knowledge. ▪ Use of core banking software through Virtual Private Network (VPN). ▪ Roaster system is not always feasible due to shortage of manpower. ▪ Strategic communication among the stakeholders is needed. ▪ HR managers have to ensure employee health and security, employee engagement, retracement of employees, psychological counseling, career counseling and development and sustainable business target.
Challenges of loan classification and profitability	<ul style="list-style-type: none"> ▪ Classification is the biggest threat for the bank due to COVID-19 Pandemic situation ▪ Banks faced a deteriorated condition on their portfolio in terms of NPL and Profitability ▪ Strong collection and monitoring system to avoid further classification and for collection of existing over dues.

7. Recommendations and Conclusion

Based on the comments and suggestions given by the sampled CMSEs, key informant interviewees following recommendations are formulated.

One, analyzing the whole supply chain and develop financing tools (for example, factoring, digital wallet) for the required segment so that the problems of raw materials can be addressed. Government and banks may develop some non-financial services (for example, market linkage, trade fair, counselling and advising, business development training, etc.) for making affected CMSEs ready to fight with the prevailing situation.

Two, enhanced due diligence shall also be ensured before going for any fresh loan. In this regard, continuous follow up with clients is necessary to ensure the repayment of loan so that the upward trend to classified loan can be reduced. Moreover, banks should intensify their monitoring effort without any negligence so that loan recovery will not be affected. In this regard, some digital payment methods may introduce.

Three, Banks should invest heavily on building Fin-tech based digital platform to accommodate any changes in the coming years. Integrated IT solution may help to ensure faster decision and disbursement regarding the CMSE financing. Hence, a strong Management Information System (MIS) for CMSEs may be developed by the banking sector. Banks may develop app-based solutions and AI-based interactive Chatbot banking by which customer can get banking information as well as can apply for banks' loan. Besides, banks may use Big data analytics for analyzing huge volume of data which may help to find various pattern of CMSE business for decision making. In addition, banks may form consortium to launch blockchain-linked funding for CMSEs. Banks may also consider financing FinTech firms, so that they can easily develop FinTech solutions for banks. Moreover, banks should impart training to the customers and relevant bank officials before introducing FinTech based products.

Four, Taking the effects of COVID19 scenario in the consideration, banks should design more tailor-made products and services to fulfill the needs of demand side. As CMSEs are heterogeneous in nature and scattered all over the country, banks may design customized products based on area and cluster approach. In addition, banks may add separate features for a single product targeting rural, semi-urban and urban CMSEs (including women entrepreneurs), so that banks can fulfill customers' requirement as per their needs. There is a great need for improving different aspects of financial services for CMSEs such as seed money, leasing, factoring, invoice financing, venture capital, crowd funding, and investment funding. Banks may develop products based on market data that may require a certain degree of market research.

Five, Bangladesh Bank already introduced a credit guarantee scheme worth Tk. 2000 crore for the entrepreneurs in the Cottage, Micro and Small (CMS) sector to help them tackle the

ongoing crisis due to COVID-19 pandemic. The scheme initially give coverage to the fund, which is being disbursed from the stimulus package of Tk. 20,000 crore for the SME sector. Wider implementation of credit guarantee scheme declared by Bangladesh Bank is required so that banks can get the motivation to provide more loan in CMSE sector.

Six, Long-term financing to the COVID19 affected CMSMEs should be increased so that the affected businesses can survive in this critical situation. To support long term financing, banks may outsource various low-cost deposit sources and plan to decrease its cost of fund in an efficient manner.

Seven, since most of the CMSEs affected in different dimensions, government and Bangladesh Bank may extend the stimulus packages facilities for further period.

Eight, In the survey findings it is found that most of the small exporter got severe problems for exporting their products. Therefore, it is an emergency to highly concentrate on finding their existing problems and new markets for exporting in international market smoothly.

Nine, to overcome the pandemic situation, bankers should foresee the upcoming challenges and be prepared with financial and non-financial support to face those challenges. Accordingly, banks need to develop capability in digitizing service-oriented channels. Moreover, Bankers should change their mindset and take business friendly measures so that affected CMSME entrepreneurs may survive in this critical situation.

Ten, Different agencies of the government may introduce on employment generating project like SEIP program of Bangladesh Bank.

The present study highlights on the effects of COVID-19 on the CMSEs in Bangladesh. The survey results showed that demand for different types of loans for CMSMEs decreased during the lock down situation, however, the bankers predicted that the demand for loans will be increasing gradually. In terms of recovery and quality of different types of CMSE loans, banking sector is experiencing low rate of recovery and high NPL due to COVID-19 situation. Regarding the Stimulus packages of Government and Bangladesh Bank, there is still scope for utilization of this package. All the respondents predicted an improved situation of the CMSE sector in 2022 onward compared to COVID-19 situation. However, the existing fuel price hike and forex risk may pose challenge for the CMSEs in streamlining their business operation and model. All the stakeholders including Government, Bangladesh Bank, SME Foundation, CMSME businesses owners, Commercial Banks and others should take proactive approach for overcoming the challenges of COVID-19 pandemic. Government and regulators should continuously monitor the different incentives, programs and evaluation of those. Considering the past experience of managing the crisis, innovative strategies are to be formulated. In this regard, the recommendations mentioned in the paper may be considered for future policy formulations.

References

- Abrigo, M. R., Uy, J., Haw, N. J., Ulep, V. G. T., & Francisco-Abrigo, K. (2020). Projected disease transmission, health system requirements, and macroeconomic impacts of the coronavirus disease 2019 (COVID-19) in the Philippines. *Philippine Institute for Development Studies Discussion Paper Series No. 2020-15*. April. Manila: Philippine Institute for Development Studies.
- Bangladesh Bank (2022). Policy Measures of Bangladesh Bank in Response to the COVID-19 Pandemic. Available at https://www.bb.org.bd/pub/special//covid19_policymeasures_2nded.pdf
- Beck, T., Flynn, B., & Homanen, M. (2020). COVID-19 in emerging markets: Firm-survey evidence. *Covid Economics*, 38, 37-67.
- Beck, T., Flynn, B., & Homanen, M. (2020). COVID-19 in emerging markets: Firm-survey evidence. *Covid Economics*, 38, 37-67.
- BRAC Bank Limited. (2020). Economic Impact of Bangladeshi SMEs Due to COVID-19 Pandemic, *SME Division*, BRAC Bank Limited, Dhaka, Bangladesh.
- BRAC Bank Limited. (2020). Economic Impact of Bangladeshi SMEs Due to COVID-19 Pandemic, *SME Division*, BRAC Bank Limited, Dhaka, Bangladesh.
- Christine, A. A. M., Besart, A., Xavier, C., Marcio, C., Elwyn, D., & Arti, G. (2020). Unmasking the Impact of COVID-19 on Businesses: Firm Level Evidence from across the World. *Policy Research Working Paper*, (9434).
- GoB (2017). Bangladesh Economic Review 2017. Finance Division, Ministry of Finance, GoB, available at [https://mof.gov.bd/site/page/44e399b3-d378-41aa-86ff-8c4277eb0990/Bangladesh Economic Review](https://mof.gov.bd/site/page/44e399b3-d378-41aa-86ff-8c4277eb0990/Bangladesh%20Economic%20Review), accessed on 20 July 2021.
- GoB (2020). Macroeconomic situation, chapter one. Bangladesh Economic Review 2020, Finance Division, Ministry of Finance, GoB, available at https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/f2d8fabb_29c1_423a_9d37_cdb500260002/Chapter-01%2028English-2020%29.pdf, accessed on 20 July 2021.
- Hassan, M. M., Alenezi, M. S., & Good, R. Z. (2020). Spatial pattern analysis of manufacturing industries in Keraniganj, Dhaka, Bangladesh. *GeoJournal*, 85(1), 269-283.
- Hossain (2021, June 27). SME sector in Bangladesh and policy priorities. *The Business Standard*. Retrieve from <https://www.tbsnews.net/economy/sme-sector-bangladeshand-policy-priorities-266821>
- Hossain, M., & Chowdhury, T. (2022). COVID-19, fintech, and the recovery of micro, small, and medium-sized enterprises: Evidence from Bangladesh. *ADBI Working Paper 1305*. Tokyo: Asian Development Bank Institute. Available:

<https://www.adb.org/publications/covid-19-fintech-and-the-recovery-of-micro-small-and-medium-sized-enterprises-evidence-from-bangladesh>

- Islam, A., Rahman, A., & Nisat, R. (2022). The Impact of COVID-19 Pandemic on Small and Medium Enterprises in Bangladesh. *Development Economics Series, Working Paper No. 60*, BRAC Institute of Governance and Development (BIGD), BRAC University, Dhaka, Bangladesh.
- Kader, A. W., & Pattanayak, M. (2020). Business Pulse Survey: Impact of COVID-19 on MSMEs in Bangladesh. *International Finance Corporation (IFC)*, 3.
- LightCastle Partners. (2020). Based on Bangladesh Bank, Media Room Circulars & IMF, Policy Responses to Covid-19. Available at - <https://www.lightcastlebd.com/insights/2020/04/25/covid-19-impact-on-bangladeshs-sme-landscape>
- Mamun, A. A., Hossain, M. M., Khatun, M., Khanom, L., Talukder, M. A. F. & Saha, S. C. (2020). Probable Effects of COVID-19: CMSME Sector in Bangladesh. Published as the Book chapter of Examining probable Effects of COVID- 19 on Selected Areas of the Banking Sector in Bangladesh by Bangladesh Institute of Bank Management (BIBM), Dhaka, Bangladesh.
- OECD Policy Responses to Coronavirus (COVID-19) (2020), Coronavirus (COVID-19): SME policy responses, Updated 15 July 2020, available at <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>
- SAARCFINANCE Cell (2021). COVID-19 Pandemic: Policy Responses and its Impact on the SAARC Countries. *Bangladesh Bank (BB) Special Publication: SP 2021-06*. Research Department, Bangladesh Bank. Available at: https://www.bb.org.bd/pub/special/covid19_06072021.pdf
- Shinozaki, S., & Rao, L. N. (2021). COVID-19 Impact on Micro, Small, and Medium-Sized Enterprises under the Lockdown: Evidence from a Rapid Survey in the Philippines. *ADB Working Paper 1216*. Tokyo: Asian Development Bank Institute. Available: <https://www.adb.org/publications/covid-19-impact-msme-under-lockdown-evidence-rapidsurvey-philippines>.

Appendices

Appendix I: Questionnaire for CMSE Entrepreneurs

Effects of COVID-19 on CMSE Sector in Bangladesh

Name of the Business:.....

Name of the Respondent

(Optional):.....

Business Address with Mobile No:

1. In which year you have started your business?

2. Type of business ☐ Manufacturing ☐ Trading ☐ Service

3. What is the category of your business? ☐ Cottage ☐ Micro ☐ Small

4. Your gender: ☐ Male ☐ Female

5. Do you have trade license in your business ☐ Yes ☐ No

6. Location of your business ☐ Urban ☐ Rural

7. Do you need money to be borrowed from any external sources for your business? ☐ Yes ☐ No

8. Did you take loan from any sources for your business in the last two years (2020-2022)?

☐ Yes ☐ No

9. What is the current capital structure of your business?

Sl.	Source	(in %)
1	Own	
2	Borrowing from others	

10. Effects on Operation

10.1 Status of your business operation at present

☐ Yes, operating fully on site ☐ Yes, operating partially

☐ Yes, operating through online ☐ Yes, operating through on site and online

10.2 After 2019, do you change your business operation to protect your enterprise against COVID-19?

☐ Yes ☐ No; If yes, what are the changes?

.....
.....
.....

11. Effects on Products and Productivity

11.1 Compared to the pre-COVID scenario (2018-19), what is the change of your production level during March 2020-March 2022?

- | | |
|-------------------------------|-------------------------------|
| a. Increase up to 10% | b. Decrease up to 10% |
| c. Increase between 10% – 20% | d. Decrease between 10% – 20% |
| e. Increase more than 20% | f. Decrease more than 20% |
| g. Remain unchanged | |

11.2 Compared to the pre-COVID scenario (2018-19), is there any change of your number of product/s during March 2020-March 2022?

- | | |
|-------------------------------|-------------------------------|
| a. Number of product increase | b. Number of product decrease |
| c. No change | d. Trying to increase |

11.3 During the period of March 2020-March 2022, how much has your workers productivity changes?

- | | |
|-------------------------------|-------------------------------|
| a. Increase up to 10% | b. Decrease up to 10% |
| c. Increase between 10% – 20% | d. Decrease between 10% – 20% |
| e. Increase more than 20% | f. Decrease more than 20% |
| g. Remain unchanged | |

11.4 Do you face any problem/s to procure raw materials for your business operation?

☐ Yes ☐ No; If yes, what are the main problems you are facing?

.....
.....

11.5 What are the main means you are currently considering to deal with the shortage of raw materials/stock?

- | | |
|--------------------------------------|-------------------------------------|
| a. Reduction of production | b. Outsourcing orders |
| c. Increasing the procurement prices | d. Seeking new procurement channels |
| e. Delaying goods delivery | f. No shortage of raw materials |
| g. Other..... | |

11.6 Compared to the pre-COVID scenario (2018-19), is there any change of your cost of production during March 2020-March 2022?

- | | |
|-------------------------------|-------------------------------|
| a. Increase up to 10% | b. Decrease up to 10% |
| c. Increase between 10% – 20% | d. Decrease between 10% – 20% |
| e. Increase more than 20% | f. Decrease more than 20% |
| g. No change | |

12. Effects on Financials

Compared to the pre-COVID scenario (2018-19), is there any change of the following during March 2020-March 2022? **Please tick mark in the table based on the following options**

- | | |
|-------------------------------|-------------------------------|
| a. Increase up to 10% | b. Decrease up to 10% |
| c. Increase between 10% – 20% | d. Decrease between 10% – 20% |
| e. Increase more than 20% | f. Decrease more than 20% |
| g. Remain unchanged | |

Sl.	Parameters	a	b	c	d	e	f	g
12.1	Change in Sales							
12.2	Change in overall cost							
12.3	Change in profit							
12.4	Change in assets							
12.5	Change in accounts receivables							
12.6	Change in accounts payables							

12.7 What important strategies have you undertaken for increasing your sales revenue during March 2020-March 2022 (you may tick more than one)?

- a. Offer new products or services
- b. Decrease price of selected products or services
- c. Change payment terms (e.g. establish a payment plan)
- d. Change distribution channels (e.g. promote delivery or online purchases)
- e. Diversify markets (e.g. operate in different locations or with new clients)
- f. Modify supply chain agreements (e.g. source from other suppliers, negotiate with suppliers)
- g. Create partnerships with other enterprises to reach more clients
- h. Increase promotional activities
- i. Increase quality of products
- j. Other

12.8 What cost cutting measures have you conducted to survive during March 2020-March 2022 (you may tick more than one)?

- a. Dismiss employees
- b. Reduce staff development costs
- c. Reduce operational costs (e.g. electricity, water, internet, mail, logistics, transport)
- d. Reduce rent costs (e.g. move to a cheaper/smaller location)
- e. Reduce borrowing costs (not borrowed, Govt. assistances)
- f. Reduce marketing cost
- g. Other
- h. My enterprise has not taken cost-cutting measures

12.9 How much percentage of account receivable were turned into bad debts during March 2020-March 2022?

12.10 How much percentage of account payable were stuck up during March 2020-March 2022 due to the non-repayment?

13. Effects on Employment and Employee's Benefits

13.1 Compared to the pre-COVID scenario (2018-19), is there any change of your employees during March 2020-March 2022?

- | | |
|-------------------------------|-------------------------------|
| a. Increase up to 10% | b. Decrease up to 10% |
| c. Increase between 10% – 20% | d. Decrease between 10% – 20% |
| e. Increase more than 20% | f. Decrease more than 20% |
| g. No change | |

13.2 Compared to the pre-COVID scenario (2018-19), is there any change of the total salary and compensation of your employees during March 2020-March 2022?

- | | |
|-------------------------------|-------------------------------|
| a. Increase up to 10% | b. Decrease up to 10% |
| c. Increase between 10% – 20% | d. Decrease between 10% – 20% |
| e. Increase more than 20% | f. Decrease more than 20% |
| g. No change | |

14. Effects on Living standard

Compared to the pre-COVID scenario (2018-19), is there any change of the following during March 2020-March 2022? **Please tick mark in the table based on the following options**

- a. Highly increased b. Moderately increased c. Slightly increased d. Highly decreased
e. Moderately decreased f. Slightly decreased g. No change

Sl.	Parameters	a	b	c	d	e	f	g
14.1	Housing facilities							
14.2	Health services							
14.3	Food and nutrition facilities							
14.4	Children's education facilities							

15. Effects on Marketing and Distribution Channels

15.1 Compared to the pre-COVID scenario (2018-19), what was the change of your marketing and distribution channels/activities during March 2020-March 2022 (you may tick more than one)?

- | | |
|-----------------------------------|---------------------------------------|
| a. Reduced dealership | d. Increased online marketing |
| b. Reduced distribution vehicles | e. Disruption of marketing activities |
| c. Reduced promotional activities | f. Increased marketing cost |
| g. Other | |

16. Effects on Business due to Supplier and Buyer

16.1 Compared to the pre-COVID scenario (2018-19), what type of problems you faced with your supplier during March 2020-March 2022 (you may tick more than one)?

- a. Supplier failed to supply in time
b. Supplier also got problems
c. Supplier failed to supply required amount
d. Stopped to supply in credit
e. Closed his/her business operations
f. Increased cost of materials/products supply
g. Other

16.2 Compared to the pre-COVID scenario (2018-19), what type of problems you faced with your buyer during March 2020-March 2022 (you may tick more than one)?

a.	Discontinue to buy
b.	Reduced number of fixed buyers
c.	Ordered a smaller number of products
d.	Stopped to buy my products
e.	Demand of the customers had shifted
f.	Reduced sales for increasing price of products/services
g.	Other

Compared to the pre-COVID scenario (2018-19), is there any change of your business regarding the following during March 2020-March 2022? **Please tick mark in the table based on the following options.**

- | Sl. | Parameters | a | b | c | d | e | f | g |
|------|----------------------|---|---|---|---|---|---|---|
| 17.1 | Business opportunity | | | | | | | |
| 17.2 | Market opportunity | | | | | | | |
| 17.3 | Personal savings | | | | | | | |
| 17.4 | Backward linkages | | | | | | | |
| 14.5 | Forward linkages | | | | | | | |

18.1 If your business is an export-oriented enterprise, is there any change of your export volume during March 2020-March 2022)?

- 18.2 Compared to the pre-COVID scenario (2018-19), what type of problems you faced regarding export operations during March 2020-March 2022 (you may tick more than one)?

- ## 19. Effects on Borrowings with lenders

- 19.1 Compared to the pre-COVID scenario (2018-19), what type of problems you faced with lenders during March 2020-March 2022 (you may tick more than one)?

- 38 |
- Research Monograph 67*

20. Challenges Faced

21.1 What kinds of challenges your business faced during March 2020-March 2022 (you may tick more than one)?

- a. Cash flow to maintain staff and business operations was inadequate
- b. Experienced employees those were layoff, do not come back again
- c. Raw materials/stock were not in supply or became very expensive disrupting operations
- d. Suppliers were unable to provide inputs
- e. Business partners have been badly affected and discontinued the operation
- f. Customers / clients were affected and demand was lower than normal
- g. Inability to deliver existing orders
- h. Increased difficulty of financing
- i. Existing loans cannot be extended
- j. Upstream and downstream chains were disrupted
- k. Logistic support was disrupted
- l. Others, please specify

21. During the period of March 2020-March 2022, your competitive strength has-

- a. Increased b. Decreased c. No change

22. During the period of March 2020-March 2022, your investment on buying machines and equipment has-

- a. Increased b. Decreased c. No change

23. During the period of March 2020-March 2022, the quality of your product/services has-

- a. Increased b. Decreased c. No change

24. Future Expectation

25.1 What is your expectation regarding the following (compared to 2020-2022)? Please tick

Sl.	Parameters	Increased	Decreased	No change
1	Business opportunity			
2	Market opportunity			
3	Sales and profit			
4	Capability to borrow			
5	Product/service demand			
6	Competitive strength			

25. What kind of banking assistances you are expecting

.....
.....
..... What kind of government assistances you are expecting
.....
.....
.....

26. Are you satisfied with the services provided by the banks during March 2020-March 2022?

☐ Yes ☐ No

27. Did you take any loan from other sources than bank during March 2020-March 2022?

☐ Yes ☐ No; if yes from where

☐ NBFIs ☐ NGOs ☐ Multipurpose ☐ Samiti ☐ Money Lenders

28. Did you get any loan under the stimulus packages of government during March 2020-March 2022?

☐ Yes ☐ No; if yes what was the interest rate.....

29. Did you face any problem to get loan under the stimulus packages of government during March 2020-March 2022? ☐ Yes ☐ No; if yes, what are the problems?

.....

Did any bank representative approach you for taking loan under the stimulus packages of government during March 2020-March 2022? ☐ Yes ☐ No

30. Did you get any cash assistance or subsidy from government or central bank during March 2020-March 2022? ☐ Yes ☐ No

Appendix II: List of 39 Districts and Survey Area Coverage

Sl.	District	Survey Area
1	Barguna	Amtali, Khekuani Bazar
2	Barishal	Wazirpur, Bakergonj
3	Bogra	Adamdighi, saoil Bazar, Gabtoli
4	Brahmanbaria	Kasba
5	Chandpur	Haziganj, Kachua, shaharasti
6	Chattogram	Chittagong city, Hathazari
7	Cumilla	Muradnagar, Debidwar
8	Dinajpur	Dinajpur Sadar, Fulpur
9	Faridpur	Faridpur Sadar
10	Gazipur	Gazipur Sadar, Kapasia
11	Gopalganj	Sadar, Muksudpur, Kotalipara
12	Habiganj	Banyachong, Ajmeriganj
13	Jamalpur	Jamalpur Sadar
14	Jashore	Manirampur
15	Jhenaidah	Jhenaidah Sadar, Kaligonj, Harinakunda
16	Khulna	Khulna Sadar, Dumoria, Batiaghata
17	Kishoreganj	Tarail, Itna
18	Kushtia	Kumarkhali, Khoksha
19	Madaripur	Kalkini, Shibchar
20	Manikganj	Singair, Ghior, Saturia
21	Meherpur	Gangni
22	Moulvibazar	Azimganj, Kathaltoli, Borolekha
23	Munshiganj	Sadar, Lohajang, Sirajdikhan, Tongibari
24	Mymensingh	Sadar, Gafargaon, Dhobaura, Nandail
25	Naogaon	Mohadebpur

Sl.	District	Survey Area
26	Narayanganj	Fatullah, Bandar
27	Nilphamari	Nilphamari sadar, Sayadpur
28	Noakhali	Chatkhil, Sonaimuri
29	Patuakhali	Baliatoli, Kolapara, Mirzaganj
30	Pirojpur	Kawkhali, Swarupkathi, Binna
31	Rajshahi	Charghat, Kaluhati, Arani, Godagari
32	Rangamati	Rangamati sadar
33	Rangpur	Rangpur Sadar, Pirgacha, Mithapukur, Badarganj
34	Shariatpur	Shakhipur
35	Sirajganj	Kazipur
36	Sunamganj	Tahirpur, Badaghat
37	Sylhet	Bishwanath, South Shurma, Kanaighat
38	Tangail	Sakhipur
39	Thakurgaon	Thakurgaon Sadar

Appendix III: SME Surveys on the Impact of COVID-19 in OECD Countries

Date	Country	Impact on business	Expectations
10 Feb.	China	80% of SMEs have not resumed operations yet	1/3 out of business in 1 month, another 1/3 in two months
25 Feb.	Finland	1/3 anticipated a negative or very negative impact	n.a. ⁵
Early March	Italy	72% directly affected	n.a.
Early March	UK	63% see crisis as moderate to high/severe threat to their business	n.a.
9 March	Germany	50% expect a negative impact	n.a.
9 March	Japan	39% report supply chain disruptions, 26% decrease in orders and sales	n.a.
10 March	Poland	1/3 of SMEs experience increasing costs and reduced sales	27% already encounter cash flow problems
11 March	USA	70% experience supply chain disruptions, 80% the impact of the crisis	n.a.
12 March	UK	69% experience serious cash flow problems	1/3 fear being out of business in 1 month
13 March	USA	23% negatively affected, 36% expect to be	
16 March	Canada	50% drop in sales	25% expect not to survive longer than 1 month
16 March	Israel	55% experienced no impact yet, 1/3 planning lay-offs	n.a.
16 March	Greece	60% experience marked decline in sales	n.a.
17 March	USA	50% negatively affected, 75% very concerned	n.a.
17-20 March	Korea	61% have been impacted	42% fear being out of business in 3 months, 70% in six months
18 March	Belgium	75% report declines in turnover	50% fear not to be able to pay costs in the short term

⁵ n.a. indicates not available.

Date	Country	Impact on business	Expectations
19 March	USA	96% have been affected	51% indicate not be able to survive three months
20 March	Hungary	60% expect a decline in sales	n.a.
20 March	Netherlands	50% start-ups lost significant revenue	50% expect to be out of business within 3 months
21 March	Japan	92% experience economic impact	n.a.
24 March	Canada	60% experience significant impact	1/3 expect to be out of business in a month
31 March-6 April	Several Asian countries	30% of SMEs expect to lay off 50% of their staff.	50% of SMEs have a month cash reserve or less
1 April	United Kingdom	n.a.	18% of firms could be out of business in one month
1 April	United States	n.a.	35% of small business out of business in three months
3 April	Australia	Two thirds of small business experience the impact of the crisis. 41% experience a drop-in income of 50% or more in the last two months	n.a.
3 April	Belgium	40% of companies see drop in revenue of 75% or more	1 in 10 companies likely to face bankruptcy
7 April	Belgium	n.a.	Over 31% of Belgium SMEs may not survive the crisis
7 April	Canada and the US	90% of small business affected	1/3 lack the reserves to survive longer than a few weeks
8 April	UK	37% expect to furlough 75-100% of their staff in the next week	6% out of cash, 57% three months reserves or less
8 April	Netherlands	n.a.	85% of SMEs in financial difficulty because of COVID19 20% is at serious risk
6-10 April	Portugal	37% experience a drop-in production of more than 50%.	50% do not have resources for more than 2 months
15-22 April	United States	62% of small business experience a drop-in revenue	32% cannot stay open longer than 3 months
24 April	Germany	58% of SMEs experience a drop-in turnover by on average 50%	Half of SMEs have only two months liquidity reserve
4 May	Canada	81% of small businesses indicate their operations are negatively affected	32% worry about the viability of their business over the next year
5 May	United States	n.a.	1/5 of small businesses closed down temporarily, 1/3 expects to close permanently within 2 months
11 May	United States	81% of firms experience and expect impact of pandemic in the next 12-16 months	n.a.
13 May	United Kingdom	37% of firms are considering, or have already made, redundancies	41% of firms have temporarily closed, 35% fear they will not reopen again

Date	Country	Impact on business	Expectations
15 May	Thailand	90% of firms expect extreme revenue loss	52% of small business expects to close down if containment measures last longer
8 June	Ireland	SMEs that remained until 18 May closed incurred an average cost of EUR 177 000 during the lockdown period. Of businesses that remained open, 70% reported a decrease in revenue.	n.a.
Mid-June	Canada	78% of small business reported a drop-in sale, 47% between 50 and 100%.	n.a.
20 June	New Zealand	71% of SMEs have taken a revenue hit by COVID-19	39% of SMEs fear having to close down

Source: OECD (2020). OECD Policy Responses to Coronavirus (COVID-19), Coronavirus (COVID-19): SME policy responses. Available at <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>

Appendix IV: Major Initiatives Taken by Bangladesh Bank for Development of CMSMEs

- Net outstanding based target for CMSME loans of Banks & FIs have been introduced instead of previously used distribution-based target. Banks & FIs are instructed to set their CMSME target to at least 25% (by 2024) of their net outstanding amount of all loans & advances while maintaining a minimum of 1% increment in each year.
- To ensure sector-wise distribution of overall CMSME credit portfolio, BB instructed all Banks & FIs to distribute their portfolio as follows: at least 40% for manufacturing sector; at least 25% for Service sector and a maximum of 35% for trading sector.
- Banks & FIs are instructed to disburse 50 percent of their total CMSME loans/advances to Cottage, Micro and Small sector by 2024.
- Banks & FIs are instructed to provide 03 (three) months grace period for 01 (one) year term loan and 03 (three) to 06 (six) months grace period for medium to long term loan based on banker-customer relationship.
- To enhance CMSME activities, quarterly monitoring meeting is being held with SME heads of Banks & FIs regularly. Banks & FIs are also performing 03 (three) stages SME monitoring for better outcome.
- New Entrepreneurs Refinance Scheme allows collateral security free financing more than Tk. 1 million on case to case basis and collateral security supported financing up to Tk. 2.5 million for new entrepreneurs.
- To expedite cluster-based financing to CMSME Sector, Banks & FIs are advised to formulate a cluster development policy for strengthening existing clusters and developing new clusters.
- To ensure loan facility for women entrepreneurs, Banks & FIs are instructed to maintain at least 15% of their net outstanding of CMSME loans and advances for women entrepreneurs.
- Instructions have been given for establishing separate ‘Women Entrepreneurs’ Dedicated Help Desk’ in each branch of every Bank & FI. If possible, they are also advised to employ

a female official in the desk to provide suggestions and services towards women entrepreneurs regarding project preparation, loan application process etc.

- Instructions have been given to Banks & FIs to consider sanctioning loans up to Tk. 2.5 million to women entrepreneurs without collateral security but against personal guarantee under the refinance facilities provided by Bangladesh Bank.
- A borrower friendly loan application form (in Bengali) has been introduced to expedite the application procedure for entrepreneurs.
- All Banks & FIs are advised to find out and train at least 03 (three) prospective women entrepreneurs per branch who have not received any financing yet and finance at least 01(one) of them in each year.
- As per the instruction of BB, own start-up fund by scheduled banks has been set up with transferring 1% of their annual net profit. In addition, a start-up fund amounting Tk. 500 crore has also been created by BB with its own fund for providing refinance facility to scheduled banks for making loans/investments easily available to start-up entrepreneurs.
- Refinancing facility to Banks & FIs at 0.5% interest/profit has been introduced by BB for the purpose of disbursement of loan/investment to women entrepreneurs at maximum 5% interest/profit (i.e. spread at Bank & FI level will be maximum 4.5%).
- BB has taken an initiative to provide a total of 2% incentive (1% to concerned Bank/FI and 1% to women entrepreneurs) of the principal loan disbursed by Banks & FIs if the loan recovered within stipulated time

Appendix V: Policy Response to Support CMSMEs Affected by COVID-19 Pandemic

A compiled circular (SMESPD circular no:9, Dated- September 09, 2021) has been issued by Bangladesh Bank to meet up the financing needs of COVID-19 affected CMSMEs. Major instructions of that circular are as follows-

- ✓ A stimulus package worth Tk. 20,000 crore has been announced to meet-up the need of COVID-19 affected CMSMEs. Under this package, Banks & FIs will disburse loans from their own fund to the entrepreneurs at 4% interest rate. The Government will provide 5% to Banks & FIs as an interest subsidy. So, credit will be disbursed to the borrower level at a lower rate of 4% only and Banks & FIs will ultimately at 9% interest rate.
- ✓ Under the aforesaid stimulus package, Banks & FIs have been instructed to disburse at least 8% of the loans to women enterprises.
- ✓ BB has created a Revolving Refinance Fund Worth Tk. 10,000 crore to support the liquidity need of Banks & FIs for successful implementation of the aforesaid stimulus package.
- ✓ A Credit Guarantee Scheme for Cottage, Micro & Small (CMS) Enterprises has been introduced to overcome the collateral problem of CMSEs. Banks & FIs have been instructed to provide guarantees to at least 10% of their portfolio limit to women entrepreneurs under this scheme.
- ✓ BB has instructed all the Banks & FIs to establish Help Desk in each of their branches to guide the entrepreneurs in availing the facility under stimulus package. In addition, Banks & FIs have

been instructed to form a special monitoring team in their head offices for evaluating the loan/investment activities of that institution.

- ✓ BB has also increased the fund sizes of three (03) existing refinance schemes (from Tk. 1,600 crore to Tk. 3,000 crore) to meet up the term loan (including working capital) requirement of the CMSMEs. At the same time, the interest rates of those schemes have been reduced (From 9% to 7%).
- ✓ BB allows the repayment of working capital loans on EMI (Equal Monthly Installment) basis.
- ✓ District-based Lead Bank Calendar has been formulated to address the adverse impact of COVID-19 pandemic.
- ✓ Incentive facility will be provided against term loans/investments in addition to working capital loans/investments for Cottage, Micro & Small enterprises under the package.
- ✓ In order to relax the existing policy of collateral for providing additional loans/investments to existing customers, the legal impediment has been removed by allowing the Banks & FIs to create Further Charge on Mortgaged Property on stamp paper of Tk. 300.
- ✓ Those entrepreneurs who can't avail their full part of due limit in first year, will be able to take the rest part in the next year.

Bangladesh Institute of Bank Management (BIBM)

Plot No. 4, Main Road No. 1 (South), Section No. 2, Mirpur, Dhaka-1216

Tel: 48032091-4; 48032096-7, 48032104, E-mail bibmresearch@bibm.org.bd; Web: www.bibm.org.bd

Price: BDT 300.00

USD 8.00