

COVID-19 IMPACT

on SMEs of Bangladesh

sheba.xyz



Executive Summary



LightCastle Partners & Sheba.xyz collaborated on an independent study about the **“COVID-19 Impact on the SMEs of Bangladesh”**. The survey was conducted in late April with over 230 SME respondents from all over Bangladesh covering industries involving **Trading & Production (48.4%)** that includes Perishable & Grains, Poultry, Dairy, Fisheries, Jute Diversified Products, and Retail Store; and **Service Industry (51.6%)** that includes food catering, electrician services, laundry, beauty salon, MFS agent, and restaurants.

The status-quo of the SMEs and their current hurdles

- **28%** SMEs have seen revenue drop by at least 50%, while **52%** SMEs have locks hung over their businesses generating no revenue at all
- **2/3rd** of the SMEs have a window of less than four months to survive in current conditions before they exhaust all their cash reserves

Measures taken by SMEs to tackle the Pandemic

- Enterprises are cutting corners massively by optimizing costs - **46%** of SMEs are projecting to layoff over 50% of their Staff within four months if the situation does not improve
- **42%** of enterprises have cut their marketing expense down to zero

Implementation of the stimulus package to uplift the economy

- The need of the hour is refinancing and providing capital at minimum cost to these marginalized SMEs
- The SMEs mentioned their needs for soft loans (**52%**), moratoriums (**6%**) and existing loans to be rescheduled without fines (**15%**)

Recommendations & Way Forward

- **Extended Reach:** There is a need to bring the MFIs into the equation to have a wider reach across the country in providing credit
- **Government Tax Exemption:** These measures will remove significant additional financial burdens on SMEs
- **Digital Transformation:** SMEs and micro-merchant would need a holistic solution to survive in the long run during this scenario. One of the ways would be to Initiate a SMART Digital Transformation engagement with MSMEs in specific regions. **Solutions would include:**
A) Integration with Digital Supply Chain, **B)** Digital Financial Solution, **C)** Access to Credit



6mn SMEs contributing \$79 bn in the Economy

6_{mn}

SMEs currently in Bangladesh

25%

of the GDP is contributed by SMEs

7.8_{mn}

People are employed in the SME sector

\$79_{bn}

is contributed by the SMEs into the economy (2018)

2/3

Employments in the private sector are created in SMEs

40%

of the production output contribution of Bangladesh



52% SMEs have shutdown amid the COV-19 Pandemic

52%

Businesses have stopped operations

28%

SMEs saw at least a **50% drop in revenue**

68%

SMEs have **runway** of **<4 months** before permanent shutdown

40%

Of **Service SMEs** saw at least **50% drop in revenue**

46%

To **layoff at least 50%** employee within 4 months

42%

SMEs **cut marketing cost** to **"0" zero**

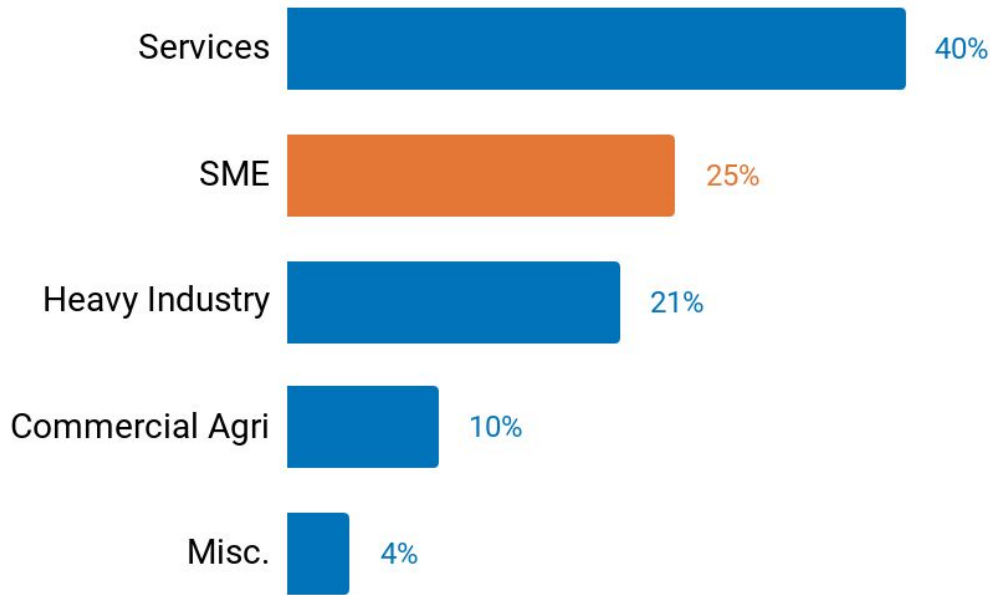
14%

Have **laid of all** of their **employees**

SMEs create **7.8 mn** direct employment & provides **31.2 mn** livelihood



SMEs' contribution to Bangladesh's GDP



80%

Non agricultural job creation

56%

SMEs are service based

2/3

Jobs in Private Sector

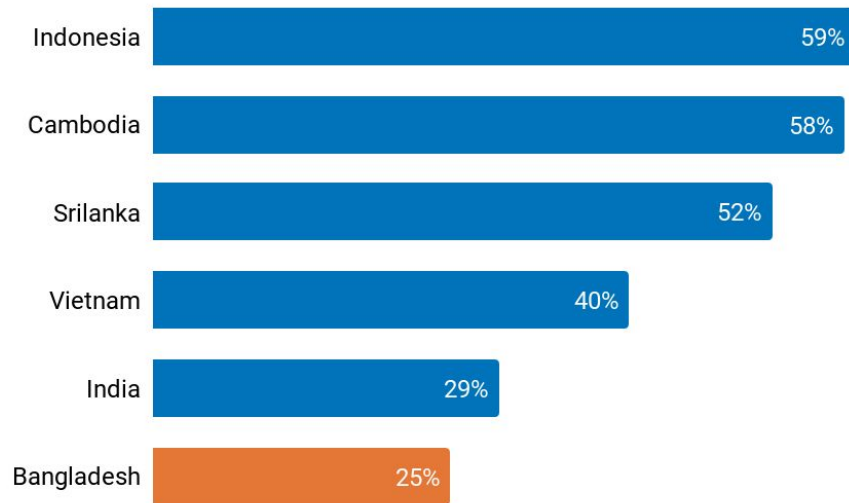


SMEs contribution amidst Existing Hurdles

25%

Of the Bangladesh's GDP is contributed by SMEs and has the potential for more if existing hurdles are removed.

SME Contribution to GDP: Comparison in Asia



HURDLES



Access to Finance, difficult to manage credit without financial footprint & relation with banks



Poor Market Linkage, absence of backward & forward market linkage



Lack of Skilled Labor, inadequate infrastructure of vocational & technical learning



Absence of Export Market, inferior quality hinder the prospect of exporting

Impact of **COVID-19**

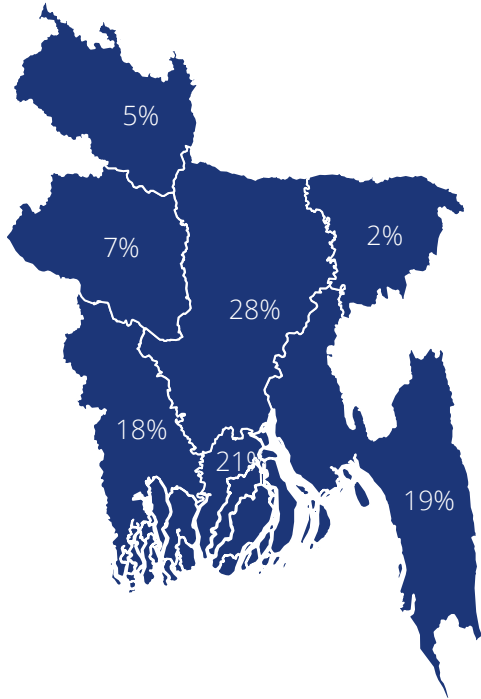


SME COV-19 Study Landscape: Respondent Snippet



230







SME Respondents from 7 divisions took part in the primary survey conducted by LightCastle Partners and Sheba.xyz



Divisions Covered

- Dhaka
- Barisal
- Chattogram
- Khulna
- Rangpur
- Rajshahi
- Sylhet

Industries Covered

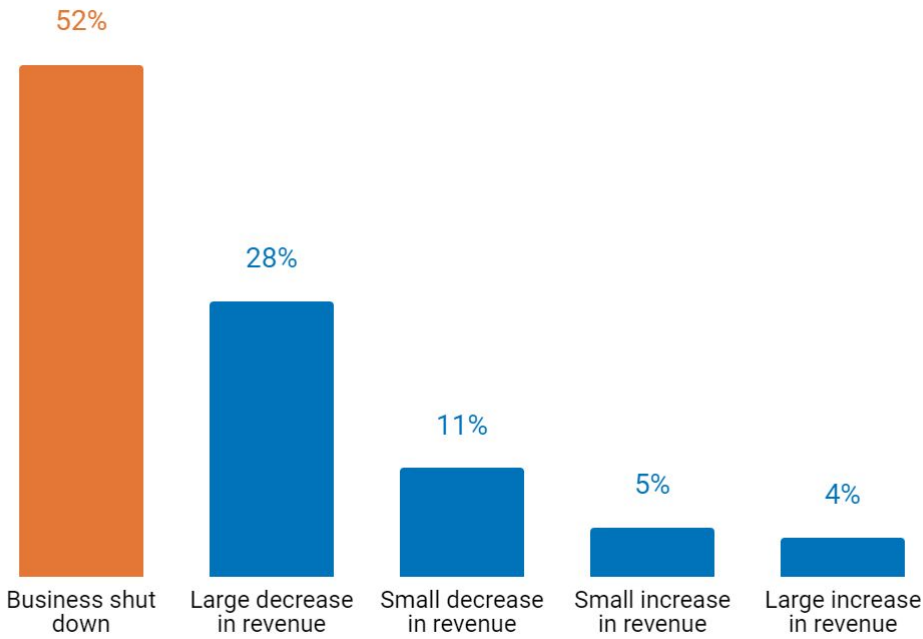
 Services*	51.6 %
 Vegetable & Grains	25.4%
 Retail Store	13.5%
 Fisheries	3.0%
 Jute Diversified Products	3.0%
 Poultry	2.0%
 Dairy	1.5%

* Food Catering, Electrician Services, Laundry, Beauty Salon, MFS Agent & restaurants

Covid-19 Impact on SMEs (I/V)



52% SMEs have completely shut down its operation



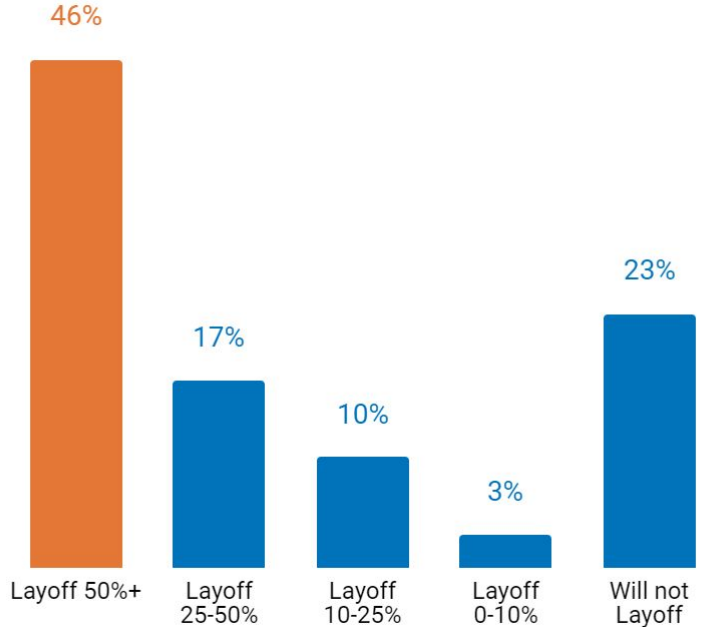
Source: SME COV-19 Study

Covid-19 Impact on SMEs (II/V)



46%

SMEs are anticipating to layoff over 50% staff if lockdown persist for more than 4 months



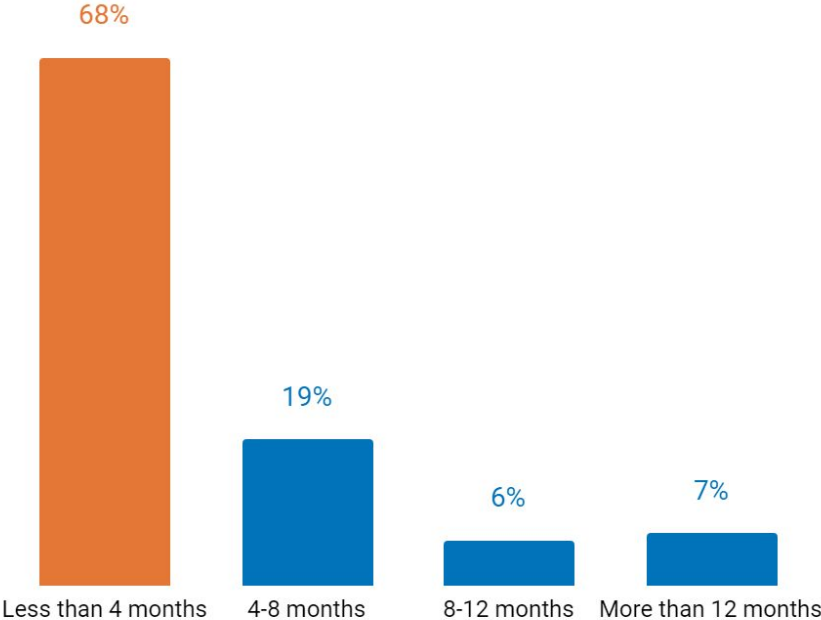
Source: SME COV-19 Study

Covid-19 Impact on SMEs (III/V)



68%

SMEs reported to have a runway less than 4 months



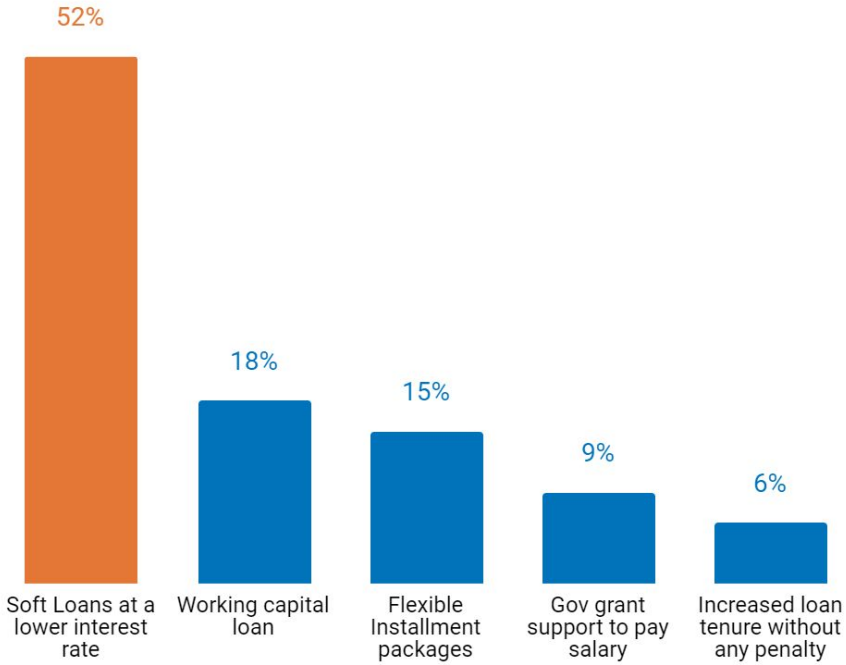
Source: SME COV-19 Study

Covid-19 Impact on SMEs (IV/V)



52%

SMEs prefer soft loans at lower interest to survive this crisis



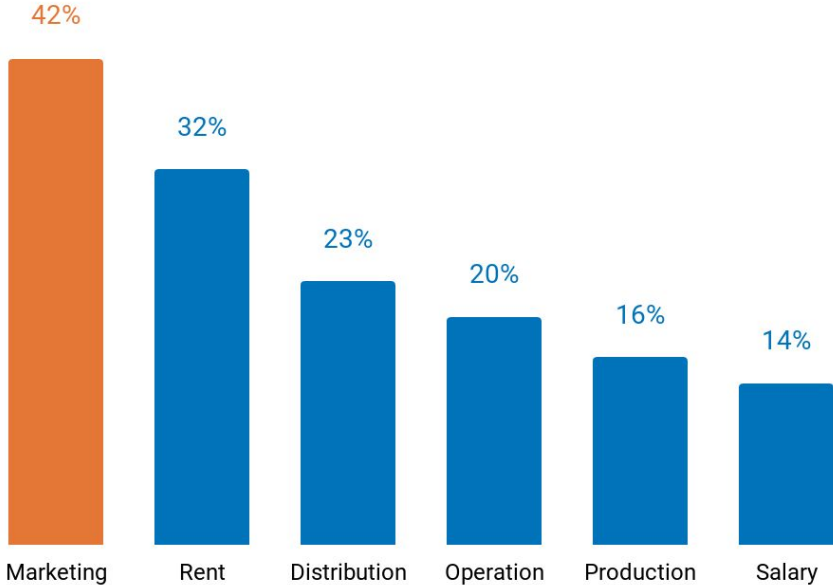
Source: SME COV-19 Study

Covid-19 Impact on SMEs (V/V)



42%

SMEs first choice of optimizing costs has been to **halt all marketing expenses**



Source: SME COV-19 Study



Response to Crisis



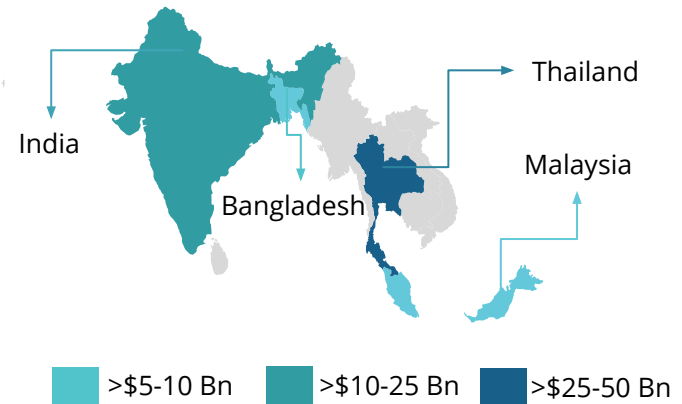
Stimulus Package Comparison: Southeast Asia



	SME Package in \$ Bn	SME Package % of Total Stimulus
Thailand ● ●	15.4	33%
India ●	13	37%
Bangladesh ● ●	2.35	20%*
Malaysia ● ●	2.31	24%

● Concessional Loan ● Refinancing Loan ● Tax Relief

Thailand has the largest stimulus package which is over USD \$45 Bn



*Bangladesh has announced multiple financial stimulus package and refinance schemes for its businesses and population upto BDT 100,000 crore

Source: [Financial Express & IMF](#)

Way forward to ensure proper implementation of the Stimulus Package



₹20,000_{cr}

Financial stimulus has been allocated for CMSMEs directly along with refinance schemes for banks and other various packages with different interest rate and duration for various industries

STIMULUS PACKAGE FOR CMSMEs

Sector Focus	Size BDT in cr	Interest in %	Duration in years
Financial stimulus for CMSMEs	20,000	9% (4.5% subsidized by GoB)	3
Refinancing scheme for Working Capital Finance in CMSMEs	10,000	9%	3
Farmers & Micro/Marginal businesses	3,000	9%	3
Agriculture sector	5,000	4%	0.5
Agriculture credit refinance scheme	**	4%	1.25

** In line with annual agriculture credit policy of BB

RECOMMENDATION FOR BEST RESULTS



Injecting more liquidity to provide cheaper working capital



Increasing accountability by leveraging mobile financial services for transparency and traceability



Collaborate with MFIs to extend reach out to SMEs all over the country



Specific guidelines to maintain Transparency and Accountability

Source: Bangladesh Bank, SME COV-19 Study and LightCastle Analysis



Providing Support where it is needed is the utmost priority

	Concessional Loans	Tax Reductions & Grants	Digital transformation
Hurdles	<ul style="list-style-type: none">- Most SMEs do not have existing relation with Banks	<ul style="list-style-type: none">- Give tax reductions/grants to CMSMEs to decrease financial burden	<ul style="list-style-type: none">- Requires injection of capital and time to implement
Priorities	<ul style="list-style-type: none">- Partner with MFIs and other relevant institutions to disburse loans- Make this Smart with Business Management Support and Market Linkage where applicable	<ul style="list-style-type: none">- GoB struggling with low tax revenue	<ul style="list-style-type: none">- DFS: Cashless transactions could transform the way SMEs conduct business.- DSCM: Web enabled DSCM capabilities give enterprises the ability to source and sell on digital platforms and maintain inventory- Digital Credit: By leveraging data, digital credit rating system can disburse loans quicker — at a lower cost.
Impact	<ul style="list-style-type: none">- Funds will reach those who need it the most- Injects fresh cash to resuscitate business operations- Paying back dues and buy raw materials to start production.	<ul style="list-style-type: none">- By lowering/exempting tax and providing grants — the impact of plunging aggregate demand as a result of the recession could be minimized.	<ul style="list-style-type: none">- Contributes to disintermediation and adding value to original producers and end consumers- Increases the potential market by folds but also ensures seamless transaction and tracking of goods- Easier access to loan and faster credit assessment



Probable Economic Trajectories & Wayout for **SMEs**

U-shaped
most likely
economic
recovery
trajectory



V-shaped

Recovery with a possible short lived boom, driven by huge stimulus needed for a hard stop to the pandemic. This would be a surprise scenario.



U-shaped

Recovery based on a longer crisis, driven by a more modest response to the pandemic. This appears increasingly likely.



L-shaped

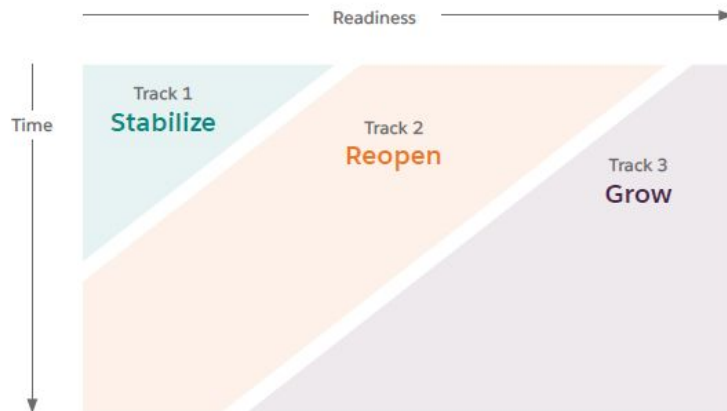
Non recovery of a decay into a depression, driven by failed responses to the pandemic and economic crisis. This would represent a deep and long global depression due to the interconnectedness of world economies.



Y-shaped

Recovery is a combination of U- and L-shaped recoveries — in this(likely) case, the economy divides into two tracks: fast and slow sectors that represents fast and slow recoveries.

SMEs will face different trajectories based on their industry, but **planning and adapting** is the way out with the right kind of Capacity



Stabilize

Mitigate short term risk and stabilize operations

Reopen

Plan & orchestrate to resume operations

Grow

Accelerate change to grow in the post Covid world

Courtesy: Salesforce "Covid-19 Response Playbook"



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THANK YOU

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