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SMEs During COVID-19: Business Activities, Employability, and Stimulus Package

The Impact of COVID19 Pandemic on the Small Firms in Developing Countries

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Though the effect of the new wave of Covid-19 is yet to unfold, many small businesses and their employees in Bangladesh are still struggling to recover from the damage done by the pandemic.

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Topic at a Glance

Since the WHO officially declared the outbreak of COVID-19 as a global pandemic, governments across the world implemented strict lockdowns to contain its spread. Although vital in containing the virus, it caused massive ramifications to world economies, and small and medium enterprises (SMEs) have been one of the hardest-hit sectors. The case was no different for Bangladesh. In this study, we assess the economic impact of the pandemic on the SMEs in Bangladesh. We also assess the pandemic's economic impact on a sample of youth, many of whom were employed in the SMEs during the pre-pandemic period.

New Insights

For the current study, we conducted two rounds of surveys—the first round in July 2020, six weeks after the lockdown ended in Bangladesh, and the second round in January 2021, six months after the first-round. The main aim of the study is to understand how SMEs are coping as the economy is getting back to normal—in terms of their business operations and compliances with COVID19 safety guidelines, access to credit and stimulus packages. We also aim to understand how the youth are coping with the pandemic's economic impact, in terms of employment and income. We conducted short, phone-based surveys with the SMEs and the youth.

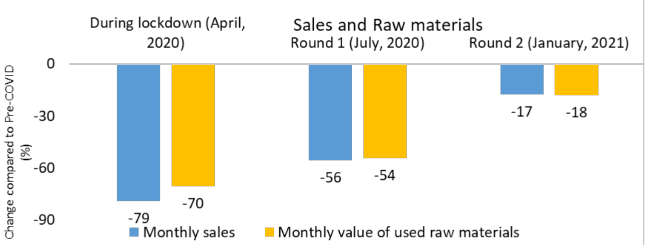

Figure: Drop in sales and value of raw materials used compared to the pre-COVID period

From the first round of our survey, we found that most enterprises had shut down during the lockdown and about one-third of them were partially reopened as economy opened up. The firms had been experiencing a 52 per cent drop from the pre-pandemic level, on average, in sales even after the lockdown was lifted, and the access to stimulus packages announced by the government for SMEs was minimal. Workers were facing a 50 per cent drop in their wages, on average. In the second round, we found that the average wages were only four per cent lower than the pre-pandemic levels, and the percentage of the firm hiring was greater than that of the firms firing workers, indicating growing employment opportunities for workers in SMEs. However, the firms are still concerned as the quantity of orders is still lower than pre-pandemic levels and cost of raw materials increased from round 1. About a third of the firms interviewed reported incurring losses in the second round.

In terms of compliance to COVID-19 safety guidelines, while most firms took the precautions of handwashing and mask wearing, the prevalence of social distancing has decreased. Maintenance of health guidelines were more prevalent among service sector industries.

In round 2, we find that almost 40-50 per cent of the firms in all industries took loans within this time to support their businesses, with the primary purpose of buying raw materials, followed by paying rents and salaries. We found a huge knowledge gap among the SMEs about the government support packages. Though the knowledge gap decreased between round 1 and round 2, few SMEs had access to the package in even in the second round.

Overall, our findings suggest that even though 97 per cent of the firms are operating fully by early 2021, their sales and profits have not yet recovered. Particularly, the state of clothing and tailoring sectors remains a concern as their earnings are the lowest among all, despite longer working hours.

Our youth survey reveals that the unemployment rate had gone down substantially in Round 1, compared to the level during the lockdown, but it did not go down any further in Round 2 and remained 13 percentage point higher than the pre-pandemic unemployment rate. The post-pandemic employment situation of the female youth is much worse than the male youth.

SMEs are critical to the inclusive economic growth and employment creation for our country. Despite the provision of stimulus package for the SMEs, very few are being able to access it. How to make sure that the SMEs get the necessary support to get back on track should be policy priority.

Policy Recommendations

Based on our findings, it is now essential that the SMEs receive adequate financial support in order to assist recovery. Cash flows must be increased and loans must be made more accessible to these businesses. Since banks are already under tremendous pressure due to high non-performing loans, loan disbursement through the banking channel has become challenging. In addition, the existing clientelist culture has made it difficult for micro and small industries to receive credit from this channel. Since NGOs are a popular source of credit for the SMEs, NGOs could be involved. The stimulus packages need to be redesigned specifically catering to the needs and characteristics of the SMEs. While designing demand patterns, geographic distribution, logistics, infrastructural issues, etc. should be considered. The loan application process also need to be made easier. Since the female labour-intensive enterprises are more vulnerable, they need a productive safety net (comprehensive package of training and finance) to come out of this unemployment trap. Practical health guidelines are also required for workers and enterprises to safely open their businesses.

Limitations

Our study is not devoid of methodological limitations. There can be reporting biases during these unprecedented times, seasonality, and lack of heterogeneity in our sample. Since our sample mainly comprises the light engineering sector, we cannot concretely say that our findings are representative of the entire SME sector. We plan to conduct one more round of surveys to further explore the coping and recovery dynamics of these firms.

Read more → g2lm-lic.iza.org/projects/covid-19/the-impact-of-covid19-pandemic-on-the-small-firms-in-developing-countries/

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