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A SURVEY ON RESPONSES OF COTTAGE, MICRO AND SMALL ENTERPRISES SECTOR DURING COVID-19 IN BANGLADESH



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ABSTRACT

This study examines the short-term impact of COVID-19 restrictions on small-sized enterprises based on phone and social media interviews. This research aimed to study Cottage, Micro, and Small Enterprises (CMSEs) during the covid-19 pandemic and analyze the policy measures taken afterwards. Affected by problems of logistics challenges, labor shortages, and drops in demand, most Small and Medium Enterprises (SMEs) were temporarily closed at the time of the first wave of covid-19 during our survey. We found several challenges encountered by the CMSEs owners during the early outbreak of Covid-19. This study used a descriptive analysis method of primary data obtained directly from field surveys and secondary data from Bangladesh Bank and SME foundation. This study focuses on the Dhaka city area during the Covid-19 pandemic. After reining in COVID-19, authorities eased lockdown restrictions in August 2020, and most of the small businesses had reopened by this time. Considering their issues and problems, the Government of Bangladesh and Bangladesh Bank have taken several policy measures to mitigate the loss of SME owners during the pandemic. These policies are also mentioned at the end of the study.

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INTRODUCTION

The prospect of a pandemic is currently the most pressing concern worldwide. The global economic crisis is one of the most severe effects, posing a threat to many businesses, particularly smaller ones. As a result of the COVID-19 outbreak, several businesses have witnessed a significant drop in profits and employment. Small and medium-sized businesses (SMEs) are particularly vulnerable, as they lack the financial resources to stay afloat. Most SMEs temporarily shuttered during the initial wave of covid-19 due to logistical obstacles, manpower constraints, and decreases in demand during the countrywide shutdown. The SMEs sector in Bangladesh has been essential to the country's economic progress. Bangladesh is a labor-rich country, and since SMEs are labor-intensive firms, Bangladesh has a natural competitive advantage. Small firms are easy to start, need little capital, and produce goods that meet local demands while adding to export revenues. SMEs can aid in the prevention of urban migration, increase cash flow in rural communities, and the promotion of inclusive growth.

The first case of Covid-19 was detected in Bangladesh on March 8, 2020. Bangladesh's government declared a nationwide lockdown to prevent the virus from spreading after a week. Furthermore, on March 24, 2020, the government declared a holiday, closing all educational institutions, enterprises, factories, and shopping malls, with only necessary goods providers' stores remaining open for a limited time. One of the current difficulties is the COVID-19 pandemic's decrease and exclusion of economic activity, which has a substantial impact on the development of small and medium-sized firms by limiting their expansion, deteriorating their financial status, and eventually contributing to debts incurred by the company.

To find out the impact, we surveyed over 400 small firms through the SME Foundation Directory, a non-profit organization dedicated to the welfare of Bangladesh's SMEs. The survey was performed between April 1, 2020, and April 30, 2020. The survey's timeliness helps us better understand business owners' expectations at a critical time when COVID-19 has spread, and the government's response is unknown. Because of the virus's spread, physical SME surveys are no

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longer possible. Conducting online and telephone surveys are one method to get around this problem.

The findings reveal that the pandemic had already wreaked havoc on small enterprises just a few weeks after it began, shutting businesses down across the country. The shutdown exacerbated the problem and caused concern among small business owners. Around 76 percent of firms in the sample have temporarily closed and shut down due to the COVID-19 outbreak. According to respondents, reduced demand resulting from Covid-19, supply chain distortion, and other factors are the reasons for their closure. Our findings highlight the financial vulnerability of many enterprises. Around 70 percent of the respondents claimed the unknown amount would decline their income in the pandemic year 2020 compared to 2019. Our survey results indicated immediate actions the SME owners took during the pandemic. More than 77 percent of business owners of our sample had to postpone the operation to combat the pandemic as sales were insufficient to cover the daily operating costs.

The survey collected information on the respondent's feelings about the Corona pandemic. According to 78 percent of individuals who responded, the unclear situation during the pandemic has caused much anxiety in their lives.

Our survey also provided the respondents' opinions on what steps should be taken to tackle the Covid-19 outbreak. Over 87 percent believed that government intervention would help them solve their difficulties. Some opined that it supported a protective industrial strategy for small business owners, the creation of a particular bank for SMEs and women entrepreneurs, and government assistance in launching their new ventures.

MATERIALS AND METHODS

It was nearly impossible to reach many samples in the early stages of the pandemic to compile their replies. However, we could get a sample of 433 SMEs with a structured questionnaire representing SMEs industries across Bangladesh, thanks to our best efforts in the data collection procedure. In this case, a sample size of 433 can be considered adequate because several empirical investigations have already been undertaken with small sample size; see example (Bartik et al., 2020).

This study used a descriptive quantitative approach, including primary and secondary data. The interview yielded primary data, and we chose our sample from a database of SME foundations. Secondary data on SMEs was gathered from the Bangladesh Bank, the SME Foundation, and other sources. The descriptive statistics for the variables were used to start the analysis. The percentage of SME samples with experience with the variable in issue was used to describe the variable. To visually analyze each variable for percentage comparisons, column charts were used. In this study, we employed descriptive analysis based on the response we received from the respondents. The survey was conducted from April 01, 2020, to April 30, 2020.

RESULTS AND DISCUSSIONS

The survey included 25 questions, with basic information about firm characteristics (including firm size and industry), questions about the current scenario during the COVID-19 crisis, and beliefs about the future course of the crisis. Most of the questions were based on multiple choice answering. However, the survey also includes a descriptive question for respondents to understand their expectations of the government's policy to deal with the pandemic and any comments or suggestions from their side on the development of the business or SME sector.

Firm Characteristics and Representativeness

The survey contains three baseline questions that enable us to assess the sample's representativeness along observable dimensions: number of employees, the asset value of the business, and the nature of business capital of the respondents.

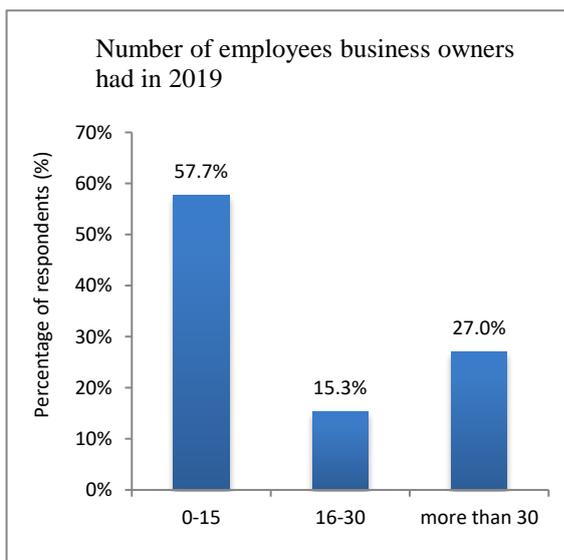


Figure 1. The number of employee's business owners had in 2019

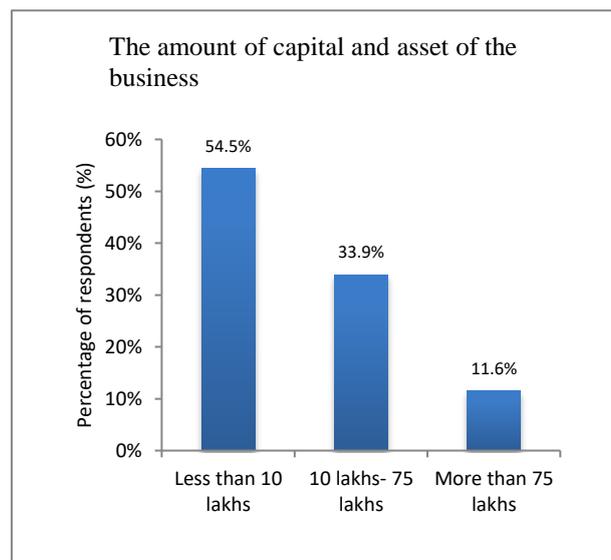


Figure 2. The amount of capital and asset of the business

More than 57 percent of businesses have fewer than 15 employees, according to Figure 1. Furthermore, 15 percent said they have employees between 16 and 30 employees. About 27 percent of the business owners confirmed that at the end of 2019, they had more than 30 employees.

We have divided our respondents according to their amount of capital and assets into three categories: less than ten lakhs, ten lakhs to 75 lakhs, and more than 75 lakhs (Figure 2). About 55 percent of the owners have less than ten lakhs, while 34 percent have capital ranging from ten to seventy-five lakhs. Among all the firms, only 11.6 percent have more than 75 lakhs of capital and assets.

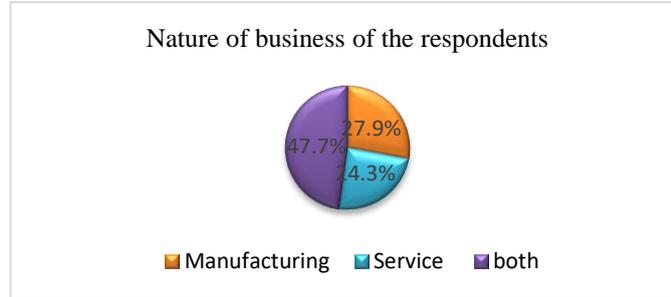


Figure 3. Nature of business of the respondents

The nature of the business of our respondents was classified into three categories: Manufacturing, Service, and both. About 27.9 percent of respondents in our sample were involved in manufacturing, while 24.3 percent claimed that they were involved with service. About 47 percent of respondents indicated they were involved in both categories.

Considering their asset values and employees number, we found that our respondents were cottage, micro, and small enterprise owners according to the latest SME definition (see ANNEX-1). We could not reach any medium enterprises in our survey. To make it simple and understandable to all levels of SME owners, we kept the information in simplified form in the questionnaire.

Current Scenario During the COVID-19 Crisis

We now turn to our main results, which we can divide into different categories. First, we describe the initial impact of COVID-19 on business operations and employment at the beginning of the crisis. Second, we report our results on the financial situation of those businesses considering the ongoing crisis.

Third, we describe their immediate actions regarding their business situation and crisis.

Fourth, we explore their expectations about the duration of the crisis and their economic survival.

Initial Impact of COVID-19 on Business Operations and Employment

As shown in Figure 4, the main impact of the Covid-19 pandemic on SMEs was in the ability to run the operation. Among the respondents, around 76 percent said they could not open their businesses due to the pandemic. Only 24 percent of the respondents could run their businesses during the pandemic.

Figure 5 depicts the reasons for shutting down operations during the pandemic. The proclamation of a nationwide shutdown forced 87 percent of respondents to postpone their economic plans or temporarily close their firms. Furthermore, 5.5 percent of small business enterprises closed their operation due to declining sales, which fell significantly below operational costs. Around 2 percent indicated their company's closure was primarily for the financial crisis, so they could not buy their raw materials and pay their employees' salaries to keep running the business. Only 5 percent of the respondents claimed other reasons for business closure, such as personal family problems, health issues, or sickness.

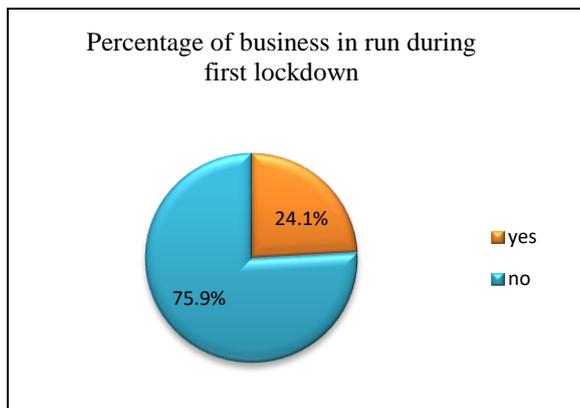


Figure 4. Percentage of business in the run during the first lockdown

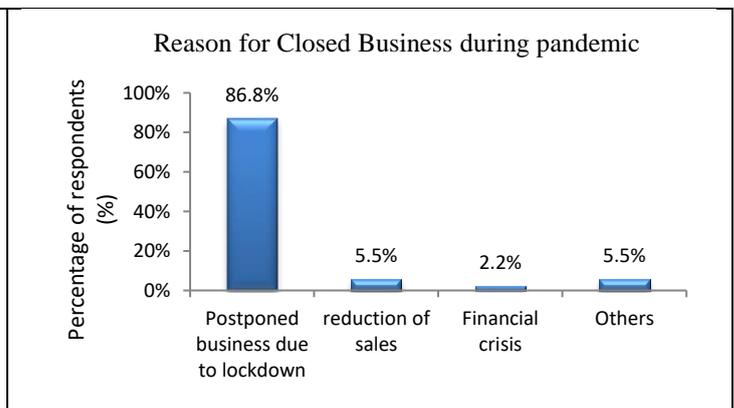


Figure 5. Reason for Closed Business during the pandemic

Due to the pandemic, some business owners could not secure staff attendance. As shown in Figure 5, about 5 percent of respondents claimed that all of their employees were absent, nearly 5 percent said that more than half of their employees were away, around 18 percent said that less than half of their employees were absent, and 72 percent said that it is not applicable for them. The remaining 72 percent of respondents claimed they had no employees or did not operate their firm throughout the pandemic because they had to shut down their businesses.

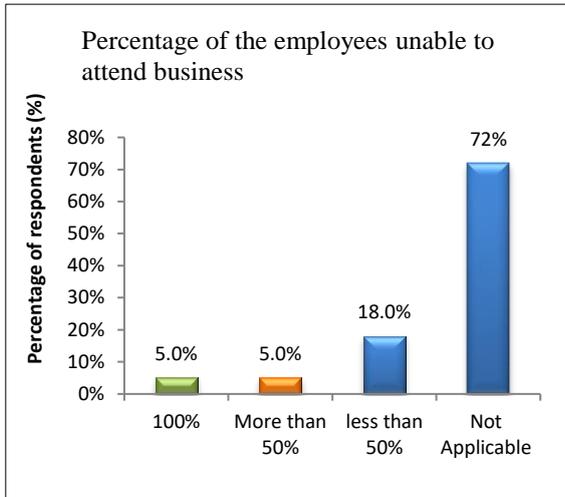


Figure 6. Percentage of the employees unable to attend business

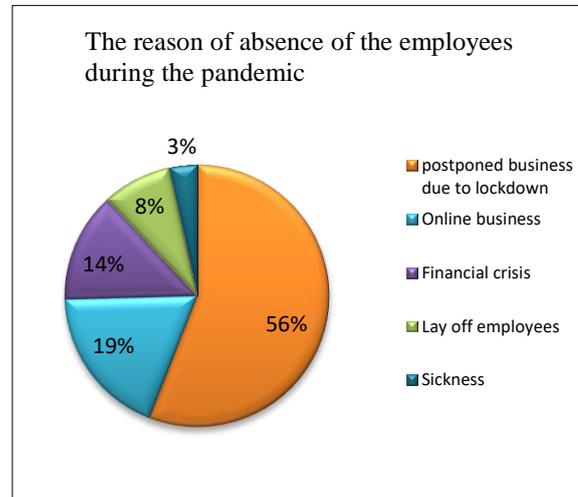


Figure 7. The reason for the absence of the employees during the pandemic

The owners of the business were asked about the absence of employees. Figure 7 portrays that about 56 percent of respondents faced the absence of their employees since they had to close their business immediately during the pandemic and did not need any employees. As a result, those employees were suspended by their employers, if not simply laid off, because they had no choice. Among the remaining respondents, 8 percent admitted to firing employees, 14 percent claimed they could not afford to hire employees due to financial constraints, and 9.8 percent indicated they operated their business online. Only 3 percent of those surveyed claimed that their employees were absent due to illness.

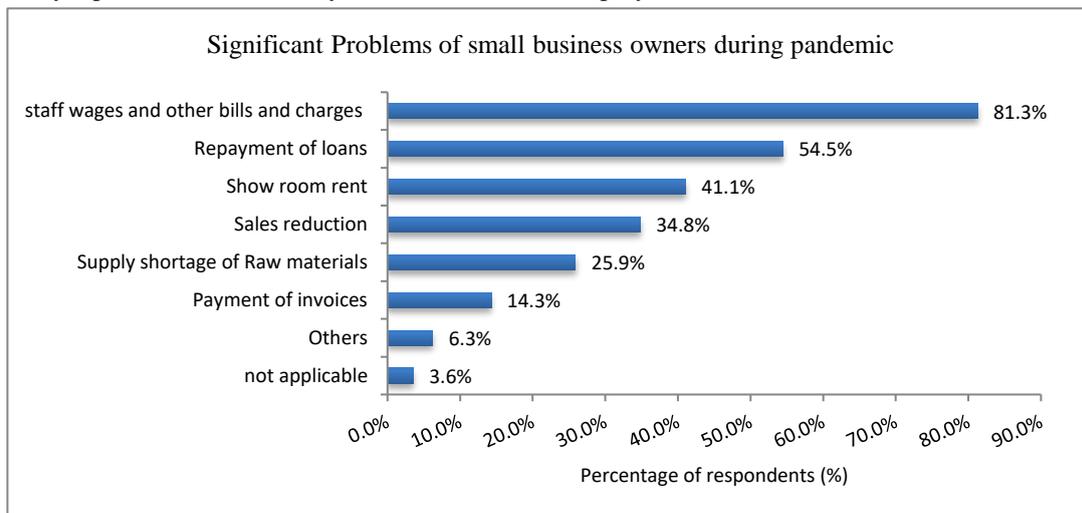


Figure 8. Significant Problems of small business owners during the pandemic

We asked the respondents about their difficulties with the shutdown (Figure 8). According to our survey results, more than 80 percent of the respondents claimed that paying salaries to their employees and other operating expenditures (electricity bills, security charges, and so on) was the most severe challenge for businesses. In earlier days, small business owners took loans to establish their businesses. However, after the outbreak of Covid-19, repaying that loan put their life in a difficult situation. As a result, about 55 percent of the respondents had difficulties repaying the loan due to the pandemic. About 41 percent of respondents claimed they had difficulties paying the showroom or store rent. Due to the sales reduction, about 35 percent of small business owners had difficulties maintaining their businesses during the pandemic. About 26 percent of the respondents said they had raw material supply shortages, and around 14 percent said they had trouble paying their bills due to the pandemic.

Financial Conditions During Pandemic

Our results also highlight the financial vulnerability of the small businesses participating in the survey. Figure: 9 shows the profits earned by the respondents in 2019 who are SMEs owners. Before the pandemic in 2019, about 50 percent of the respondents earned more than BDT 10 Lakh. About 27 percent of the business owners earned more than BDT 1 Lakh, about

13 percent earned more than BDT 50 Thousand, and only 10 percent earned more than BDT 10 Thousand.

According to their income in the previous year, figure 10: showed the longevity of entrepreneurs' businesses to be the ability to run during the pandemic. We conducted our study on April 01, 2020, and April 30, 2020. They expected to be able to continue their business according to their financial condition during that particular time. Around 6.4 percent of respondents were confident they could continue their operation for a year or more ahead of that particular survey time. Around 13.8 and 13.8 percent of the business owners can continue their operation for less than a month and less than three months. Around 62.4 percent stated that they would not be able to run the business in the future in this situation. Only 6.4 percent said that they will be able to run the operation for one year or more.

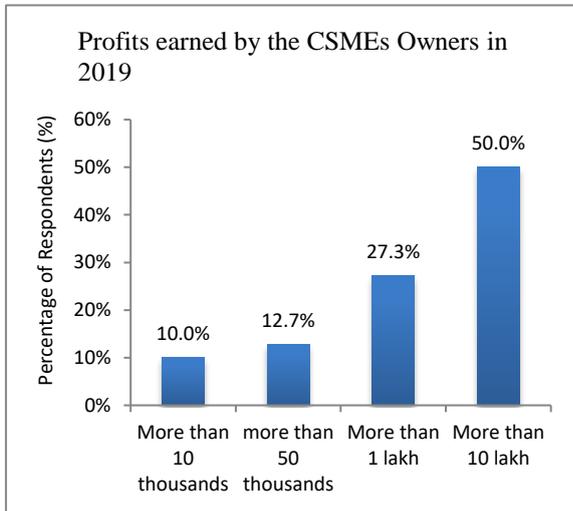


Figure 9. Profits earned by the CSMEs Owners in 2019

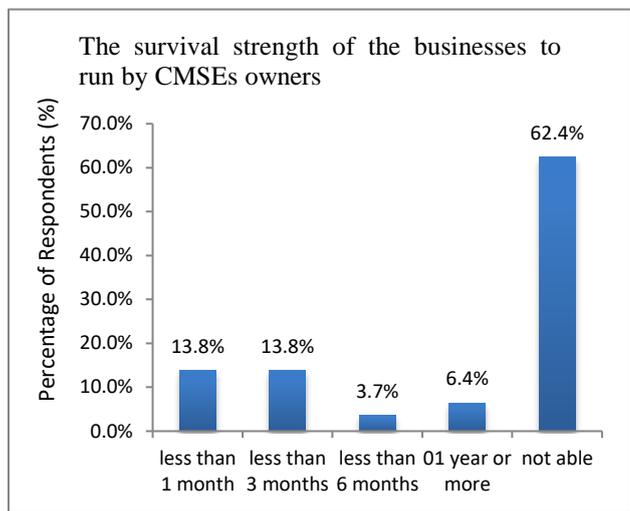


Figure 10. The survival strength of the businesses run by CMSEs owners

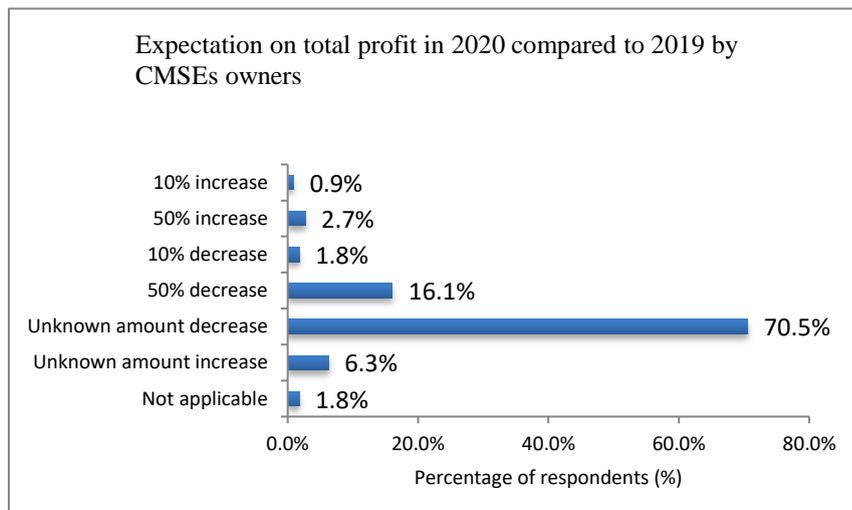


Figure 11. The expectation of total profit in 2020 compared to 2019 by CMSEs owners

In figure 11, around 71 percent of the respondents claimed an unknown amount would decline in their income in the pandemic year 2020 compared to 2019. About 16 percent of business owners were sure that half of their income would be lost during this pandemic, and only 3 percent of the owners are optimistic about their income which will increase by 50 percent in 2020.

Immediate Actions Regarding Their Business Situation and Crisis

Our results from the survey also reported the immediate actions of CMSEs owners during the pandemic crisis. In Figure:12, we can see how our respondents reacted when Covid-19 hit them. More than 77 percent of business owners of our sample had to postpone the operation to combat the pandemic as sales were insufficient to cover the daily operating costs. Furthermore, around 17 percent of respondents had to discharge their employees to deal with the pandemic. About 16.1 percent of the business owners tried to get by taking out a loan. Unfortunately, more than 6 percent of respondents have been forced to close their showrooms to deal with the pandemic.

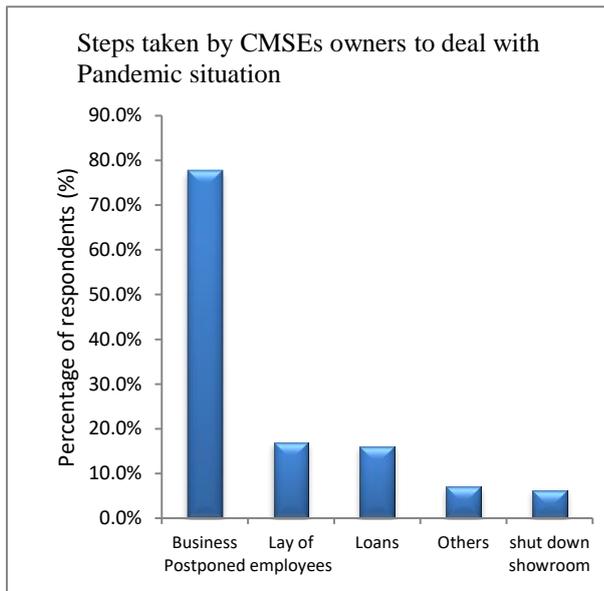


Figure 12. CMSEs owners took steps to deal with the Pandemic situation

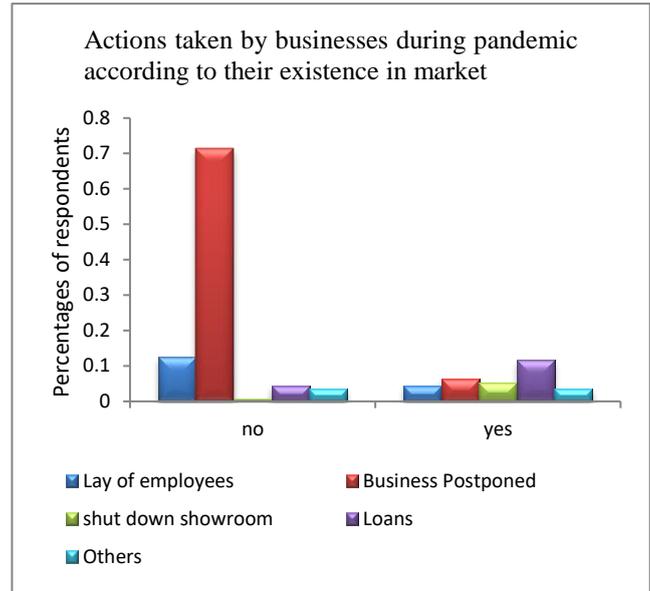


Figure 13. Businesses take action during a pandemic according to their existence in the market

When asked about the measures or actions taken by the business owners during the Corona pandemic, about 11.6% of respondents who had run their operations had taken loans to continue their businesses; on the other hand, 4.5% of respondents who did not run their businesses had taken the loan to survive. They pointed out that loan plays a vital role in their business (Figure 13).

Expectations and Feelings from the Business Owners

Figure 14 depicts responders' feelings about the Corona pandemic. Almost everyone expressed concern throughout the pandemic, especially at the outbreak's start. According to 78 percent of individuals who responded, the unclear situation during the pandemic has caused a lot of anxiety in their lives. Besides, 17 percent expressed concern about the pandemic's effect. Only 3.7 percent of those surveyed said they were not worried at all. Others stated that they were unsure of their feelings, indicating their perplexed condition in response to the crisis.

Our respondents were asked to give their thoughts on which measures they believe should be made to combat the Covid-19 epidemic. Figure 15 shows that almost 87 percent of them thought that government actions would aid in mitigating their problems. More than 70% of respondents said that issuing a loan could be a good alternative. Around 39% of respondents advocated for an interest rate deduction, 36.6 percent wanted an extension of their existing loans, and 15% claimed that a tax reduction would be a significant relief. Only 2% of respondents suggested a protective industrial policy for small business owners, establishing a particular bank for SME owners and women entrepreneurs, and government assistance in setting up their new endeavors.

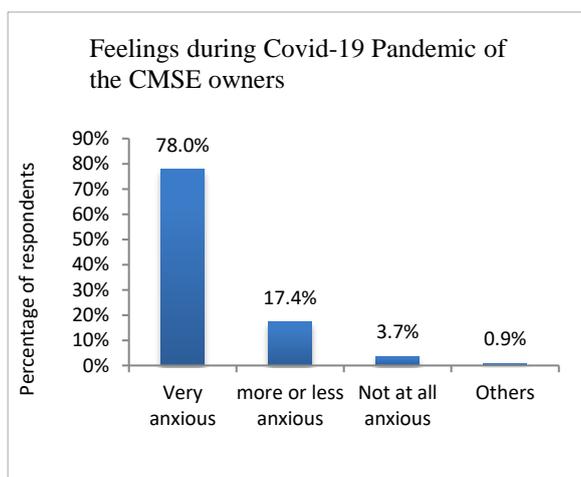


Figure 14. Feelings during the Covid-19 Pandemic of the CMSE owners

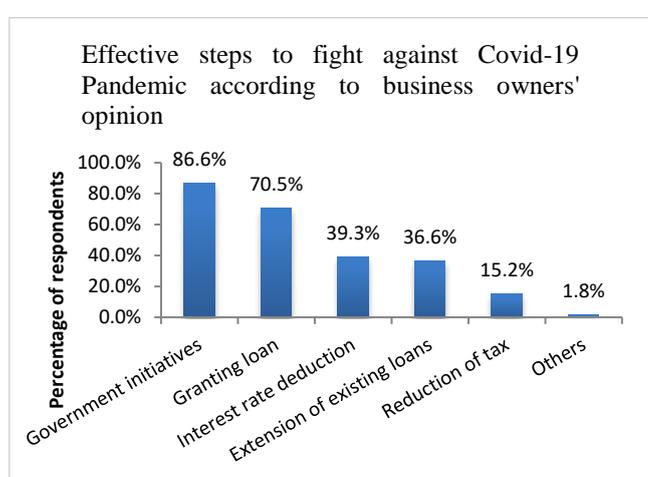


Figure 15. Effective steps to fight against the Covid-19 Pandemic according to business owners' opinion

The respondents were also queried if they had any thoughts or suggestions about the development of their business or the government's pandemic policy. They have requested that perhaps the government take measures to assist them, such as issuing loans with lower interest rates and promoting incentives for conducting online business. They also proposed a tax reduction, free relocation permission for business owners and suppliers during the lockdown, and a special fund for owners of closed or affected CMSEs.

SME Friendly Policies Taken To Fight against Covid-19

Incentive Package of 200 billion

The government has introduced several incentive packages for the micro, cottage, small, and medium enterprises entrepreneurs (MSMEs) affected by the pandemic, including the provision of low-interest working capital facilities through the banking system worth BDT 200 billion, the majority of which have already been implemented. Under this package, a minimum of 70 percent of the total target allocated can be provided to cottages, micro and small industries, and a maximum of 30 percent to medium enterprises. They will also be provided with current capital and term loan/investment benefits. Medium sector entrepreneurs will only be entitled to current capital loans/investment benefits. The interest/profit rate of this loan/investment will be a maximum of 9 percent. The borrower will pay a maximum of 4 percent, and the government will pay the remaining 5 percent to the concerned bank/financial institution as a subsidy.

Incentive Packages of Refinance Scheme

Bangladesh Bank also introduced BDT 100 billion Refinance Scheme (Revolving) to provide working capital facilities for the MSMEs. Within these stimulus packages, banks and NBFIs can avail this refinance facility up to 50.0 percent of their disbursed amount against stimulus packages at a 4.0 percent interest rate. From the amount allocated to banks/financial institutions, the distributor will provide a refinancing facility to a maximum of 50 percent loan/investment sanctioned limit, and the interest/profit rate will be imposed at 4 percent every quarter. B.B. has also increased the fund sizes of three (03) existing refinance schemes (from Tk. 1600 crore to Tk. 3000 crores) to meet up the term loan (including working capital) requirement of the MSMEs. At the same time, the interest rates of those schemes have been reduced.

Monitoring the Proper Utilization of Incentives

To monitor the proper utilization of loans/investments provided under the incentive packages, each bank/financial institution shall regularly oversee the matter by setting up a 'Special Monitoring Cell' under their head office. B.B. has instructed all the Banks and F.I.s to establish a Help Desk in each branch to guide the entrepreneurs in availing of the facility under the stimulus package. In addition, banks and NBFIs have been instructed to form a special monitoring team in their head offices to evaluate the loan/investment activities of that situation.

Facilitating the Loan Process

Loans/investments disbursed to cottages, micro, and small sectors can be repaid based on EMI (Equal Monthly Installment) to facilitate and make the credit disbursement and recovery activities easier and customer friendly. However, the nature of the loan/investment, period, and the prescribed sanction limit will remain unchanged.

Credit Guarantee Scheme

To support the cottage, micro, and small enterprises (SMEs) mired in financial difficulty caused by Covid-19, Bangladesh Bank approved a credit guarantee scheme (CGS) worth Tk 20,000 crore on July 23, 2020. Credit guaranteed benefits will be provided against working capital loans/investments for the CMSEs sector under the BDT 20000 crore stimulus packages. Under the credit guarantee scheme's policy, the government and Bangladesh Bank will provide the necessary funds. Based on fund adequacy, portfolio guarantee caps up to thirty (30) percent of the portfolio limit fixed for working capital loan/investment in cottage, microcredit, and small (CMS) sectors will be provided for each bank and financial institution participating in the scheme. Whatever the existing limit for CMS loan/investment, the loan/investment facility under this scheme will be between minimum BDT two (2) lakh and maximum BDT fifty (50) lakh. The CGS (Credit Guarantee Scheme) Unit will bear a loss of up to 30 percent of the portfolio guarantee limit of any PFI (Participating Financial Institutions) in the event of default, which will be termed as 'Guarantee Portfolio Cap'. To ensure collateral-free loan/investment for Women-owned Cottage, Micro, and Small Enterprises (CMSME), hence, the PFIs have to fix at least Five (5) percent of their Portfolio Guarantee Limit (PGL).

Facilities for Women Entrepreneurs

Under the Refinance scheme, ten (10) percent of the loans/investments must be distributed among the women entrepreneurs. A minimum of fifteen (15) percent of advance is distributed among the women entrepreneurs under the incentive package. In order to ensure that the target slated for loans/investments paid to the women entrepreneurs level is achieved by the end of 2024, there is a need to increase the disbursement of collateral loans/investments to women entrepreneurs in the CMSEs sector.

'Lead Bank Selection' Method

This effectively conveys information on various policies and activities related to CMSME financing to the marginalized population. Under the Incentive Package of BDT 200 billion announced by the Government, SME Lead Bank has been prescribed to carry out all CMSME loan-related activities properly with assistance in the activities of the SME Loan

Disbursement Monitoring Committee constituted in each district under the chairmanship of the Deputy Commissioner with the approval of the Cabinet Department to cooperate in the integrated and smooth implementation of the loan disbursement of CMSME sector. Lead Bank will also play a pivotal role in implementing B.B. Refinance Schemes & women entrepreneur's development activities.

Projects under International Organization

Additional refinance fund of USD 300 million for COVID-19 affected Cottage, Micro, Small, and Medium Enterprises (MSME) sector under the "COVID-19 Emergency and Crisis Response Facility Project" was funded by the Asian Infrastructure Investment Bank (AIIB). JICA assisted the Urban Building Safety Project with the aim of extending financial support for a safe working environment in the RMG sector and smooth implementation of the project. The pre-finance credit facility is also offered to eligible RMG factories under social-up gradation aiming at improving the safety/health/hygienic facility of workers and workplace environment to overcome covid-19 pandemic situation under the Program to Support Safety Retrofits and Environmental Upgrades (SREUP) project.

Relaxation of Condition

In the case of medium-scale industries, the bank can provide loan/investment facilities without completing the rating activities as per the latest Guidelines on Internal Credit Risk Rating System for Banks (ICRRS) under the BDT 200 billion incentive. However, each bank will select customers based on the banker-customer relationship by analyzing loan/investment risk under its existing policy. In order to relax the existing policy of collateral for providing this additional loans/investments to existing customers, the legal impediment has been removed by allowing the creation of further charge on mortgaged property on stamp paper of Tk. 300 by the Banks and F.I.s.

Current Scenario of SME Credit Disbursement

The small industries contribute 4.0 percent of our GDP (Bangladesh Bank, Annual report: 2019-20). Small businesses have taken the brunt of the blow, as their supply chains have been disrupted and revenues have been lost. In the pre-Covid period, the increase of SME credit disbursement was on the rise (Figure: 16).

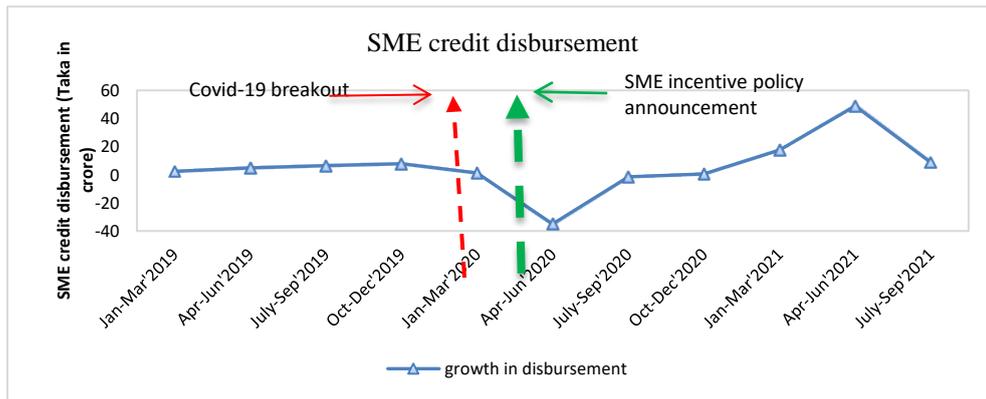


Figure 16. SME credit disbursement

However, in March 2020, Covid-19 disrupted this increasing trend, significantly dropping from 1.27 percent positive growth to 34.96 percent negative growth in June 2020. The government of Bangladesh (GoB) and Bangladesh Bank (B.B.) implemented several policy changes that helped the situation. As a result, from July 2020 through the end of the fiscal year 2020-21, there is an increasing tendency attributed to B.B.'s supportive monetary policy pronouncement. It peaked in June 2021 and sharply fell at the end of September 2021.

CONCLUSIONS

The article provides an anecdotal experience of COVID-19's impact on SMEs and the issues they confront during nationwide shutdowns. COVID-19 has had a considerable influence on Bangladeshi SMEs, with notable differences in effects across industries and localities, according to our findings. Our research serves as evidence to comprehend what CSMEs owners were thinking and experiencing during the epidemic's early stages by giving descriptive survey findings from Bangladesh.

Our results suggest that many of these firms had little cash toward the pandemic's beginning, meaning they would either have to lay off employees, take on an additional loan, or declare to shut down the business. This highlights how the immediacy of new funding might impact medium-term outcomes. Our survey suggests that many businesses are likely to fail without financial assistance. In those crucial moments, they were in the dark and felt uncertain about what might happen next time. The government's announcement of the incentives made them feel relaxed and hopeful for the future.

However, these surveys have two selection problems (Wang et al., 2020). The first is that the sample's representativeness is unknown and occasionally distorted. Since we have conducted both online and telephone surveys to find enough respondents during a hard times like shut down situations, some samples being surveyed online are unknown. Although, the respondents from the directory of SME foundation can be traced easily and know their whereabouts. This is why we could not perform the second wave survey to understand the impact of reopening on the business owners.

The second issue with the survey is that they tend to cover a minimum area or sector, and the sample is less heterogeneous. In this example, the sector included those entrepreneurs who were active in online business and mostly cottage, micro, and small business owners. We could not reach the medium enterprises' owners in that survey. As a result, our survey samples tend to reflect more biased opinions. Further research needs to use samples of SMEs in a more constructive way to include more variety.

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Conflicts of Interest: The authors declare no conflict of interest.

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APPENDICES

Appendix A: Definition of SMEs in Bangladesh

SMEs mainly entered the field of development banking in Bangladesh during 2003-04. Bangladesh Bank (B.B.) formulated 'Prudential Guidelines for Consumer Financing and Small Enterprise Financing' in 2004. B.B. had addressed only Small enterprises (SMEs), with thresholds defined separately for service, trading, and manufacturing. In 2005, the Ministry of Industry (MoI) had defined the thresholds for manufacturing-manufacturing and non-manufacturing under Small and Medium, with more liberal upper limits on fixed capital investment. Subsequently, B.B. included medium enterprises and provided the operational definitions of SMEs in 2008. Later, B.B. updated the SME definition aligned with the Industrial Policy of the Government of Bangladesh I.P. 2010 and I.P. 2016. The SME definition set by the 2016 I.P. is now broadly accepted. In line with I.P. 2016, B.B.s definition of SMEs is based on the value of fixed assets (excluding land and buildings, including replacement value), the number of employees, and annual turnover, shown in Table A1.

Table A1: Definitions of Cottage, Micro, Small, and Medium Enterprises

Categories	Sectors	FixedAsset(excluding land and buildings, including replacement value)(Tk)	Employed Manpower	Yearly Turnover(Tk)
Cottage	Manufacturing	Less than 1 million	Maximum 15	-
Micro	Manufacturing	1 – 7.5 million	16-30	-
	Service	Less than 1 million	Maximum 15	-
	Trade	Less than 10 million	Maximum 15	Maximum 20 million
Small	Manufacturing	7.5 -150 million	31-120	-
	Service	1 -20 million	16-50	-
	Trade	1 -20 million	16-50	20– 200 Million(more than 20 million but less than 200 million)
Medium	Manufacturing	150- 500 million	121-300	-
	Service	20 – 300 million	51-120	-

Source: Ministry of Industry and Bangladesh Bank.

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