UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

Impact Assessment of COVID-19 on Bangladesh's Manufacturing Firms

Survey Results June-July 2020

Acknowledgments

This report was produced by the UNIDO Field Office in Bangladesh with the support and technical assistance of UNIDO's Policy Research and Statistics Department and the Asia and the Pacific Regional Coordination Division. Special thanks go to all ministries and associations that supported the implementation of the survey as well as to the respondents from the private sector, including micro, small, medium and large enterprises, who dedicated valuable time during this pandemic to contribute to the survey.

Disclaimer

This report provides information about a situation that is rapidly evolving. As the circumstances and impacts of the COVID-19 pandemic are continuously changing, the interpretation of the information presented here may also have to be adjusted in terms of relevance, accuracy and completeness.

Key findings

In this study, 39 per cent of firms reported that at least half of their employees were unable to go to their workplace due to the government restrictions. Micro enterprises and SMEs have been hit hardest by the COVID-19 pandemic and restriction measures. By industry, the textile, apparel and leather industries were affected the most: around 50 per cent of firms operating in these industries reported that between 51 per cent and 100 per cent of the workforce could not come to work due to the restrictions imposed by the government to contain COVID-19. The shortage of cashflow was reported as being the biggest problem businesses faced due to the government restrictions.

The survey shows that 60 per cent of firms expect revenue losses of more than 50 per cent in 2020 compared to 2019. Large and medium as well as high-tech firms expect less losses compared to other firms.

In terms of employment, layoffs have been highest in micro firms and SMEs operating in the textile, apparel and leather industries. Around 70 per cent of large, over 50 per cent of GVCs, of non-GVCs, of domestic-oriented, other low-tech and medium- and high-tech firms are not considering to lay off workers, although they are anticipating a decrease in revenue of around 50 per cent or more. Semi-skilled workers were at highest risk, with 50 per cent of medium- and high-tech firms and 45 per cent of micro and domestic-oriented firms indicating that semi-skilled workers would be at most risk of losing their job due to the decrease in revenue.

Two-thirds of firms stated that they would be forced to close down within 6 months, if the government restriction continued, as they did not have sufficient cashflow to sustain their operations. With the exception of micro, domestic-oriented and other low-tech firms, other firms are optimistic that they will be able to recover within six months, if the pandemic and the related restrictions end soon.

The majority of firms prefer taking a loan from a commercial bank or microfinance institution and to reduce their operating costs to offset the impact of cashflow shortages. The survey further revealed that large firms are considering taking loans from commercial bank as their preferred source of credit. By contrast, about 50 per cent of micro enterprises stated a preference to take loans from microfinance institutions, confirming that micro enterprises prefer such institutions as their source of credit.

The survey findings also revealed that 50 per cent of firms considered delays in delivery and the use of advanced equipment (46 per cent) as their preferred strategies to deal with the shortage of workers. Outsourcing (41 per cent) was another preferred option of the respondents to mitigate the shortage of workers. According to firm size, firm type and industry, the majority of micro enterprises (59 per cent), non-GVC firms (54 per cent) and other low-tech industries (56 per cent) favoured the same option, i.e. reducing the number of staff.

The surveyed firms implemented different strategies to boost their business. Forty per cent of firms of all sizes and types reduced their production to respond to the shortage of inputs. The second most widely used option by firms was exploring new procurement channels (37 per cent) to improve their business performance. Around 30 per cent of firms also considered the possibility of creating new production channels to address the shortage of inputs.

About 30 per cent of respondents received different forms of government support. Salary support for export-oriented firms was the preferred support by respondents, followed by the stimulus package fund for export-oriented firms and wages and salary support for SMEs and cottage firms. However, only 9 per cent of micro enterprises, 12 per cent of domestic-oriented and 4 per cent of other low-tech firms stated that they had received government support, suggesting that the support schemes has not reached those most in need.

This study highlights that additional policy support is necessary to overcome this crisis. Nearly 70 per cent of SMEs, domestic-oriented and other low-tech firms prefer support in the form of rent and utility cost reductions. On the other hand, 55 per cent of large, 52 per cent of medium- and high-tech, and 50 per cent of GVC firms favour a tax rate reduction or tax deferral over other support measures, followed by a reduction of financing costs or an improvement in loan terms.

The findings confirm that COVID-19 has hit Bangladesh’s manufacturing sector particularly hard, especially MSMEs. It is therefore important to develop relevant policies to mitigate the pandemic’s impacts and to build a resilient and competitive industrial sector to achieve inclusive and sustainable industrial development. The coordination of joint efforts between the government and international community is crucial to support Bangladesh’s recovery. Based on the findings of the survey, several policy options have been identified as potential strategic guidance for the government and relevant stakeholders in supporting Bangladesh’s private sector, including: i) the current government support schemes, ii) employment retention, iii) promoting SME productivity and competitiveness, iv) promoting digitalization and strengthening MSMEs, v) innovation and technology approach, vi) promoting the registration of MSMEs and women-led businesses, and vii) recovery plan for the industrial/manufacturing sector.

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1. Introduction

The global COVID-19 pandemic has impacted economies around the world, and the global economy's future is uncertain. Bangladesh has been severely hit by COVID-19's multidimensional macro-economic shocks which are likely to set back the steady economic progress the country has made over the last decade. Prior to the crisis, the economy had been growing close to 7 per cent annually, on average, over the past decade[1]. As COVID-19's impacts unfold, the Government of Bangladesh (GoB) projects the Bangladeshi economy to grow at a rate of 5.2 per cent in 2020, down from an earlier forecast of 7.5 per cent.

As of 10 August 2020, the COVID-19 pandemic has affected over 20 million people in 215 countries and territories around the world, resulting in more than 734,131 deaths[2]. Bangladesh's first COVID-19 case was reported on 8 March 2020. Since then, the number of positive cases has continued to increase. It reached 260,507[3] as of 10 August 2020, five months after the first case was detected. The pandemic has hit Bangladesh's economy and labour market especially hard. All businesses, particularly in the manufacturing sector, are facing challenges, with a real threat of substantial decline in revenues and job losses. It is even more challenging for micro, small and medium enterprises (MSMEs) to sustain their business operations. Against this backdrop, UNIDO, together with BUILD[4], conducted a survey to identify the impacts of COVID-19 on the manufacturing sector, how manufacturing firms have been coping with the pandemic crisis, what forms of support they have received from the government during the survey period[5], and to what extent these services are deemed useful by the surveyed manufacturing firms.

2. Methodology, scope and limitations

2.1 Online survey

UNIDO, together with the Business Initiative Leading Development (BUILD), launched an online survey using Google form for data collection from 15 June to 24 July 2020. BUILD is a non-profit organization, jointly run by the Dhaka Chamber of Commerce and Industry (DCCI) in partnership with the Metropolitan Chamber of Commerce and Industry (MCCI) and Chittagong Chamber of Commerce and Industry (CCCI). It is a public private dialogue (PPD) platform to

1 IMF: https://www.imf.org/en/Publications/CR/Issues/2020/06/03/Bangladesh-Requests-for-Disbursement-under-the-Rapid-Credit-Facility-and-Purchase-under-the-49483
2 https://www.worldometers.info/coronavirus/?
3 https://www.worldometers.info/coronavirus/country/bangladesh/
4 Business Initiative Leading Development (BUILD) - a non-profit organization was established jointly by the Dhaka Chamber of Commerce and Industry (DCCI) in partnership with the Metropolitan Chamber of Commerce and Industry (MCCI) and Chittagong Chamber of Commerce and Industry (CCCI) in October 2011 as a public private dialogue (PPD) platform to facilitate structured dialogues between the public and the private sectors under an institutional framework. See http://www.buildbd.org/ for details.
5 The study was conducted from 15 June 2020 to 24 July 2020.

facilitate structured dialogues between the public and the private sectors under an institutional framework.

BUILD and UNIDO contacted around 400 enterprises directly, and also circulated the survey questionnaire in social media. A total of 227 respondents from various manufacturing firms participated in the survey. The survey questionnaire was designed by UNIDO's Department of Policy Research and Statistics and the Bangladeshi Country Office, based on the questionnaire on the Resilience of Micro, Small and Medium Enterprises under the New Coronavirus Outbreak (COVID-19) included in the 2020 edition of the Enterprise Survey for Innovation and Entrepreneurship in China (ESIEC) led by Peking University.

The questionnaire contained 25 questions consisting of four parts: i) current impacts COVID-19, ii) expected impacts of COVID-19, iii) dealing with COVID-19, including government support, and iv) general information about respondent firms.

2.2 Typology of firms

In our analysis, we divided the data into three categories, namely by firm size, type and industry.

a. By firm size: we follow the definitions established in the Industrial Policy 2016 by the Ministry of Industries, and classify firms into micro, small and medium, and large[6].

b. By firm type: we distinguish between three types of firms, those engaged in global value chains (GVCs), exporter (non-GVC) and domestic-oriented. GVC firms refer to firms that fall into one of the following categories:

   - producing intermediate inputs and selling a large share of their production to foreign customers or domestically located multinational companies (MNCs);
   - subsidiaries of MNCs with large shares of exports and/or imports; and
   - two-way traders.

   Exporter (non-GVC) firms are firms that sell at least 10 per cent of their production abroad but are not part of a GVC; domestic-oriented firms are non-MNC suppliers that primarily produce for the domestic market;

[6] Micro enterprises employ between 1 and 30 workers, small enterprises employ between 31 and 120 workers, medium enterprises employ between 121 and 300 workers (**f**or RMG that employ a maximum of 1,000 workers), and large enterprises employ over 300 workers (for RMG that employ over 1,000 workers).

c. By industry: we categorize firms into two broad groups: i) low-tech, and ii) medium- and high-tech. We further divide low-tech firms into two categories, namely the textile, apparel and leather industry; and the food, furniture, printing, paper, wood and recycling industries.

3. Key findings of the survey

The survey results analyse the impact of COVID-19 on companies and their responses to the challenges they are facing. The survey also addressed the existing government support, as well as short-term and long-term solutions the respondent firms plan to pursue to deal with COVID-19.

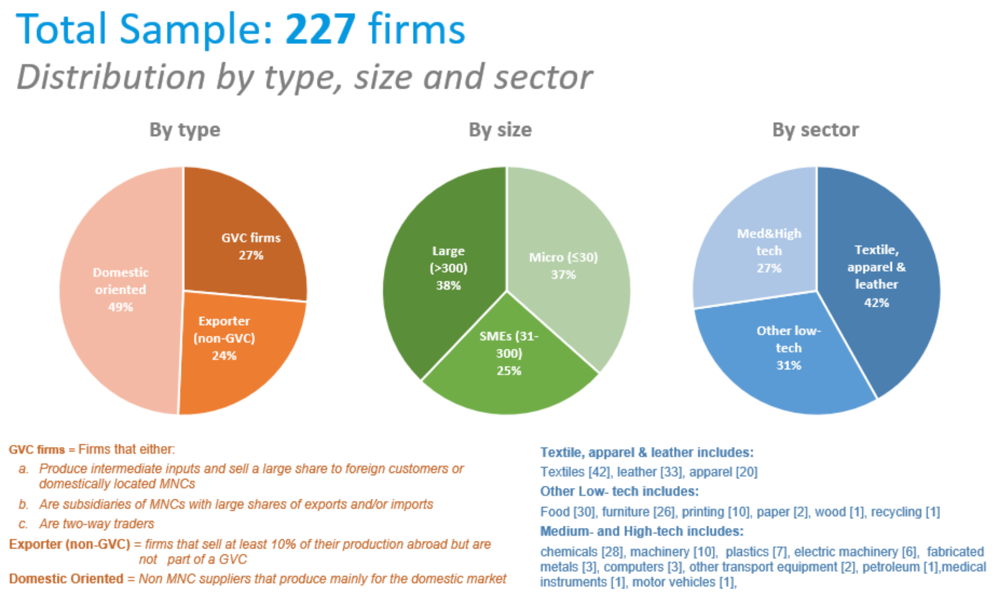
Respondents operating in the textile, apparel, leather, food and beverages, chemical, including pharmaceuticals, plastic, furniture, printing, machinery and other categories, including the wood, recycling, other transport equipment industries participated in the survey.

3.1 Respondents' profiles

A total of 227 firms completed the survey. We organized the information according to firm size, type and industry. By size, 38 per cent of respondents are large enterprises, followed by microenterprises (35 per cent) and SMEs (27 per cent). The distribution of respondents does not, however, reflect the structure of Bangladesh's manufacturing sector. According to the preliminary findings of the Bangladesh Bureau of Statistics (BBS) for 2019, SMEs represented the highest share of manufacturing firms (57.4 per cent), followed by micro enterprises (36.1 per cent), while large manufacturing firms account for the lowest share (6.6 per cent). This divergence can be explained by the fact that the number of participants in the survey from the textile and apparel industry was highest, as it employs a high number of workers. As the majority of respondents reside in the Dhaka district and Dhaka City, we did not analyse the number of respondents by location.

The majority of respondents by firm type are domestic-oriented firms (49 per cent), which primarily produce for the domestic market, followed by GVC firms (27 per cent), which produce intermediate inputs and sell a large share of their production to foreign customers or to domestically located MNCs. Non-global value chain exporters represented 24 per cent of respondents. By industry, low-tech firms represented the highest share of respondents (73 per cent) and medium- and high-tech firms (27 per cent) (Figure 1).

Figure 1 Distribution of respondents by firm type, size and industry



3.2 Current impact of COVID-19

This survey confirms that COVID-19 has had a severe impact on local businesses. The financial impact is considered to be the biggest threat to the private sector, especially for micro enterprises.

3.2.1 Impacts on access to work and effective working arrangements

Among the 227 respondents, 204 (around 90 per cent) of respondents stated that many of their employees could not come to work due to the pandemic. Among those reporting to have been affected by the pandemic in terms of access to workplace, 62 per cent reported that between 0 to 50 per cent of their employees could not come to work, while 38 per cent stated that between 51 per cent and 100 per cent of their workforce was unable to work. By firm size, over 46 per cent of micro enterprises and 44 per cent of SMEs reported that between 51 per cent and 100 per cent of their employees were unable to work, while in the case of large firms, 27 per cent reported that between 51 per cent and 100 per cent of their workforce could not come to work.

By type, 45 per cent of GVC, 42 per cent of non-GVC and 35 per cent of domestic-oriented firms stated that between 51 per cent and 100 per cent of their workers could not work during the pandemic. By industry, nearly 50 per cent of respondents operating in the textile, apparel and leather industries reported that between 51 per cent and 100 per cent of their workforce was unable to work due to COVID-19. This trend differs from that of other low-tech and medium- and high-tech industries: as shown in Figure 2, only 29 per cent of respondents from other low-tech and 32 per cent from medium- and high-tech industries stated that between 51 per cent and 100 per cent of their workforce was unable to work during the survey period.

Figure 2 **Share of workers unable to work by firm size, type and industry**

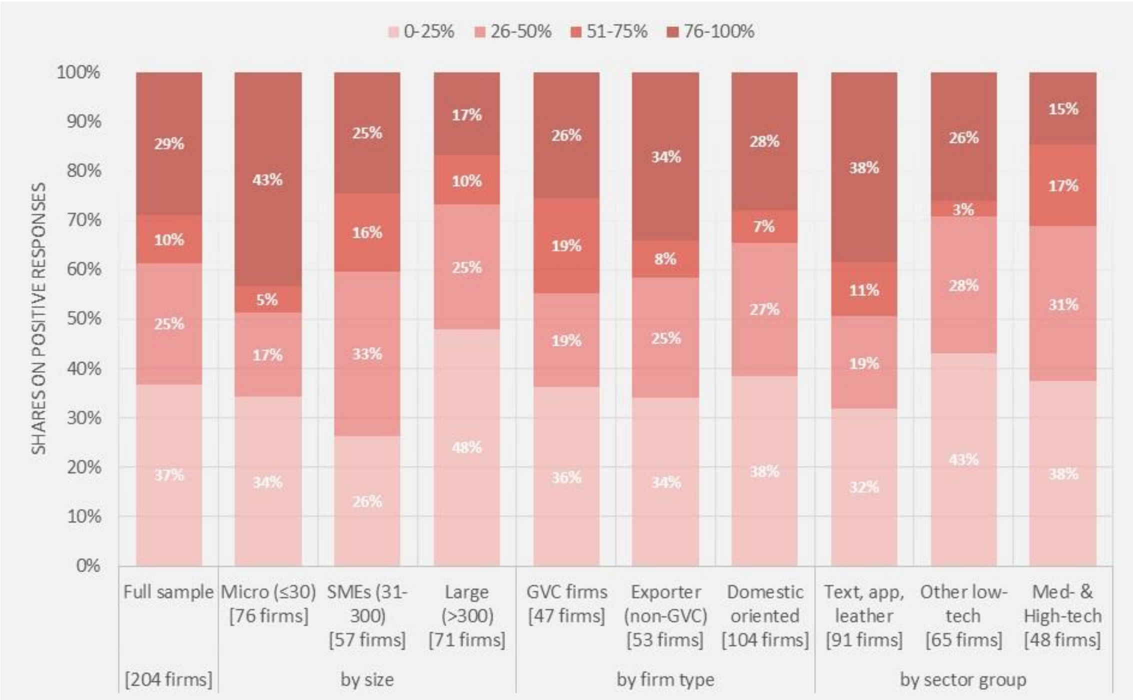
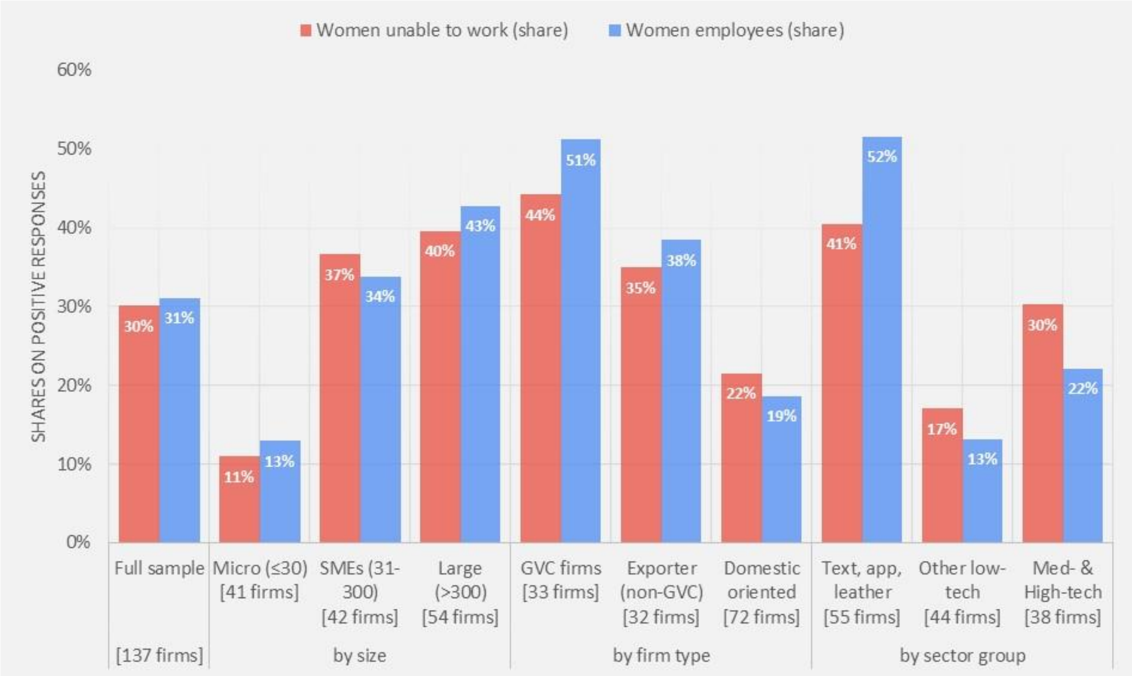


Figure 3 presents the share of women employees in the manufacturing sector and how many had access to work during the survey period. Overall, 30 per cent of women employees were unable to work due to the pandemic. This slightly varies by firm size, type and industry, however. By firm size, 40 per cent of women employees in large firms could not come to work due to the pandemic, followed by SMEs. By firm type, 44 per cent of women employees in GVC, 35 per cent in non-GVC and 22 per cent of women employees in domestic-oriented firms were not able to work. By industry, 41 per cent of women employees in the textile, apparel and leather industries could not work due to the pandemic, followed by medium- and high-tech firms (30 per cent). Women employees in micro enterprises (11 per cent) and other low-tech firms (17 per cent) were less affected, which means that the majority of women employees in such firms were able to work during the pandemic. This study did not, however, explore why a higher number of women employees in micro enterprises and other low-tech firms were able to work during the pandemic.

Figure 3 furthermore illustrates the percentage of women employees by firm size, type and industry. It shows that the larger the firm size, the higher the share of women employees. By firm type and industry, GVC firms and firms in the textile, apparel and leather industry employ more than 50 per cent of women employees.

Figure 3 **Share of women employees in the manufacturing sector and share of women employees unable to work**



3.2.2 Financial impact on businesses

The pandemic has created numerous financial problems for enterprises. Of the respondents, 81 per cent stated that the payment of wages and social security contributions was their biggest concern. All firms, regardless of size, stated that this was the biggest challenge. The payment of fixed costs, such as rent, and the repayment of loans are the second and third most stated concerns, respectively. These financial problems will have an impact on the businesses' survivability, particularly if the pandemic continues for an extended period.

Figure 4 **Biggest financial problems faced by enterprises**

3.2.3 Impact on business operations

According to over 90 per cent of respondents, the biggest challenge caused by the pandemic has been the shortage of cashflow. The main cause for this is the decline in sales due to reduced demand (reported by around 80 per cent of respondent firms) and the increased difficulty of obtaining financing (59 per cent). The shortage of inputs was the second most stated problem reported by 69 per cent of respondents. The shortage has likely been caused by value chain and logistics disruptions, including the inability to deliver, perhaps due to the containment measures, such as border closures. In addition, over half of the firms have struggled to fulfil their contracts and have faced a shortage of workers. Figures 4 and 5 highlight the main challenges firms are facing. It also shows a negligible difference between different firm types, sizes, GVC participation and/or level of technology.

Figure 5 **Biggest challenges for business operations**

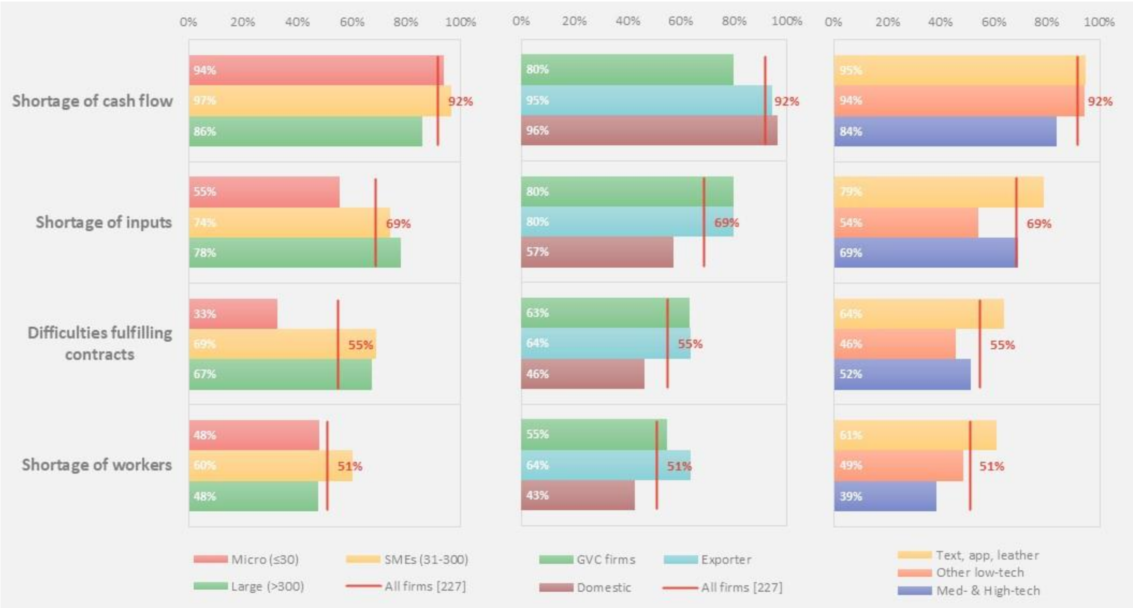


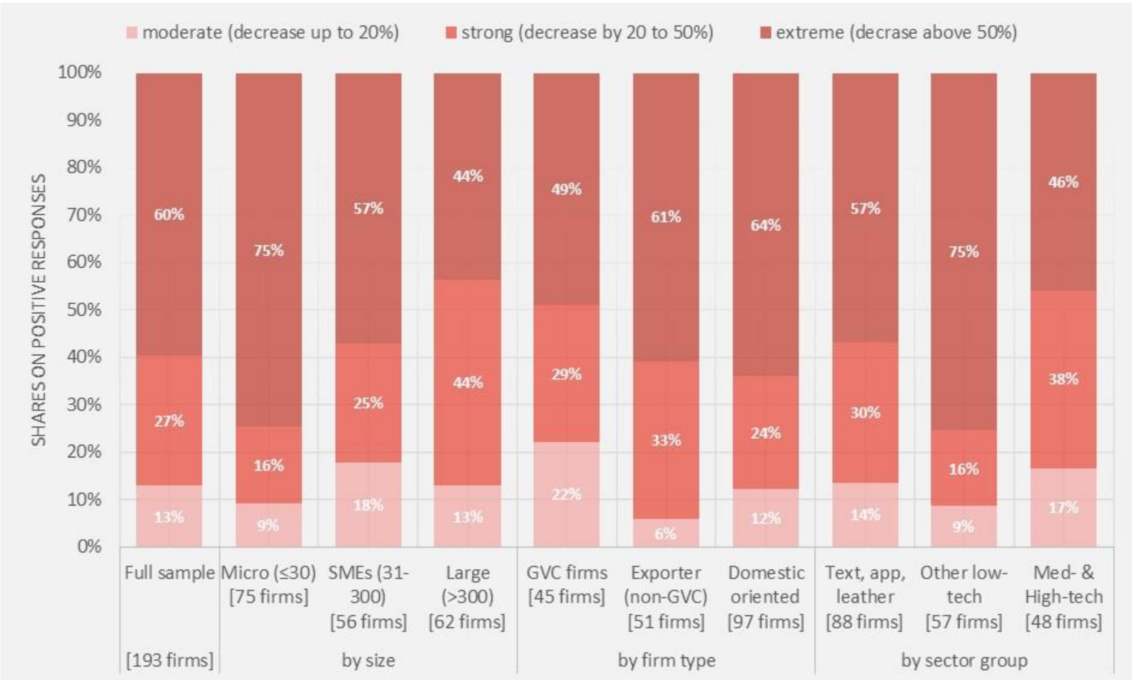
Figure 6 **Factors affecting business operations**

3.3 Expected impact of COVID-19

3.3.1 Impact on revenue and employment

Of the 193 respondents (out of a total of 227) who answered this question, 60 per cent of firms expected a decline in revenue of over 50 per cent. Fifty-eight per cent of SMEs, 61 per cent of non-GVC (exporter) firms, 57 per cent of firms in the textile, apparel and leather industries, expect losses in revenue of more than 50 per cent (Figure 7). Figure 7 furthermore shows that threefourths of micro and other low-tech firms anticipate a drop in revenue of above 50 per cent. Around 45 per cent of respondents considered laying off workers to save their business, with over 50 per cent of microenterprises, SMEs and firms in the textile, apparel and leather industry also considering layoffs (Figure 8). Specifically, micro and low-tech firms expect to lay off the largest share of employees: 44 per cent of micro enterprises and 38 per cent of other low-tech firms expect to cut more than 50 per cent of their staff as a result of the pandemic. This development requires attention, considering that layoffs will lead to an increased unemployment rate and exacerbate economic and social problems in the country.

Figure 7 **Expected decrease of revenue**



As regards loss in revenue, 44 per cent of large, around 50 per cent of GVC, and 46 per cent of medium- and high-tech firms expect a decrease in revenue of more than 50 per cent. However, around 70 per cent of large firms and more than 50 per cent of GVC, of exporter non-GVC, domestic-oriented and other low-tech firms are not considering layoffs of workers (Figure 8), although they are anticipating a decrease in revenue of around 50 per cent or more. In terms of reductions in employment, one-third of GVC, non-GVC, domestic-oriented and textile firms are considering to cut over 50 per cent of their employees, while only one-sixth of SMEs, large, and medium- and high-tech firms plan to reduce more than 50 per cent of their employees (Figure 9). Only 53 respondents provided detailed information about the number of men and women employees they are planning to lay off. Figure 10 indicates that more male workers are expected to be laid off. The number of workers to be laid off by category (firm size, type and industry) are only available for a small number of firms, and it is therefore difficult to arrive at a plausible conclusion.

Figure 8 Percentage of firms considering layoffs

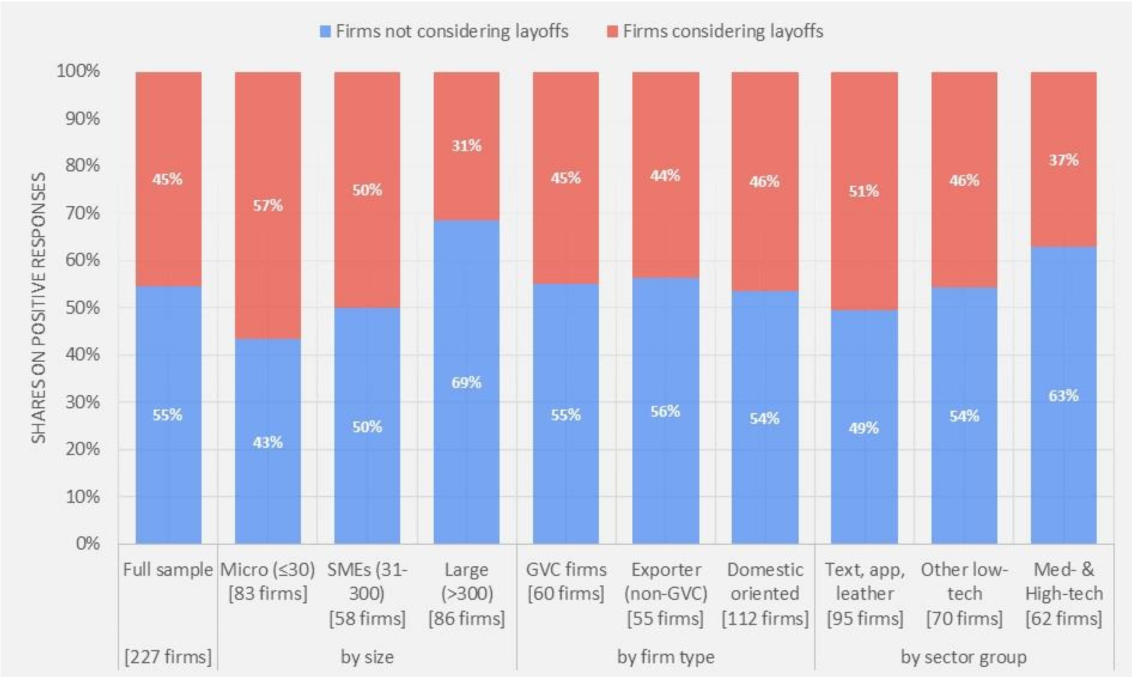


Figure 9 Expected impact on employment

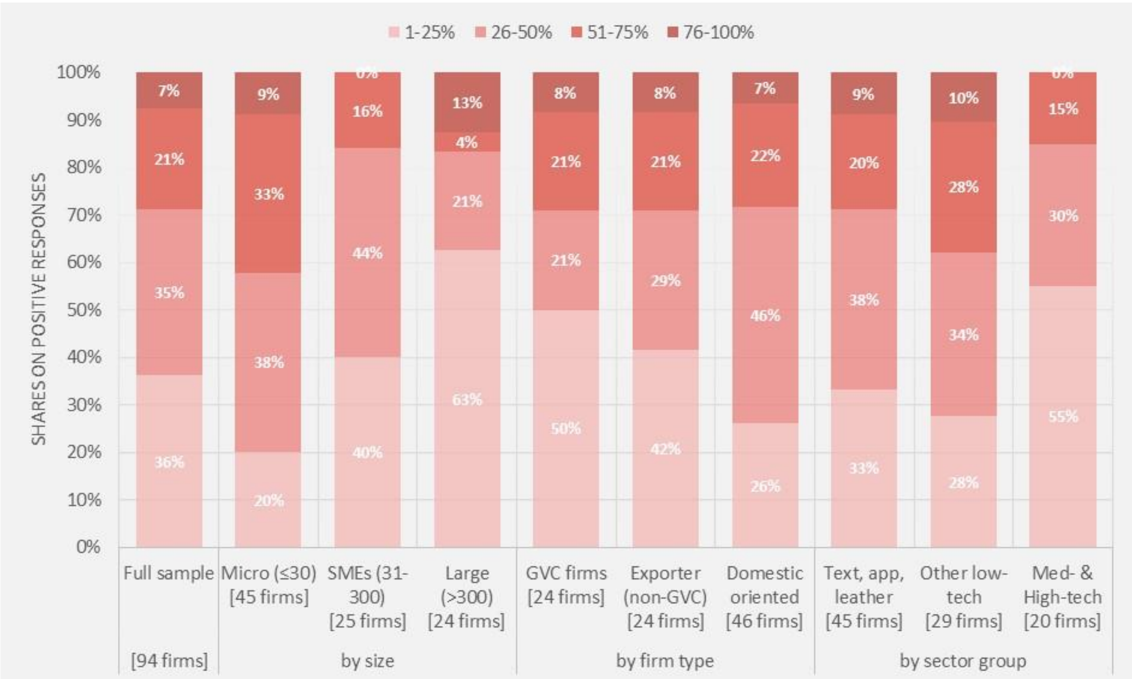
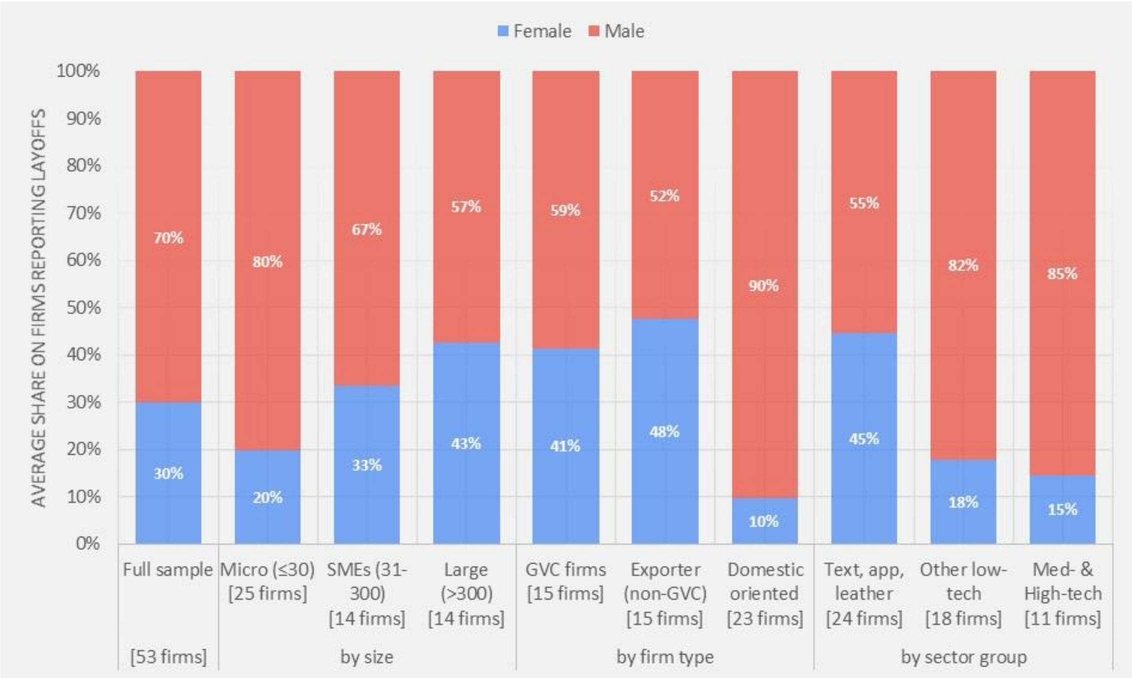


Figure 10 **Percentage of employee layoffs by gender**



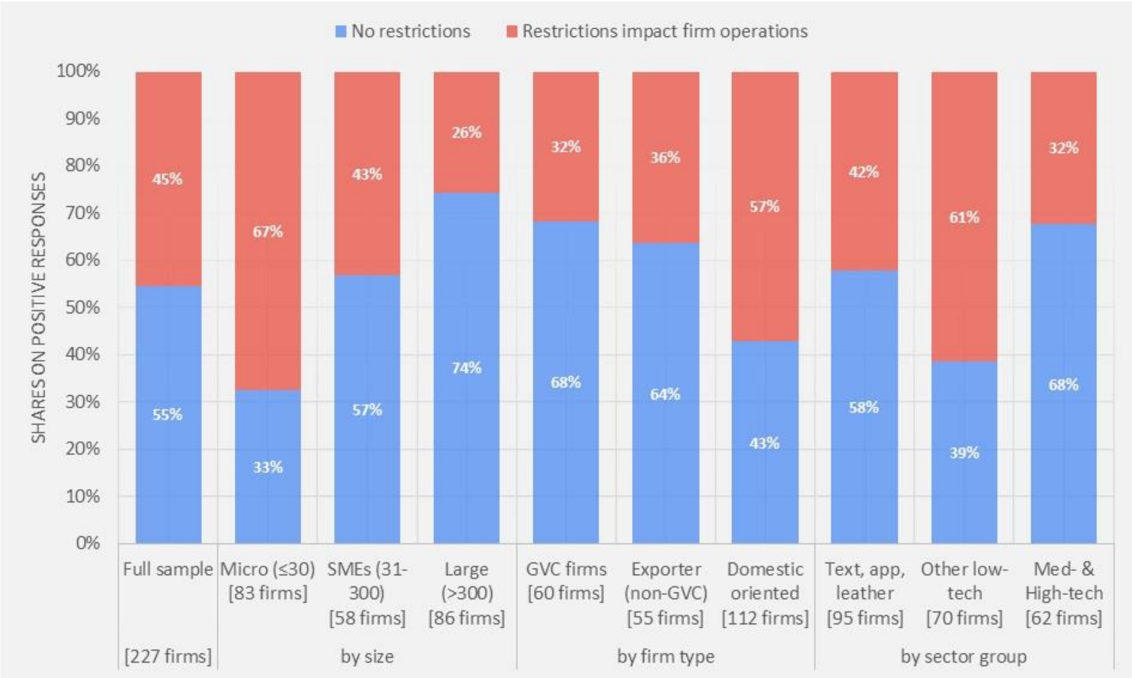
When respondents were asked which categories of employees will be at higher risk of being laid off, more than one-third confirmed that semi-skilled workers were at highest risk, with 45 per cent of micro and domestic-oriented firms, 43 per cent of low-tech, and close to 50 per cent of medium- and high-tech firms stated that semi-skilled workers would be at higher risk of losing their jobs due to the decrease of revenue (Figure 11). They did not, however, explain why semi-skilled workers would be the most affected workers.

Figure 11 **Categories of workers at risk**

3.3.2 Impact of government restrictions

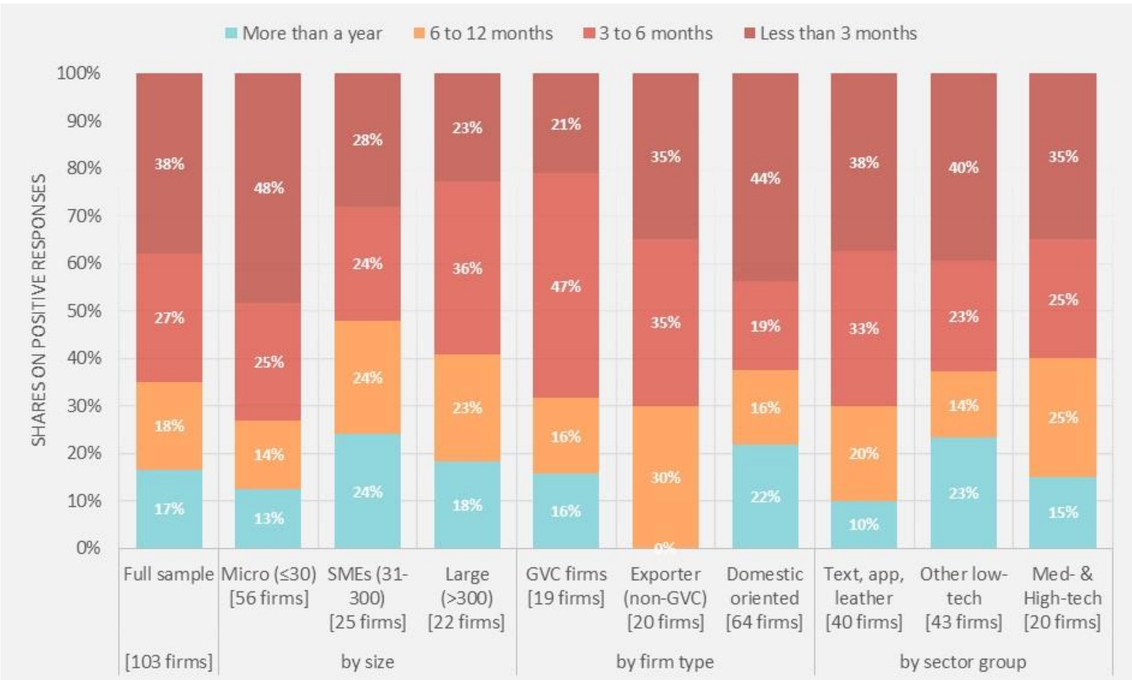
The Government of Bangladesh imposed a number of restrictions to minimize the impacts of the COVID-19 pandemic, including the restriction of movement of people and transport. Among others, the measures include social distancing, mandatory alternate working arrangements, ban of entry of individuals from hot spot countries, curfews, nationwide closures of educational institutions, closures of high-risk businesses and amusement centres, such as cinemas and parks, closures of all factories and industries, and the promotion of high standard personal hygiene. Many of those measures have since been lifted, but educational facilities remain closed nationwide, social distancing measures and the use of masks are encouraged with the introduction of other precautionary measures. Many of the firms were impacted by the imposed restrictions.

Figure 12 **Impact of restrictions on firms**



Overall, 45 per cent of firms stated that their businesses have been impacted by the government restrictions, with micro (68 per cent), other low-tech (61 per cent) and domestic-oriented firms (57 per cent) being hit the hardest. Figure 12 shows that the larger the firm size, the lower the restrictions' impact. Large, GVC and medium- and high-tech firms have been less affected.

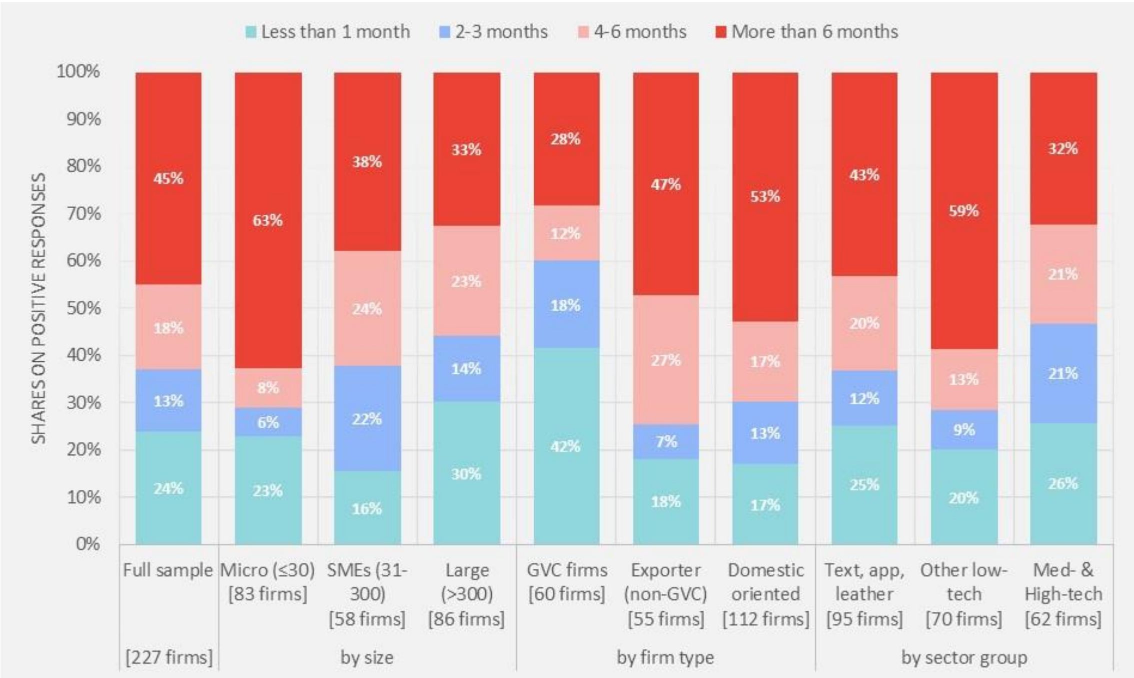
Figure 13 **Expected survival of firms with current restrictions**



About two-thirds of respondents stated that they will be forced to close down their operations within six months, if the government restrictions continue, as their available cashflow would not sustain their operations. By firm size, 74 per cent of micro and around 60 per cent of large firms stated that they expected to survive for less than three to six months because of the restrictions (Figure 13). By firm type and industry, 68 per cent of GVC, 70 per cent of non-GVC, 71 per cent of low-tech and 70 per cent of medium- and high-tech firms expect to survive for less than three to six months if the current restrictions continue. If large, GVC and medium- and high-tech firms go out of business, the ripple effect would reach a national scale and could last for an unpredictable amount of time, as the firms' suppliers would also experience a number of business problems.

Figure 14 illustrates that 45 per cent of firms will need over six months to recover. Micro enterprises will need more time to recover compared to SMEs and large firms. Forty-seven per cent of exporters, non-GVC domestic-oriented firms, 53 per cent of domestic-oriented firms and 59 per cent of other low-tech firms will need over six months to recover from the pandemic's impact. By industry, low-tech firms will need more time to recover compared to medium- and high-tech firms. Only one quarter of firms will need less than one month to return to business as usual.

Figure 14 **Expected time to return to normal business operations**



3.4 Dealing with COVID-19

To compensate for the impact of cashflow shortages, the majority of respondents plan to take loans from commercial banks and to reduce operating costs, while other firms plan to take out loans from microfinance institutions and other sources. Only 1 per cent of all firms will take loans offered by Fintech companies.

Figure 15 Dealing with cashflow shortages

It is interesting to note that the share of respondents considering taking loans from commercial banks increases with firm size. Over 85 per cent of large firms and 66 per cent of SMEs are considering taking loans from commercial banks, while only 41 per cent of micro enterprises is considering this option (Figure 15). The reason may be because micro enterprises face difficulties accessing commercial banks, as they do not have the necessary assets as collateral. Hence, nearly 50 per cent of micro enterprises are contemplating taking loans from microfinance institutions, though the interest rate is high compared to that offered by commercial banks.

As reflected in Figure 16, respondents are considering delays in delivery (50 per cent) and the use of advanced equipment (46 per cent) as their preferred response to deal with the shortage of workers due to the restrictions imposed by the government. Outsourcing (41 per cent) and wage increases (27 per cent) were other options mentioned to mitigate worker shortages. By firm size, 59 per cent of micro and 47 per cent of SMEs stated that delays in the delivery of customer orders was their preferred strategy to deal with the shortage of workers. On the other hand, 54 per cent of exporters, 50 per cent of domestic-oriented industries and 56 per cent of low-tech industries also favoured delays in delivery, perhaps due to the limited number of workers allowed to go to work. Figure 14 further shows that 44 per cent of large firms, 45 per cent of GVC and 48 per cent of firms in the textile and leather industries, and 46 per cent of medium- and high-tech firms intend to delay their deliveries due to the government restrictions.

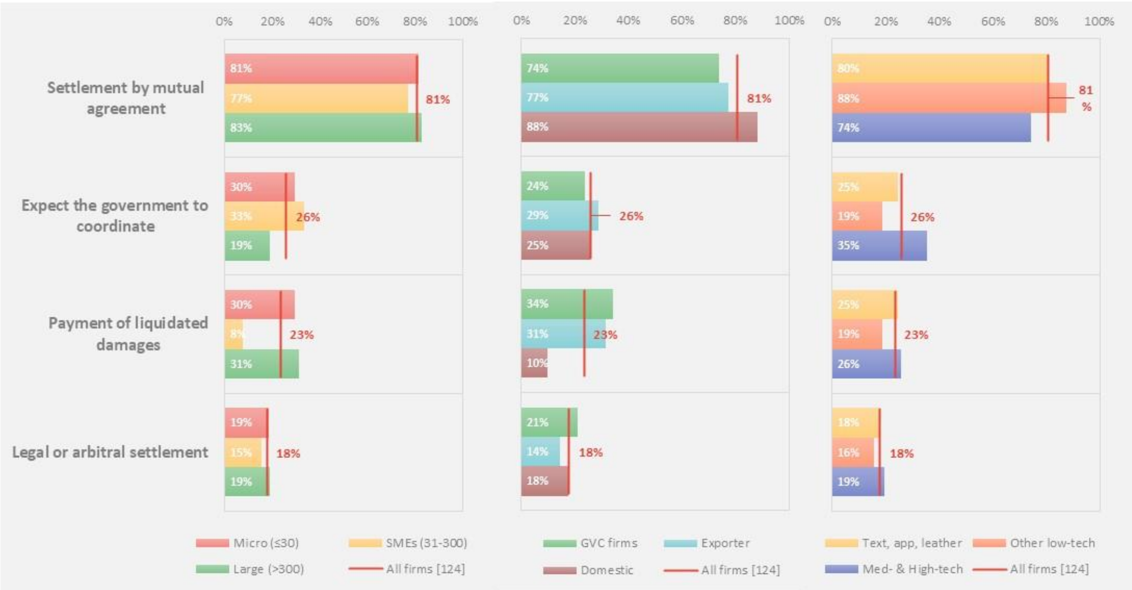
Figure 16 Dealing with worker shortages

Figure 17 shows that 40 per cent of respondents reduced their production to deal with the shortage of inputs. Micro enterprises (47 per cent), domestic-oriented (45 per cent) and other low-tech firms (45 per cent) prefer reducing their production. The second most favoured option is exploring new procurement channels (37 per cent), with large firms (46 per cent), GVC (38 per cent) and medium- and high-tech firms (40 per cent) indicating that this was their preferred option to improve their business performance. Over 33 per cent of micro, GVC and other low-tech firms favoured outsourcing their production, while 37 per cent of SMEs, 34 per cent of exporters and 36 per cent of firms in the textile and leather industries considered the possibility of creating new production channels to deal with the shortage of inputs.

Figure 17 Dealing with input shortages

To deal with difficulties in fulfilling their existing contracts, 81 per cent of all firms preferred to address these problems through mutual agreement. This strategy has been implemented by a large number of micro (84 per cent), large (83 per cent), domestic-oriented (88 per cent) and low-tech firms (88 per cent), while 26 per cent of firms expected the government to coordinate and provide clear disclaimer agreements. Respondents also preferred other options, including the payment of liquidated damages (23 per cent) and legal or arbitral settlement (18 per cent).

Figure 18 Dealing with contract-related problems



3.5 Government support

To support business and industry, including boosting industrial investment, ensuring maximum utilization of industrial production capacity, and improve the competitiveness of export-oriented industries through expansion and diversification, the Government of Bangladesh introduced some policies to help firms cushion the effect of the crisis on their business activities. However, concerns have been raised about the actual allocation of the support packages, it is unclear for many MSMEs how to actually access and best use the available measures. The schemes are:

i) Stimulus package fund of USD 595.23 million (BDT 50,000 million) for export-oriented firms, including ready-made garments;

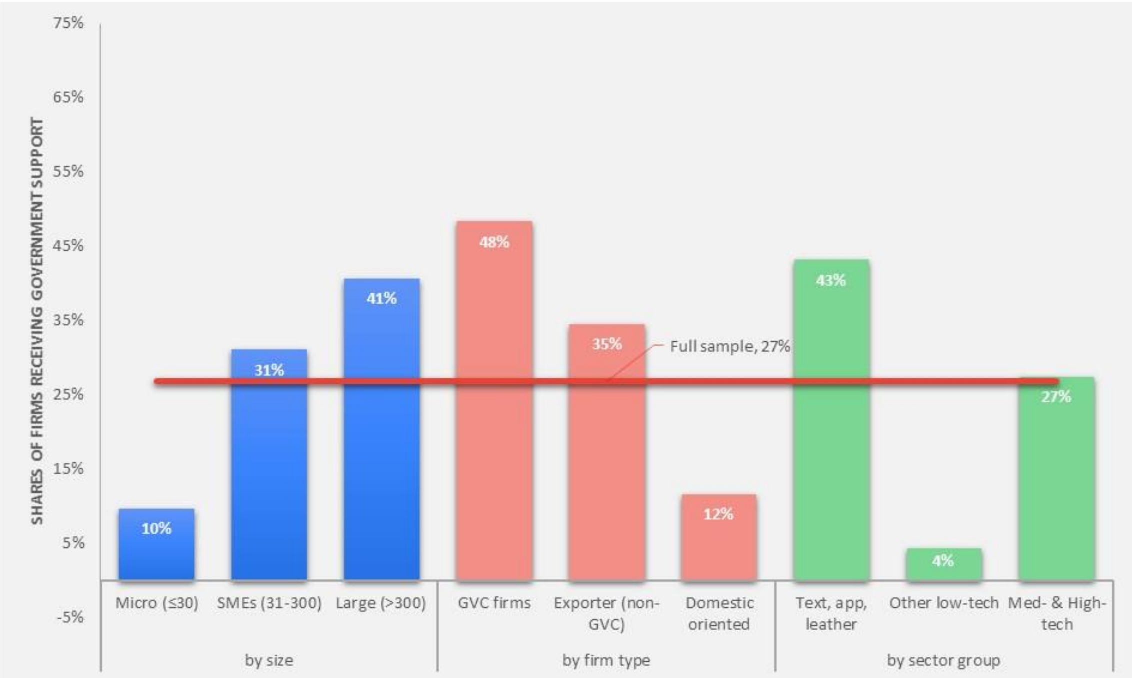
ii) USD 3.6 billion (BDT 300,000 million) low-interest loans to provide working capital loans to affected large firms for the payment of salaries and allowances of workers;

iii) Stimulus package amounting to USD 2.4 billion (BDT 200 billion), later adding USD 357 million (BDT 30 billion) for informal micro and cottage firms, to be provided as subsidized loans for wages and salaries for employees. Five per cent of total lending has been earmarked for women entrepreneurs;

iv) Increasing the amount of the Bangladesh Bank's Export Development Fund from USD 3.5 billion to USD 5 billion and reducing the interest rate on loans.

Around 30 per cent of respondents were receiving government support (Figure 19), with about half of GVC firms, 43 per cent of firms in the textile and leather industries and 41 per cent of large firms receiving support. Furthermore, nearly 35 per cent of non-GVC firms and 31 per cent of SMEs and 27 per cent of medium-tech firms stated that they were receiving government support. However, only 9 per cent of micro enterprises, 12 per cent of domestic-oriented and 4 per cent of other low-tech firms reported that they were benefitting from government support, suggesting that the support schemes have not reached those most in need.

Figure 19 Beneficiaries of government support



The government support received by the firms is mostly in the form of subsidies for export-oriented firms, low-interest loans to provide working capital loans to affected large firms for the payment of salaries and allowances of workers and employees and subsidized loan packages for the payment of wages and salaries for informal, micro and cottage firms (Figure 20). We examined the usefulness of the various types of support and the subsidies being provided by the government (Figure 21). Around 80 per cent of firms stated that wages and salary support for export-oriented firms (USD 3.6bilion) was the most preferred support by the respondents, followed by the stimulus package fund (USD 600 million) for export-oriented firms (64 per cent), and wages and salary support (USD 2.4 billion) for SMEs and cottage firms (62 per cent). The date for filling corporate income tax has been postponed by one month, which was also considered useful by the respondent firms.

This study also analysed any additional support measures the respondents considered to be necessary to overcome the crisis. By firm type, nearly 70 per cent of SMEs, domestic-oriented and other low-tech firms would prefer support in the form of rent and utility cost reductions. On the other hand, 55 per cent of large, 52 per cent of medium- and high-tech, and 50 per cent of GVC firms would favour a tax rate reduction or tax deferral over other policy measures, followed by a reduction of financing costs or improvements in loan terms.

Figure 20 Types of support firms have received

Figure 21 Usefulness of government support to firms

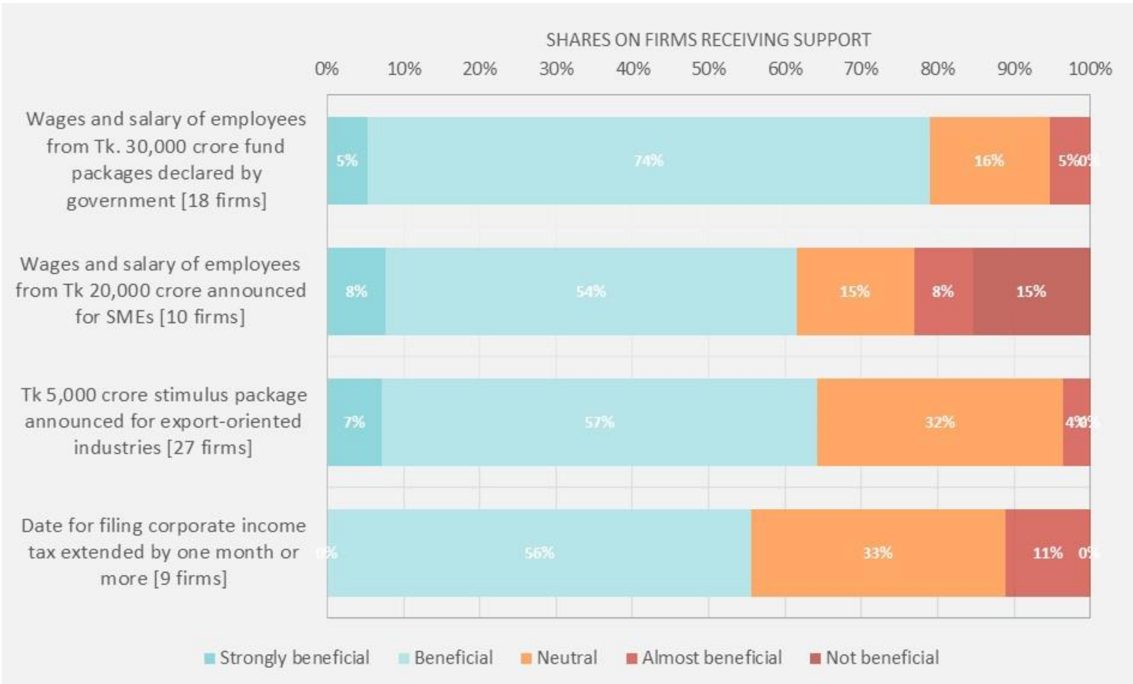


Figure 22 Preferred types of policy measures

4. Policy recommendations

The findings of this study show that COVID-19 has hit Bangladesh's manufacturing sector particularly hard, especially MSMEs. Due to the reduction in sales, over 90 per cent of respondents reported cashflow shortages as being the most severe impact of the pandemic on their business, and over 85 per cent of respondents expected high to extreme losses of revenue. To bolster the manufacturing sector in these uncertain times, it is important to analyse the driving force of consumer demand in the context of the pandemic. An analysis can determine the direction of product development and innovation to match customers' needs and demand as well as to shape the marketing communication strategy to stimulate demand for goods and services, and thereby, to re-establish the disrupted markets[7].

To build a resilient and competitive industrial sector and to achieve inclusive and sustainable industrial development, it is important to develop relevant policies to mitigate the pandemic's impact. The coordination of joint efforts between the government and international community is crucial to support Bangladesh's recovery. Based on the findings of this survey, several actions were identified as potential strategic guidance for government and relevant stakeholders in supporting Bangladesh's private sector. A support programme and potential policy responses should be built on the recommendations discussed below.

[7] Impact Assessment of COVID 19 – Small Medium Enterprises in Indonesia, September 2020.

i) Leveraging the current government support schemes

The Government of Bangladesh has proposed supporting businesses and industry, including boosting industrial investment, ensuring maximum utilization of industrial production capacity, and improving the competitiveness of export-oriented industries through expansion and diversification. For MSMEs, the government announced a stimulus package amounting to USD 2.4 billion (BDT 200 billion), later adding USD 357 million (BDT 30 billion) for informal micro and cottage firms to address SMEs' liquidity gap and to strengthen the resilience of the MSME segment.

Around 30 per cent of firms stated that they were receiving different forms of government support, with wages and salary support for export-oriented firms mentioned as the most preferred form of support. Micro enterprises, domestic-oriented firms and low-tech firms did not, however, benefit from government support, suggesting that the support schemes had not reached those most in need. Some improvements should therefore be considered so that the schemes are more effective and targeted:

- Prepare a gender disaggregated database of MSMEs and improve awareness of how to access the government's different economic stimulus schemes for MSMEs;
- As MSMEs are facing difficulties accessing credit facilities offered through commercial financial institutions, the government should continue providing credit to MSMEs through MFIs;
- Continue providing tax reductions for at least the next 3 to 5 years;
- Continue supporting financing costs for at least the next 3 to 5 years;
- Expanding the possibility of subsidizing the cost of electricity and other utilities for an extended period.

ii) Retention of employment

Our survey results reveal that wage and social security contributions are considered to be the biggest financial burden for different categories of firms during the pandemic. Although laying off employees is not the preferred option of the majority of firms to reduce their financial burdens, over 50 per cent of MSMEs and of the firms in the textile and leather industries contemplated laying off workers due to the pandemic. Cashflow shortages along with other business challenges caused by the pandemic may force businesses to shut down. The decision of MSMEs and of firms operating in the textile and leather industry to lay off employees will increase the unemployment rate in the country; this situation would trigger financial difficulties for wider segments of the population.

The Government of Bangladesh declared that the wage subsidy schemes were intended to sustain businesses and consequently to retain jobs. We recommend the continuation of wage subsidies for MSMEs, and the government should expand the support packages to provide assistance to other industries that are currently not included in the stimulus package. Directing wage subsidies towards specific target groups will support the policy's effectiveness, while it simultaneously increases firms' confidence in their business continuity[8].

iii) Improve SME productivity and competitiveness

Productivity is an inherent challenge for Bangladesh's MSMEs. This is partially the result of primarily relying on traditional forms of marketing, insufficient infrastructural support, shortage of skills, scarcity of capital goods, poor management, lack of innovation, and inadequate financing facilities. The Global Innovation Index Ranking Report 2019, published jointly by WIPO, Cornell University and INSEAD, ranked Bangladesh 116 out of 126 countries. In addition to the current credit support schemes, government should consider extending financial support for improvements in productivity, innovation, the upgrading of skills of employees, and modernising business operations to increase MSMEs' business efficiency and improve their resilience to face the crisis and its effects. Consideration must be given to measures that create jobs linked to climate, nature and resource efficiency.

iv) Promote digitalization and strengthen MSMEs

The global pandemic has exposed the vulnerability of MSMEs in Bangladesh. To deal with the shock, MSMEs should be supported in terms of capacity-building to restart, recover and revive their business operations. COVID-19 is a reminder of the importance of technology, particularly the use of digital technology, in enterprises' day-to-day business operations. World trade of WTO member countries amounted to USD 39 trillion in 2018-19. Furthermore, the WTO Report 2018 envisaged developing countries' share in global trade to grow to 57 per cent by 2030, with higher technology diffusion in world MSMEs' global trade eco-system[9].

This implies that Bangladeshi MSMEs have a very real opportunity of becoming part of that bigger audience and capture a reasonable share of the market. COVID-19 represents an opportunity for Bangladesh's MSMEs to secure a share of the pie. Though MSMEs in large cities

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[8] Impact Assessment of COVID-19 – Small Medium Enterprises in Indonesia, September 2020.
[9] https://www.outlookindia.com/newsscroll/a-global-b2b-managed-marketplace-for-world-smes-announced--iconnect/1567920

have started digitalizing, MSMEs located outside large cities are lagging behind in technology upgrading. COVID-19 is an opportunity to link these MSMEs to digitalization measures, otherwise they might lose out and may not survive.

Bangladeshi SMEs lack specialized skills and there is limited availability of managerial skills, specialized skills such as technology and language skills, which are crucial for reaching international markets, a lack of capacity-building in digital marketing and service delivery. Digitization and the expansion of ICT skills could resolve these problems. Considering the effects of COVID-19 on the industrial sector, a resource and energy efficiency business model could be adopted to simultaneously reduce production costs, limit carbon emissions and generate green jobs. Most importantly, large-scale investments in low carbon and efficient technologies will ensure that manufacturing firms, MSMEs and countries can rebound more strongly than before. It will help companies become more resilient in dealing with potential future pandemics or crises[10].

v) Innovation and technology approach

Supporting the above recommendation, innovation is crucial, especially in the production and marketing stages. Strategies to strengthen the business sector can be improved by taking advantage of new technologies and standards for smart production and participation in GVCs. The government response should highlight how Bangladeshi entrepreneurs can leverage innovative new technologies, with the explosion of digital capabilities, artificial intelligence, IoT and interconnectivity and cloud-based resources.

vi) Promote registration of MSMEs and women-led businesses

The study finds that firms of different size categories have been affected differently by the COVID-19 pandemic. The majority of MSMEs have limited access to government support programmes due to inadequate information flows and the absence of a proper database of MSMEs. COVID-19 has demonstrated how important it is to have a formal database of MSMEs. Unregistered enterprises are not eligible to participate in government support programmes and have faced problems accessing formal credit and protecting their businesses. Despite various efforts by different agencies, a proper database of MSMEs has not yet been developed. A coordinated effort by the government, development partners and the private sector should urgently address this issue. Particular attention must be given to women-led businesses due to their increased contribution to the country's economic development. The local administration and

[10] Impact of Covid-19 private sector: Firms/Enterprises, UNIDO, Cambodia, June 2020.

NGOs could be involved in the data collection process, as they play important roles in supporting and encouraging the thriving of local business.

vii) Recovery plan for the industrial/manufacturing sector

Our study shows that the pandemic has substantially harmed the manufacturing sector. However, the magnitude of the damage the industrial sector has suffered has not been comprehensively analysed. With the support of UN agencies, donors and the government, a detailed assessment of the industrial sector shall be carried out to better understand the strengths and weaknesses of the existing industrial structure. Gender disaggregated data should be incorporated to monitor the impact of businesses, especially those led by women. This would help when it comes to developing possible incentive schemes with specific targets, especially for women entrepreneurs.