

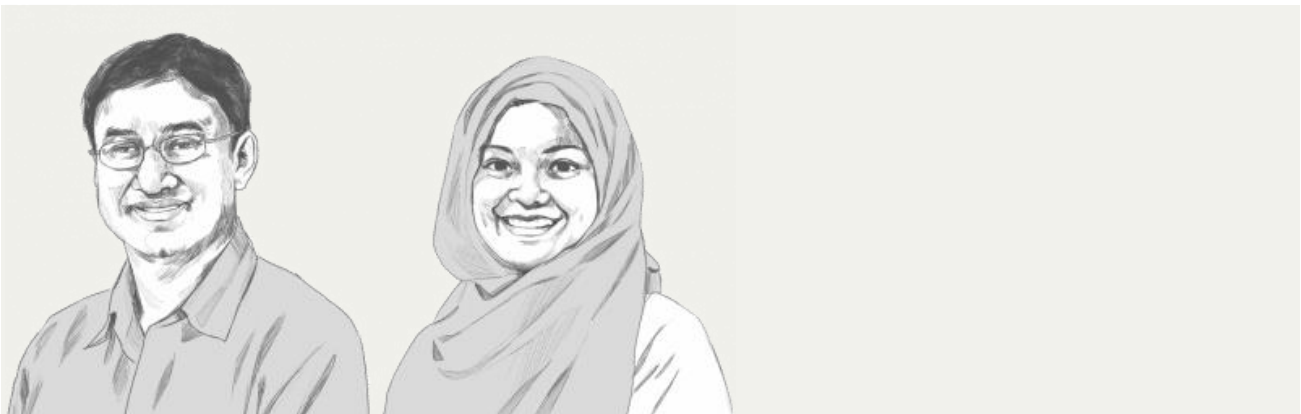
THE BUSINESS STANDARD

Microenterprises are struggling and in need of support

Researchers from BIGD and Monash University, Australia have jointly studied how the vulnerable industries in the country are coping with Covid-19

Asad Islam & Atiya Rahman

27 June, 2021, 02:16 pm



Asad Islam, academic and Atiya Rahman, senior research associate. Sketch/TBS

Though the effect of the new wave of Covid-19 is yet to unfold, the Bangladesh economy has largely recovered from the initial shock of the pandemic.

However, many small businesses and their employees are still struggling to recover from the damage done by the pandemic.

Cottage and microenterprises play a crucial role in Bangladesh's economy and employment.

According to the last BBS Economic Census conducted in 2013, about 89% of the 7.8 million industries in Bangladesh are cottage and microenterprises and 56% of 24.5 million industry workers are employed in these industries.

But enterprises are also more vulnerable to shocks because of limited capacities and access to finance.

Researchers from the Brac Institute of Governance and Development (BIGD) and Monash University, Australia have jointly studied how these vulnerable industries are coping with Covid-19 through a large-scale telephonic survey on 2,279 microenterprises in two rounds.

The majority of the surveyed enterprises are light engineering firms including automobile spares, grill workshops, agricultural machines, etc and 16% of enterprises are other types of businesses like tailoring/clothing stores, beauty parlour/cosmetic shops, general stores, and other service sectors.

In the first round of the survey in July 2020, the study found that the average sales were less than half of that of pre-Covid levels and only about 60% of enterprises were fully open.

While laying off workers was not that prevalent, employees in more than 80% of enterprises were facing a cut in working hours and wages.

To assess the extent of recovery, the second round was conducted in January 2021 – eight months after the first lockdown.

It appears that the enterprises have largely recovered; 97% of the enterprises were fully open for business.

But they were still struggling with sales and orders. Sales remained 17% lower than the pre-Covid level, indicating a sluggish demand. Recovery was also uneven across sectors.

Which sectors are facing the hardest time?

While addressing this question, the researchers found that the nature of the business, more specifically, its associated risk of spreading the virus, is closely related to its economic recovery.

Businesses such as tailoring and beauty parlour that require more close contact have much lower recovery than the light engineering sector where such close contact with customers is not required.

Sales in these sectors have remained more than 30% below the pre-Covid level.



In the formal sector, business loss directly leads to a layoff of workers. Photo- Mumit M
Are sales drops affecting workers?

The study found that workers are severely affected during this pandemic, largely due to drop in sales or services.

In the informal sector, business loss directly leads to a layoff of workers.

Thus, business recovery, not the opening per se, is essential for employment protection.

We found that enterprises that had to let go workers had 29% lower sales than that of the pre-Covid period whereas for enterprises that were able to hire, the sales drop from pre-Covid was just 3%.

These informal sector workers are also particularly hard hit and their situation has deteriorated, suggesting an emerging new poor working-class resulting from this pandemic.

Because women are more likely to work in service sector firms like beauty parlour, they are also disproportionately affected by Covid-19.

The study found that even after so many months, a staggering 54% of female workers in the studied firms have remained unemployed; the rate is 15% among male workers.

In the context of Bangladesh, where women's labour force participation is already very low, this trend is concerning.

A study conducted in the UK has also found the same scenario.

Are they not availing the government stimulus package?

The government of Bangladesh announced the first-round stimulus package for SMEs in April 2020, almost nine months prior to the second round of the study.

82% of the studied microenterprises knew about the government stimulus package, however, most of them were not able to avail the stimulus money.

Only 6% of the firms applied for the stimulus loan but, there is a huge demand for the stimulus loan – over half of those who knew about the stimulus package but had not applied expressed their desire to apply in future.

The study found that many constraints such as long application process, complicated process, paperwork, and bank-related issues severely hinder access to the stimulus package.

Thus, just 1% of the cottage and microenterprises received it.

What are the potential ways forward?

Firstly, adequate practical health guidelines are required for workers and enterprises for opening the businesses safely and increasing the sales through winning the trust of their customers.

Secondly, workers, particularly female workers, need job protection to protect their livelihood, including retraining and financial packages to move out of the unemployment trap.

Finally, procedure simplification and clear communication can increase the application rate among the small businesses for the government stimulus package.

The cottage and microenterprises not only create jobs but also meet our domestic demand significantly.

The pandemic proved that strengthening their supply linkages is critical to meet the domestic demand, particularly when the international market situation becomes uncertain.

Thus, the government and development players should come forward with an effective and practical strategy to help cottage and microenterprises and their workers to survive during this difficult time.

Asad Islam is the director of the Centre for Development Economics and Sustainability (CDES) and a professor at the Department of Economics, Monash University.

Atiya Rahman is a senior research associate at Brac Institute of Governance and Development (BIGD), Brac University.

