



# Survey Findings

Impact of COVID-19 on SMEs (April 2020)

June 2020



BILL & MELINDA  
GATES foundation



# Background and Objectives

## BACKGROUND

- The countrywide lockdown associated with COVID-19 has had a major impact on the economy affecting businesses across all industries and sectors.
- Small and medium enterprises (SMEs) in particular, are facing contraction in demand, employment shocks, financial instability and disruptions across their entire supply chain.
- It is estimated that Pakistan's GDP will contract by 1.3% - 2.2%<sup>1</sup> and about 18 million people will lose their jobs<sup>2</sup>.

<sup>1</sup> World Bank, 2020

<sup>2</sup> Ministry of Planning, 2020

## OBJECTIVES

- Karandaaz Pakistan conducted a 20 question online survey of SMEs during a two week period in April 2020.
- The survey gauges the impact of the lockdown on employment, financial stability and supply chain disruptions.
- Where possible, the survey results are presented by sector, province and size of business (in terms of annual turnover and employment).
- The survey also highlights the extent of awareness and utilization within the SME sector of refinance schemes made available by the State Bank of Pakistan (SBP) in response to COVID-19.
- Finally, the survey sought input from SMEs on the type of assistance required, so that timely and suitable support may be directed to them.

# Limitations of the Survey

- 123 respondents self selected themselves to respond to the online survey.
- Assuming 4.5 million SMEs in Pakistan<sup>1</sup>, the margin of error is in the range of 9% with a 95% confidence interval.
- The survey results may have a self selection bias because the participants with online presence, and having fluency in the English language may be over represented.
- Certain segments such as agriculture (18.4% of GDP<sup>2</sup>), trade (28.5 % of GDP<sup>3</sup>) and respondents from Balochistan (3% of Pakistan's GDP<sup>4</sup>) are under represented in the sample. In the absence of a sampling frame for SMEs, a stratified sampling technique could not be applied.
- For the reasons stated above, the results of this survey have statistical limitations and should be viewed as indicative.

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<sup>1</sup> Estimate by Karandaaz Pakistan 2018

<sup>2</sup> Pakistan Economic Survey 2018-19

<sup>3</sup> Pakistan Economic Survey 2018-19

<sup>4</sup> World Bank and Karachi Chambers of Commerce, 2017

# Top Line Findings



58% respondents had laid off employees by April 2020



47% respondents had already reduced employee salaries



Part-Time/Contractual Employees have been most affected in terms of both salary reductions and layoffs



More than half of the textile sector respondents reported layoffs, especially in the part-time (52.4%) and daily wage (61.9%) categories



31% businesses reported a high likelihood of becoming insolvent within a month of lockdown



58.5% businesses cited salaries as a major expense (>50% of total cost) during lockdown



66% respondents are aware of government relief programmes. However, of 22% respondents currently borrowing, only 30.4% have applied for loan restructuring



84% businesses cited need for financial support in the form of subsidized and interest-free loans, reduction in sales tax and deferment of utility bills (among others)



78.8% businesses reported disruptions in their supply chain



78.6% exporters and 79.1% businesses selling domestically reported disruptions in their supply chain



Availability of Raw Material, Reduced Sales, and Limited Imports were cited as major disruptions



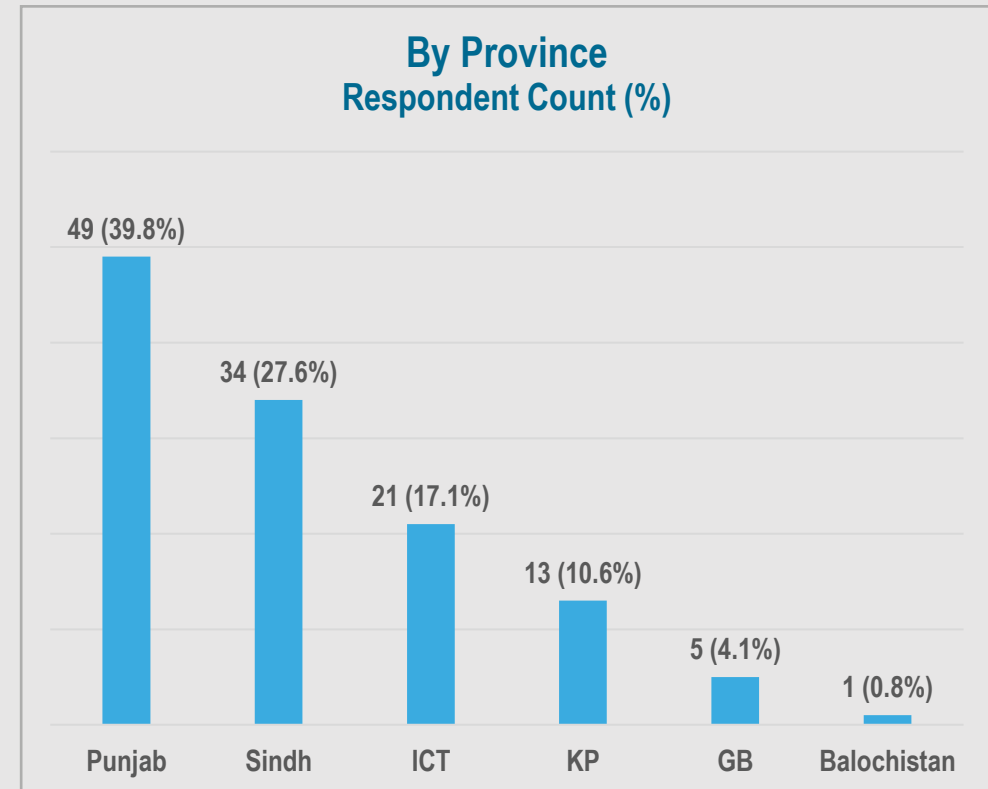
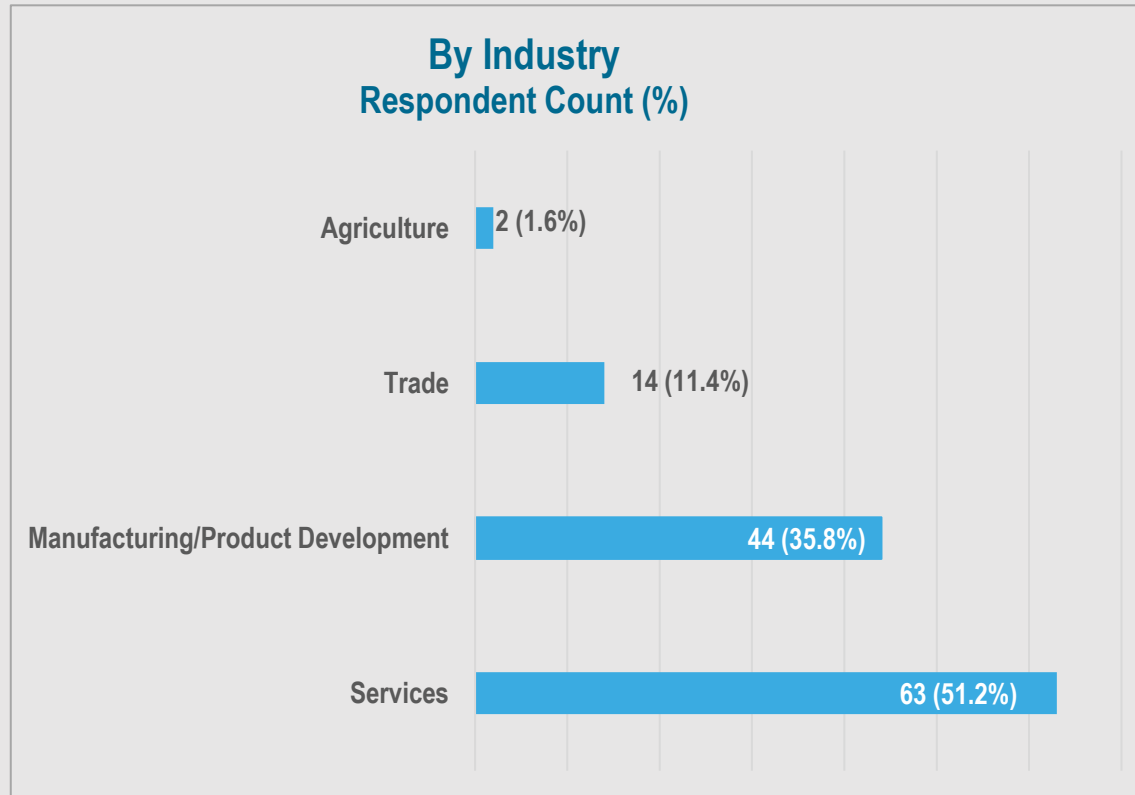
Other disruptions cited include Limited Transport, and Allied Industry Closure, among others

Businesses are coping with financial and supply chain shocks by reducing production costs, increasing digitization (especially for marketing and sales), and focusing on business development.



# Sample Description (1/3)

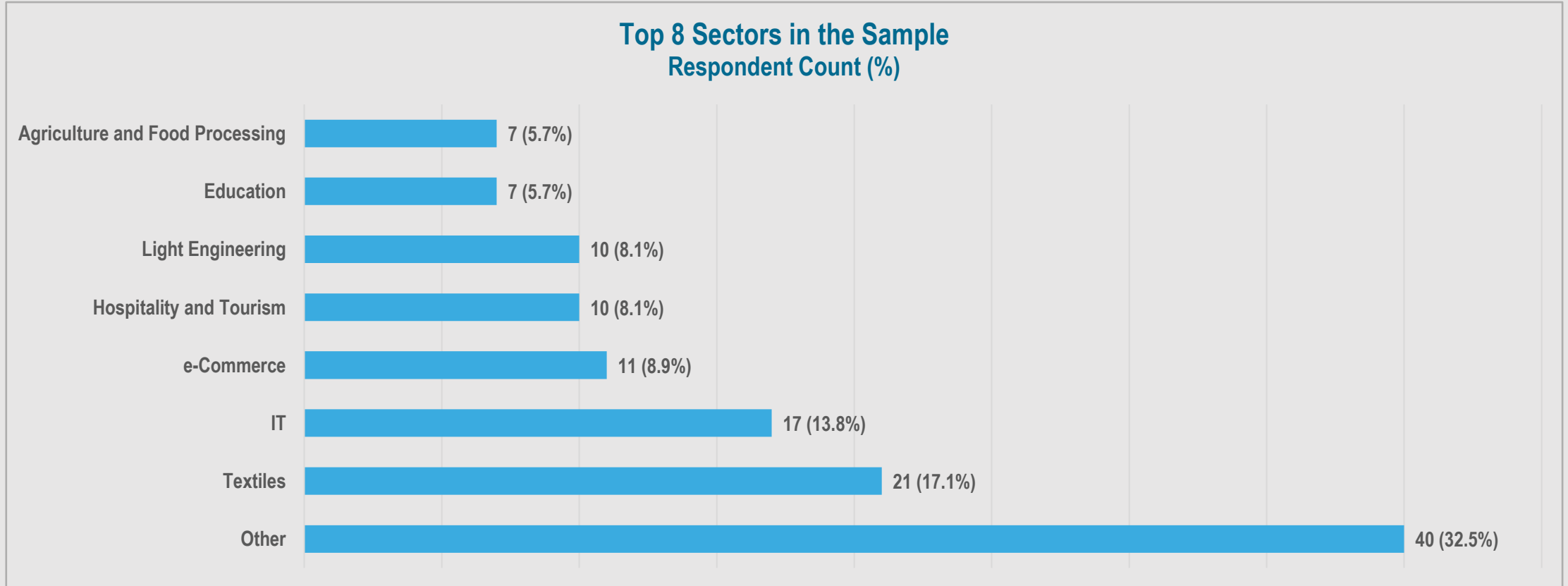
123 businesses participated in the survey. The sample distribution is as follows:



**Location of Respondents - Cities:** Abbottabad • Bahawalpur • Buner • Faisalabad • Gilgit • Gujranwala • Hunza • Islamabad • Jhelum • Karachi • Lahore • Mardan • Multan • Nathia Gali • Peshawar • Quetta • Rawalpindi • Risalpur • Sialkot • Skardu



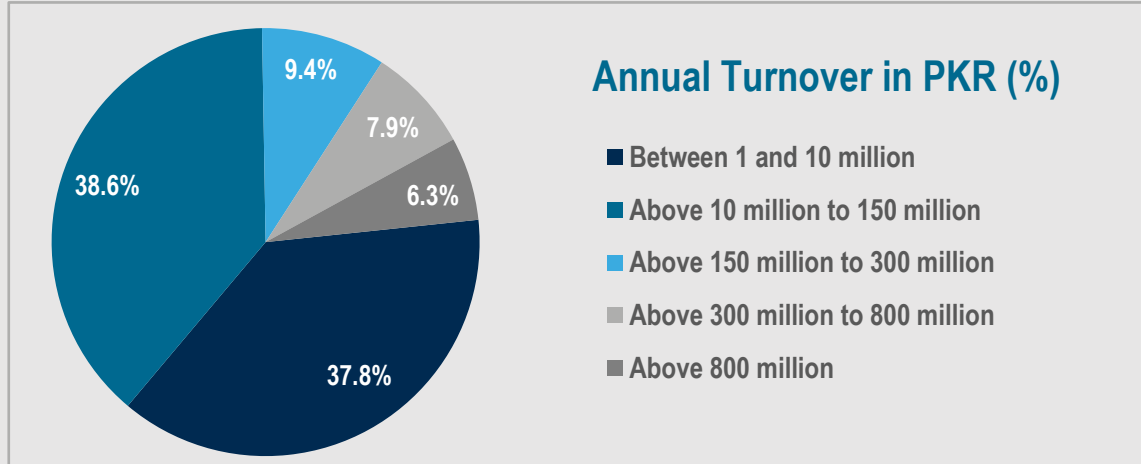
# Sample Description (2/3)



**Other Sector Respondents:** • Furniture • Marble Mining & Processing • Car Wash Services • Aerospace and Aviation • Packaging • Architecture and Interior Design • Health Services • Chemicals • Auto and Auto Parts • Sports Goods • Advertising • Coal Mining & Trading • PR Services • Transport and Logistics • Retail • Wholesale • Event Organizer • Construction & Housing • Car Rental Service • Restaurants • Chemicals • Fashion and Beauty



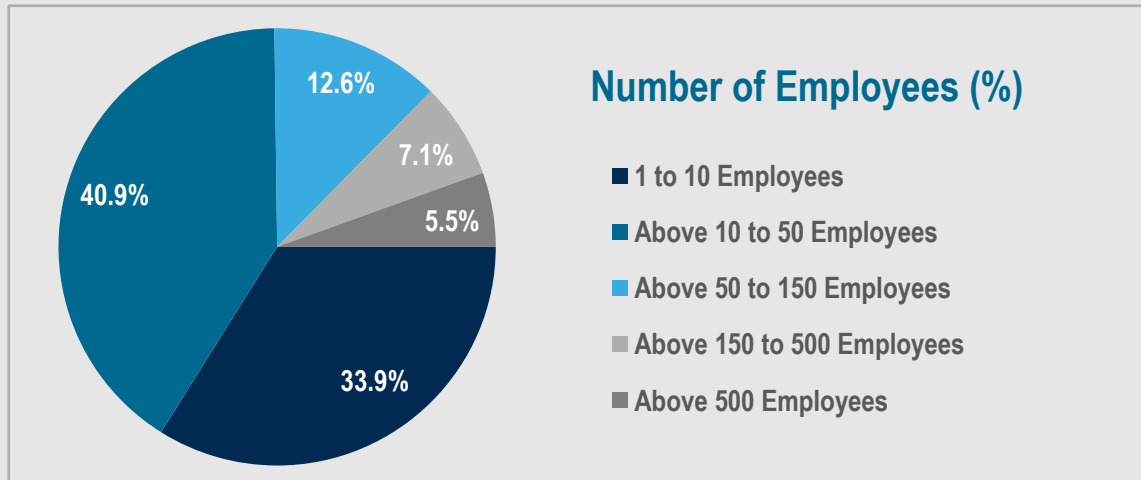
# Sample Description (3/3)



Small Enterprises are defined by the State Bank of Pakistan (SBP) as those businesses that have an annual turnover of up to PKR 150 million and have up to 50 employees

75.6% respondents fall into the 'Small Enterprise' category based on annual turnover (up to PKR 150 million)

74% of respondents fall into the 'Small Enterprise' category based on number of employees (up to 50).



Medium Enterprises are defined by SBP as those businesses that have an annual turnover between PKR 150 to 800 million, and have 51 to 250 employees

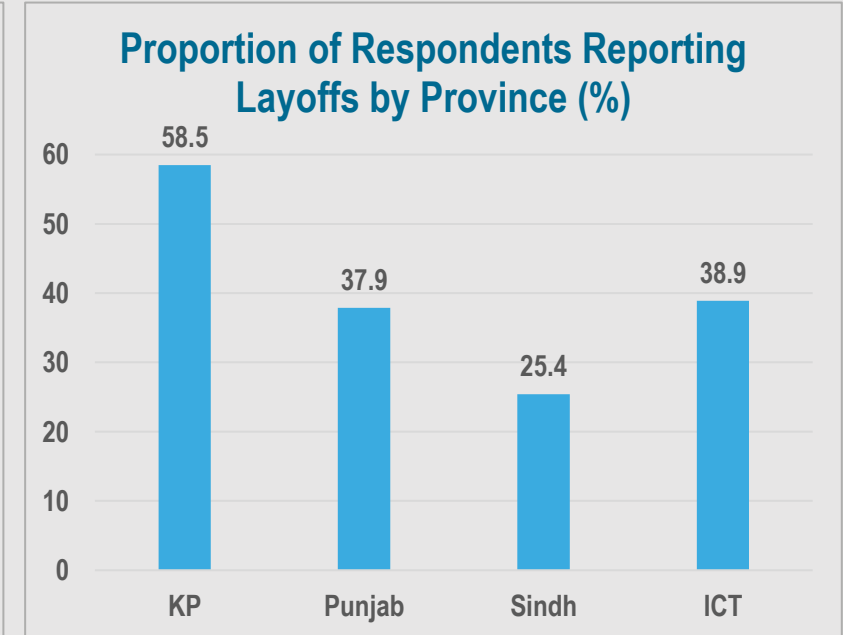
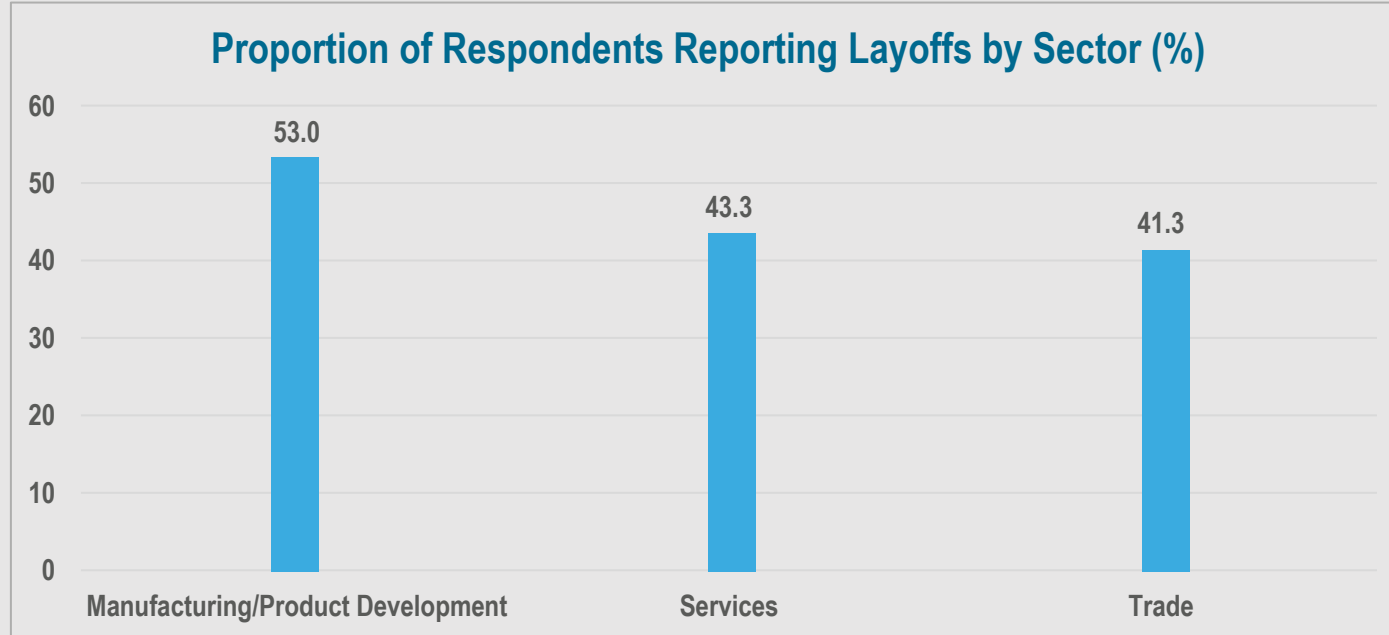
17.3% respondents fall into the 'Medium Enterprise' category based on annual turnover (above PKR 150 million and up to 800 million)

Number of Respondents = 123



# Employment Impact (1/4)

58% respondents had already laid off employees in April 2020



The largest proportion of Manufacturing Sector respondents reported layoffs (53%), followed by Services Sector respondents (43.3%).



The largest proportion of respondents from Khyber Pakhtunkhwa (KP) reported layoffs (58.5%), followed by Islamabad Capital Territory (ICT) at 38.9%.

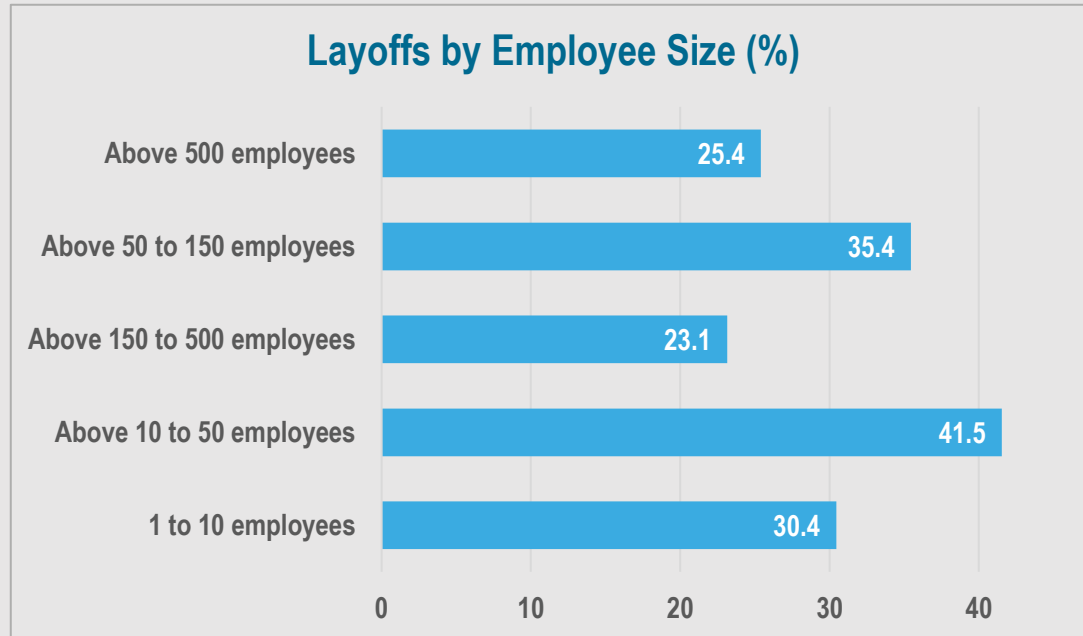



A report released in May 2020 by the Planning and Development Department, Government of Balochistan titled, **COVID-19: Balochistan Socio-economic Impact Assessment**, cites that 0.36 million people have already been laid off in the province.

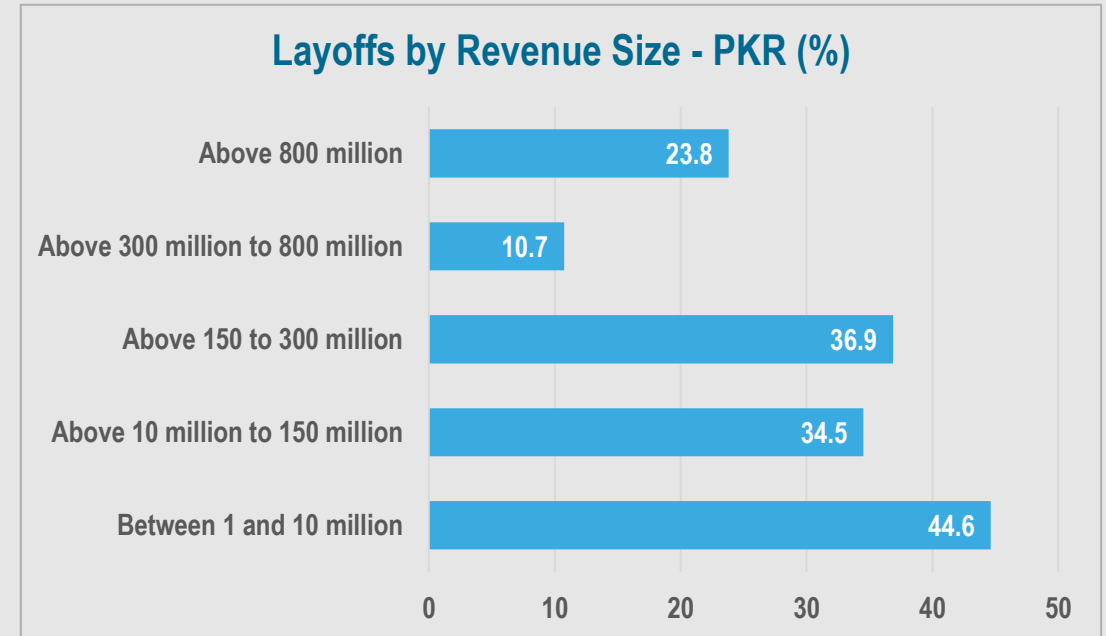





# Employment Impact (2/4)



 The largest proportion of businesses with an employee size in the range of 10-50 reported layoffs (41.5%), followed by those in the range of 50-150 employees (35.4%).

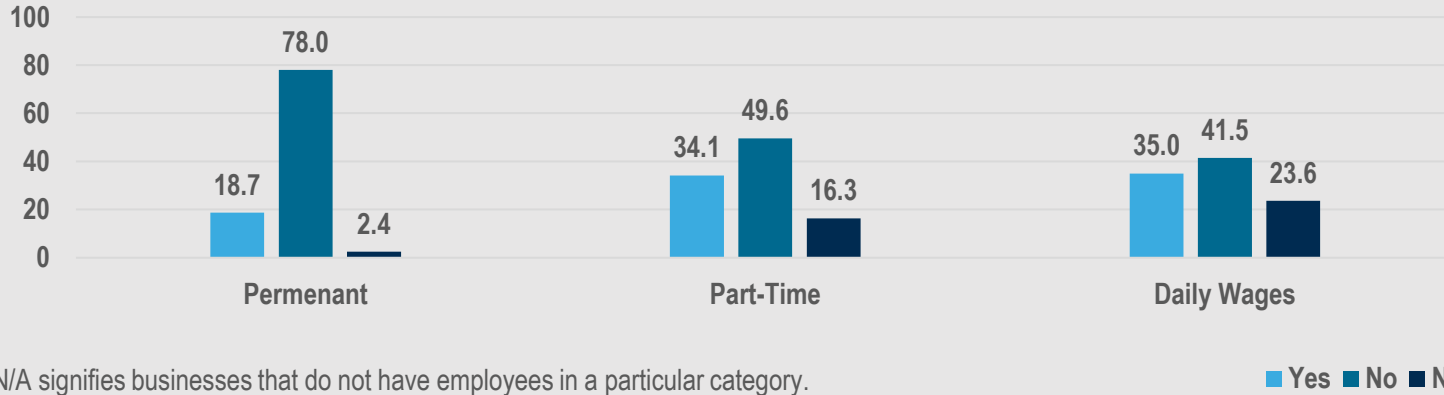


 The largest proportion of businesses with a revenue size of PKR 1-10 million reported layoffs (44.6%), followed by those in the PKR 150-300 million range (36.9%).



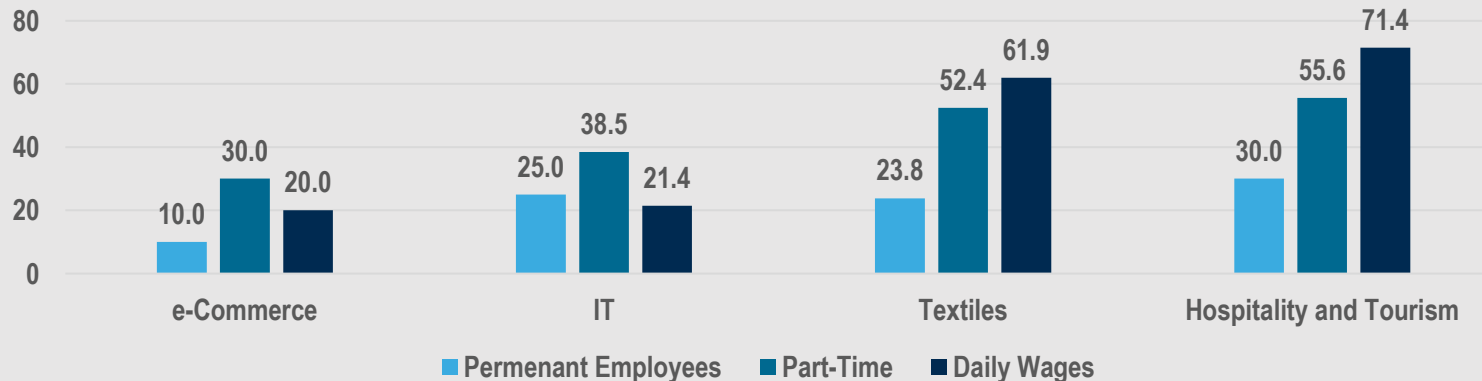
# Employment Impact (3/4)

Proportion of Businesses Reporting Layoffs by Type of Employee (%)



A larger proportion of respondents reported layoffs in the part-time and daily wage employee categories; in comparison, 18% respondents reported layoffs in the permanent staff category.

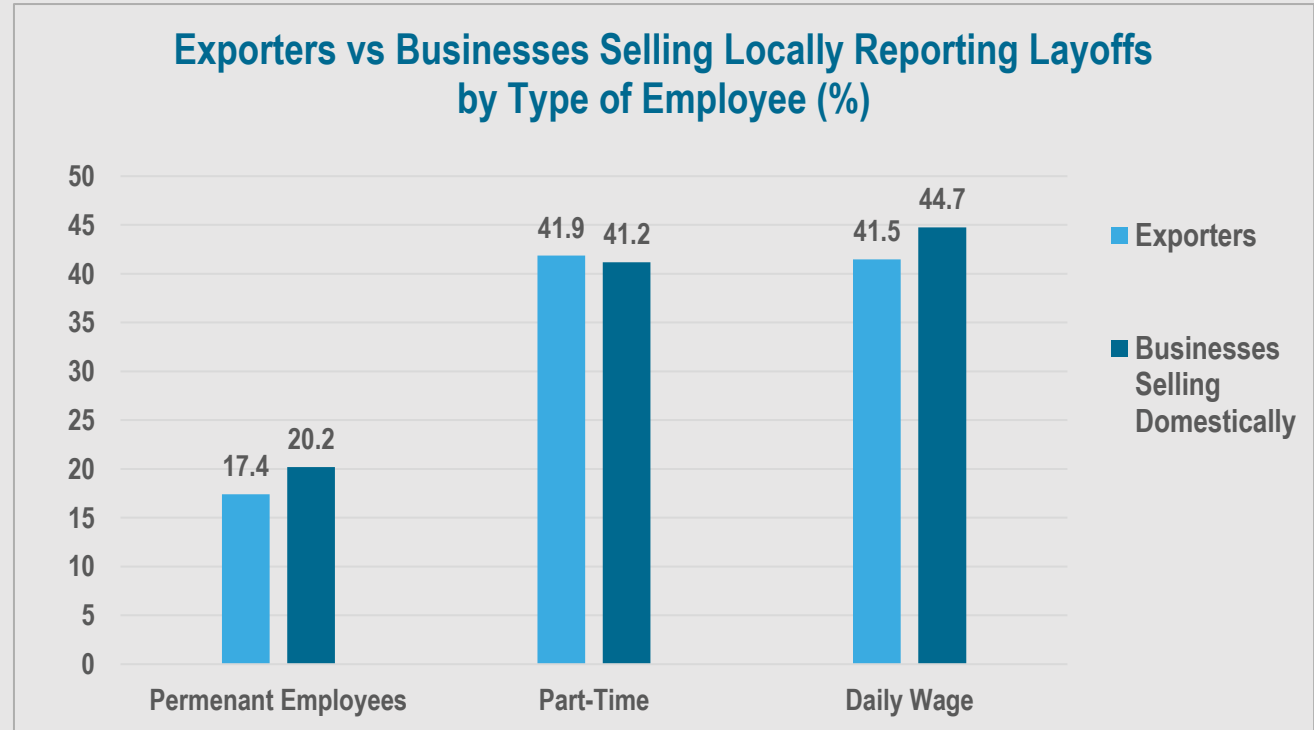
Proportion of Businesses Reporting Layoffs by Sector and Type of Employee (%)



More than half the Hospitality and Tourism, and Textile sector respondents reported layoffs in the part-time and daily wage employee categories. The highest proportion of respondents in the Hospitality and Tourism sector reported layoffs in the permanent employee category.



# Employment Impact (4/4)



Approximately equal proportion of businesses exporting (selling their product/service internationally and nationally) and selling locally (selling only in the national market) reported layoffs

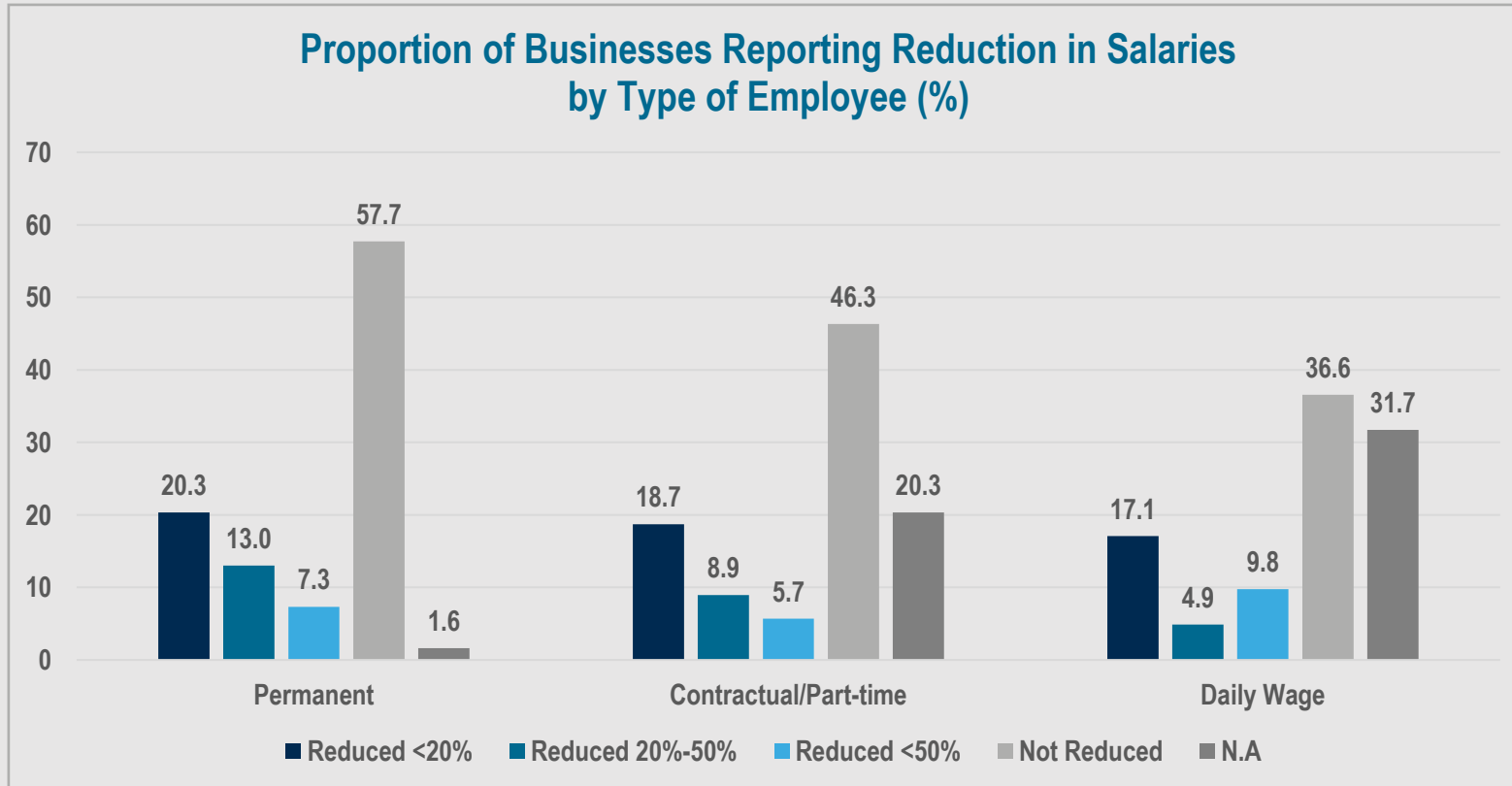


Exporters as well as businesses selling locally reported more layoffs in the part-time and daily wage categories; fewer respondents reported layoffs in the permanent employee category



# Impact on Salaries (1/2)

47% respondents reported reduction in employee salaries by April 2020



Employers who have reduced salaries as a response to COVID-19 reported that in general, salary reductions have been in the range of < 20% for all three employee categories

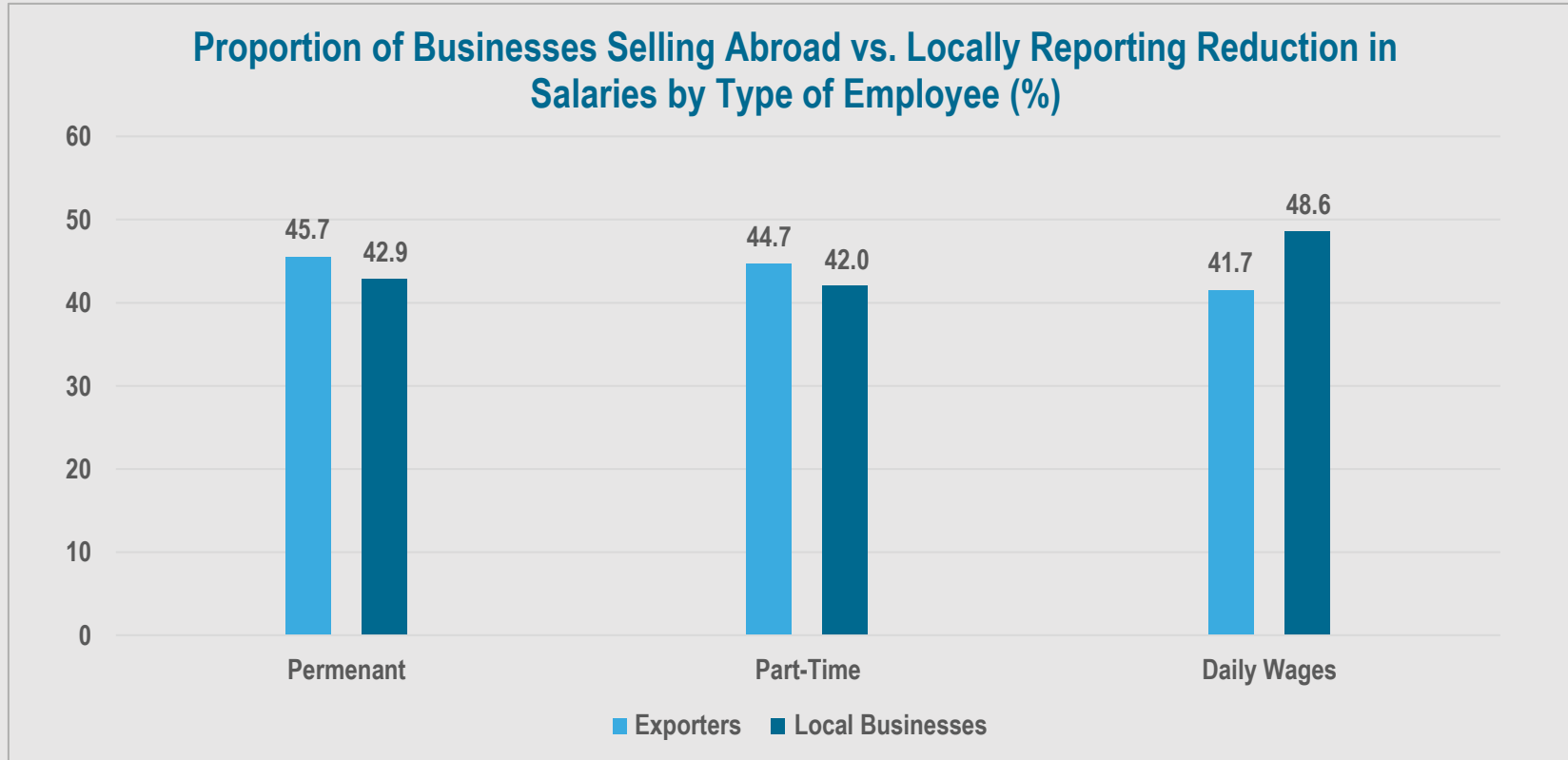


According to a survey by Karandaaz of its 14 women-led investee businesses, the April - June forecast for their salary bill was lower than their pre-COVID forecast by a median of approximately 37%

Note: N/A signifies businesses that do not have employees in a particular category.



# Impact on Salaries (2/2)

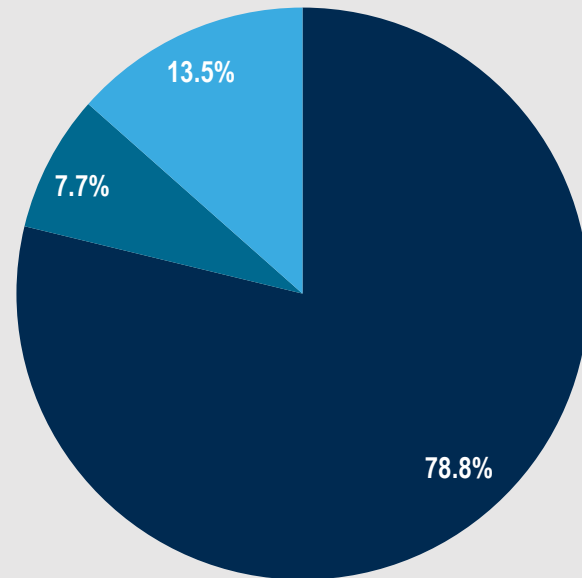


More than 40% of both exporters and businesses selling locally have reduced salaries in all three employee categories – permanent, part-time and daily wage.



# Disruption in Supply Chain (1/4)

Businesses Reporting Disruptions in Supply Chain (%)



■ Impact ■ No Impact ■ Future Impact Expected



78.8% businesses reported disruptions in their supply chain while 13.5% expect future disruptions

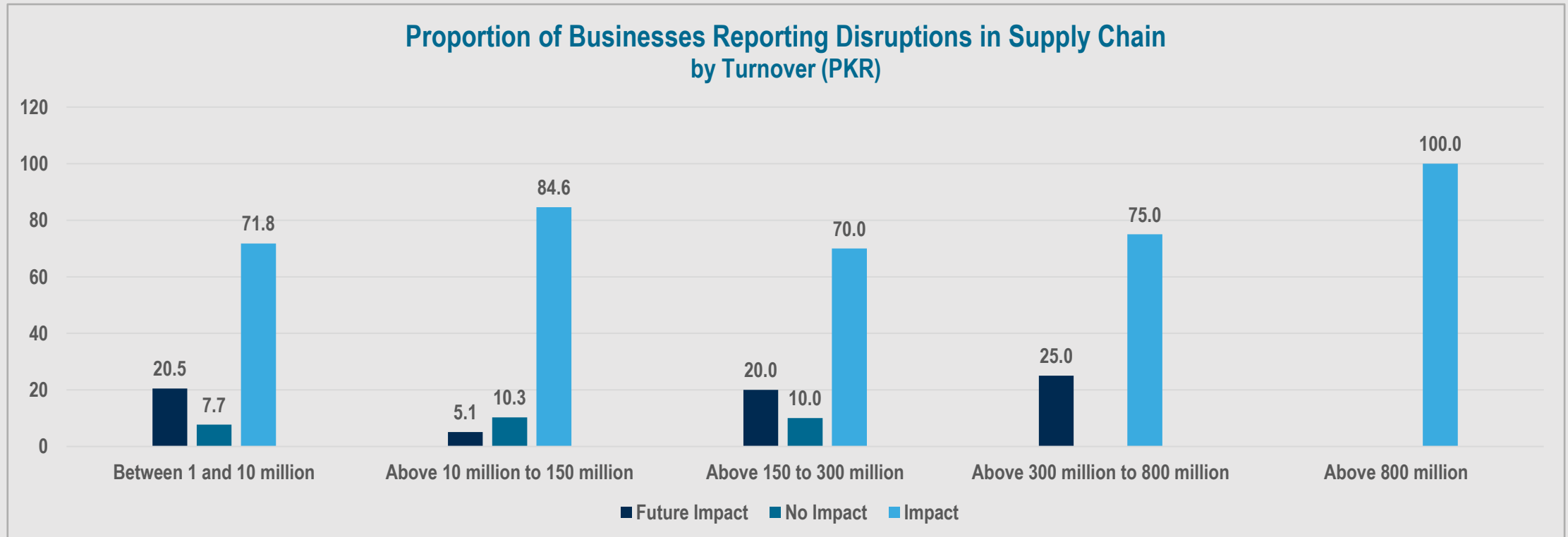


76.5% of the businesses whose supply chain was impacted reported a *high* impact while the rest reported a *slight* impact.

Number of Respondents = 123



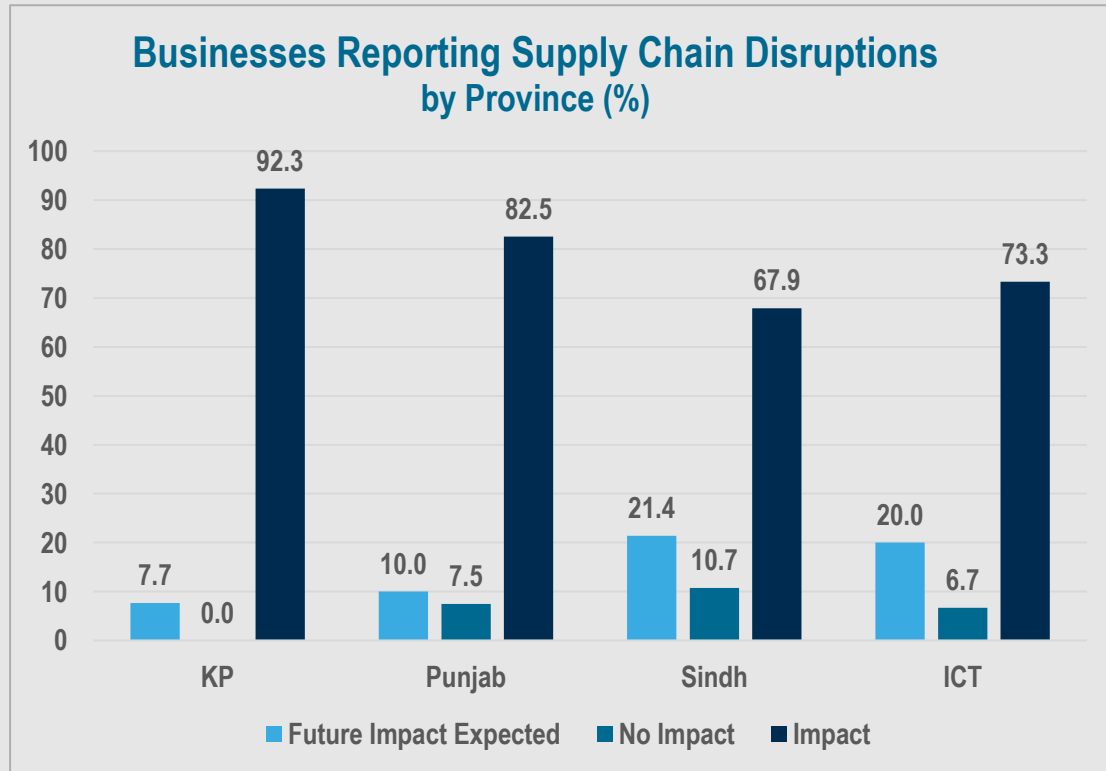
# Disruption in Supply Chain (2/4)



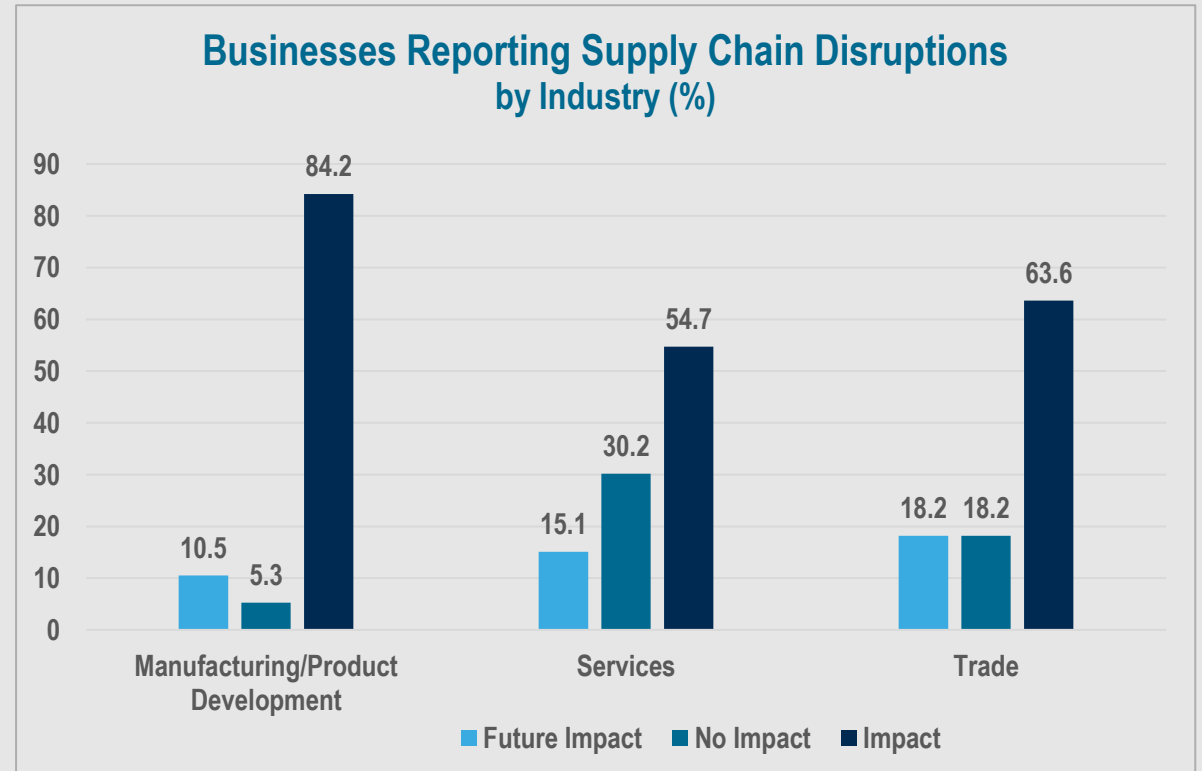
Both big and small businesses reported disruptions in their supply chain. All businesses with an annual turnover of more than PKR 800 million reported disruptions. Up to 10% of respondents in the PKR 10-150 million, and PKR 150-300 million turnover range reported 'no impact' on their supply chain. A closer assessment reveals these respondents fall into the IT and Agri sectors.



# Disruption in Supply Chain (3/4)



92.3% of the respondents from KP reported supply chain disruptions, followed by Punjab (82.5%).

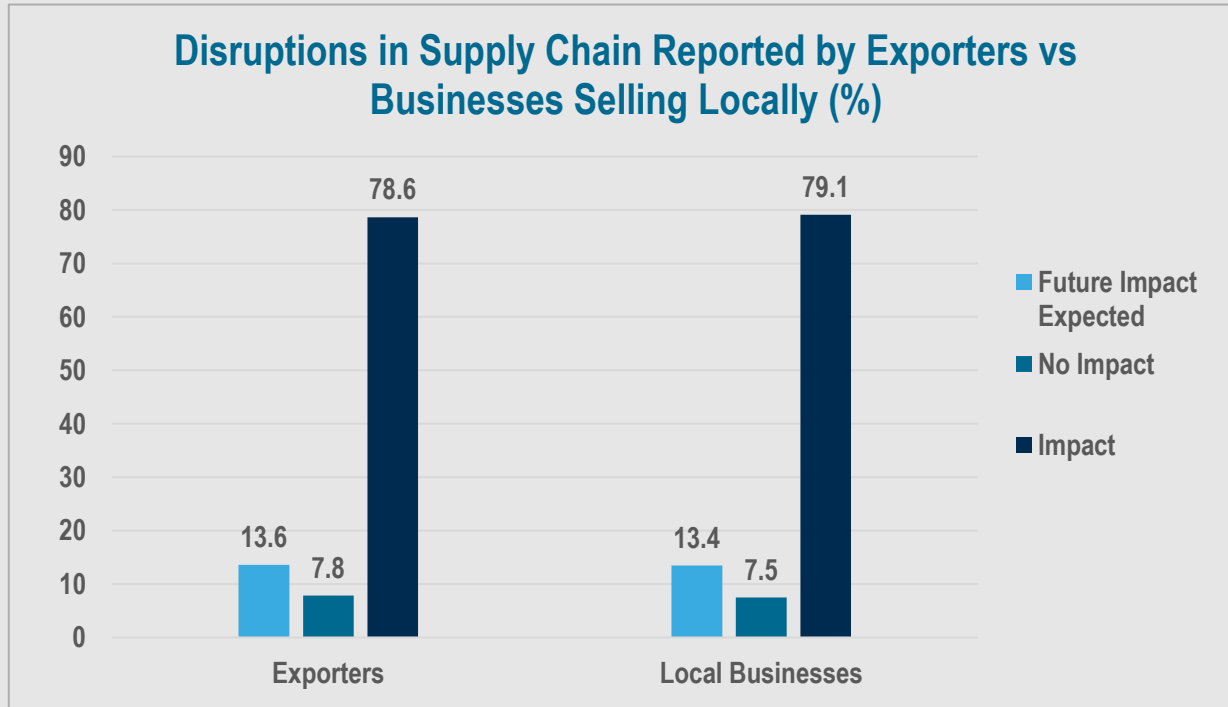


84.2% of Manufacturing Sector respondents reported supply chain disruptions, as compared to 63.6% for the Trade Sector, and 54.7% for the Services Sector.

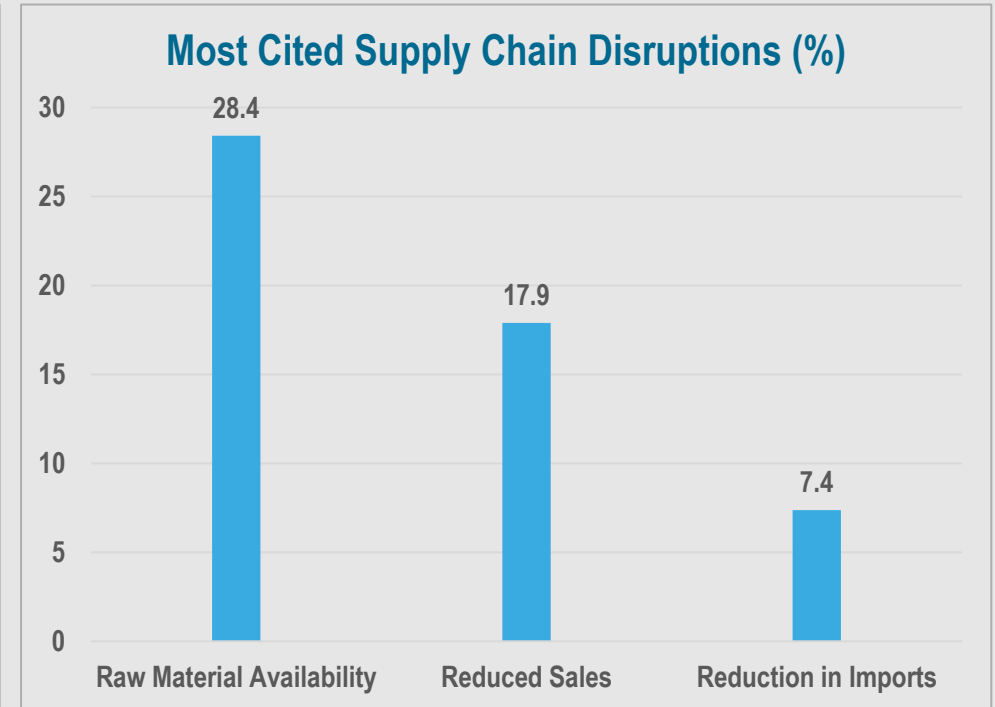




# Disruption in Supply Chain (4/4)



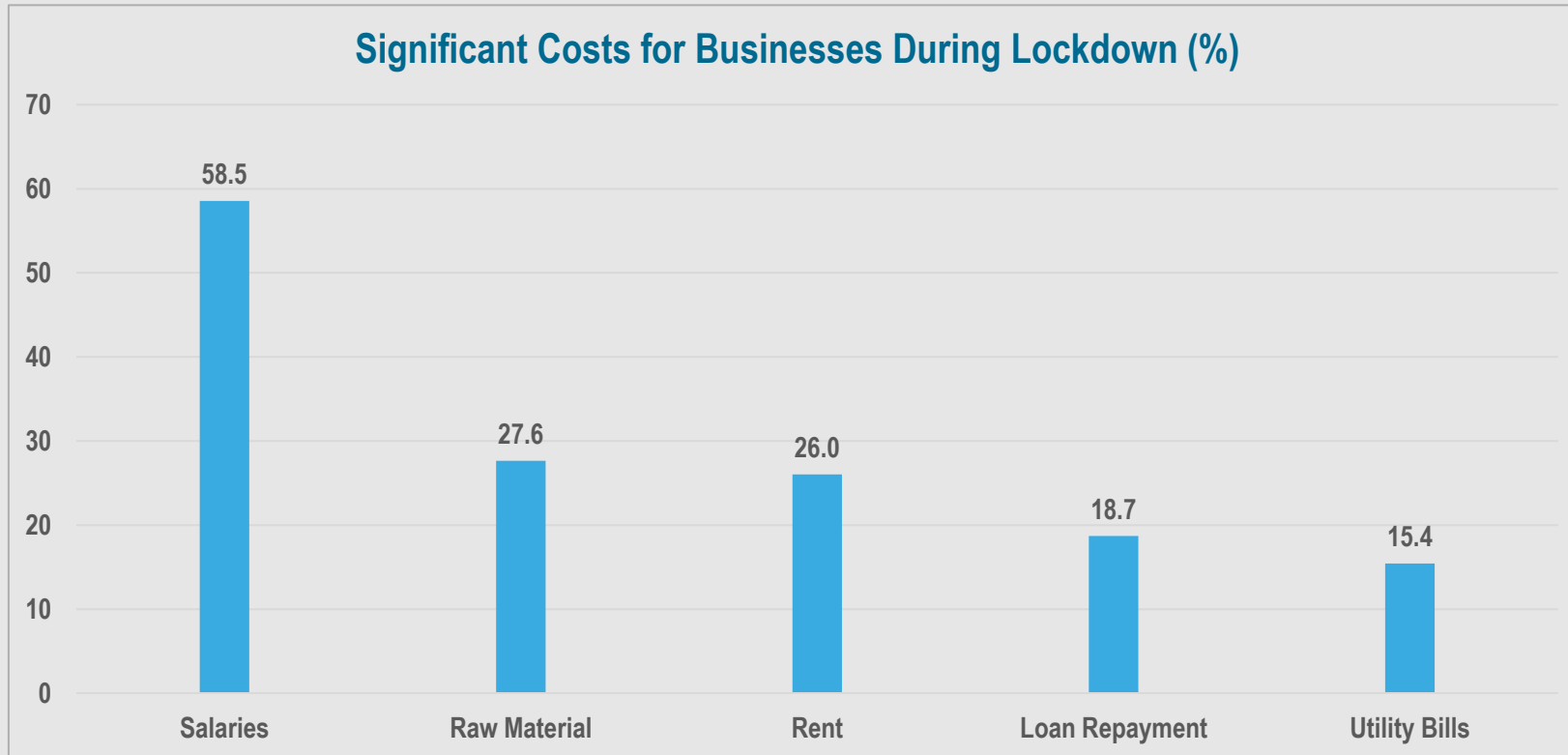
78.6% of exporters and 79.1% of businesses selling domestically reported disruptions in their supply chain.



Other disruptions cited include transportation problems, allied industry closure, and reduction in exports among others.



# Financial Sustainability (1/3)



58% of the businesses cited **salaries** as their most significant cost

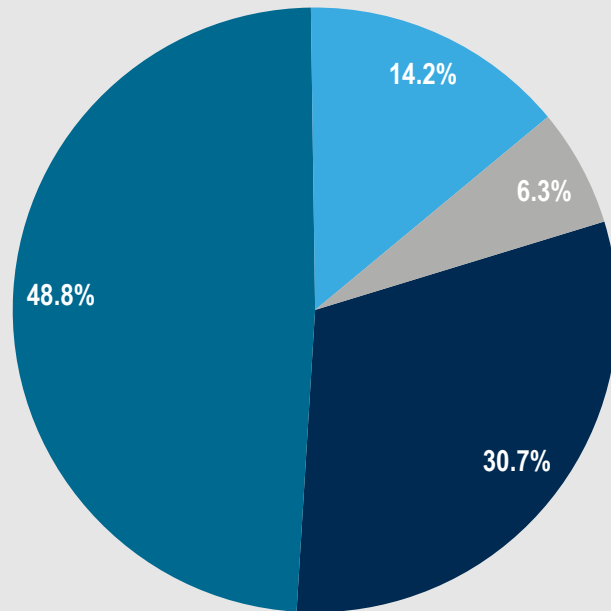
**Rent and Raw Materials** were also cited as significant costs. The latter cost is likely to decline if demand remains depressed, especially in non-essential sectors

Note: This is a multiple response question



# Financial Sustainability (2/3)

## Expectations Regarding Financial Sustainability if Economic Activity Continues to be Impacted by COVID-19



■ Less than 1 month ■ 1-3 months ■ 3-6 months ■ Up to 1 year



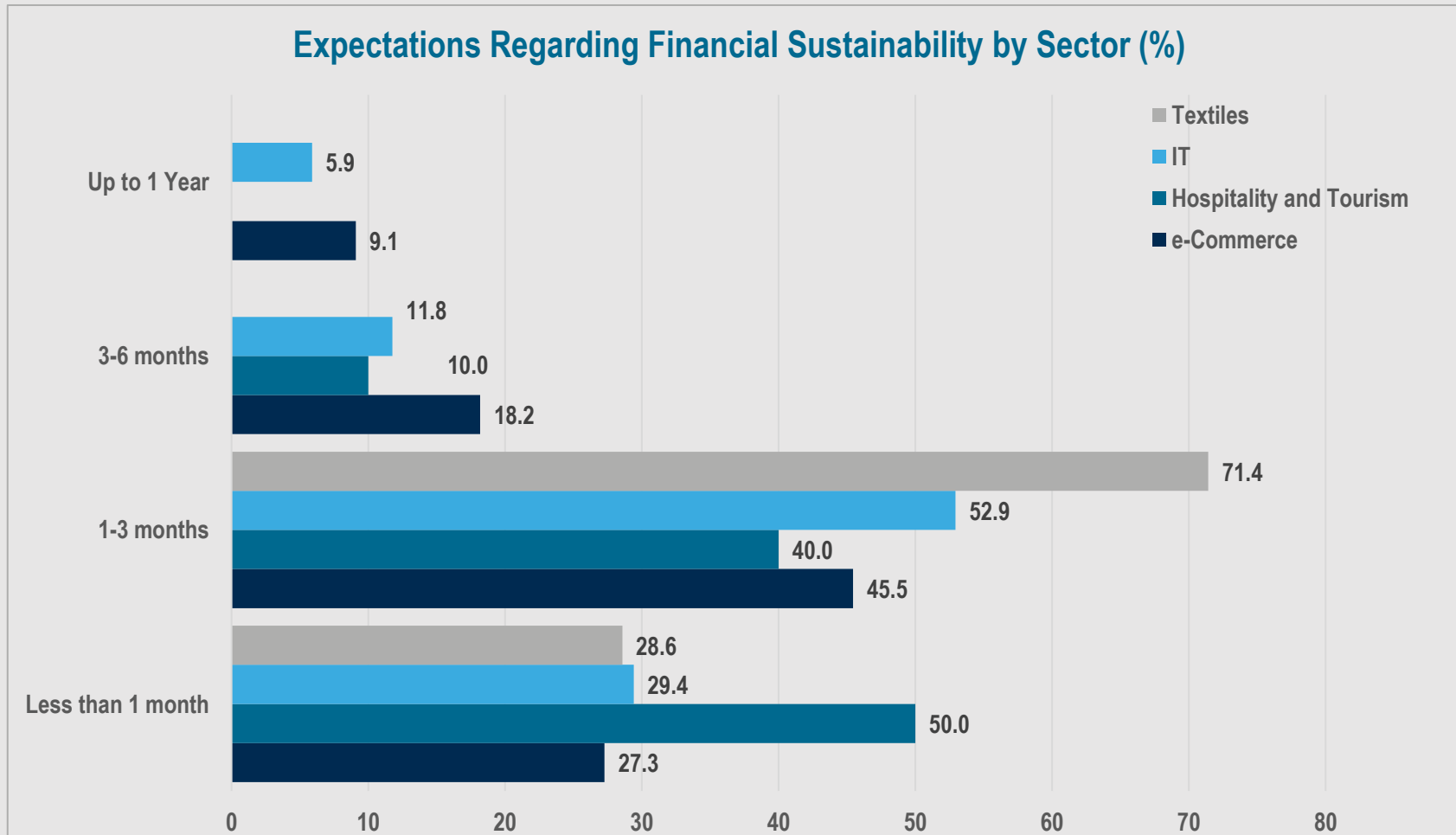
Almost 1/3<sup>rd</sup> of the respondents expected to be able to meet their financial expenses for 1 month with own resources (revenue, savings and retained earnings) if the lockdown is continued

Only 6.3% respondents expect to remain solvent for up to 1 year if the lockdown is continued

Number of Respondents = 123



# Financial Sustainability (3/3)

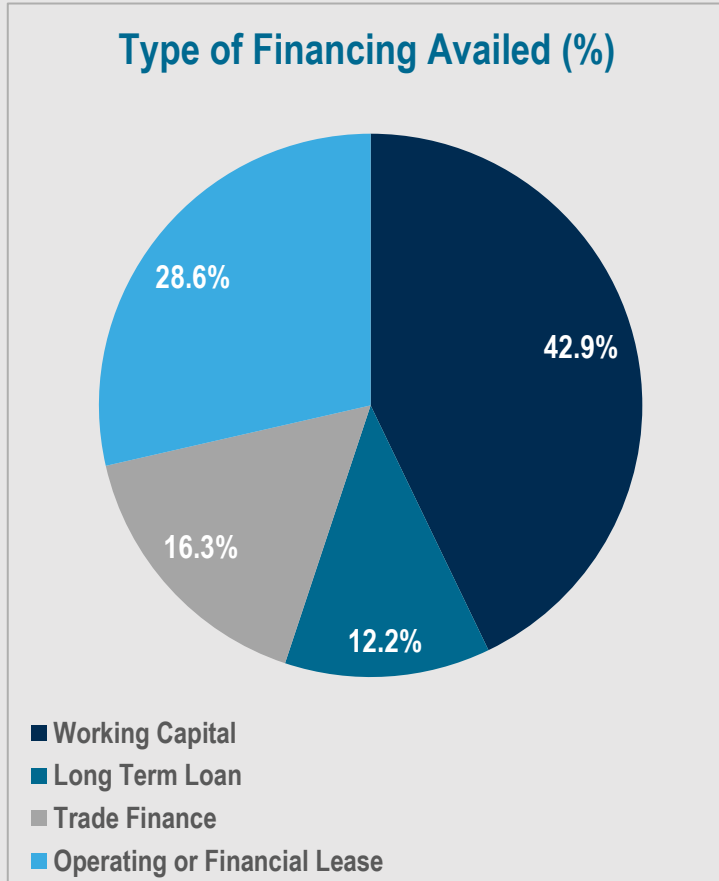


The **Textile** and **Hospitality and Tourism** sectors present the most desperate state of affairs with 100% and 90% respondents respectively, expecting to become insolvent within three months.

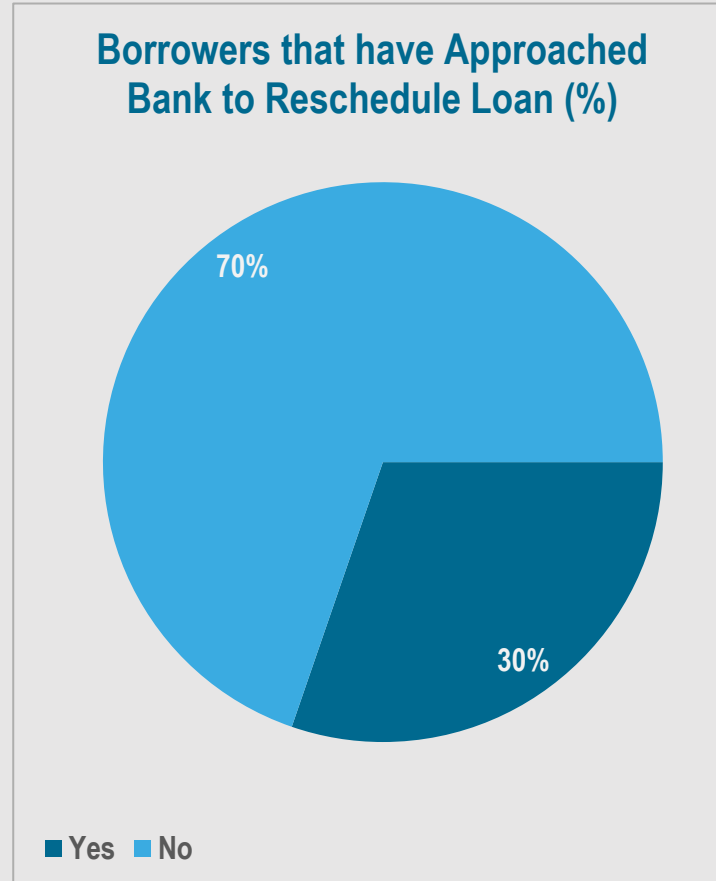


# SBP Schemes – Awareness & Utilization

Only about 23% respondents reported access to a loan from financial institutions



Number of Respondents = 28



Of the 23% that reported to have borrowed from a financial institution, most had availed of a Working Capital Loan (42.9%), and Operating or Financial Lease (28.6%)



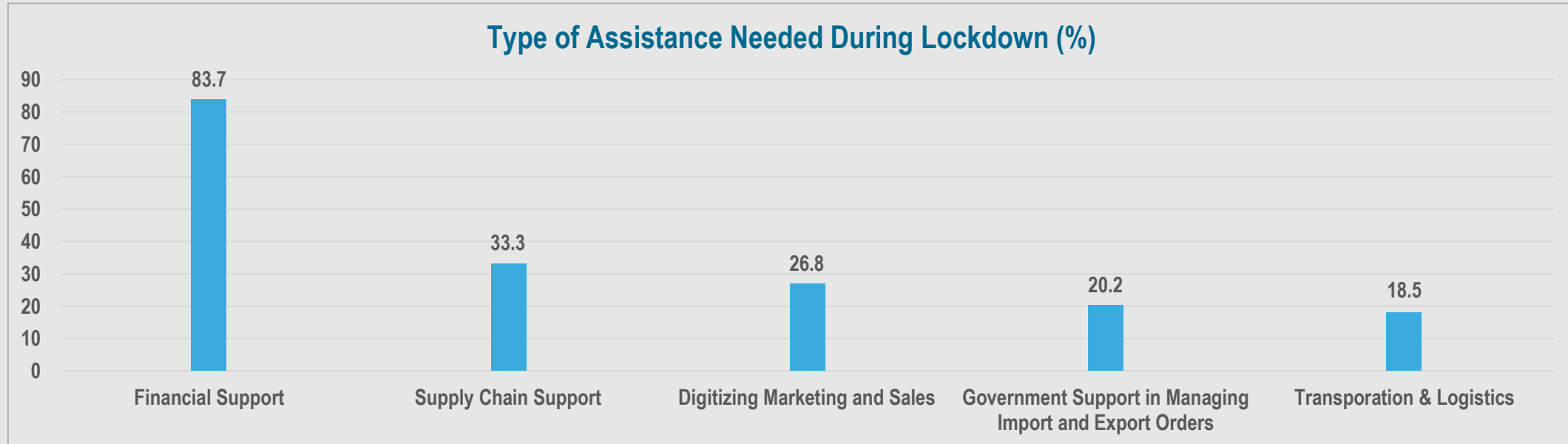
Only 1/3<sup>rd</sup> of the current borrowers have approached the bank to restructure their loan.



86% borrowers are aware of schemes being offered by SBP to support SMEs during COVID-19, i.e., 4 of the 28 borrowers were not aware in April 2020 of the schemes being offered to SMEs



# Type of Support Required by Businesses



**More than 80%** of respondents cited the need for **financial support**



**Non-financial support** cited includes:

Supply chain support (33.3%) i.e., improving availability of raw material, easing lockdowns, resuming imports and exports

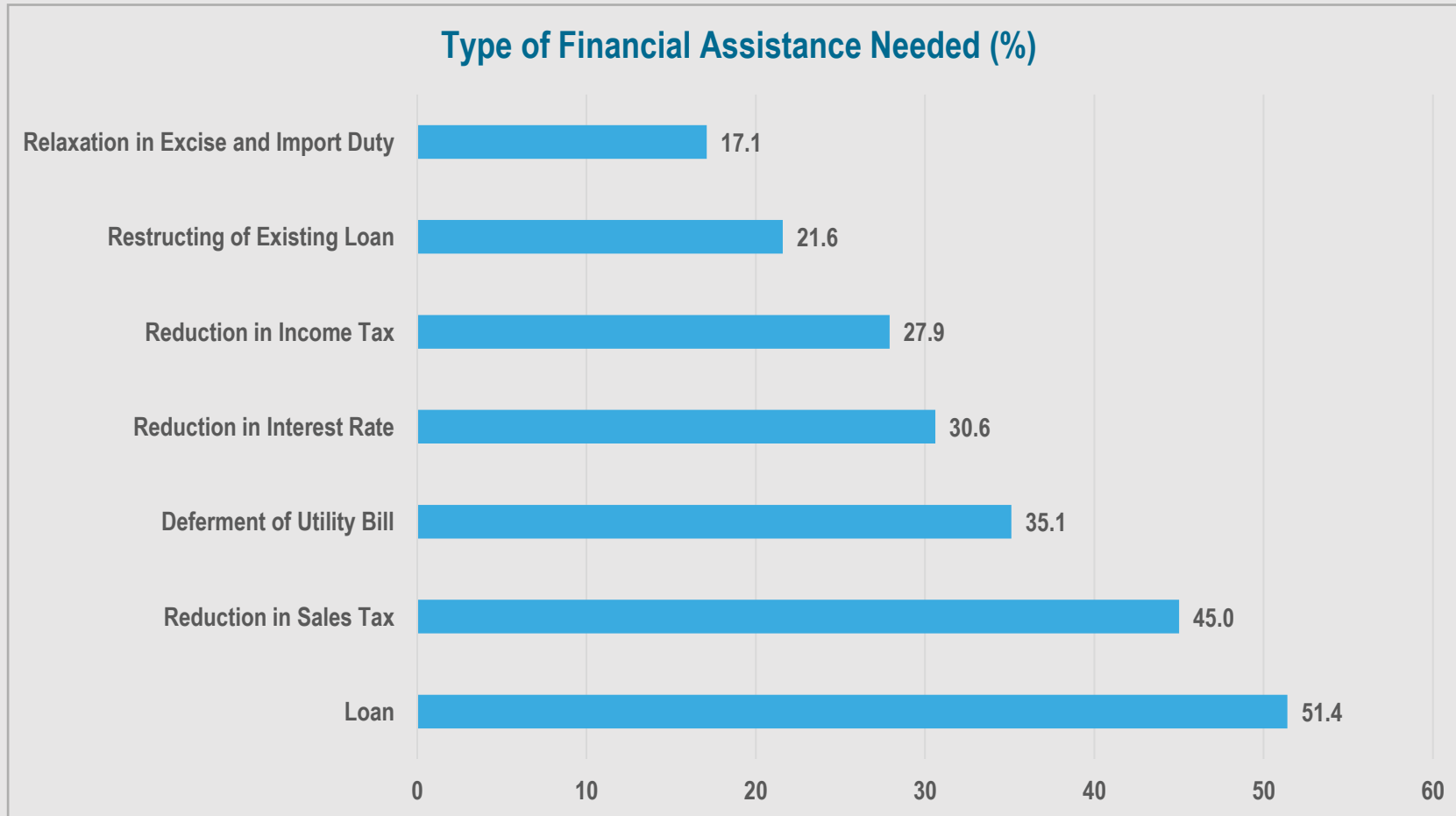
Digitization (26.8%) i.e., creating enabling environment for online sales and marketing

Government support in managing export and import orders (20.2%) i.e., through expediting administrative processes

Transportation and logistics (18%) i.e., government may allow movement of goods and for businesses



# Type of Support Required by Businesses

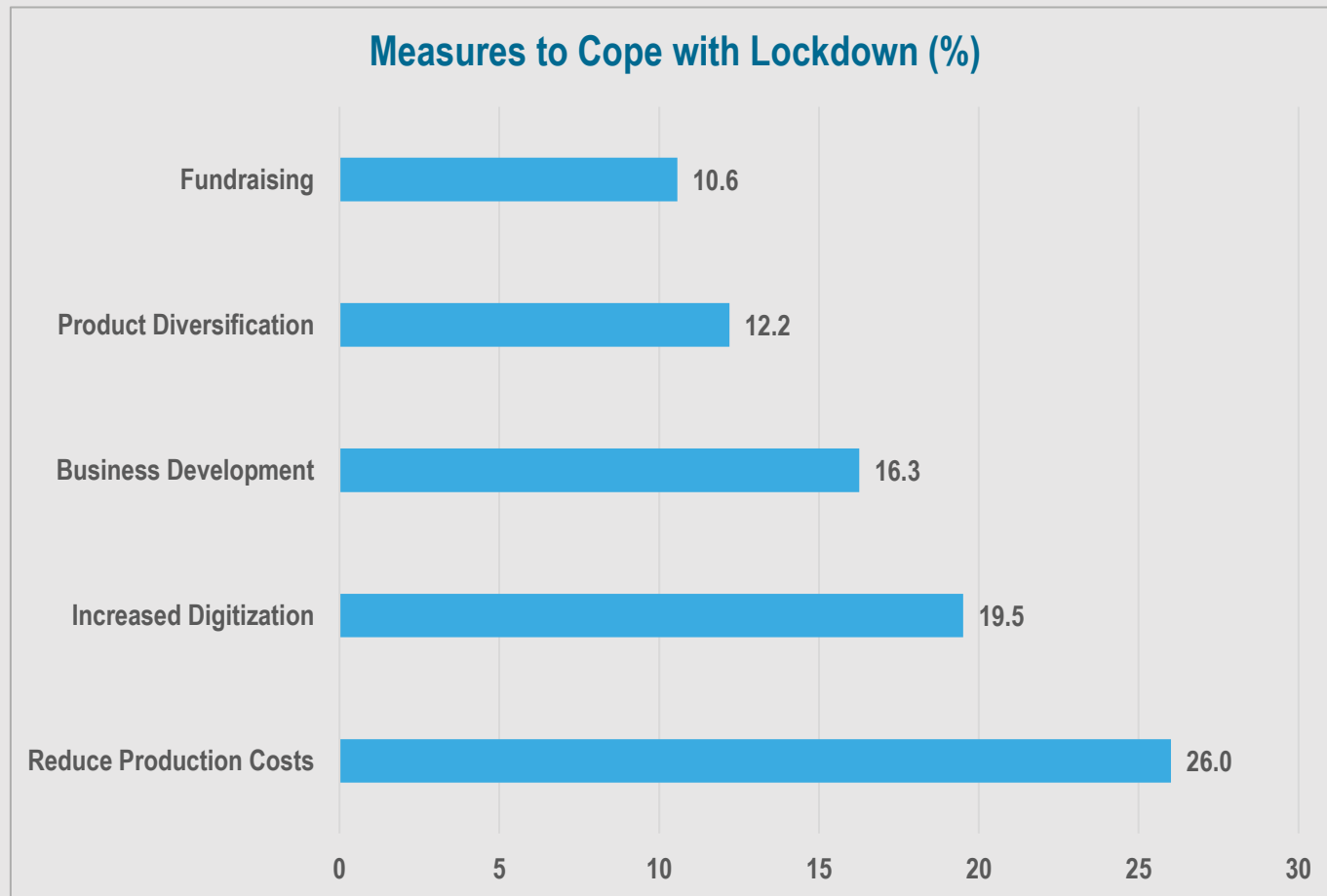


Most businesses indicated the need for financial support in the form of loans, reduction in sales tax and deferment of utility bills.

Fewer respondents cited reduction in interest rates, income tax, and relaxation in excise and import duties.



# Mitigation Measures Adopted by Businesses



Mitigation measures adopted by businesses to alleviate the employment, sustainability and supply chain impact include:



Reduction in production costs e.g. salaries, overheads, production level



Increased digitization in production, marketing and distribution processes



Business development by targeting different markets, clients and delivery channels



Some businesses also reported diversifying their service/product offerings





# Top Line Results

## Karandaaz Survey of Women-Led Investee Businesses<sup>1</sup>



14 Karandaaz investee women-led businesses were surveyed in March 2020



The businesses reported, on average, a 61% reduction in their post-COVID-19 revenue forecast for Apr - Jun (compared to actual average revenue Jan-Mar 2020)



The businesses expected to lay off 19% permanent staff, 53% contractual staff, and 33% daily wagers in April 2020



Except one, all the businesses were planning to pay full salaries to their permanent employees for April 2020



57% of the businesses cited salaries as their biggest cost; the remaining 43% cited rent as their most major cost

<sup>1</sup> This survey was conducted by the Monitoring, Evaluation and Learning team

“

As the Director, I will not draw my salary for the next 3 months in order to keep liquidity intact.

**Karandaaz Investee**

”

“

I have already used my personal savings to pay pending bills for March, so I will not be able to inject much more going forward. The initial plan is to ask my landlord for partial relief on the rent due. Secondly, instead of immediate layoffs, I'm going to pay half salaries in April...I may also consider closing down a branch if this situation persists for longer...

**Karandaaz Investee**

”



# Key Recommendations (1/2)

- The State Bank of Pakistan (SBP) announced a Refinance Scheme for Payment of Wages & Salaries to the Workers and Employees of Business in April 2020. The scheme aims to enable businesses to meet their major operating expense – salaries. Based on survey results, which also indicate rent, utilities and other expenses as significant, SBP may consider opening up the scheme to include other operating expenses. In particular, the Tourism & Hospitality sector needs additional support for meeting their rent expenses.
- High rental costs indicate that many SMEs do not own the premises they operate on. This has direct implications for their ability to meet collateral requirements for accessing loans from banks. SBP may review collateral requirements for SMEs, especially in light of the recently launched Secured Transactions Registry (STR) and coordinate with the Securities and Exchange Commission of Pakistan (SECP) to fast track utilization and onboarding.
- To spur the financial inclusion of SMEs and encourage banks to continue lending, there is a need for a credit guarantee facility whereby 90-95% credit risk of pre-approved loans extended to Sales Tax/Income Tax filers is covered. The ticket size of the loan may be pegged to the actual tax paid, sector economics and the borrower's liquidity needs, subject to a maximum limit. This guarantee facility should also be made available to the non-bank finance company (NBFC) sector.
- Survey findings indicate that while awareness of SBP's COVID-19 related schemes is on the higher side (66% respondents), utilization seems to be low as only 30% of SMEs with an outstanding loan have approached their banks for restructuring and deferment of payments. It will be useful to explore the reasons for low uptake (complexity in the application process, low effectiveness/utility of the schemes (perceived or actual), etc.) to ascertain and put in place corrective measures.

## Key Recommendations (2/2)

- SBP may explore providing access to the NBFC sector for its refinance schemes, given that several NBFCs not only lends to the SME sector but are also likely to face liquidity constraints in the current scenario. NBFCs can provide an additional channel for improving uptake of these refinance schemes.
- The Government of Pakistan (GOP) should consider a massive development programme to support the economic cycle in various sectors. e.g., it can announce a strategic purchase programme of commodities other than wheat, such as pulses, in specific districts.
- To provide support to SMEs, the GOP may consider introducing a threshold for the procurement of certain items from registered and tax-paying SMEs. This practice is being followed in some of the Latin American countries (pre-COVID19). This may also be introduced in the procurement of agriculture produce e.g., wheat, which the GOP can procure from small farmers (land holding of < 12 acres).
- Tax incentives for start-ups and SMEs within the export oriented value chains may be considered.
- The GOP, donors and SME focused investment funds may also consider options for infusion of equity in SMEs that are expected to grow, especially during and post COVID-19 e.g., Fintechs, e-commerce players, etc. In addition, the SECP has drafted a regulatory framework for Equity Crowdfunding Platforms in Pakistan, which may be fast tracked for approval.
- Business advisory assistance should be included as part of the relief programme for SMEs that either want to diversify product/service offerings or tap into new markets and clients. GOP may provide assistance in improving e-commerce platforms to facilitate SMEs.

**KARANDAAZ PAKISTAN** is a Section 42 company established in August 2014 and focuses on fostering economic growth and creating jobs through financial inclusion of unbanked individuals and unserved enterprises, with a special focus on women and youth. The company has four verticals:



#### **Karandaaz Digital**

Focuses on expanding the poor's access to digital financial services in Pakistan by working across the ecosystem with all stakeholders



#### **Karandaaz Capital**

Provides wholesale structured credit and equity-linked direct capital investments to micro, small and mid-size enterprises (MSMEs) that demonstrate compelling prospects for sustainable business growth and employment generation in Pakistan



#### **Karandaaz Innovation**

Manages the Innovation Challenge Fund and Women Ventures, providing risk capital and grants to partners with the aim to generate innovative solutions in areas of financial inclusion and entrepreneurship



#### **Knowledge Management and Communications**

Supports the company's core financial inclusion goal by developing and disseminating evidence based insights and solutions

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