Survey Report: Impact of COVID-19 on SMEs

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Key Findings (Impact of COVID-19 on SMEs)

- **95%** Enterprises have experienced a reduction in Operations.
- **23%** Report up to 100% loss in export orders.
- **92%** Enterprises report disruption in supply chain.
- **48%** Enterprises have laid off employees.
- **26%** Enterprises plan to rehire laid off employees in one month.
- **89%** Enterprises report facing financial issues.

**Total Respondents = 920**
- **Estimated Workforce Employed = 19,641**
- **Estimated Daily Wagers = 8,950**
- **Estimated Annual Sales Turnover = PKR 29 Billion**
Pakistan is facing the brunt of Coronavirus outbreak as the country is in a partial lock down. This has had a negative impact on businesses. Initial estimates show that the economy will witness sluggish growth in services, manufacturing and agriculture sectors, increase in unemployment, decrease in government revenue, decline in exports and disruption in supply chains. Lockdown across the country is expected to make the situation dire for the estimated 5.2 million enterprises in the country. SMEs may experience supply chain distortions due to irregular supply of raw materials and intermediate goods, revenue loss and shortage of liquidity to continue business operations.

“Impact of Covid-19 on SMEs”; an online survey by SMEDA, was launched on April 3, 2020 until April 14, 2020. Nine hundred & twenty (920) businesses participated in the survey. Results highlight the issues being faced by SMEs during lockdown and its impact on employment and production. SMEs have identified areas for public sector support to sustain their businesses and mitigate the impact of COVID-19. These include SME-specific support measures including financial packages, tax relief, guarantees and grants, relaxation in payments of utility bills, support in paying salaries and easing conditions for loan repayments.
Geographical Distribution

Total 920 respondents from all over Pakistan

1. Abbottabad
2. Bahawalpur
3. Bajaur
4. Batkhela
5. Battagram
6. Bhakkar
7. Bucheki
8. Buner
9. Chakwal
10. Charsadda
11. Chitral
12. Dadu
13. Daska
14. Dera Ismail Khan
15. Faisalabad
16. Ferozewala
17. Gujranwala
18. Gujrat
19. Hangu
20. Haripur
21. Hasan Abdal
22. Hub
23. Hyderabad
24. Islamabad
25. Jamshoro
26. Jehangira
27. Kailash District
28. Karachi
29. Kasur
30. Khairpur
31. Khanewal
32. Khyber District
33. Kohat
34. Lahore
35. Lakki Marwat
36. Layyah
37. Lodhran
38. Lower Dir
39. Mailsi
40. Makin, South Waziristan.
41. Mansehra
42. Mardan
43. Mirpurkhas
44. Mohmand Agency
45. Multan
46. Muzaffargarh
47. Noushehro Feroze District
48. Nawabshah
49. Nowshera
50. Pashat Salarzai Bajaur
51. Peshawar
52. Phalia, Mandi
53. Bahauddin
54. Quetta
55. Rahim Yar Khan
56. Rawalpindi
57. Sadiqabad
58. Sahiwal
59. Sanghar
60. Sargodha Sheikhupura
61. Shikarpur
62. Sialkot
63. Sui, District Dera Bugti
64. Sukkur
65. Swabi District
66. Swat
67. Toba Tek Singh
• 68% of the respondents were engaged in Services activities followed by manufacturing (16%), Marble, Mining & Quarrying (6%) and Agriculture (5%).

• A deeper analysis shows that 17% of the respondents are associated with the education sector, (5%) with Hotels & Restaurants, (4%) Wholesale & Retail, (4%) Textile, (4%) Agriculture and Livestock, (3%) ICT & Commerce, (2%) Travel and Tourism, (1%) Food Processing, (2%) Jewelry and Engineering (2%).
In terms of ownership structure of respondents;

- 42% of enterprises self identified as sole proprietorships;
- 20% Private Limited Company
- 19% Partnership
- 13% Single Member Company
- 3% Public Limited Company
Annual Sales Turnover of respondents indicates that majority (81.1%) of the respondents were from small sized businesses with up to 30 million annual sales turnover. 32.8% of respondents indicated to have less than PKR 1 million annual sales turnover.

33.9% of enterprises have 1 to 5 employees. Cumulatively, 84.4% of enterprises have up to 30 employees. 12.8% of enterprises have 30 to 150 employees and 2.9% have more than 150 employees.
• 34.6% of enterprises report their entire market (up to 100%) to be local i.e within city. Only 6.5% of respondent’s sell their product / service nationally while 4.35% of enterprises report that they export up to 100% of their product/service.
95% of enterprises admit to have experienced a reduction in production / work activity / contracts due to Coronavirus outbreak. Only 5% respondents state that they have not experienced any reduction in their work activity.

51.6% of enterprises report that COVID-19 outbreak has affected up to 100% of their operations; whereas 22.6% have reported up to 100% loss in export orders.
As the size of the enterprise increases, disruption in operations at the national decreases. Enterprises with greater than 30 employees report a higher level of disruption in exports.
92% of the enterprises reported a disruption in supply chain. Only 8% report no disruption in supply chain.

Majority of enterprises have experienced a disruption in supply chain. On a scale of 1 to 10 (with 10 being the highest level of disruption), 15.6% report a disruption level of 8, 13.2% of SMEs have reported a disruption level of 9, while 46.4% have reported maximum disruption level (10). Only 2.4% of SMEs state that supply chain disruption is at its lowest level.
• Around 48% of enterprises with up to 30 employees have reported the highest level of disruption (level 10) in their supply chain

• The survey indicates that as the size of enterprise increases, the level of supply chain disruption decreases
37% of respondent businesses do not employ daily wagers. 43% of businesses employ 1 to 10 daily wagers. As per survey results, 1% employ 101 to 150 and 2% employ above 150 daily wagers.

Enterprises with up to PKR 2 million annual sales turnover employ less number of daily wagers. However, comparatively larger sized enterprises with PKR 150 million to above PKR 300 million annual sales turnover employ larger number of daily wagers.
48% of enterprises have laid off some of their employees due to lockdown while 52% report that they have not laid off any of their employees.

26% of enterprises that have laid off employees, plan to rehire them in one month, 18% plan to hire them back in 2 months, while 15% plan to rehire in 3 months; once lockdown is lifted. 25% of enterprises plan to rehire (or take other measures) as soon as the situation improves.
If the rehiring plan of enterprises is analyzed, it illustrates that most of the enterprises whether they are small or medium sized, plan to rehire employees in one month.

A similar percentage (around 25%) plan to rehire as soon as the situation improves or when the lock down is lifted.

A higher percentage of comparatively larger enterprises (with 101 to 150 and above employees) plan to rehire employees in 6 to 12 months as their businesses may take more time to return to normal.
In wake of the Coronavirus pandemic, majority of enterprises (60%) expect to continue with their present line of business over the next 1 year, while 18% say they would downsize their business. 6% report that they may close down their business, while 7% would diversify into another line of business.

33% of enterprises report that they will be able to sustain their business for a period of 2 weeks of lock down, while 26% can sustain themselves for a month's duration.
Respondents have reported that 73% of them have completely stopped operating during the lock down, while 27% have halted operations partially.

80% of enterprises that have up to 30 employees have halted their operations completely as compared to enterprises with greater number of employees, which shows the vulnerability of small enterprises during lock down. The survey indicates that as the size of an enterprise increases, its ability to operate during lock down increases.
Enterprises have reported multiple issues during Coronavirus outbreak and lock down;

- 89% of enterprises, report Financial issues
- 60% report issues in Selling their product/service.
- 43% report Supply Chain Disruption, followed by Marketing (39%), Transportation (38%), Labour (37%), inventory issues (17%), Importing (14%), Exporting (11%) issues
While highlighting multiple areas of facilitation required, 82% of enterprises indicate that the Government introduce a special package for small and medium enterprises. 33% demand a reduction in duration of lock down, while 31% would want the Government to allow all businesses to operate during lockdown.

24% share that the Government introduce awareness programs for businesses in wake of Coronavirus pandemic.
To cope with the current challenges, 68.92% of enterprises demand financial schemes including loans on low interest rates, grants and relaxation of loan payments, followed by taxation / customs & tariff (10.46%). Around, 16.52% enterprises require support to meet operational expenses including; wage/salaries support (8.81%) and rental cost & utility support (7.71%). Furthermore, export oriented units call for government support for export facilitation (1.65%). 1.53% of enterprises want infrastructure support and 1.18% require amendments in regulations/simplification of procedures.
Financing SMEs

• Special Grants and interest free loans may be provided to SMEs.
• Financial assistance for small scale automotive industries may be provided. Grants & interest free loans may be introduced.
• SME facilitation helpdesks may be established at Banks for guidance regarding documentation and other procedures critical in obtaining loans.
• Financial Schemes may be announced for services sector including IT Businesses, Business Consultation, Wholesale & Retail, logistics etc.
• Special financial schemes and grants may be provided to Women Entrepreneurs (WEs).
• Relaxation in interest payments for running finance for 1-2 months may be provided.
• Government may provide interest free loans for school administrators so that they can manage their system during and after lock down.
• Businesses that are debtors/ declared defaulters or are affected by any other bank issues may be facilitated and granted an opportunity to avail further loan facility. In other words, their CLBs should be cleared for further loan availability.
Financing SMEs

- Relaxation in mark-up may be provided by deferring it for 6 months without any additional charges.
- Financial assistance may be provided to online businesses.
- Programs may be introduced for new startups.
- The government should give loans to retail stores so that they can continue their business otherwise they will have to layoff employees and cut down business.
- Soft loans may be provided to freight forwarders/Logistics Sector in order to enhance investment in IT, warehousing & Transportation etc.
- Special Financial package (free of interest) may be announced for transport sector (goods transport) to upgrade their existing fleet (obsolete vehicles) according to the international standards.
- Government may launch a special package for small and medium sized businesses to support investment in home finance.
- Special allowance for small scale private schools which may cover school rent, teachers salaries, utility bills, and other expenditures.
Key Interventions Indicated by Respondents (Government Assistance)

Taxation/ Customs & Tariff

- Income tax levied on salaried class may be rationalized.
- Exemption of duty on imports of raw material for pharmaceutical and medical industry.
- Sales tax and minimum tax rates on turnover may be reduced by 50% for minimum 6 months.
- Tax on gross profit may be reduced from 3% to 1% as per previous practice.
- Manufacturing Industry may be declared as zero rated sector.
- Withholding tax may be zero rated.
- Around one-year exemption on the imports of raw material and machinery for SMEs may be provided.
- Duties and taxes may be exempted on the shipment arrived / stuck at port during the period of lockdown.
Taxation/ Customs & Tariff

- Sales Tax refunds should be reimbursed immediately in exporters’ accounts and start it from small companies and small amounts without classification of industries.
- Companies who are Withholding Tax agents should be relaxed for the period of 6 months.
- To protect new startups, a package including tax relief and financial incentives may be announced for New Startups in order to facilitate their loan payments and operational expenses.
- Increase import duties on the consumer and capital products that are produced locally.
- Support online businesses by providing tax facilitation (rationalizing provincial sales tax on services etc.)
- Tax support may be provided to start new businesses. Civil Aviation Charges on all imports may be zero rated till June, 2020.
- Furthermore, tax imposed on Employees’ salaries may be simplified.
Wage Support to Retain Employees

• Support may be provided to businesses to meet their operational expenses such as salaries, office rents.

• Salaries support may be provided to employees for three months

• Government may provide special incentives to SMEs in order to retain their employees.

• 50 percent of daily wagers (6-12 months) salaries may be paid by the Government to sustain their jobs. Government may notify a 50 percent reduction (6-12 months) of rent for commercial properties
Rental Cost and Utility Bills

- Reimbursement of rentals for 3 months
- Landlords may be instructed to waive commercial rentals for 6 months.
- Government should announce special package for buildings, rent and utility bills, etc.
- Waiver of duties and taxes on utility bills (Electricity & Gas) may be provided.
- Waiver on Port Demurrages and Container rents. Complete waiver of the port charges along with the container rents being charged by the shipping lines.
Infrastructure Support

• Innovative methods may be introduced in Train Businesses

• National SME Portal: The portal may be operative 24 hours to receive problems & suggestions of SMEs. The issues and suggestions may be passed on to concerned provincial departments, organizations, people and federal government for their timely support.

• For online classes and education, it is important to ensure 3G and 4G facilities and to train teachers for online courses
Facilitating Exports

• Government may support free trade shows for Handicraft products.
• One window support for exports may be introduced
• SMEDA may provide facilitation in identification of international sales opportunities by connecting or finding the buyers globally to address issues related to exports.
• Online awareness programs may be introduced for small unit owners to obtain online order from international buyers in order to enable them to compete with Indian or Bangladesh manufacturers.
Regulations/ simplification of Procedures

• During the pandemic period, visits / interference of public office holders, including FBR, ESSI, EOBI, WWF, TMO may be delimited.

• Tax procedures and documentation may be simplified.

• Softening FBR laws, equality of laws and protection of agriculture and businessmen, as they provide jobs for unemployed.

Developing SOPs for Businesses

• Allow businesses to operate with precautions and necessary SOPs may be developed for industry and agriculture sector to prevent future loses due to such pandemics or national disasters.
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