Situational Analysis of SMEs during COVID-19

Survey Report
February 2021
Overview

The COVID-19 pandemic outbreak is placing an overwhelming burden on economies and businesses worldwide. In Pakistan, the impact has been less pronounced as compared to the regional countries as revealed in SMEDA-ADBI-APO Regional Survey Report on COVID-19 impact. The report also highlighted that the Government of Pakistan has had some success in implementing programmes to support SMEs.

However, in order to assess further impact, challenges, issues, change in business model and measures being taken by SMEs to cope with COVID-19 pandemic, SMEDA collaborated with Mahbub ul Haq Research Center (LUMS), to conduct a joint survey. The online survey* was administered to SMEs from August 2020 till October 2020. In total, 171 SMEs from 44 different cities participated in the survey.

This brief report is a snapshot of survey results which provide a situational analysis of SMEs during COVID-19 pandemic.

* Margin of error is 7% at 95% confidence level (5.2 million is estimated population of SMEs in Pakistan).

Key Findings

Lower Revenue as compared to last three months

89% Respondents have reported lower revenue

Business Model Adapted to COVID

70% Respondents have adjusted their business model to cope with the pandemic

Cash Flow Shortage and Raw Material Shortage

90% Respondents were facing cash flow shortage

63% Respondents were facing raw material shortage

Difficulties in Accessing Customers

77% Respondents were facing difficulties in accessing customers due to government mobility restriction
Highlights of the Survey

Small and Medium Enterprises Development Authority &
Mahbub Ul Haq Research Center - LUMS
Profile of Survey Respondents

Geographical & Sectoral Distribution and NTN Registration of Respondents

Khyber Pakhtunkhwa 59.1%
Punjab 28.7%
Sindh 4.7%
Balochistan 1.8%
Islamabad 5.8%

Sectoral Distribution of Respondent Enterprises (in %)

- Services: 68%
- Industrial: 24%
- Agriculture: 8%

National Tax Number (NTN)

- 68% have NTN
- 32% do not have NTN

Employment and Annual Sales Turnover of SMEs (%)

<table>
<thead>
<tr>
<th>Employment Size</th>
<th>SMEs % in Oct '20 sample</th>
<th>SMEs % in Feb '20 sample</th>
<th>Employees Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>39%</td>
<td>30%</td>
<td>1 to 5</td>
<td></td>
</tr>
<tr>
<td>29%</td>
<td>23%</td>
<td>6 to 10</td>
<td></td>
</tr>
<tr>
<td>21%</td>
<td>30%</td>
<td>11 to 20</td>
<td></td>
</tr>
<tr>
<td>4%</td>
<td>8%</td>
<td>21 to 30</td>
<td></td>
</tr>
<tr>
<td>7%</td>
<td>10%</td>
<td>31 and above</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual Sales Turnover (2019)</th>
<th>Enterprises %</th>
<th>Sales Turnover Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>32%</td>
<td>Up to PKR 1 million</td>
</tr>
<tr>
<td>29%</td>
<td>29%</td>
<td>PKR 1 to 5 million</td>
</tr>
<tr>
<td>30%</td>
<td>30%</td>
<td>PKR 5 to 50 million</td>
</tr>
<tr>
<td>5%</td>
<td>5%</td>
<td>PKR 50 to 150 million</td>
</tr>
<tr>
<td>4%</td>
<td>4%</td>
<td>Above 150 million</td>
</tr>
</tbody>
</table>

Online Business Presence (% of Respondents)

- Online before March 2020: 21.64%
- Online after March 2020: 10.53%
- Not Online: 67.84%

Presence in Export Markets (% of Respondents)

- Exporting: 12%
- Not Exporting: 88%

Ownership Structure (% of Respondents)

- Public Limited Company: 4%
- Single Member Company: 11%
- Not Registered: 13%
- Partnership: 16%
- Private Limited Company: 18%
- Sole Proprietorship: 38%
Major Challenges Faced by Enterprises

- Difficulties in accessing customers due to government’s mobility restrictions
- Loss in demand due to other reasons (e.g., regular customer cannot afford products)
- Reduction in availability and/or price increase for inputs
- Difficulties with Worker not coming to work arising from government’s mobility restrictions

Impact on Total Sales Revenue in last 3 months as compared to same period last year (% of Enterprises)

- Higher Revenue: 6%
- Same Revenue: 5%
- Lower Revenue: 89%

Current Status of Businesses

- Business is Open: 50%
- Temporarily closed due to challenges related to COVID-19: 29%
- Permanently closed due to challenges related to COVID-19: 4%
- Temporarily or permanently closed due to factors unrelated to COVID-19: 13%
- Temporarily closed by government mandate: 2%
- Do not know: 2%

Among Major Challenges faced by Enterprises due to COVID-19 in the last 30 days, these were the top 4 Challenges reported by respondents:

- Difficulties in accessing suppliers due to mobility restrictions (reported by 35% respondents)
- Difficulties in securing finance (reported by 27% respondents), etc.

Enterprises Reported

- Higher Revenue: 6%
- Same Revenue: 5%
- Lower Revenue: 89%
Average Percentage of Respondents reporting Temporary Layoffs / Permanent Layoffs and Delayed Daily Wages or Reduction in Wages (by Sector)

- **Agriculture**:
  - Reduction in Earnings/Delayed Daily Wages: 40%
  - Permanent Layoffs: 18%
  - Temporary Layoffs: 19%

- **Industrial**:
  - Reduction in Earnings/Delayed Daily Wages: 30%
  - Permanent Layoffs: 16%
  - Temporary Layoffs: 16%

- **Services**:__Average % of Respondents__
  - Reduction in Earnings/Delayed Daily Wages: 37%
  - Permanent Layoffs: 14%
  - Temporary Layoffs: 19%

Adjustment in Business Model

- **30%** reported that have not adjusted their business model.
- **70%** reported that have adjusted their business model.

Adjustment in Business Model to Reduce Customer Contact (% of Enterprises)

- Social distancing: 1%
- Selling a different product: 5%
- Use of precautionary measures/SOPs/Government: 6%
- Use of internet, online social media, specialized apps: 8%
- Use of phone for marketing, placing order, etc: 34%
- Switched delivery of product/service to online: 45%

Among a choice of policies, these are the **Four Major Policies** that around 60% of enterprises perceive to be highly effective to deal with COVID-19:

- Salary subsidies
- Rental or Utility Subsidies
- Reduction in tax rates
- Access to new loans

Percentage of Respondents that perceive different policies as highly effective, moderately effective or not effective for their enterprise
## Government Support and Issues of SMEs

### Support from Government Programs (Reported by % Enterprises)

<table>
<thead>
<tr>
<th>Program</th>
<th>% of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haven’t applied for any programs</td>
<td>76%</td>
</tr>
<tr>
<td>Business Loans</td>
<td>12%</td>
</tr>
<tr>
<td>Rental or utilities Subsidies</td>
<td>5%</td>
</tr>
<tr>
<td>Partial or total salary subsidies</td>
<td>3%</td>
</tr>
<tr>
<td>Others*</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Others include: training for digital marketing and selling, tax cuts, rental or utilities deferrals, loan payment deferrals and cash transfers of unemployment benefits

### Issues Reported by Enterprises (% of Respondents)

- **90%** Respondents reported that are facing **cash flow shortage**
- **63%** Respondents reported **raw material shortage**
- **77%** Respondents reported **difficulties in fulfilling their contracts**
- **34%** Respondents reported **shortage of labour**

### Reasons for not applying for Support Programs

- **52%** reported that they are not aware of any such support programs
- **48%** reported that they will not get any support even if they apply for such programs
Top 3 Measures Reported by Enterprises to Deal with Cash Flow Shortage and Raw Material Shortage (Enterprises were able to choose more than one issue)

Dealing with Cash Flow Shortage
1. 37% Respondents Reported Loans by Commercial Banks
2. 34% Respondents Reported Own Savings
3. 34% Respondents Reduced Operating Costs

Dealing with Raw Material Shortage
1. 53% Respondents Paid a Higher Price to Obtain Raw Material
2. 49% Respondents Reduced Production
3. 33% Respondents Delayed Delivery of Goods

Small and Medium Enterprises Development Authority
Top 3 Measures Reported by Enterprises to Deal with Labour Shortage and Difficulties in Fulfilling Contracts (Enterprises were able to choose more than one issue)

1. **Dealing with Labour Shortage**
   - 43% Respondents Increased Wage

2. **Dealing with Difficulties in Fulfilling Contracts**
   - 33% Respondents Delayed Delivery

3. **Existing Workers were Working Overtime**
   - 26% Respondents

1. **Settlement by mutual agreement**
   - 49% Respondents

2. **Reported payment of liquidated damages**
   - 44% Respondents

3. **Expect the Government to Coordinate and Provide Clear Disclaimer Agreements**
   - 37%
59% of enterprises reported an operating cost increase in the range of 10% to 30%.

57% of enterprises reported raw material cost increase in the range of 10% to 30%.

Percentage of Enterprises Expecting their Investment to change in 2020 as compared to 2019

- 61% are expecting a decrease
- 29% are expecting an increase
- 9% are expecting it to be the same

Percentage of Enterprises Expecting their Total Sales Revenue to change in 2020 as compared to 2019

- 89% are expecting a decrease
- 8% are expecting an increase
- 4% are expecting it to be the same
### Top 6 Measures taken by Enterprises (in %) to cope with COVID-19 Pandemic (Past 60 days)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spent savings to cover living expenses</td>
<td>53%</td>
</tr>
<tr>
<td>Borrowed money to cover living expenses</td>
<td>46%</td>
</tr>
<tr>
<td>Sold assets to cover living expenses</td>
<td>36%</td>
</tr>
<tr>
<td>Relied on the help of extended family</td>
<td>31%</td>
</tr>
<tr>
<td>Temporarily migrated back to original home place</td>
<td>24%</td>
</tr>
<tr>
<td>Find another job/ earning occupation</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Top 6 Measures expected to be taken by Enterprises (in %) to cope with COVID-19 Pandemic (Next 60 days)

<table>
<thead>
<tr>
<th>Measure</th>
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<tbody>
<tr>
<td>Borrow Money to cover living expenses</td>
<td>40%</td>
</tr>
<tr>
<td>Spend savings to cover living expenses</td>
<td>38%</td>
</tr>
<tr>
<td>Sell assets to cover living expenses</td>
<td>30%</td>
</tr>
<tr>
<td>Find another job/ earning occupation</td>
<td>22%</td>
</tr>
<tr>
<td>Diversify Existing Product</td>
<td>22%</td>
</tr>
<tr>
<td>Rely on help of extended family</td>
<td>21%</td>
</tr>
</tbody>
</table>

### Measures already being taken by enterprises to reduce COVID-19 at work place

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded paid sick leave</td>
<td>59%</td>
</tr>
<tr>
<td>Providing personal protection equipment like masks</td>
<td>79%</td>
</tr>
<tr>
<td>Temperature Checks</td>
<td>60%</td>
</tr>
<tr>
<td>Teleworking</td>
<td>43%</td>
</tr>
<tr>
<td>Staggered shift work</td>
<td>46%</td>
</tr>
<tr>
<td>Physical distancing between workers</td>
<td>85%</td>
</tr>
<tr>
<td>Encourage workers to stay home when they feel sick</td>
<td>76%</td>
</tr>
<tr>
<td>Inform workers on Covid-19 transmission and prevention measures</td>
<td>74%</td>
</tr>
</tbody>
</table>
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February 2021

Turn Potential into Profit!

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