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# Accelerating Dynamics of MSMEs post COVID-19 in South Asia

A Case Study of Pakistan

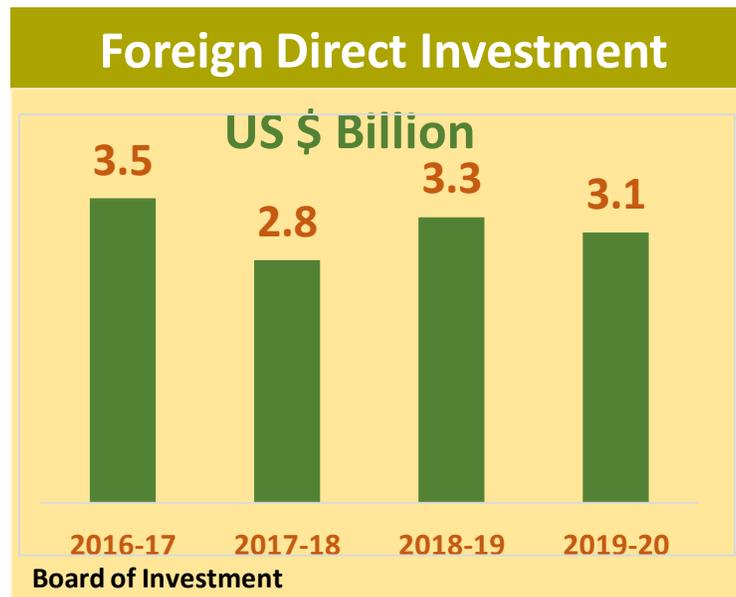
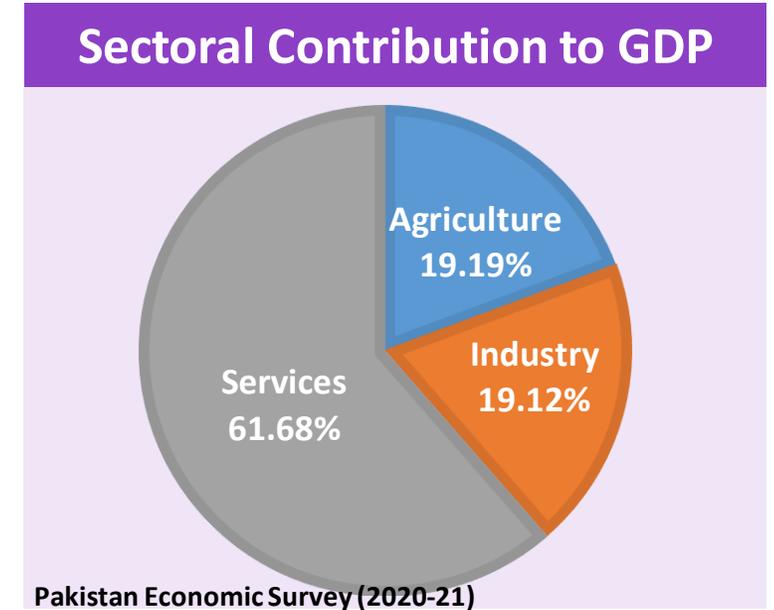
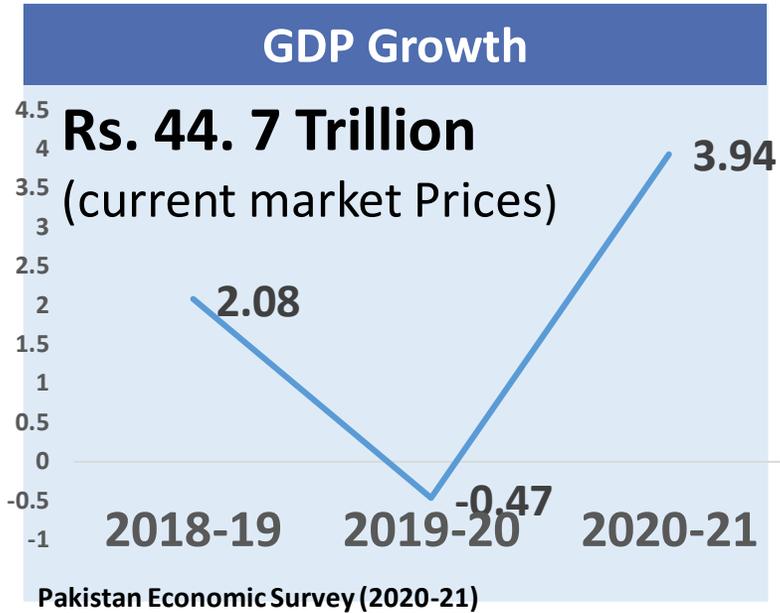
Asian Development Bank  
Lessons from Asia Small and Medium-Sized Enterprise Monitor 2021

Nadia J. Seth  
GM (Policy & Planning)  
Small and Medium Enterprises Development Authority (SMEDA)  
Wednesday, 1 December 2021

# Scheme of Presentation

- **Economic Landscape of Pakistan**
- **Impact of COVID 19 on SMEs in Pakistan**
- **Government Support for SMEs in Pakistan During Pandemic**
- **Policy Framework to Support SMEs**

# Economic Landscape of Pakistan (2020-21)



# Global Ranking of Pakistan

Index	Pakistan's Rank/ Countries
The Global Competitiveness Index 2019	110/141
Competitive Industrial Performance Index 2020	82/152
Global Innovation Index 2020	107/131
Youth Development Index 2016	154/183

Sources:

Global Competitiveness Report 2019

<https://stat.unido.org/country/PAK.pdf>

[https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_gii\\_2020.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020.pdf)

<https://www.thecommonwealth-healthhub.net/global-youth-development-index-ydi/>

# Pakistan's SME Landscape – An Overview



5.2 million Estimated Number of SMEs



Khyber Pakhtunkhwa  
14.79%

Islamabad  
0.63%

Punjab  
64.27%

Balochistan  
2.27%

Sindh  
18.05%



Estimated Contribution to GDP **40%**



Estimated Share in Exports **25%**



**20%** SMEs belong to Manufacturing Sector



**53%** Wholesale, Retail trade & Services



**Only 3%** of SMEs have access to formal financing.  
**172,000** SME Borrowers.



SME Finance **only 6.57%** of of Domestic Pvt. Sector Financing



**69.30%** businesses operate in informal sector



**99.06%** of Enterprises employee less than 10



**98%** Enterprises Annual Sales Turnover below PKR  
**150** million

# Key SME Sectors



# Issues and Challenges Faced by SMEs



- **Policy & Regulations**
- **Access to Finance & Related Services**
- **Business Development Services**
  - **Human Resource & Skills**
  - **Technology**
  - **Marketing & Market Access**
- **Entrepreneurship Ecosystem**
- **Infrastructure**

# Impact of COVID-19 on SME- An Assessment



- **SMEDA Impact of Covid-19 on SMEs** (*April 2020*) - [Published *April 2020*]
- **SMEDA - ADBI - APO Joint Survey Report on "Impact of Covid-19 on SMEs"** (*August-September 2020*) [Published Feb - 2021]
- **SMEDA-MHRC (LUMS) Survey Report - *Situational Analysis of SMEs during COVID-19*** – (*August –October 2020*) [Published Feb 2021]

# Impact of COVID-19 on SMEs (April 2020)



Enterprises have experienced a reduction in Operations



Report up to 100% loss in export orders



Enterprises report disruption in supply chain



Enterprises have laid off employees



Enterprises plan to rehire laid off employees in one month



Enterprises report facing financial issues

Total Respondents = 920

Estimated Workforce Employed = 19,641

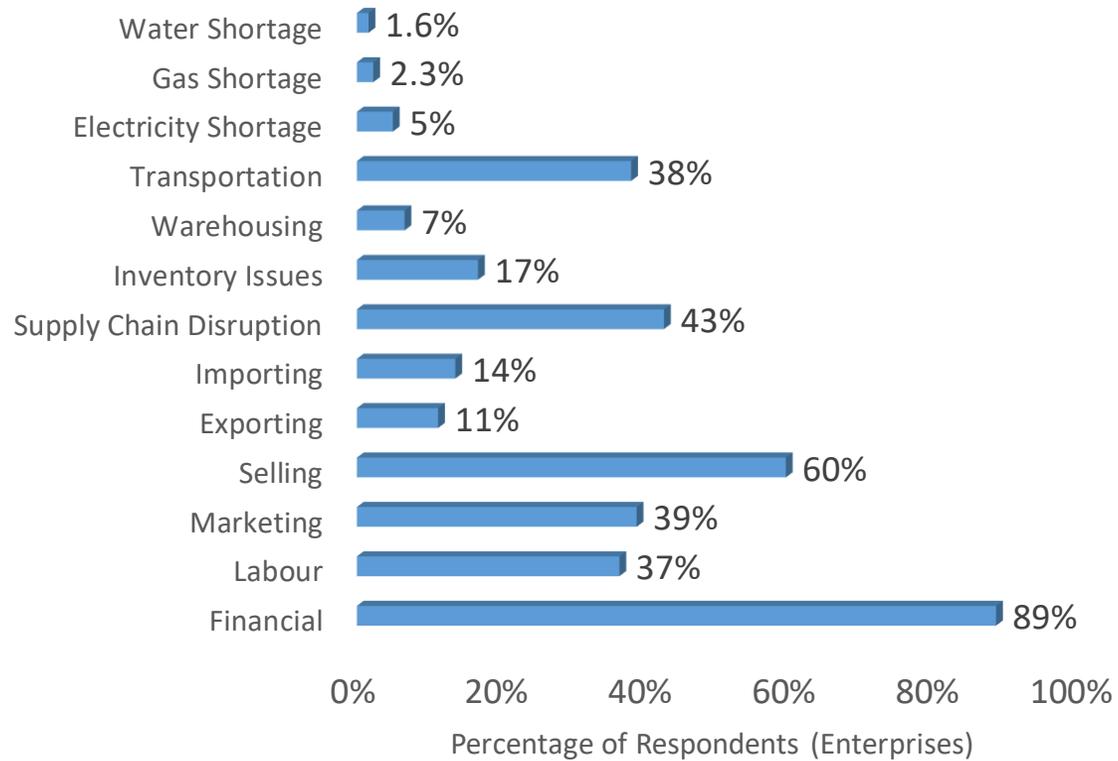
Estimated Daily Wagers = 8,950

Estimated Annual Sales Turnover = PKR 29 Billion

# Issues Reported by Enterprises due to Coronavirus Outbreak and Lock Down



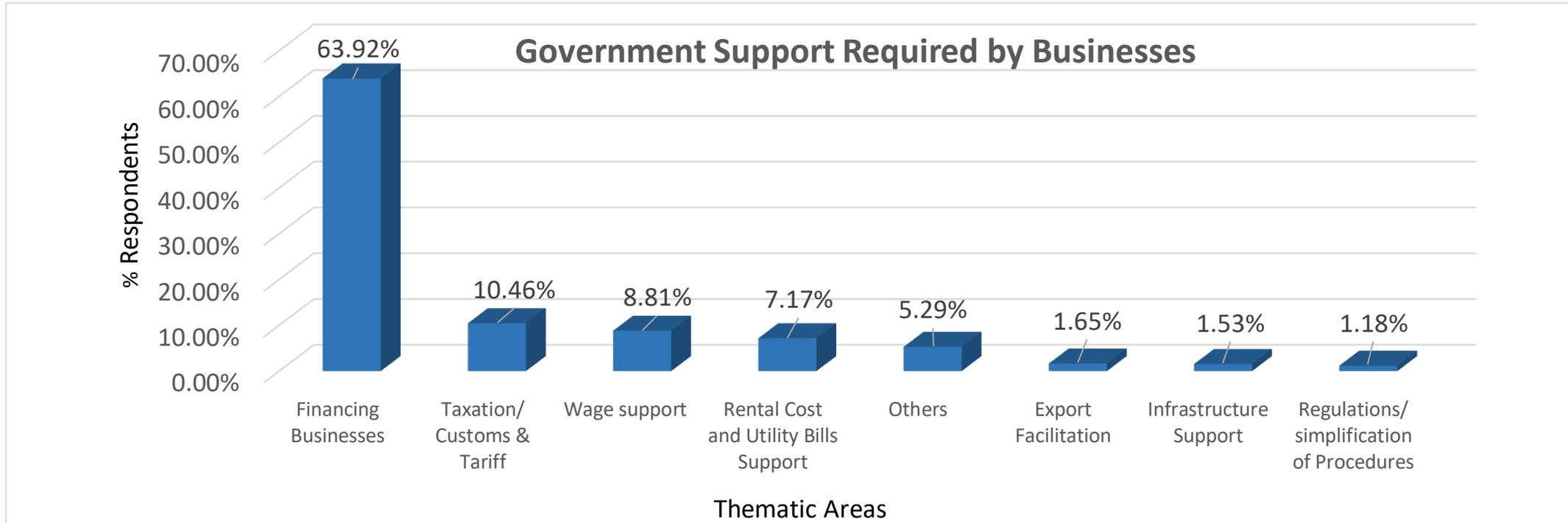
Issues Reported by Enterprises



Enterprises reported multiple issues during Coronavirus outbreak and lock down;

- **89%** of enterprises, out of 920 respondents, have reported Financial issues
- **60%** have reported 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 and so on

# Government Support Required by Businesses



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.

# Impact of COVID-19 on SMEs Survey -February 2021

## Key Findings (Pakistan and Regional Countries\*)



### SMEs with lower sales revenue in first half of 2020 vis-à-vis first half of 2019

<b>Pakistan</b>	<b>81.78%</b>
Region**	77.62%
Best in the Region	Mongolia (68.31%)

### SMEs reporting decrease in permanent employees from end of 2019 to 2020

<b>Pakistan</b>	<b>66.10%</b>
Region	42.54%
Best in the Region	Bangladesh (22.08%)

### Reduction in Production - % of SMEs (One of the measures to maintain business during Covid-19)

<b>Pakistan</b>	<b>33.47%</b>
Region**	36.25%
Best in the Region	Mongolia (12.96%)

### Cash Flow Shortage reported by SMEs

<b>Pakistan</b>	<b>82.2%</b>
Region	79.98%
Best in the Region	Mongolia (68.52%)

### SMEs expecting their total sales revenue to decrease in 2020 vis-à-vis 2019

<b>Pakistan</b>	<b>76.27%</b>
Region	53.78%
Best in the Region	Indonesia (12.5%)

### Significant drop in domestic demand (Feb-Apr 2020)

<b>Pakistan</b>	<b>36.44%</b>
Region	52.07%
Best in the region	Pakistan (36.44%)

\*Regional countries include; Bangladesh, India, Indonesia, Malaysia, Lao PDR, Mongolia and Vietnam. All respondents are SMEs

\*\* Excluding Malaysia and Vietnam

Note: Results pertain to respondents of survey (%age)

# Impact of COVID-19 on SMEs Survey - February 2021

## Key Findings (Pakistan)



	<b>Pakistan (Reported by SMEs)</b>
Major Change in Business Environment	Increased price of materials
Major Action Taken to Maintain Business	Temporarily closed-down business
Top Way of Dealing with Cash Flow Shortage	Collecting debts from customers/ Stopped selling on credit
Top Way of Dealing with Raw Material Shortage	Delaying the delivery of products
Dealing with difficulties in Fulfilling Contracts	Settlement by mutual agreement
Top Way of Dealing with Labour Shortage	Hire more temporary workers
Major Support Required by SMEs	Payment of utilities
Major Government Support Received	Payment of utilities

# Key Findings Pakistan vis-à-vis Regional Countries

## Change in Business Environment



Survey respondents in Pakistan reported **'increase in price of material'** as the major change in business environment during COVID-19. This may be due to lockdown and disrupted supply of imported material. However, other countries in the region reported cash flow shortage and significant drop in domestic demand as the major changes in their business environment.

## Raw material Shortage and ways of dealing with it



In order to deal with raw material shortage, majority of respondents in Pakistan **delayed the delivery of their products**. However, most of the other regional countries reported that they sought new procurement channels to deal with raw material shortage. Thus, Pakistan's response was different in comparison to the regional response.

## Cash Flow Shortage and ways of dealing with it



Majority of respondents in Pakistan reported that they were facing cash flow shortage and dealing with it by **'Collecting debts from customers/ not selling on credit / asking for advance payments,'** while most of the other countries reported that they were dealing with cash flow shortage by obtaining loans from commercial banks.

## Actions Taken by Enterprises to Maintain Business



Among options for maintaining business, half of the respondents in Pakistan reported that they had to **temporarily close-down their business**. However, respondents in Bangladesh, India and Indonesia reported 'reduction in production' as a major step to maintain their business.

## Government Support Provided



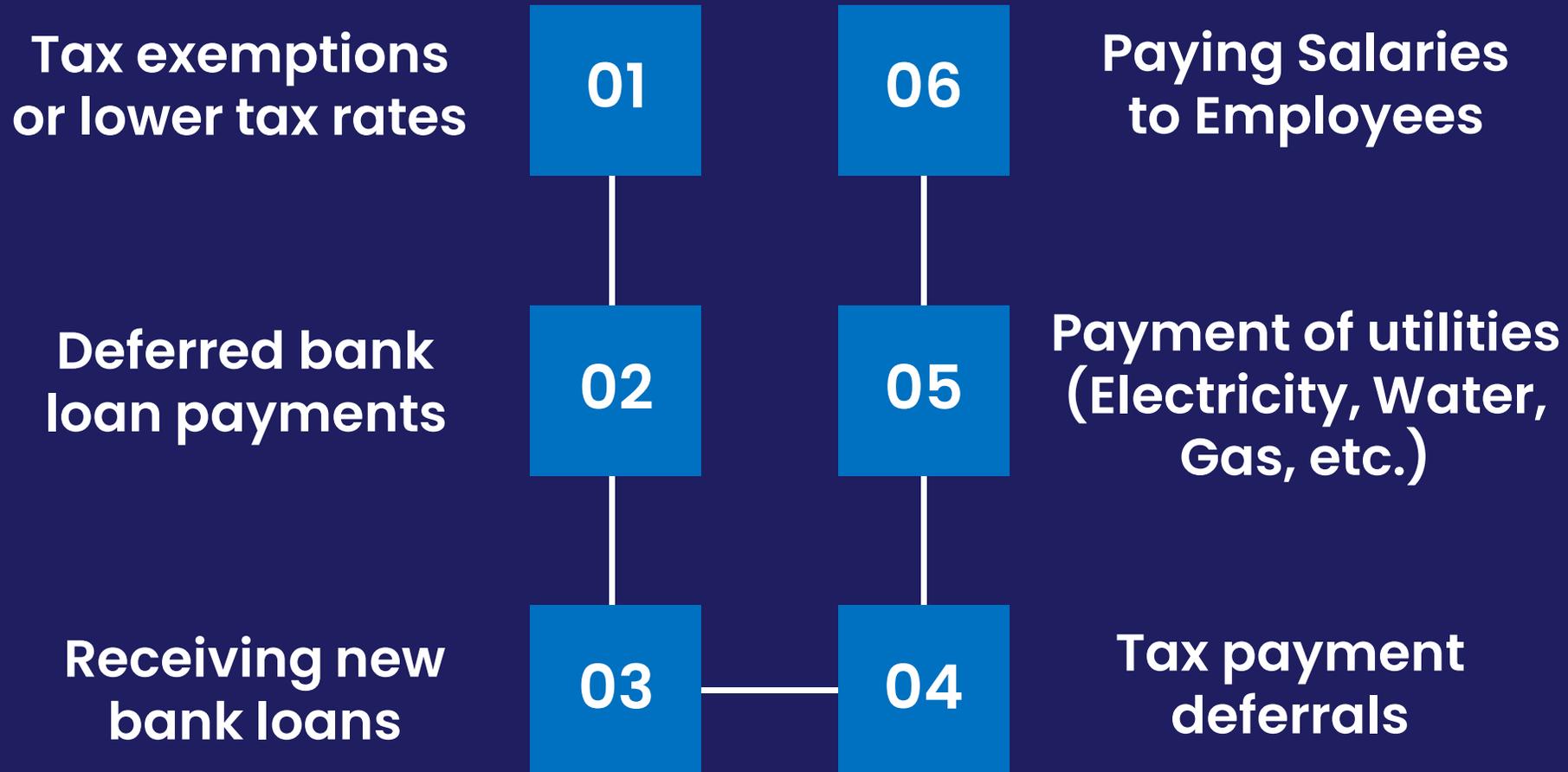
Surveyed enterprises in Pakistan reported that the major support they received during COVID-19 was in the form of **Payment of Utilities (electricity, water, gas, etc.)**. Bangladesh & Indonesia reported deferred payments of bank loans (or loans restructuring) as the major support, while India reported that they received new bank loans.

## Awareness Regarding Government Support Available



Slightly over half of Pakistan's survey respondents reported that they are **aware of government support available during COVID-19..** Government support programs awareness was highest in Bangladesh and it ranked receiving government support at the highest, save Mongolia.

Overall Support Required  
(Ranked)\*



\*Ranking of support required by SMEs in Pakistan, India, Bangladesh, Indonesia, Malaysia, Lao PDR, Mongolia and Vietnam during Covid-19

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

 **53%**

Spent savings to cover living expenses

 **46%**

Borrowed money to cover living expenses

 **36%**

Sold assets to cover living expenses

 **24%**

Temporarily migrated back to original home place

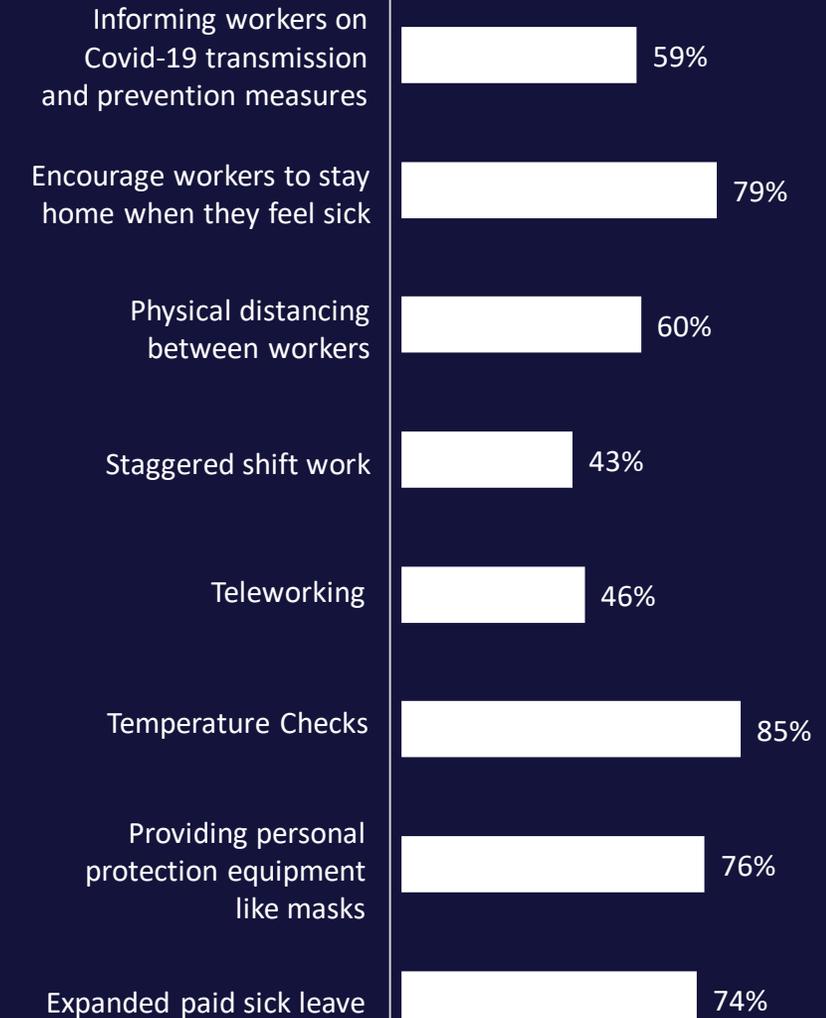
 **31%**

Relied on the help of extended family

 **20%**

Find another job/ earning occupation

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



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

 **40%**

Borrow Money to cover living expenses

 **38%**

Spend savings to cover living expenses

 **35%**

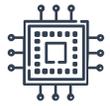
Rely on help of extended family

 **30%**

Sell assets to cover living expenses

 **22%**

Find another job/ earning occupation

 **22%**

Diversify Existing Product

# Government of Pakistan Response to Support for SMEs-COVID 19



## PM's Economic Support Package- 1.2 trillion stimulus package

### Key business support programs included:

- PM's Small Business and Industry Relief Package (through Pre-paid Electricity Bills)
- Financial support to SMEs
- Mazdoor ka Ehssas Program / Daily wager's support program
- Support for the purchase of necessary equipment to deal with the pandemic
- Elimination of import duties on emergency health equipment
- Accelerated tax refunds to the export industry
- Resources for an accelerated procurement of wheat
- Relief in fuel prices
- Support for health and food supplies

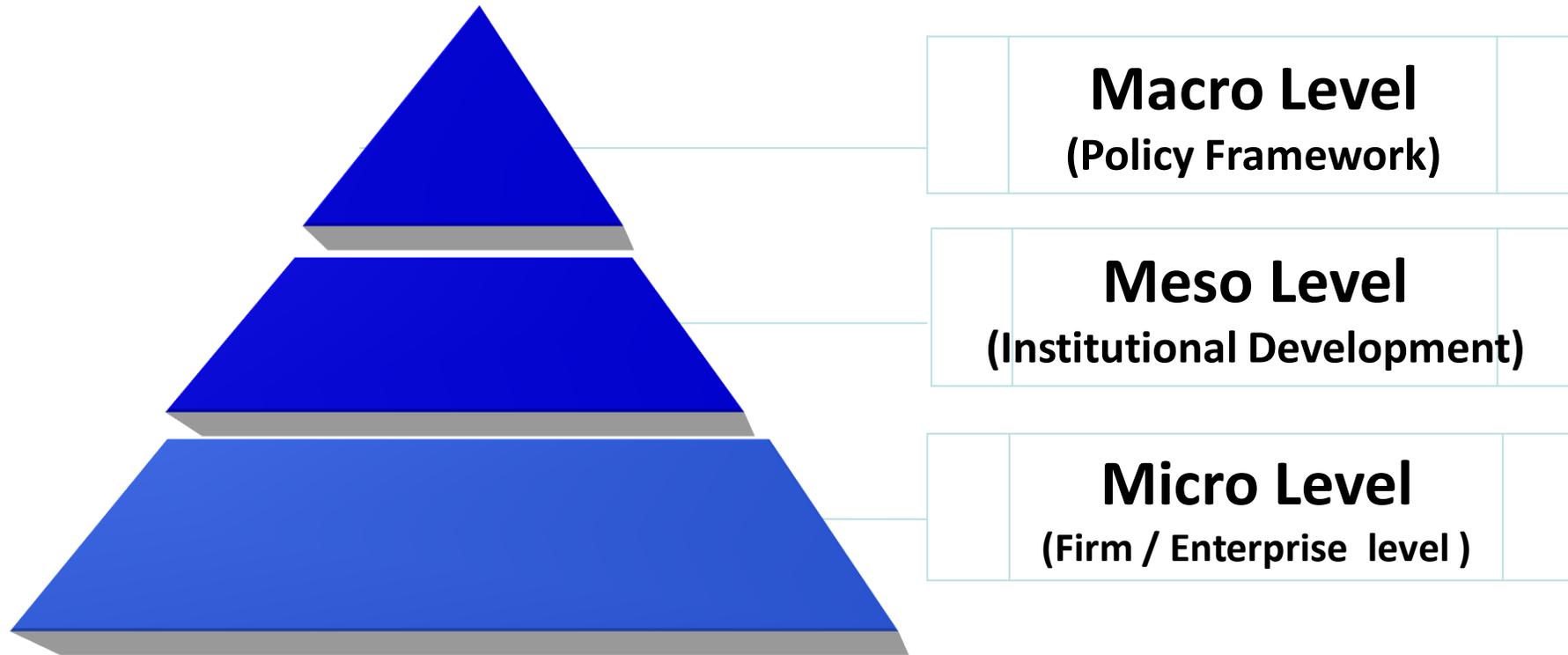
# Government Support for SMEs-COVID 19



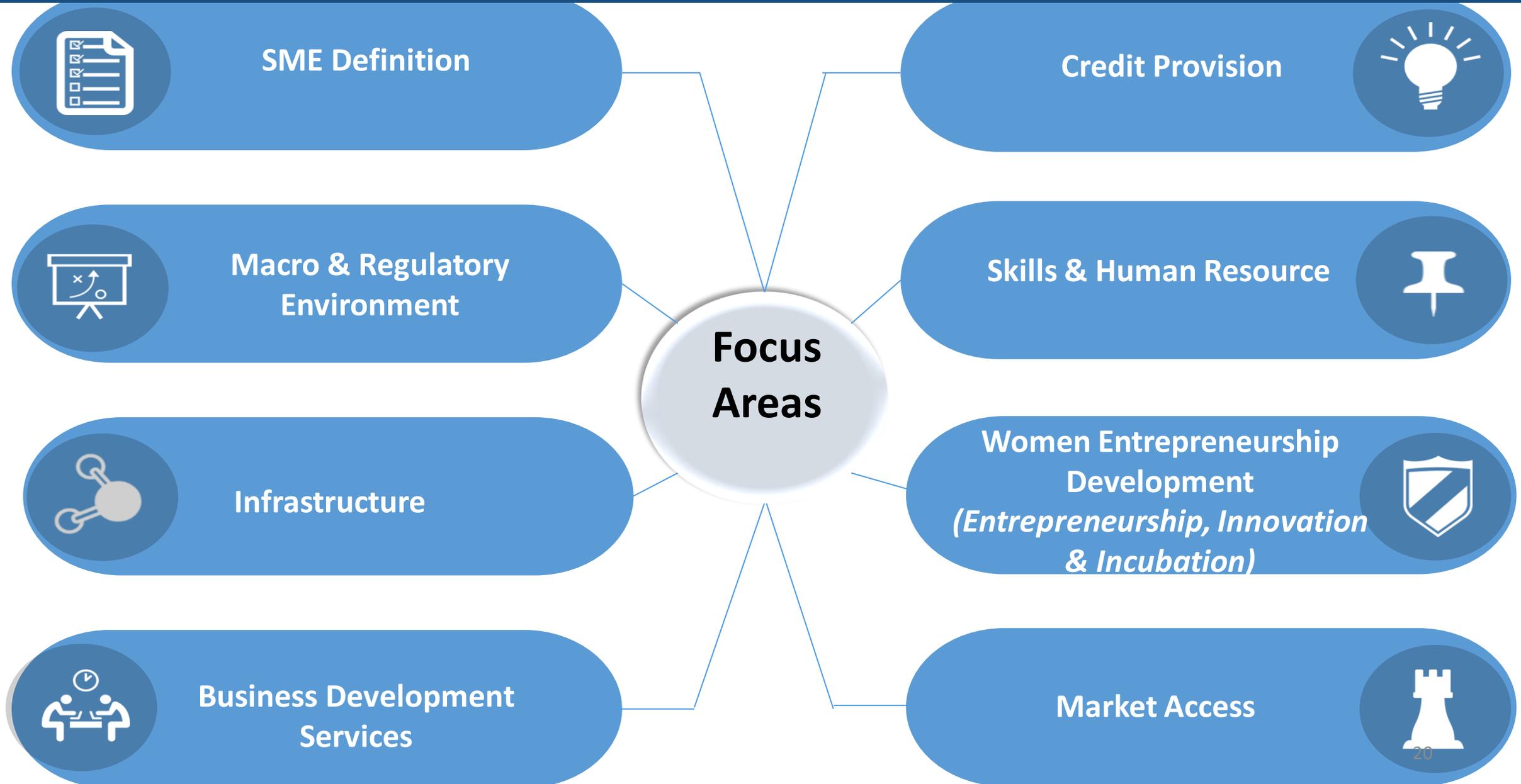
## Key Support Measures - State Bank of Pakistan

- **Temporary Economic Refinancing Facility (TERF)** - PKR 100 billion bank refinancing to stimulate investment in new manufacturing plants and machinery at 7 percent fixed for 10 years
- **Refinance Facility for Combat COVID-19 (RFCC)** – PKR 5 billion to support hospitals and medical centers to purchase equipment to detect, contain and treat COVID-19
- **SBP Rozgar Scheme** to prevent layoff by financing wages and salaries of employees for six months (*April 2020-Sep 2020*)
- Reduced policy rate by a cumulative 625 basis points from 13.25% to 7% (March to June 2020)
- Reduced capital payment of principle on loan obligations deferred for 1 year
- Relaxing credit requirements for exporters & importers and relief for individual borrowers

# Policy Frameworks for SME Development



# Draft National SME Policy 2021-2025



**Thank you**