

IMPACT OF COVID-19 ON SMALL BUSINESSES: MEASURES TAKEN BY GOVERNMENT OF PAKISTAN AND STATE BANK OF PAKISTAN

Hafiza Zaheer Fatima

MS Scholar in Islamic Banking and Finance
School of Business & Economics
University Of Management and Technology, Lahore

Muhammad Waqas Jamil

MS Scholar in Islamic Banking and Finance
School of Business & Economics
University Of Management and Technology, Lahore

Abstract

The purpose of the study is to assess the impact of COVID-19 on the global economy and to identify the real issues being faced by the general public and small businesses during the suspension of economic activities in specific context to Pakistan. The main objective of the study was to explore the measures taken by the Government of Pakistan and the central bank to combat the impact of COVID-19 on economic growth and employment with a special focus to support SMEs through refinancing schemes. The qualitative research method was used to answer the research questions. The relevant documents i.e. research articles, books, web portals of concerned banks and FIs were thoroughly reviewed. To highlight real issues faced by small businesses and common people, interviews were conducted from representatives of SMEs. The findings of the study will certainly be helpful for the government, central bank, and other policymakers to handle the diverse situation prevailing due to the spread of COVID-19 in view to take future measures. The study can also be used as an awareness tool for refinancing schemes introduced by SBP to support businesses and employment while economic hardship. The study revealed that Government of Pakistan and the central bank has taken a range of extraordinary measures to control the impact of COVID-19 on economy. SBP introduced various refinance schemes to fight the impact of COVID-19 on small businesses and approved 232 billion loans for wages and 8 billion loans for hospitals. Moreover, 655 billion loans have been deferred & 200 billion loans were restructured, and 8.8 billion loans have been approved for investment. Similarly, GoP supported 12 million families by providing Rs. 12,000 per family with Rs.144 billion as the total budget. However, GoP and SBP need to revisit

their policies and programmes to make them more accessible for SMEs and common persons.

Keywords: COVID-19, Small Businesses, Government of Pakistan, State Bank of Pakistan

Introduction

At the end of December 2019, some cases of pneumonia were reported in China, and Chinese doctors researched them and concluded that it was a viral disease found in these people. The research has shown that the disease affects the human respiratory system and can be extremely dangerous to humans. Within a few days, the disease gripped the city of Wuhan in China. The coronavirus is one of the main virus that hits the respiratory system of the human. The Chinese researchers titled the virus as 2019-nCoV. On February 11, 2020, the WHO named the pneumonia as COVID-19. Out of China, the disease spread rapidly too many European countries including Spain, Italy, France, the United States, and Pakistan's neighbor, Iran. The number of highest positive cases come across in USA followed by Italy and Spain. This rapid spread caused a massive lockdown around the world.

On February 26, 2020, the Federal Ministry of Health of Pakistan confirmed the first COVID-19 case in Karachi, Sindh and in a few days, COVID-19 cases began to spread rapidly throughout Pakistan. The research revealed that most of the patients of COVID-19 have come to Pakistan after traveling abroad. (Waris & Ali, 2020).

On the 12th of February, the Ministry of National Health Services, Regulation & Coordination Pakistan presented a “National Action Plan for Preparedness & Response to Corona Virus Disease (COVID-19) Pakistan”. The experts said that 30 to 60 percent of the population is at risk of contracting the coronavirus if strict safety and medical measures would not be taken.

The para medical staff still lacks proper tools in Pakistan. The data collected from the Health Ministry shows that 21 medical professionals have passed away of COVID-19 till date. The tests of more than 1904 medical practitioners were positive in which 1035 doctors, 299 nurses, and 570 other healthcare staff was effected. A shocking condition for a country that has a ratio of 38 physicians to 10,000 people and insufficient 120 hospital beds per 10,000. (Khan, 2020).

Research Questions

1. What is the impact of COVID-19 and lockdown on small businesses and the financial condition of common people in Pakistan?

2. What are measures taken by the Government of Pakistan and Central Banks to control the financial crisis at the micro-level?
3. What is the level of effectiveness and utilization of schemes / programs launched by central Bank and GoP?

Research Methodology

The qualitative research design was used for this study. To assess COVID-19 impact on the global & local economy and to point out the measures taken by Governments and FIs to combat the economic situation, the relevant literature i.e. research articles, newspapers, books, reports and web portals of concerned banks and FIs were thoroughly reviewed. Moreover, to investigate the real situation of small businesses whether the support provided by the government and central banks' newly introduced refinance schemes, some SME representatives were interviewed through telephone or email. The collected data were analyzed through content analysis technique.

Impact of COVID-19 on the Global Economy

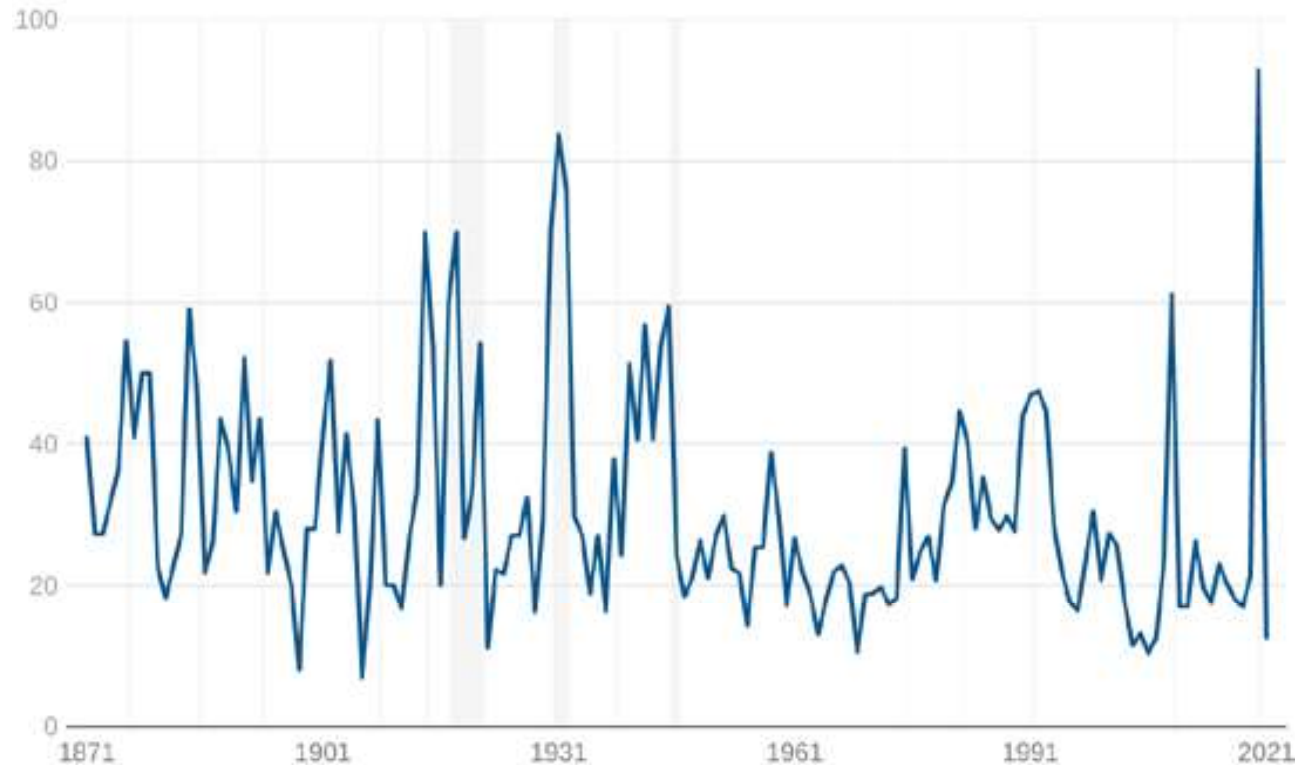
The rapid spread of the corona around the world and the resulting lockdowns have badly affected the global economy. The disaster highlights the need for serious action to mitigate the pandemic's health and economic concerns, protect endangered populations, and set the phase for a durable rescue.

The nations now face many predictions, that create confusions, including the medical crisis, economic insecurity, and the unbalanced prices of the economy. The World Economist Outlook predicted global growth to fall to -3% in 2020. Since January 2020, there has been a major decline of 6.3 percentage points. This has made the current lock-down market worse and dangerous than the major decline and worse than the 2009 global financial disaster. The deficit was down 71 percent to US\$3.3 billion, which is 1.5 percent of the total household output during fiscal 2020, from US\$11.4 billion last year, or 4.8 percent of GDP. The exports declined 2.4 percent to \$19.6 billion, from \$20.1 billion last year. The imports dropped 16.9 percent to \$36.1 billion, from \$43.3 billion last year. As a result, the trade deficit was reduced by 29.5 percent to \$16.4 billion. The foreign depositors have drawn \$83 billion from developing markets since the beginning of the disaster, as per the reports of the Institute of International Finance. (Khan, 2020).

Every region lacks significant development. East Asia and the Pacific Ocean will fall by 0.5 percent. South Asia will have 2.7 percent, sub-Saharan Africa 2.8 percent, Middle East and North Africa 4.2 percent, Europe and Central Asia 4.7 percent, and Latin America 7.2 percent.

Most countries are expected to face recessions in 2020

Share of economies in recession, 1871-2021



The proportion of economies with an annual contraction in per capita GDP. Shaded areas refer to global recessions. Data for 2020-21 are forecasts.

Source: World Bank

Impact of COVID-19 on Pakistan's Economy

COVID-19 has put Pakistan in danger on both sides. While the world's major economic powers and stable countries were taking the path of complete lockdown to deal with the disease, how could it be possible for an economically weak and developing country like Pakistan to deal with the disease without resorting to lockdown?

On the other hand, if a complete lockdown were imposed, the country's economy would be ruined and the most affected section would be those living below the poverty line.(Younas, 2020). The Corona virus and the resulting lockdown have dealt a severe blow to the country's economy. Earlier, when Pakistan's economy was suffering from many threats and problems, the coronavirus and lockdown have brought the country's economy to the brink of bankruptcy. The people of Pakistan have been suffering from severe problems

and difficulties due to the closure of business life in the major cities of the country.

The Prime Minister of Pakistan Imran Khan has also said that the implementation of a complete and full-fledged lockdown in-country is not a practicable and feasible solution because 25 percent of the population of Pakistan lives below the poverty line. The complete lockdown would make their lives depressed and miserable. The virus has destroyed the stock market's achievements. The Federal Secretary of commerce said that export orders had got canceled and it would expand the export loss to the range of \$2 billion to \$4 billion.(*Shfaqat, 2020*).

As per the reports of the Asian Development Bank, Pakistan's economy would lose around US\$ 16 million in the best-case scenario and around US\$ 61 million in the worst-case scenario. In the case of a significant epidemic of COVID-19, the loss would volume to approximately US\$ 5 billion, the GDP would be squeezed by 1.57 percent, and nearly a million people would lose their jobs(*Rana, 2020*).

According to the reports of the Pakistan Institute of Development Economics (PIDE), the current economic crisis could increase the poverty rate in Pakistan from 23.4% to 59%, pushing 130 million people below the poverty line.

According to a survey conducted by IPSOS, 51% of people are at very serious risk of losing their jobs in the next six months. And what is even more troubling is that thousands of Pakistanis who work abroad are also returning to Pakistan because of this economic crisis and their burden is falling on Pakistan's weak economy. The small and medium businesses are also experienced hardships, especially the small traders. Concluding from this and adjusting for 2020, the economy would lose at least PKR 100 billion a day, which is recommended by the estimates made in early April, i.e. a loss of PKR 2.5 trillion. The main commercial centers in Rawalpindi, small businesses are losing over PKR 600 million daily.

Measures Taken by Government of Pakistan and State Bank of Pakistan in COVID-19

COVID-19 outbreak has been changing human life globally and staining the world economy due to the pause of economic activities and restricting the movement of people. Pakistan, as a developing country, affected badly and the unemployment during the COVID-19 crisis pushed to poverty and hunger. Similarly, various businesses and sectors i.e. tourism, stock exchange, manufacturing, restaurants, and entertainment are the worst hit. To minimize the economic impact, the governments of affected countries are taking different

measures by supporting the businesses and avoid economic damage. Pakistan is no exception as well. (*Javed, 2020*).

In this prevailing situation, to provide financial assistance to the vulnerable community (labors, daily wagers, and poor families), the “Ehsaas Emergency Cash” program has been launched by the Prime Minister of Pakistan since April 1, 2020. The prime objective of this program is to support them buy rations so that they don’t go hungry during amid the COVID-19 prevailing situation. Under this program, 12 million families are covered. The amount of 12,000 per family and Rs.144 billion as the total budget has been allocated for the purpose.

For the awareness of the program at large, a media campaign was launched. The eligible families, after verification from NADRA, were intimated through SMS. The Cash Cell Centers were established in various cities of the country for the distribution of cash among deserving persons. On the other hand, the Cash Emergency information portal, web portal, and helpline were developed to facilitate the general public. (*Retrieved from Government of Pakistan website on June 27, 2020*).

Sharif, S. (2020) discussed the major steps taken by the central bank to combat the prevailing situation due to amid the COVID-19 pandemic outbreak. The central bank announced Government Relief Package and likely allocation of loans with internal or external incentives for the banking industry in the provision of additional loans to potentially distressed businesses and households, even if the borrowers might not be economically viable and the loans are unlikely to be profitable to the lender. The study also investigated the realization and performance of commercial banks in the implementation of such relief packages. The financial intermediaries are not allowed under this package to extend additional financing to distressed businesses and prevent the desired restructuring of non financial companies. Anyhow, ever-greening of loans in Pakistan during pandemic could have insulated many distressed businesses from market forces and may have inhibited a bank capital crunch; that the behavior, nonetheless, has not been observed.

State Bank of Pakistan (SBP) being the central bank is taking different measures to combat the challenges related to the current situation ensuring that inflation remains controlled, mitigating the impact of COVID-19 on economic growth and services. In this context, the following policy measures have been taken by SBP:

Refinance Scheme to Support Employment and Prevent Layoff of Workers

To control the impact of COVID-19 and to help the businesses in payment of wages and salaries to their workers and employees and thereby support

continued employment in this challenging environment, the State Bank of Pakistan (SBP) has introduced a temporary refinance scheme to support employment and prevent unemployment of workers, commonly known as 'Rozgar Scheme'. This scheme has introduced especially for the payment of wages and salaries to the workers and employees of the business concerns. This Scheme is expected to comfort the cash flow restrictions of the employers and avoid unemployment. Furthermore, SBP with funding support from the Government of Pakistan has also introduced a Risk Sharing Facility (RSF) which has become effective from May 6, 2020. Under RSF, the Federal Government will bear a 40% first loss on the principal portion of the distributed loan portfolio of the banks. This scheme has covered all types of workers and employees like the permanent, contractual, daily wagers as well as outsourced workers and it was available to existing as well as new debtors of banks and DFIs. The businesses have been placed in two classes based on three months wage bill:

- Up to Rs500 million; and
- Above Rs500 million.

The loan limits in each category will be

- 100% of the wage bill to a maximum of Rs500 million;
- Rs.500 million or 75% of three-month wage bill, whichever is higher to a maximum of Rs.1000 million.

The end rate that will be charged from the debtors will be up to 5% p.a. The debtors that are on the active taxpayers list under the Income Tax Ordinance, 2001 will be charged an interest rate of 3% (SBP refinance rate/service charges have been reduced to 0%). Since the implementation of this scheme, 113 billion loans have been approved and disbursed to businesses concerned for wages. It is expected that the employment of over 500,000 workers will be secured through this scheme.

Relief package extended to borrowers availing loans under Refinance Schemes

The existing borrowers of SBP schemes can take advantage of deferment of principal amount for one year while continue servicing markup. There will be an opportunity for them to apply for rescheduling/restructuring if they are not capable of provision mark-up payment. Since the implementation of this refinance scheme, the loans amounting to Rs.543 billion have been deferred and 94 billion have been restructured for the facilitation of businesses to reduce the impact of economic hardship.

Following refinance schemes are eligible for deferment of principal:

- Long Term Financing Facility (LTFF)

- Financing Facility for Storage of Agricultural Produce (FFSAP)
- Refinance Facility for Modernization of SMEs
- Refinance and Credit Guarantee Scheme for Women Entrepreneurs
- Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises
- Small Enterprise (SE) Financing and Credit Guarantee Scheme for Special Persons.

Supporting the Health Sector to Combat the Virus

The State Bank of Pakistan (SBP) has introduced temporary emergency support for hospitals & medical centers by giving a refinance facility to evolve a capacity for the treatment of infected patients of COVID19 and to control the impact of COVID-19. All the registered hospitals and medical centers with respective provincial/federal agencies/commissions can take long-term finance facilities for the purchase of new imported and locally produced medical equipment as well as existing/ refurbished equipment to be used for combating COVID-19. The loans amounting to Rs.6 billion have been approved for hospitals under this scheme.

Temporary Economic Refinance Facility (TERF)

The State Bank of Pakistan (SBP) has introduced the Temporary Economic Refinance Facility (TERF) to support maintainable economic growth especially in the background of challenges being faced by the industry after the pandemic scenario. The facility will provide refinance for setting up new industrial units and modernize or expand existing projects/ businesses on a concessionary basis. This facility will be available through banks/DFIs to all sectors across the board. Under this scheme, 8.8 billion loans have been approved for investment.

Relaxations to Exporters under Export Finance Scheme (EFS)

Keeping in view the prevailing circumstances in the background of challenges being faced by the export sector in the post-COVID-19 scenario, the following relief is being provided to customers under EFS/IERS and LTFF/ILTFF)

Relaxation in a matching amount

It was mandatory for exporters to export twice the amount of borrowed funds. SBP has given the concession to exporters and reduced the performance requirement from twice to one-and-a-half times that will be effective for the present year as well as for 2021.

Extension in the period to meet performance requirements

It was mandatory for exporters to show performance under the EFS schemes by end-June 2020. SBP has extended this period by 6 months to end Dec. 2020.

Extension in the period to ship goods

Exporters that are availing of the subsidized credit schemes were required to ship their goods within 6 months of availing credit under EFS. SBP has extended this period from six to twelve months.

Relaxation in conditions for Long Term Financing Facility

The exporters who want to avail credit under Long Term Financing Facility (LTFF), the eligibility limit has been reduced from exports worth 50 % to 40 % or from USD 5 million to USD 4 million for all the debts under LTFF during January 01 to September 30, 2020. Moreover, the obligation of annual projected export performance for four years to avail LTFF for new or BMR projects has also been prolonged by another one year. Eventually, the projected export performance will be measured in 5 years.

Islamic Mode of Refinance Schemes

The Islamic banks are playing a vital role in the financial industry particularly in fighting COVID-19 spread and to combat its impact on the economy. Due of the above, the Islamic modes of following refinance schemes have been introduced.

- Islamic Refinance Facility for Combating COVID-19 (RFCC)
- Islamic Refinance Scheme for Payment of Wages & Salaries
- Islamic Temporary Economic Refinance Facility (ITERF)

Ensuring the Availability and Continuity of Financial Services

SBP insured the continuous financial services for the general public without any interruption by advising Banks/DFIs/MFBs to adopt the precautionary measures to fight the spread of COVID-19 i.e. awareness creation, implementation of WHO instructions, encouraging customers for ACDs and Business Continuity Plans (BCP) in this situation, monitoring key risk areas like credit, capital market, etc. and availability of NIFT, 1 Link, and CDC services. While the pandemic COVID-19 outbreak, SBP ensured that 93% of bank branches remained open. Meanwhile, 95% ATM or 1 Link were operational observing the SOPs for the facilitation of the general public during the COVID-19 situation.

SBP Cuts Policy Rate by 625 bps to 7%

Observing the inflation outlook and economic slowdown, SBP has also reduced the policy rate by 625 bps to 7% since 17 March 2020. In this scenario, SBP remained committed to support households and businesses through the COVID-19 crisis and lessening the destruction to the economy. Pakistan is the only country in the world wherein the policy rate by 625 bps has been reducing from 13% to 7% lower.

Data Analysis

General Perception/Implimentation

Various interviews were conducted with small businessmen to evaluate the impact of the COVID-19 on their businesses. The questions were related to the impact of COVID-19 and the effects of the steps taken by the Government of Pakistan and SBP. The analysis of the collected data is given below:

- Regarding the impact of COVID-19 on small businesses, most of the people argued that their businesses were severely affected (N-6).
- Different phases of lockdown has created uncertainty in the business and they lost their loyal customers as well (N-5).
- In the smart lockdown in different areas, the working hours were very short. They could not have sufficient time for proper sale and purchase (N-4).
- Small businessmen were badly effected and many of them lost their capitals in the loans and in running expenses (N-5).
- The scheme of 12000 was a good initiative but unfortunately the way of distribution of money was not appropriate and people faced a lot of mismanagement throughout this process (N-6).
- Steps taken by the Government of Pakistan were beneficial but were not sufficient (N-5).
- The contribution of private sectors and different welfare trusts was very appreciable as they helped people with their basic needs as well as in small businesses(N-4).
- Due to the closure of various bank branches, people faced difficulties in availing the banking facilities, there were long cues in front of open branches and the SOPs were negligible outside the banks (N-5).
- Many businessmen could not avail the loans and other facilities provided by SBP. It happened due to a lack of awareness about these facilities or

some of them could not meet the criteria for obtaining these facilities (N-4).

Conclusion

The government and the central bank have taken a range of extraordinary measures to combat the impact of COVID-19 on the economy. For the safety of the public and to provide financial support especially to SMEs in view to prevent unemployment and sustainable economic growth, SBP has introduced various refinance schemes. As of June 19, SBP has approved 232 billion loans under the Rozgar scheme, 655 billion loans have been deferred along with 200 billion loans restructured to those businesses who were unable to service mark-up payment. To support and boost health structure, 8 billion loans have been disbursed for hospitals for the provision of the best possible health facilities to COVID-19 patients and 141 billion loans have been disbursed for investment. During the coronavirus crisis, SBP ensured the continuity of financial services through banks and FIs with 93% bank branches and 95% ATMs remained open for the facilitation of the general public.

The major step taken by SBP to reducing the policy rate by 625 bps to 7% since 17 march 2020 to minimize the damage of the economy. SBP with funding support from the Government of Pakistan also provided Risk Sharing Facility (RSF) which became effective from May 6, 2020. Under RSF, the Federal Government will bear a 60% first loss on the principal portion of the disbursed loan portfolio of the banks. Although the Government of Pakistan and SBP has worked tirelessly to facilitate general public throughout this pandemic era but some policies still need to be reviewed.

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