



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



IMPACT ASSESSMENT OF COVID-19 ON PAKISTAN'S MANUFACTURING FIRMS

SURVEY RESULTS MAY-JUNE

Acknowledgments

This report was produced by the UNIDO Field Office in Pakistan with the support and technical assistance of UNIDO's Policy Research and Statistics Department and the Asia and the Pacific Regional Coordination Division. Special thanks go to all ministries and associations that supported the implementation of the survey as well as to the respondents from the private sector, including micro, small, medium and large enterprises, who dedicated valuable time during this pandemic to contribute to the survey.

Disclaimer

This report provides information about a situation that is rapidly evolving. As the circumstances and impacts of the COVID-19 pandemic are continuously changing, the interpretation of the information presented here may also have to be adjusted in terms of relevance, accuracy and completeness.

Key Findings

- i) The negative impact of COVID-19 on SMEs has been observed without exception, however, the density of the impact has varied across sectors, sub-sectors, business types and firm size. At the highest level of segregation, the numbers show that agriculture was the least impacted with losses in revenue of between 10 per cent and 15 per cent; manufacturing lost revenue anywhere between 30 per cent and 50 per cent and services lost between 50 per cent and 70 per cent in revenues compared to previous years.
- ii) More specifically, the survey shows **that 90 per cent of all firms reported a negative impact on revenue** due to COVID-19, while only 2 per cent reported an increase. Similarly, medium-sized firms, non-GVC exporting firms (these are also mostly medium sized) and those with medium low-technology production lines were hit harder than large or extremely small businesses. Exporters and GVC-linked firms expect a continued slow down due to their dependence on global economies stabilizing and recovering from the pandemic. Women-led firms also experienced the strongest impact, with many small manufacturing firms being shut down completely during the lockdown period. Consequently, more than 50 per cent of firms expect layoffs, with medium firms reporting the highest expected layoffs.
- iii) The government's lockdown measures had a universal impact, with over 80 per cent of firms reporting to have been directly impacted. It is important to highlight that the government never ordered a complete lockdown for the entire country, and essential sectors such as food, agriculture-related, pharmaceuticals or those with urgent active export orders were given special permission to remain operational. This meant that some of the connected industries also remained operational, for example, the packaging industry remained open because the food industry relies on it.
- iv) **Demand reduction has been one of the biggest impacts** on firms. A reduction in orders has led to decreased revenue flows. Additionally, most firms operate on a cash credit cycle with vendors and distributors; the sudden lockdown has disrupted the cash credit cycle, leaving many firms absolutely dry. While firms have tried to obtain additional loans to compensate for cashflow shortages, difficulties in obtaining loans have exacerbated the situation. Cutting operational costs is another option firms have chosen. In addition, they are concerned about payments to employees and social security contributions that continued despite the lockdown. They are also concerned about the repayment of loans to commercial banks.

- v) **The shortage of inputs**, including raw materials, is also reported to be **a serious problem** for firms, one of the consequences of the lockdown and other restrictions related to the pandemic. The containment measures have led to supply chain disruptions due to international border closures and restrictions to domestic movement. Interestingly, we find that regardless of global value chain (GVC) involvement, domestic upstream and downstream firms have faced nearly the same level of input shortages. This could imply that firms source raw materials both from abroad and from within the country. For example, lentils imported from Australia, palm oil from Malaysia and medicinal inputs from Italy were all impacted.
- vi) Extended containment measures such as restriction of movement worsen firms' prospects. **The majority of small-size firms and 44 per cent of domestic downstream firms expect to have to close down in less than three months should the containment measures be extended for a longer period.**
- vii) The majority of firms across all sizes and types were able to easily meet the new safety measures and standard operating procedures (SOPs) introduced by the government. It must, however, be noted that firms have a bias towards reporting ease of meeting government standards of compliance, as they feel this might impact the decision on extending the lockdown and lead to more stringent enforcements and inspections.
- viii) In addition to the quantitative survey, UNIDO Pakistan has been closely associated with the surgical, garments, auto parts and footwear industries in Punjab Province under its cluster development programme, which is being implemented in cooperation with the government.
- ix) The pandemic has potentially affected the targets of Sustainable Development Goal-9 on inclusive and sustainable industrial development (ISID), particularly those targets related to SDG-9, namely industry, innovation and infrastructure, i.e. specifically **Targets 9.2, 9.3 and 9.4, while Target 9.b could remain stagnant.**

Recommended policy options include **job retention programmes, an extended period of tax exemption and loan deferrals, and tailored support programmes for micro and small firms.** Applying UNIDO's expertise in **industrial development facility, manufacturing repurposing and adoption of the 4th Industrial Revolution (4IR)** is also recommended. However, the priority is to increase the predictability of government policy, build confidence in the economy and stimulate demand and production.

Table of Contents

| | | |
|-----|---|----|
| 1 | Introduction | 1 |
| 2 | Method and data | 2 |
| 2.1 | Online survey | 2 |
| 2.2 | Typology of firms..... | 3 |
| 2.3 | Respondent firms by type..... | 5 |
| 3 | Findings and analysis | 6 |
| 3.1 | Current impact of COVID-19..... | 6 |
| 3.2 | Expected impact of COVID-19 | 10 |
| 3.3 | Dealing with COVID-19 | 15 |
| 4 | Discussion | 23 |
| 4.1 | Inclusive and sustainable industrial development (ISID) – Sustainable Development Goal 9 | 23 |
| 5 | Policy recommendations | 24 |
| 5.1 | Immediate or short-term measures | 24 |
| 5.2 | Short- to -medium-term measures | 25 |
| 5.3 | Medium- to long-term measures | 26 |
| | References | 28 |
| | Annex 1: Questionnaire..... | 29 |

1 Introduction

The COVID-19 pandemic has buffeted economies and economic sectors across the globe without exception, with estimates that global GDP will contract by 5.2 per cent and the WTO predicting a decrease in global trade of up to 40 per cent. Pakistan's situation does not differ, considering the country already had a weakened economy as reflected in its poor macro-economic indicators and low compliance with IMF conditionalities. The outbreak of the pandemic has been an additional shock, slashing Pakistan's expected GDP growth down to -0.38 per cent in 2020. This figure compared to the original estimation of around 3 per cent GDP growth suggests that Pakistan's economy will shrink by nearly 9 per cent in the last quarter of 2020, resulting in unemployment of 3-4 million people.

A nationwide lockdown was imposed in Pakistan in mid-April. In addition, the state closed all shops, restaurants and malls, including fitness and sport and leisure facilities. The government also encouraged people to stay home to contain the spread of COVID-19. The containment measures have been slightly eased since June. Shops, restaurants and malls have reopened with the condition of having to adhere to the COVID-19 SOP and the new opening times from 9:00 a.m. to 7:00 p.m.; all markets must remain closed on Saturday and Sunday. Certain businesses that provide essential commodities such as pharmacies, hospitals, etc. were exceptions. The public is advised to wear face masks at all times when moving outside of their residence.

The COVID-19 pandemic is unprecedented and its impacts are looming large. According to the United Nations Pakistan's '**COVID-19 Socio-economic Impact Assessment and Response**' report, the pandemic caused a deep contraction of the manufacturing sector in the first quarter of 2020. All three key sectors, i.e. agriculture, industry and services, experienced economic losses during the first quarter of 2020. The pandemic has impacted the sectors unequally, however; the services sector has been hit the hardest, followed by the manufacturing and the agriculture sector. Within the services sector, entertainment, hospitality, tourism and logistics have all suffered substantial losses in revenue. Construction activities slowed down considerably in the first quarter of 2020, while the reduction in tourism negatively impacted accommodation and food service activities, especially in the northern regions of Pakistan.

UNIDO aims to investigate these sectors in more detail, in particular the manufacturing sector, and identify the impacts of the pandemic on firms, how they have been coping with the crisis, and the types of support they have received so far. Additionally, we discuss to what extent these impacts have affected the country's progress towards inclusive and sustainable industrial development as embedded in Sustainable Development Goal (SDG) 9 to build resilient

infrastructure, promote inclusive and sustainable industrialization and foster innovation. Lastly, we offer some policy recommendations.

Small- and medium-sized garments manufacturing firms witnessed a reduction in export orders or shut down completely, resulting in a loss of revenue and employment. Similarly, the surgical industry is 100 per cent dependent on exports – the havoc the pandemic has created in Pakistan’s most relevant export markets means buyers were closed down and shipments either delayed or halted altogether. The sector is also dependent on imported steel; the lockdown and general slowdown has disrupted the supply of inputs. Moreover, firms reported that excessive costs have been incurred due to demurrage as shipments could not be cleared. Finally, the auto parts industry experienced an extremely high demand shock as the economic slowdown has substantially reduced the sales of both new and used vehicles. The two auto giants in Pakistan, Honda and Toyota, recorded historic lows in sales and their production has come to an absolute standstill for months. This has had a trickle-down effect on auto parts manufacturers. The lockdown has also reduced vehicle usage, thus decreasing demand for repair and for auto parts. There were hardly any accidents reported in Lahore during the lockdown period, for example. The major wholesale markets such as ‘Badami Bagh’ and others were also closed, resulting in a collapse of sales and pushing millions out of employment.

This micro-level impact assessment serves as a baseline for UNIDO’s global assessment, which will be carried out at a later stage. UNIDO (the Department of Policy Research and Statistics together with the Country Office in Pakistan) has conducted similar assessments in other countries in Asia including Cambodia, Lao PDR, Malaysia, Mongolia, Thailand and Viet Nam. As part of its global assessment, UNIDO plans to conduct a similar exercise in these countries in coming months to investigate the development of the impacts and their situations over time.

2 Method and data

2.1 Online survey

UNIDO launched an online survey for data collection from 15 April to 15 May 2020. In collaboration with the Ministry of Industry and Production, Small and Medium Enterprise Development Authority (SMEDA) and UNIDO’s networks in Pakistan (such as project partners and firms participating in UNIDO projects, Chambers of Commerce and Industry, etc.), the online survey was circulated to firms nationwide. Due to the unusual circumstances, the response rate to the questionnaire was not as high as expected.

The survey questionnaire was designed by UNIDO's Department of Policy Research and Statistics and the Country Office in Pakistan based on the questionnaire on the Resilience of Micro, Small and Medium Enterprises under COVID-19. The questionnaire contained 24 questions consisting of four parts: i) current impact of COVID-19; ii) expected impacts of COVID-19; iii) dealing with COVID-19, including government support, and iv) general information about respondent firms.

2.2 Typology of firms

In our analysis, we separate the information into three categories:

- i) Firm size. Based on the definitions established by the SMEDA, SBP and FBR, our analysis classifies firms into small, medium and large.¹
- ii) Engagement in global value chains (GVCs). We distinguish three types: GVC firms, domestic upstream and domestic downstream firms. "GVC firms" refers to firms that fall into one of following categories:

- Producing intermediate inputs and selling a large share to foreign customers or domestically located MNCs.
- Subsidiaries of MNCs with a large share of exports and/or imports.
- Two-way traders.

"Domestic upstream" firms refers to non-GVC firms that sell intermediate goods, whereas "domestic downstream" firms are non-GVC firms that sell finished goods.

- iii) Firms' level of technology. We group firms into: i) low-tech; ii) medium- to low-tech, and iii) medium- to high- and high-tech firms. Table 1 presents manufacturing industries and their level of technology.

¹ We use the universal definition of SMEs. Small firms are those with less than 50 employees. Medium firms are those with between 50 and 250 employees, and large firms have more than 250 employees.

Table 1 Manufacturing industries and technology groups

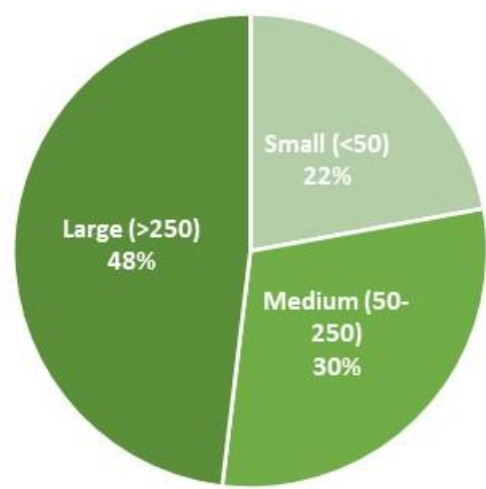
| ISIC full description | Abbreviation used in this report | ISIC code Revision 3 | Technology group |
|---|------------------------------------|----------------------|------------------|
| Food and beverages | Food and beverages | 15 | Low tech |
| Tobacco products | Tobacco | 16 | Low tech |
| Textiles | Textiles | 17 | Low tech |
| Wearing apparel, and fur & leather products, and footwear | Wearing apparel | 18 & 19 | Low tech |
| Wood products (excluding furniture) | Wood products | 20 | Low tech |
| Paper and paper products | Paper | 21 | Low tech |
| Printing and publishing | Printing and publishing | 22 | Low tech |
| Furniture; manufacturing n.e.c. | Furniture, n.e.c. | 36 | Low tech |
| Coke, refined petroleum products, and nuclear fuel | Coke and refined petroleum | 23 | Low/medium tech |
| Rubber and plastic products | Rubber and plastic | 25 | Low/medium tech |
| Non-metallic mineral products | Non-metallic minerals | 26 | Low/medium tech |
| Basic metals | Basic metals | 27 | Low/medium tech |
| Fabricated metal products | Fabricated metals | 28 | Low/medium tech |
| Chemicals and chemical products | Chemicals | 24 | Medium/high tech |
| Machinery and equipment n.e.c. & office, accounting, computing machinery | Machinery and equipment | 29 & 30 | Medium/high tech |
| Electrical machinery and apparatus & radio, television, and communication equipment | Electrical machinery and apparatus | 31 & 32 | Medium/high tech |
| Medical, precision and optical instruments | Precision instruments | 33 | Medium/high tech |
| Motor vehicles, trailers, semi-trailers & other transport equipment | Motor vehicles | 34 & 35 | Medium/high tech |

n.e.c. = not elsewhere classified.

Source: UNIDO Industrial Statistics Database

Around 132 firms responded to the online survey, with 118 firms providing complete information that was used for analysis. Of the 132 firms, 22 per cent were small firms, 30 per cent were medium and 48 per cent were large firms. The answers to some questions were not quantifiable. We only included valid responses that could be quantified and excluded those that could not be quantified, such as “don't know” or “too early to state”. The response rate is lower for those questions than the sample size of 132 firms. The response rate for such questions is specifically mentioned.

Figure 1 Responses by firm size



2.3 Respondent firms by type

The majority of responses (41 per cent) were provided by domestic firms engaged in global value chains. Exporting firms accounted for 25 per cent and GVC firms for 34 per cent. Figure 1 presents the data by firm type.

Figure 2 Responses by firm type



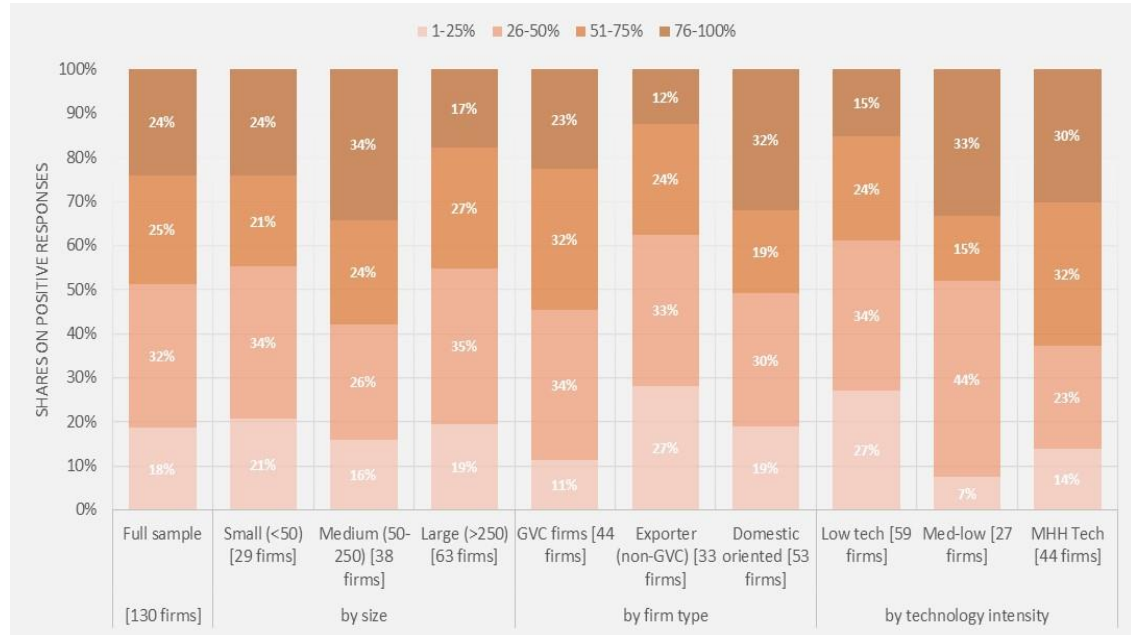
3 Findings and analysis

3.1 Current impact of COVID-19

a. Employees unable to work [Q.1]

Fifty per cent of respondent firms reported that more than half of their employees were unable to come to work; the situation was worst for GVC firms.

Figure 3 Employees unable to work



There are several reasons presenting workers from returning to work. For example, in Sialkot, the majority of workers are piece rate workers and when the lockdown was imposed, these workers left for their villages and may have gotten involved in agriculture and farm-related work. As transport has remained closed as well, these workers had difficulties returning to their original places of work. Moreover, due to uncertain income streams in an urban setting, the workers prefer to remain in rural areas, where the living cost is low and some earnings are possible.

b) Main financial problems

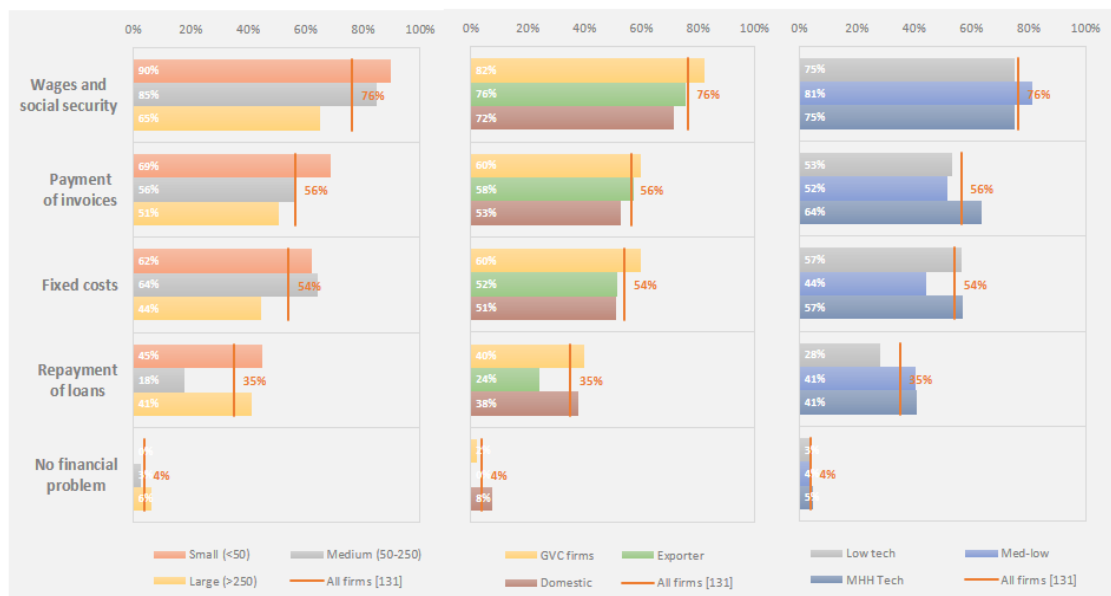
Payment of wages is the main challenge across firms

The government's lockdown decision severely disrupted firms' cash cycles and resulted in liquidity problems. This caused financial distress for the majority of firms, which faced difficulties meeting all of their regular payments. The most regular payment are workers' salaries and the corresponding employee's old age benefit institution (EOBI) and social security payments. Firms complained that they have been penalized rather than rewarded for retaining their workers (i.e. they have had to continue paying social security and EOBI contributions). This

created undue pressure on firms that are facing tough circumstances. The payment of invoices posed a problem as well, because firms were unable to realize their receivables due to disruptions in the cash credit cycles. Payments were stuck across all supply chains. Firms that rely on imported inputs are facing maximum losses, for example, importers of raw materials for plastic were hit particularly hard, because their funds were stuck in the market and shipments that landed at ports were accumulating demurrage while the price of materials dropped by more than half due to reductions in prices related to petroleum products.

Fixed costs, including rent, basic staff wages and utilities, continued accruing while firms had no sales and are struggling to make ends meet. This was more problematic for medium firms as they lacked the ‘muscle’ of large firms and flexibility of small firms.

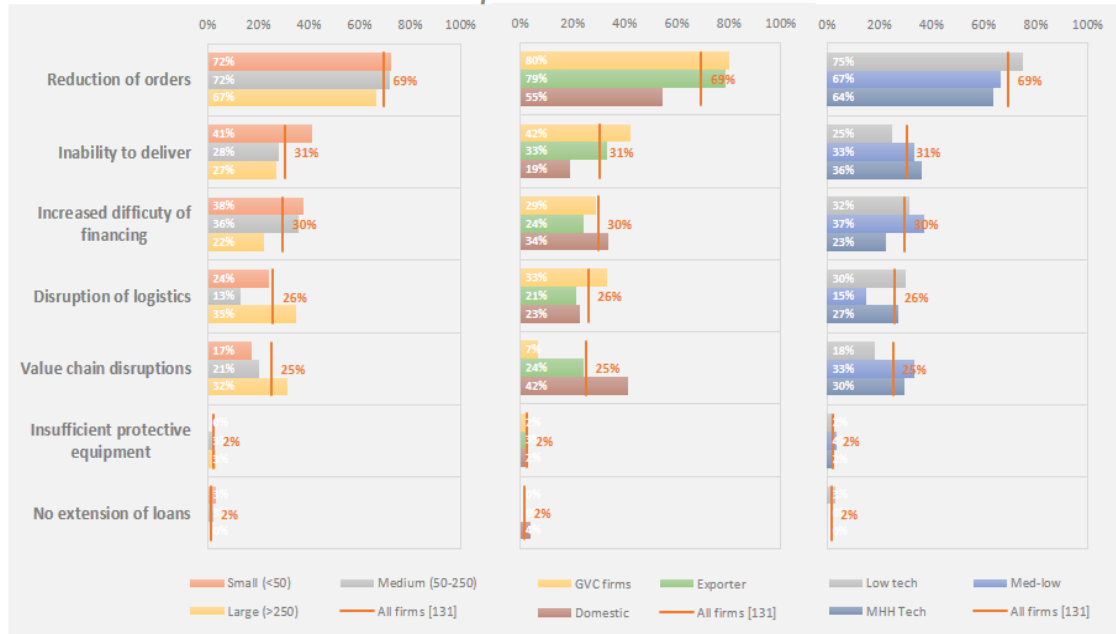
Figure 4 Main financial problems



c) Main business problems

Nearly two-thirds of firms are facing lower demand, with foreign-oriented firms impacted the most.

Figure 5 Main business problems



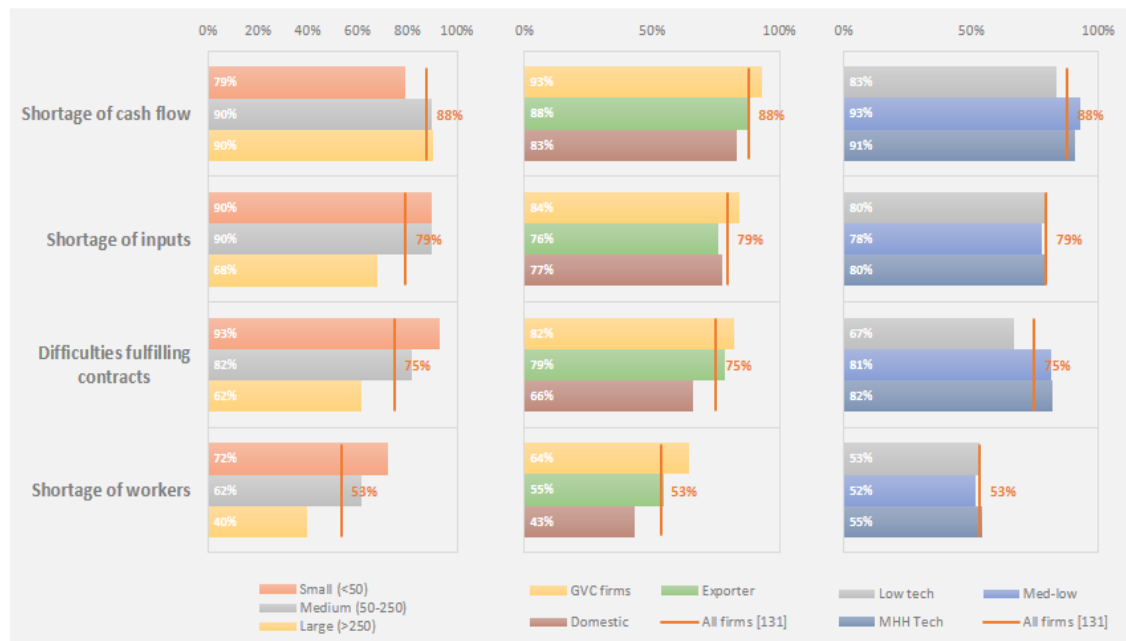
A lack of demand in the market has been the biggest challenge firms have been facing. This has been caused by the severe consumption shock linked to rapid unemployment, the decline in incomes, and the closure of businesses both globally and domestically. The surgical and garments industries in Pakistan experienced a complete halt in orders from their European and US customers as most of the buying countries were under a strict lockdown. Similarly, the footwear industry witnessed a sharp decline in local sales as all sale points were closed. Some of the more progressive footwear manufacturers moved to e-commerce, however, the basic infrastructure and support mechanisms for online sales are still very weak. Pakistan's economy is still technology deficient and digitally starved, which limits potential sales domestically. A shift to the digital market place requires a different set of worker skills, sales systems, logistics management and warehousing. Establishing such a network requires time. Auto sales hit a record low in Pakistan and during the last quarter of 2020, both Honda and Toyota shut down their plants for most of the period due to lack of demand, which has impacted the sale of spare parts and repairs and maintenance. The data resonates these findings; all the secondary factors identified are strongly linked to the core reason for the decrease in demand, resulting in or caused by logistics problems, financial difficulties and supply chain disruptions.

d) Main operating problems

Cashflow is the biggest concern of large firms, while small firms are more concerned about fulfilling contracts.

The majority of supply chains in Pakistan eventually link up with the informal sector. This implies that apart from very large corporations, the supply chains of most businesses—regardless of their size—are linked with the cash economy at some stage. Most businesses make sales on credit where payments are realized with subsequent orders; the duration in the market depending on industry can vary between 30 to 90 days. This credit sales model implies that by managing the period of credit sales, the same cash is being circulated in the market, therefore, at any one point in time, only one of the market agents would actually be holding the cash. In a simple cycle, manufacturers sell to wholesalers on credit, who in turn sell to retailers, and once retailers make sales, the cash flows back. In March, the government was uncertain about imposing a lockdown and its message portended that a complete lockdown was not feasible. The provincial governments, however, imposed a strict lockdown without a grace period. This resulted in disruptions in the cash cycle. Retailers were left with unsold stock, hence they were unable to make payments to wholesalers and wholesalers in turn were not able to pay factories which were unable to pay for their inputs, especially imported materials lying at ports. This disruption created a severe liquidity problem in the markets and for manufacturers. This lack of cash, trade restrictions and disruptions in the flow of goods resulted in input shortages. The closure of markets and lack of workers resulted in small firms not being able to deliver on their commitments. This subsequent shortage resulted in price hikes of various inputs, creating further problems within supply chains. The surgical industry, for example, is heavily reliant on imported steel, which was not available due to the lockdown of ports; similarly, some firms in the cutlery industry reported that they had to shut down individual factories as they were unable to fulfil their commitments at the initially agreed prices.

Figure 6 Main operational problems



3.2 Expected impact of COVID-19

The global economy is expected to contract by more than 5 per cent, and based on WTO estimates, world trade may fall by 40 per cent. This will have significant consequences for all economies, especially those that are more reliant on trade. However, this contraction also means that new opportunities will emerge as the world moves towards the ‘new normal’. Pakistan’s economy grew -0.38 per cent in the previous quarter of 2020, suggesting that the country’s economy contracted by more than 9 per cent; before the outbreak of the pandemic, Pakistan’s expected growth rate was around 3 per cent. The economy is expected to grow by 1.5 per cent to 2 per cent in 2021, though the rebound is somewhat slower than predicted for other South Asian countries, primarily due to the pre-COVID macroeconomic issues these economies faced.

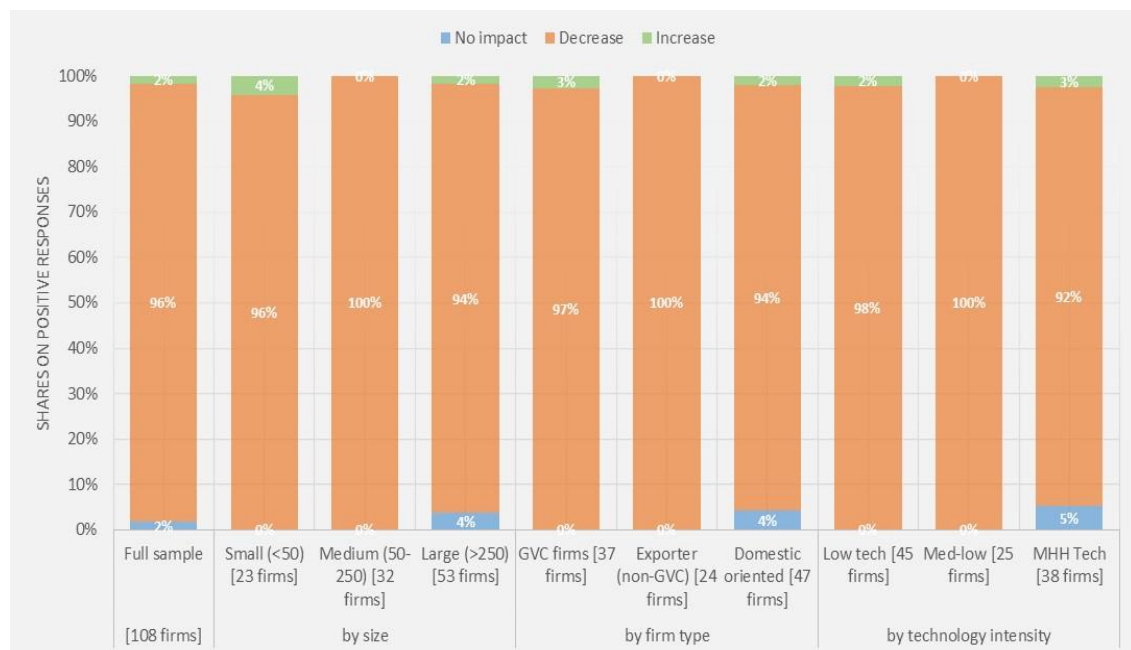
Unemployment is expected to increase by more than 3-4 million people based on research carried out by the Pakistan Institute of Development Economics.² Pakistan has been buffeted by economic headwinds from multiple directions: high levels of external debt with limited fiscal space and the curtailing of public expenditure under the IMF restructuring plan had already slowed down growth prior to the pandemic’s outbreak. With COVID, there is now an even larger contraction of production and exports, an almost full closure of the informal services economy, pressure on the weak health care system, loss of trade and tourism, dwindling remittances and subdued investments. To make matters worse, a severe locust attack is threatening food security in

² <https://pide.org.pk/pdf/PIDE-COVID-Bulletin.pdf>

the country. Moreover, this bleak situation is subject to great uncertainty as expectations for the virus caseload is still extremely high and if COVID-19 outbreaks persist, restrictions on movement could be extended or reintroduced. Should such disruptions to economic activity continue, the impact on Pakistan's economy will be even starker. This section provides a summarized analysis of firms' perceptions of COVID-19's impact on their revenues, employment and other factors.

e) Extreme losses in revenue are expected by most firms. Among the respondent firms, regardless of their location, 90 per cent expected a more than 50 per cent loss in revenue in 2020. Out of 118 respondent firms with valid responses, over half of the firms (56 per cent) located in provinces with high infection rates, and 49 per cent of firms located outside of those provinces expected a more than 50 per cent decrease in revenue in 2020. Figure 7 illustrates these findings. Furthermore, we found that over 90 per cent of small-size and GVC firms anticipated a more than 50 per cent decrease in revenue in 2020.

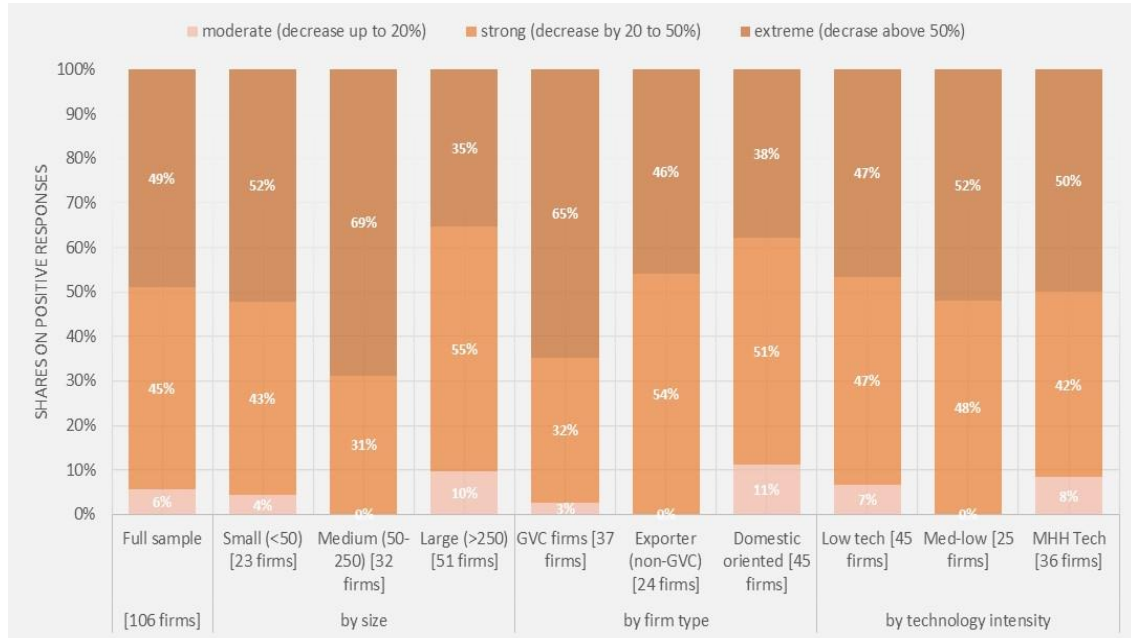
Figure 7 **Impact on revenue**



f) Impact on revenue

Medium- and GVC firms expect the biggest impact on their revenues.

Figure 8 **Severity of expected decline in profits**

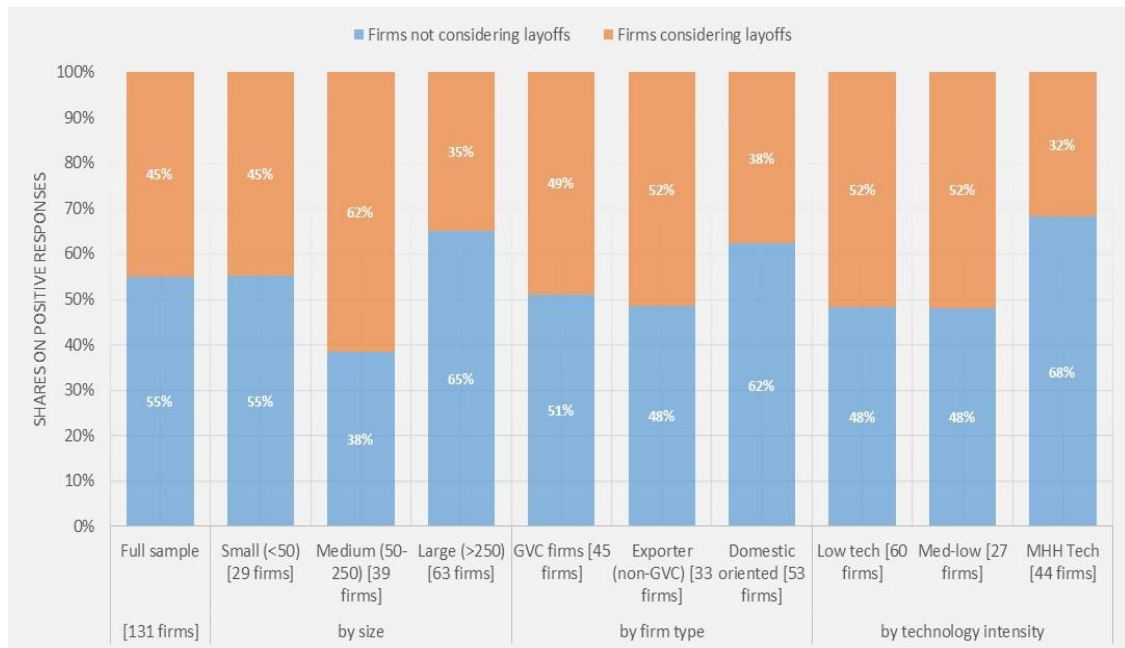


g) Impact on employment

Nearly 50 per cent of firms are currently considering layoffs.

Layoffs were not a prioritized mitigation measure. On the bright side, regardless of firm type and size, nearly 50 per cent of the 118 firms that provided valid responses did not consider laying off employees. Small-size and domestic downstream firms were slightly less optimistic.

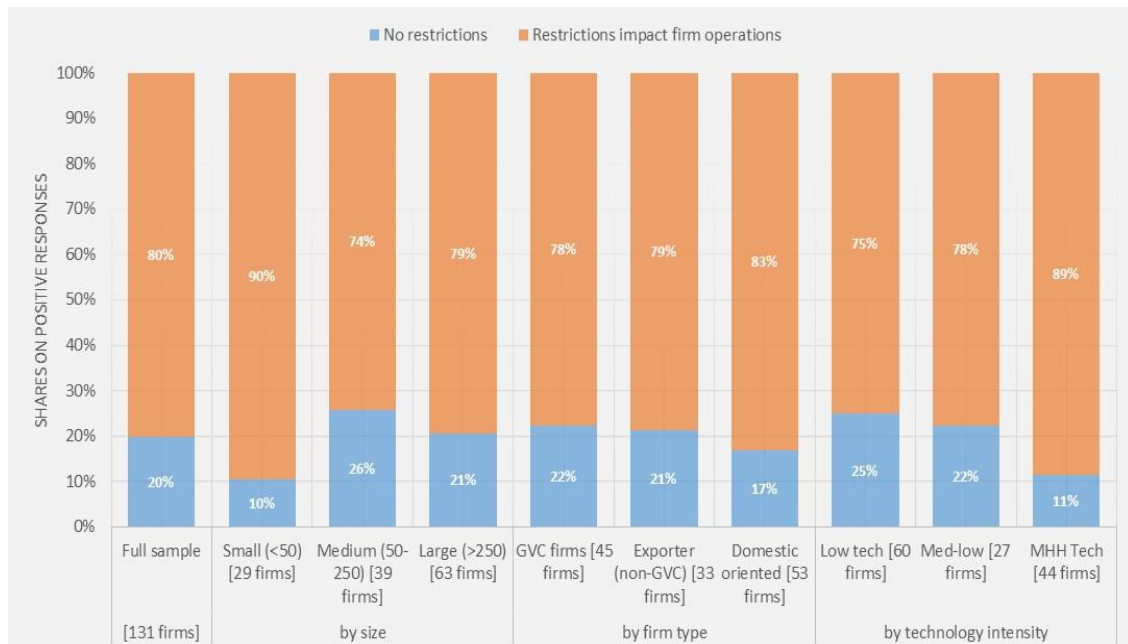
Figure 9 **Impact on employment**



h) Government restrictions

Nearly 80 per cent of firms are affected by the current restrictions.

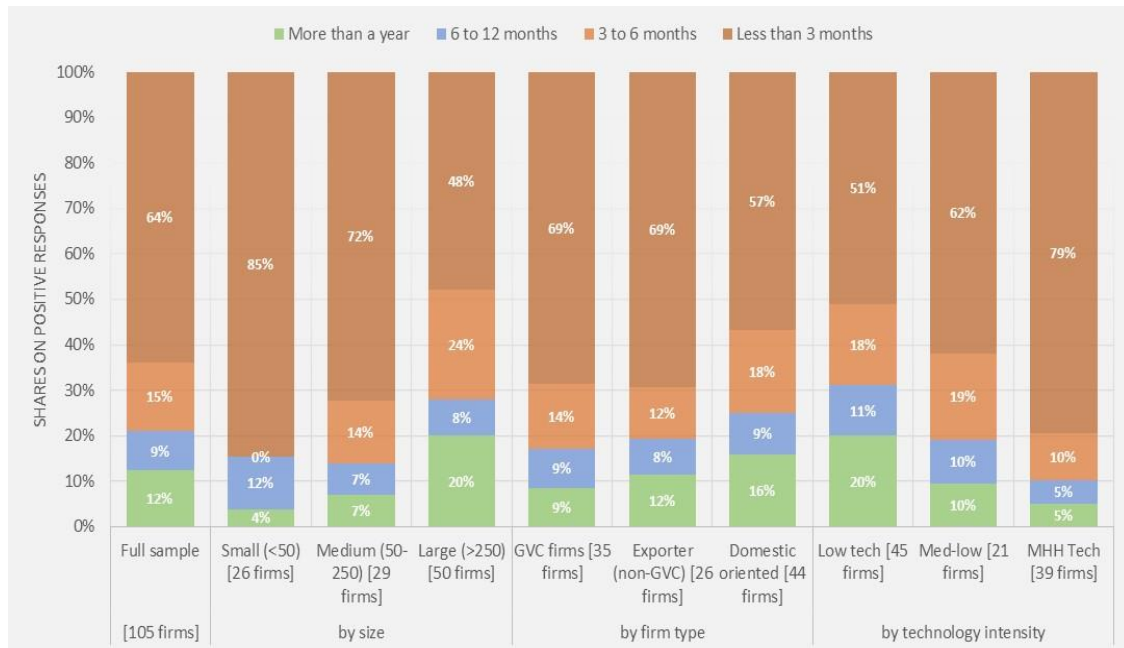
Figure 10 **Impact of government restrictions on firms**



i) Expected survival with current restrictions

Two-thirds of firms will have to close down within 3 months, small-size firms will be hit the hardest.

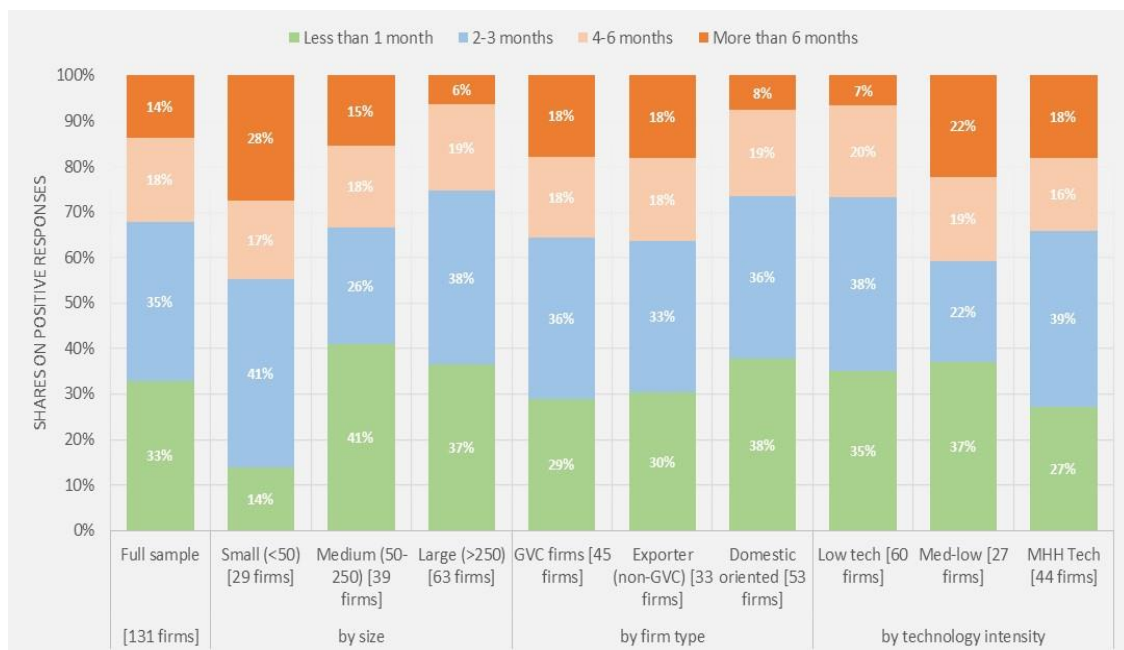
Figure 11 Expected survival of firms



j) Expected time to return to normal business

Domestic and larger firms are set to recover faster than others.

Figure 12 Expected time to return to normal business



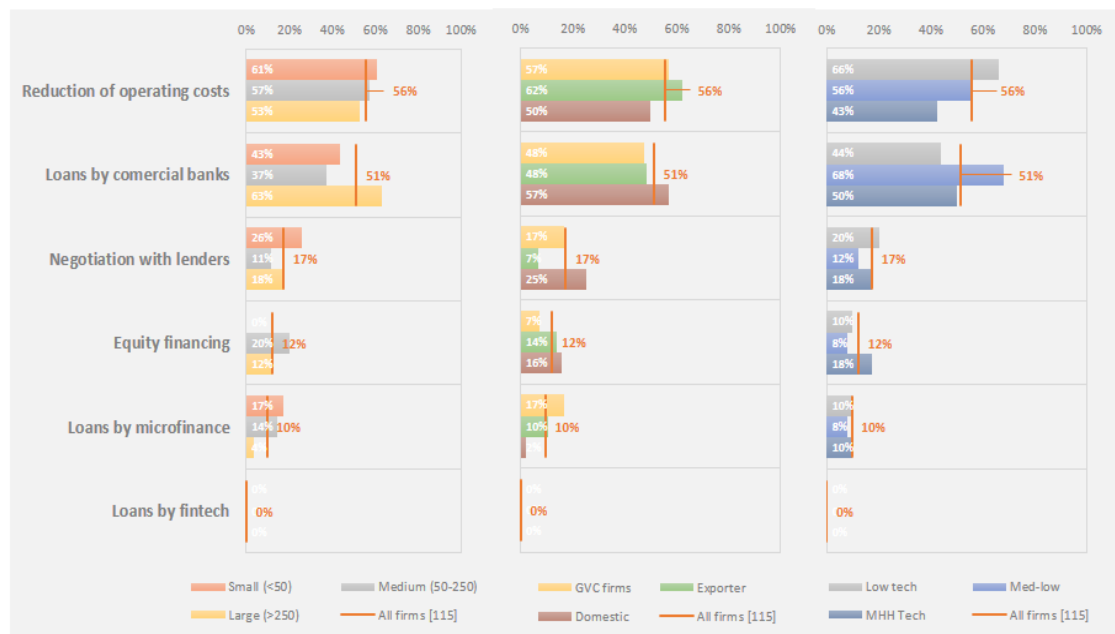
3.3 Dealing with COVID-19

k) Dealing with cashflow shortages

Firms are cutting operating costs and taking loans

To cope with cashflow shortages, firms are taking out loans and cutting operating costs. We found that regardless of firm size and type, 61 per cent of all respondent firms had chosen to take loans from commercial banks, while an average of 52 per cent had reduced their operating costs to deal with the shortage of cashflow. Reductions in operating costs have meant that either staff were laid off or were asked to work part time on rotation. Some firms even sent staff on forced unpaid leave.

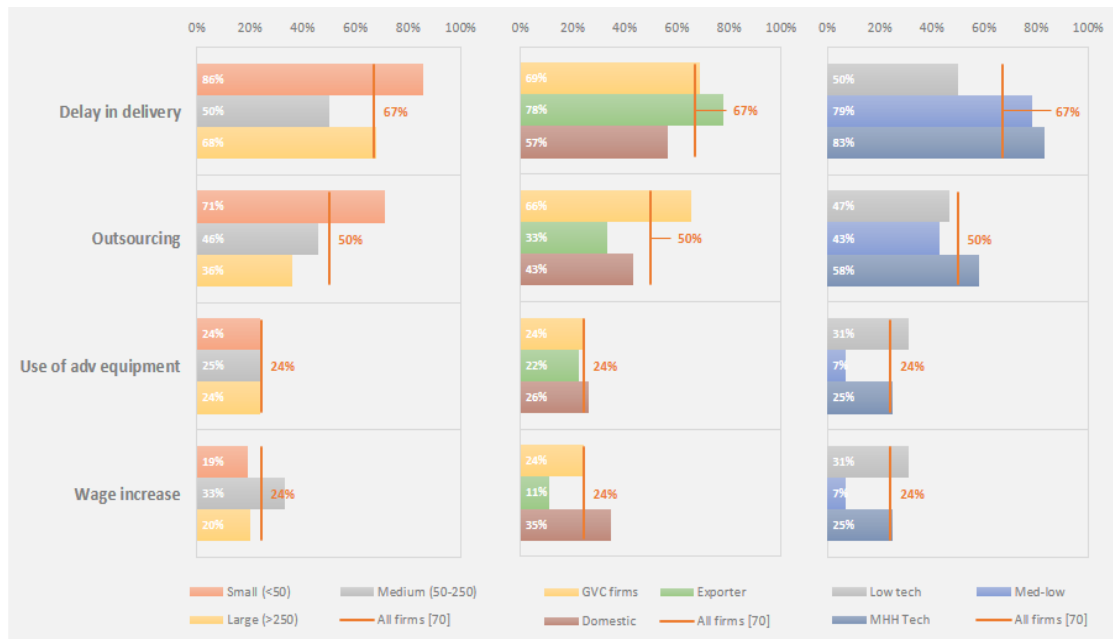
Figure 13 Measures to deal with cash flow shortages



l) Dealing with worker shortages

The shortage of workers has led to delays in delivery and outsourcing for the majority of firms.

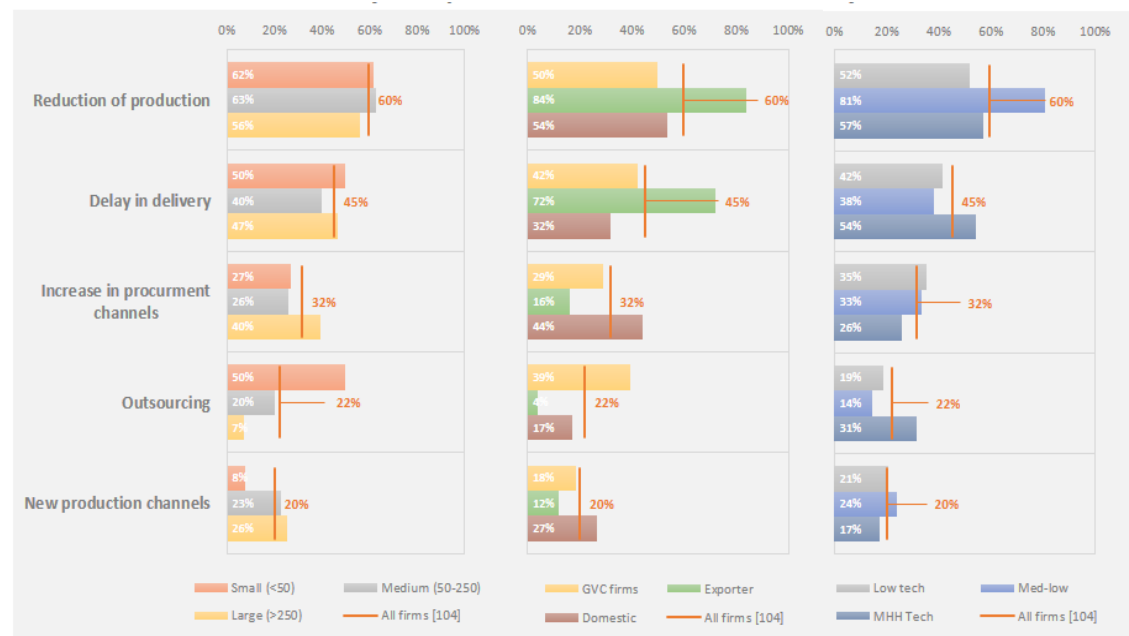
Figure 14 Measures to deal with worker shortages



m) Dealing with input shortages

Input shortages have led to a reduction of production and delays in delivery. Exporters have been hit the hardest.

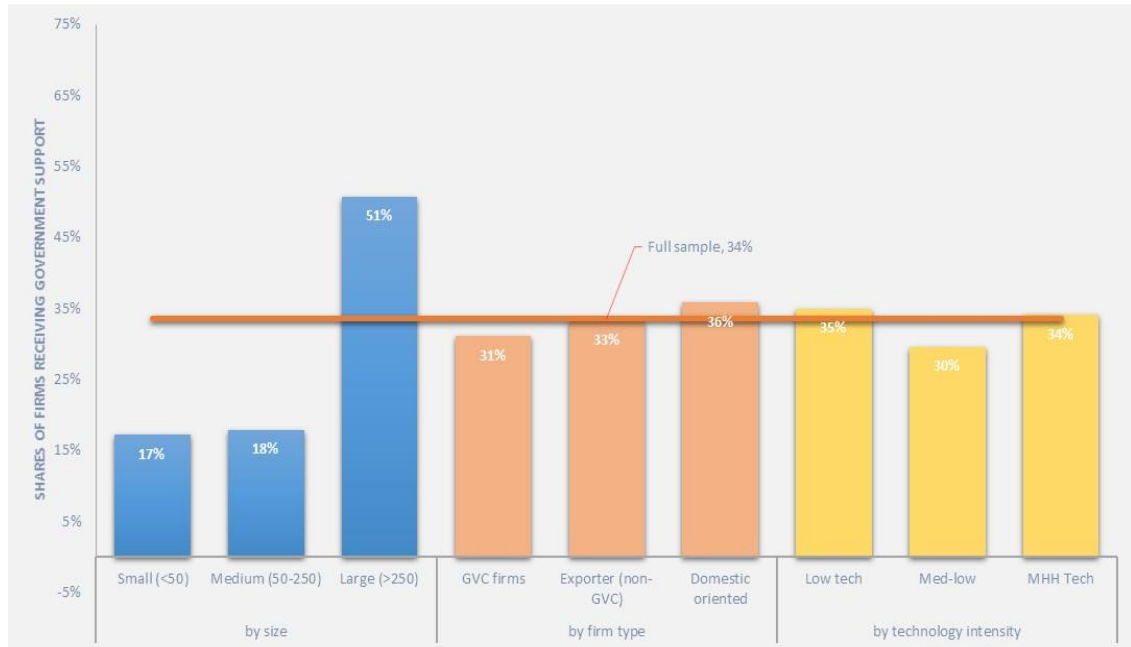
Figure 15 Measures to deal with input shortages



n) Who is receiving government support?

One-third of firms are receiving government support; support is higher for large firms.

Figure 16 Share of firms benefitting from government support



The majority of firms are aware of the special loans being provided by the State Bank, the reductions in sales tax, especially in the case of Punjab, as well as the exemptions offered to the construction industry. Most SMEs were, however, excluded from these incentives as they did not qualify for the exemptions. For example, in Punjab Province, businesses reported some relief in terms of sales tax, but those operating in industries that were still closed, such as the hospitality industry, were unable to benefit from such government support. Similarly, as restaurants were only operating as takeaways/deliveries, most of the payments were being made in cash, hence the reduced sales tax on card payments was negligible. Similarly, the majority of firms were aware of the State Bank's reduced loan rates for salary payments, however, they complained that the amount of documentation required to benefit from the scheme represented a major barrier.

Moreover, the SMEs asserted that anything short of interest-free loans would actually help. Firms are only looking to survive and break even. The loans would be used to cover fixed costs and salaries, not to invest in hard or soft infrastructure. The return on loans for investment purposes is generally expected to be higher than the interest rate, but since businesses will use these loans simply to stay afloat, they do not expect a return on them. This means that they are not in a position to pay off the interest. One major issue identified with regard to loans relates to the conditions of those loans, which require firms to have an established, running business. For firms that are

looking to move towards alternative businesses that are more viable under the current COVID-19 situation (e.g. in farming and livestock), the loan conditions effectively preclude them from being eligible for a loan.

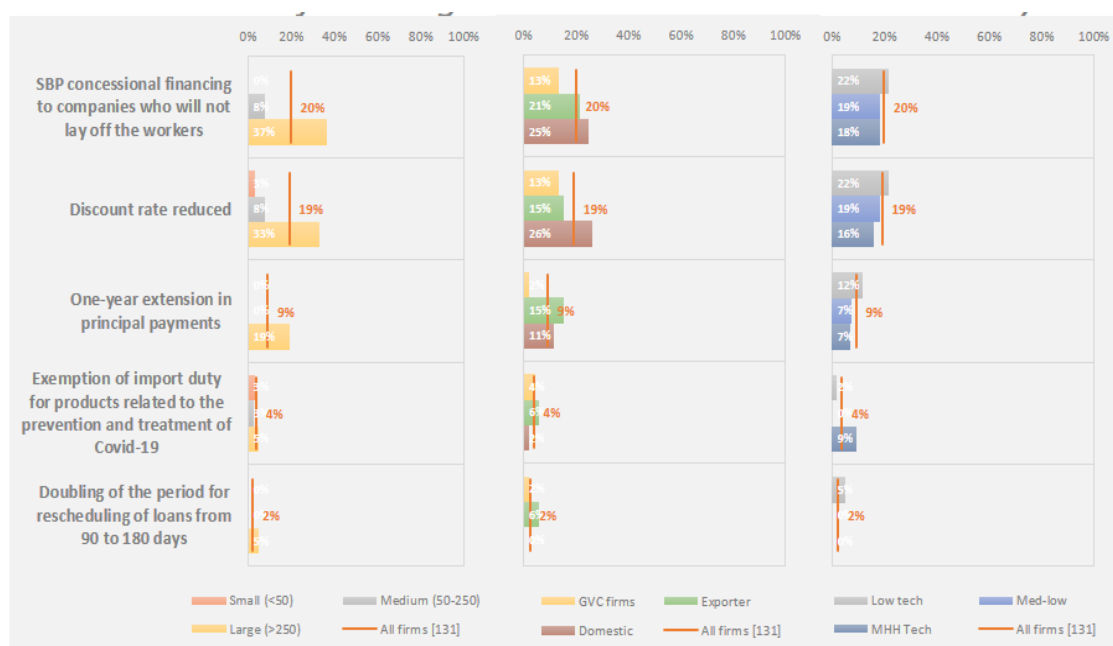
Firms are also aware of the Ehsaas scheme for workers. While some workers have made use of the scheme, the majority have not been eligible to participate in the scheme or have not received any compensation even if they were eligible. Firms complained about the validity of the data used by the federal government to identify and target those affected by the pandemic.

The State Bank payroll scheme also excludes small firms, as they do not pay salaries from their work accounts to the workers' salary accounts. Contracts are informal and many workers do not have bank accounts. Since women typically own smaller businesses, this impacts them more.

o) What type of support is the government providing?

SBP concessional financing and reduced discount rates are mostly being used.

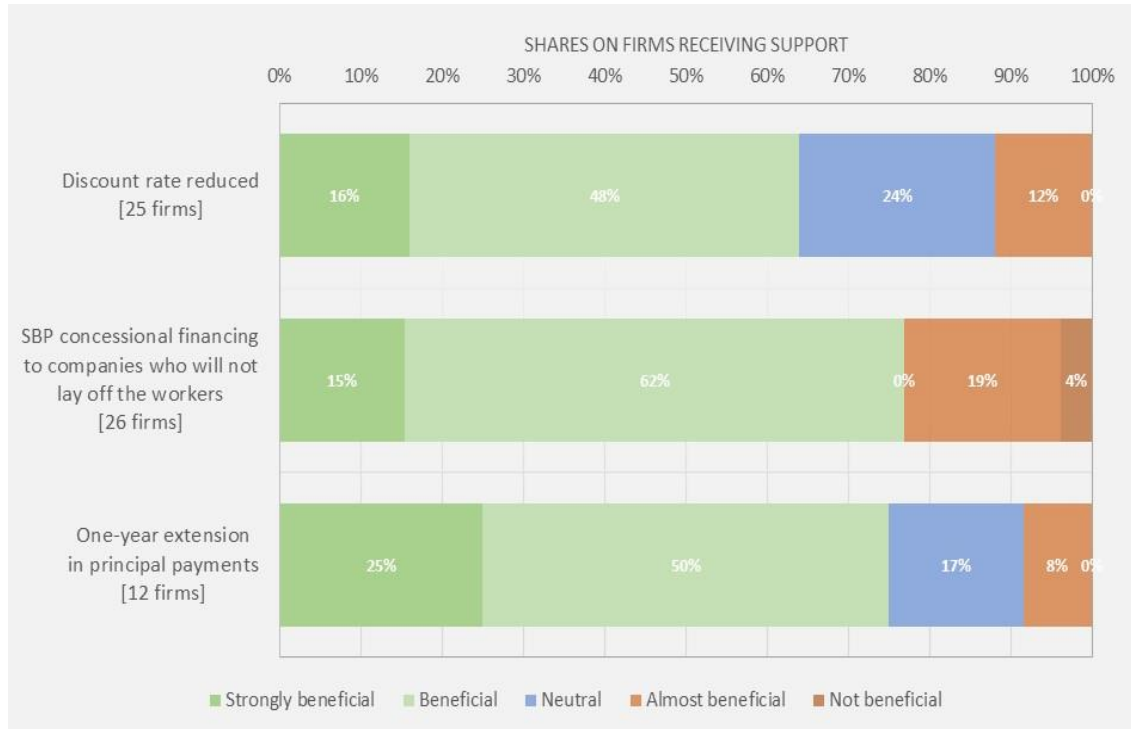
Figure 17 Type of support received



p) How useful is the support being received?

SBP concessional financing is the most beneficial policy.

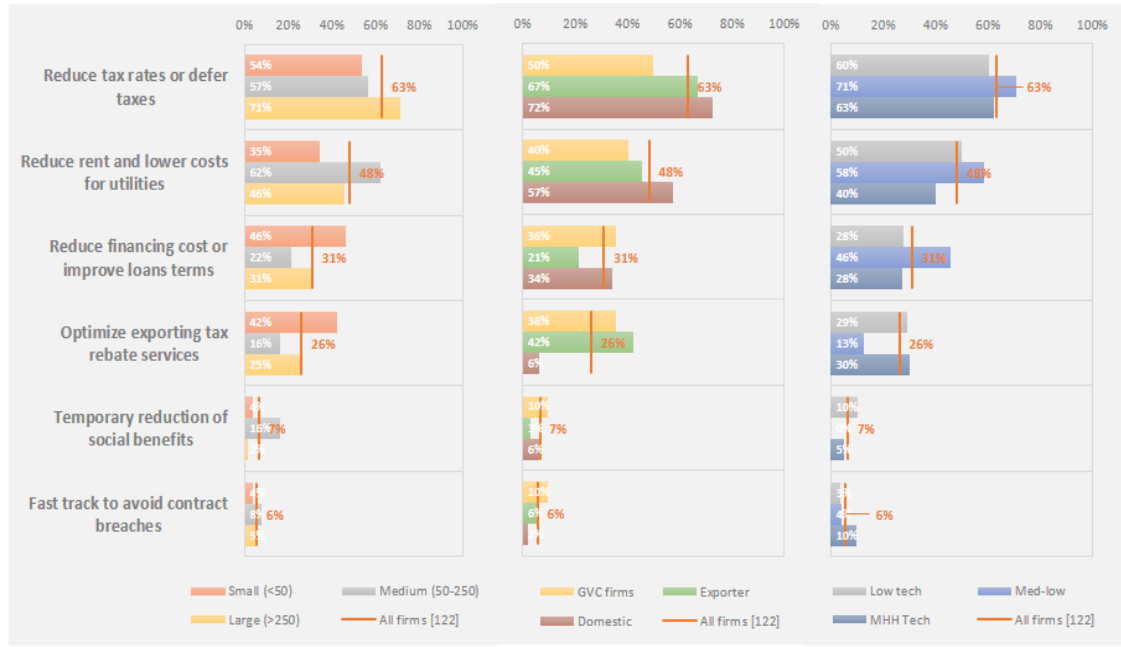
Figure 18 **Assessment of support received**



q) What policies should be applied?

Firms favour reductions in taxes, rent and utilities.

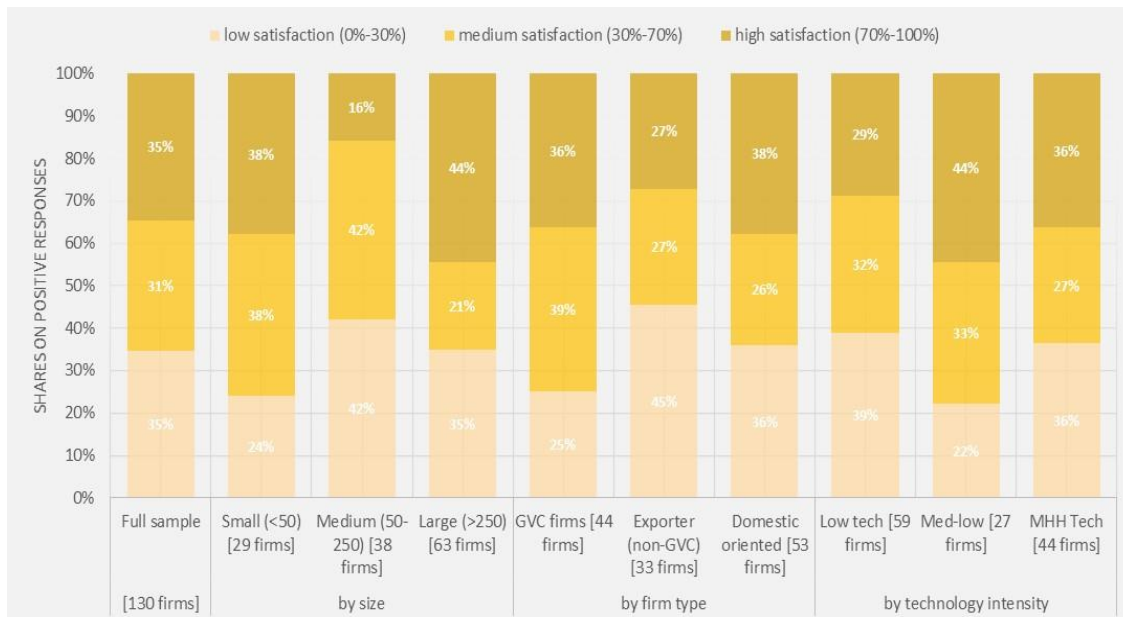
Figure 19 Preferred policies



r) Preparedness for COVID-19 in the workplace – occupational safety and use of PPE

One-third of firms are well prepared, small firms are better prepared.

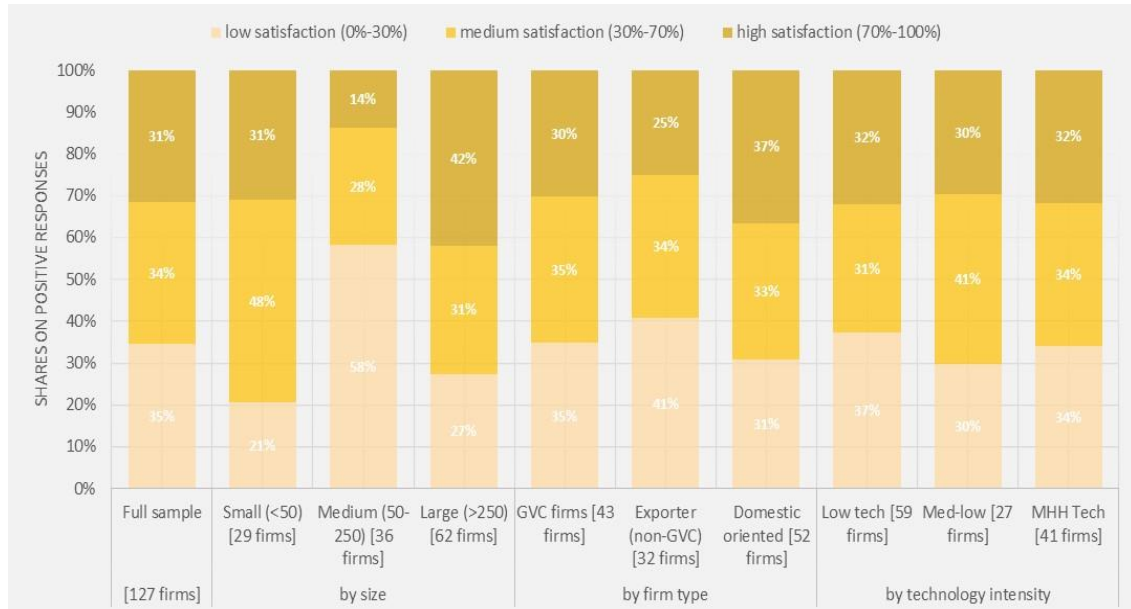
Figure 20 Preparedness in the workplace: Occupational safety & use of PPE



s) *Preparedness for COVID-19 in the workplace –social distancing and other measures*

Small firms are best prepared.

Figure 21 Preparedness in the workplace: Social distancing and other measures

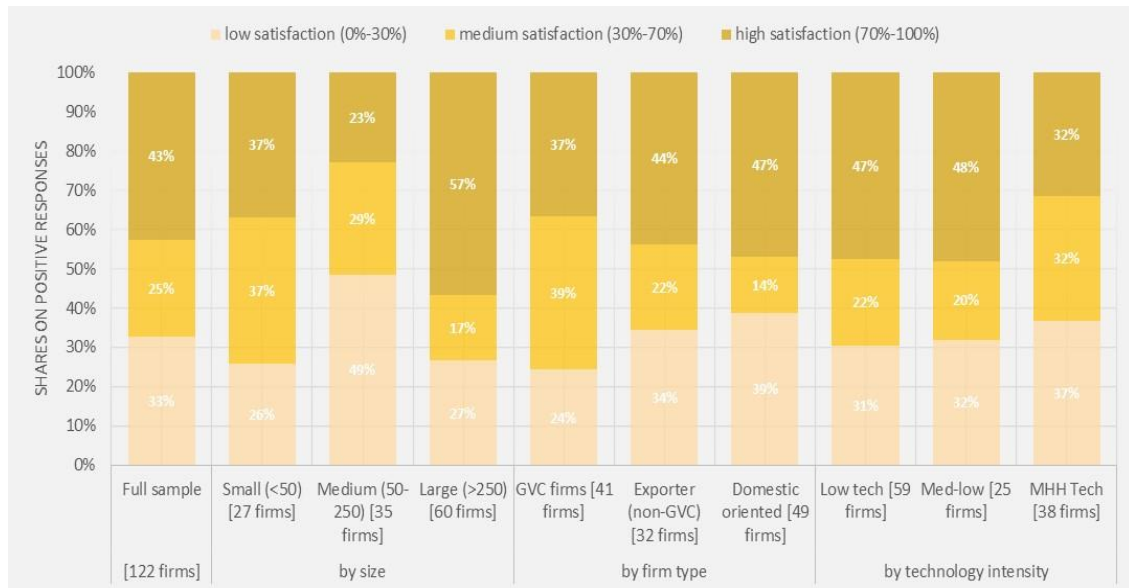


These findings must be read with caution, as small firms will clearly face greater relative challenges and bear higher costs to meet the SOPs compared to other firms. Larger firms have more space, a better trained workforce and the cost of safety equipment is only a small fraction of overall costs. Small firms, on the other hand, have limited space, less trained workers and the cost of safety equipment represents a higher share of total costs. The suggestion in the survey that small firms are confident that they can meet SOPS may be driven by fear of having to close down or be subject to more rigorous inspection by government authorities; when responding to such questions, firms may provide an answer that serves their best interest but that does not necessarily state a fact. Moreover, qualitative phone interviews with SMEs in the surgical industry and other industries conducted by UNIDO staff reveal that firms face problems meeting SOPs, especially in workplaces where space is limited.

t) Preparedness for COVID-19 in the workplace –incidents rate of communicable diseases

Large firms are best prepared.

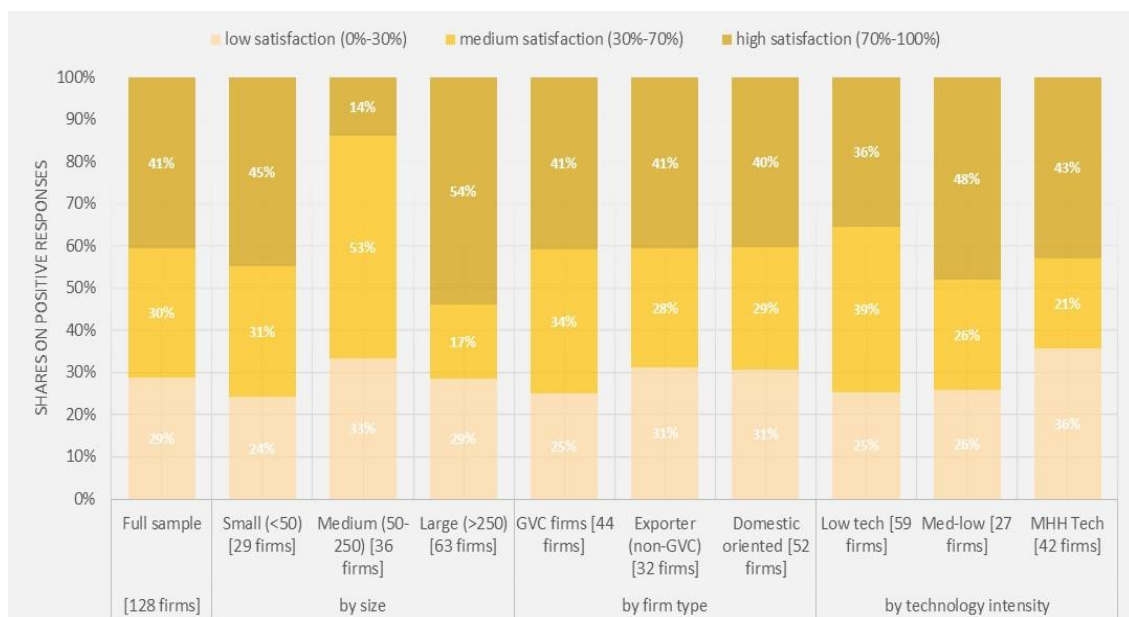
Figure 22 Preparedness in the workplace: Incidents rate of communicable diseases



u) Preparedness for COVID-19 in the workplace – overall safety and preparedness

Over 70 per cent of firms are satisfied with their overall preparedness.

Figure 23 Preparedness in the workplace: Overall rates



4 Discussion

4.1 Inclusive and sustainable industrial development (ISID) – Sustainable Development Goal 9

Working with Pakistan to achieve the SDGs lies at the core of the United Nations' mission in Pakistan. This section discusses how the impacts of COVID-19 at the firm level could affect the country's progress towards achieving SDG-9, in particular with regard to ISID.

4.1.1 Status of SDG 9.2, 9.4 and 9.b and impacts of COVID-19

p) SDG Target 9.2 aims to significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and to double its share in least developed countries by 2030. Since 2015, Pakistan has witnessed an increase both in terms of financial value and percentage of manufacturing's contribution to the country's GDP.

Due to the drop of the overall manufacturing productivity index as a result of the COVID-19 pandemic, the expected reduction of revenue in the manufacturing sector and the projection that millions could lose their jobs by the end of 2020, the sector's contribution to GDP and employment will reduce, hence moving further away from the SDG targets. Since the country's GDP and total employment will be negatively impacted by the pandemic, the relative contraction of Target 9.2 might not be so significant.

4.1.2 SDG 9.3: Small and medium enterprises (SMEs)

SDG Target 9.3 aims to increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets. It places importance on SMEs and their contribution to the country's overall economy and employment. The results of the survey show that the majority of SMEs did not benefit from government support. Building the necessary ecosystem for SMEs to thrive could help advance the country's economic growth with equal distribution in the long run. In line with Target 9.3 Pillar III "Protecting jobs, small and medium-sized enterprises, and informal sector workers" under the United Nations framework for an immediate socio-economic response to COVID-19, UNCTs should pay attention to protecting as well as extending financial support to SMEs in their recovery efforts.

5 Policy recommendations

Based on the results of the survey, we find that the most effective approach towards recovery is to restart and stimulate demand for goods and services immediately, considering that the stimulus packages and support programmes launched by the government so far are still in an initial phase. Additional recommendations are formulated based on a more in-depth analysis of survey results.

These recommendations are by no means exhaustive. Our policy recommendations ultimately aim to help Pakistan build back a stronger manufacturing sector and get on track to achieve sustainable and inclusive industrial development in accordance with SDG-9. The key to achieving an effective package includes: i) improving job protection and avoiding layoffs; ii) expanding existing programmes more effectively rather than creating new ad hoc programmes, and iii) including groups that often lack protection. Our recommendations build on these principles.

5.1 Immediate or short-term measures

Business repurposing scheme. Based on the survey results and discussions with SMEs, one solution proposed by UNIDO as an immediate response measure is the repurposing of manufacturing firms and service providers.³ Repurposing is a rapid response solution to address the global shortage of COVID-19 critical items that can save lives by using idle manufacturing capacity. Repurposing can also contribute to ensuring business continuity and employment retention. It is, in principle, a temporary strategy that could be costly and filled with challenges. Hence, to capitalize on the opportunities that repurposing offers, policy measures that help manufacturing firms address repurposing challenges and that facilitate transition to the ‘new normal’ during this COVID-19 crisis are essential. Opportunities exist to leverage proven designs and methods. One key example is the diversification of the surgical industry to produce ventilators and the garments industry to make masks and PPE kits. These products can only be exported, however, if they meet the international quality standards of safety and those required by the WHO. UNIDO has established expertise in this area and could be a leading partner of the provincial and federal governments to help Pakistani businesses capture these opportunities.

Improvements in current support schemes. As discussed in Section 4.3, several government agencies, such as the State Bank of Pakistan, have announced and started implementing support schemes for affected firms. Some improvements could be considered to make the schemes more effective and targeted. Applying UNIDO’s expertise in industrial development, manufacturing repurposing and adoption of the 4th Industrial Revolution (4IR) adoption are recommended.

³ <https://www.unido.org/news/covid-19-critical-supplies-manufacturing-repurposing-challenge>

- Ease access and remove barriers to loans for firms to stay afloat.
- Expand the reduction of electricity bills to include smaller firms.
- Customize support programmes for micro and small firms. Special programmes and fast-tracked applications should be tailored accordingly. There is a need to engage provincial entities that work with MSMEs to act as interlocutors between firms and banks to ensure a more equal spread of loan disbursement. For example, PSIC in Punjab should work with MSMEs to help them understand the requirements, to fill in forms and build capacity to make them qualify for SBP schemes.
- There is a need for stronger policy and regulatory reform, especially to address hurdles, such as social security contributions, EOBI and other fee-based inspections that continue to hamper firms and create an undue financial burden.
- Issues relating to taxation and refunds need to be addressed as a matter of priority. The government should pay off all tax refunds, reduce the rate of advance taxation as well as sales tax for a set amount of years. Provincial governments should address the issue of duplicity of taxes, for example, infrastructure tax is charged both by Sindh and the destination province; similarly, the provincial professional tax represents a major obstacle. KP has already abolished it in its most recent budget, so other provinces could follow KP's example.
- The government will also have to undertake efforts to expand micro loans for consumption, initiate public works schemes to create employment and other measures that will generate more income and reduce the severity of the consumption shock.

5.2 Short- to -medium-term measures

Investing in advanced technology – IR 4.0 Technology. To achieve changes in the workplace, including the initial shortage of workers, advanced technology needs to be introduced. The COVID-19 crisis is likely to result in the structural transformation of manufacturing into a “new normal”, which will be more digitalized, more circular and more resilient (Figures 15 and 16). 4IR technology will be a defining factor, helping industry resume its operations as soon as possible and providing a platform to develop new more resilient operations, value chains and businesses.

To support a smooth transformation, UNIDO is leading efforts to address opportunities, the challenges and risks associated with 4IR while ensuring that no one is left behind. To cater to the

growing demand for 4IR-related services in light of the crisis, UNIDO has developed technical cooperation programmes and integrated packages for Member States, such as the COVID-19 Industrial Recovery Programme (CIRP), which will provide targeted support to national governments with the restructuring of their industrial sector in the recovery period. Through its different SME-focused programmes, UNIDO supports the business sector to restructure and respond to the disruptions by adopting advanced technologies and innovative solutions, building flexibility and long-term resilience (Figures 15 and 16).

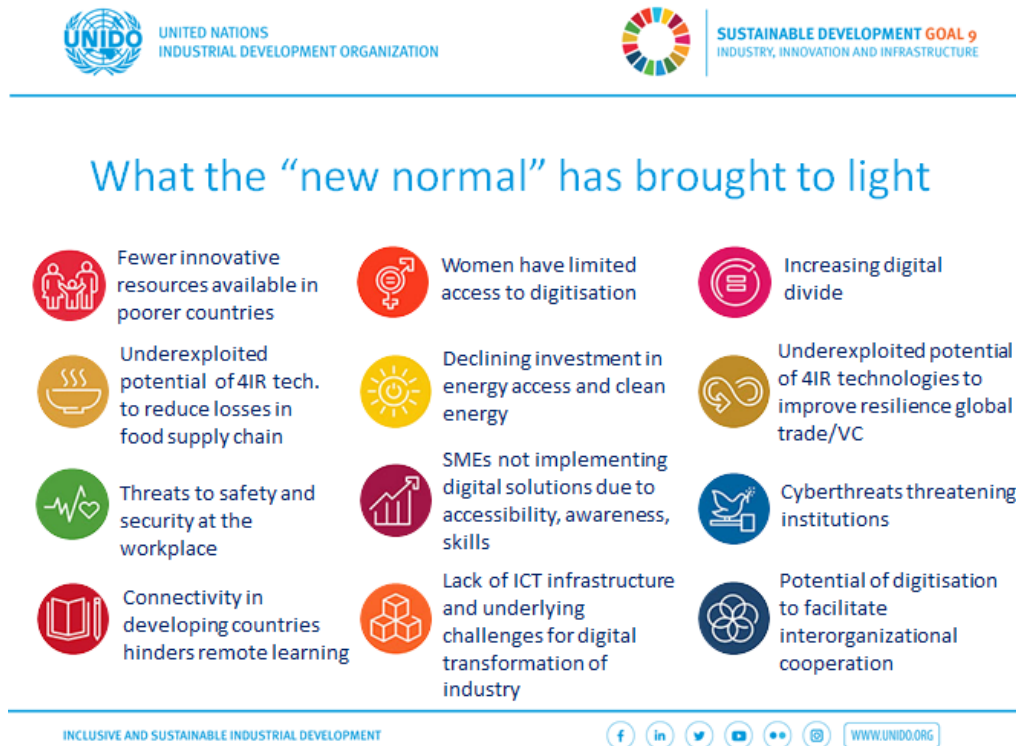
5.3 Medium- to long-term measures

Industrial development facility. Since many micro and small firms face difficulties obtaining additional loans from commercial banks, an independent body could be established to provide support for firms in various areas such as technological and product improvement, production innovation, business expansion and how to cope with crises such as COVID-19. The body could be funded by diverting a small percentage of tax paid by firms and provide services to firms at minimal charges to cover operating costs for staff time and travel. The facility could use incoming revenue from the tax to subsidize firms with lower interest rates. This would benefit firms considerably, particularly during the crisis.

Figure 24 4IR in the fight against COVID-19



Figure 25 **4IR and the ‘new normal’**



References

1. United Nation 2020: “Pakistan’s COVID-19 Socio-Economic Impact Assessment and Response report”
2. Questionnaire on the Resilience of Micro, Small and Medium Enterprises under COVID-19
3. Pakistan Institute of Development Economics- COVID Bulletin, July 2020:
<https://pide.org.pk/pdf/PIDE-COVID-Bulletin.pdf>
4. UNIDO publication: <https://www.unido.org/news/covid-19-critical-supplies-manufacturing-repurposing-challenge>

Annex 1: Questionnaire

COVID19: IMPACT ON MANUFACTURING FIRMS SURVEY

Current impact of COVID-19

1. Because of the epidemic, what is the percentage of your company's employees who are unable to physically come to work and cannot adequately work from home at present?

| | |
|--|------------------------------------|
| | _____ % (____ % women, ____ % men) |
| | I don't know |

2. Please indicate the most significant financial problems for your firm during the outbreak (please select all that apply):

| | |
|--|---|
| | Staff wages and social security charges |
| | Fixed costs, e.g. rent |
| | Repayment of loans |
| | Payments of invoices |
| | Other expenses, please specify: _____ |
| | No specific problem |

3. Are there any other business problems your firm is facing due to the epidemic? (Up to two options)

| | |
|--|--|
| | Reduction of orders |
| | Inability to deliver existing orders |
| | Increased difficulty of financing |
| | Existing loans cannot be extended |
| | Disruption of logistics |
| | Upstream and downstream chain disruptions |
| | Insufficient protective equipment (e.g. masks) |
| | Other, please specify: _____ |

Expected impact of COVID-19

4. What impact do you currently expect on your firm's revenue this year as a result of COVID-19?

| | |
|--|---------------------|
| | No impact |
| | Decrease of _____ % |
| | Increase of _____ % |
| | Too early to state |
| | I don't know |

5. Is your firm currently considering layoffs, or has already done some because of the epidemic?

| | |
|--|--------------------------|
| | Yes (go to question 5.1) |
| | No (go to question 6) |

- 5.1. What percentage of staff are you expecting to (or have already) cut?

| | |
|--|---------------------------------------|
| | _____ % (go to question 5.2) |
| | Too early to state (go to question 6) |

- 5.2. Do you expect these layoffs to be temporary or permanent (total should sum up to 100%)?

| | |
|---------|---|
| _____ % | Temporary (of which ____ % women, ____ % men) |
| _____ % | Permanent (of which ____ % women, ____ % men) |

| | |
|-------|--------------------|
| ___ % | Too early to state |
|-------|--------------------|

5.3. If possible, please indicate how these layoffs are distributed with respect to their qualification (please insert value as percent of total sales for every option; total should sum up to 100%)

| | |
|-------|-----------------------------|
| ___ % | University degree |
| ___ % | Technicians |
| ___ % | Semi-skilled |
| ___ % | Unskilled |
| ___ % | Apprentice |
| | Unable to say at this stage |

5.4. If possible, please indicate how these layoffs are distributed over the following areas (please insert value as percent of total sales for every option; total should sum up to 100%)

| | |
|-------|-----------------------------|
| ___ % | Research and development |
| ___ % | Design |
| ___ % | Manufacturing / Assembly |
| ___ % | Customer Service |
| ___ % | Administrative |
| | Unable to say at this stage |

6. Are there currently restrictions by your government that impact your normal way of operating as a business?

| | |
|--|--------------------------|
| | Yes (go to question 6.1) |
| | No (go to question 7) |

6.1. If the current restrictions in your country continue, how long can your firm's current cash flow maintain the company's operation?

| | |
|--|-------------------------|
| | Indefinitely |
| | More than 12 months |
| | Between 6 and 12 months |
| | Between 3 and 6 months |
| | Between 1 and 3 months |
| | Less than 1 month |

7. If the international COVID-19 crisis were to end today, how long would you estimate it would take for your company to get back to business as usual?

| |
|----------|
| ___ days |
|----------|

Dealing with COVID-19

8. What is the main means you are considering to deal with the cash flow shortage? (Up to two options)

| | |
|--|---|
| | Loans by commercial banks |
| | Loans by microfinance companies |
| | Loans by private individuals |
| | Negotiating with lenders to avoid withdrawing loans |
| | Equity financing (adding new shareholders or capital increase of former shareholders) |
| | Reduction of operating costs (e.g. layoffs and salary reductions) |
| | No cash flow shortfalls problem |
| | Other, please specify: _____ |

9. What is the main means you are considering to deal with the shortage of workers? (Up to two options)

| | |
|--------------------------|--|
| <input type="checkbox"/> | Wage increases |
| <input type="checkbox"/> | Use of advanced equipment or software to reduce the amount of work |
| <input type="checkbox"/> | Outsourcing of orders |
| <input type="checkbox"/> | Delay in delivery |
| <input type="checkbox"/> | No shortage of workers |
| <input type="checkbox"/> | Other, please specify: _____ |

10. What is the main means you are currently considering to deal with the shortage of inputs such as intermediate goods and raw materials? (Up to two options)

| | |
|--------------------------|-------------------------------------|
| <input type="checkbox"/> | Reduction of production |
| <input type="checkbox"/> | Outsourcing orders |
| <input type="checkbox"/> | Increasing the procurement channels |
| <input type="checkbox"/> | Seeking new production channels |
| <input type="checkbox"/> | Delaying goods delivery |
| <input type="checkbox"/> | No shortage of inputs |
| <input type="checkbox"/> | Other, please specify: _____ |

11. What is the main means you are currently considering to deal with difficulties in fulfilling contracts?

| | |
|--------------------------|---|
| <input type="checkbox"/> | Settlement by mutual agreement |
| <input type="checkbox"/> | Legal or arbitral settlement |
| <input type="checkbox"/> | Expect the government to coordinate and provide clear disclaimer agreements |
| <input type="checkbox"/> | Payment of liquidated damages |
| <input type="checkbox"/> | No contractual performance issues |
| <input type="checkbox"/> | Other, please specify: _____ |

12. Are there currently any measures / support packages by your government that your company is benefiting from?

| | |
|--------------------------|--|
| <input type="checkbox"/> | Yes (go to Error! Reference source not found.) |
| <input type="checkbox"/> | No (go to 13) |

12.1. Please specify what measures/support you are receiving:

| | |
|--------------------------|---|
| <input type="checkbox"/> | Policy/discount rate reduced |
| <input type="checkbox"/> | SBP concessional financing to companies to those who will not lay off the workers |
| <input type="checkbox"/> | One-year extension in principal payments |
| <input type="checkbox"/> | Doubling of the period for rescheduling of loans from 90 to 180 days |
| <input type="checkbox"/> | Exemption of import duty for products related to the prevention and treatment of Covid-19 |
| <input type="checkbox"/> | Exemption of taxes and fee cuts for debt restructuring with non-financial institution creditors |
| <input type="checkbox"/> | Other, please specify: _____ |

12.2. To what degree this support is useful to your company

| | |
|--------------------------|------------------------------|
| <input type="checkbox"/> | Strongly beneficial |
| <input type="checkbox"/> | Beneficial |
| <input type="checkbox"/> | Neutral |
| <input type="checkbox"/> | Almost beneficial |
| <input type="checkbox"/> | Not beneficial |
| <input type="checkbox"/> | Other, please specify: _____ |

13. In the face of the impact of the epidemic, governments at all levels and financial institutions have announced relief measures. Which policy do you believe is the most effective for your firm? (Up to two options)

| | |
|--|---|
| | Reduce rent for small and medium-sized enterprises and lower costs for electricity, gas, logistics, etc. |
| | Reduction of tax rates, reduction or deferral of taxes |
| | Reduction of financing costs for SMEs, extension of loan terms or partial debt relief |
| | Temporary reduction of social insurance premiums and reimbursement of unemployment insurance to enterprises that do not lay off staff |
| | Optimization of exporting tax rebate services |
| | Provide fast-track "force majeure" certification to avoid contract breaches |
| | Others, please specify: _____ |

14. Preparedness for the COVID -19 in the workplace

Answer all questions

| | |
|------|---|
| 14.1 | How do you think about occupational safety and hygiene and use PPE in practices in your units to deal with COVID-19 spread among employees? -Satisfactory _____ % -Need Improvement _____ % |
| 14.2 | Behaviour based practice and awareness of field workers regarding COVID-19 (Washing hands, social distance etc.) -Satisfactory _____ % -Need Improvement _____ % |
| 14.3 | The incidents rate of communicable diseases and severity level. -Minimal _____ % Not present _____ |
| 14.4 | Overall Safety and emergency preparedness to prevent COVID-19 in your workplaces -Satisfactory _____ % -Need Improvement _____ % |

Background Information:

Profile of the firm

15. When did the firm start to operate?

| | |
|--|--------------------|
| | <i>Insert year</i> |
|--|--------------------|

16. Please select the industry that best describes the products your firm produces:

| | |
|--|--|
| | Food and beverages |
| | Tobacco products |
| | Textiles |
| | Wearing apparel |
| | Leather, leather products and footwear |
| | Wood products (excl. furniture) |
| | Paper and paper products |
| | Printing and publishing |
| | Coke, refined petroleum products |
| | Chemicals and chemical products |
| | Rubber and plastics products |
| | Non-metallic mineral products |
| | Basic metals |
| | Fabricated metal products |
| | Machinery and equipment |

| | |
|--|---|
| | Office, accounting and computing machinery |
| | Electrical machinery and apparatus |
| | Radio, television and communication equipment |
| | Pharma |
| | Medical, Surgical Instruments, Medical Supplies |
| | Motor vehicles, trailers, semi-trailers |
| | Other transport equipment |
| | Furniture; manufacturing |
| | Recycling |
| | Ceramics |
| | Cement |
| | Others |

17. What is the ownership structure of your company?

| | |
|--|----------------------------------|
| | 100% nationally owned enterprise |
| | Foreign subsidiary |
| | Joint venture |
| | Other, please specify: _____ |

18. What was the number of employees of the firm at the end of 2019?

| | |
|--|---|
| | <i>Insert the number of employees at the end of 2019</i> (of which ___ % women, ___ % men) |
|--|---|

19. In relation to the main production activity, the firm produces predominantly (please select one option):

| | |
|--|--|
| | Finished goods for consumers |
| | Finished goods for industrial business |
| | Intermediate inputs for agriculture |
| | Intermediate inputs for manufacturing |
| | Intermediate inputs for services |

20. Which share of purchases of raw materials and intermediate goods corresponded to each of these categories in 2019? (please insert value as percent of total sales for every option; total should sum up to 100%):

| | |
|-------|---|
| ___ % | Import: foreign suppliers |
| ___ % | National: Multinational corporations/foreign-owned suppliers located in the country |
| ___ % | National: domestic suppliers |

21. Which share of sales/turnover corresponded to each of these categories in 2019 (please insert value as percent of total sales for every option; total should sum up to 100%):

| | |
|-------|--|
| ___ % | Export: foreign costumers |
| ___ % | National: Multinational corporations /foreign-owned customers located in the country |
| ___ % | National: domestic customers |

22. Has the firm run part of its production activity in another country in 2019 (offshores)? (please select one option):

| | |
|--|---|
| | Yes, through direct investment (i.e. foreign affiliates/controlled firms) |
| | Yes, through contracts with domestic firms abroad (e.g. technical/manufacturing partnership agreement, licensing agreement) |
| | No |

23. Which city / cities does your company have offices or production plants in?

| | |
|--|-----------------|
| | Head office - |
| | Other office/s- |
| | |
| | |

Follow up

24. We would greatly appreciate your participation in a follow up survey in a few months. If you would like to participate, please leave your contact details

| |
|--|
| Name and Email (optional, mobile or landline number) |
| |



Vienna International Centre
Wagramerstr. 5, P.O. Box 300,
A-1400 Vienna, Austria



+43 (1) 26026-0



www.unido.org



unido@unido.org



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION