THE IMPACT OF CORONAVIRUS ON MICRO & SMALL ENTERPRISES (MSES)

Evidence from 5 PMN's Member Clients

Pakistan Microfinance Network
Achieving Together

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Introduction

Since the COVID-19 outbreak started hitting the globe at the beginning of 2020, business activity in the world's economies has come to a grounding halt. In order to contain the spread of the virus, lockdown and social distancing measures have been put in place, severely impacting economic activity throughout the world. The International Monetary Fund (IMF) has projected the global economy to contract sharply by -3 percent in 2020, much worse than the financial crisis of 2008-9[1]. As the government of Pakistan seeks to understand the economic toll of the coronavirus, there is also a need to gauge the impact on micro and small enterprises (MSEs) and individuals to ensure that appropriate measures are designed in time to meet their needs. While these enterprises are small in size, they are plentiful in number and have a significant contribution towards economic activity. Micro, Small and Medium enterprises account for 90 percent of total economic enterprises, make up about 30 percent of the GDP, contribute over 25 percent of earnings in export and employ 78 percent of the non-agricultural labor force In Pakistan[2]. In addition, these enterprises are most susceptible to economic shocks with their modest capital base, limited clientele and vulnerable labour force.

In Pakistan, the lockdown began in March 2020. All provinces implemented varying degrees of lockdown which was gradually eased afterwards. There has been a general resistance towards a complete and strict lockdown due to the negative impact on poor and daily wage earners. The government thus allowed businesses to operate on May 9th, 2020.

Pakistan Microfinance Network (PMN) launched a research study to assess the impact of COVID-19 on MSEs in order to understand how the coronavirus pandemic has impacted their household incomes, business operations, and how they are coping with the shock and what kind of support is required for their rehabilitation. The data collection for the study was completed in the last week of April 2020.

Research Approach

In order to generate a representative sample, PMN partnered with five microfinance providers[3] (MFPs) having a nationwide presence after seeking their willingness to participate in the survey. The participating MFPs represented 41% of the total active borrowers' market as per the latest Microwatch Quarterly Update December 2019. A simple random sample of clients was taken from the database of each participating MFP after ensuring that the client fell in the loan category of below PKR 1 million. The sample drawn from each MFP was proportional to the relative share of the MFP in the total active borrowers (target population) resulting in a self-weighting sample. A total of 428 telephonic interviews were conducted by the participating MFPs between April 22nd and May 1st, 2020.

Client Profile

We found that the urban rural distribution of the sampled clients was comparable to the national averages of rural urban population split as per the 2017 census data[4]; 36% of the clients were from urban centers whereas the remaining 64% belonged to rural or peri-urban areas. The proportion of male clients in the

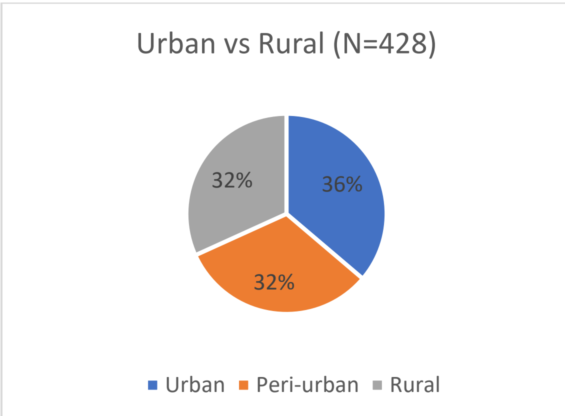
[1] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

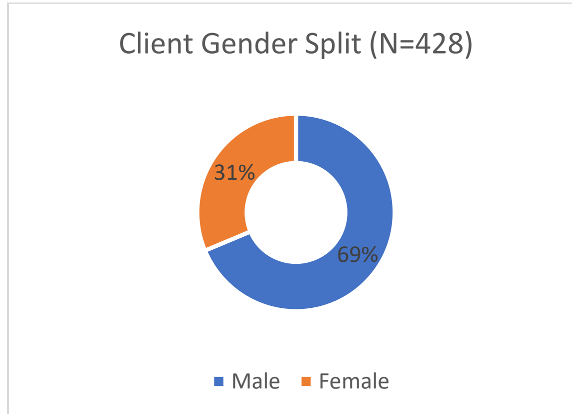
[2] Gearing Towards Microenterprise Lending. MicroNote, December 2018. PMN.

[3] 2 MFBs and 3 MFIs (collectively referred to as MFPs) participated in the survey. Overall market share represented was 41%.

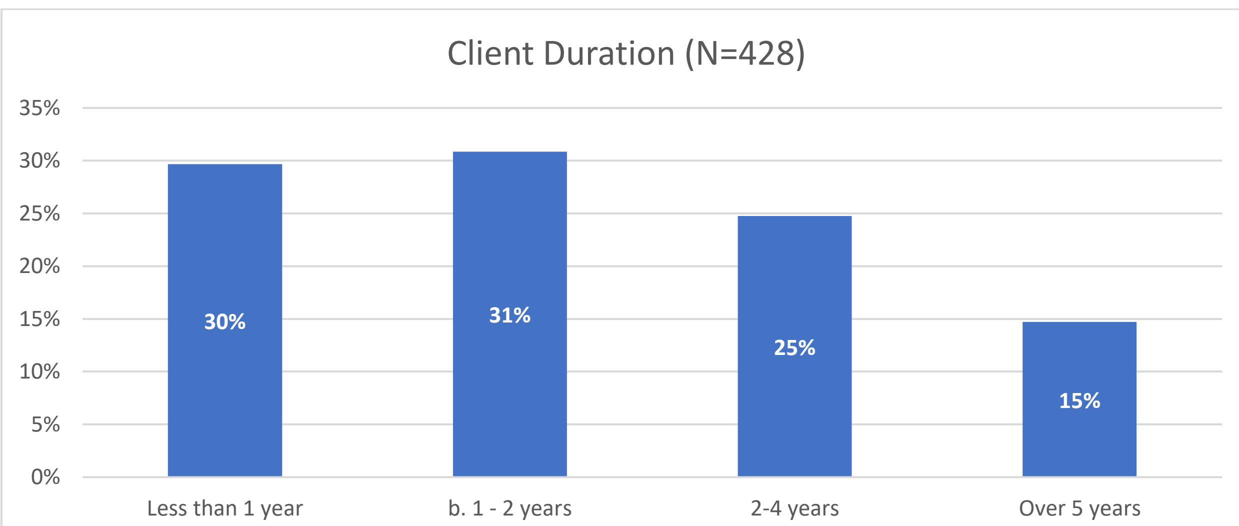
[4] PBS website (pbs.gov.pk)

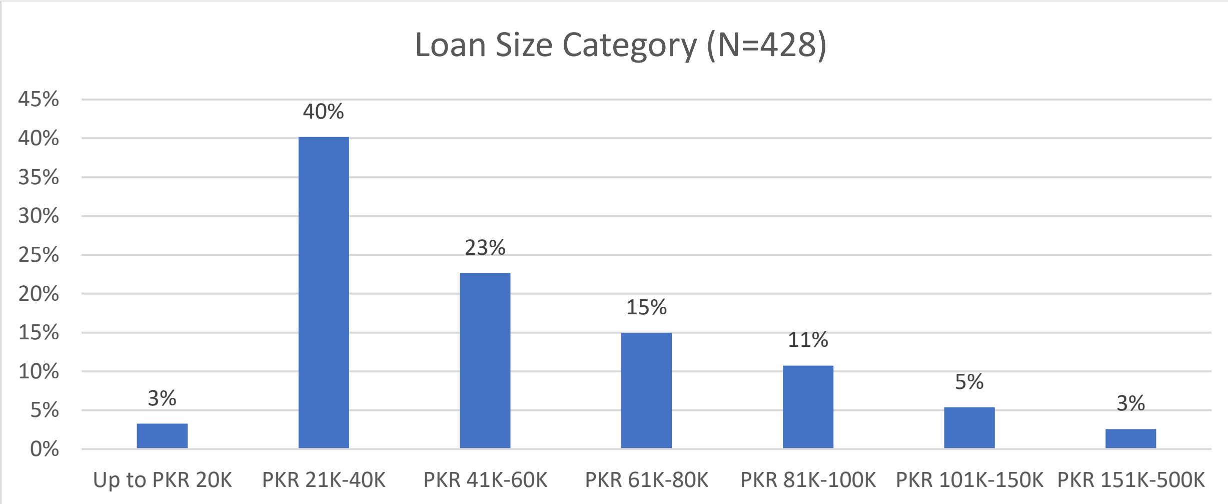
sample was more than double (69%) compared to female (31%) clients. While the focus of microfinance activities remains on low-income and rural populations with 51% outreach to women clients, our target population represented 41% of the total market share and the sample was based on proportional shares of participating MFP in the total active borrowers which resulted in sampling of more male clients compared to females.



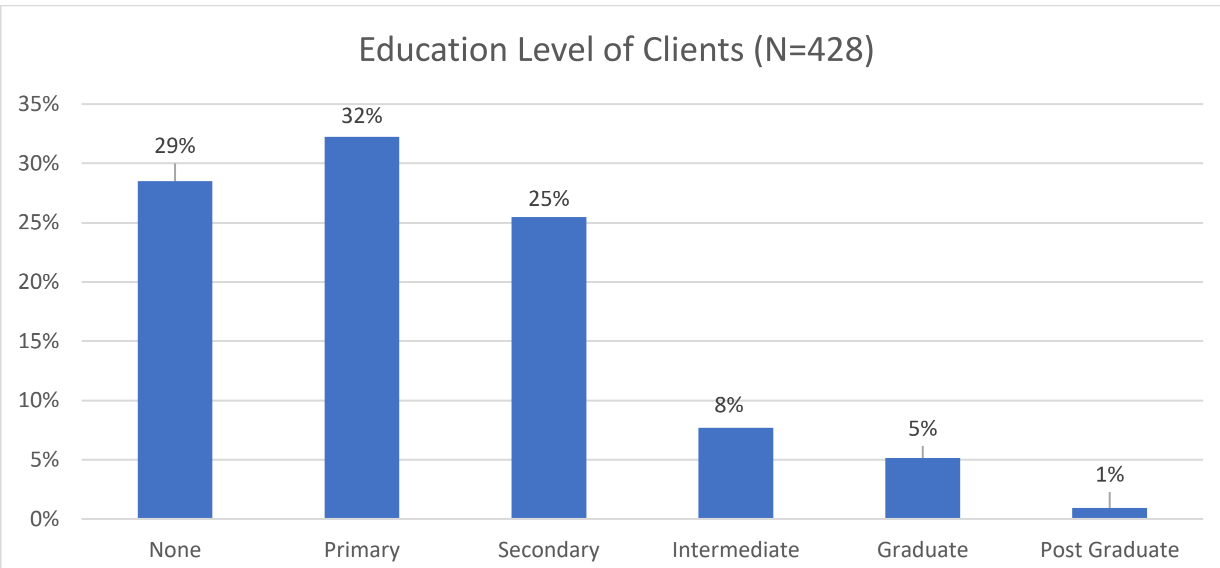


Out of the survey respondents, 30% had been affiliated with their respective microfinance providers since less than a year; 31% had been users of microfinance for 1-2 years; one-fourth between 2-4 years while 15% had been microfinance clients for over 5 years. A majority (40%) of the clients fell in the loan category of PKR 21,000-40,000. Cumulatively, almost 90% of the clients fell within the loan category of PKR 21K-100K.





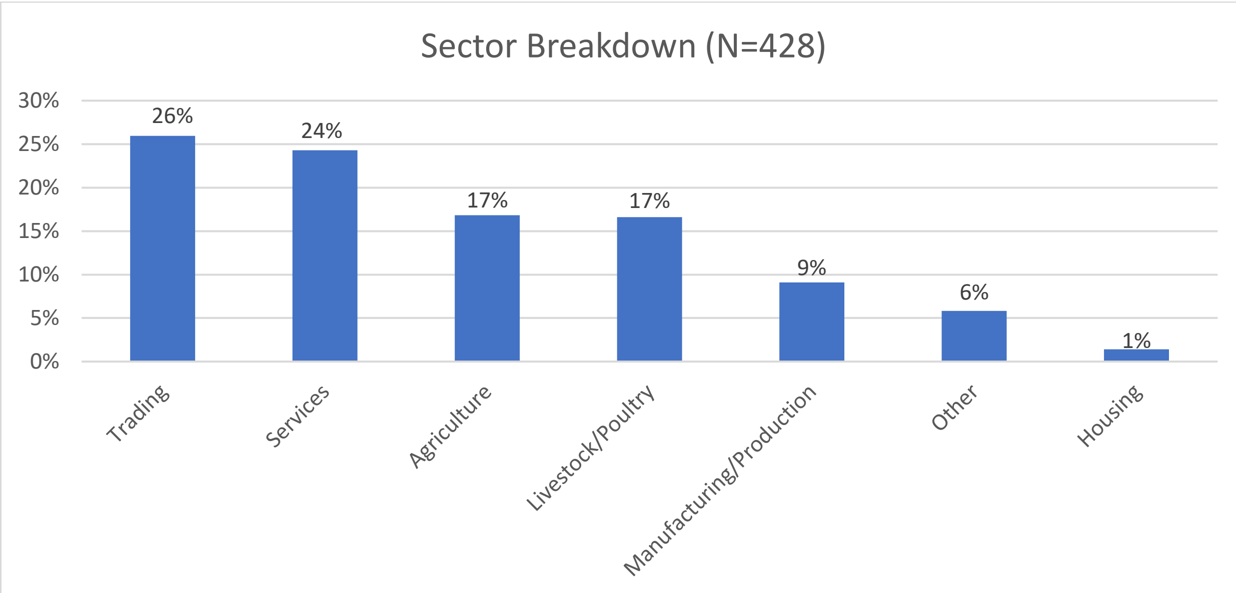
Overall, the literacy levels of the sampled MF clients were low; about more than half of the clients (57%) were educated up to the secondary level whereas 29% had never been to a school.



A majority of the clients (88%) were sole owners of their business whereas only 11% had up to 5 full time employees.

Client Businesses having full-time employees		
	N	%
Zero, I am the sole owner	377	88%
1-5 employees	46	11%
6-10 employees	4	1%
Over 20 employees	1	0%
Total responses	428	100%

The figure below shows the overall sectoral breakdown of client businesses. Almost half of the businesses fall in the trading (food, clothing, kiryana store etc.) or services (transport, tailoring, teaching etc.) sector, followed by agriculture and livestock/poultry at 17% each.

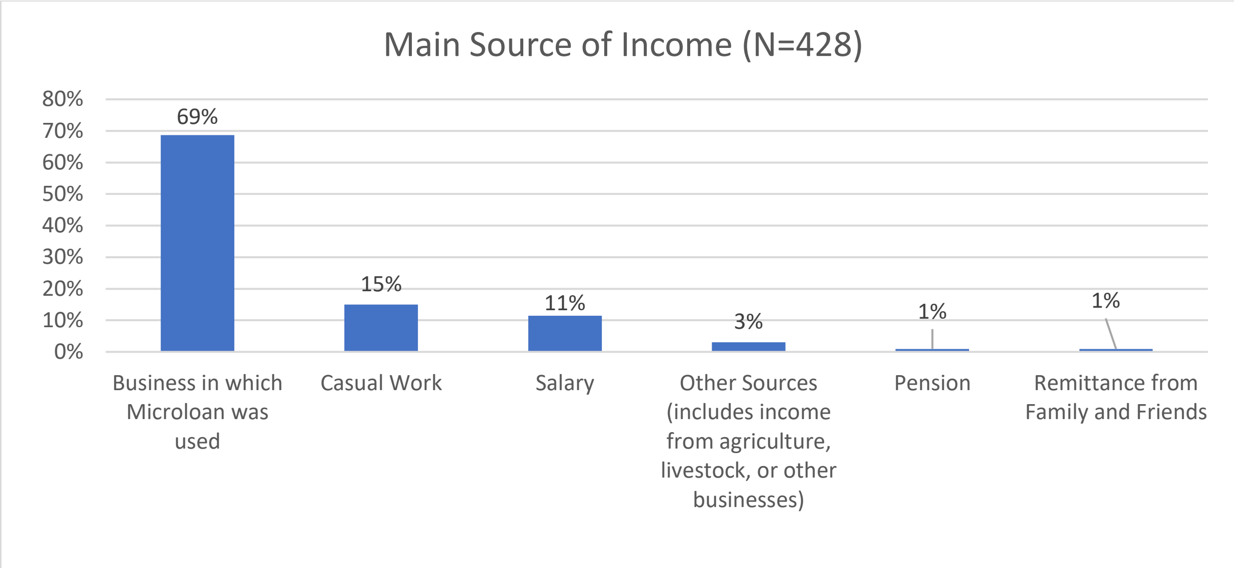


The profile described above is typical of an individual, micro and small enterprise, that is labour intensive and largely operating as a downstream enterprise involved in distribution, retailing and wholesaling of products and services.

Impact of Coronavirus on Clients' Household Income:

The survey attempted to capture the impact of coronavirus on the household incomes of the sampled microfinance clients, availability of emergency funds and their perceived financial sustainability.

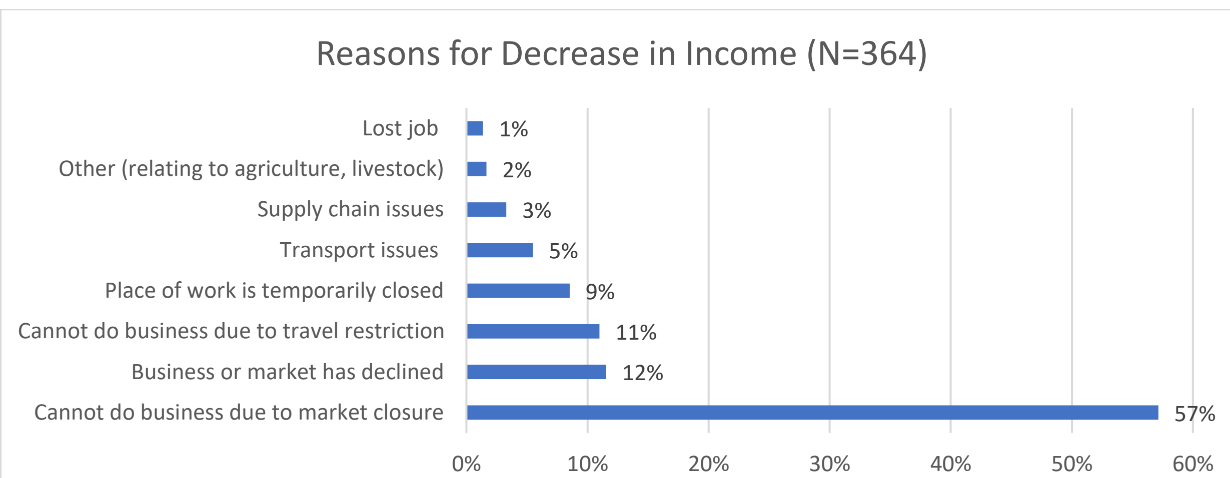
Low-income rural households generally tend to diversify their sources of incomes in order to meet their expenses. This survey inquired about their main source of income; more than two-third of the respondents stated that their main source of income was from the business in which their microloan was invested, and almost a quarter relied on salaries and casual work (taxi drivers, wage laborer, construction workers).



A total of 85% clients reported a significant or a somewhat decrease in income. Businesses and informal workers doing casual work have been most affected by the lockdown – which makes up 84% of the income sources in the figure above.

While PMN started data collection for the study towards the end of April 2020, another member MFP shared the results of telephonic interviews conducted between March 26th -27th of over 1000 of its clients. Almost 91% of clients reported decline in incomes. Another study[5] conducted interviews at the beginning of April 2020 also confirmed the same trends; 88%-91% of respondents in two distinct sample groups reported a decline in household income.

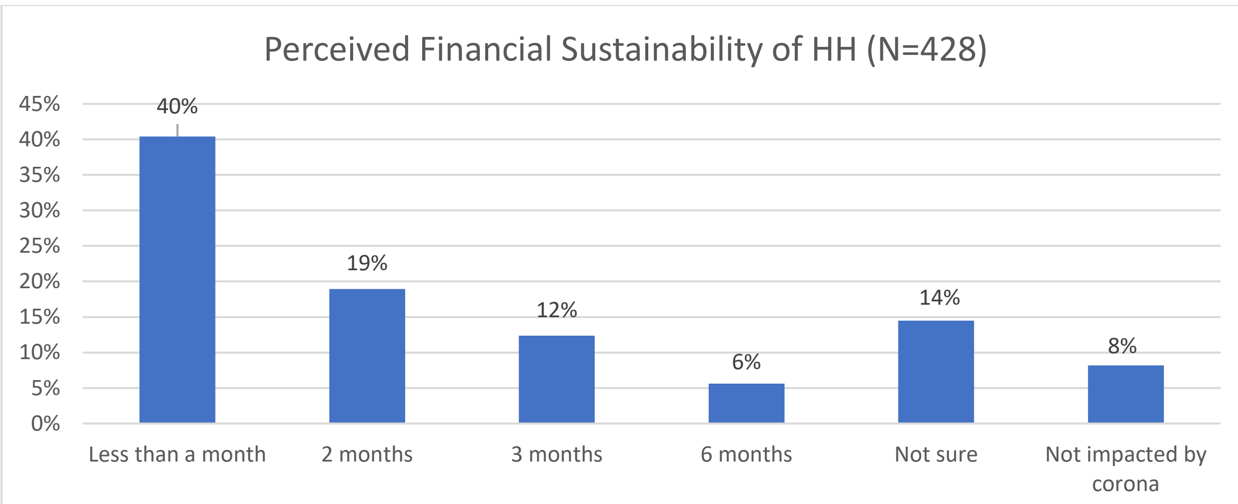
Out of those whose incomes had decreased, more than half (57%) cited market closure as the reason, followed by a decline in market demand (12%) and travel restrictions (11%) impacting mobility to earn a living.



[5] Malik, K., Meki, M., Murdoch, J., Ogden, T., Quinn, S., Said, F. (2020) *COVID-19 and the Future of Microfinance: Evidence and Insights from Pakistan.* Oxford Review of Economic Policy (special issue)

Only 12% reported no change in income while 3% stated that incomes increased significantly. Out of those whose incomes increased, most were selling food, essential goods, offering an essential service or were involved in healthcare.

Clients were asked about their financial sustainability in the current scenario; 40% said that they can sustain themselves for less than a month while the proportion of those sustainable for up to 2 months halved. Only 6% were in a position to sustain themselves for up to 6 months. In comparison, another member MFP providing microfinance primarily to women clients found that 67% of its clients could sustain themselves for a month only. These statistics present a dire picture for MFPs and governments as loss of livelihoods will worsen poverty and reverse positive advances achieved by financial institutions in improving financial capabilities of poor and rural households.

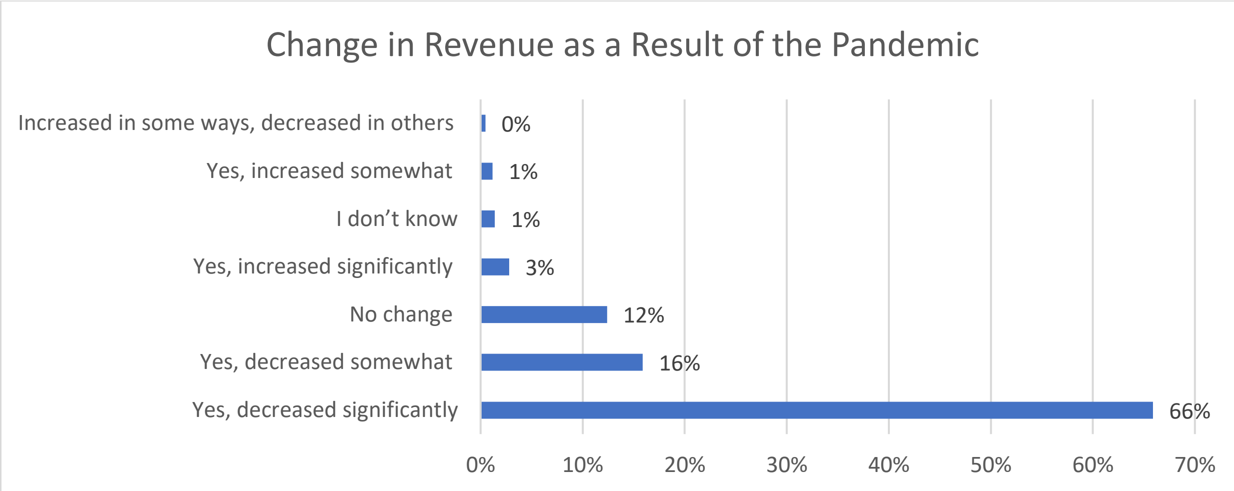


Out of the household that were adversely impacted due to coronavirus, a majority of them were extremely or somewhat confident that they will recover from the adverse financial effects. Only a small proportion said they did not expect to recover. These statistics give insights into how the impacted households are coping with losses in livelihoods and remaining confident about weathering the shock and returning to normalcy.

Impact of Coronavirus on Business Operations

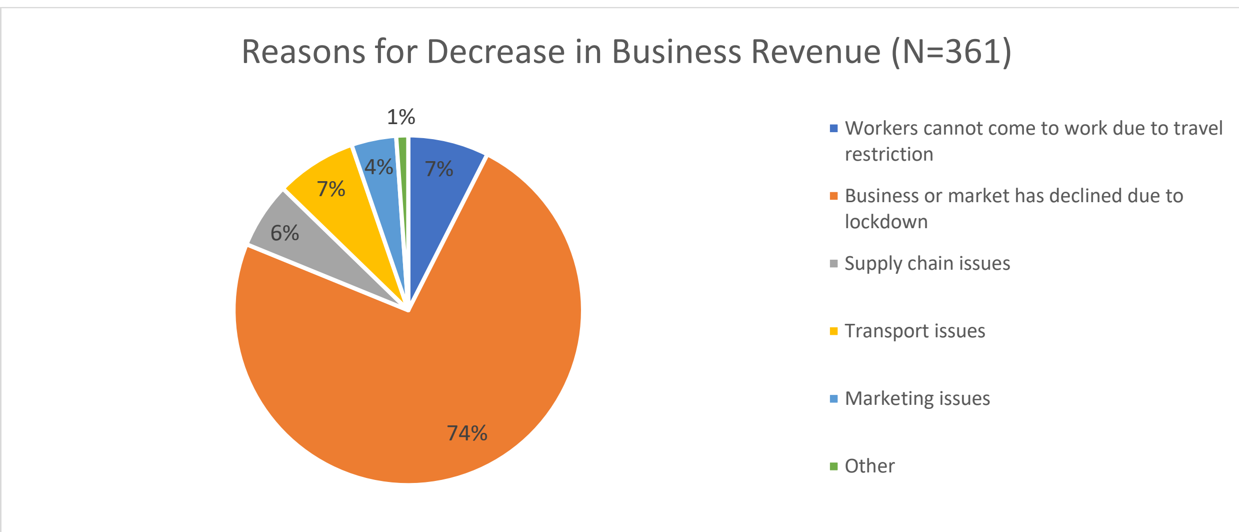
We asked respondents how the corona virus has impacted business operations and financial health of their businesses, whether they had emergency funds available to continue operations, confidence levels about recovery and the anticipated timeframe for returning to normal operations. Findings into the impact on business operations have been discussed in this section.

82% of the respondents reported that their businesses had been negatively impacted by the corona-virus pandemic; with 66% reporting a significant decline in revenue and 16% reporting some decline in revenue. A very small proportion of clients (4%) reported significant or some increases in revenue.

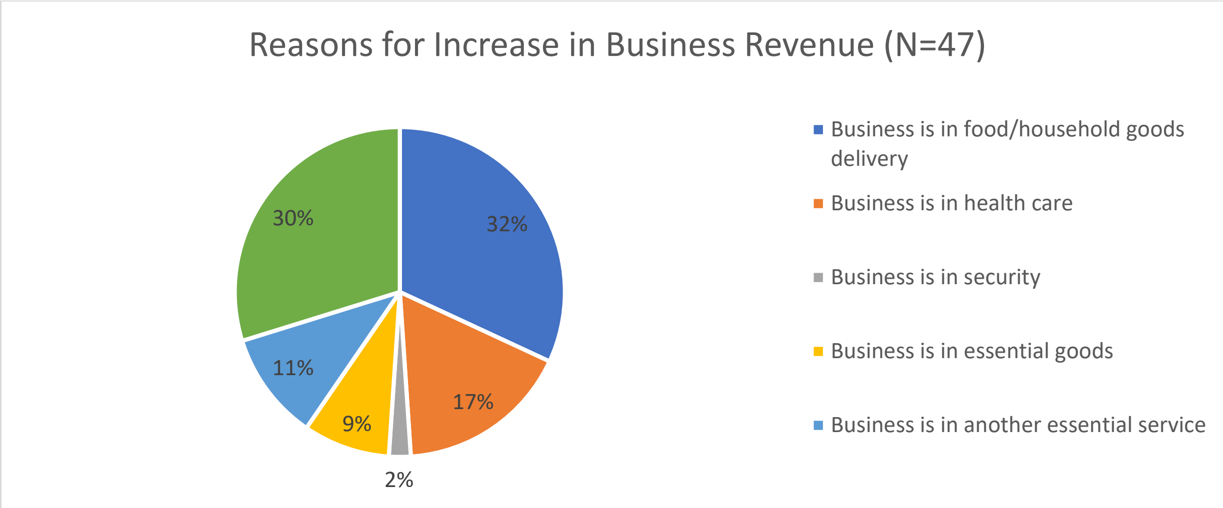


The study published in the Oxford Review of Economic Policy reported a dramatic fall in week-on-week sales; weekly sales fell by 92% on average. The majority of the respondents were concerned about their ability to open business if the lockdown persisted.

PMN survey inquired about the reasons for decline in business revenues. Almost three-fourths of the respondents cited a decline in market demand causing a decrease in business income; other lesser common reasons included travel restriction for workers, supply chain problems and transportation issues.

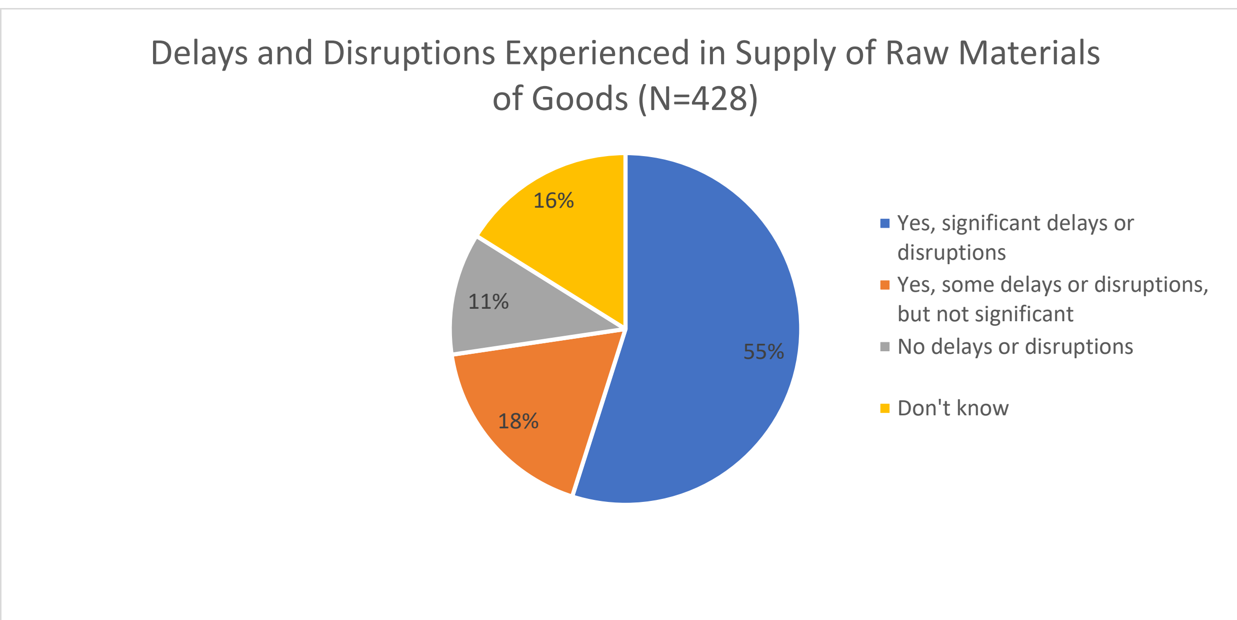


Only 11% of the respondents reported an increase in business revenue. Out of them most had businesses involving food/household goods delivery (32%), some were employed in other sectors, including construction, driving or salaried (30%), were involved in healthcare (17%) or provided other essential goods and services (20%).



In order to gauge availability of emergency funds, the clients were asked if they had funds to continue business or production operations in case revenues fell by half or more. Almost 60% reported that they did not have funds to continue in case revenues fell by half while 40% reported having emergency funds. On average, it was found that they have enough cash on hand to continue operations for 4.5 weeks.

When asked if their businesses experienced disruptions in supply of raw materials, slightly over half of the respondents (55%) reported significant delays and disruptions in supply of essential raw materials while 18% reported less significant disruptions. Almost a quarter did not face delays/disruptions or had no knowledge of delays.

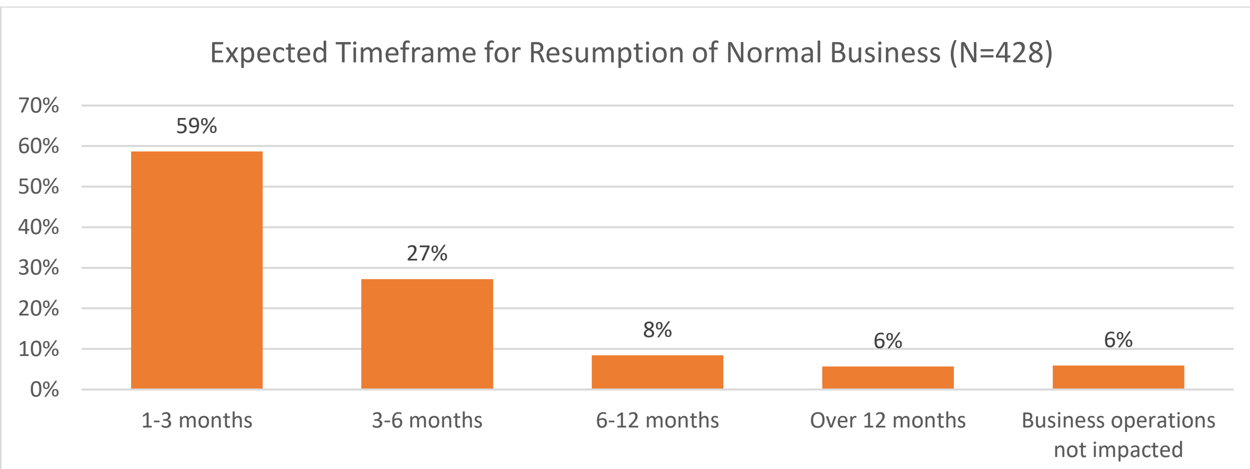


46% of respondents perceived significant detrimental effects of coronavirus on their businesses, while 29% reported business closures or expected closures; 13% expected some adverse effects. Only 7% did not expect any adverse effects.

Perception of Coronavirus adversely affecting financial soundness of business		
	N	%
Yes, I have already, or expect to have to close down my business	125	29%
Yes, there will be significant/disruptive adverse effects	198	46%
Yes, there will be some adverse effects, but not significant or disruptive	54	13%
No, I do not expect there to be any adverse effects	28	7%
I do not know if there will be any adverse effects	23	5%

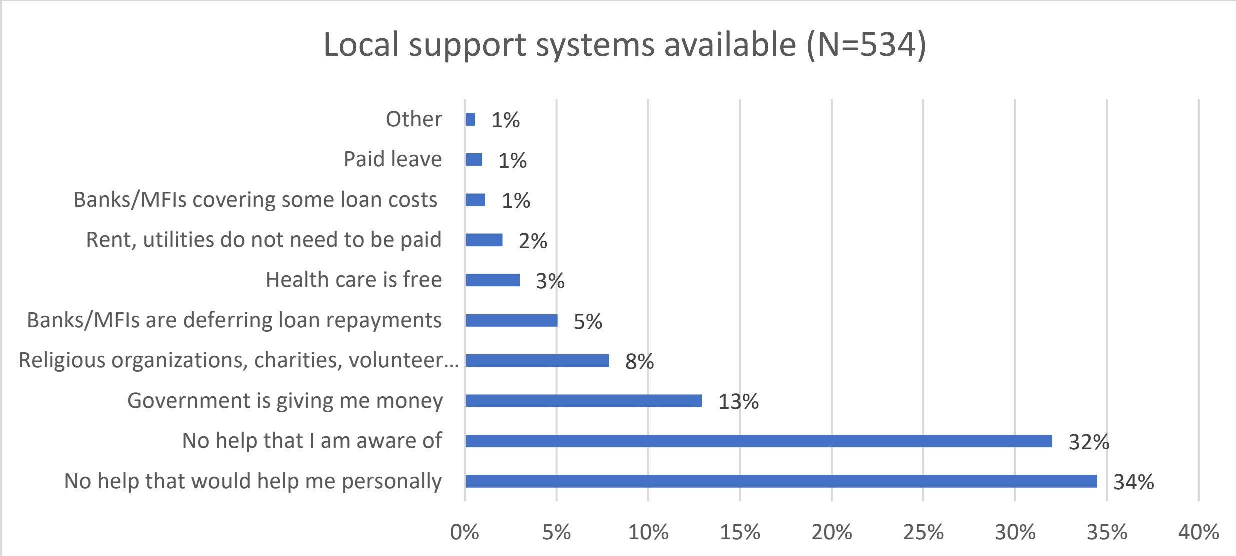
Despite the challenges faced, 77% of respondents seemed extremely or somewhat confident that their businesses would recover from the effects of coronavirus epidemic. However, 4% did not expect to recover to prior levels and 5% did not think their businesses would survive if the crisis continued.

Of the 94% who reported business operations being impacted, 59% of respondents reported resumption of normal business within one-three months while 27% reported the same in three-six months. A cumulative 14% reported recovery after six months, with 8% between six-twelve months and 6% beyond twelve months.

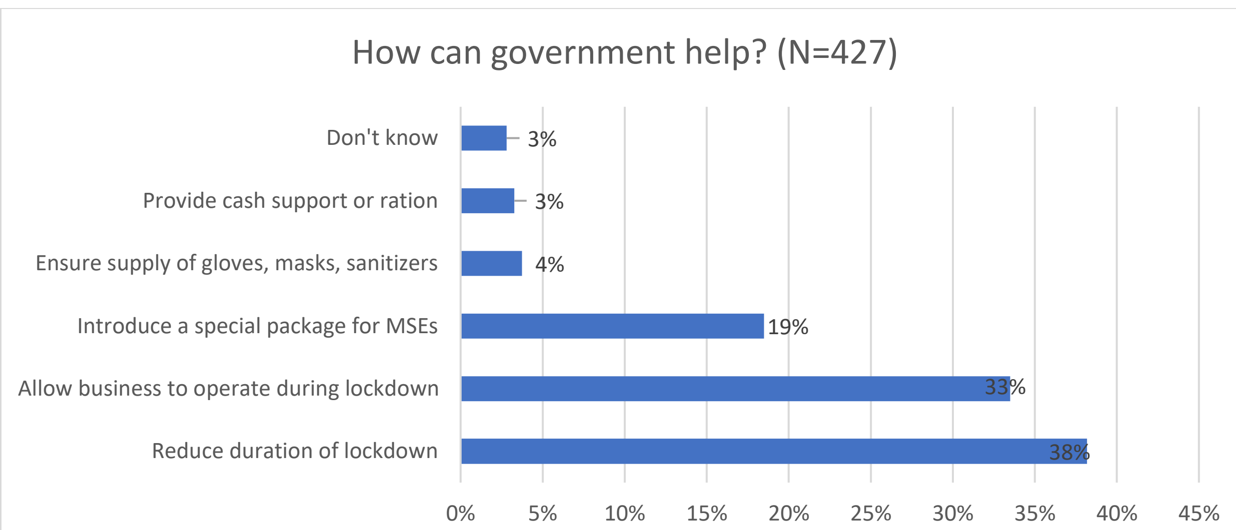


Level of Support Available and Required

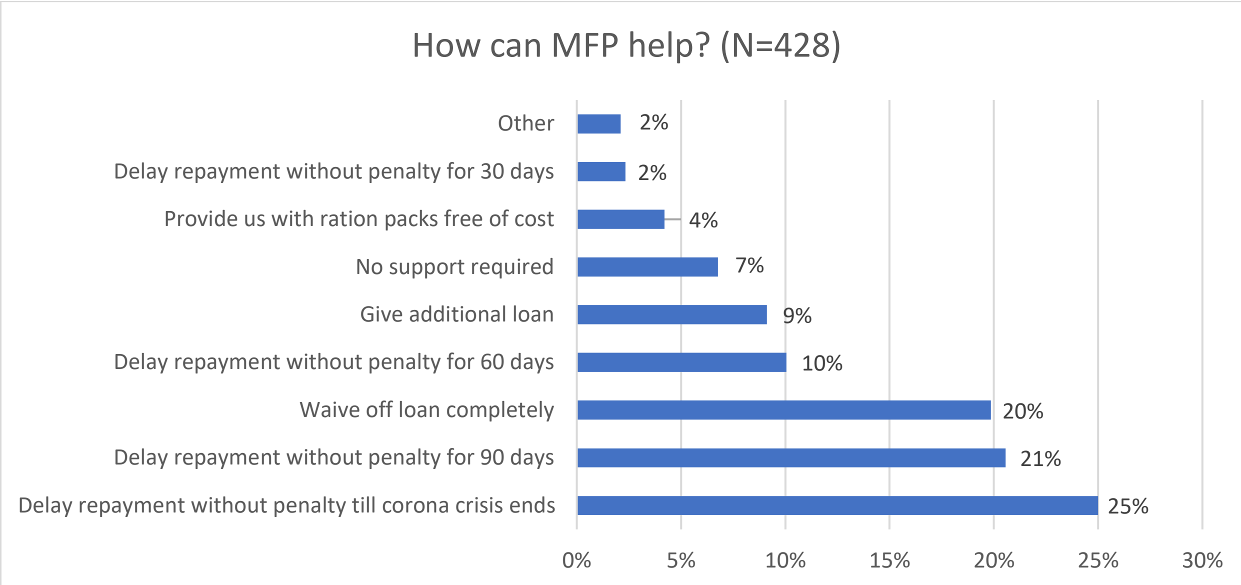
The respondents were asked about the support available in their locations in order to gauge the response of relevant authorities and address shortcomings, if any. Almost two-third respondents were not aware of any help in their location or did not find it useful for their situation. 13% reported that government was providing transfer payments whereas only 6% reported that banks were providing relief through deferred payments or covering cost related to transactions or loans. Despite the introduction of supportive policies by MFPs with respect to deferment of principal loan amount and other initiatives by charitable individuals/organization, there seemed to be a lack of awareness about the available support systems. This is an area that can perhaps be improved so that more people can benefit from the available options. The MFPs may consider improving communication with the client so that they are able to avail the deferment facility of the principal loan amount.



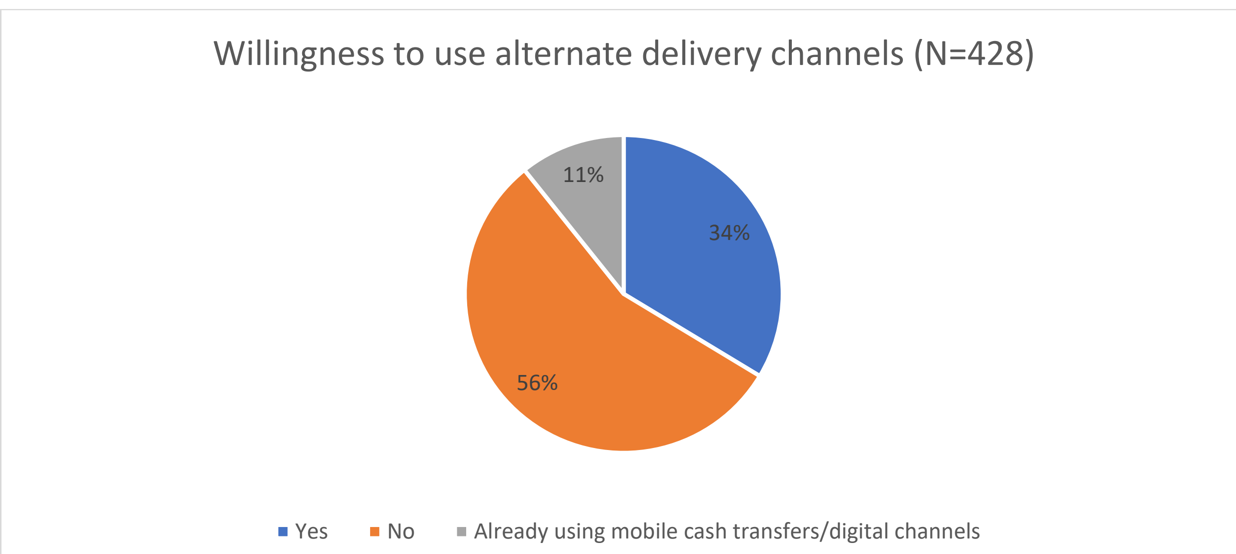
When asked, how the government can facilitate their businesses, a majority (38%) wanted the duration of lockdown to be reduced, followed by one-third clients that wanted permission to operate during the lockdown. Only 19% opined that government should introduce a special package for MSEs. Out of those that wanted the lockdown to be reduced, 64% belonged to urban/peri-urban areas while 36% belonged to rural areas. Sector-wise analysis revealed that a quarter (25%) of them were employed in the trading sector, 22% in agricultural sector, 21% each in services and livestock sector and 11% in manufacturing sector.



As far as support from MFP was concerned, more than half (58%) wanted MFPs to delay payments without penalty for 1-3 months or till coronavirus ends. Only 20% wanted their loans to be waived off completely; 9% wanted additional loans while 4% wanted free ration packs. Despite a significant stress on their cash flows, most of the clients were willing to repay their loans and preferred deferment without penalty. The willingness to repay was even higher in case of another MFP primarily focused on providing microfinance to women clients; only 11% of the sampled clients wanted loans to be waived off. The study published in the Oxford Review of Economic Policy asked if clients with an outstanding loan would be able to pay back full monthly repayment. Only 30% and 23% of two distinct samples stated that they were able to pay back the full monthly payment due on the loan.



We also found that the willingness to adopt digital channels for transactions was low in this segment. Out of the total respondents interviewed, only 11% were using digital means to receive or repay the loan amount while only 34% expressed willingness to switch to digital channels. However, more than half (56%) were not willing, or ready to adopt digital channels for the purpose of receiving or repaying loans. It would be useful to further understand the challenges faced by clients in shifting to digital modes and focus particularly on the pain points of digital adoption. According to the Financial Inclusion Insights Survey 2017, the top reasons for not using mobile money included lack of money (36%) to make transactions as well as a preference for cash (37%) by respondents. Almost one-fourth did not trust mobile money and 29% were not aware about mobile money. While a lack of funds may not be a relevant reason in this case, we can conclude that awareness about the utility of mobile money needs to be improved if its adoption is to be increased. Once its utility is demonstrated, a shift from cash to digital can then be accelerated.



Key Takeaways

Based on the data analysis presented above, we can conclude that MSEs are facing significant challenges in continuing their business due to reduced consumer demand, declining revenues and limited availability of emergency funds or other support structures in their locations.

- Almost 85% respondents reported a significant or a somewhat decrease in household income.
- In current circumstances, 40% clients claimed that they are capable of sustaining themselves for less than a month whereas the proportion of those capable of sustaining themselves for up to 2 months halved (19%). Only a small proportion of clients (6%) were in a position to sustain themselves for up to 6 months.
- 82% of the respondents reported that their business had been negatively impacted by the coronavirus. Out of those affected, three-fourth cited a decline in market demand as the main reason for decrease in business income; other lesser common reasons included travel restriction for workers, supply chain problems and transportation issues.
- Slightly over half of the respondents (55%) reported significant delays and disruptions in supply of essential raw materials while 18% reported less significant disruptions.
- Despite the challenges faced, 77% of respondents seemed extremely or somewhat confident that their businesses would recover from the effects of coronavirus pandemic.
- Almost two-third respondents were not aware of support available in their locations or did not find it useful in these circumstances. The MFPs may consider improving communication with their clients so that they are able to avail the deferment facility of the principal loan amount.
- Almost 58% wanted repayment of loans to be delayed whereas only 20% wanted the loans to be waived off completely. Despite significant stress on their cash flows, most of the clients were willing to repay their loans and preferred deferment without penalty.
- Willingness to use digital channels seemed to be low in this segment of clients. Stakeholders (financial institutions, regulators, donors etc.) interested in increasing the adoption of digital platforms must understand the challenges of this particular segment vis-à-vis technology and connectivity. A deep dive into their preferences and attitudes will enable MFPs to understand this segment better and design strategies to overcome their pain points.