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Small businesses, big impacts: Pandemic, small and micro enterprises and fair recovery in Pakistan

Fareeha Adil

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Acknowledgement

Abstract

The COVID-19 pandemic and the subsequent policy measures in response had a significant impact on small and micro enterprises in Pakistan, exacerbating existing challenges and creating new inequalities for owners and workers of these enterprises. This study aims to explore the impact of the pandemic on small and micro enterprises in Pakistan. In particular, it looks at their financial health, the adverse effects on workers, and the coping strategies of owners and employees. The study highlights the urgent need for the Pakistani government to take action and implement measures to ensure the sustainability of small and micro enterprises in a post-COVID world, in alignment with SDG targets 1, 5, 8, and 10.

To collect data, we used a mix of qualitative and quantitative research methods. It included survey instruments, interviews with key informants, and focus group discussions with small and micro enterprise owners, workers, and industry experts. Structural equation modelling (SEM) was utilised to measure the impact of COVID-19 on enterprises and workers. The Binary logit estimation technique was employed to measure the impact of the pandemic on small-scale enterprises, while the multinomial technique was used to measure the impact of the pandemic on small and micro enterprise owners. The findings suggest that the lockdowns resulted in decreased production activities, affecting both demand and supply, which in turn created a notable effect on the financial health of small and micro enterprises. It led to significant inequalities between and within these enterprises and the workers therein, thus highlighting the need for urgent policy action to address these issues.

Author

Fareeha Adil is a research fellow, economic cluster and heads Centre of Evidence Action Research at Sustainable Development Policy Institute (SDPI). She is a PhD Economics. Her core areas of research are financial Inclusion, evidence-use in policy, social protection, education, gender, SMEs, women entrepreneurship, SDGs, economic policy.

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Acronyms and abbreviations

FGD	Focus Group Discussion
SMEs	Small- and Medium Enterprises
SEM	Structural Equational Modelling
KII	Key Informant Interviews
SDGs	Sustainable Development Goals
SMEDA	Small & Medium Enterprise Development Authority
RMSEA	Root Means Square Error of Approximation
CFI	Comparative Fit Index
TLI	Tucker Lewis's Index
IT	Information Technology
KP	Khyber Pakhtunkhwa
MSMEs	Micro, Small, and Medium Enterprises

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Introduction

The COVID-19 pandemic has presented significant challenges for South Asia. The region struggled to cope with a range of pandemic-related issues such as disruptions in demand and supply chains, cash shortages, high poverty rates, inadequate healthcare infrastructure, limited social protection systems, and a tightening of already stretched fiscal budgets. Moreover, the region's high population density made it more difficult to implement social distancing measures and contain the spread of the virus, leading to a higher number of infections and deaths (Salman et al., 2022). Prolonged lockdowns, resulting from the pandemic, greatly curtailed economic activity as evidenced in many countries' gross domestic product (GDP) figures. Relatedly, Pakistan experienced a significant economic downturn due to the pandemic (Saad Zaidi, 2023). GDP growth dropped from 5% in 2018 to 0.4% in 2020, highlighting the severe economic effects of the pandemic and associated lockdowns (Pakistan Ministry of Finance, 2021) . Moreover, over 12 million employees suffered layoffs as a result of the country's slow economic recovery (Rasul et al., 2021).

> **70% of SMEs owners reported impacts on the production and operations due to lockdowns during COVID-19 pandemic.**

In Pakistan, the pandemic exacerbated inequalities between owners and workers of micro, small, and medium enterprises' workers (MSMEs) and larger enterprises. The economic fallout from lockdowns led to many MSMEs closing, causing entrepreneurs to accrue debt and leaving employees jobless (Aftab et al., 2021). Factors such as decreased demand for goods and services, movement restrictions, limited market access, insufficient and ineffective government support, and disruptions in supply chains contributed to these businesses' financial losses, heightening their vulnerability to future challenges.

The adaptability of MSMEs to pandemic-related challenges differed based on several factors including sector, size, availability of financial support, and the ability to pivot operations quickly (United Nations Conference on Trade and Development [UNCTAD], 2020). While some MSMEs transitioned successfully to online sales or adapted their business models, others struggled to survive.

Notably, 97% of Pakistan's MSMEs primarily operate within the informal sector, which is largely composed of micro- and small-enterprise employees (Business Recorder, 2021). The International Labour Organization (ILO, 2020) noted that informal workers, lacking the same social protections and financial support as formal workers, were also affected by the pandemic. In Pakistan, the informal sector contributes to over one-third of the GDP (Khan, 2020) and employs nearly 75% of the working-age population, about half of whom are women, according to the 2020-2021 Labour Force Survey (Government of Pakistan Ministry of Planning, Development & Special Initiatives, 2022).

Existing studies provide a broad overview of the impact of the pandemic on small and micro enterprises (ILO, 2021). However, missing from the literature and the discourse on the impact of the pandemic on small and micro enterprises is a nuanced understanding of i) channels through which the pandemic affected these businesses, workers, and enterprise owners and ii) the factors that enabled some of these businesses, owners, and workers to be more resilient than others. To address this gap, a mixed-methods approach can be adopted to gain a more comprehensive understanding of pandemic-induced shocks in Pakistan.

The strategy of studying the pathways and channels of impact is advantageous because it helps to identify the specific areas where policy interventions can have the greatest impact. Relatedly, the pandemic's impact on small businesses, workers, and owners varies based on several factors. These factors include a worker's age, migration status, skill level, education, and gender, as well as the size, industry, and health status of businesses. With this detailed understanding, policymakers can develop targeted responses that address the most pressing needs.

The subsequent section of the study includes a brief literature overview regarding the impact of the COVID-19 pandemic on small and micro enterprises (SMEs) in Pakistan. Following, the data collection method is discussed in which the collected data is analysed through the structural equational modelling (SEM)—estimating for causal and correlative relationships along with the Logit model for discrete analysis. The study presents findings on how the pandemic affected both the demand and supply sides of the businesses leading to cancelled orders, transportation issues, labour shortages, and reduced access to finance. These findings are followed by policy recommendations

based on the literature review and findings related to addressing and mitigating COVID-related inequalities and advancing the SDG targets.

Literature review

The study engaged in a review of the literature concerning articles in peer-reviewed academic journals, research reports, synthesis reports, and policy reports on small and micro enterprises against the backdrop and multifaceted impact of the pandemic on SMEs in Pakistan. The study analysed how the pandemic affected workers and small business owners, their response strategies, and their recovery level, based on literature review. The literature review highlights the vulnerability of small and micro enterprises, women-led businesses, and informal sector workers to the shock of the pandemic as well as the global impact it has had on the job market and the economy. It provides insight into the specific channels through which these businesses, their workers, and their owners have been affected. Additionally, it identifies the factors that enabled some of these enterprises to be more resilient than others. The review also brings attention to the gendered impact of the pandemic, including the exacerbation of existing gender inequalities. The literature review section is structured systematically using the following keywords: COVID-19, pandemic, MSMEs, business owners, workers, recovery, resilience, gender inequality, policies, and Pakistan. It starts with a broad analysis of the impact of the pandemic on global and Pakistan's SMEs. It then narrows down to studies on specific challenges faced by these enterprises, and the role of informal sector and gender aspects in Pakistan's economy.

The impact of the COVID-19 pandemic on MSMEs in Pakistan has been substantial as they make up a significant portion of the country's economy, accounting for 90% of all businesses and contributing 40% to the national GDP (Asian Development Bank [ADB], 2021). The pandemic's direct effects on these enterprises have negatively impacted the Pakistani economy, as reported by the ADB (2020), which showed the economy contracted by 0.4% due to the outbreak.

Moreover, the Small and Medium Enterprise Development Authority (SMEDA) in Pakistan conducted a survey of 920 businesses to understand the impact of the COVID-19 pandemic on SMEs. The results showed that these businesses are highly vulnerable to the outbreak, with 95% reporting a decrease in their operations. The supply chain failures caused deficiencies in supplies for 92% of SMEs, and 23% reported a complete loss due to the cancellation of all their export orders. The lockdown also led to 48% of SMEs having to lay-off workers, while 89% reported being in financial difficulty as a result of the pandemic (Khaliq et al., 2022).

Shafi et al. (2020) conducted a descriptive study to investigate the impact of the pandemic-induced lockdown on SMEs in Pakistan. The study revealed that a significant proportion of entrepreneurs were unprepared for the sudden imposition of the lockdown and did not have contingency plans in place to mitigate its impact. The challenges faced by SMEs were multifaceted, including declining sales, profits, and demand; supply chain disruptions; and increased transportation costs. These challenges were further compounded by the absence of conventional strategies used by businesses for growth and development, such as collaboration with suppliers, customers, and competitors. For example, Shafi et al. (2020) conducted a quantitative study that explored the effects of cooperation on handicraft micro firms. The study found that cooperation, combined with innovative capability, led to sustainable business development. However, during emergencies like the lockdown caused by COVID-19, such cooperation became difficult or even impossible, putting all business stakeholders at risk.

A significant portion of informal workers are employed in agriculture, making it more prevalent in rural areas. However, even in urban areas, informal work still accounts for a significant share, with nearly 69% of workers employed in the sector. The ADB (2016), notes that over 90% of businesses with 50 employees or fewer in Pakistan operate informally[1].

In this regard, the COVID-19 pandemic has brought to light the existing inequalities and vulnerabilities of informal workers in Pakistan. With the implementation of lockdowns and business closures, many of these workers have suffered job losses and financial difficulties, without access to formal social support systems. Unfortunately, crisis relief programs have often overlooked these workers, who lack formal connections to government and businesses and are typically excluded from established social protection programs like tax breaks and cash transfers. As a result, these workers have been disproportionately impacted by the pandemic, highlighting the need for more inclusive policies to support and protect informal workers in Pakistan (Javed, 2021).

A study by Mustafa et al. (2021) on the challenges faced by women-owned businesses in Pakistan during the COVID-19 lockdown revealed significant hardships. Women entrepreneurs experienced a decrease in business activity due to restrictions on movement and commerce, less household income, lifestyle changes, and declining mental health. This underscores the need for targeted support and the importance of addressing the unique challenges faced by women in business. Moreover, the Ministry

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1 Operating informally in Pakistan refers to businesses or workers who are not registered with the government and do not adhere to formal regulations and requirements, including tax payments, licensing, and labour laws. This typically applies to businesses with up to 50 employees (ADB, 2016).

of Human Rights et al. (2020) confirms the pandemic's substantial impact on women in Pakistan. School closures and the suspension of public institutions imposed a greater care work burden on women, exacerbating existing gender inequalities and impacting their economic security (Thompson, 2023). Professions dominated by women, like home-based employment and teaching, suffered immensely due to school and college closures, transit suspension, and budgetary constraints, leading to significant job and income losses for women. This has heightened their vulnerability, putting them at risk of further job losses.

Methodology

The primary objective of this study is to investigate the challenges faced by small and micro enterprises in Pakistan during the COVID-19 pandemic. The study focuses on several key aspects, including the impact on employment, coping mechanisms employed by enterprises, and the effectiveness of implemented measures to alleviate negative consequences. Furthermore, the study aims to explore the emerging or exacerbated inequalities among small and micro enterprises due to the pandemic, as well as its impact on progress towards achieving the Sustainable Development Goals (SDGs). To accomplish these objectives, the study addresses the following research questions:

- How did the pandemic differentially impact small and micro enterprises based on factors such as age, migration status, skill or education level, gender (for workers), and size, sector, and health indicators of the firms (for entrepreneurs)?. For the sake of this study, micro-enterprises are defined as those enterprises that have five or fewer employees, and small businesses are those that have 50 employees or less.
- What were the specific channels through which the pandemic affected small and micro enterprises?
- How did the adverse impact on these businesses affect the workers employed in these enterprises?
- How did the adverse impact on these businesses affect their owners and entrepreneurs?
- What government policies were implemented to mitigate the adverse impact of the pandemic on small and micro enterprise owners and workers?

Data and methodology approach

A mixed-methods design approach—using both quantitative and qualitative research methods—was used to examine differentiated joblessness, comprehend enterprises' coping mechanisms, and identify the governing systems that can support small and micro enterprises to rebuild. The mixed-methods approach can holistically analyse the pandemic's impact on businesses by considering factors like size, sector, location, and socio-economic status of owners and workers. Such an approach can also capture the diversity of experiences and perspectives of different stakeholders, including the barriers they face, the decisions they make, and the policy approaches that may be relevant in different contexts. Understanding these contextual influences, can support the development of more effective and targeted responses for small businesses and their workers. The reason behind the adoption of mixed methods is to develop a nuanced understanding of the pathways that are crucial in developing policy responses to the pandemic-led disruptions and thereby the negative impact on SDGs can be limited.

In addition to this, the research design also incorporates an inequalities framework to explore how social, economic, and political inequalities shape the experiences of different groups—including women, marginalised communities, and informal workers—identifying the strengths and weaknesses of existing policy approaches. Furthermore, structured questionnaires have been used to collect primary data, along with key informant interviews and focus group discussions (FGDs) with small and micro entrepreneurs, workers, and experts. The empirical analysis uses a 'path analysis model', suitable for observed variables in our primary data. This model graphs the direct and indirect relationships between variables. It helps visualise multiple interrelated equations and estimates effects of mediating variables. Variables not influenced by others show no error term, while those influenced by others do. The model also tests if the effect of one variable on another passes through a third, a process called 'mediation analysis'.

Data collection tools

Both qualitative and quantitative tools have been used to collect the primary data. The qualitative information obtained through key informant interviews (KIIs) and FGDs, have helped to develop valuable insight into the results of the quantitative survey of SMEs. The following exhibit depicts the process flow of each of the tools.

To ensure a diverse and representative sample of enterprises, the selection process utilised a combination of non-random purposive sampling and random sampling methods. The sample frame was first obtained from data available at the Chambers

of Commerce and SMEDA for the provinces of Punjab and Khyber Pakhtunkhwa, which are considered to be key enterprise hubs in Pakistan. Then, a random selection of micro and small enterprises across various sectors was carried out from the extensive list of enterprises. Micro-enterprises are identified as those five or less employees; and small businesses are those with 50 employees or less.

For the qualitative analysis, semi-structured, in-depth interviews were carried out with small and micro enterprises, and FGDs were held with workers, while expert interviews involved provincial government officials who implemented relief interventions and organisations dealing with enterprises. The study incorporated 60 phone or in-person surveys and 10 comprehensive interviews with small and medium enterprises. Moreover, four FGDs were conducted, each involving at least 10 workers. Additionally, five key expert interviews were conducted with government officials and academics specialising in SME-related issues.

Key informant interviews

The KIIs were conducted to analyse the interests of stakeholders in this study of small and micro enterprises in Pakistan. Their input can inform policy decisions and the development of programs and initiatives to support the growth and sustainability of these enterprises in Pakistan post-pandemic disruption. In total, eight stakeholder interviews related to SMEs were conducted. This included two interviews with the SMEDA main office, one interview with the SMEDA regional office in Peshawar, one interview with the Planning & Development Department in Lahore, one interview with the Small Industrial Development Board in Peshawar, one interview with the Peshawar Chambers of Small traders and Industry, and two interviews with the Women Chamber of Commerce and Industry in Lahore. Notable experts involved in the study include the Co-founder and Senior Vice President of the Women Chamber, a textile business owner, and the Chairman of SMEDA.

> **Businesses whose operations were suspended during the pandemic cited a reduction in demand, lockdowns, and a shortage of material supply as the primary reasons.**

The experts were selected to represent different stakeholder groups, such as government organisations, small businesses, and women entrepreneurs (see Appendix 1).

Also, key informants were chosen because of their deep understanding of the challenges and opportunities facing SMEs and micro enterprises in their respective regions and sectors. They provide valuable insights into the factors that impact the success of small businesses and workers of these enterprises in Pakistan, such as access to finance, supply chain disruptions, and gender bias in financial access.

In-depth interviews

To glean insights into the experiences of small and micro enterprise owners, we conducted ten in-depth interviews (see Appendix 2). The group of interviewees was carefully balanced to capture a diverse range of perspectives: five of the participants were male, five were female, and the enterprises they owned were evenly split between small and micro entities. Primarily, these participants hailed from rural areas or outskirts of the provincial capitals and economic hubs such as Peshawar (in Khyber Paktunkhwa) and Lahore (in Punjab).

The in-depth interviews of owners helped develop valuable insight into the results of the quantitative survey of small and micro enterprises. They provide a more nuanced and detailed picture of the challenges and opportunities facing small businesses, which can be used to reflect on how to better support this crucial sector growth and sustainability. Moreover, in-depth interviews can also help to uncover unanticipated or undocumented issues that may not have been captured in the quantitative survey (Boyce & Neal, 2006).

Focus group discussions

Through the FGDs, the study aimed to gain insights into the challenges faced by MSMEs during the pandemic by conducting focus group discussions with male and female workers. The participants were mostly located in rural areas and the outskirts of the provincial capitals of Peshawar (Khyber Paktunkhwa) and Lahore (Punjab). In Punjab, eight females and nine males participated, while in Peshawar, eight males and seven females participated. The male participants from Lahore were mostly labourers in small and micro enterprises while the female participants were tailors, hospital workers, tutors, and teachers. In Peshawar, the male participants were textile workers, textile business owners, mobile accessories shop owners, shopkeepers, farmers, and car tire suppliers. The female participants were mostly tailors.

A sample of 75 firms were targeted. In order to reach the most enterprises, the provincial capitals of Punjab and Khyber Pakhtunkhwa have been selected. Since both the cities of Lahore and Peshawar are the national hub of enterprises, they provide an accurate representation of the dynamics of small and micro enterprises within the

country. These firms were mainly taken from the manufacturing, textile and leather & information technology (IT) sectors.

Empirical models and estimation techniques

The study used a variety of empirical methods to investigate the impact of COVID-19 on small businesses in Pakistan, aiming to provide a comprehensive analysis and practical recommendations. Structural equation modelling (SEM) was specifically employed to gauge the pandemic's effect on workers. SEM has the ability to measure unseen variables and quantify their relationships, allowing for a robust testing of theories and assumptions.

Unlike traditional regression analysis, which does not account for potential inaccuracies in measurements, SEM acknowledges possible measurement errors in the variables. This quality enhances the accuracy of the model and its predictions, accommodating real-world 'noise' in data.

In addressing the COVID-19 impacts, SEM mitigates measurement errors, allows for simultaneous multiple equation handling, reciprocal relationships, and measures indirect effects and mediating variables. This holistic strategy boosts the robustness of the analysis, capturing complex interrelated effects of the pandemic.

The SEM method was used to analyse both workers and small business owners. First, it measured the impact of pandemic-related factors on workers by observing changes in the total number of workers, to identify reasons for reduced employment in small businesses. Second, it assessed the impact of the pandemic on the owners of these enterprises.

The impact of COVID-19 on permanent workers[2] was measured using the Ordinary Least Square (OLS) method of estimation. Mathematical Specification of this model is as follows.

$$PW_i = \alpha_1 + \alpha_2 UW_i + \alpha_3 Layoff_i + \alpha_4 fin\_prob_i + \alpha_5 govts\_upp_i + \alpha_6 predict_i + \alpha_7 union_i \\ + \alpha_8 bank\_acc_i + \alpha_9 total\_emp_i + \varepsilon_i \qquad (1)$$

Equation (1) uses the number of Permanent Workers "PW" as a dependent variable. The independent variables include "UW" (percentage of employees unable to work),

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2 A permanent worker is an employee who, following the successful completion of a three-month probationary period, has remained with the company for a minimum total of nine months.

"Layoff" (percentage of employees laid off), "finprob" (binary representation of SMEs facing financial problems), "govtsupp" (binary representation of government support), "predict" (income predictability), "union" (worker association with trade unions), "bankacc" (binary representation of enterprises having a bank account), and "totalemp" (total number of employees).

A Binary Logit estimation technique was used to assess the pandemic's impact on small and micro enterprises. This model helps understand how changes in these factors influence the decision to keep businesses operational or not.

$$BO_i = \alpha_1 + \alpha_2 fin\_prob_i + \alpha_3 shortRM_i + \alpha_4 export_i + \alpha_5 profit_i + \alpha_6 invest_i + \alpha_7 IT_i + \varepsilon_i \quad (2)$$

Here, *"BO_i"* is a binary dependent variable (Yes/No) that represents whether the business was operational during the pandemic or not. "Finprob" represents financial problems faced by the firms, "shortRM" represents the shortage of supply of raw materials, "export" represents whether the pandemic affected the exports of the business or not, "profit" represents the net profit, "invest" represents the investment during COVID-19 and lastly, "IT" represents the use of digital IT in the business.

Lastly, a multinomial logit regression was used to measure the impact of the pandemic on the income of small and micro enterprise owners. In this exercise, the change in the income of the owners was taken as a dependent variable. It is categorical in nature with the following categories: *Moderate Increase, Moderate decrease, High Increase and No Effect.* The specification of this model is displayed below:

$$Income_i = \alpha_1 + \alpha_2 fin_i + \alpha_3 cash_i + \alpha_4 work\_home_i + \alpha_5 profit_i + \alpha_6 operation_i + \varepsilon_i \quad (3)$$

Here, "fin" represents finances during the lockdown, "cash" represents cash flow difficulties, "workhome" represents working from home, "profit" represents net profit and "operation" represents the status of the business operations.

Secondary data analysis

The study used the "Supporting Export Competitiveness amid COVID-19 in Pakistan Survey" conducted by Foreign, Commonwealth and Development Office (FCDO) and Sustainable Development Policy Institute (SDPI) to analyse the various impacts of COVID-19 on businesses and workers in Pakistan. This data helped investigate the coping mechanisms employed by businesses during the pandemic and assess the types of

government and external support they received. The analysis focused on factors such as business operational status, changes in employment conditions, and the challenges encountered by SMEs during and post-pandemic. The research also considered the mitigation strategies employed by these businesses, as well as the unique challenges faced by SMEs' owners. This facilitated a comprehensive evaluation of the efficacy of measures undertaken by the government and other stakeholders to mitigate the pandemic's adverse effects, with a focus on the perspective of business owners.

Findings

## Survey of small and micro enterprises

This section presents the key findings from a survey of seven small and micro enterprises owners that aimed to estimate the impact of COVID-19 on small and micro enterprises. The respondents represented a range of sectors, with the majority (61%) belonging to the textile and manufacturing sector, followed by IT services (19%), food processing (8%), leather sector (7%), and agriculture sector (5%).

85% of small and micro enterprise owners reported their business as a small enterprise with the majority of them having more than 11 employees. The remaining 15% identified as micro businesses with five or fewer employees. Regarding family ownership of enterprises, there was an almost equal split with 51% of enterprises reported being family owned. Additionally, a large number of surveyed enterprises (61%) were sole proprietorships, while others identified to be Partnership (24%), Private Limited (9%) and Single Member Company (9%).

When inquired about the annual sales turnover of enterprises, 34% of small and micro enterprise owners refused to disclose. Further, while discussing work continuation and resumption situations of small and micro enterprises during COVID-19 lockdowns; there was almost a 50-50 ratio with 53% of owners reporting suspension of operations.

53% of enterprises interviewed noted that their business had shut down during the pandemic. Businesses whose operations were suspended during the pandemic cited a reduction in demand, lockdowns, and a shortage of material supply as the primary reasons (Figure 1).

Figure 1. Reasons for the suspension of enterprise operations
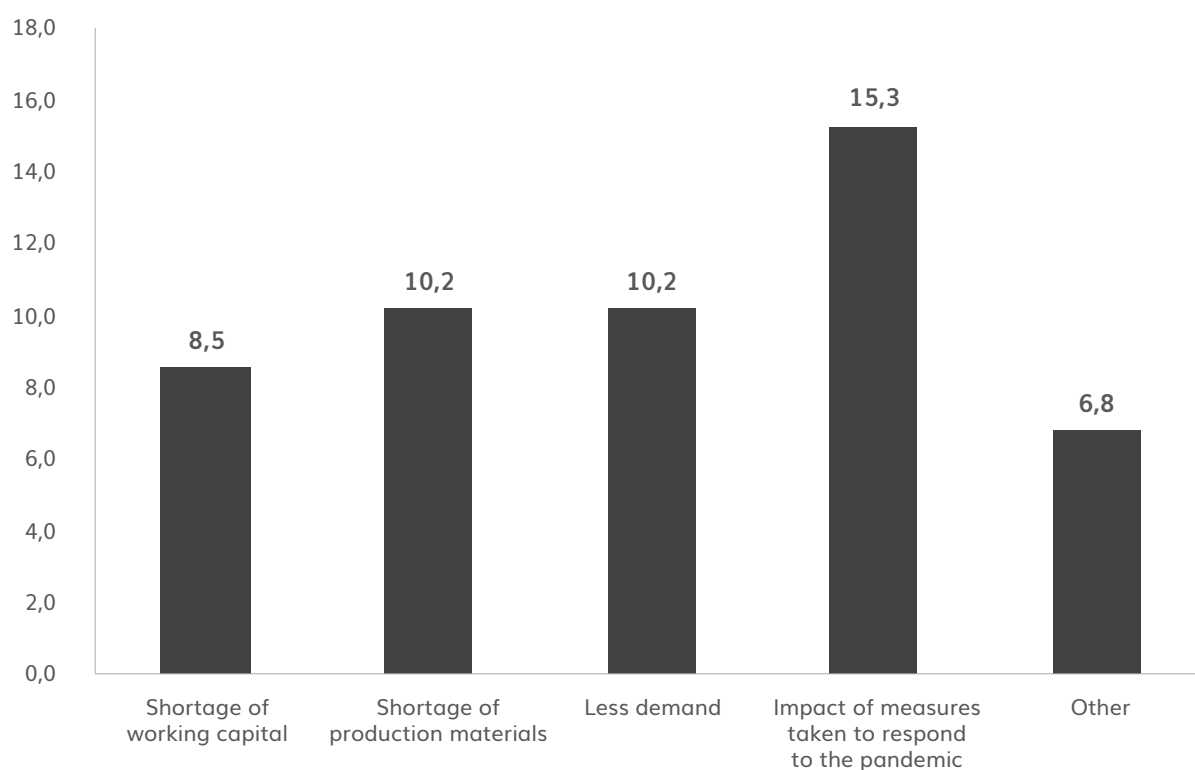
Moreover, 29% of enterprise owners surveyed reported that more than 30% of their employees were unable to come to work due to the pandemic. It is worth noting that more than 30% of female employees were unable to come to work, which is a significantly high proportion, especially considering that nearly 51% of enterprises did not have any female workers.

Furthermore, 53% of owners denied laying off any workers while 33% of enterprises reported laying off their employees. Among the enterprises that experienced staff reduction, 26% of enterprises interviewed laid off more than 50% of their employees due to the pandemic and the lockdowns.

Nearly 70% of small and micro enterprises' owners reported a significant impact. This impact was severe for 47.5% of the owners, leading to serious difficulties in operations and even bankruptcy. The biggest challenge faced by these enterprises during the pandemic was financing, as reported by 80% of the owners (Appendix 3: Figure A). Other major issues reported by owners included sales, marketing, cash/liquidity, and supply chain disruption (Appendix 3: Figure A).

Additionally, 66% of surveyed enterprises reported a shortage of raw and production materials. 35% of the enterprises reported a complete disruption of their supply chain, indicating the severity of the impact on the production and operations of these businesses.

In terms of exports, the survey found that around 61% were not export-oriented. Among the remaining export-oriented enterprises, 18% reported a decline of more than 20% in their export volume, indicating that the pandemic had also affected the international trade of these enterprises (see Appendix 10).

Moreover, the pandemic has had a significant adverse impact on the net profit and sales of small and micro enterprises. To this extent, 47.5% of small and micro enterprise owners surveyed reported a decrease of nearly 50% in their net profit due to the pandemic. Similarly, 54% reported a decrease of nearly 53% in their sales.

Additionally, a closer look at the data reveals that micro enterprises have been hit harder than small enterprises. This is evident from the comparison of the impact of COVID-19 on sales and net profit of small and micro enterprises, with 78% of micro enterprises responding that they limited their general investments for the 2020-2021 fiscal year as compared to 38% of small enterprises.

> **Female-run businesses and micro enterprises faced monetary challenges when adapting to work from home models. The one pertinent cause of this is the costly nature of IT infrastructure.**

To this effect, the limited investments were focused on employment, followed by development plans (see Appendix 4). This implies that small and micro enterprises have prioritised retaining their workers over making other investments during the pandemic. After the lockdown, only 24% of enterprises were able to restart their full operations with some changes. Moreover, the recovery period for 40% of the surveyed firms was found to be 6 months. When examining changes in enterprise functionality post-pandemic, 68% of enterprises reported no change in their business operations models, indicating the inability of these enterprises to quickly adapt their business operations to the pandemic. However, out of those who did make changes to their business model, 53% of enterprises reported a reduction in scale due to COVID-19 constraints (Figure 2).

Figure 2. Kinds of adjustment made into the business model
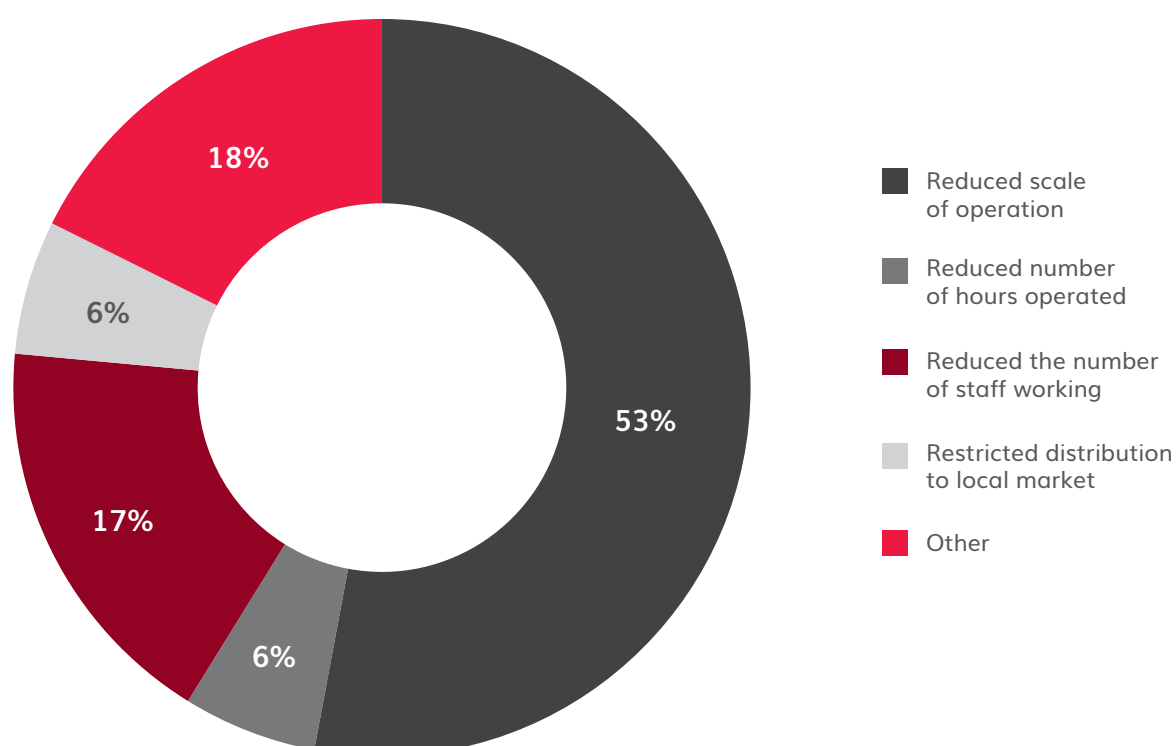
Despite the challenges faced by SMEs, the data reveals that 98% did not receive any type of government support during the pandemic. This lack of support may have contributed to the cash flow difficulties reported by a vast majority (64-67%) of MSMEs post-pandemic. To mitigate these cash flow problems, 22% of micro enterprise owners reported reducing costs and seeking new loans. In contrast, 18 small enterprises reported negotiating with previous lenders to address their cash flow problems. Interestingly, the majority (66%) of small enterprise owners reported that they were not seeking new loans for their business, while 56% of micro enterprise owners expressed willingness to seek new loans.

Impact on workers

The impact of COVID-19 on workers was measured using SEM. In this analysis, the dependent variable was the number of workers, labelled as "total labour." The increase or decrease in the number of workers was taken as a proxy for the impact on workers.

Changes in total investment, changes in export, and laying off of employees significantly affect workers in MSMEs. Upon measuring the effects of different factors on

workers, it is found that investment, which is positively affected by the business operation, impacts the workers significantly (Table 1).[3] If the businesses have any investment plan and it is not limited, then it will increase employment thereby positively affecting the workers. Similarly, the decline in exports due to the pandemic has caused the number of workers to decline, indicating a significant negative relationship between the two variables.

In this exercise, it was also tested whether the recovery of enterprises had any impact on the workers and found insignificant results (Table 1). However, upon identifying several factors that can affect the recovery period of SMEs, including cash flow shortage, working time, the inability of employees to come to work, sales, raw material shortage, and time required to restart operations, we found that if the shortage of cash flow is present then the recovery will be difficult. We also found that recovery becomes challenging for businesses that extend operational hours, such as adding extra shifts or work hours. Increased working hours, an attempt to compensate for pandemic losses, can lead to greater operational costs, worker exhaustion, and decreased efficiency, making the recovery process harder.

Table 1. Impact on workers (Structural equation model-SEM)

	Variable	Coef.	S. E	z	P>z	Sig
			Recovery			
Deal with cash flow shortage	c24	-0.146	0.047	-3.100	0.002	***
Working time	c30	-0.224	0.059	-3.820	0.000	***
Employees were unable to come to work due to Covid	c7	0.016	0.056	0.290	0.770	
Sales	c16a	0.072	0.077	0.930	0.352	
Shortage of raw material	c25	0.049	0.033	1.460	0.143	
Time of reopening /restart work	c19	0.488	0.089	5.500	0.000	***
	_cons	-0.852	0.554	-1.540	0.125	
	Total labour					
	Recovery	-2.708	1.907	-1.420	0.156	
Investments planned for 2020-2021	c17	7.954	4.310	1.850	0.065	**
Net profit	c16b	-1.578	1.644	-0.960	0.337	
pandemic affect export	c15	-5.486	1.212	-4.530	0.000	***

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3 For further details see Appendix 5.

use of digital and IT tools	c18	-1.105	1.438	-0.770	0.442	
lay off employees	c8	-7.020	4.186	-1.680	0.094	*
	_cons	51.792	14.329	3.610	0.000	
Investments planned for 2020-2021	c17					
business in operation	c10	0.227	0.126	1.800	0.072	*
	_cons	1.452	0.087	16.720	0.000	
	var (erecovery)	0.522	0.096	0.364	0.749	
	var (etotallabor)	237.695	43.763	165.692	340.988	
	var (e.c17)	0.234	0.043	0.163	0.335	

Note. LR test of model vs. saturated: chi2(23) = 18.75, Prob > chi2 = 0.7159.
Elaborated by the author.

Impact on permanent workers

The impact of COVID-19 was also measured on permanent workers using linear regression. In this analysis, the dependent variable was the number of permanent workers.

The inability of employees to come to work adversely impacted the number of permanent workers. Table 2 displays a highly significant and negative relationship between the employees' inability to come to work and the number of permanent employees. This implies that the more a worker is unable to come to work, it will be less likely for him/her to remain a permanent employee. Furthermore, the number of employees, income predictability, and owning a bank account significantly and positively impact the number of permanent workers.

Table 2. Impact on permanent workers (Linear regression)

Dep: permanent workers	b12c	Coef.	S.E	t-value	p-value	Sig
Employees were unable to come to work	c7a	-2.325	0.982	-2.370	0.022	**
Lay off employees	c8	-1.135	2.096	-0.540	0.590	
Financial problem	c13a	1.604	1.188	1.350	0.183	
Govt Support	b18	-1.047	1.789	-0.590	0.561	
Total income predictability (worker)	b17	2.815	1.074	2.620	0.012	**
Part of any trade union	b14	2.235	6.001	0.370	0.711	
Bank account (enterprise)	b15	-15.744	3.988	-3.950	0.000	***

Numbers of employees	c1	3.194	1.784	1.790	0.080	*
Constant		33.831	13.358	2.530	0.015	**
R-squared		0.409		Number of obs.		59
F-test		4.32		Prob > F		0.001
Akaike crit. (AIC)		492.287	(BIC)	Bayesian crit.		510.985

Notes. *** p<0.01, ** p<0.05, * p<0.1.

Elaborated by the author.

Impact on small scale enterprises

To measure the impact of the pandemic on small enterprises, the study also conducted an empirical exercise using Logistic regression. The dependent variable that represented the impact on enterprises was binary, measured by asking whether the business was operational during the pandemic or not.

The businesses were less likely to operate when experiencing a shortage in the supply of raw materials during the pandemic (see Appendix 6). Table 3 represents this impact as the majority of the surveyed businesses were not operational during the pandemic. It also highlights the relationship between business operations and a decrease in net profit. The estimations suggest a significant and negative relationship between these two variables indicating that a greater decrease in the net profits of a business will make it less operational during the pandemic.

Financial problems, investments, and use of digital and IT resources have no significant impact on small business operations. Table 3 reports an insignificant impact of all these variables.

Table 3. Impact on small scale enterprise (Logit model)

	c10	Coef.	S.E	t-value	p-value	Sig
Financial problems	c13a	-0.133	0.217	-0.62	0.538	
Shortage of supply of raw materials	c14	0.27	0.154	1.76	0.079	*
Pandemic affect your export	c15	-0.637	0.216	-2.94	0.003	***
Decrease in net profit	c16b	-0.724	0.318	-2.28	0.023	**

Limit investments	c17	1.015	0.674	1.51	0.132	
Use of digital and IT	c18	0.095	0.213	0.44	0.657	
Constant		4.194	2.404	1.74	0.081	*

Pseudo r-squared	0.249	Number of obs	59
Chi-square	20.301	Prob > chi2	0.002
Akaike crit. (AIC)	75.338	Bayesian crit. (BIC)	89.881

Notes. *** p<0.01, ** p<0.05, * p<0.1.

Elaborated by the author.

Impact on small and micro enterprise owners

Table 4 reveals a positive correlation between enterprises' technology use and workers unable to attend work during COVID-19, signifying that firms enabled work-from-home options via technology when employees could not physically attend.

Conversely, the owner's income is negatively impacted by limited investment and raw material shortages. Limited investment restricts revenue generation, impacting owner's income, aligning with the Keynesian accelerator theory that associates increased investments with higher income. Likewise, a raw material shortage creates business hurdles like higher production costs and low product reliability, leading to reduced owner's income. However, increased exports positively affect the owner's income.[4]

Using IT and digital tools for remote work surprisingly lowers SME owners' income due to the costs of deploying these tools. This impact is more pronounced in female-run businesses and micro enterprises, largely due to the costly nature of IT infrastructure.

Operating a business during the pandemic significantly reduced owner's income, and lack of government support further compounded this issue. According to Table 4, very few enterprises received governmental support, highlighting inequalities between small enterprises and larger enterprises.

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4 For further details see Appendix 9.

Table 4. Impact on small and micro enterprises owners (Structural equation model-SEM)

	c7	Coef.	S.E.	z	P>z	Sig
Technology (Enterprise IT)	b19	1.558	0.425	3.66	0.000	***
	_cons	1.325	0.641	2.07	0.039	**
Owner Household Income	c34a					
What percentage of the company's employees were unable to come to work due to Covid	c7	-0.025	0.074	-0.34	0.731	
Technology (Enterprise IT)	b19	-0.434	0.3	-1.45	0.148	
limit investments	c17	-0.457	0.239	-1.91	0.056	*
sales	c16a	0.045	0.095	0.47	0.638	
Export	c15	0.16	0.071	2.25	0.024	**
use of digital and IT tools	c18	-0.255	0.118	-2.16	0.031	**
Shortage of raw material	c25	-0.079	0.042	-1.85	0.064	*
lay off employees during the pandemic	c8	0.123	0.235	0.52	0.600	
business in operation during the pandemic	c10	-0.663	0.274	-2.42	0.016	**
Role of Govt	b18	-3.752	1.229	-3.05	0.002	***
	_cons	12.391	2.63	4.71	0.000	
	var (e.c7)	2.605		0.48	1.816	
	var (e.c34a)	0.699		0.129	0.487	

Notes. *** p<0.01, ** p<0.05, * p<0.1.
Elaborated by the author.

The multinomial logit regression analysis was used to examine how the pandemic influenced business owners' income, treating the change in income as a dependent, categorical variable with categories: moderate increase, moderate decrease, no effect, and high decrease. Businesses differed in their income responses to the pandemic, with some experiencing increased income, others seeing no effect, and a few experiencing a significant income decrease.

If a business remained operational during the pandemic, it generally led to a significant income increase for the owner. Table 5 shows that if the business's operation or activity increased by one unit, the chance of a moderate income increase over a

moderate income decrease increased by 2.92, implying that business operations and work-from-home setups significantly affected the owner's income positively.

However, these effects varied among businesses. Small and micro-enterprises often used personal savings as a financial buffer, while larger firms, more formally integrated, could access government support and other financial resources. Thus, it also highlights inequality between larger and smaller firms. Also, while working from home generally led to a moderate-income increase, in some instances, it had no impact on the owner's income when business difficulties increased.

Table 5. Impact on small and micro enterprises owner's income (Multinomial logit)

		c34a	Coef.	S.E	t-value	p-value	Sig
Moderate Increase	Finances during the lockdown	c31	-0.187	0.529	-0.350	0.723	
	Cash flow difficulties	c27	1.307	0.940	1.390	0.164	
	Working from home	c23	2.635	1.082	2.440	0.015	**
	Net profit	c16b	0.540	0.371	1.460	0.145	
	Operation	c10	2.290	1.082	2.120	0.034	**
	Constant		-9.293	3.448	-2.700	0.007	***
No Effect	Finances during the lockdown	c31	-17.557	3733.068	0.000	0.996	
	Cash flow difficulties	c27	2.726	1.297	2.100	0.036	**
	Working from home	c23	3.305	1.577	2.100	0.036	**
	Net profit	c16b	0.515	0.491	1.050	0.295	
	Operation	c10	20.352	3332.447	0.010	0.995	
	Constant		-13.104	5004.100	0.000	0.998	
High Decrease	Finances during the lockdown	c31	0.730	0.725	1.010	0.314	
	Cash flow difficulties	c27	0.924	1.024	0.900	0.367	
	Working from home	c23	19.987	4342.014	0.000	0.996	
	Net profit	c16b	-0.313	0.530	-0.590	0.555	
	Operation	c10	-0.595	1.263	-0.470	0.638	
	Constant		-40.315	8684.029	0.000	0.996	

Moderate Decrease	base		
Pseudo r-squared	0.361	Number of obs.	59
Chi-square	56.515	Prob > chi2	0.000
Akaike crit. (AIC)	136.222	Bayesian crit. (BIC)	173.618

Notes. *** p<0.01, ** p<0.05, * p<0.1.

Elaborated by the author.

Moreover, the findings also indicate that enterprise owners rely on their own resources rather than taking loans. In this regard, strong family support systems in both provinces (Punjab & Khyber Pakhtunkhwa) also play an essential role in ensuring that enterprise owners do not resort to loans.

Focus group discussions with workers

The pandemic-induced lockdowns and diminished economic activity negatively affected 75% of surveyed workers who were often forced to use their savings or sell assets to survive. Many experienced layoffs and subsequent rehiring at the same or lower wages, underscoring the vulnerability and instability of employment in this sector. These financial hardships were amplified by workers' inability to cover necessary expenditures like utilities, education, and healthcare.

Furthermore, the purchasing power of the clientele of small businesses has dwindled, resulting in a decrease in orders and sales turnover for the majority of small business owners. Moreover, group discussions revealed that 70% of the workers preferred to borrow money from friends, family, and social organisations rather than formal financial institutions due to cumbersome loan application procedures, non-documentation of small businesses, and a lack of trust in financial institutions. When asked about their consumption behaviour during and post-lockdown, 65% of workers reported a significant change and decline. The majority of families of small and micro enterprises workers—about 70%—reported skipping meals during lockdown due to a lack of resources and being unable to afford nutritious food like fruits, meat, and dairy during the pandemic.

When asked about government support, workers reported that they faced difficulties accessing the Ehsaas program, which was intended to provide financial assistance. According to 65% of the respondents, they applied for the program but did not receive any funding. The process of obtaining aid was particularly challenging for

women who had to stand in queues for extended periods, only to leave empty-handed. The workers' accounts indicate that the distribution of government aid was unequal, and some groups, such as low-income workers and women, were disproportionately affected. The findings from the focus group discussions suggest that there are stark inequalities in the distribution of government aid, which exacerbates the plight of already struggling small and micro enterprises.

The economic prospects for many SMEs and micro enterprises appeared bleak and morale was low during this period. The results show that cash flow shortage and a decrease in working time negatively affected the recovery process of SMEs and micro enterprises. Moreover, reopening times significantly affected the recovery of SMEs and micro enterprises owing to cash flow shortages, restricted movement of labour, and uncertainty surrounding the lockdowns. The decrease in exports and laying off employees adversely affected the workers, thereby exacerbating inequalities in access to

> **The informal nature of many small businesses and lack of documentation makes it difficult for workers in SMEs to access formal financial institutions for loans. This leads them to rely on friends, family, and social organisations.**

finance by formal and informal enterprises, as well as male and female accessibility to credit. Moreover, there was a greater impact on women due to gender care obligations at home related to health, rural and urban inequality, and transportation challenges leading to inequalities between female workers and male workers. Moreover, disparities have also been noted between sectors where essential food items, IT, and pharmaceutical enterprises reported higher margins as compared to the retail sector, where declining sales were evident.

As per the sample, nearly half of the owners reported the suspension of operations while more than 1/3 of the workers of the surveyed enterprises were unable to join work due to the pandemic. This was the case due to increasing lockdown measures and unavailability of transportation means, as daily wage workers relied on public transport to reach the workplace. Particularly, the percentage of female employees unable to come to work turned out to be much higher, reflecting severe inequalities arising for women workers. It points towards the increasing obligations faced by women in the pandemic as they are responsible for domestic duties at home, and also women are mostly concentrated in the informal sector such as salons, tailoring and house-help, which were essentially closed during the COVID-19.

The intensity of inequalities for workers is further fuelled by the fact that 32% of enterprises laid off their workers, with 26% of these laying off more than half of their employees. The findings also found that 15% of the firms interviewed belonged to the micro enterprise category, while the rest were small enterprises. The adverse effects of the pandemic can also be seen in the fact that more than 75% of enterprises experienced a decline in their production and operation capacity, while 66% reported a shortage of raw and production materials, with a third of enterprises experiencing total disruption of supply.

The pandemic has also had a significant impact on the financial viability of businesses, with 48% of owners reporting nearly a half decrease in net profit, and half of the owners reporting a 54% decrease in sales. As a result, 44% of owners had to limit their planned investment for the year 2020-2021, with 50% of enterprises limiting investments for employment. Additionally, 64% of businesses reported cash flow difficulties at the time of the survey, and 10% of those experiencing cash flow difficulties opted for reducing operating costs, such as layoffs and salary cuts. These difficulties, along with limited investments, proved to be transmission channels for the adverse knock-on effects trickling down to the workers, making them more vulnerable.

The FGDs also revealed some positive outcomes of the lockdown. The pandemic spurred digital transformation in the business and education sectors, with many people seeking innovative ways to support their families and grow their businesses. For example, Anila, an entrepreneur, used WhatsApp groups to start a service of delivering groceries and household items to customer doorsteps. However, this also highlighted disparities between women small and micro enterprise owners, as noted by the Women Chambers of Commerce, which provided awareness and capacity building for such initiatives. The data collected also showed that there is information asymmetry, and not all micro enterprise owners were aware of the financial support offered by the government. These positive developments during the pandemic underscore the importance of innovative approaches and support systems for SMEs and micro enterprises to overcome the challenges posed by the pandemic and the resulting economic downturn.

Secondary data analysis

The data set used here mainly divides the enterprises into four broad categories with the percentages representing the proportion of these firms in the data collected: Agro-processing (9%), food processing (20%), value added textiles (53%), and value-added leather (18%).

The data shows that agro- and food-processing firms have been less affected, with 13 agro-enterprises and 33 food-processing enterprises remaining operational.

However, the value-added leather and textiles sectors have been hit harder, with only 9 and 22 firms respectively still operational. This indicates that the value-added sector has faced greater challenges and risks during the pandemic. These challenges can be attributed to supply chain disruptions, reduced demand, and difficulties in accessing finance and government support. The disparities between different types of small and micro enterprises highlight the need for targeted policy interventions that address the specific challenges faced by different sectors.

The data presented in Appendix 7 reveals that within two to three months, a staggering 76 enterprises had to shut down their business operations due to the pandemic. In the value-added leather sector, only two firms permanently shut down, with most firms remaining operational but having to shut down their activities for a maximum of three months. According to Appendix 8, most value-added firms took around 6-10 days or less than 5 days to restart labour activities, indicating a prompt resumption of work once the situation improved. Nevertheless, the maximum number of firms faced low turnovers during the lockdown situation. These findings highlight the significant impact of the pandemic on the survival of micro and small enterprises in Pakistan, with value-added sectors being hit particularly hard.

The pandemic has caused several problems for micro and small enterprises in Pakistan, with the most significant being a decrease in exports. This was followed by logistics issues, making it difficult for these enterprises to deliver existing orders, and increased difficulty in accessing finance. For food and agro-processing firms, product damage was also a major issue. Moreover, there was an eventual shift in consumer demand. In addition, the top five costs that these enterprises had to face, which included taxes, electricity and gas charges, transportation costs, and staff wages. These costs were further exacerbated by the pandemic and lockdown measures, leading to significant financial strain on micro and small enterprises in Pakistan.

Coping strategies of workers

Many of the coping strategies adopted across different households during the pandemic were to tackle issues of financial well-being. As noted in the survey conducted by the Pakistan Bureau of Statistics (2019), 13% of the labour force lost their job or were unable to work while many had to face payroll cuts during the COVID-19 period. To cope with the situation, the most adopted strategy observed is reducing non-food expenditure (i.e., clothing, footwear, health, etc.) at 54%, while 50% of worker respondents noted reducing food expenses (either switching to lower-quality or reducing the quantity) which is also evident from the fact that households with food scarcity increased during COVID-19 as compared to 2018-2019 data. It is observed that almost 47% of households used their savings, investments, or property to tackle the situation

Conclusions and implications

MSMEs, and in particular small and micro enterprises, in Pakistan were significantly impacted by the COVID-19 pandemic due to both their vulnerability to shocks as well as negligible fiscal assistance from the government. The major impact documented from the primary data is a slowdown of the production cycle, resulting from government-imposed restrictions on in-person business transactions aiming to contain the spread of the virus. As communicated in the report, the pandemic has had a disproportionate impact on various industries, with sectors such as manufacturing, food, and textiles suffering significantly. This has also had a detrimental effect on workers, who have had to adopt coping strategies such as reducing their daily meals and compromising on their children's education. Despite these challenges, some sectors have demonstrated resilience in the face of the pandemic. For example, businesses dealing in essential items have managed to withstand the impact and continue operating. On the other hand, IT and pharmaceutical sectors have experienced tremendous growth and unprecedented profits during the pandemic. Thus, the pandemic has had a differential impact on different sectors and industries, with some thriving while others struggle to stay afloat.

The slowing down of production activities and compliance with imposed restrictions created multifaceted and interlinked problems for small and micro enterprises, their owners, and workers. Government-mandated lockdowns affected enterprises across sector and size, with many enterprises undergoing a 'complete shutdown' during this period. Out of the 256 enterprises analysed, a majority of 179 had to temporarily shut down their operations, mostly for a duration of two to three months. The value-added leather sector had the highest number of shutdowns, with 38 firms closing down, but only two of them closing permanently. The value-added textile sector also faced significant challenges, with 114 enterprises shutting down. However, most of the enterprises remained operational, with a temporary halt in their business activities for a maximum of three months.

Cancelled business orders, labour shortages, and high rental costs have further deteriorated the financial health of small and micro enterprises, particularly in urban areas. Women and those in low-wage and informal sectors have been disproportionately affected, with many facing job loss and income insecurity. Rural businesses have generally been more resilient than their urban counterparts, contributing to economic inequalities. While small and micro enterprises have shown an advantage in pivoting and adapting to changing circumstances, this has also highlighted persistent inequalities in the economic system.

Moreover, the high proportion of small and micro enterprises in textile and manufacturing makes this sector more prone to suffer the consequences of the pandemic .The factors contributing to this impact include supply chain disruptions, reduced demand for non-essential items, and limitations on international trade. On the contrary, the current number of small and micro enterprises operating shows that the IT sector might have been more resilient to the pandemic. This could be because of an increased demand for online services and its capacity to adopt remote working environments.

During the pandemic, the majority of the limited investments made by small and micro enterprises were geared towards maintaining employment, suggesting the prioritisation of worker retention over other forms of investment. Post-lockdown, only a quarter of these enterprises managed to resume full operations, albeit with some alterations. As noted above, the recovery time for 40% of the surveyed firms was six months, indicating a substantial recovery time needed for many such businesses to rebound from the pandemic's impacts.

As noted in our survey, nearly half of small and micro enterprises suffered a sharp decrease in net profit, while more than half recorded a drop in sales. This financial downturn underlines the profound impact the pandemic has had on these businesses. As such, our study made it clear that micro enterprises bore a greater brunt of the pandemic's fallout compared to small enterprises as a staggering 78% of micro businesses reported that they had to limit their overall investments due to the economic strain for fiscal year 2020-21. Comparatively, only 22% of small enterprises had to make similar adjustments. This difference suggests that micro enterprises are more susceptible to economic shocks triggered by events like the pandemic.

To minimise the impact of the pandemic, the government had taken certain measures such as *Mazdoor ka Ehsaas (Ehsaas Program)* for the continuity of production and business cycle of enterprises. Through the program, the government allocated PKR 30 billion to offset wage losses faced by daily wagers, in which they were provided a one-time cash payment of PKR 3,000. Furthermore, The State Bank of Pakistan launched a loan scheme for SMEs and micro enterprises, conditioned to provide worker salaries. At the provincial level, with the help of SMEDA, the government provided cart workers (roadside sellers) with a cash amount of PKR 2,000 under the Ehsaas program. Furthermore, the provincial government also provided cash support of PKR 12,000 for workers to mitigate the adverse effects of the pandemic on their livelihoods.

Moreover, the government created policies and provided incentives to business owners. This included introducing a conditional subsidy in utility bills so that owners would not lay off their workers and advising enterprises to retain workers by making them

work in shifts and online from home. SMEDA categorised SMEs and micro enterprises on the number of workers they had before and during the pandemic, designing a slab of utility subsidies to help these workers.

Furthermore, the World Bank's "Economic Growth and Job Creation'' project, which focused on two districts located in Khyber and Peshawar, targeted 2,500 existing SMEs and micro enterprises and provided interest-free loans, thereby supporting 1,000 start-ups, and upgrading 50 clusters. The project also provided two schemes through The Bank of Khyber, RAAST Modernization (under Shariat compliance), and RAAST Working Capital to help those impacted by working capital issues. Under these schemes, the banks provided the loans, but the government bore the interest charges on them. It is important to note that the project's focus on interest-free loans can be considered a positive step towards creating a level playing field for SMEs and micro enterprises.

In addition to the World Bank project, organisations such as SMEDA have acted as facilitators in policymaking. SMEDA, in collaboration with the Ministry of Energy, advanced electricity-consumption-based support programs for MSMEs. Under this program, smaller enterprises consuming fewer units of electricity were the main beneficiaries of support. The program provided a subsidy of PKR 51 billion to small enterprises based on their previous year's electricity consumption history for the three months up to the maximum limit so that the government cost per enterprise does not go beyond a certain level. This support was particularly beneficial for MSMEs facing cash-flow crunches and problems in paying their utility bills. SMEDA also initiated a capacity-building program to raise awareness of e-commerce and the digitalisation of business to business (B2B) and business to consumer (B2C) commerce, which is a positive step towards helping MSMEs adapt to changing market conditions.

Finally, the post-pandemic UKAID program, in collaboration with Karandaaz, provided effective financial support for MSMEs. The program provided collateral-free finances, which was a significant breakthrough for MSMEs struggling to access financing. The Bank of Khyber started collateral-free financing on a 9% flat, and there was also a facility in the Islamic mode which facilitated small businesses, considering the preference of people in Khyber Pakhtunkhwa towards Islamic banking.

Despite the government and private sector efforts to mitigate the impact, these initiatives were unable to reach the majority of workers in need, particularly those in the informal sectors and rural areas, due to systemic and infrastructural limitations. However, the government's measures to minimise the impact had both positive and negative effects, creating inequalities for workers and businesses. The construction industry, food sector, and businesses with high rents suffered, while enterprises dealing in

necessity items remained resilient. Sectors such as IT, pharmaceuticals, and agriculture were able to weather the pandemic better due to increased demand for their services and products. These sectoral differences have led to inequalities between businesses and workers. The unequal distribution of support from the government's programs and policies has exacerbated inequalities between larger enterprises and smaller enterprises. This has resulted in larger enterprises benefiting more from the available support, while smaller enterprises have struggled to access financing and support, leading to further financial difficulties during the pandemic.

Moreover, the aforementioned government programs faced challenges in disbursing funds to SMEs and workers due to a lack of data on the informal sector. Informal small and micro enterprises frequently lack necessary documentation and bank accounts, creating a considerable hurdle for the government in providing effective financial support. Alarmingly, 41% of small and micro enterprises interviewed did not even maintain a bank account. This discrepancy has deepened the inequality during the COVID-19 crisis: while registered businesses with banking facilities were able to tap into government assistance, those unregistered were left to grapple with the crisis without such aid.

Efforts to provide support to businesses through various programs such as the Central Bank's Refinance Scheme and the wage loss and protection program did not benefit SMEs and micro enterprises significantly, either. The design of these programs and the evaluation criteria favoured larger enterprises, making it difficult for SMEs and micro enterprises to qualify for assistance. The wage loss and protection program was intended to provide subsidised credit with near-zero interest rates to companies to keep their staff on payroll. However, larger enterprises were able to take advantage of this program, while commercial banks responsible for disbursing the loans favoured larger enterprises, making it difficult for SMEs and micro enterprises to qualify.

Access to financing was also a major challenge for SMEs and micro enterprises, as financing policies required documentation, which was a lengthy and difficult process for small businesses. This made financing policies ineffective for most SMEs and micro enterprises which lacked the necessary documentation. While the provincial government provided cash support to workers, it did not provide tax exemptions or rental support to enterprises, except for utility bill exemptions.

SMEs and micro enterprises owned by women faced significant challenges in accessing finance. Larger enterprises were favoured in loan distribution, leaving smaller ones struggling with liquidity crunches. Moreover, SMEs and micro enterprises had difficulty availing themselves of loans, thus hindering their ability to maintain employee salaries and cover other expenses. This lack of access to finance affects progress towards

SDGs 1, 5, and 8, hindering poverty reduction, promoting gender equality, and supporting economic growth. The reasons for this unequal access to financing include gender biases and discrimination in the financial sector. However, initiatives such as the Women's Chamber of Commerce project and the *Hunarmand Nojawan* scheme provide hope for supporting small businesses owned by women.

The COVID-19 pandemic has highlighted the potential of informal e-commerce as a lifeline for women in Pakistan, who often face barriers such as limited access to education and employment, and mobility restrictions. This platform has offered these women flexibility and resilience amidst economic instability and reliance on familial support. Women entrepreneurs, particularly those with digital literacy, found this platform compatible with their domestic obligations and circumventing the need for traditional business resources. This approach has the potential to mitigate some existing structural barriers in Pakistan's economy (Shah, 2020). Amidst the pandemic, digitally literate women entrepreneurs adeptly transitioned to online business models, often enhancing their ventures. However, it's crucial to acknowledge the disparity in digital literacy among women entrepreneurs, reflecting the critical role of digital training in empowering women to overcome pandemic-induced challenges and build robust businesses.

In light of these findings, it becomes increasingly important to provide targeted assistance to these vulnerable businesses, particularly micro enterprises. As they navigate recovery, tailor-made support measures could prove crucial in bolstering their resilience and aiding their resurgence in the post-pandemic economic landscape.

Policy recommendations

One of the key factors in effectively responding to a crisis like the COVID-19 pandemic is reliable data. The availability of data on small and micro enterprises in Pakistan can help identify the enterprises that need the most support and design programs that cater to their needs. This includes information such as the location of the enterprise, their exports, employers and employees, sectors, and the impact of the pandemic on their business. With accurate data, risks can be mitigated in the future, and targeted schemes can be introduced to support small and micro enterprises.

It is crucial to provide small and micro enterprises with financial support that is tailored to their needs. This includes funds and loans that allow for sufficient time to repay and achieve business goals, thus creating a more stable economic system. Additionally, the cumbersome documentation and long procedures involved in obtaining

finances need to be simplified for these owners. The government can play a vital role in shortening these processes and encouraging this sector to flourish.

Women entrepreneurs face unique challenges in accessing finance, and collateral-free loans can be an effective solution. To support women entrepreneurs in accessing finance, the government can encourage female ownership in their sectors. This can be achieved by implementing policies that support women entrepreneurs and providing better access to finance.

Awareness about the schemes rolled out for enterprises is crucial. There is a need for better dissemination of information by the government, and academia can collaborate more to provide IT and tech-related education and training to enterprises, especially women. Bringing the business community on board is also vital in making decisions related to the pandemic, health issues, and international exports. It would also be effective and beneficial to take into account the opinion of heads of the business community across different industries and sectors to ensure smooth and productive advancements in the economy.

By collaborating with private sector entities and relevant organisations, the government can cultivate an environment that nurtures IT growth. The implementation of such IT-focused policies can stimulate technological innovation, consequently shrinking the technology adoption gap among small and micro enterprises. Furthermore, the government's support can enable these enterprises to build their capacity to integrate modern technology, boosting their market competitiveness.

Formal mechanisms for registering employees with enterprises can help reduce inequalities between formal and informal employment. The government can facilitate this by ensuring that employees are covered by insurance and by strictly enforcing labour laws. To further improve work security, daily wage workers can be incentivized to join labour unions. This would help ensure their rights and safety during uncertain times. Overall, these measures can help reduce inequalities and provide better work security for all.

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Appendices

Appendix 1. Demographics of key Informant Interviews

Designation	Organisation	Location	Gender
CEO	SMEDA	Lahore, Punjab	Male
Deputy General Manager and Policy	SMEDA	Lahore, Punjab	Female
Provincial Chief	SMEDA	Peshawar, KP	Male
Secretary	Planning and Development Department	Lahore, Punjab	Male
President	Small Industrial Development Board	Peshawar, KP	Male
Executive Member	Peshawar Chamber of Small Industries and Traders	Peshawar, KP	Male
Senior Vice President	Women Chamber of Commerce	Lahore, Punjab	Female
Co-Founder	Women Chamber of Commerce	Lahore, Punjab	Female

Appendix 2. Demographics of key Informant Interviews

Sector	Type	Gender	Location
IT	Micro	Male	Lahore, Punjab
IT	Small	Male	Lahore, Punjab
IT	Micro	Female	Peshawar, KP
Workshop	Micro	Male	Peshawar, KP
Plastic Manufacturer	Small	Male	Peshawar, KP
Plastic Manufacturer	Small	Male	Lahore, Punjab
Textile	Small	Female	Lahore, Punjab
Textile	Micro	Female	Peshawar, KP
Cosmetics	Micro	Female	Peshawar, KP
Real estate	Small	Female	Lahore, Punjab

Appendix 3. Challenges faced by the enterprises due to COVID-19

Figure A. 1st main problem

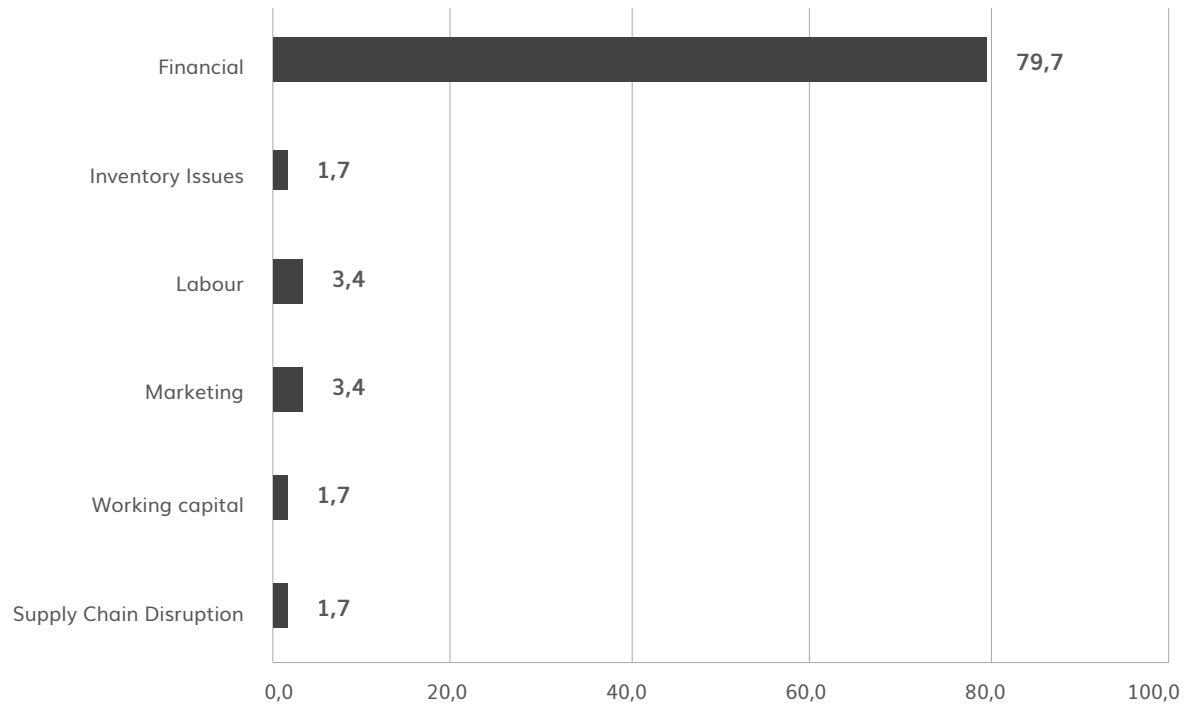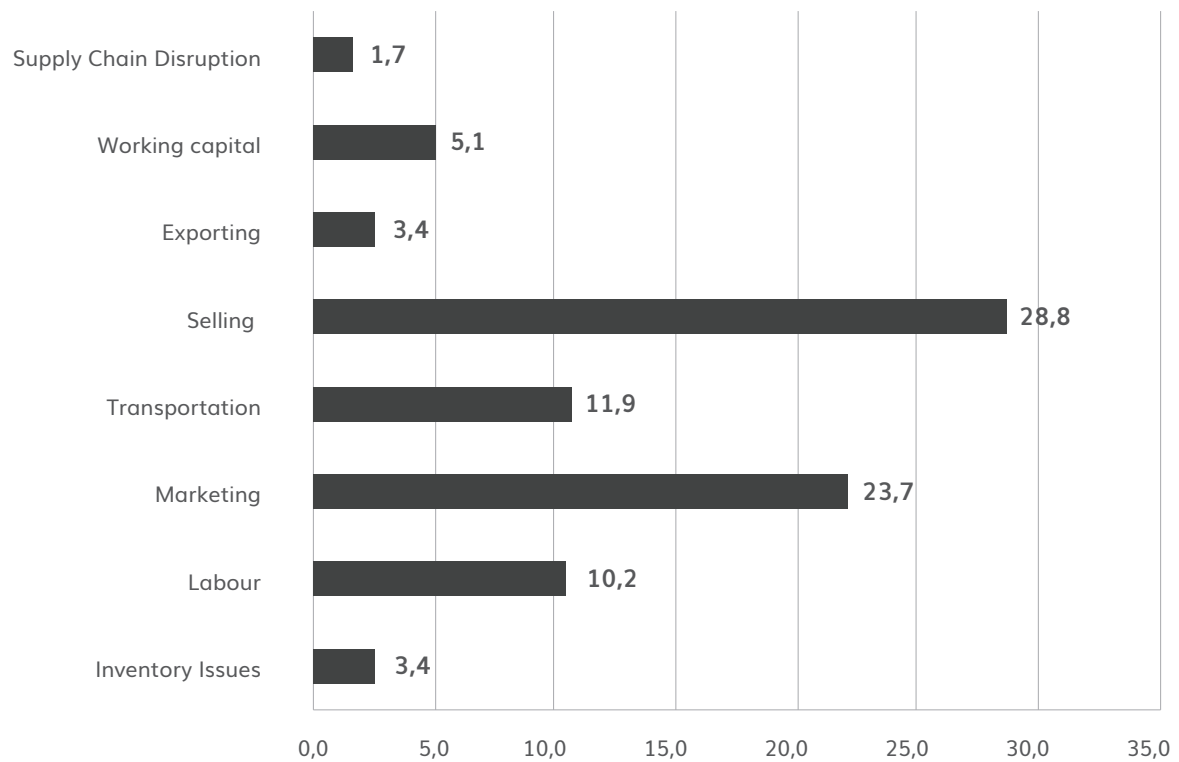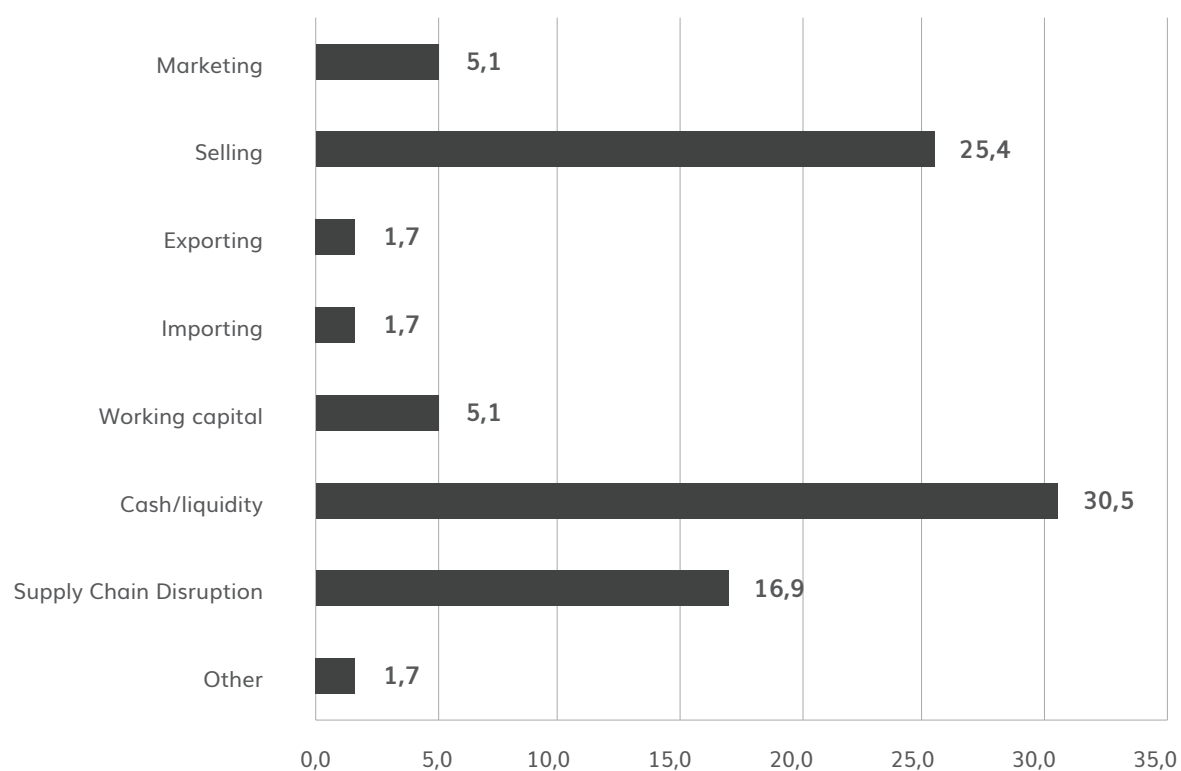
Figure B. 2nd main problem

Figure C. 3rd main problem

Appendix 4. Kind of investment that was limited

Type	Micro	Small
IT	14%	5%
Employment	29%	58%
Development plans	29%	21%
Marketing	14%	5%
Other	14%	11%

Appendix 5. Impact on workers

Table A. Goodness of fit test

Likelihood ratio		Population error
chi2_ms (23) | 18.746	RMSEA | 0.000
p > chi2 | 0.716	90% CI, lower bound | 0.000
chi2_bs (36) | 99.857	upper bound | 0.082
p > chi2 | 0.000	p close | 0.843

Information criteria	Baseline comparison	Size of residuals
AIC | 2783.576	CFI | .990	SRMR | 0.038
BIC | 2823.049	TLI | .999	CD | 0.721
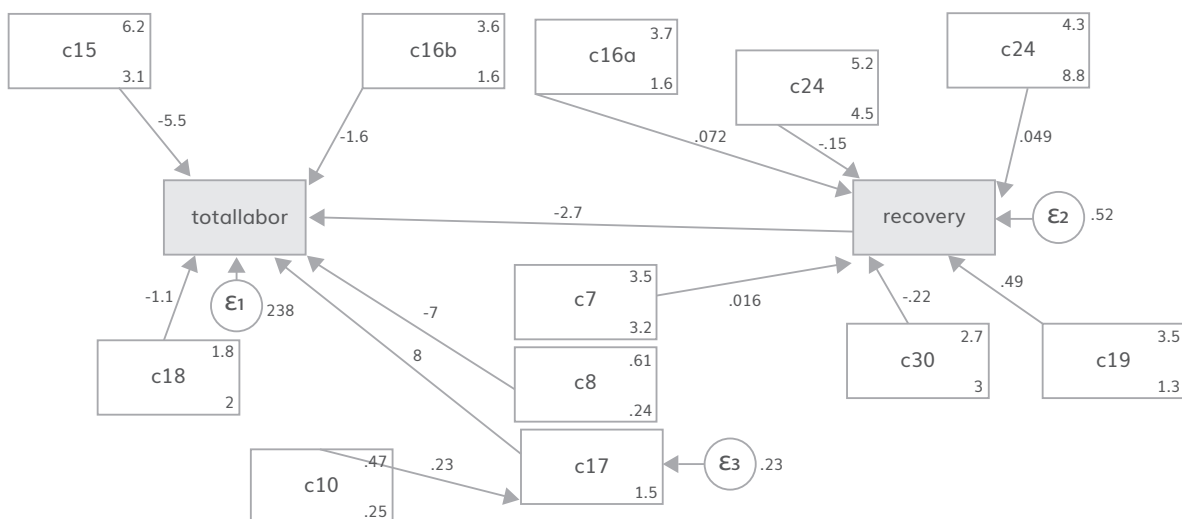
Notes. Figure displays the graphical notation for depicting SEM model, which comprises of:
- Squares; that represent the observed variables,
- Arrows: that represent the unidirectional path, and indicate the effect of one variable on another, like regression.
- Small circles: that represent the error in latent variable.

Appendix 6. Crosstab of raw material supply and business operation

C14.What was the situation regarding the supply of raw materials, and other production?	C10.Was your business in operation during the pandemic?		
Variables	No	Yes	Total
Total disruption of supply	12	7	19
Supply shortage	12	9	21
Supply barely maintains production	0	1	1
Satisfactory supply	1	0	1
Normal supply	3	9	12
Others	3	2	5
Total	31	28	59

Appendix 7. Opening of business & labour resumption

Row Labels	11-15 days	16-20 days	21-25 days	26-30 days	6-10 days	Less than 5 day	More than 30 days	Grand Total
Agro processing					3	3	4	10
Food processing industries	2				1	10	3	16
Value added leather	6	1	1	1	21	7	1	38
Value added textile	22	5		3	52	28	4	114
Grand Total	30	6	1	4	77	48	12	178

Appendix 8. Duration of shutdown during COVID-19?

Row Labels	1 month	2-3 months	Complete shutdown	Less than 1 month	More than 3 months	Grand Total
Agro processing	2	6			2	10
Food processing industries	2	5		2	8	17
Value added leather	3	17	2	2	14	38
Value added textile	15	48		5	46	114
Grand Total	**22**	**76**	**2**	**9**	**70**	**179**

Appendix 9. Impact on small and micro enterprise

Table A. Crosstab business operation and government support

C10.Was your business in operation during the pandemic?		B18.Do you receive any type of Govt Support?		
Variables		No	Yes	Total
No		0	31	31
Yes		1	27	28
Total		**1**	**58**	**59**

Figure A. Goodness of fit test

Likelihood ratio |	Population error |
chi2_ms (8) | 11.047	RMSEA | 0.080
p > chi2 | 0.199	90% CI, LB | 0.000
chi2_bs (19) | 55.650	UB | 0.184
p > chi2 | 0.000	P close | 0.292

Information criteria	Baseline comparison	Size of residuals
AIC | 1502.251	CFI | 0.917	SRMR | 0.038
BIC | 1533.414	TLI | 0.803	CD | 0.526

Appendix 10. Pandemic effect on export volume of export-oriented enterprise
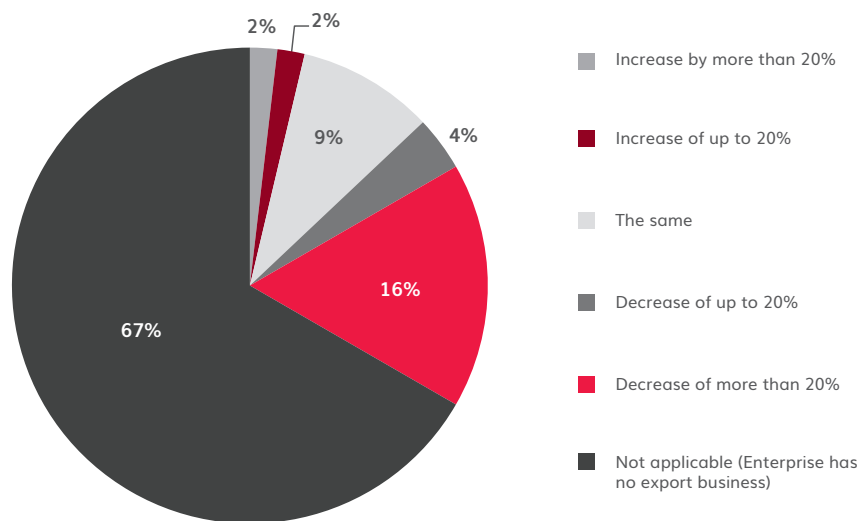
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