A Tentative Story of Resilience: The Impact of COVID-19 on the Pakistani Labour Market

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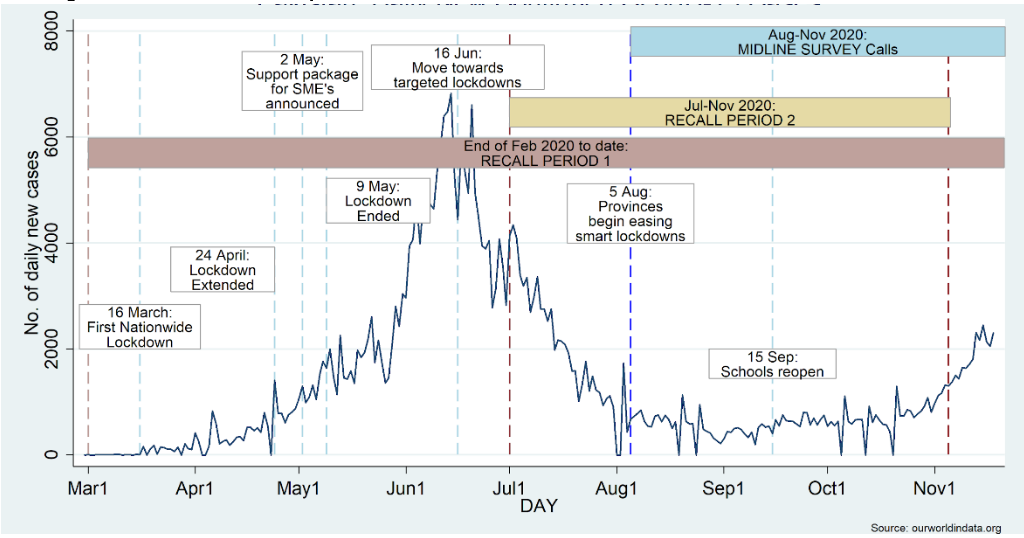
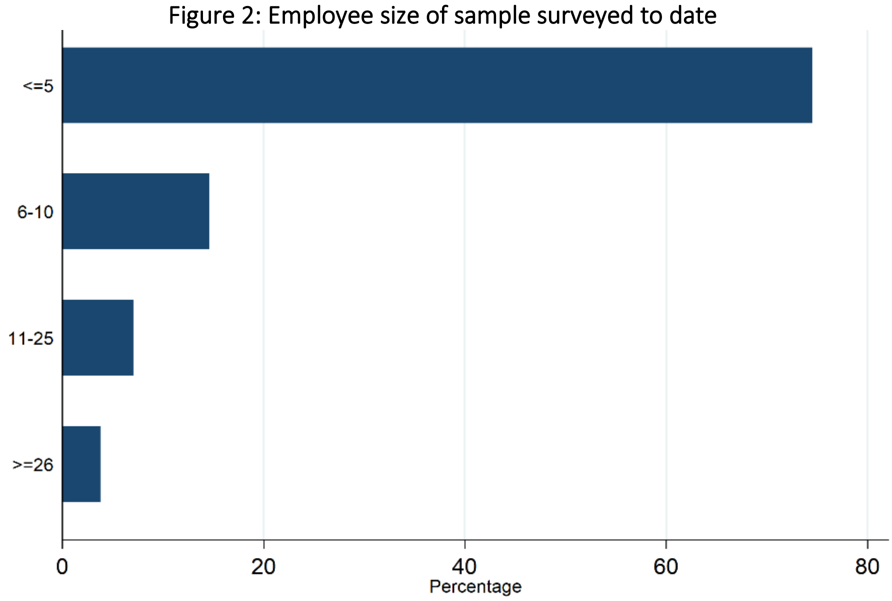
Unlike the major economies of the world, the COVID-19 pandemic has played out quite differently in Pakistan. While there was a major spike in cases in June 2020, the country witnessed a remarkable downward trend before seeing another surge in late October. We surveyed a panel of employers in Lahore, a major city in Pakistan, to study the impact of COVID-19 on their business and the labour market. We find that while many businesses temporarily closed during the pandemic, very few businesses closed permanently. Firms mostly faced low consumer demand and reduced access to finance. However, very few firms faced worker absenteeism and health issues, and layoffs have not been very extensive. Our analysis shows that these challenges vary by firm size and sector. In light of this, we recommend that the government should provide more industry and size-specific terms of finance to help with their recovery.

Figure 1: Number of daily new confirmed COVID-19 cases in Pakistan since March 2020



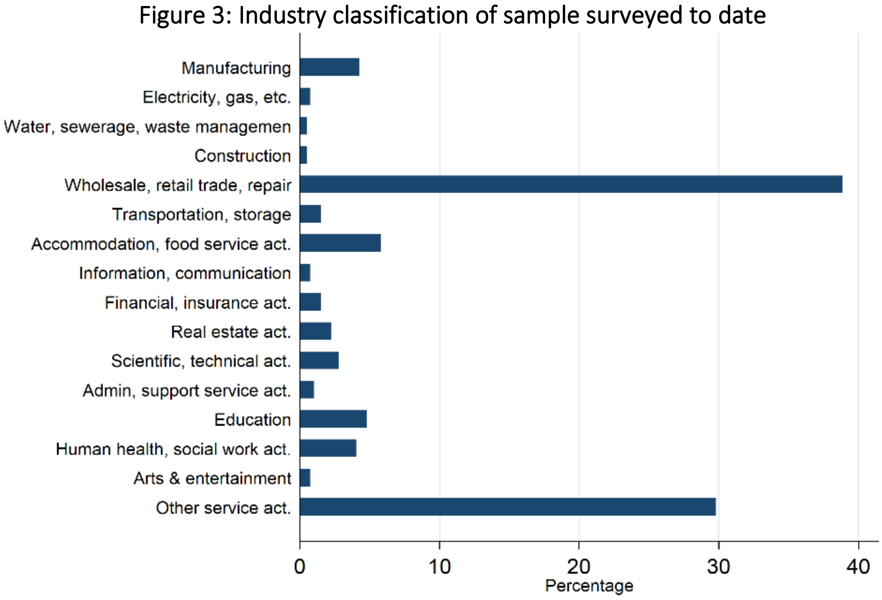
The impact of COVID-19 on the economies of different countries has been largely mediated by the pace at which the disease is spreading and the countries' own capacity to contain its economic fallout. In the case of Pakistan, as soon the government lifted the nationwide lockdown, the number of cases started to increase, reaching their peak in mid-June. However, since then, the number of cases fell significantly with numbers being very low in August-September 2020 before seeing another surge in late October. It is not clear why Pakistan was successful and quick in flattening the curve compared to its regional neighbours. The downward trend in cases, coupled with the easing of restrictions by the government suggests that Pakistan is in the "recovery stage" of the pandemic. While in the recent past the number of cases have started to rise and the government has enforced some restrictions*, they are not as extensive as before and most businesses are operating as usual. Figure 1 shows the trajectory of the number of cases in Pakistan since March. Our surveying began in early August 2020 and continued till November 2020, also labelled in Figure 1.

Figure 2: Employee size of sample surveyed to date



Note: N = 402.

Figure 3: Industry classification of sample surveyed to date



Note: N = 402.

* Correct as of 7 December 2020

Survey measuring firms' experiences during COVID-19

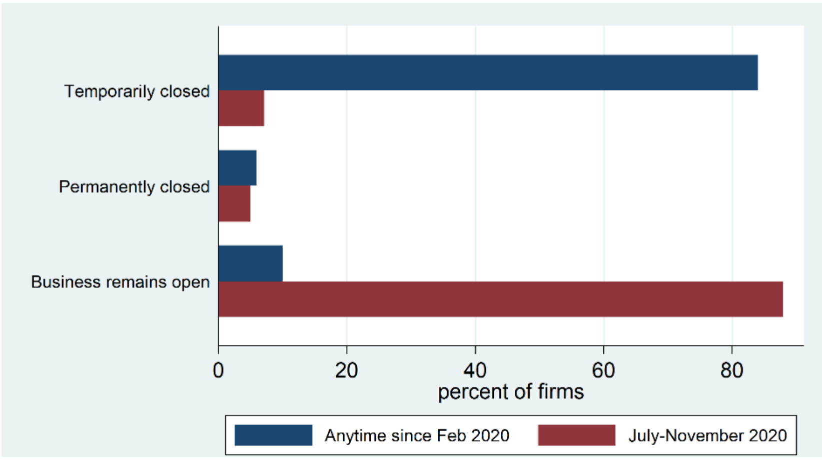
Using our existing panel of employers, drawn from a representative and convenience citywide listing of firms in Lahore, we decided to survey these firms to measure the impact of COVID-19 on their business by documenting the challenges faced by them due to the pandemic. Our survey activities began in August and reached out to around 1,123 firms with a response rate of around 34%. 65% of the firms in our sample belong to a representative listing while 35% of it is a demand-based sample. The figures above show some basic characteristics of the firms that we have surveyed so far. Most of these are small firms (Figure 2) that do business in wholesale, retail trade or services (Figure 3).

Preliminary Results

State of the businesses and revenues

Some signs of recovery are evident as more than 80% of the businesses reported that they are currently open (Figure 4). A very small percentage of businesses reported that they were permanently closed, however, this figure might be underreported as businesses that are permanently closed would be difficult to reach. In the future, once the situation allows for in-person interactions, we hope to collect more data by visiting these firms and confirming whether they are still open. On the whole, compared to the situation since the end of February 2020 where approximately 80% firms had to temporarily close down at some point, most of the firms are open by now.

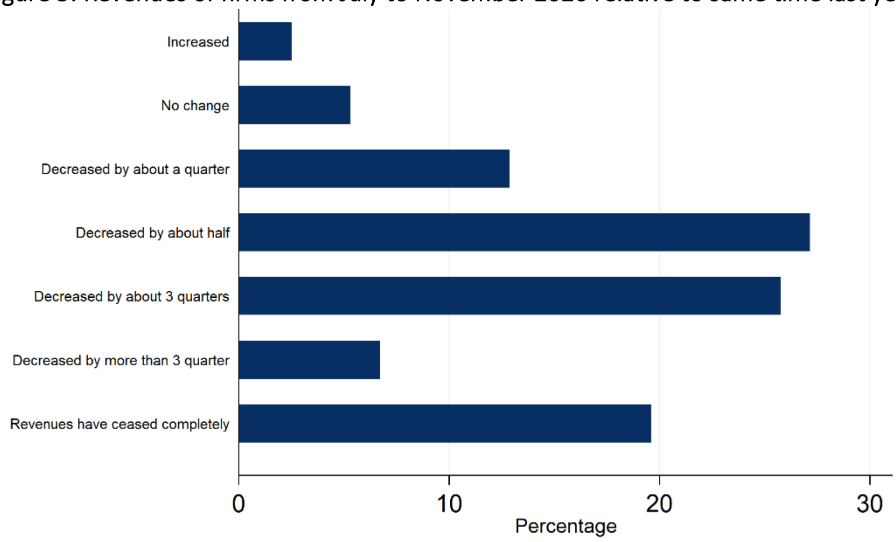
Figure 4: Business status of the firms since end of February 2020 vs. during July to November 2020



Note: N for Jul-Nov question = 380; N for Feb 2020 onwards question = 320. The difference in sample size is because one of the questions was added later to the survey.

However, the fact that firms are mostly open does not mean that it is business as usual for most of them. Figure 5 shows the self-reported changes in revenues of businesses compared to the past year. Only 3% of the firms report that their revenues have increased, and only 6% report that their revenues are the same as July-August 2019. For the rest of the firms, revenues have decreased and around 19% of firms report that their revenues have ceased completely.

Figure 5: Revenues of firms from July to November 2020 relative to same time last year

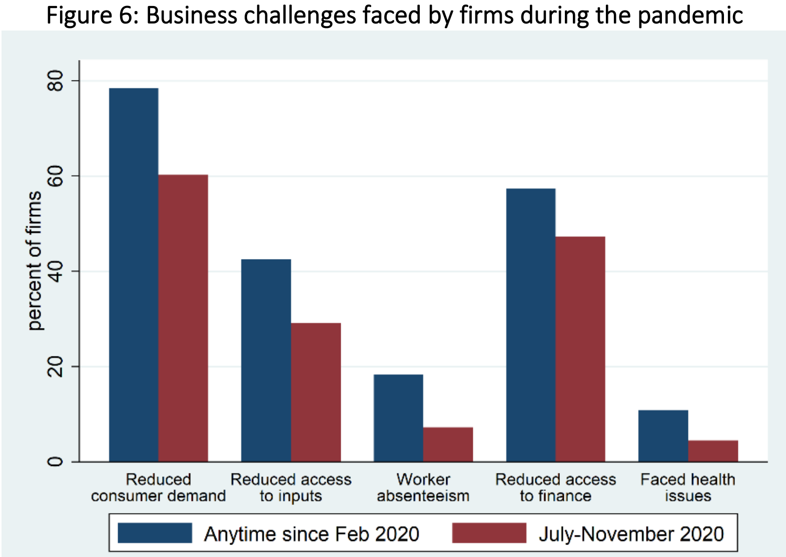


Note: N = 357.

Challenges faced by firms

Additionally, businesses faced a myriad of challenges during the pandemic some of which continue to persist. The major challenge faced by almost 80% of the firms (Figure 6) is reduced consumer demand, although it seems to be picking up for a fraction of the businesses. Another challenge faced by more than 40% of the firms is reduced access to finance which also seems to be improving. Interestingly, less than 20% of the firms faced worker absenteeism and an even lower percentage faced health issues during the pandemic. This is suggestive of the fact that the issues being faced by businesses have less to do with labour and health, and more to do with reduced demand for their goods and services and limited access to inputs and finance.

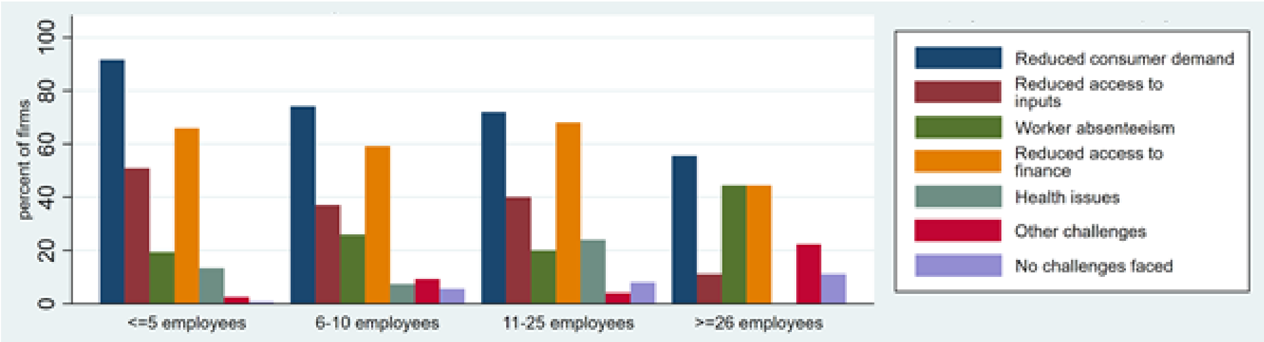
Figure 6: Business challenges faced by firms during the pandemic



Note: N = 404.

Not all businesses were hit equally as smaller businesses faced more challenges compared to larger businesses (Figure 7). More than 80% of the businesses with less than 6 employees reported reduced consumer demand while only 30% of businesses with greater than 25 employees reported facing this challenge. Additionally, a greater proportion of smaller businesses faced reduced access to inputs and finance compared to larger businesses. Worker absenteeism does not vary substantially with employee size, however, no business with greater than 25 employees reported facing health issues.

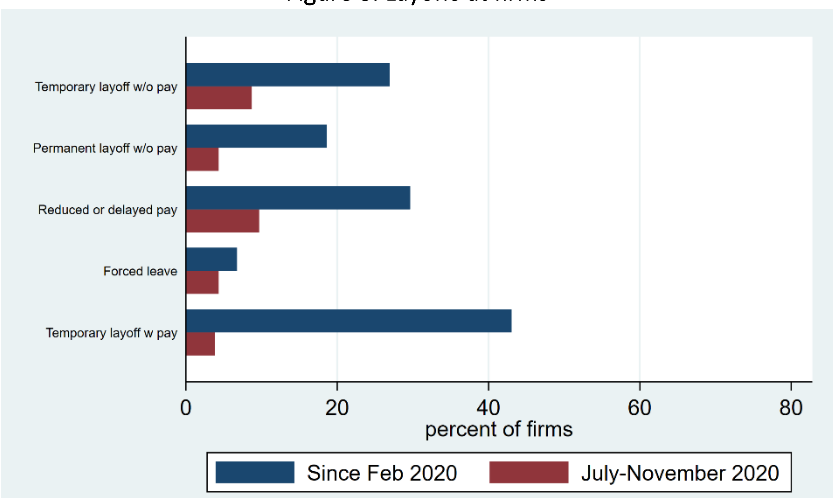
Figure 7: Business challenges faced since end of Feb 2020 by firms of different size



Note: N = 378.

Consistent with the previous insight regarding labour, we find that, overall, few firms had to lay off workers during the pandemic. Most of these layoffs were temporary and with pay, while less than 20% of the firms laid off workers permanently without pay. Almost 30% of the firms had reduced or delayed the pay of some of their employees (Figure 8). These figures might be underreported as firms might be hesitant to report the layoffs they have made. Nonetheless, the trends suggest that the scale of layoffs is not very extensive.

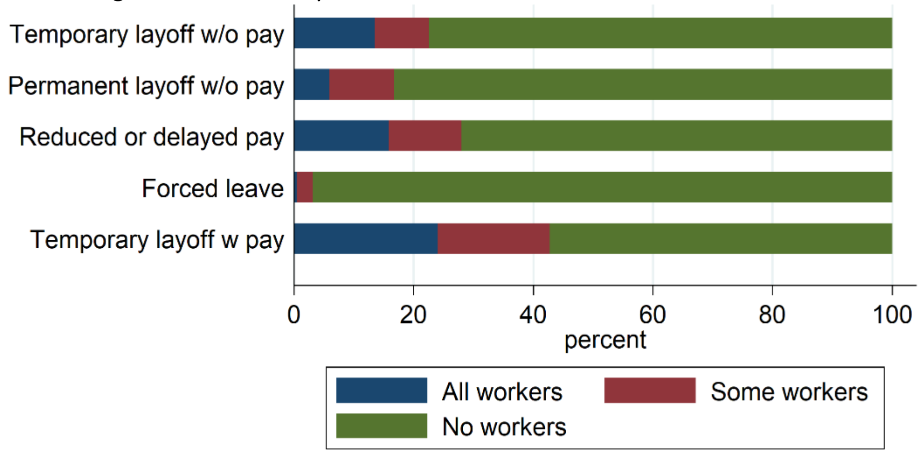
Figure 8. Layoffs at firms



Note: Number of firms which provided a response for each category: temporary layoff without pay – Feb 2020 = 245, Jul-Nov 2020 = 299; permanent layoff without pay – Feb 2020 = 236, Jul-Nov 2020 = 300; reduced or delayed pay – Feb 2020 = 243, Jul-Nov 2020 = 300; forced leave – Feb 2020 = 237, Jul-Nov 2020 = 300; temporary layoff with pay – Feb 2020 = 158, Jul-Nov 2020 = 157.

Delving further into the layoffs, figure 9 shows the extent to which workers were laid off by employers. The trend is quite striking: very few firms have had to lay off employees and out of those who did, many of them laid off their entire workforce. Out of those firms who temporarily laid off workers, a higher percentage of them laid off their entire workforce while a smaller percentage laid off some of their workers.

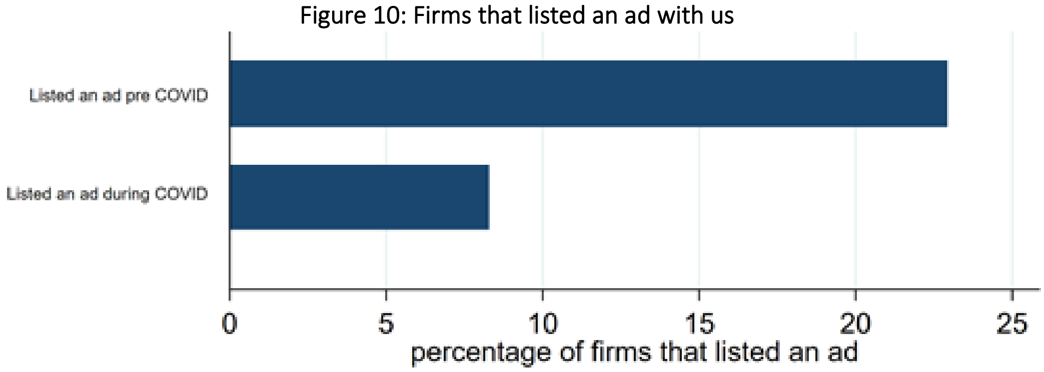
Figure 9: Extent of layoffs at firms from Feb 2020 till November 2020



Note: Number of firms which provided a response for each category: temporary layoff without pay – Feb 2020 = 237; permanent layoff without pay – Feb 2020 = 237; reduced or delayed pay – Feb 2020 = 237; forced leave – Feb 2020 = 237; temporary layoff with pay – Feb 2020 = 168.

Another interesting aspect of the impact of COVID-19 on the labour market is hiring and recruitment. We observe recruitment patterns through our platform, Job Talash, where we call firms asking them if they'd like to list an ad and if they do, we match relevant candidates to that job. Figure 10 shows that out of all the firms we called, around 8% of them listed an ad with us on our platform since August 2020 while 23% of these firms listed an ad when we called them before the pandemic. While recruitment has fallen substantially compared to last year, it has not ceased completely.

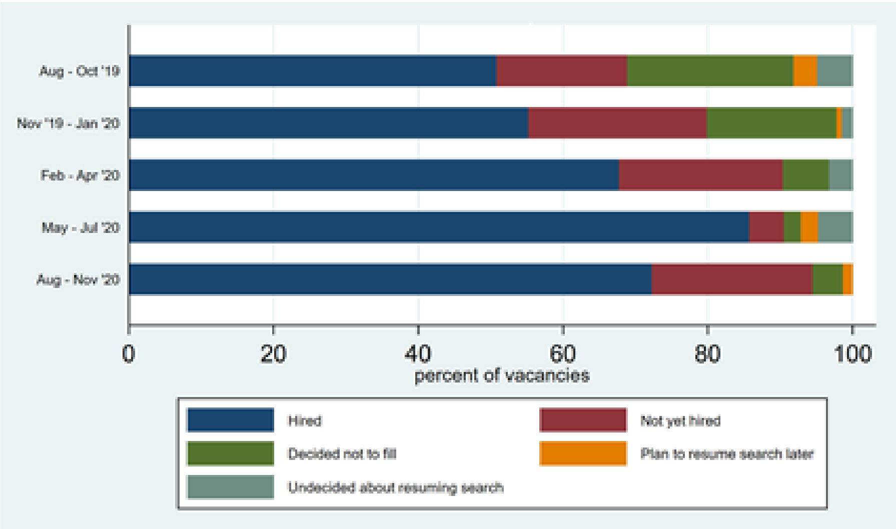
Figure 10: Firms that listed an ad with us



Note: The panel of firms shown here are balanced, i.e. rates of listing ads are reported for the same firms. N = 520. Pre-COVID period is Oct 19-Feb 20. During COVID period is Aug 20-Nov 20. Firms were called and asked if they would like to list an ad.

Hiring activities can also be measured by observing the rate at which vacancies are being filled. For all the vacancies reported by our sample of employers, both listed on our platform and off platform, we see that over 80% of the vacancies that have risen in May-July 2020 have been filled. This percentage is the highest compared to all other quarters (Figure 11). This is also the time period when government restrictions started to decrease and businesses started to open up post lockdown. It is possible that as businesses started to open up, they began rehiring the workforce that they had laid off during the lockdown months. It is also possible that the nature of vacancies that have arisen during this period is different from earlier periods; there might be more of an urgency to fill vacancies that arose in the post-pandemic months compared to those that came up pre-pandemic, especially if a significant proportion of the workforce was laid off during lockdown. Additionally, it might be easier to fill vacancies that emerged immediately after lockdown as the supply of workers available would have increased due to the massive number of people that had been made redundant by the onset of the pandemic. To comment conclusively on why this trend emerged, more evidence is required. Nonetheless, it suggests that firms are entering some form of recovery stage with hiring picking up.

Figure 11: Out of the vacancies for which a need arose in each time period, how many are filled?



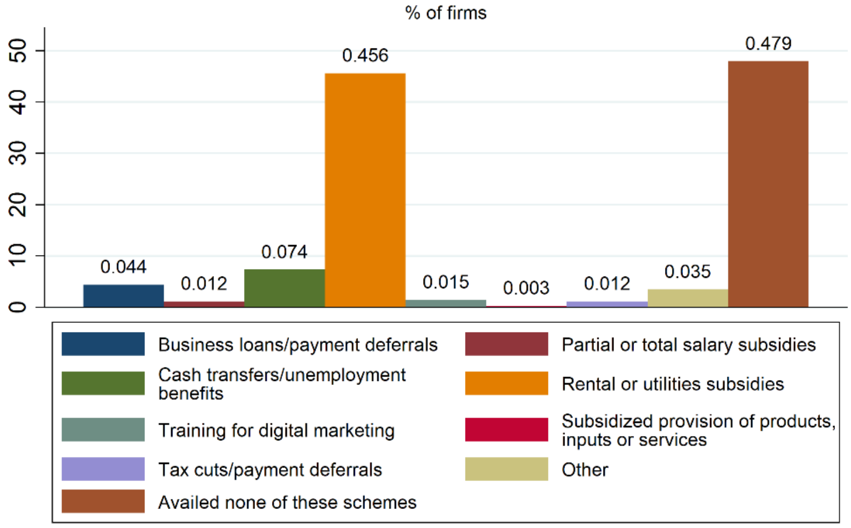
Note: Number of firms = 274; number of vacancies = 506. Time periods refer to when the need for the vacancy arose. On-platform vacancies are followed up on a regular basis while information on off-platform vacancies is collected at the time of survey.

Conclusion and Policy Recommendations

Our data on the impact of COVID-19 suggests that the employers in our sample are in the "recovery stage" of the pandemic. These stats are also supported by the trend of the COVID-19 cases in Pakistan which is on a consistently downward path in the past few months, even though a second wave is anticipated. The peak of the pandemic in Pakistan was relatively short-lived compared to many other economies, suggesting that the long-term impact of the pandemic might not be as severe on Pakistan. Our results so far are consistent with that insight. However, it is too soon to conclusively comment on whether Pakistan is recovering from the recessionary impact of COVID-19 as the number of cases have started to rise in the past few weeks and the government has announced a number of fresh restrictions to combat the second wave.

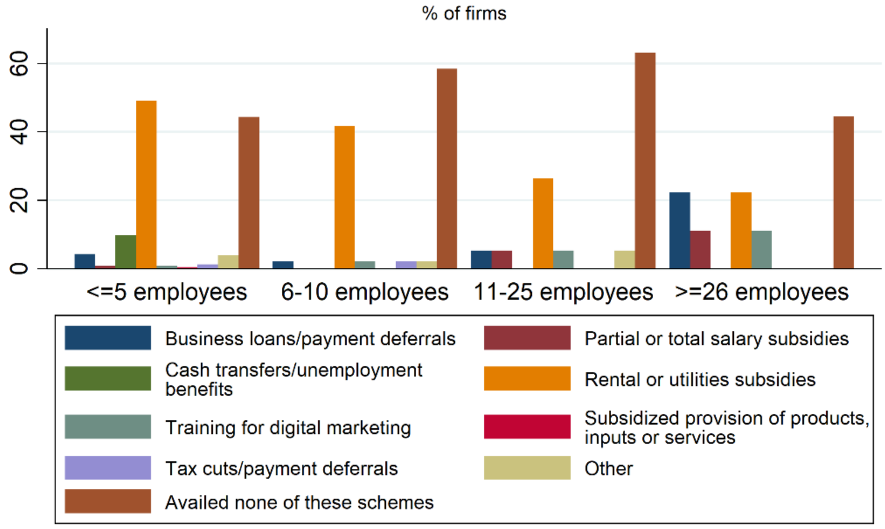
Despite the relatively short-lived peak of the first wave of COVID in Pakistan, around 50% of the businesses in our sample reported facing liquidity constraints and low consumer demand even now. The government can help in easing this burden by providing more favourable and flexible lending terms to businesses. The government of Pakistan has already announced [tax relief for corona-hit businesses]() but more work can be done to provide a financial cushion for firms. In our sample of firms, around 38% of the firms availed no government scheme available to businesses (Figure 12). Additionally, less than 5% of businesses availed business loans/payment deferrals (Figure 12). A breakdown of schemes availed by business size (Figure 13) reveals that a significantly larger proportion of firms with less than or equal to 10 employees availed rental and utility subsidies, while larger firms appeared to be more in need of salary subsidies and training for digital marketing.

Figure 12: Government schemes availed by businesses



Note: This was a 'select multiple' question, i.e. a firm may be availing more than one scheme. Therefore, each bar reports the percentage of the sample that availed each scheme. N = 340.

Figure 13: Government schemes availed by firms of different sizes



Note: This was a 'select multiple' question, i.e. a firm may be availing more than one scheme. Therefore, each bar reports the percentage of the sample that availed each scheme. N = 338.

This suggests that the best way to help out businesses may be to offer relief packages that are industry and size-specific, as our data shows that the recessionary impact of the pandemic is likely to vary by certain firm characteristics. We found that out of those businesses that reported facing a challenge in the past 30 days, around 43% of the firms belong to the wholesale and retail trade sector and 82% of them had less than 6 employees. Moreover, while larger firms require subsidies, they may also need some training for digital marketing (Figure 13). On the other hand, the most appropriate way to prop up small businesses may be through rental subsidies and cash transfers. However, more research and data are required to identify the type of businesses that should be targeted for relief.

As Pakistan nears its second COVID-19 wave, it may become increasingly difficult to predict the economy's trajectory. While we cannot conclusively interpret these trends as signs of recovery, we hope to closely monitor the situation and do another round of surveying in early 2021 to update our results.

This note is based on research conducted as a part of PEDL ERG 7866.