



# **COVID-19 Crisis: Business Response & How to Sustain Employment in Pakistan**

# Background

Pakistan's people, its economy and businesses are all stressed as a result of the Coronavirus crisis. So are the rest of the world's.

Unemployment in the US, Pakistan's largest export market, has crossed the all-time high of the Great Depression. Many countries have injected substantial liquidity to help people, business and economies deal with the crisis. The bail-out in the US has surpassed that of the sub-prime financial crisis. European countries too have brought down their lending rates and made substantial liquidity available. Retail chains all over the West have closed, some declaring bankruptcy, as cities, states and countries enter an uncertain lockdown period.

The Covid crisis is unprecedented. Rich and poor countries are both affected. The virus respects no rank or social status or political boundaries. No one knows how long it will last.

Pakistan's economy was already stressed before the Coronavirus crisis. As part of the IMF programme, Pakistan had committed to stretching macro-economic targets, some, it looked, were unlikely to be achieved, even before the onslaught of the Carona crisis. In these circumstances, the government's ability to offer large cash handouts is limited.

However long and severe the impact on health and life from the Caronavirus, it is universally accepted that the economic disruption that it will cause will be deep and take longer to overcome. Solutions are therefore required for business to work with the government to alleviate the impact. Yet with uncertainty over the period of lockdowns, innovative ways will need to be found to sustain employment and to preserve solvency and continuity of business, which in turn is the source of employment, exports and tax revenue.

Whilst business explores ways of working with the government on funding ongoing operations, PBC members, who are the largest businesses in the country and come from 15 sectors of the economy, recognized that they have to continue acting responsibly. Responsibly towards their employees, to their immediate communities and to their country. Here is a brief account of the initiatives undertaken by some of the members in the first few weeks of the lockdown.

## People before Profit

Paying and caring for one's own employees – both management and workers, is a business necessity, not a virtue. Sustaining livelihoods and dealing with health risks ensures that the talent base remains intact, thus ensuring that businesses get off to a good start when conditions improve. So would the country's economy and tax revenues. To fund salaries for workers when cash inflow is constrained in a lockdown, senior managements in many PBC members volunteered to take pay cuts. Those engaged in essential industries like health, hygiene and food that could continue to operate, incentivized their field forces and provided liquidity to the supply chain to ensure that their health and nutrition products reach far flung areas. Others went out of the way to discharge the pay distribution process to thousands of employees in a safe and responsible manner.

Besides rewarding and caring for their own employees, PBC member companies demonstrated responsibility by going the extra mile, to help the communities they are part of, and beyond in the country. PBC members provided hygiene kits, food rations and used part of their advertising budgets to develop

awareness messages. Others provided face masks, gowns, face shields, disinfection chambers, meals for healthcare workers and even engaged in developing parts for ventilators. The aggregate financial commitment of PBC members to alleviating the impact of the Coronavirus crisis is already beyond Rs. 5 Billion.

Here are some specific examples of the pledges and initiatives taken so far by PBC members. Others are working on similar lines. ***A number of members shared the impact of their initiatives but requested they not be disclosed.***



**The Atlas Group** committed Rs. 3 Billion per month to pay all employees irrespective of lockdown. It will also ensure that its 200 vendors and 2,000 dealers do the same. Another Rs. 100 Mn was pledged in cash and Rs. 50 Mn in medical equipment to support healthcare.



Together with its parent, Lakson Group, **Colgate Palmolive Pakistan** pledged Rs. 365 Mn for providing hygiene kits, PPE, masks and ventilators. McDonald's offered free meals to health workers. Cybernet enhanced the bandwidth to allow people working from home to connect. It also ran health awareness messages in its media channels.



**Dawood Hercules, Engro Corp and Mr. Hussain Dawood on behalf of the Dawood Foundation**, pledged Rs. 1 Billion to help Pakistan overcome the Covid crisis. The sum will be used for disease prevention, protecting and enabling healthcare professionals to treat patients. It will also work with governments to bolster livelihoods. Engro will also ensure that its supply chain is geared up to continue to provide many essential services in which it is engaged. This includes safe working in Dharki and Thar.



**Descon Engineering** donated 18 tons of disinfectant to hospitals, the police, motorway police and CCPO Lahore. Rations were distributed to the daily-paid and PPE was made available to hospitals in Punjab and to the Kiran Foundation in Karachi.



**Dalda Foods** ensured that 5,600 partners in its extended supply chain continued to be paid and the supply of its essential edible oil products remained uninterrupted throughout the country. It also contributed 5 million free meals to the deserving.



**English Biscuits** redirected its advertising spend to awareness messages and made donations to federal and provincial governments and NGOs. It also ensured that all its workers were not only fully paid on time, they were empowered through safe work practices to continue to serve customers and consumers across the country.



**FrieslandCampina Engro** enhanced the medical insurance cover of its sales and distribution team and their families to ensure its nutritional products reach every nook and corner of the country. In the process, it filled gaps left by loose milk. It also collected a record amount of milk from farmers, thus raising rural income. Immunity boosting nutritional products are being developed in collaboration with its parent company in the Netherlands.



In the face of export order cancellations and shipment delays, senior executives of **Interloop** accepted pay cuts to ensure that over 20,000 workers could be paid. Notwithstanding, it donated 70,000 surgical masks, 5,000 goggles, 3,000 protective suits and 50,000 litres of milk. The latter in collaboration with Nestle, another PBC member.



**International Industries** and its subsidiary, International Steel, despite plant closure, continued to pay its workers and donated Rs.10 Mn to the Karachi Relief Trust. It also fabricated disinfection chambers for use at the Karachi Expo Centre hospital established by the Sindh Government for Covid patients.



**K&N's** contributed Rs. 35 Mn to hospitals and the PM's Corona fund to help the needy, committing a further Rs. 50 Mn for the same objective. It also geared up its sales team to meet the protein needs of people across the country.



**National Foods** redoubled its efforts through on-time payment to its employees and suppliers to meet the needs of its food products nationwide. It is also distributing rations around its factories.



**Nestle** committed Rs. 100 Mn to meet the nutritional needs of the affected and frontline workers through cash and milk donations, including fortified dairy. Additionally, it will match employee donations.



**Packages** continues to supply packaging for essential food and hygiene products, including anti-bacterial wipes, across the nation. The Packages Foundation is partnering district administrations and NGOs to distribute rations.



**PepsiCo** announced an emergency "Million of Meals" programme to meet the essential nutritional needs of the Covid affected. For this it will partner reputable organizations.



**SICPA Inks**, besides payment in full to its own and contractor's employees is protecting jobs in the extended supply chain through early payments, flexible delivery schedules and by providing transportation.



**SPEL** is deploying its expertise in polymers and engineering to produce PPE, especially face shield and parts for ventilators to help overcome the Covid crisis. It is also focusing on ensuring its supply chain is adequately funded.



**Sooty Enterprises**, which employs thousands in its export units and supply chains demonstrated a well-executed process of safe dispensation of salary. Employees were scanned for temperature, had to wear masks, pass through a disinfection barrier and wash their hands, all the time maintaining safe distance from each other.



**Unilever** committed Rs. 200 Mn in hygiene products and food rations to hospitals, prisons and marginalized communities. It also pledged Rs. 2.5 Bn in working capital to provide liquidity to its supply chain, especially to smaller customers and suppliers. It did so by speeding up payments and by extending credit where required, the aim being, to ensure continued supply of essential products throughout the country. For a company that excels in safe and sustainable work practices, Covid will be an opportunity to strengthen and learn.

Two weeks through the lockdown, it is uncertain how long and severe the economic disruption will be. PBC members whose examples are highlighted above, represent the crème de la crème of Pakistan business. However, together they account for only 20% of the 10.6 million people in formal employment in the country. The SMEs, which are not as well-resourced, employ the overwhelming 80% of the formal workforce. Moreover, the majority – 38 million of non-agriculture workers are in the informal sector, which is likely to be impacted the most. Even for strong businesses, there are limits to the extent and time they can continue to fund payrolls and meet other fixed costs, if they remain shut and their cash flow is constrained. In this background and to ensure that stakeholders plan proactively to secure employment, sustain economic activity and establish a sounder basis of reviving tax revenues, PBC recommended a Business Relief Programme.

## Business Relief Programme

A third of the “asks” in the Business Relief Programme are for deferral and half are for one-time remission of taxes and levies to create the liquidity and the means to sustain the livelihoods of lower paid employees. Eight percent are to promote investment and manufacturing. These suggestions were justifiable even before the Coronavirus crisis but become more relevant now. The remainder 12% seek release of refunds and waiver of demurrage, which the government has already agreed to do. The package sought no large handouts and recognized the responsibility of business to sustain employment, in line with the government's objectives. The Package is also drawn in the belief that IMF and other multilaterals will look at Pakistan in a more accommodating manner now than earlier.

<b>Business Relief Programme Proposals</b>	<b>Type of Ask</b>			
	<b>Deferral</b>	<b>One Time Remission</b>	<b>Permanent Change</b>	<b>Liquidity Release</b>
<b>Sales Tax and Excise Duty:</b>				
1. The Sales Tax and Excise Duty payments due from manufacturing businesses in respect of February, March and April be accumulated and paid in 6 equal installments commencing July 2020.	YES			
2. Sales Tax Act – u/s 8b – input adjustment to sales tax should be allowed up to 100% (currently set at 90%); higher adjustment level will reduce the pressure on cash flow.	YES			
3. Additional Sales Tax of 3% at import stage should be abolished for the manufacturing sector. It is currently applicable on imports resulting in cash flow curtailment.	YES			
<b>Income Tax:</b>				
1. Turnover tax (part of Minimum Tax computations u/s 113) be brought down to 0% for tax year 2020 and 2021. Tax should be levied on the assessed profit of the businesses.		YES		
2. Advance tax on Imports (u/s 148) collected at import stage (even though it is adjustable for raw material importers) should be suspended for 6 months for manufacturing businesses i.e. the application of tax under the section should commence from imports from October onwards.	YES			
3. Advance tax collections on goods, services & contracts (u/s 153) should be suspended for 6 months for manufacturing business allowing them to receive gross amount and improve cash flows during the interim period between receipt of funds and submission of funds to the government.	YES			
4. Immediately release all pending Income Tax and Sales Tax refunds.				YES
5. Restore Sec 65 B - Business making 90% of their sales to registered persons should be allowed 10% initial allowance against new capital expenditure for BMR projects (as prior to FY19 budget).			YES	
6. New Sec 65 - Company's which pay full salary to employees registered for EOBI and earning under Rs. 30,000 per month during the lockdown period, should be given tax credit for the amount of such salary paid.		YES		
7. Waive payments of WPPF / WWF / EOBI / other labour related payments for the fiscal year 2019/2020.		YES		
8. Advance quarterly income tax should be suspended for March and June 2020 quarter ends to help manage the cash flow.	YES			

9. An income tax rebate of 50% be allowed to employees with taxable income of Rs. 1,800,000 per annum in the FY2020 to help them meet the exceptional costs during the crisis period		YES		
10. The corporate tax rate for companies for FY 2020 be reduced by 5% of the rate applicable.		YES		
<b>Customs Duty:</b>				
1. Additional Custom Duty (ACD) of 4% & 7% on goods with normal Custom duty of 16% & 20% to be reduced to 2% with immediate effect.	YES			
<b>Others</b>				
1. Abolish 100% margin against import LC for industrial raw materials.			YES	
2. Waive fixed charges on electricity bills for the next 3 months and reinstate Industrial Support Package (ISPA) of PKR 3/kWh for at least next 6 months.		YES		
3. Waive demurrage or detention charges on imports during the lock-down period.		YES		
4. Bring the cost of electricity and gas down in line with the reduction in global price of oil and gas.				YES
<b>Provincial:</b>				
1. The Provincial infrastructure Development Cess be withdrawn or at least deferred for the next 12 months: No cash payment or bank guarantee to be given.		YES		
2. Property tax on businesses be reduced by 50% for the FY2020.		YES		
<b>Export</b>				
1. The mechanism instituted by the FBR to expedite the refund of sales tax to the five previously zero-rated export sectors has failed to function. We recommend that the zero-rating of sales tax for the export sector be restored at least for the period to end of December 2020. Moreover, the concurrent zero-rating of domestic sales of the textile sector will also enable some capacity utilization and hence employment and economic activity in this sector.		YES		
2. As the export sector is subject to a different tax regime, tax credits recommended for the domestic industry to sustain employment are not applicable. Instead, direct subsidies may be paid to this sector to enable it to maintain employment, especially of the lower paid workers. For this, we recommend that a separate Export Bail-Out Fund be established to help exporters in difficulty. Pakistan will need them as soon as the global economy revives.		YES		
3. Foreign customers are invoking force majeure clauses to cancel orders and delay shipments. Banks in Pakistan, however, are reluctant to adopt the same basis to unwind the forward exchange contracts which were contingent on continued export streams. These will now not materialize within the contracted period and exporters will suffer loss due to the further		YES		

devaluation of the Rupee. The State Bank is empowered to direct the closure of forward contracts.				
4. As promised by the government in its Economic Relief Programme, all tax refunds and rebates due to the export sector may be refunded immediately to help it overcome the cash flow crisis.				YES
<b>TOTAL 24 Asks</b>	<b>7</b>	<b>12</b>	<b>2</b>	<b>3</b>
<b>% of 24 Asks</b>	<b>30%</b>	<b>50%</b>	<b>8%</b>	<b>12%</b>

## Call for Further Reduction in Policy Rate

A key action taken by PBC members to ensure continued supplies is to create liquidity within their supply chains. Even if some of the proposals contained in the BRP are implemented, the billions required to be invested in supporting the partners through this crisis will need to be funded through overdrafts. The State Bank of Pakistan is facilitating credit, including deferral of principal repayments. Whilst this can ease cash flow, it does not address cost. With Policy Rate at 11%, the effective cost of credit is between 12.5% to 14% per annum.

**PBC therefore recommends a further and a sharper reduction in the Policy Rate from the current 11% to 7%.** This is based on the following key reasons:

- Of the March CPI of 10.2%, the non-cost push inflation amounted to just 5.2%. Policy Rate is not an appropriate tool to address supply side issues affecting availability and price of agricultural produce. Hence 11% Policy Rate is neither the right medicine nor the correct dose;
- With lockdown and depressed economic conditions, the inflation outlook is lower than 5%;
- The rationale for holding borrowers - government and the private sector, hostage to high rates to sustain carry deposits no longer exists.
- Foremost, the country cannot afford high borrowing costs. Piecemeal subsidies to certain class of borrowers lack general impact. Costs need to be reduced across the board.

## Conclusion

Responsible businesses that belong to the PBC (and those that don't) recognize the need to put *'people before profit'* and will continue to nurture employment for as long as they can. However, Covid-19 is an unprecedented crisis and no one can forecast its economic impact with much accuracy. The PBC advocates that instead of incremental steps with diminishing effectiveness, a proactive and holistic approach be adopted to strengthen the basis of the private sector's ability to continue to sustain jobs, in time promote value-added exports and enhance import substitution. These are the objectives of the PBC's **"Make-in-Pakistan"** thrust. A positive outcome of the Covid crisis is a renewed recognition of the importance of a large 210 Mn + domestic market and a reaffirmation of the potential of the agricultural sector. Another positive is the confirmation of the role of well organized, adequately resourced, law-abiding and fully documented sector. Hence the need to shape policies that promote the growth of the formal sector. This of course was and is the rationale for establishing the Pakistan Business Council.

## About the PBC

The PBC is a private sector business policy advocacy forum composed of Pakistan's largest businesses / groups including multinationals that have a significant investment in and a long-term commitment to the growth of Pakistan. Members turnover represents every ninth Rupee of Pakistan's GDP and together the members contribute 25% of the annual tax revenues and 40% of exports. More information about the PBC, its members and its activities can be found on our website [www.pbc.org.pk](http://www.pbc.org.pk)





# The PBC Members by Sector

PBC currently has 82 members, whose businesses cover nearly all sectors of the formal economy. The sector wise representation (in alphabetical order) is detailed below:

Sector	Member Companies
<b>Large-Scale Manufacturing</b>	
Agro Industries	1
Cement	2
Chemicals / Fertilizer	8
Energy	2
Engineering	9
Fast Moving Consumer Goods	18
Packaging Material	2
Pharmaceuticals and Healthcare	6
Textiles	10
<b>Total Members in Large-Scale Manufacturing</b>	<b>58</b>
<b>Services</b>	
Financial service	12
Hospitality	1
Insurance	2
Logistics / Courier	2
Telecommunication	1
Utilities	1
<b>Total Members in the Services Sector</b>	<b>19</b>
Conglomerates	5

# 29 MNC's from 13 Countries



USA



UK



UAE



Switzerland



Japan



# 29 MNC's from 13 Countries



Netherlands



France



Bahrain



South Korea



Hong Kong



Germany



Sweden



Turkey





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