Gallup Pakistan Analysis of World Bank Enterprise Survey

Access to Finance – World Bank Enterprise Survey 2022

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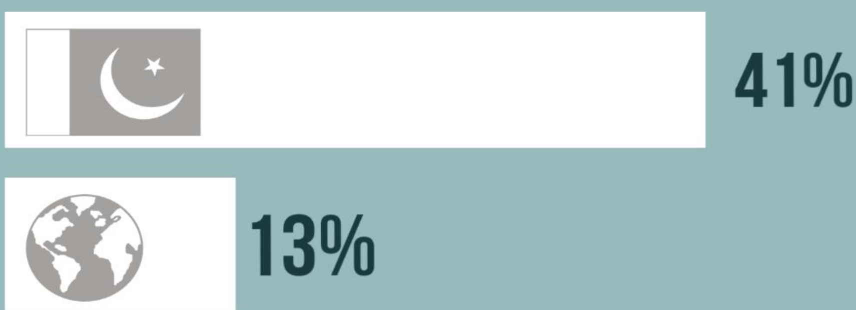
PERCENT OF CREDIT CONSTRAINED FIRMS

There are three fully credit constrained firms in Pakistan (41%) for every such firm in the world (13%). In Pakistan, there are more smaller firms that are fully credit constrained (48%) than medium (34%) or large sized firms (25%).



USE OF FINANCIAL SERVICES:

For every firm in Pakistan with a bank loan or line of credit (2%), there are 16 in the world (33%) and 12 in South Asia (24%). The percentage of firms with a bank loan or line of credit has declined steeply for Pakistan over the years, from 9% in 2007 to 2% in 2022.

SOURCES OF FINANCING

Only 1% of the investment in firms in Pakistan is financed by banks, compared to the global average of 14%.

GALLUP PAKISTAN
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Pakistan's Foremost Social Research Lab

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

PRESS RELEASE

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The percentage of firms with a bank loan or line of credit has declined steeply for Pakistan over the years, from 9% in 2007 to 2% in 2022. On the contrary, the proportion of firms with checking or savings accounts has increased from 65% to 92%. – **Access to Finance – World Bank Enterprise Survey 2022**

Islamabad, August 8, 2023

Gallup Pakistan, as part of its Big Data Analysis initiative, is looking at Access to Finance (2022). This data is part of a publication by the World Bank called the 'Enterprise Survey 2022'.

The complete Enterprise Survey 2022 is available HERE.

Gallup Pakistan has not conducted the survey work. We are only analyzing the publicly disclosed data and reports provided by World Bank. This is a public service activity done on individual initiative of Gallup Pakistan and not in any way endorsed or commissioned or supported by WB or its agents.

What is the Big Data Analysis Series by Gallup:

Gallup Pakistan's Big Data series was started by Bilal I Gilani, Executive Director of Gallup Pakistan. Bilal explains the rationale of the series: "The usual complaint from academics and policy makers is that Pakistan does not have data availability. At Gallup we plan to bridge this gap in terms of accessibility and use of data. The Gallup Big Data series has earlier worked with data sets such as PSLM, Labor Force Survey, and Economic Survey reports as well as National Census Reports and Election Commission Data sets. The current series is using the World Bank Enterprise Survey, a periodic compilation which reports facts and perceptions of enterprises and businesses operating in Pakistan. We hope that these series are useful, and we welcome both feedback as well as possible collaborations as we create a public good in the form of useful data sets in Pakistan.

What data points this current edition covers:

This series aims to present the important learnings from the Enterprise Survey 2022 for policy makers, the public, as well as for marketers in an easy and understandable way. In particular, this edition looks at Access to Finance as of 2022. Efficient financial markets reduce the reliance on internal funds or informal sources such as family and friends by connecting firms that are creditworthy to a broad range of lenders and investors. The series' main aim is to provide data. Implications of these data points for the development sector as well as wider socio-political ramifications is something we would like to trigger in relevant circles.

Today's topic is "Access to Finance (2022)"

Key Findings:

1. **Percent of credit constrained firms:** There are three fully credit constrained firms in Pakistan (41%) for every such firm in the world (13%). In Pakistan, there are more smaller firms that are fully credit constrained (48%) than medium (34%) or large sized firms (25%).

2. **Use of financial services:** For every firm in Pakistan with a bank loan or line of credit (2%), there are 16 in the world (33%) and 12 in South Asia (24%). The percentage of firms with a bank loan or line of credit has declined steeply for Pakistan over the years, from 9% in 2007 to 2% in 2022.

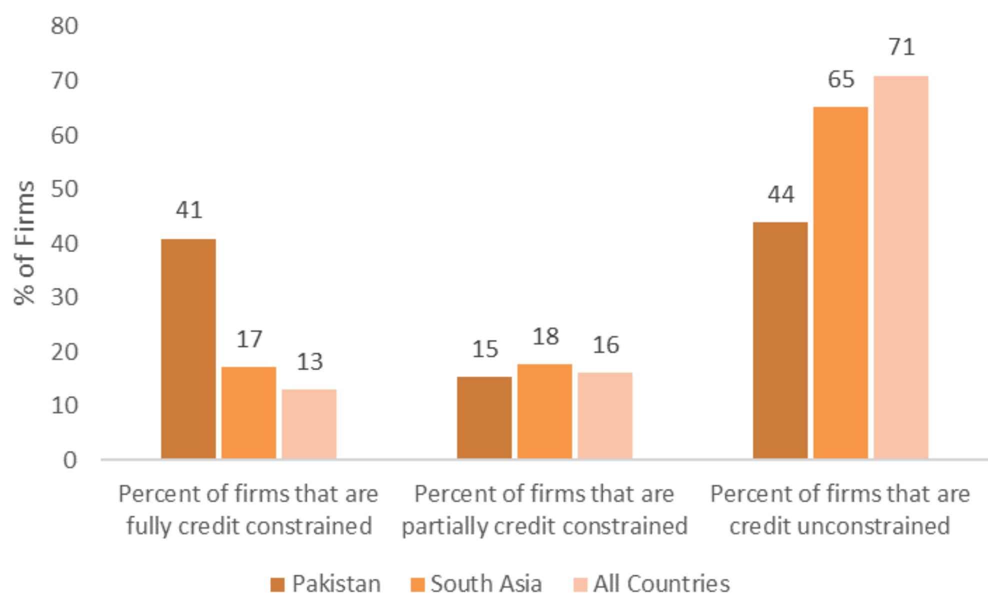
3. **Sources of financing:** Only 1% of the investment in firms in Pakistan is financed by banks, compared to the global average of 14%.

1. Percent of credit constrained firms

Credit constraints, as the name suggests, are restrictions that may hinder firms from borrowing against future income. They can arise because of many factors, internal and external; for example, firms with poor investment and growth opportunities may have a higher probability of being credit constrained.

There are three fully credit constrained firms in Pakistan (41%) for every such firm in the world (13%). South Asia as a region is also faring much better, with nearly half as many credit constrained firms as Pakistan (17%). According to the World Bank definition, these are firms that—in the fiscal year 2021-22—did not use external sources of finance for either working capital or investments, applied for a loan but did not have an outstanding loan disbursed at the time of the survey or did not apply for a loan due to any reason other than having sufficient capital. This highlights the stagnancy in the financing of firms in Pakistan in 2021. Some of this can be attributed to the aftermath of Covid 19, however, the large difference between Pakistan and the rest of the world indicates that there are other factors at play as well.

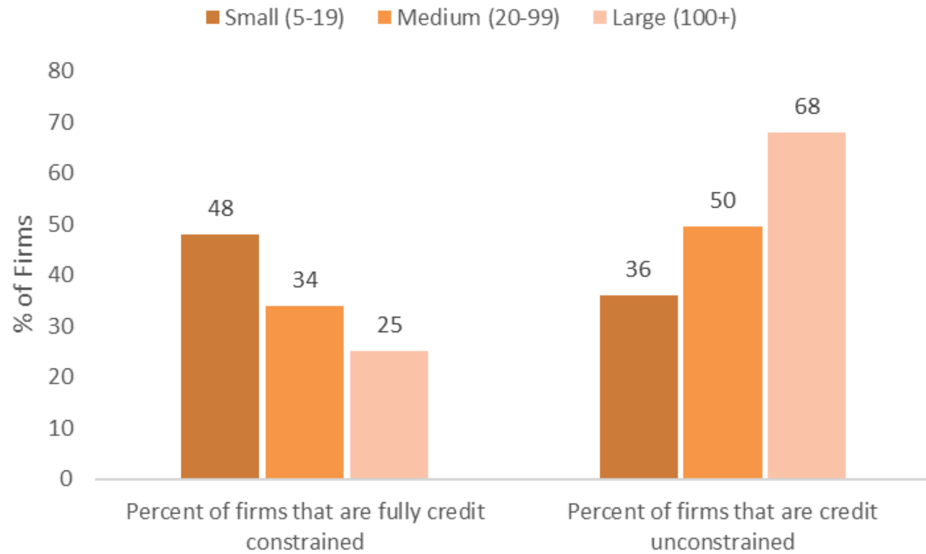
Figure 1: Firms with varying levels of credit constraints



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The next group is firms that are partially credit constrained, of which 15% Pakistani firms are a part of. They are defined, by the World Bank as the firms that had access to external sources of finance but did not apply for a loan due to any reason other than having sufficient capital or did apply for a loan but the application was rejected. 16% global and 18% of South Asian firms fall into this category, almost the same as Pakistan. However, Pakistan has a lot less firms that are credit unconstrained (44%) compared to South Asia (65%) and the world (71%). These are firms that show no cash flow sensitivity and have smoother access to finance.

Figure 2: Firms with varying levels of credit constraints - by firm size



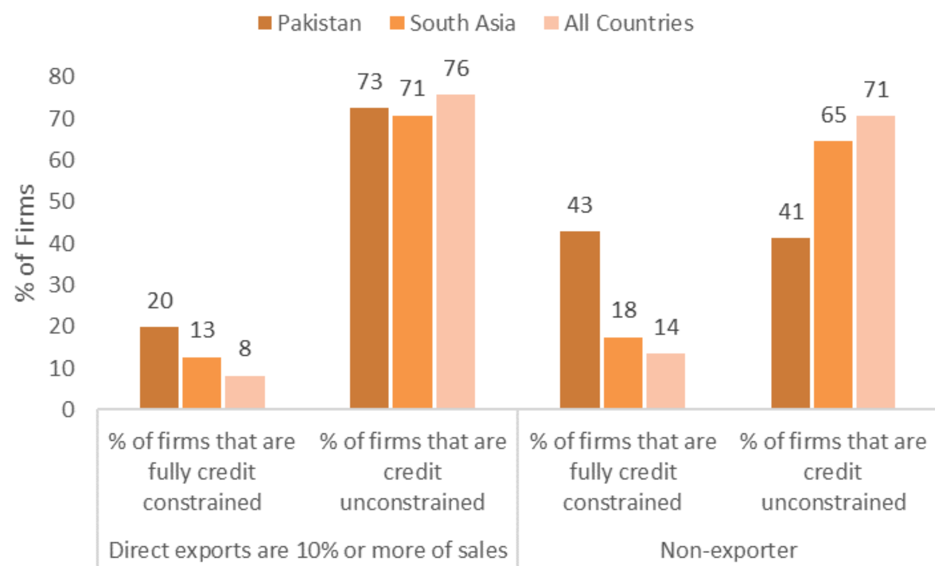
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Looking at the levels of credit constraints by firm size reveals that how large the firm is plays a significant role in determining its access to finance. There are more smaller firms that are fully credit constrained (48%) than medium (34%) or large sized firms (25%). Similarly, the percentage of large firms in Pakistan that are credit unrestrained (68%) is not very different from the percentage for South Asia, which is 70%. However, there are almost half as many small firms, at 36%, that are unconstrained in terms of credit. This could be indicative of barriers to entry or lack of business confidence, that may be hindering smaller and medium sized firms from getting adequate financing.

Within firms that are exporters, almost as many are credit unconstrained in Pakistan (73%) than are in South Asia or the world. 71% of South Asian and 76% of the global exporting firms fall into this category. However, the percentage of exporting firms who are fully credit constrained in Pakistan (20%) are still higher than those in South Asia (13%) and the world (8%), highlighting a gap between similar types of firms across the region.

On the other hand, for firms that are non-exporters, Pakistan has almost double the proportion of fully credit constrained firms (43%) compared to South Asia (18%) and even more than the world (14%). Similarly, there are far less Pakistan firms that are credit unconstrained, at 41%, compared to the region (65%) and the world (71%).

Figure 3: Firms with varying levels of credit constraints - by exporter type

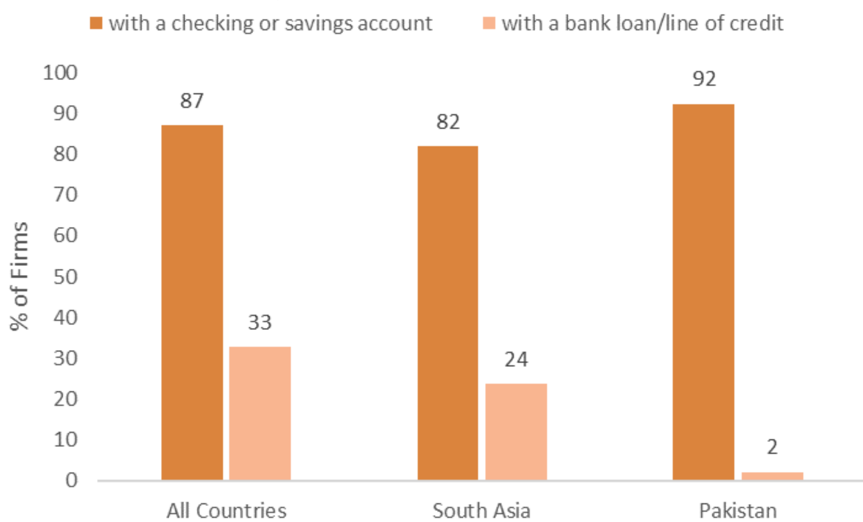


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

2. Use of financial services

For every firm in Pakistan with a bank loan or line of credit (2%), there are 16 in the world (33%) and 12 in South Asia (24%). While the proportion of firms with checkings or savings accounts is high throughout the sample, ranging between 82-92% for Pakistan, South Asia and the world, firms in Pakistan severely under-rely on bank loans.

Figure 4: Use of financial services



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Bank loans are important for firms to grow and expand. They allow an injection into the cash flow of a business through verified and legal means. Availability of credit permits funding projects that otherwise would be constrained by each firm's limited pool of funds. With so few firms in Pakistan having an established line of credit or using bank loans, they are either stagnant in their cash flows or are utilizing informal means of acquiring finances.

Figure 5: Firms with a bank loan/line of credit

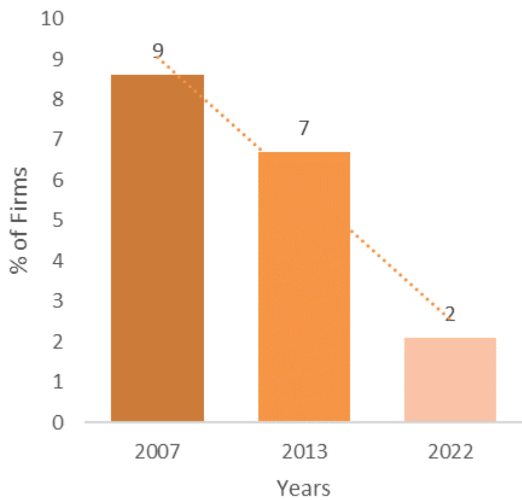
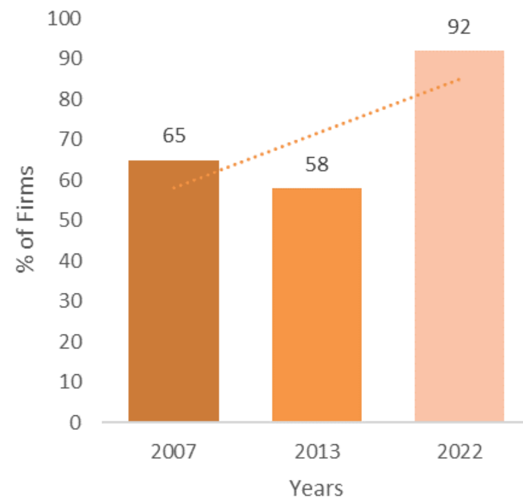


Figure 6: Firms with a checking/savings account



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Analyzing trends of the past 15 years reveals interesting insights. The percentage of firms with a bank loan or line of credit has declined steeply for Pakistan over the years, from 9% in 2007 to 2% in 2022. On the contrary, the proportion of firms with checking or savings accounts has increased from 65% to 92%. This implies that it might have become easier for firms to open accounts and finance immediate needs, but the uptake of loans and maintaining a line of credit, which is useful for handling liquidity or cash flow volatility challenges that companies may face, has decreased. Diving deeper into why firms in Pakistan have been less inclined to take loans from banks, and whether the constraint is from the banks' end or the firms' end, could be a useful exercise from a policy perspective to understand how to increase this rate for the future.

Figure 7: Firms whose recent loan application was rejected

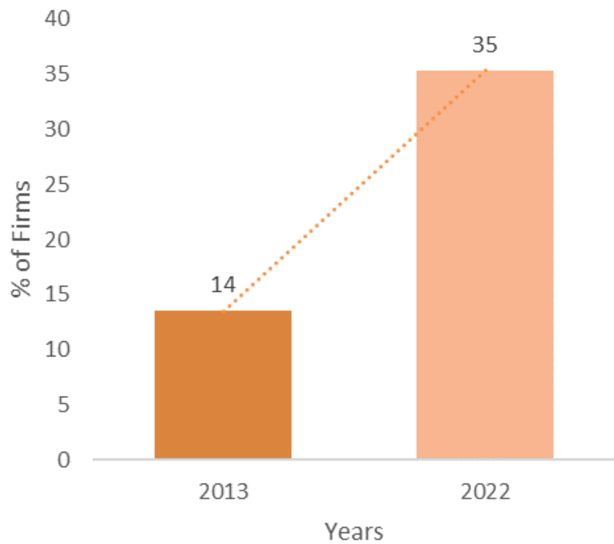
Economy	% of firms whose recent loan application was rejected
All Countries	10
South Asia	20
Pakistan	35

Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

One explanation of the declining uptake of loans can be sought in the percentage of firms whose loan applications get rejected. Filing for a loan rejection can be a tedious and time-taking process. If more applications result in rejections, it can hamper a business's confidence in the banking system. On the other hand, it is also possible that the firms applying for loans are unable to establish their credibility to satisfy the banks, thus resulting in rejections. Whatever the reason, 35% of firms in Pakistan reported that their recent loan application was rejected, which is more than three times higher than the world average and almost twice as high as the percentage for South Asia.

Even looking at the trend for Pakistani firms whose loan applications got rejected, it can be seen that compared to 2013, a significantly higher amount of loans got rejected in 2022; more than twice as many. This can be a contributing factor to why the percentage of firms taking bank loans has decreased over the years for Pakistan.

Figure 8: Firms whose recent loan application was rejected - Pakistan



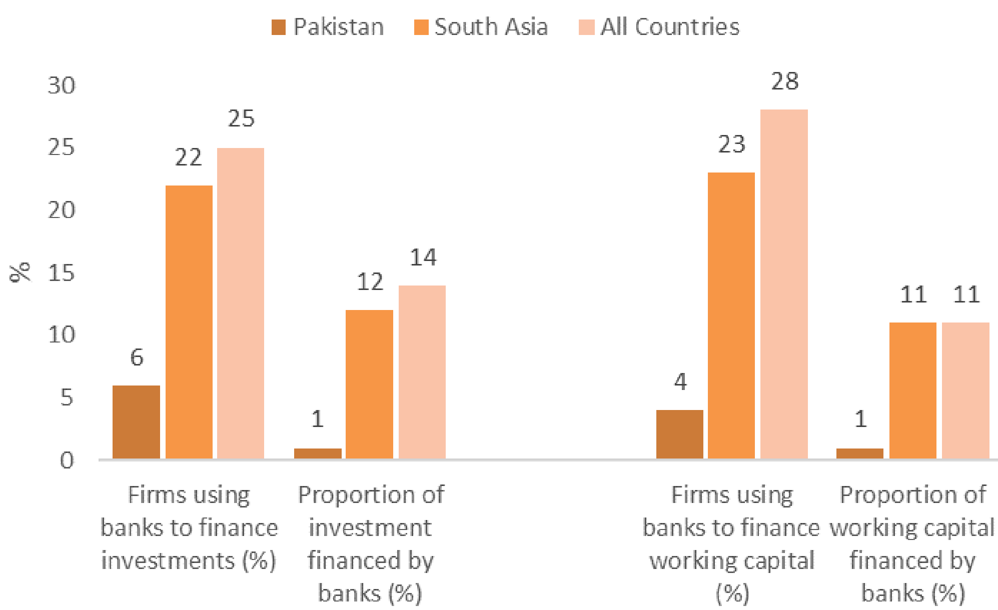
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

3. Sources of financing

Only 1% of the investment in firms in Pakistan is financed by banks, compared to the global average of 14% and the regional average of 12%. For each firm in Pakistan using banks to finance investment, there are 4 in the world that are doing so. Put in numbers, only 6% of Pakistani companies use banks to finance investments, compared to 22% in South Asia and 25% in the world. This would also explain why the proportion of investment financed by banks is only 1%.

Even fewer companies in Pakistan use banks to finance working capital (4%) while the averages for South Asia (23%) and the world (28%) remain as high as those who use banks to finance investments. Similarly, only 1% of the working capital is financed by banks in Pakistan. This number is 11% for both South Asia and the world. It is important to reach the cause, whether arising from the firms' end or the banks', in order to bridge this gap.

Figure 9: Sources of financing

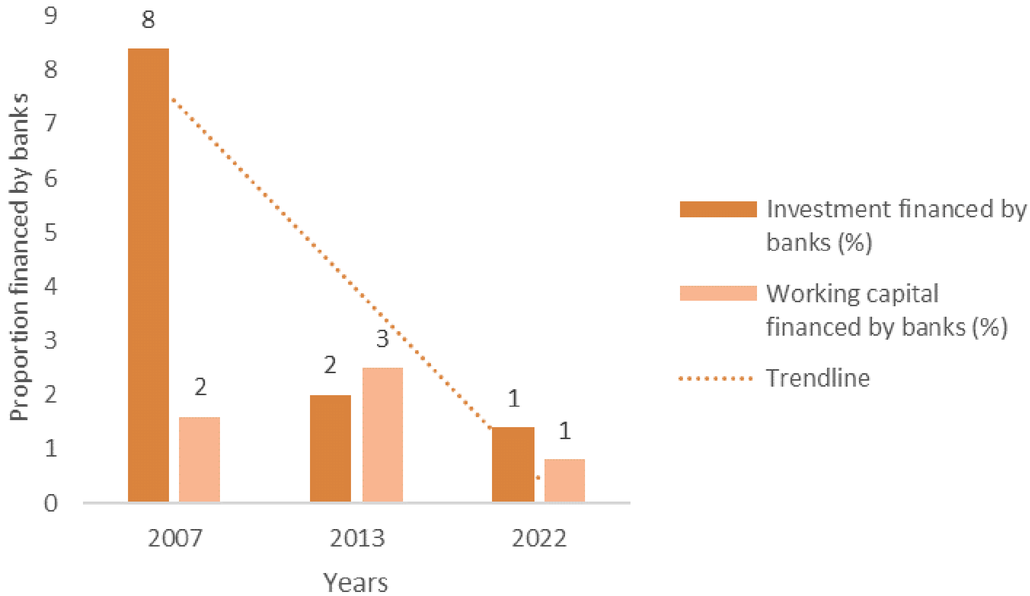


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Looking at the trend for firms in Pakistan over the years and how their number has varied in terms of financing, it can be seen that the proportion of investment in firms financed by banks has rapidly decreased over the past decade and a half. In 2007, 8% of the investment was financed by banks, a number that drastically dropped to 2% in 2013 and then 1% in 2022. This fall could be attributed to both internal and external factors; more in-depth analysis into the policies that might have led to this decrease in investment financing by banks can pave the way for measures that could increase firms' confidence in banks, and vice versa.

On the contrary, the trend for percentage of working capital being financed by firms has stayed consistent over the years, with the proportion deviating between 1 and 3%. This could also be looked into in order to ascertain the causes that are keeping the rate persistently low and what could be done to increase this uptake. It is worth noting, however, that the firms surveyed in the World Enterprise Survey do not contain those from the agricultural, fishing and mining sector. It may be that farmers and fishing companies are more prone to using banks to finance investment and capital, which is not captured here. Therefore, these trends cannot be generalized to the entire economy.

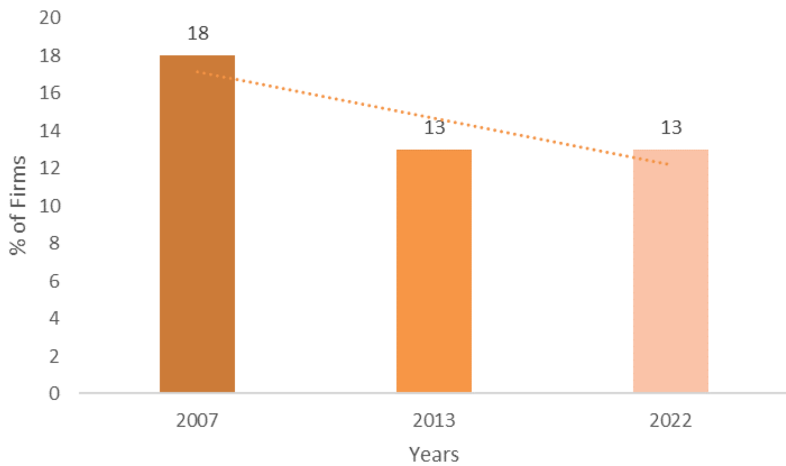
Figure 10: Sources of investment - trend for Pakistan



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Despite the downward trends of access to finance particularly in relation to funding from banks, the percentage of Pakistani firms that consider access to finance a major constraint has shown a decreasing trend over time, falling from 18% in 2007 to around 13% in 2022. It would be interesting to explore whether this number has gone down because more pressing concerns have emerged over the years, or because the financing situation for firms has gotten better.

Figure 11: Access to Finance as major constraint - trend for Pakistan



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Wish to Contribute to Gallup Big Data Analysis?

Gallup Pakistan is looking for collaboration with researchers to expand the Big Data Analysis project. If you have any ideas, please write to Bilal I Gilani, Project Director, Big Data Analysis at Gallup Pakistan.

Wish to know more about the Enterprise Survey 2022?

The Enterprise Surveys (ES) focus on many aspects of the business environment. These factors can be accommodating or constraining for firms and play an important role in whether an economy's private sector will thrive or not. An accommodating business environment is one that encourages firms to operate efficiently. Such conditions strengthen incentives for firms to innovate and to increase productivity — key factors for sustainable development. A more productive private sector, in turn, expands employment and contributes taxes necessary for public investment in health, education, and other services. Questions contained in the ES aim at covering most of the topics mentioned above. The topics include infrastructure, trade, finance, regulations, taxes and business licensing, corruption, crime and informality, access to finance, innovation, labor, and perceptions about obstacles to doing business.

The ES are repeated approximately every four years for a particular economy (or region). By tracking changes in the business environment, policymakers and researchers can look at the effects of policy and regulatory reforms on firm performance. Repeated surveys aid in studying the evolution of the business environment and how it affects the dynamics of the private sector.

You can find more information on the Enterprise Survey, and complete tables, on

www.worldbank.org

Or visit:

Enterprise Surveys 2022

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