

PANEL STUDY II: IMPACT OF COVID-19 ON SMALL- AND MEDIUM-SIZED ENTERPRISES IN IRAQ

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EXECUTIVE SUMMARY

As of 16 November 2020, 521,542 confirmed cases of COVID-19 and 11,712 deaths had been reported in Iraq, a fatality rate of 2.2 per cent.¹

The initial measures that the government of Iraq took to curb the spread of pandemic—including lockdowns or curfews, school closures, and restrictions on travel into and within the country—have been relaxed in certain locations, producing some level of economic recovery.

The United Nations' International Organization for Migration (IOM) in Iraq, Food and Agriculture Organization (FAO), and International Trade Center (ITC) jointly conducted a two surveys at two points in time analyzing the pandemic's impact on small- and medium-sized enterprises (SMEs) in Iraq. Round 1 of data collection was conducted between late June and early July 2020. The same businesses were surveyed in Round 2, which took place in September. The number of new COVID-19 cases increased about 75 per cent between rounds. The ongoing COVID-19 crisis and movement restrictions resulted in a drastic reduction in production. Around 7 out of 10 businesses across the sectors included in the study—agriculture, automotive, carpentry, chemical, construction, education, food production, general trade, hospitality, manufacturing, medical services, general services, materials (metal and plastic), technology and textiles—have witnessed a decline in production or sales in the past two months.

Between June and the end of August, there was an average increase of 27 per cent in the number of employees.² However, this recovery in the labor market is nine per cent below reported employment levels before the pandemic in early March. Furthermore, the coping mechanisms businesses adopted to respond to and stay afloat during the pandemic widened the gender gap in the labor market. In February, there was 1 woman per 13 men working in the SMEs surveyed. The gap reached 1 woman per 17 men by June and 1 per 18 at the end of August.

The effect on revenues due to reductions in the buying power of customers and constraints on normal business activity is heterogeneous across SMEs. Seven out of 10 surveyed SMEs experienced a decrease in revenue between February, before the pandemic, and the end of August. The reduction was between 6.25 per cent and 100 per cent with an average of 53 per cent. The surveyed SMEs also were by a temporary shutdown (49%), clients not paying the bills (41%), and reduction in investments (34%).

Businesses in this study also experienced a decrease in their ability to purchase inputs or to sell outputs due to restrictions on mobility. More than half of the businesses reported lower domestic sales to consumers (56%) and to other businesses (23%), and difficulties accessing inputs domestically (27%).

More than half of SME owners reported a decrease in their demand for inputs used in the final production of goods. The first and second most important inputs suffered a reduction of 64 per cent and 57 per cent, respectively.³ Firms in the sample reported a 56 per cent decrease in the supply of the main input and a 50 per cent decrease in the second most-used input.⁴

Overall, by September almost 40 per cent SMEs owners reported that they were at risk of closing permanently, which is half of the proportion of SMEs who reported a risk of closure in June. Among these businesses, 27 per cent said the shutdown could be within the next six months or more, 22 per cent within the next three months, and 7 per cent within the next month or less.

1 Corona tracker, 16 November 2020, <https://www.coronatracker.com/country/iraq/>.

2 In Round 1, questions about employee numbers, revenue, and production were asked in terms of "the past four weeks." Data collection took place between 22 June and 7 July. Throughout this report, the period of time will be referred to as June. In Round 2, questions about employees, revenue, and production were asked in terms of the period of August. Other questions were asked in terms of the period up until the interviews took place, which was from 9 to 18 September. Therefore, this period of time is referred to as either August or September depending on the data presented.

3 Common important inputs include articles of wood, articles of meat, articles of stone or similar materials, food materials, iron and steel, electrical machinery, television image and sound, vehicles and accessories.

4 Inputs were classified in 108 categories from live animals to agriculture machinery.

Out of a list of 16 strategies to cope with COVID-19, the most common approaches were to request for leniency in paying financial responsibilities (29%), increase marketing efforts (22%), begin online sales (16%), and start sourcing from new suppliers (16%). Although there was an increase of 4 percentage points in online services with respect to June, managing technology is still challenging for the small firms in the sample.⁵

Since the beginning of the pandemic, SMEs businesses in the sample preferred informal financial borrowing over formal credit. By September, 306 SMEs (36%) asked friends or

family for money and 80 per cent of them due to the financial impact of COVID-19. From the 15 firms asking for formal credit (a bank loan or micro-credits), only four reported to have borrowed the money due to the pandemic.

According to SME owners, when asked hypothetically what kind of government support would benefit them the most to cope with the COVID-19 crisis, the top answers were, they choose support for self-employed workers (49%), financial programs (49%) and rent subsidies (41%).

METHODOLOGY

IOM Iraq, FAO, and ITC conducted an assessment of 893 SME businesses in Iraq. The team selected respondents using a blocking design sample by Iraqi governorates from 2,236 firms registered in IOM databases, covering rural and urban areas. The optimal sample size was determined to be between 650 and 950 to estimate an average reduction of four employees with a power of 80 per cent and a statistical confidence level of 95 per cent.

This blocking design created a sample that is representative of the 2,236 firms in IOM's database using respondents identified in previous data collection across all governorates.

Round 1 included surveys of 893 SME business owners collected between 22 June and 7 July 2020. In Round 2, 851 of the same businesses were surveyed between 9 and 18 September (an attrition rate of 4.14%).⁶ Both rounds followed a training of the field researchers on the survey's concepts and terminology and were conducted via phone calls due to COVID-19-related movement restrictions and safety measures. A third round of data collection will take place in late November to continue analyzing the impact of COVID-19 crisis on production, labor, revenue and access to inputs.

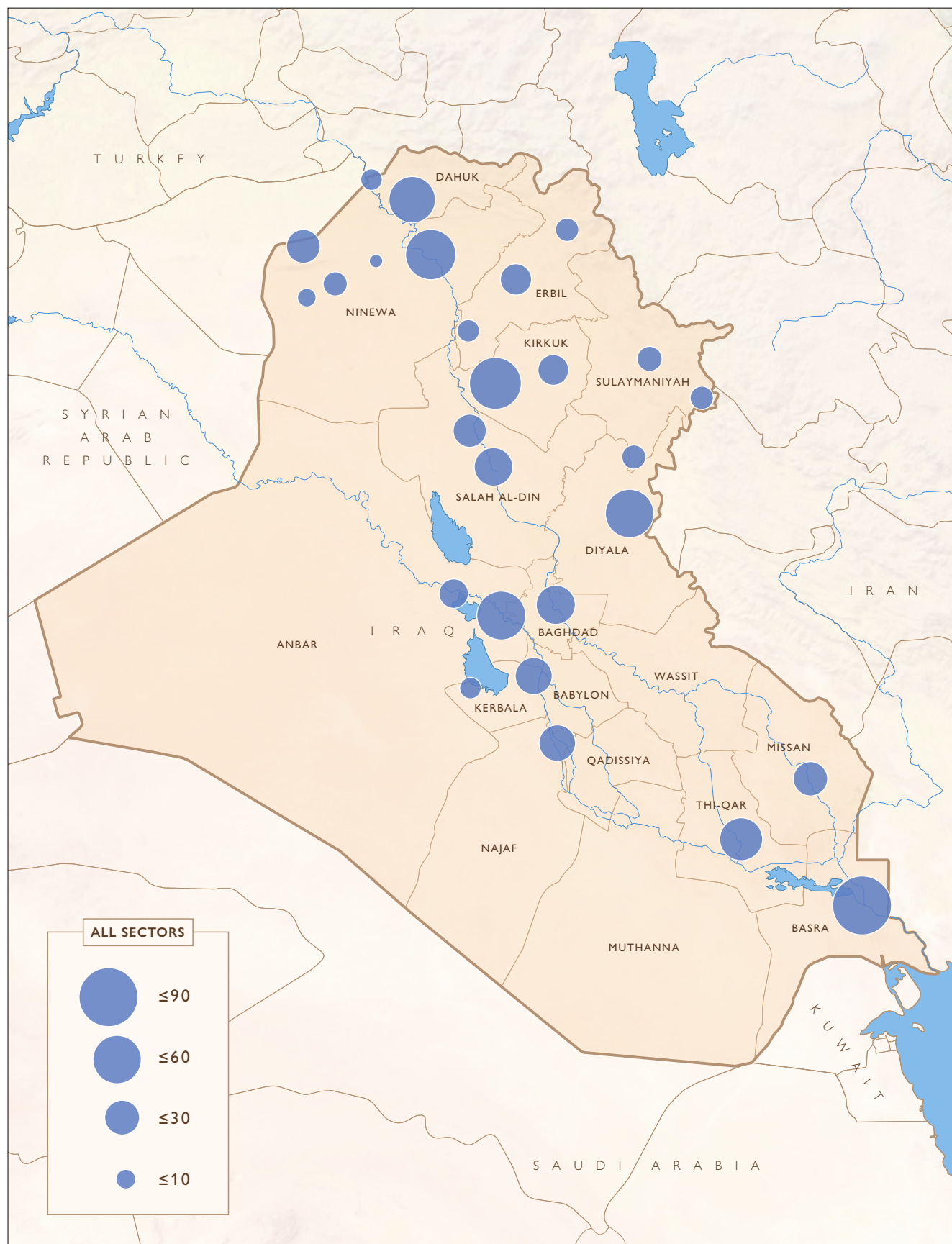
Surveys followed an informed consent protocol that offered respondents a description of the purpose of the survey and a chance to opt-out of the survey.

This panel study focused on 15 governorates and 16 sectors. The food and agriculture sector was oversampled, totaling 210 SMEs in the subsectors of agriculture (52), retail and wholesale (47), accommodation and food services (39), agri-food processing (42) and other SMEs (30). General trade (128) is the second most represented sector in the sample, followed by chemical and materials businesses (126), carpentry and construction (113), services (83), manufacturing and textile (81), automotive (58), the hospitality industry (31), education and technology (9), medical services (6), and other businesses (6) for a total of 851 SMEs surveyed.

5 Similarly, Kebede et al. (2020) found that 14 per cent of surveyed enterprise use e-commerce as part of their business, from a sample of 1,175 enterprise enterprises. Tewodros Aragie Kebede, Svein Erik Stave, and Maha Kattaa, *Rapid assessment of the impacts of COVID-19 on vulnerable populations and small-scale enterprises in Iraq*, Food and Agriculture Organization (FAO) and International Labor Organization (ILO), July 2020.

6 From the original 893 SME businesses, 14 per cent of firms in medical services did not participate in Round 2, 9 per cent are in hospitality, 9 per cent in textile, 8 per cent in general trade, 6 per cent in manufacturing, 5 per cent in construction and services each, 3 per cent in carpentry, and 1 per cent in automotive.

Figure 1: Locations of Sampled SMEs Participating in Rounds 1 and 2 of Longitudinal Study



IMPACT OF COVID-19 BY SECTOR: MAIN FINDINGS

The pandemic has negatively impacted SME production levels and sales between June and September. Seven out of 10 of SMEs across all sectors reported production and sales were negatively affected on average by 53 per cent.

Food and agriculture (50%), healthcare and services (50%), and carpentry and construction (47%) are below the average reduction. Among the five sectors above the average decline, education and technology suffered the biggest contraction of 84 per cent (see Table 1).

About 16 per cent SMEs surveyed said production or sales were affected neither positively or negatively, while 19 per cent of firms said production or sales was positively impacted, with an average growth of 39 per cent between June and September, but most have not reached pre-pandemic levels. SME owners having a positive increase in production or sales in the two months prior to data collection are in carpentry

and construction (32), chemical and other materials (31), agriculture and food (23), manufacturing and textile (20), automotive (19), general trade (15), services (11), hospitality (6), medial services (2), and other (1).

Businesses' ability to retain employees recovered in the last two months, an average increase of 27 per cent in the number of total employees. By the end of August, education and technology hired three times the number of employees that were employed in June, the biggest increase among all sectors. On the other hand, hotels and healthcare services, as two different sectors, did not bring new employees between June and August.

Table 1: Impact on Production and Labor: Changes from June to August

SECTORS	NUMBER OF FIRMS	CHANGE (%)	
		Production	Employment
Food and Agriculture	210	-50	21
Automotive	58	-53	15
Carpentry and Construction	113	-47	54
Chemical and Materials	126	-52	23
Education and Technology	9	-84	198
General Trade	128	-57	24
Hospitality	31	-58	0
Manufacturing and Textile	81	-60	41
Medical Services	6	-50	0
Services	83	-50	8
Other	6	-65	37
Total	851	-53	27

Since June, SMEs owners increased the number of full-time women and men employed by 16 per cent and 21 per cent, respectively. Automotive and other sectors did not employ any women in August. Between June and the end of

August, education and technology had the highest increase in women and men employed by going from 4 to 34 female employees and 34 to 67 male employees (see Table 2).

Table 2: Employment by Gender

SECTORS	TOTAL NUMBER OF WOMEN EMPLOYED		CHANGE (%)	TOTAL NUMBER OF MEN EMPLOYED		CHANGE (%)
	June	August		June	August	
Food and Agriculture	106	91	-14	918	1,058	15
Automotive	0	0		124	172	39
Carpentry and Construction	3	6	100	520	687	32
Chemical and Materials	1	1	0	516	599	16
Education and Technology	4	53	1,225	34	67	97
General Trade	19	20	5	340	436	28
Hospitality	4	4	0	131	137	5
Manufacturing and Textile	21	13	-38	265	317	20
Medical Services	1	1	0	12	12	0
Services	20	19	-5	160	170	6
Other	0	0		17	26	53
Total	179	208	16	3,037	3,681	21

Note: Percentage change is calculated by averaging the percentage changes of each SME, which may differ from the percentage change between the two averages shown.

The COVID-19 crisis continues to negatively affect the gender gap in the labor market. Before the pandemic began, there was 1 woman per 13 men working in the SMEs surveyed. By June, the gap reached 1 woman per 17, a percentage change of 31 per cent, and the gap increased 4 percentage points by the end of August. Automotive and other sectors had the

biggest gender gap with zero women, followed by chemicals and materials with 1 woman per 599 men. The gender gap decreased only in carpentry and construction and education technology, an average reduction of 34 per cent and 85 per cent respectively (see Table 3).⁷

⁷ In June (Round 1), carpentry and construction saw the highest reduction in gender gap (-33%), while food and agriculture have the smallest reduction (-8%).

Table 3: Effects on Gender Gap in the Labor Market*

SECTORS	MALE-FEMALE GAP		
	NUMBER OF EMPLOYEES		CHANGE (%)
	June	August	
Food and Agriculture	9	12	34
Automotive**	–	–	–
Carpentry and Construction	173	115	-34
Chemical and Materials	516	599	16
Education and Technology	9	1	-85
General Trade	18	22	22
Hospitality	33	34	5
Manufacturing and Textile	13	24	93
Medical Services	12	12	0
Services	8	9	12
Other**	–	–	–
Total	17	18	4

* The gender gap is equal to the number of men over the number of women in June or August.

** Automotive and other sectors have zero women employed within the sample.

Note: Percentage change is calculated by averaging the percentage changes of each SME, which may differ from the percentage change between the two averages shown.

DECLINE IN REVENUE AND AVAILABLE SERVICES, AND RISK OF CLOSURE

The SMEs in this study also faced a dramatic decrease in revenue two and four months after the pandemic started in late February and economic activity was affected by movement restrictions and changes in buying behavior. SMEs saw their monthly revenue cut in half by the end of June.⁸ However, revenue began to recover between June and

the end of August (198%). On average, hospitality saw the highest increase (539%). This is expected since hotels had been completely closed at the beginning of the pandemic and started to re-open as the lockdowns began to relax in the summer months. The medical industry witnessed the smallest recovery (see Table 4).

Table 4: Revenue Changes

SECTORS	AVERAGE MONTHLY REVENUE			CHANGE (%)	
	February (Pre-COVID-19)	June	August	February to June	June to August
Food and Agriculture	\$6,582	\$2,870	\$3,509	-58	249
Automotive	\$2,033	\$876	\$1,332	-69	213
Carpentry and Construction	\$6,464	\$1,505	\$3,723	-69	198
Chemical and Materials	\$4,127	\$1,510	\$2,006	-67	260
Education and Technology	\$35,917	\$14,678	\$20,544	-88	235
General Trade	\$8,852	\$3,883	\$3,539	-56	134
Hospitality	\$3,106	\$385	\$1,990	-81	539
Manufacturing and Textile	\$9,615	\$2,077	\$4,552	-66	128
Medical Services	\$1,008	\$850	\$1,025	71	55
Services	\$2,932	\$990	\$1,078	-66	71
Other	\$3,533	\$558	\$2,258	-58	27
Total	\$6,290	\$2,249	\$3,133	-63	198

Note: Percentage change is calculated by averaging the percentage changes of each SME, which may differ from the percentage change between the two averages shown.

⁸ Another study on SMEs in Iraq (Kebede et al. 2020) found that earnings declined by 40 per cent by comparing average monthly wage-income prior to the lockdowns in Iraq. The authors collected information from 3,265 households and 1,175 enterprise.

The pandemic has also affected the surveyed SMEs in many other dimensions. The three most reported issues among the survey answer choices were temporary shutdowns (49%), clients not paying bills (41%) and a reduction in investments (34%). The most impacted sector by temporary shutdowns is education and technology (86%), by clients not paying bills is manufacturing and textiles (65%), and by a reduction in investments is carpentry and construction (48%). Services had the smallest impact by temporally

shutdown (25%) and reduction in investments (0%). Around 1 out of 10 firms in hospitality had consumers not honoring financial commitments, the least affected sector in this dimension (see Table 5).

Other issues created by COVID-19 were problems with infrastructure and the spoiling of raw material, employee absences due to sickness or childcare (8%), increased administrative bottlenecks (8%) and other factors (18%).

Table 5: Other Problems as a Result of COVID-19 and Related Restrictions

SECTORS	NUMBER OF FIRMS	% OF FIRMS		
		Some Clients Not Paying Bills	Reduced Logistics Services	Temporarily Shut Down
Food and Agriculture	182	30	30	41
Automotive	52	42	38	52
Carpentry and Construction	103	50	48	46
Chemical and Materials	116	41	41	53
Education and Technology	7	43	29	86
General Trade	118	49	26	49
Hospitality	28	11	21	57
Manufacturing and Textile	68	65	29	62
Medical Services	4	25	0	25
Services	78	36	36	49
Other	5	20	40	80
Total	761	41	34	49

Notes: Multi-select question. Twenty-one SME owners (1%) did not answer this question.

DEMAND FOR INPUTS AND SALES

COVID-19 had a significant impact on SME inputs and sales. In July and August, more than half the firms in the sample faced lower domestic sales to consumers. Hotels, general trade and services had the biggest decrease in domestic sales (60% each). Furthermore, 3 out of 10 businesses had difficulties accessing inputs in Iraq. There was a modest

recovery in the access of inputs and sales between the two rounds of data collection, about 28 and 22 percentage points. Interestingly, the healthcare sector witnessed the smallest effect in these two dimensions: no reported problems obtaining inputs and only 2 out of 10 had a reduction in sales (see Table 6).

Table 6: Effect on Inputs and Sales

SECTORS	% OF FIRMS	
	Difficulty Accessing Inputs	Lowered Domestic Sales
Food and Agriculture	24	52
Automotive	26	48
Carpentry and Construction	28	59
Chemical and Materials	29	54
Education and Technology	22	78
General Trade	30	60
Hospitality	10	61
Manufacturing and Textile	36	57
Medical Services	0	17
Services	22	60
Other	17	50
Total	27	56

Notes: Each column shows the number of SMEs affected by difficulty accessing inputs domestically or lowered domestic sales to consumers each divide by the total number of SMEs per sector.

Other self-reported issues include a reduction in sales to businesses (23%) and difficulty importing inputs from abroad (10%). Some firms reported an increase in domestic sales: agriculture and food (16), chemical, metal and plastic (16), general trade (12), manufacturing and textile (10), carpentry and construction (7), automotive (5), service (4), and medical services (1). Out of all SMEs, only two firms export internationally. These firms are in the general trade sector and one of them reported difficulty exporting during the COVID-19 crisis.

The losses associated with COVID-19 include a decline in the demand for inputs to produce final goods. Businesses' first and second most important inputs suffered a reduction of 54

per cent and 50 per cent respectively. The SMEs surveyed also reported a 48 per cent decrease in the supply of the main input and a 44 per cent decrease in the second most-used input.

SME owners indicated their most important inputs, which were categorized using the Harmonized Commodity Description and Coding System.⁹ The most-used inputs were articles of wood (7%), food materials, (7%) and iron and steel (6%), and meat and edible meat offal (6%). The COVID-19 crisis has not changed the value chain of SME owners in the sample because the four most common inputs used by SMEs stayed the same between the two rounds of data collection.¹⁰

9 The Harmonized Commodity Description and Coding System is a multipurpose international product nomenclature developed by the World Customs Organization (WCO). The system is used by more than 200 countries and economies as basis for their Customs tariffs and for the collection of international trade statistics.

10 The most common inputs were Wood and Articles of Wood; Wood Charcoal (59 SMEs), Food Materials (56 SMEs), Iron and Steel (55 SMEs), and Meat and Edible Meat Offal (50 SMEs).

RISK OF PERMANENT CLOSURE OF SMEs

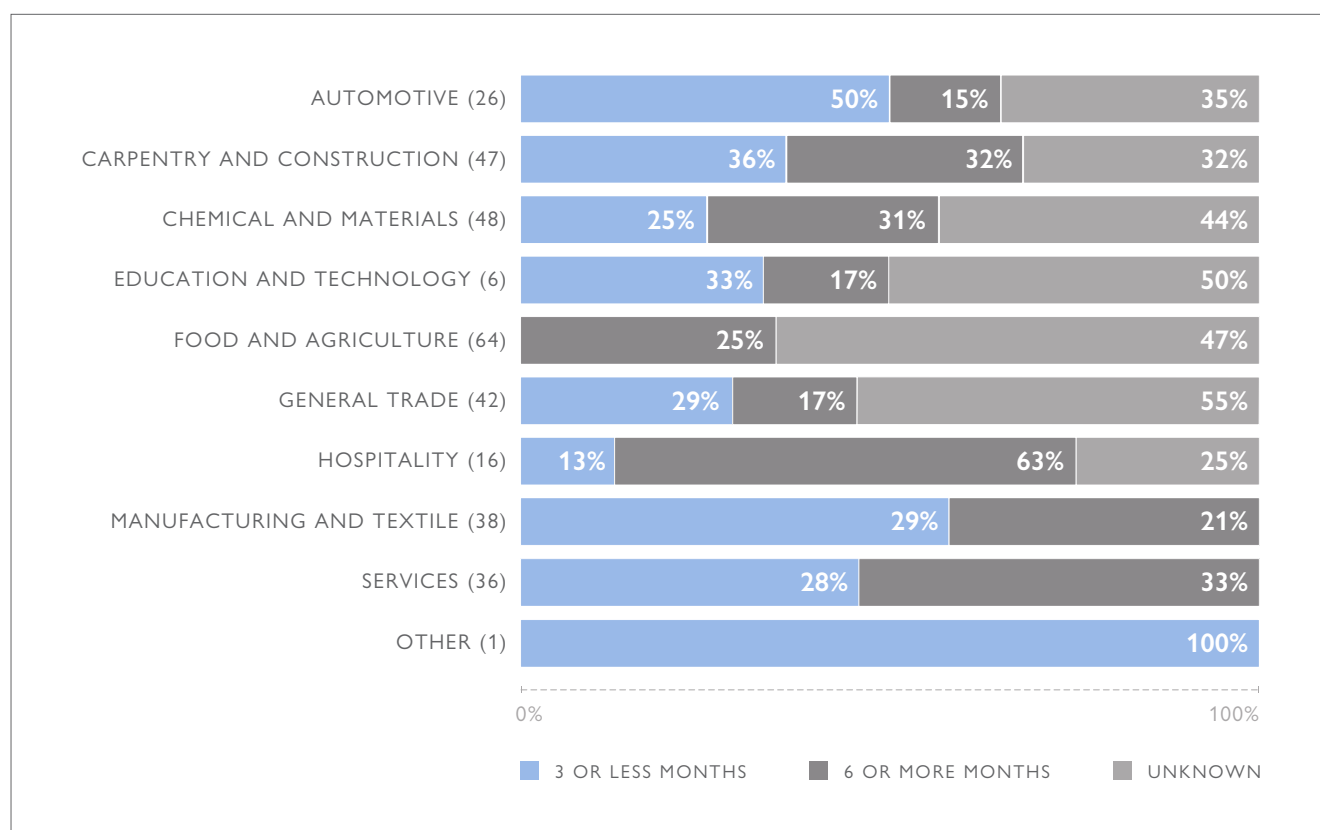
Overall, two out of five SME owners reported a risk of permanently shutting down. Education and technology businesses faced the highest risk of permanent closure (67%), followed by hospitality (52%), and manufacturing and textile (47%). Contrastingly, medical services and other sectors did not report chance of permanent shutdown (see Table 7). Between June and September, almost all sectors witnessed a decline in the danger of closing doors forever, with only education and technology reporting the same level of risk in both rounds of data collection.

Among 324 businesses who report they face the risk of permanent shutdown, 27 per cent claim it could be within the next six or more months and 23 per cent within three or fewer months, 7 per cent within one month or less. Firms in automotive reported the highest risk of closing in a short term (50%), while 6 out of 10 firms in hospitality reported the highest risk of a shutdown in the longer-term (see Figure 2).

Table 7: Risk of Business Permanently Shutting Down

SECTORS	% OF FIRMS	
	June	August
Food and Agriculture	59	30
Automotive	78	45
Carpentry and Construction	68	42
Chemical and Materials	71	38
Education and Technology	67	67
General Trade	54	33
Hospitality	77	52
Manufacturing and Textile	53	47
Medical Services	33	0
Services	73	43
Other	33	0
Total	64	38

Figure 2: Risk of Permanent Closure: Prediction on When It Could Occur



SME STRATEGIES AND PUBLIC POLICY TO COPE WITH THE IMPACT OF THE COVID-19 PANDEMIC

The switch of coping strategy from laying off employees to altering the production process could account for some of the labor market recovery reported by SMEs by September.

The top coping strategy in June was temporarily reducing the number of employees by not paying salaries (34%). In September, only nine per cent of SMEs owners used this approach. Instead, in September the most reported approach was to request leniency in paying financial responsibilities (29%). Similarly, five per cent of firms asked employees to stay at home with partial and full salary by the end of August, a 15 percentage-point decrease since June.

The second most-used strategy by September was to increase marketing efforts (22%), followed by online sales (16%) and sourcing from new suppliers (16%), and creating new products in hopes of boosting sales (13%). Although online services have been challenging for the firms in the sample because less than one per cent of SMEs owner use online services in June, there is an increase of four percentage points in online sales between May and September.

Since the beginning of the pandemic, SMEs are unlikely to have borrowed formally for their businesses. Almost 36 per cent of SMEs have financial commitments with friends or family. Among these firms, 83 per cent of them asked for money due to COVID-19, 15 percentage points more than in June. Only 15 out of 137 with formal financial commitment, which includes bank loans, bills of exchange, deferred cheques and open letters of credit. Four SMEs (27%) incurred these formal debts due to the pandemic.

Table 8: Strategies Adopted to Cope with the COVID-19 Crisis

STRATEGY	AVERAGE %	
	June	September
Temporarily reduced employment, including not paying salaries	33	9
Request for leniency in paying financial responsibilities	25	29
Employees at home with partial/full salary?	15	5
Sourced from new suppliers	10	16
Laid off employees permanently	9	4
Increased marketing efforts	9	22
Online sales	9	16
Employees at home with reduced salary	8	2
Applied for government subsidies	6	4
Teleworking	6	7
Created new product in hopes of boosting sales during pandemic	3	13
Filed for bankruptcy	3	3
Applied for new bank loan	2	2
Rescheduling of bank loans	2	2
Loaned employees to other enterprises	1	2

Notes: Multi-select question.

DESIRED GOVERNMENT SUPPORT PROGRAMS FOR SMES

Around half of SME owners view support to self-employed persons and financial programs as the best public policy to reduce the impact of the COVID-19 crisis, followed by rent subsidies (41%) and employment programs (34%). Other measures include programs such as reducing lockdowns for some sectors (24%), tax waivers or temporary tax breaks (21%), a reduction of tariffs on imported goods (15%), and cash transfers (7%).¹¹

Table 9: Most-Desired Government Support Among SMEs to Help Cope with the COVID-19 Crisis

PROGRAM	AVERAGE %	
	June	August
Reduce lockdown measures for some sectors	68	24
Rent subsidies	57	41
Support to self-employed	45	49
Financial programs	22	34
Employment programs	22	49
Tax waivers or temporary tax breaks	20	21
Reduction of tariffs on imported goods	17	15
Cash transfers	4	7

Notes: Multi-select question.

¹¹ Using 3,265 households, Kebede et al (2020) provide evidence that people in the sample have received neither cash nor in-kind assistance during the past three months, 81 per cent and 74 per cent respectively. The interviews were made between 16 and 30 June 2020.

IMPACT OF COVID-19 BY GOVERNORATE

Eighty-six per cent of SMEs saw an increase in revenue between mid-June and the end of August. The highest increased took place in Ninewa (84%) and Sulaymaniyah (79%), while the smallest recovery was seen by firms in Kerbala (1%) and Najaf (11%) (see Table 11).

Table 10: SME Breakdown by Governorate

GOVERNORATE	NUMBER OF FIRMS	%
Anbar	70	8
Babylon	22	3
Baghdad	55	6
Basra	83	10
Dohuk	57	7
Diyala	60	7
Erbil	50	6
Kerbala	23	3
Kirkuk	93	11
Missan	32	4
Najaf	33	4
Ninewa	122	14
Salah al-Din	66	8
Sulaymaniyah	38	4
Thi-Qar	47	6
Total	851	100

While most SMEs experienced an upturn in revenues, 16 per cent of the SMEs saw a decline in revenues, on average by 48 per cent. Firms in Baghdad on average saw no increase or decrease in production between the two rounds of data collection (the average change in production among all firms was 0%). Erbil, Kerbala, and Anbar experienced the highest reductions in production (-68%, -65%, and -62%, respectively, see Table 11). Furthermore, 421 firms reported two times or more the revenue in August compared to June and an average reduction in production of 45 per cent.

The increase in revenues and decline in production can be explained by firms producing fewer outputs but selling at higher prices, or resorting to selling off their inventory. The economic deacceleration produced by the policies aiming to reduce the COVID-19 spread create a constraint in the supply. Lockdowns, for example, reduce the amount of time businesses can operate. However, the demand for goods, such as food, stays the same, or could even increase due to the circumstances of the pandemic. Hence, the shortened supply along with the constant, or possible expansion of, demand boosted revenues in spite of the observed decline in production.

Basra is the only governorate that saw a reduction in employment between June and August (-12%). Erbil had the highest recovery in employment (73%), followed by Babylon and Baghdad (69% and 62%, respectively) between the two rounds of data collection (see Table 10).

Table 11: Impact of COVID-19 and Related Restrictions by Governorate: Changes from June and August

GOVERNORATE	AVERAGE % CHANGE		
	Employment ^a	Monthly Revenue ^b	Production ^c
Anbar	61	65	-62
Babylon	14	62	-55
Baghdad	29	50	0
Basra	26	41	-59
Dohuk	14	17	-61
Diyala	14	29	-39
Erbil	-12	49	-68
Kerbala	13	1	-65
Kirkuk	24	50	-49
Missan	24	50	-61
Najaf	69	11	-61
Ninewa	11	84	-36
Salah al-Din	30	64	-45
Sulaymaniyah	62	79	-29
Thi-Qar	72	52	-44

Note: Percentage change is calculated by averaging the percentage changes of each SME, which may differ from the percentage change between the two average ages shown.

- a. 750 firms had no missing values in employment change: Anbar (37), Babylon (22), Baghdad (54), Basra (75), Dohuk (55), Diyala (36), Erbil (50), Kerbala (19), Kirkuk (93), Missan (25), Najaf (30), Ninewa (116), Salah al-Din (65), Sulaymaniyah (30) and Thi-Qar (47).
- b. 724 firms had no missing values in monthly revenue change: Anbar (38), Babylon (21), Baghdad (53), Basra (71), Dohuk (56), Diyala (51), Erbil (50), Kerbala (20), Kirkuk (81), Missan (26), Najaf (28), Ninewa (110), Salah al-Din (51), Sulaymaniyah (33) and Thi-Qar (35).
- c. 755 firms had no missing values in production: Anbar (29), Babylon (7), Baghdad (0), Basra (83), Dohuk (57), Diyala (59), Erbil (49), Kerbala (23), Kirkuk (35), Missan (30), Najaf (33), Ninewa (43), Salah al-Din (47), Sulaymaniyah (16) and Thi-Qar (47).

Note: Average changes in employment and revenue were calculated by IOM. Changes in production were self-reported by the SMEs and averaged by IOM.

LOCKDOWNS AND CLOSURE OF BORDER CROSSING POINTS

Since the beginning of the pandemic in early March, the most-used strategies to mitigate the spread of the COVID-19 virus are national lockdowns and border closures around the world, and Iraq is no exception.¹²

Although all Iraqis have faced some form of quarantine measures and border closures, the degree of these measures varies across governorates and in neighboring countries. Between mid-March and early September, only Dohuk, Erbil, and Sulaymaniyah faced more full than partial lockdowns. Whereas 33 per cent of governorates have as many full as partial lockdowns, 47 per cent of them have more partial than full lockdowns during the same study period. Furthermore, the crossing point between Iraq and Syria in Ninewa was partially open only twice between mid-March and early September, making this governorate the most affected by closure of border crossing points. The other SME owners in the study were in 14 governorates with more partial than full closure of border crossing points.¹³

The study found that governorates with harsher movement restrictions (including closure of border crossing points and lockdowns) between March and June witnessed larger reductions in employment, monthly revenue, and production compared to governorates that experienced less strict border crossing closures and lockdowns.¹⁴ Using the same model and comparing the same SMEs from June to September, this trend did not continue; governorates with harsh and governorates with more relaxed movement restrictions did not differ in their reporting of revenue and production. Hence, on average, the governorates with more border crossing point closures and lockdowns were not more affected between June through September than those with fewer movement restrictions.

Table 12. Impact of Lockdowns and Closure of Border Crossing Points Between June and September

DEPENDENT VARIABLE	AVERAGE % CHANGE		
	Employment	Monthly Revenue	Production ^a
	(1)	(2)	(3)
Interaction ^b	-0.28 (0.17)	-1.79 (1.55)	5.51 (8.59)
Constant	-0.46 (0.34)	-8.21 (5.55)	28.80** (8.68)
Observations	750	848	558
R-squared	0.13	0.14	0.10

Note: *** p<0.01, ** p<0.05, * p<0.1. Robust standard errors in parentheses. Clustered errors at governorate level. To isolate the effect of border crossing point closures and lockdowns, we controlled for: Female manager; manager age (less than 35 years old); business unregistered with national authority; local, regional, and national trade; employment and revenue before the pandemic; governorate fixed effects.

^a The dependent variable is the percentage by which production was negatively affected. Therefore the coefficient is positive, but the results are interpreted as negative (the extent to which production declined).

^b Variable 1 is equal to one when governorates have more partial than full lockdowns. Variable 2 is equal to one when governorates have fewer than one-third of the border crossing points closed.

12 World Health Organization, *WHO COVID-19 Preparedness and Response Progress Report - 1 February to 30 June 2020*, 3 August 2020.

13 Field research teams also collected data on lockdown measures in all governorates. Data on border crossing points was part of IOM Iraq's *Cross Border Monitoring* from its Displacement Tracking Matrix (DTM).

14 Results are based in a difference in differences model. The analyzed coefficient is the interaction between a dummy variable equal to one for governorates with more than half of the cross points closed and a dummy variable equal to one for governorates with more frequent full than partial lockdowns. See IOM Iraq, Food and Agriculture Organization (FAO), and International Trade Centre (ITC), *Panel I Study: Impact of COVID-19 on Small- and Medium-Sized Enterprises in Iraq*, September 2020.

CONCLUSION

The findings show some recovery in the labor market and revenues among all sectors between June and September. However, the results are not statistically significant when comparing governorates with different severity of lockdown and border crossing point closures.

Despite the lessening of lockdowns across the country, production among all SMEs continued to be affected negatively. SME owners in this study reported that support for those who are self-employed, financial programs, and rent subsidies are the best potential support programs that would help them to overcome the decline in economic activity, if ever available.

Another possible contributor to the recovery in the labor market is the change in strategies SMEs have resorted to in order to cope with the COVID-19 crisis. By June, a few months into the pandemic, the majority of SMEs had cut costs in order to stay afloat by reducing employment, including not paying salaries. By September, more SMEs owners turned to the strategy of requesting leniency in paying financial responsibilities to help with financial challenges. This could explain why the study observed an increase in employment on average between June and the end of August.

RECOMMENDATIONS

The following recommendations consider the findings of the study and the main concerns of business owners:

1 Temporary leniency on debt and corporate taxes.

According to the results in September, the main strategy used by SMEs to cope with the economic hardships caused by the pandemic was requesting leniency for financial responsibilities. Understanding the economic conditions of SME owners during the pandemic, in addition to moratoriums on interest and principle payments being encouraged by the Central Bank of Iraq with partner banks currently, mortgage lenders and rental companies may also benefit from support and advocacy to run deferred payment programs, extend loan maturities, or refinancing. These alternative arrangements should take into consideration levels of financial activity in various sectors and the developments in the COVID-19 situation in Iraq. The government can also consider temporarily relaxing corporate taxes to preserve businesses' cash flow and thus reduce the risk of permanent closure of businesses.

2 Retain employment in the long term.

By June, most SMEs in this study temporarily reduced employment to cope with the financial impact of the COVID-19 pandemic. By the end of August, on average SMEs reported increased employment. This shows SMEs will resort to reducing employees in reaction to sales volatility and that people's jobs are a main casualty of such fluctuations. While there is a cash transfer program under development to target private sector workers with transfers of 30,000 IQD a month, the retainment of full-time workers, in addition to female employees, could be logical focuses of such a program. Whereas the employment gender gap was already high before the pandemic in Iraq, the financial hardship businesses faced resulted in job loss which affected women more than men and resulted in an increase in the gender gap.

3 E-commerce and information communication technology (ICT) use. While some firms (16%) have shifted to online sales in order to manage the challenges raised by COVID-19, most have still not adapted in this way. Digital technologies have the potential to improve resilience, flexibility, and inclusivity while also lowering the costs of transaction, promotion, and communication. In some sectors, teleworking arrangements also help firms to reduce the impact of lockdowns on their operations. Gaps remain in the use of these tools, however; in 2018, 25 per cent of the population of Iraq did not make use of the Internet.¹⁵ The private, public, and humanitarian sectors can create initiatives with the aim to enhance ICT skills and access among Iraqi firms—including trainings around supporting rules and regulations and services—in order to take full advantage of the opportunities presented by digitalization and e-commerce.

4 Trade facilitation. SME owners continue to rely on importing materials from abroad during the COVID-19 crisis. From June to September, around 74 per cent of SMEs sourced their inputs from the same supplier. Reforms are needed to improve the stability of access to imported inputs, which has been an issue for some firms. Improvements in this area have been made in recent years, though further work is needed in reducing the costs of customs and administrative measures in trade, which will also help to expand the opportunities for firms to export. In the more immediate term to help businesses in the COVID-19 environment, improved information sharing between suppliers and consumers could help businesses find cheaper or substitution inputs. This could be in the form of an online portal that lists suppliers' prices and available products with quantities, pictures, and locations. Additionally, opportunities for cross-border digital trade and digital connectivity should be explored in order to support value chains and markets.

5 Evaluation of SMEs and COVID-19 situation to help inform policy. Periodic evaluation of various economic sectors will help prioritize the most affected SMEs. Monitoring changes through repeated observations of either the same group of SME owners or similar respondents can serve as a guide for policymakers and help decision making. These methods will help inform the public, private, and humanitarian sectors and allow for the allocation of funds more rapidly in order to prioritize the most-affected SMEs.

¹⁵ The World Bank, World Development Indicators, Washington, D.C., (n.d.).

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