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

JUNE 2020 TO JUNE 2021

International Trade Centre

Food and Agriculture Organization of the United Nations

IOM UN MIGRATION

ABOUT IOM

The International Organization for Migration (IOM) is committed to the principle that humane and orderly migration benefits migrants and society. As an intergovernmental organization, IOM acts with its partners in the international community to: assist in meeting the operational challenges of migration; advance understanding of migration issues; encourage social and economic development through migration; and uphold the human dignity and well-being of migrants.

ABOUT FAO

The Food and Agriculture Organization (FAO) is a specialized agency of the United Nations that leads international efforts to defeat hunger. FAO aims to achieve food security for all and make sure that people have regular access to enough high quality food to lead active, healthy lives. With 194 member states, FAO works in over 130 countries worldwide in pursuit of five objectives: to help eliminate hunger, food insecurity and malnutrition; make agriculture forestry and fisheries more sustainable; reduce rural poverty; enable inclusive and efficient agricultural and food systems; and increase the resilience of livelihoods to threats and crises.
For more information, visit www.fao.org.

ABOUT ITC

The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations. ITC assists small and medium-sized enterprises in developing and transition economies to become more competitive in global markets, thereby contributing to sustainable economic development within the frameworks of the Aid-for-Trade agenda and the United Nations' Sustainable Development Goals.
For more information, visit www.intracen.org.

The study is funded by the European Union and the U.S. Department of State, Bureau of Population, Refugees, and Migration.

Report design by We2 (www.we2.co) and layout by IOM Iraq

TABLE OF CONTENTS

EXECUTIVE SUMMARY

SMEs continue to slowly recover from the initial economic hardship brought on by the COVID-19 pandemic. Employment numbers and revenues continue to increase among surveyed SMEs, but they remain below pre-pandemic levels.

As of 24 August 2021, almost two million cumulative confirmed cases of COVID-19 and 20,262 deaths had been reported in Iraq, representing a fatality rate of 1.1 per cent.[1]

After the first COVID-19 case in late February 2020, the Iraqi government restricted mobility by implementing lockdowns, curfews, school closures, and restrictions on businesses and travel into and within the country. These initial measures had relaxed by September 2020, which likely allowed for some level of economic recovery by June 2021.

The United Nations' International Organization for Migration (IOM) in Iraq, Food and Agriculture Organization (FAO), and the International Trade Center (ITC) jointly conducted a panel study following the same 893 small- and medium-sized enterprises (SMEs) in Iraq. The businesses were surveyed in four rounds between June 2020 and June 2021.

The recovery from the economic slowdown produced by the COVID-19 virus has been sluggish in the surveyed SMEs. About one out of four of the 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—are very concerned about recovery from the COVID-19 crisis.

The principal strategy to reduce the pandemic's spread in Iraq involved a range of mobility restrictions, with limited assistance available to firms. Only three per cent of the SMEs in Iraq reported receiving aid from the government or non-state organizations. About half of the firms that did not receive COVID-19-support said they were not aware of such programs, while others mentioned that the available assistance did not meet their business's needs.

According to SME owners, when asked hypothetically what kind of government support would help them the most to cope with the COVID-19 crisis, the top answers were financial programs (58%), support for self-employed persons (46%), and rent subsidies (37%) in June 2021 (Round 4). Reduced mobility restrictions, the most-desired government support in June 2020 (Round 1, 58%), is the least-desired approach in June 2021 (Round 4, 5%), reflecting the relative relaxation of many such restrictions since the original round of surveying.

In June 2021 (Round 4), the surveyed SMEs have increased their marketing efforts (31%), requested leniency in paying financial responsibilities (31%), and sourced from new suppliers (24%) to cope with the COVID-19 crisis. Although there was an increase of six percentage points in online services between June 2020 (8%) and 2021 (14%), managing technology is still challenging for the small firms in the sample.[2] Teleworking went down from six per cent to three per cent between Rounds 1 and 4. In June 2021, only 16 per cent of the firms in the sample reported taking steps such as raising additional capital to face future crises.

In all rounds, the mobility restrictions to slow the spread of the virus reduced access to inputs (reported by 15% of firms in the sample) and lowered domestic sales to consumers (reported by 64% of firms in the sample). SME owners in education and technology are the most affected by the access to inputs (reported by 33% of firms surveyed). Firms in general trade were the most affected by the reduction in sales (reported by 71% of firms surveyed). The surveyed SMEs also reduced the demand for inputs to produce final goods (reported by 40% of firms surveyed) and they saw a decline in the supply of inputs (reported by 33% of firms surveyed).[3]

The health crisis created by COVID-19 also increased other problems such as clients not paying bills (46%), reduced investments (36%), and temporary shutdowns (40%). Carpentry and construction are the sectors with the highest delay in payments (57%). Education and technology were

1 Corona Tracker, "Iraq Overview," 24 August 2021, https://www.coronatracker.com/country/iraq/.

2 Similarly, Kebede et al. (2020) found that 14 per cent of surveyed enterprises use e-commence 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.

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.

the sectors with the largest reductions in investments, and temporary shutdowns (60% each). On the contrary, food, agriculture, and hospitality are the sectors less affected in these three categories.

The COVID-19 crisis and movement restrictions resulted in a drastic reduction in employment opportunities, revenues, and production among the surveyed SMEs. However, the labor market has slowly recovered after the pandemic outbreak. On average, SME owners had two fewer workers in June 2020 (Round 1) than in February of the same year (pre-COVID-19). The difference shrunk to only one employee fewer by June 2021 (Round 4) compared to February 2020.[4]

As in other countries in the region, more men than women are participating in the labor market. Before the pandemic started, among surveyed SMEs the gender ratio among employees was 1 woman per 14 men. The gender ratio among SMEs in the study reached 1 woman per 20 men by August 2020 (Round 2), suggesting a widening of the gender gap during this period. Although the gender ratio declined to 1 woman per 13 men in December 2020 (Round 3), it increased again to 1 woman per 16 men in June 2021 (Round 4).

The switch from laying off employees as a coping mechanism to taking on informal debt could have contributed to the recovery in the labor market. The principal informal channel is borrowing money from friends and family, reported by 41 per cent of business owners in June 2020 (Round 1) and by 38 per cent of business owners in June 2021 (Round 4). Between December 2020 (Round 3) and June 2021, 80 per cent of the SME owners who indicated they had taken on debt had done so for reasons related to the COVID-19 crisis.

By the end of the study period in June 2021, SMEs' average monthly revenues still hover at around half of pre-COVID-19 levels. After the original recovery in earnings between May and July 2020 (of 44%), the increase in revenues has been modest during the last year. The surveyed SMEs had a small reduction in revenues between July and August 2020 and April and May 2021 (2% reduction respectively during each period).

Since the beginning of the pandemic, the risk of permanent shutdown of businesses decreased significantly. The first survey of SMEs in June 2021 (Round 1) found that 63 per cent of businesses were at risk of shutting down. After the relaxation of lockdowns and curfews in September 2020, 37 per cent of SMEs were reporting this risk (Round 2). By December 2020 and June 2021 (Rounds 3 and 4), this rate reduced to 28 per cent of surveyed SMEs. Among businesses reporting a risk of shutdown in June 2021, 28 per cent said the shutdown could be within the next six months or more and about half of the firms did not know when the permanent shutdown could occur.

The COVID-19 crisis has negatively impacted the production and sales of the surveyed SMEs. Between December 2020 and June 2021, only firms in Kirkuk did not see a decline in production. On the contrary, about half of the firms in Kerbala and Missan had a decline in sales, followed by firms in Baghdad and Erbil (reported by 34% of firms in each location).

The decline in production and sales varied among sectors, ranging between an average of 50 per cent at the lowest and 80 per cent at the highest. Even among one of the least affected sectors during the study, food and agriculture, 98 per cent of firms reported a decrease in production between February (pre-COVID-19) and June 2020 (Round 1), 83 per cent of firms between June to September 2020 (Round 2), and 68 per cent of firms between September with December 2020 (Round 3), and 64 per cent between December 2020 and June 2021 (Round 4). Additionally, according to the 4th round, 19 per cent of firms in the food and agriculture sector were at risk of shutting down, 38 percentage points less than Round 1.

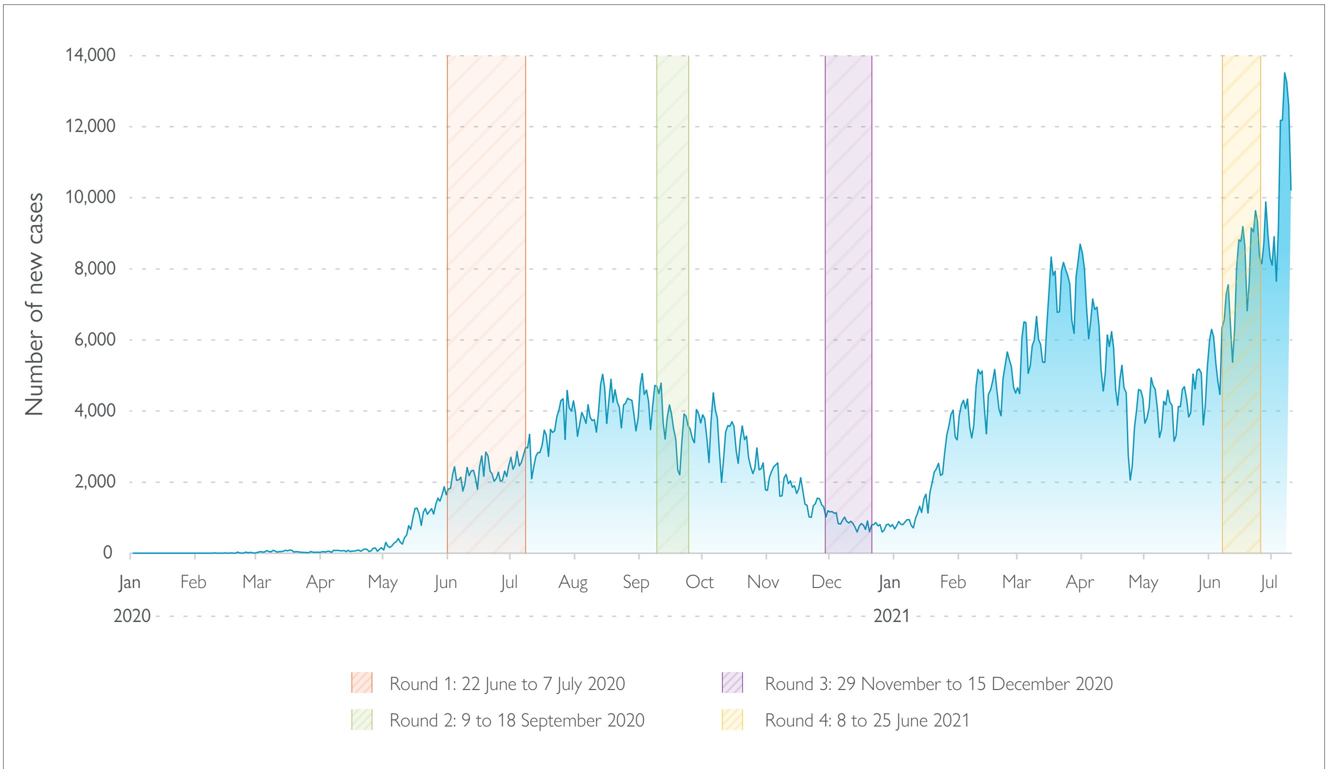
4 The percent decline in the number of employees between February and June 2020 is 35 per cent and between February 2020 and June 2021 is 19 per cent.

IRAQ COVID-19 CONTEXT

The fourth round of data was collected during the beginning of the third wave of coronavirus cases in Iraq.

Figure 1 presents the number of new COVID-19 cases in Iraq from the first case reported on 24 February 2020, to mid-July 2021. The second wave started in the middle of January 2021, and it reached the maximum number of infected people on 22 April, with 8,540 new cases in one day. After April 2021, the cases declined and reached a low of 2,058 cases per day on 15 May. However, the cases are on the rise again. In mid-July 2021, the number of new COVID-19 cases in one day surpassed the previous overall peak set in April, reaching 12,185 new cases on 28 July 2021.

Figure 1. Daily COVID-19 Cases in Iraq and Data Collection Time Periods



Note: Confirmed COVID-19 cases. Source: [JHU CSSE COVID-19 Data]

METHODOLOGY

IOM Iraq, FAO, and ITC assessed 893 SMEs 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 calculated 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.

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 2020. In Round 3, 822 of the same SMEs participated in the data collection between 29 November and 15 December 2020. In Round 4, 716 of the SME owners responded the interview between June 8 and 25 2021.[5] The attrition rates were 4 per cent by Round 2, 8 per cent by Round 3, and 20 per cent by Round 4 (see Table 1).[6, 7] The four 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. 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.

Table 1. Summary of Data Collection

ROUNDS	DATE	SME OWNERS	ATTRITION RATE
1	22 June to 7 July 2020	896	NA
2	9 to 18 September 2020	851	4%
3	29 November to 15 December 2020	822	8%
4	8 to 25 June 2021	716	20%

This panel study focused on 16 sectors. The food and agriculture sector was oversampled, totaling 180 SMEs in the subsectors of agriculture (46), retail and wholesale (42), accommodation and food services (34), agri-food processing (37) and other SMEs (21). General trade (111) is the second most represented sector in the sample, followed by chemical

5 In each round of data collection, some questions were asked in terms of the month in which the interview was taking place and others were asked about a different period. In Round 1, questions about employee numbers, revenue, and production were asked in terms of "the past four weeks". The surveys were done in June and July 2020. The period will be referred to as June 2020 throughout the report. In Round 2, questions about employees, revenue, and production were asked in terms of the period of August 2020. Other questions were asked in terms of the period up until the interviews took place, which was from 9 to 18 September 2020. In Round 3, questions about employees were asked in terms of the month of November, and questions about revenue were asked in terms of the months of September and October 2020. In Round 4, questions about employees, revenue, and production were asked in terms of May 2021. Other questions were asked in terms of the period up until the interviews took place, which was from December 2020. Therefore, the month identified will differ based on the question that was asked but will always be tied to the round in which it was asked.

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. Furthermore, from the original sample of SMEs, 14 per cent each of firms in food and general trade did not answer Round 3, 6 per cent in metal and textile each, 5 per cent in services, 4 per cent in food and agriculture, construction, hospitality, and manufacturing each, 4 per cent in automotive, 2 per cent in carpentry, 1 per cent in chemical, education, medical and technology each. Finally, from the original number of firms in the sample, 33 per cent each in education and technology, manufacturing and textile, 29 per cent in hospitality, 21 per cent in chemical and others, 20 per cent in general trade, 18 per cent in food and agriculture, 17 per cent in services, 16 per cent in carpentry and construction, 14 per cent in medical service, and 8 per cent in automotive.

7 A small percentage (2%, or 17 businesses from the original sample) reported closing between December 2020 (Round 3) and June 2021 (Round 4) due to COVID-19.

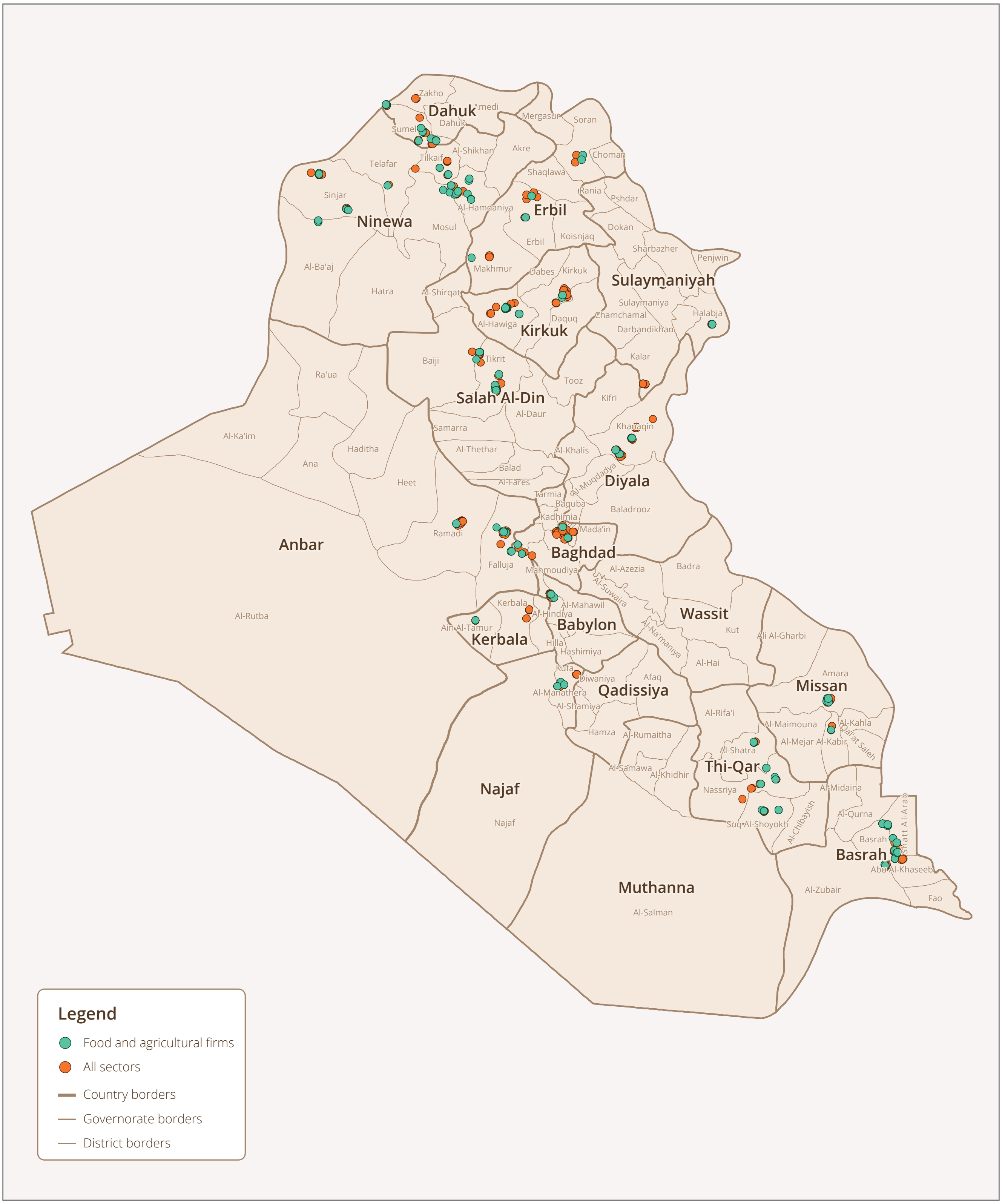
and materials businesses (100), carpentry and construction (99), services (72), manufacturing and textile (58), automotive (54), the hospitality industry (24), education and technology (6), medical services (6), and other businesses (6) for a total of 716 SMEs surveyed (see Table 2).

Table 2. SME Breakdown by Sector

Sector	SMEs	%
Agriculture and Food	180	25%
General trade	111	16%
Chemical, Metal, Plastic	100	14%
Carpentry and Construction	99	14%
Service	72	10%
Manufacturing and Textile	58	8%
Automotive	54	8%
Hospitality	24	3%
Education and Technology	6	1%
Medical Services	6	1%
Other	6	1%
Total	**716**	**100%**

This study also covers 15 governorates. Ninewa has the highest number of surveyed SMEs (15%), followed by Kirkuk (12%) and Basrah (9%). The spatial distribution of the SME owners in the Iraqi governorates are presented in Figure 2.

Figure 2. Locations of Sampled SMEs Participating in Rounds 1, 2, 3, and 4 of the Panel Study

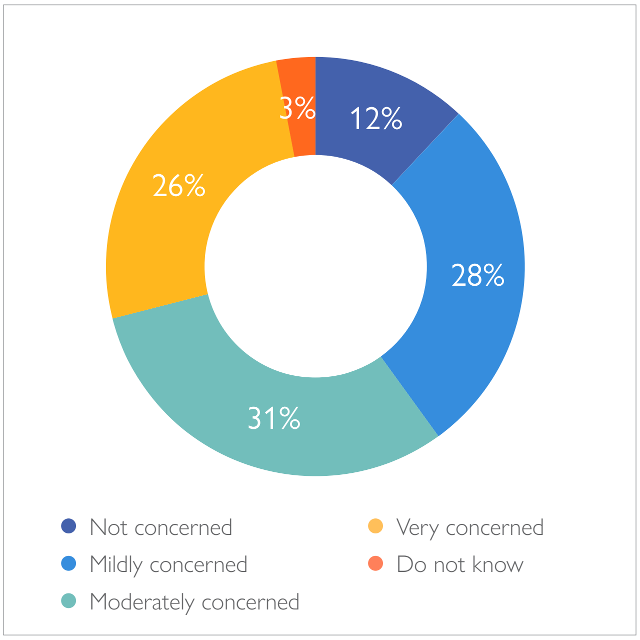


RECOVERY AND SUPPORT AFTER THE COVID-19 CRISIS

More than one year after the first COVID-19 case in Iraq, almost one-third of the SME owners are moderately concerned about the recovery of their business from the pandemic, 28 per cent are mildly concerned, and 26 per cent are very concerned.

Only 12 per cent of the firms in the sample are not concerned about the improvement of their production and sales after the pandemic (see Figure 3).

Figure 3: How concerned are you about the recovery of your business from the COVID-19 crisis? (June 2021)



The main strategy to face the pandemic in low-income and middle-income countries has involved some level of movement restrictions. The next step is that local government and non-state institutions work on expanding or building on existing social assistance programs.[8] In the sample of this study, 97 per cent of firms did not receive COVID-19-related support from the government or a business support organization.[9] Not knowing about such programs is the main reason why SMEs did not receive financial aid (58%), followed by the business qualifying for existing COVID-19 support schemes, but not yet receiving a response to their application (28%).

The 18 SME owners that report receiving COVID-19-related support from the government or other business support organizations are in agriculture and food (6), carpentry and construction (3), chemical and other materials (3), services (3), automotive (2), and hospitality (1). From the 18 firms with COVID-19-related support, 14 received concessional financial assistance such as grants and other aid that does not need to be repaid. Three of the businesses reported receiving information about how to protect employees or customers from COVID-19, and one firm reported a suspension or delay of business expenses such as rent and electricity. Only 5 out of 18 of these firms report that the assistance met their needs, 11 of the SME owners said somewhat and two reported that the COVID-19-related support does not meet their needs.

The vulnerable situation of the surveyed SMEs prevents them from the preparation for future crises. Only 16 per cent of SME owners report taking steps for future crises. A similar proportion of firms with a decline in production in June 2020 (Round 1) and in June 2021 (Round 4) are preparing for future problems (18% in each round). The most-used strategy is to raise additional capital without asking for new loans or debts (34%), followed by revising the sourcing strategy such as the number of suppliers and their geographic location (23%) and revising the sales strategy including the number of customers or buyers (21%). The other 78 per cent of the SMEs are not getting ready for future crises.[10] The principal reasons that prevent surveyed SMEs from taking steps to prepare for future issues are difficulty identifying risks and potential impact on their business (62%), lack of financial resources (55%), and difficulty identifying effective measures (36%).

8 Gerard, F., Imbert, C., & Orkin, K. (2020). Social protection response to the COVID-19 crisis: options for developing countries. Oxford Review of Economic Policy, 36 (Supplement_1), S281-S296.

9 No SMEs in education and technology, medical services, manufacturing and textile, general trade, or other sectors reported receiving COVID-19-related support from the government or a business support organization. Chemical, metal, plastic, carpentry and construction, and agriculture and food SMEs (three per cent each), and automotive, services, and hospitality SMEs (four per cent each) claimed to have received COVID-19-related support.

10 About 6 per cent of the SMEs do not know if they are taking steps to prepare the business for future external crises.

DESIRED GOVERNMENT SUPPORT PROGRAMS FOR SMEs

The most desired government support among SMEs differs throughout the stages of the pandemic. At the beginning of the pandemic, lockdowns and curfews were the principal method to prevent the virus spreading. Thus, the most-desired support program in June 2020 (Round 1) was to reduce the extent of lockdown restrictions for some sectors. After the partial relaxation of lockdowns, financial programs become the most-desired support program in June 2021 (Round 4). Support for the self-employed was in the top three of the most-desired programs in both rounds. Other measures include programs such as rent subsidies, mentioned by 57 per cent and 37 per cent of firms in June 2020 and June 2021 (Rounds 1 and 4) respectively. About 20 per cent of firms chose tax waivers or temporary tax breaks as the most-desired government support in both rounds (see Table 3).[11]

Table 3. Most-Desired Government Support Among SMEs to Help Cope with the COVID-19 Crisis

Sectors	%	
	June 2020 (Round 1)	June 2021 (Round 4)
Financial programs	21%	58%
Support to self-employed	44%	46%
Rent subsidies	57%	37%
Employment programs	21%	34%
Reduction of tariffs on imported goods	17%	28%
Tax waivers or temporary tax breaks	20%	22%
Cash transfers	5%	11%
Reduce the lockdown for some sectors	68%	5%

Note: 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.

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

The top coping strategy in June 2020 (Round 1) was temporarily reducing the number of employees, including not paying salaries (33%). By the end of the year in December 2020 (Round 3), five per cent of companies used this approach. One year later in June 2021 (Round 4), only nine per cent of SME owners used this approach and instead the most reported approach was to increase marketing efforts (31%). Requests for leniency in paying financial responsibilities was the second and third most-used strategy in June 2020 and June 2021 (Rounds 1 and 4) respectively. Using technology to cope with the pandemic has been challenging for the SME owners in the sample. Although online sales increased from eight per cent in June 2020 to 14 per cent in June 2021, teleworking decreased from six per cent to three per cent in the same comparison period (see Table 4).[12]

Table 4. Strategies Adopted to Cope with the COVID-19 Crisis

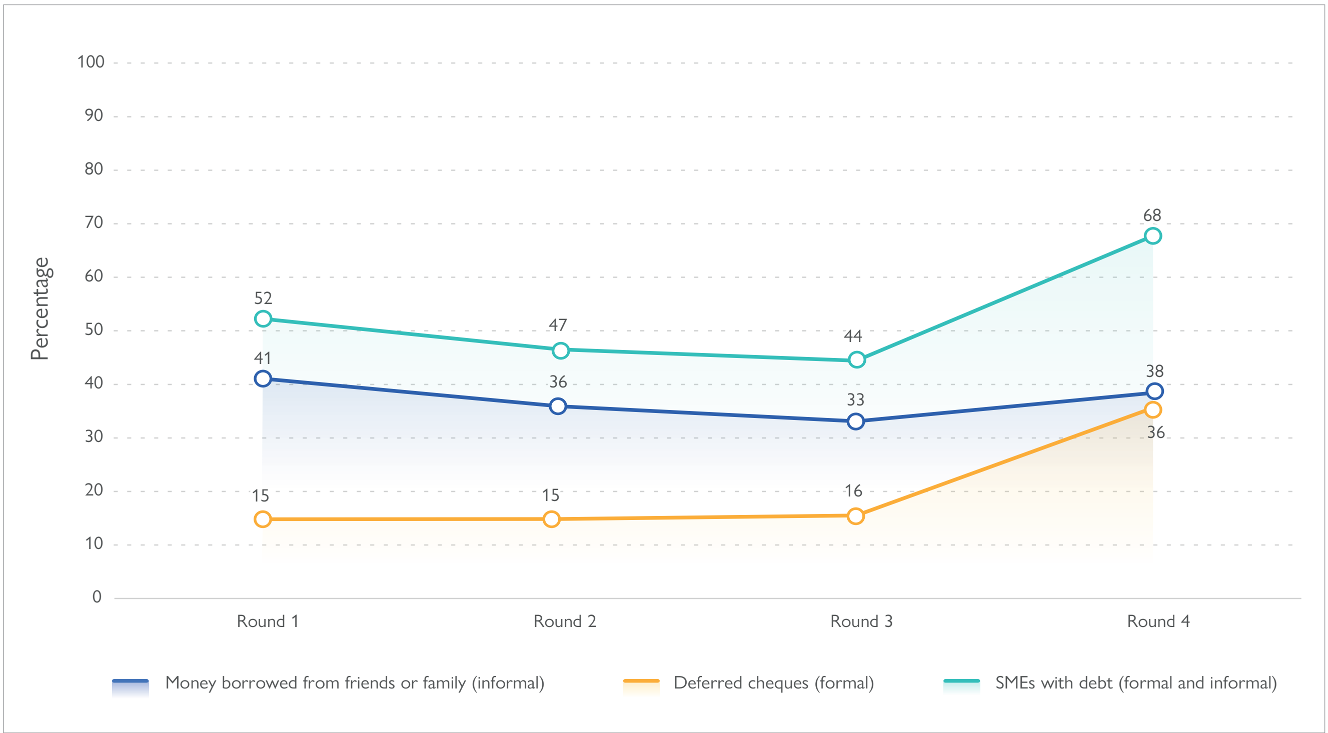
Strategy	%	
	June 2020	June 2021
Increased marketing efforts	8%	31%
Request for leniency in paying financial responsibilities	24%	31%
Sourced from new suppliers	11%	24%
Online sales	8%	14%
Created new product in hopes of boosting sales during pandemic	4%	14%
Laid off employees permanently	9%	13%
Temporarily reduced employment, including not paying salaries	33%	9%
Teleworking	6%	3%
Applied for government subsidies	6%	3%
Loaned employees to other enterprises	1%	2%
Applied for new bank loan	2%	2%
Filed for bankruptcy	3%	1%
Employees at home with partial/full salary	15%	1%
Rescheduling of bank loans	2%	1%
Employees at home with reduced salary	8%	1%

Note: Multi-select question.

12 A small number of firms filed for bankruptcy during the pandemic: three per cent each in June 2020 (Round 1) and September 2020 (Round 2), two per cent by December 2020 (Round 3), and one per cent in June 2021 (Round 4).

Borrowing money through informal channels was common among SMEs during the pandemic. About half of the firms reported having financial commitments in June 2020 (Round 1) and 68 per cent of the SME owners report debts in June 2021 (Round 4). Among those firms with commitments, 41 per cent borrowed from friends and family in June 2020 and 38 per cent in June 2021. Deferred cheques or supplier payments, the second most common source of debt, were used by 15 per cent of the firms in June 2020, and 36 per cent of the SMEs by June 2021. For both formal and informal borrowing, 65 per cent of the firms asked for money due to COVID-19 in June 2020 and 80 per cent in June 2021 (see Figure 4). Applying for a new bank loan and rescheduling bank loans are the least-used strategies to cope with the pandemic in June 2020 and 2021 (see Table 4).[13]

Figure 4. Formal and Informal Borrowing Among Firms



IMPACT OF THE COVID-19 PANDEMIC AND PROGRESS TOWARD RECOVERY

DEMAND FOR INPUTS AND OTHER ISSUES FACED BY SECTOR

The COVID-19 crisis deeply impacted businesses' capacity to buy inputs and sell products. Between December 2020 and June 2021 (Round 3 and 4), 15 per cent of the firms in the sample faced difficulty accessing inputs. The education and technology sector reported the highest barriers to buying inputs (33%). Furthermore, 64 per cent of firms in the sample reported lower domestic sales to consumers. Whereas the general trade (71%) and chemical and materials (70%) were the sectors most affected by lower domestic sales, hospitality (39%) and food and agriculture (56%) were the sectors least affected by the reduction in domestic sales to consumers (see Table 5).

13 Similarly, in Ninewa governorate, CCI and DRC (2019) found the debt market is almost entirely informal, with borrows from family members and friends. See Household Debt in Iraq: Borrowing in a Time of Crisis, Cash Consortium for Iraq (CCI) and the Danish Refugee Council (DRC), 2019.

Table 5. Effect on Inputs and Sales in June 2021 (Round 4)

Sector	% OF FIRMS	
	Difficulty Accessing Inputs	Lower Domestic Sales to Consumers
Food and Agriculture	15%	56%
Automotive	17%	70%
Carpentry and Construction	20%	64%
Chemical and Materials	22%	70%
Education and Technology	33%	67%
General Trade	10%	71%
Hospitality	17%	39%
Manufacturing and Textile	12%	57%
Medical Services	0%	67%
Services	7%	68%
Other	8%	69%
Total	**15%**	**64%**

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

In June 2021 (Round 4), SME owners also reported a decline in sales to businesses (21%) and difficulty importing inputs from abroad (15%). Nine per cent of firms reported an increase in domestic sales, mostly in the food and agriculture chemical, and general trade sectors. 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 economic slowdown after the COVID-19 outbreak reduced the supply and demand for inputs to produce final goods. In June 2020 (Round 1), at the beginning of the pandemic, 34 per cent of firms reported a decline in their demand and 11 per cent in the supply of their most-used input. In December 2020 (Round 3), among the SMEs with a reduction in the demand and supply of the firm's most-used input, the average decreases were 63 per cent and 54 per cent, respectively. By June 2021 (Round 4), businesses' first most-used input suffered on average a reduction of 40 per cent in demand and a 33 per cent decrease in the supply.

The losses associated with COVID-19 span several dimensions. The three most reported issues were clients not paying bills (46%), temporary shutdowns (40%), and a reduction in investments (36%). The carpentry and construction sector was reportedly most impacted by clients not paying bills (57% of firms). The education and technology sector was most impacted by reduced investments and temporary shutdowns (60% each) (see Table 6).[14]

14 SMEs reported other problems created by COVID-19. In June 2020 (Round 1), 15 per cent of the surveyed SMEs reported problems with infrastructure, 14 per cent said that the raw materials expired, and six per cent of them stated employee absences due to sickness or childcare. In June 2021 (Round 4), five per cent of SMES reported problems with infrastructure, eight per cent with the spoiling of raw materials, and three per cent with employee absences due to sickness or childcare. Problems with administrative bottlenecks increased between June 2020 and the same month in 2021 (6% and 8% respectively). The reduction in the number of SMEs reporting these issues between Round 1 and Round 4 is lineal.

Table 6. Other Problems as a Result of COVID-19 and Related Restrictions in June 2021

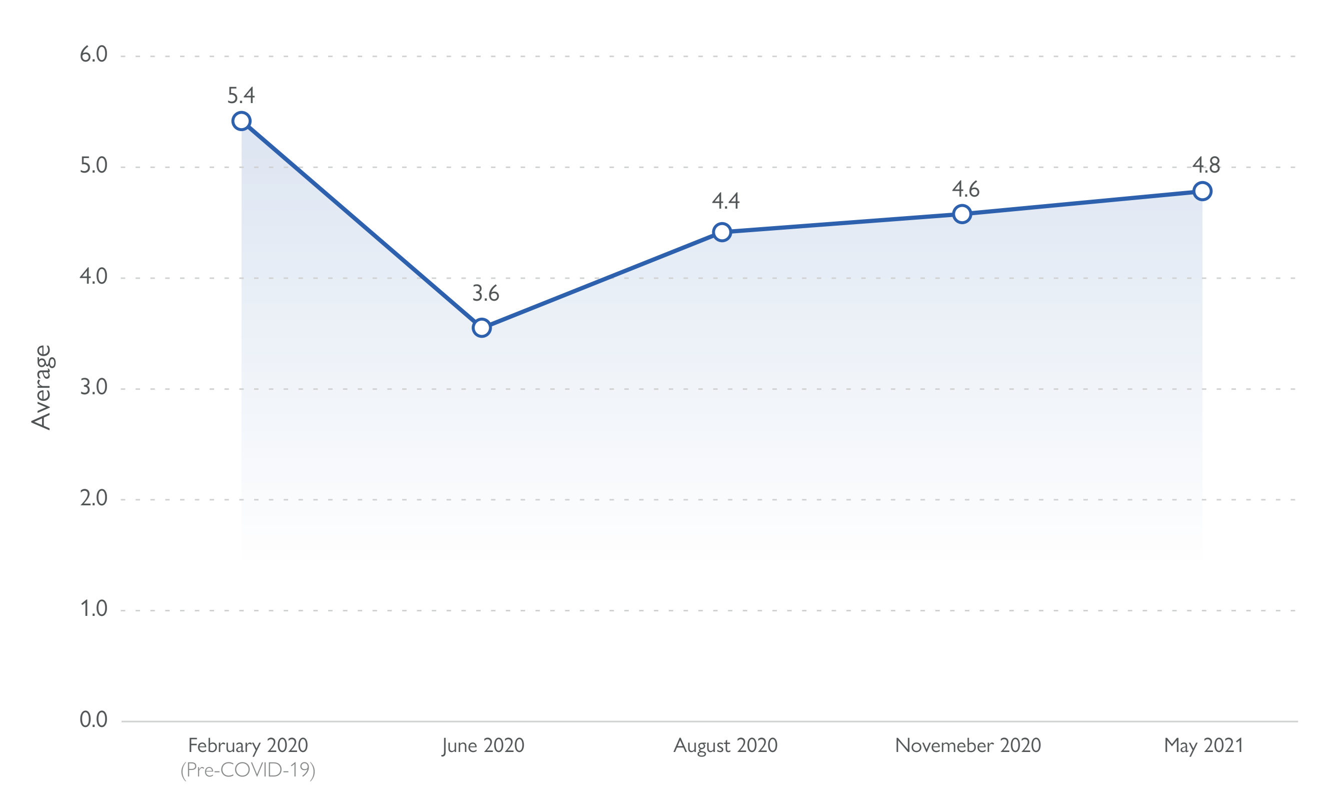
Sector	% OF FIRMS		
	Some Clients Not Paying Bills	Reduced Investments	Temporary Shutdown of Business
Food and Agriculture	38%	29%	33%
Automotive	44%	36%	47%
Carpentry and Construction	57%	46%	38%
Chemical and Materials	46%	38%	39%
Education and Technology	40%	60%	60%
General Trade	54%	34%	41%
Hospitality	16%	42%	32%
Manufacturing and Textile	43%	45%	41%
Medical Services	0%	0%	33%
Services	46%	30%	54%
Other	67%	56%	67%
Total	**46%**	**36%**	**40%**

Note: Multi-select question. 159 SME owners (22%) did not answer this question. The number of firms answering this question are 129 in food and agriculture, 45 in automotive, 82 in carpentry, 80 in chemical and materials, 5 in education and technology, 80 in general trade, 19 in hospitality, 51 in manufacturing and textile, 3 in medical services, 59 in services and 9 in other sectors.

EMPLOYMENT

The pandemic had a significant impact on the labor market. In February 2020 (pre-COVID-19), the average number of employees per firm was five. After the pandemic started, employee numbers declined to an average of four people per SME in June 2020 (Round 1). By computing the percentage reduction of each firm and then averaging those percentage changes (rather than taking the percentage change of the average number of employees at each point in time), the decrease in employment was 25 per cent between February and June 2020 (see Figure 4). The contraction in the labor market can be explained by the interruption in the economy created by the lockdown measures taken to reduce the spread of the virus.

Figure 5. Average Number of Employees



Note: Average includes full- and part-time employees.

The reactivation of the economy allowed surveyed SMEs to bring employees back after June 2020 (Round 1). After a modest increase in the average number of employees from August to November (Rounds 2 to 4), as of May 2021 (Round 4) employment is close to reaching pre-COVID-19 levels. The percentage decrease in employees when comparing February 2020 to May 2021 was two percent. Therefore, despite the second and third waves of COVID-19 cases occurring in that time frame, SMEs have almost recovered in terms of employee numbers. One possible explanation for this recovery is that the lockdowns have been less strict and less comprehensive in 2021 compared to 2020.

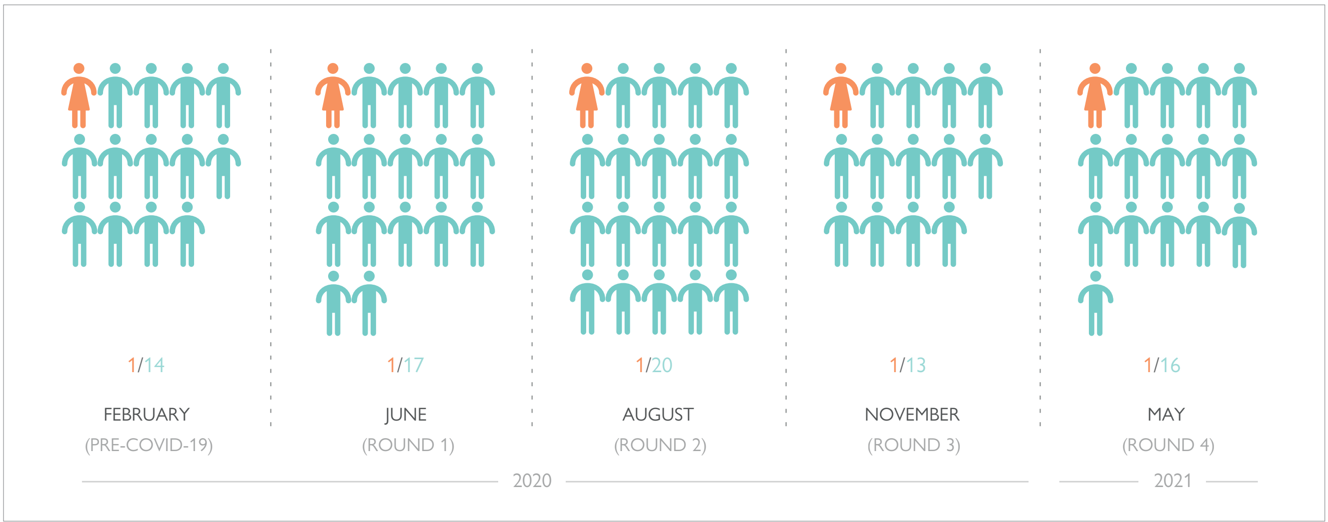
The COVID-19 pandemic did not affect women and men evenly in the labor market.[15] The labor gap between women and men in Iraq is similar to the gap in Algeria, Egypt, and Libya.[16] Since June 2020 (Round 1), more men than women have been employed in the sample of surveyed SMEs. The gap started with 1 woman per 15 men in June 2020 and it increased to 1 woman per 20 men in August 2020 (Round 2). The gender gap declined to 1 woman per 13 men in November 2020 (Round 3), which was lower than the pre-COVID-19 level. However, the gap increased again in May 2021 to 1 woman per 16 men. As such, the long-standing gap in women's participation in the labor force has now surpassed pre-COVID-19 levels by a small margin (see Figure 6).[17]

15 World Bank. (2020). Iraq Economic Monitor, Fall 2020: Protecting Vulnerable Iraqis in the Time of a Pandemic, the Case for Urgent Stimulus and Economic Reforms. World Bank.

16 International Labour Organization, "Gap in labour force participation," 2020.

17 Doepke, M., & Tertilt, M., "Families in macroeconomics," in Handbook of macroeconomics (Vol. 2, pp. 1789-1891), Elsevier, 2016.

Figure 6. Gender Gap in the Labor Market: Number of Males Employed Per One Woman

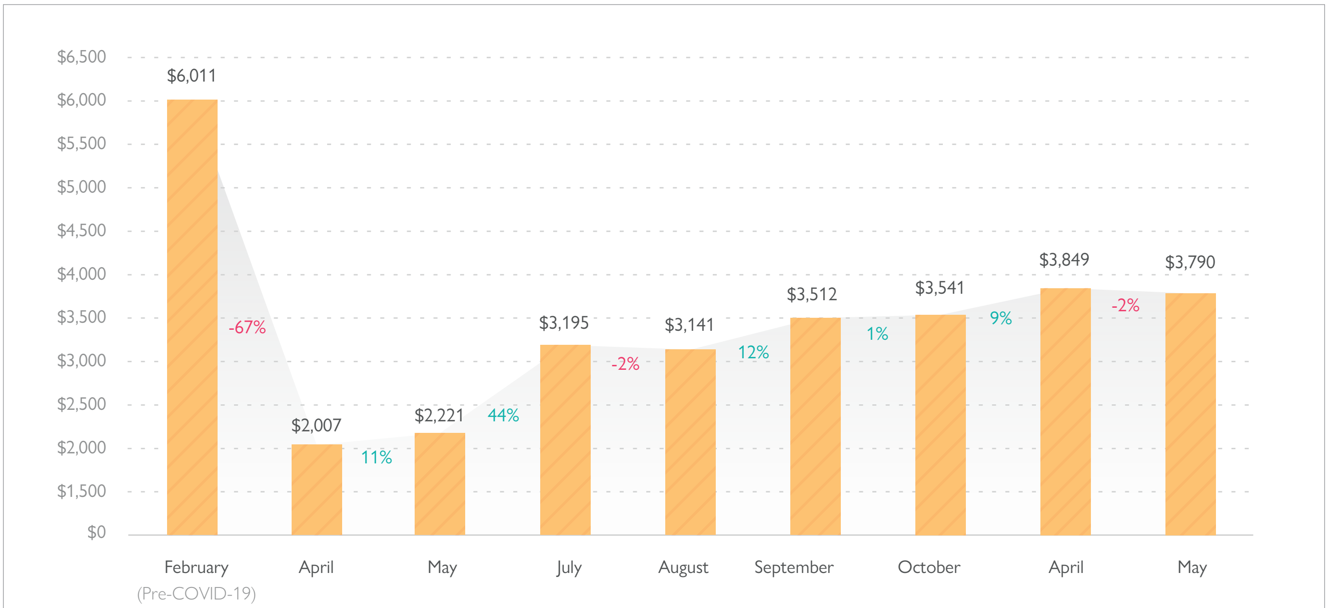


REVENUE

The pandemic has also severely affected the revenue of surveyed SMEs. Average monthly revenue dropped by 67 per cent from $6,011 in February 2020 (pre-COVID-19 lock-downs) to $2,007 in April 2020 (Round 1). The recovery from the COVID-19 crisis has been slow during the study period. The increase in revenues was 12 per cent by August and September 2020 (Round 2), and nine per cent by October 2020 and April 2021 (Rounds 3 and 4). In May 2021 (Round 4), the average monthly revenue was about half that in February 2020, before the pandemic started. Although the revenues increased after April 2020, the earnings have not reached the pre-COVID-19 levels (see Figure 6).[18]

After the relaxation in lockdowns in September 2020, revenue increased by 44 per cent from May to July 2020. Average monthly revenue mostly increased during the study period, with a slight decrease between June and August 2020, and between April and May 2021, on average two per cent each (see Figure 6). Overall, revenue averages per firm decreased by 28 per cent from February 2020 to May 2021.

Figure 7. Average Monthly Revenue and Percent Change Among SMEs

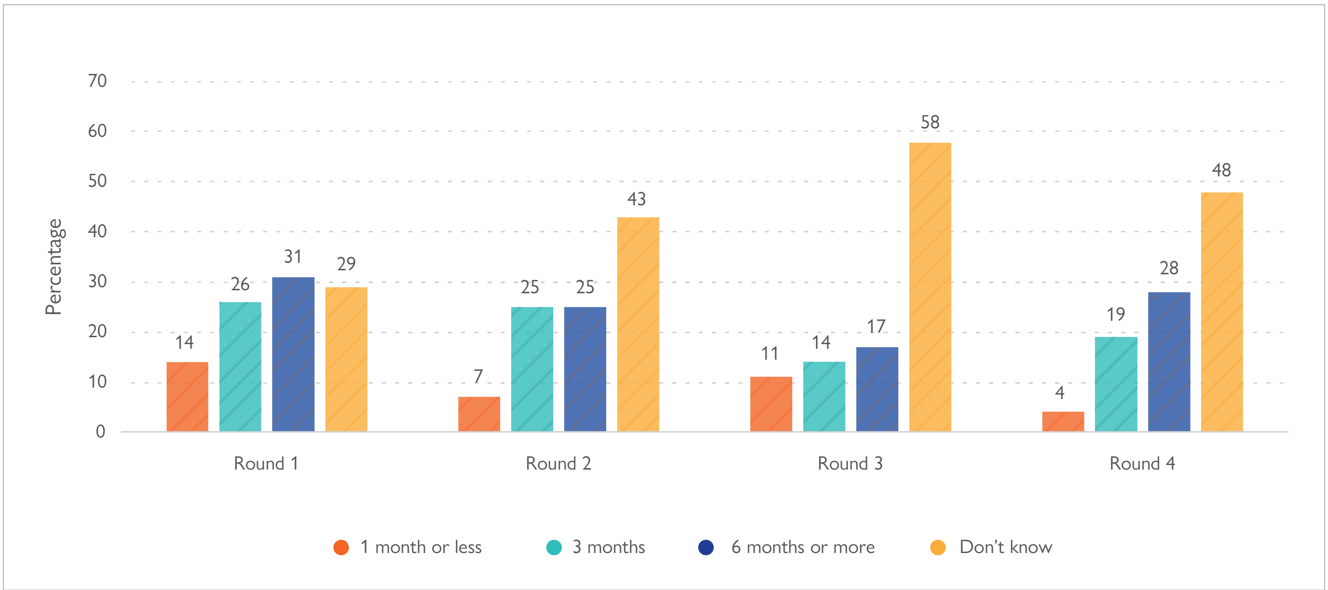


18 On average, service is the sector with the highest decline in revenues between April and May 2021 (37%), followed by chemical, metal, plastic (10%), manufacturing and construction (7%), carpentry and construction (3%), and general trade (0%). On contrary, hospitality had the highest increase (40%), followed by other sectors (29%), medical services (12%), education and technology (6%), automotive (4%), agriculture and food (2%).

RISK OF CLOSURE BY SECTOR

Over time, the proportion of SMEs reporting a risk of closure due to challenges from the COVID-19 crisis and related movement restrictions decreased. In June 2020 (Round 1), 63 per cent of firms reported a risk of permanently shutting down, 37 per cent in September 2020 (Round 2), and 28 per cent both in December 2020 and June 2021 (Rounds 3 and Round 4). Among the businesses that reported the risk of closing permanently, in June 2020 (Round 1) the most-mentioned time estimate was for the shutdown to occur after six or more months (31%). After that, SMEs more often did not know when the shutdown would occur (43% in Round 2, 58% in Round 3, and 48% in Round 4) but that they were still at risk (see Figure 8). Between Rounds 3 and 4, at least 40 SMEs in the sample shutdown and 17 (about 42%) of those cases were due to the COVID-19 crisis.

Figure 8: Risk of Permanent Shutdown: Prediction on When It Could Occur



Note: Among SMEs that reported a risk of permanent closure.

IMPACT OF LOCKDOWNS AND CLOSURE OF BORDER CROSSING POINTS

The 15 Iraqi governorates in the sample experienced different effects of the lockdowns to reduce the COVID-19 outbreak. Among the firms in this study, nine of the governorates in which they are located saw an average decline in employment between February 2020 (pre-COVID-19) and May 2021 (Round 4). Baghdad had the greatest recovery in the number of workers between the beginning of 2020 and the middle of 2021 (28%), while Najaf saw the deepest decline in employees during the same period (-36%) (see Table 7).

Babylon and Salah al-Din are the only governorates where revenues of firms in this sample increased from June 2020 to May 2021 (Rounds 1 to 4) (11% and 10% respectively). Sulaymaniyah reported the highest decline in revenues (-71%) after the first COVID-19 case, followed by Kerbala (-54%) and Najaf (-51%) (see Table 7). Production and sales also declined in 14 out of the 15 governorates between June 2020 and June 2021. Missan and Kerbala had the greatest decrease, 51 per cent and 50 per cent respectively. Kirkuk is the only governorate with a slight increase between February 2020 and May 2021, less than one per cent (see Table 7).

Table 7. Effect of COVID-19 Across Governorates

Governorate	Employment Change February 2020 to May 2021 (Pre-COVID-19 to Round 4)	Monthly Revenue Change February 2020 to May 2021 (Pre-COVID-19 to Round 4)	Production Change December 2020 to May 2021 (Round 3 to Round 4)
Diyala	-25%	-38%	-10%
Sulaymaniyah	-18%	-71%	-36%
Kerbala	-14%	-54%	-50%
Erbil	-12%	-25%	-41%
Missan	-12%	-38%	-51%
Salah al-Din	-6%	11%	-31%
Thi-Qar	-5%	-43%	-34%
Dohuk	-2%	-22%	-3%
Ninewa	0%	-14%	-9%
Kirkuk	5%	-15%	0%
Basrah	7%	-37%	-36%
Anbar	9%	-45%	-14%
Babylon	20%	10%	-25%
Baghdad	28%	-34%	-41%

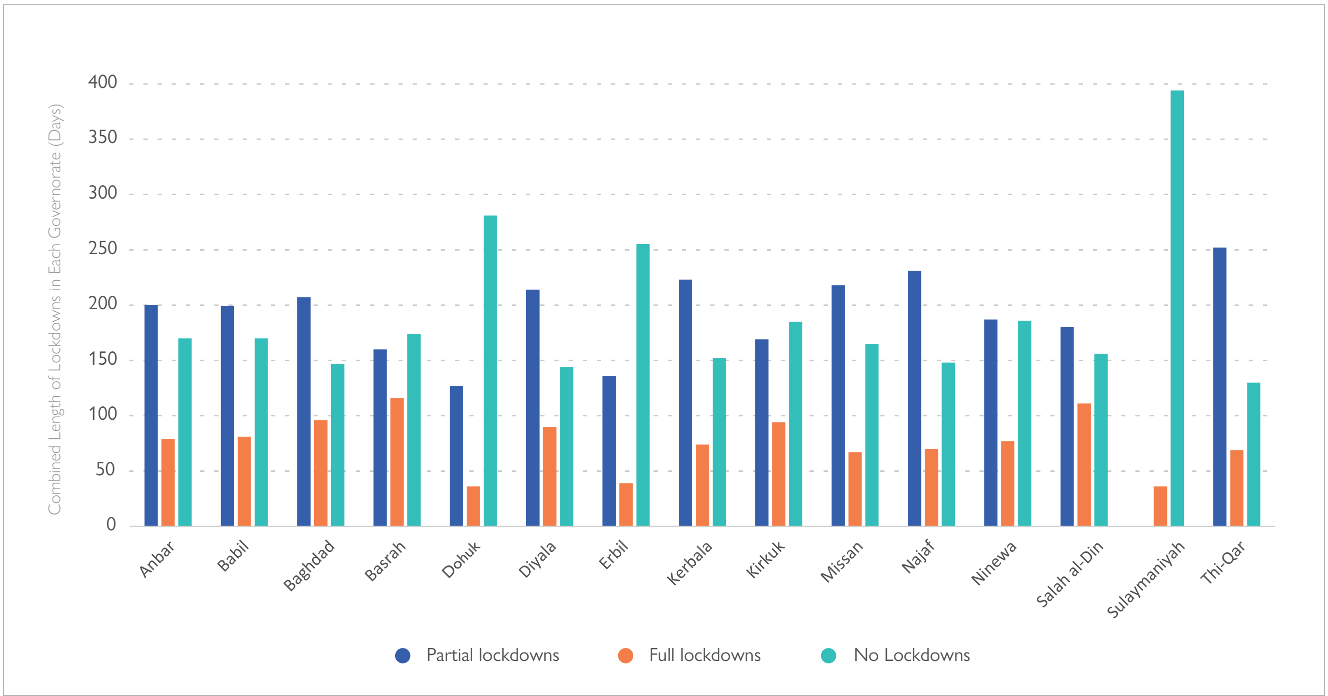
Note: Percentage change is calculated by averaging the percentage changes of each SME, which may differ from the percentage change between the two averages shown.

As in the rest of the world, Iraq has closed international border crossing points and implemented curfews and lock-downs as the principal strategies to cope with the spread of the COVID-19 outbreak.[19] From February 2020 to June 2021 (pre-COVID-19 to Round 4), each governorate in Iraq underwent at least 36 days (Sulaymaniyah) and at most 304 days (Diyala) with some level of mobility restrictions.

Figure 8 presents the number of days under lockdown by governorates. Several governorates had more days without restrictions than with them, as follows: Basrah (160), Dohuk (180), Erbil (270), Kirkuk (250) and Sulaymaniyah (390). The rest of the governorates saw more days with restrictions than not (see Figure 9).

19 World Health Organization, Covid-19 Strategy Update Report, 14 April 2020.

Figure 9. Total Length of Lockdown Measures Across Governorates



After the first COVID-19 case in late February 2020, the eight governorates with border crossing points to different countries and seaports reported four different statuses per crossing point: complete closure, partial closure, commercial transit only, and open. One of the crossing points from Anbar to Syria, for example, has been closed since mid-March 2020 through June 2021. Similarly, Basrah's border crossing point with Kuwait was closed for most of 2020 and transitioned to commercial transit by June 2021. All the crossing points between Ninewa and Syria have also been closed through June 2021. On the contrary, there was never a point in time during which all 5 border crossing points from Sulaymaniyah to Iran were completed closed.

For further analysis of the possible effects of lockdown restriction and border closure, the sample was divided into SMEs in less and more affected governorates by both dimensions.[20] Between February and May 2020 (Round 1), the results from a linear regression model show that revenue declined by 17 percentage points and employment by 28 percentage points more in the governorates most affected by both more lockdowns and closed border points, compared with SMEs in less affected areas.[21]

The linear regression model in Rounds 2, 3, and 4 does not estimate difference in either revenues or employment between places with more and fewer mobility restrictions and lockdowns (see Table 8, Panel A for revenues and Panel B for employment).

This finding means that the negative effect of the pandemic on SMEs was greater between February and May 2020. However, the relief resulting from the relaxation of the curfews reduced the difference in revenues and employment when comparing levels prior to COVID-19 and after August 2020.

20 The least affected governorates have more partial than full lockdowns and less than one-third of cross points were closed. Furthermore, the most affected governorates have more full than partial lockdowns and more than half of the border points were closed.

21 Results are based on a difference in differences model. The analyzed coefficient is the interaction between a dummy variable equal to one for governorates with at least one-third of cross points closed and a dummy variable equal to one for governorates with more frequent full than partial lockdowns. Standard errors cluster at the governorate level. Clustered standard errors are measurements that estimate the standard error of a regression parameter in settings where observations may be subdivided into smaller-sized groups ("clusters") and where the sampling and/or treatment assignment is correlated within each group. A. Colin Cameron and Douglas L. Miller, "A Practitioner's Guide to Cluster-Robust Inference," Journal of Human Resources, March 2015, 50: 317–372. The parameters present correlation rather than causation.

Table 8. Changes Produced by Lockdowns and Closure of Border Crossing Points

Panel A. Change in Monthly Revenue

	(1)	(2)	(3)	(4)
	Mid-March to End of June 2020	Mid-March through Mid-September 2020	Mid-March to Mid-December 2020	Mid-March 2020 to June 2021
Interaction between lockdowns and closure of border crossing points	-0.17**	-1.79	0.17	-0.15
	(0.06)	(1.55)	(0.14)	(0.09)
Constant	-1.01***	-8.21	-0.37*	-0.15
	(0.16)	(5.55)	(0.21)	(0.23)
Observations	889	847	780	656
R-squared	0.11	0.14	0.09	0.06

Panel B. Change in Labor

	(1)	(2)	(3)	(4)
	Mid-March to End of June 2020	Mid-March through Mid-September 2020	Mid-March to Mid-December 2020	Mid-March 2020 to June 2021
Interaction between lockdowns and closure of border crossing points	-0.28***	-0.28	0.01	-0.00
	(0.08)	(0.17)	(0.14)	(0.07)
Constant	-0.56***	-0.46	-0.48*	-0.46**
	(0.15)	(0.34)	(0.22)	(0.19)
Observations	884	750	800	701
R-squared	0.15	0.13	0.06	0.03

Note: Each panel show a linear model regression where the dependent variable is the change in monthly revenue in panel A and change in the number of employees in panel B. Each coefficient shows the interaction between lockdowns and closure of border crossing points. Robust standard errors shown in parentheses are clustered at the municipality level *** is significant at the 1% level, ** is significant at the 5% level, * is significant at the 10% level.

CONCLUSION AND RECOMMENDATIONS

Findings from Round 4 of data collection show that, one year onwards, SME owners are still concerned about the recovery of their businesses from the COVID-19 pandemic. The surveyed SMEs mostly did not receive aid from the government and non-governmental institutions. In the sample, the firms did not know that COVID-19 supports were available. The vulnerable condition of the businesses makes it difficult for firms to plan how to cope with future crises. 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.

After one year of interviewing the same SMEs, the data collected indicate that the firm employment is close to recovering from the COVID-19 pandemic's effect on job shedding during the height of the pandemic. One reason behind this recovery is the change in strategies SMEs have resorted to coping with the COVID-19 crisis. After the pandemic started, most SMEs laid off workers to cope with the sudden financial challenges of the pandemic and related movement restrictions. By May 2021, more SME owners turned to request leniency in paying financial responsibilities and help with financial challenges. However, some governorates are faring better than others. The average number of workers in more than half of the governorates is still below the pre-pandemic levels.

The economic slowdown witnessed in 2020 due in part to COVID-19 movement restrictions negatively affected revenues, production, and sales. The monthly revenue growth rate increased modestly during 2020, after the relaxation of lockdowns. By July 2020, monthly revenue reached about half of the pre-COVID-19 revenue levels, after which it continued to increase slowly until May 2021 (Round 4).

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

1. **Strengthen business support organizations (BSOs) and institutional ecosystems.** The design and delivery of assistance programs for SMEs requires building effective connections between government and firms. BSOs, particularly organizations such as chambers of commerce and sector associations, can provide SMEs with information and direct assistance on surviving current challenges, increasing their resilience to future threats, and enhancing their competitiveness. These organizations could also boost the SMEs' competitiveness to overcome the COVID-19 pandemic. Furthermore, as a means of facilitating public-private dialogue, BSOs can support more transparent and accountable policy design and so contribute to improvements in the business environment. Coming out of the crisis, BSOs and adequate government policies will be important in supporting efficient transition out of the current crisis by helping SMEs to access relevant and affordable finance, digital connectivity and solutions, navigate new demand, and meet new standards, among other goals.

2. **Trade-led diversification:** As revealed in this study, few Iraqi SMEs export and those that do faced additional challenges during the pandemic. Economic diversification is nevertheless both a long-term priority and necessary driver of recovery in Iraq, and the expansion of non-oil exporting will play an important role in this process. The underdevelopment of the private sector and a limited basis of trade have held back growth. Improvements to trade policy and strengthened capacities of trade support institutions are fundamental to export growth, which also depends on reforms to enhance the competitiveness of exported goods and services. Actions to promote exporting will also help to attract new investment, expanding productive capacities and improving productivity. The development of sectoral trade strategies targeting products with proven commercial and employment potential would contribute to this effort while ensuring policy convergence, institutional coordination, and strategic private sector support.

3. **Skill development and retraining:** While employment has improved somewhat as lockdown measures have eased, the pandemic has created serious challenges for Iraqi workers, risking livelihoods, stability, and economic development. The recovery will depend on the extent to which workers are able to move into high-potential firms and sectors to support growth. A flexible workforce, in turn, requires access to opportunities to develop new skills and gain recognition for skills acquired informally, such as through on the job training. Technical and vocational education and training (TVET) and certification programs may therefore be particularly relevant in preparing workers with the skills needed to find work with new firms and to move into new areas of economic activity.

4 **Entrepreneurship and business management skills:** Firms' concerns about being forced to cease operations soon illustrate the impact of the crisis on businesses, as well as the need for a dynamic SME sector fueled by the creation of new firms. In addition to the development of skills directly related to production and the use of relevant technologies to enhance competitiveness, skills in business management and entrepreneurship are needed in growing existing and new enterprises. Business skills are also needed in support of innovation and diversification through private sector development. Entrepreneurship and the creation of small businesses also has the potential of creating economic opportunities to help in encouraging new entrepreneurs.

5 **Trust building in formal financial services:** Firms in the sample were more likely to approach informal rather than formal channels of financial services, so public institutions and international actors could also focus on establishing the trust of community members in formal financial institutions through awareness raising and sensitization to the benefits of savings, including resilience building. Work may also be required in sensitizing financial institution to desirability issues, as identified by the Cash Consortium of Iraq.[22]

6 **Formalization of firms:** Similar to the above recommendation, business accounts for firms can be a strategy for business owners to plan for future emergencies and reach financial goals outside of taking on debts. Registration with official entities such as the Ministry of Industry or the Ministry of Trade are also steps that can help businesses prepare for future pandemics; either by enhancing the visibility of businesses in light of future business assistance programs, or enabling them to meet institutional requirements for commercial finance.

7 **Women's economic empowerment:** Women in Iraq are considerably less likely to be active in the labor force and to run businesses, representing a loss of potential productive capacity in addition to its consequences for inequality. In addition, the increase in the employment gender gap during the periods of heightened economic challenges in the pandemic (particularly in mid-2020) highlights the particularly precarious economic status of women. The economic empowerment of women is therefore critical to recovery, resilience, and inclusive growth. Policy priorities include addressing gender-based barriers in access to finance; expanding access to relevant forms of education and training; and providing entrepreneurship support (such as through mentorship and other targeted programs) to encourage the establishment of new female-led firms.

22 Financial Inclusion in Fragility, CCI, 2021

IOM IRAQ

iraq.iom.int

iomiraq@iom.int

UNAMI Compound (Diwan 2),
International Zone,
Baghdad / Iraq

@IOMIraq

This project is co-funded by the European Union