

ERF Policy Brief

The Impact of COVID-19 on Middle Eastern and North African Labor Markets: A Focus on Micro, Small, and Medium Enterprises

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In a nutshell

- Among the four MENA countries we examine, only Egypt managed to maintain a positive growth rate of 1.5% in 2020. The economic contraction in 2020 ranged from 8.8% in Tunisia and 6.3% in Morocco to 1.6% in Jordan.
- In the contracting countries, the lockdown resulted in large losses in the second quarter of 2020, with varying degrees of recovery in the third and fourth quarters. The tourist and transport industries were the hardest hit.
- Our new data on firms shows that tourism-related industries were the most negatively affected with regards to closures, reduced hours, and income losses.
- Microenterprises were the most likely to be closed due to COVID-19. If open, micro and small firms were more likely to have reduced hours than medium firms.
- Small enterprises were more affected by revenue losses than either micro or medium enterprises, with the exception of Tunisia where microenterprises were more affected.
- The most important challenge facing businesses across countries was the loss in demand, followed by access to customers due to mobility restrictions.
- From over half (Tunisia) to three quarters (Morocco) of firms reported not applying for nor receiving any government assistance, although less than a tenth (Tunisia) to a third (Egypt) said no government support was needed.
- Business loans were the most common types of support received and needed, but salary subsidies were also commonly received in Tunisia and mentioned as needed in both Morocco and Tunisia. Reduced/delayed taxes were the next most commonly mentioned needed measure in all four countries.

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This policy brief assesses the impact of COVID-19 on Middle East and North Africa (MENA) labor markets, with a focus on firms. We use household enterprise (microenterprise)¹ data from the second wave of the ERF COVID-19 MENA monitor household surveys and firm (small and medium enterprise)² data from the first wave of the ERF COVID-19 MENA monitor firm surveys. The firm data were collected in the first quarter of 2021.³ Previous policy briefs have analyzed the evolution of the labor market during COVID-19 from the household data (Krafft, Assaad, and Marouani 2021a; b); this brief focuses on micro, small, and medium enterprises.

We start by examining the patterns of economic activity by sector from macroeconomic data to determine the timing and magnitude of the impact of the crisis on various sectors. We then use the data from the COVID-19 MENA Monitor surveys to examine the effects of the

crisis on firm operations (closures and hours) and firm revenues in the first quarter of 2021 by firm size and by industry. We then examine the specific difficulties faced by firms in the 60 days prior to the survey, including loss of demand, access to customers due to mobility restrictions, access to suppliers and inputs, and worker absenteeism. Finally, we examine the government programs that firms received or the ones they said were needed, again by firm size and industry sector.

COVID-19 and the Sectoral Pattern of Growth in 2020

In order to provide a context for the COVID-19 MENA monitor survey results in the first quarter of 2021, we begin by analyzing the quarterly evolution of economic activity by broad industry sector in 2020.

Egypt's Sectoral Pattern of Growth in 2020

Egypt is the only country in our sample that kept a positive economic growth rate (measured by the gross domestic product [GDP]) in 2020 (1.5%) (Ministry of Planning and Economic Development 2021).⁴ As shown in Figure 1, growth was positive and high (around 4.4%) during the

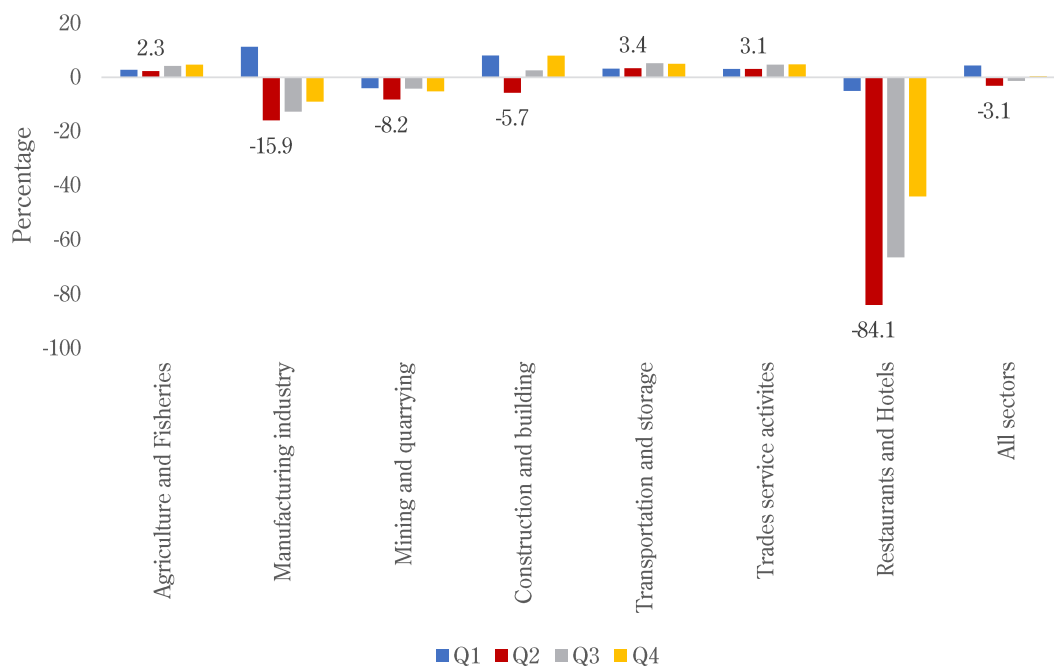
¹ We restrict our analyses of household enterprises to microenterprises in February of 2020 (those with five or fewer workers) to avoid duplication across our samples. Household enterprises in the panel are only included if still respondents' main status.

² Small and medium enterprises are those that had 6-199 workers in February of 2020.

³ What we refer to as the February 2021 wave of the COVID-19 MENA Monitor household survey was fielded from January 14 to March 2, 2021. What we refer to as the first quarter 2021 wave of the COVID-19 MENA Monitor firms survey was fielded from January 21 to April 26, 2021.

⁴ Note that Egypt reports official statistics for a fiscal year spanning July through June; we have adjusted statistics to present calendar years here, for comparability to other countries.

Figure 1. Egypt: Quarterly economic growth in 2020 by activity (percentage)



Source: Ministry of Planning and Economic Development (2021)
 Notes: Economic growth is growth of value added at constant prices in 2020 relative to the same quarter in 2019. Labels are for Q2 2020. Only selected sectors shown, total includes all sectors.



first quarter of 2020 and dropped to -3.1% in the second quarter of 2020, -1.3% in the third quarter of 2020, and then recovered into positive, albeit low, growth in quarter four of 2020 at 0.4%. The most affected sector was tourism (through restaurants and hotels), whose growth was hit very hard in the second quarter (contracting by 84.1% relative to the same period in 2019). Construction and manufacturing were growing robustly in the first quarter of 2020, but then experienced sharp contractions in the second quarter of 2020. While construction recovered in the third and fourth quarters, manufacturing recovered only slightly and remained in negative territory.

Jordan's Sectoral Pattern of Growth in 2020

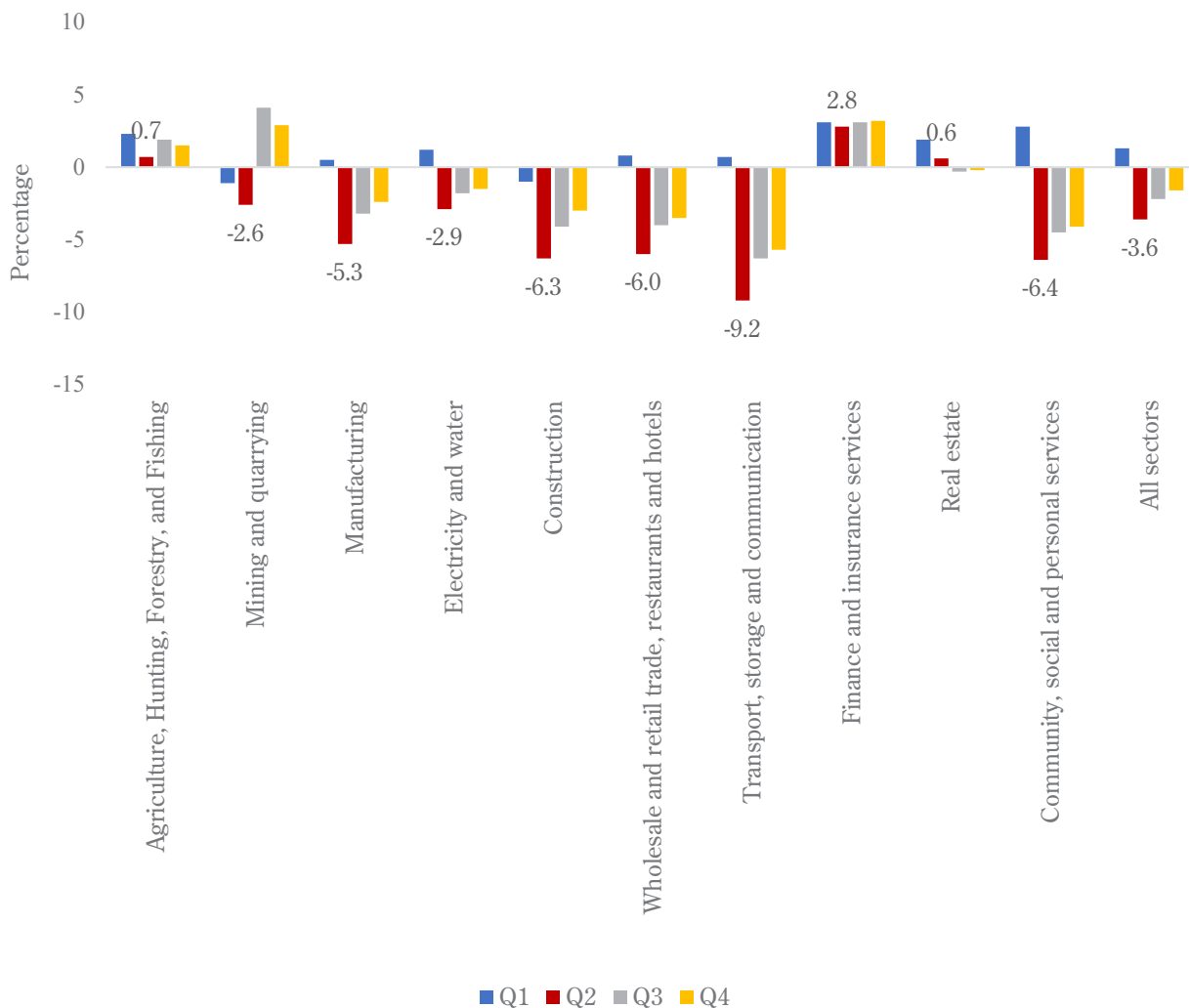
In Jordan, the crisis resulted in a GDP growth rate of -1.6% in 2020 (Department of Statistics (Jordan) 2021). As shown in Figure 2, the worst hit sectors in the

second quarter of 2020 were “transport, storage and communication,” “community, social and personal services,” construction, and “trade, restaurants and hotels.” The situation improved for most sectors in the third quarter after the end of the lockdown. In the fourth quarter, there was further recovery, but most sectors remained in negative growth territory relative to 2019. Only the finance and insurance sector appears not to have been negatively affected by the pandemic, and the mining and quarrying sector was initially negatively affected, but regained its positive growth trajectory in the third and fourth quarters.

Morocco's Sectoral Pattern of Growth in 2020

In Morocco, the economy as a whole contracted by 6.3% in 2020 (Haut-Commissariat au Plan 2021). Almost all sectors were hit very hard in the second quarter due

Figure 2. Jordan: Quarterly economic growth in 2020 by activity (percentage)

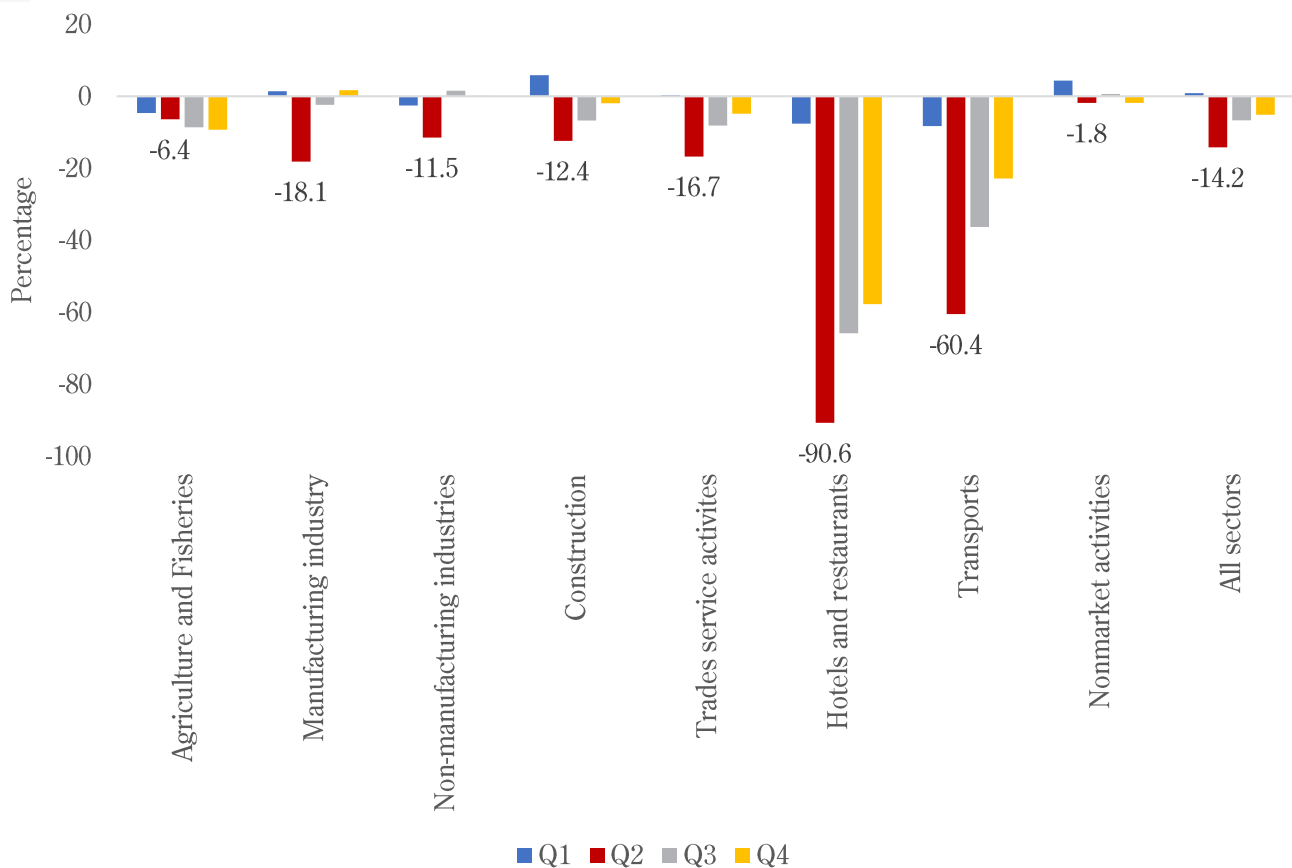


Source: Department of Statistics (Jordan) (2021)

Notes: Economic growth is growth of value added at constant prices in 2020 relative to the same quarter in 2019. Labels are for Q2 2020. Only selected sectors shown (excluding government, non-profit, and domestic services). Total includes all sectors.



Figure 3. Morocco: Quarterly economic growth in 2020 by activity (percentage)



Source: High Commission for Planning of Morocco (Haut-Commissariat au Plan 2021)

Notes: Economic growth is growth of value added at constant prices in 2020 relative to the same quarter in 2019. Labels are for Q2 2020. Only selected sectors shown. Total includes all sectors.

to lockdowns, leading to a large overall contraction of 14.2% relative to the same quarter in 2019. Hotels and restaurants, which capture the tourism industry, and transport sector were particularly negatively affected. In the third quarter, tourism, transport, and, to a lesser extent, construction and trade recovered somewhat but remained very negatively affected. There was further recovery in the fourth quarter, but tourism and transport remained in deeply negative territory. Only industrial sectors had positive growth, and the economy, overall, was still 5.1% below where it was at the same time in 2019.

Tunisia's Sectoral Pattern of Growth in 2020

Tunisia, which already witnessed a low GDP growth rate in 2019 (0.9%) (Institut National de la Statistique (INS) 2021), has been the most affected country in the region with an overall GDP contraction of 8.8% for 2020 (Institut National de la Statistique (INS) 2021). For the economy as a whole, the losses were concentrated in the second quarter of 2020 when the country was in a

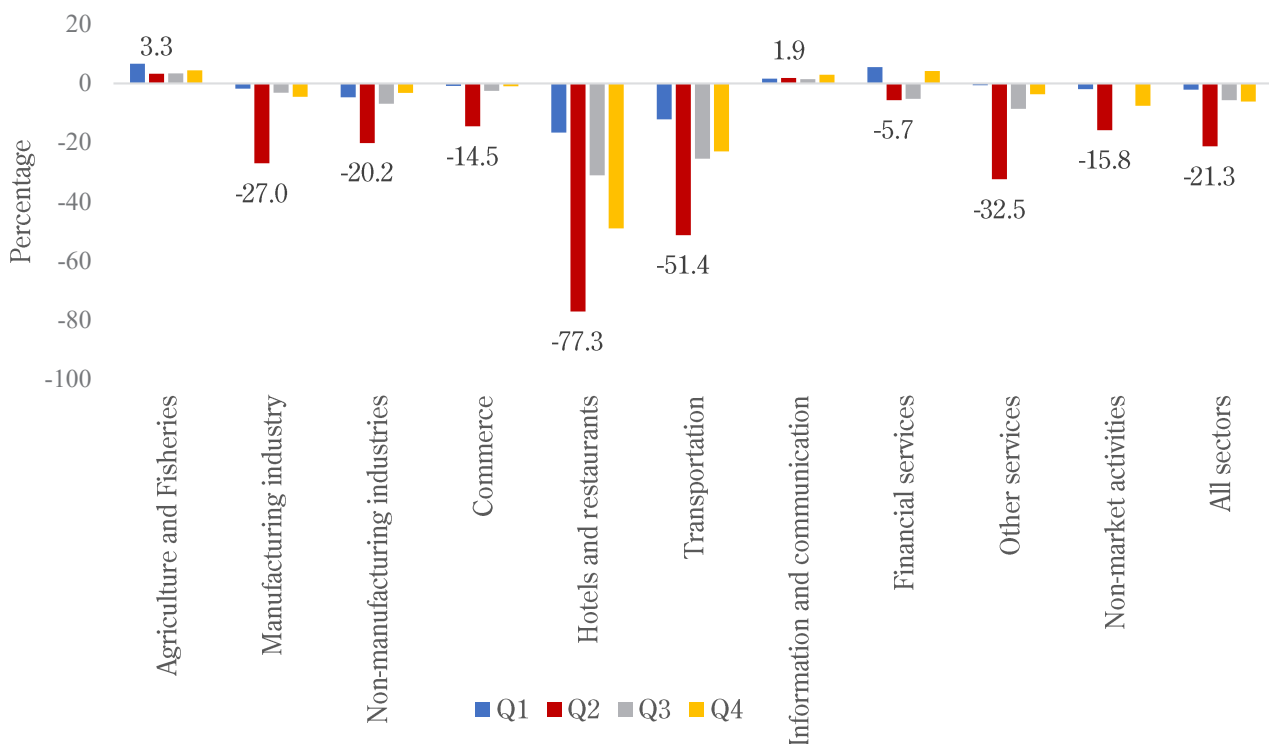
severe lockdown for almost two months and the economy contracted by a fifth (21.3%) relative to the same quarter in 2019. Similarly to Morocco, the hardest hit sectors were tourism (hotels and restaurants) and transport, but manufacturing and non-manufacturing industries were also severely affected in the second quarter of 2020. In the third quarter of 2020, the lifting of restrictions allowed a rapid recovery for almost all sectors except transport and tourism. However, the economy still contracted relative to 2019 in both the third (-5.7%) and fourth (-6.1%) quarters.

Government support to micro, small, and medium enterprises

Next, we move to a summary of business support policies undertaken by the four countries since the start of the pandemic through spring 2021, building on our previous policy brief (Krafft, Assaad, and Marouani 2021a). The four countries implemented measures to support the economy and in particular hard-hit sectors such as tourism. They also devoted funds to support firms, some



Figure 4. Tunisia: Quarterly economic growth in 2020 by activity (percentage)



Source: National Institute of Statistics (Institut National de la Statistique (INS), 2021)

Notes: Economic growth is growth of value added at constant prices in 2020 relative to the same quarter in 2019. Labels are for Q2 2020. Only selected sectors shown. Total includes all sectors.

of which specifically targeted micro or small and medium enterprises (SMEs). As shown in Table 1, extracted from Krafft et al. (2021a), common measures include postponement of loan repayments, subsidized financing to pay salaries, concessional financial facilities, and tax and social security deferrals. While the total amounts of the government packages are available, we do not have information on the transfers exclusively benefiting SMEs and microenterprises. It is thus difficult to compare the level of business support among the four countries, although the hypothesis is that a country in financial difficulty (due to a large GDP contraction) and in political turmoil such as Tunisia may have had more difficulties in finding financial resources to support its businesses.

Firm operations and revenue

Keeping in mind the macroeconomic and policy context, we now turn to examining the results of the COVID-19 MENA monitor. How have micro, small, and medium enterprises been faring a year into the pandemic? Figure 5 explores the operating status of firms in the first quarter of 2021, by firm size in February 2020. Firm sizes are defined as micro (1-5 workers), small (6-49

workers) or medium (50-200 workers). Less than half of microenterprises were open with normal hours (26-46% across countries). The proportion of firms open normal hours then increases relatively steadily with size in all four countries. In the medium category, it varied from 62% in Egypt to 82% in Morocco. Although in Morocco 9% of microenterprises and 8% of small enterprises were closed, elsewhere microenterprises were far more likely to be closed than other sizes. The nature of microenterprise closure varied from temporary closure due to COVID-19 (15% in Egypt) to permanently closed due to COVID-19 (12% in Tunisia and 16% in Jordan).⁵ As well as closing, firms often were operating fewer hours, whether due to government mandate or their own choice (which may be related to demand). Again, when open, micro and small firms were more likely to be operating with reduced hours than medium firms, especially in Morocco and Tunisia (micro firms) and in Jordan and Egypt (small firms).

The impacts of COVID-19 on firms' operations varied by industry (Figure 6). When presenting results by industry, we focus on small and medium enterprises since we do

⁵ Closures, particularly for small and medium firms, are likely to be underestimated, since closed businesses may have shut off phone service/not answered.



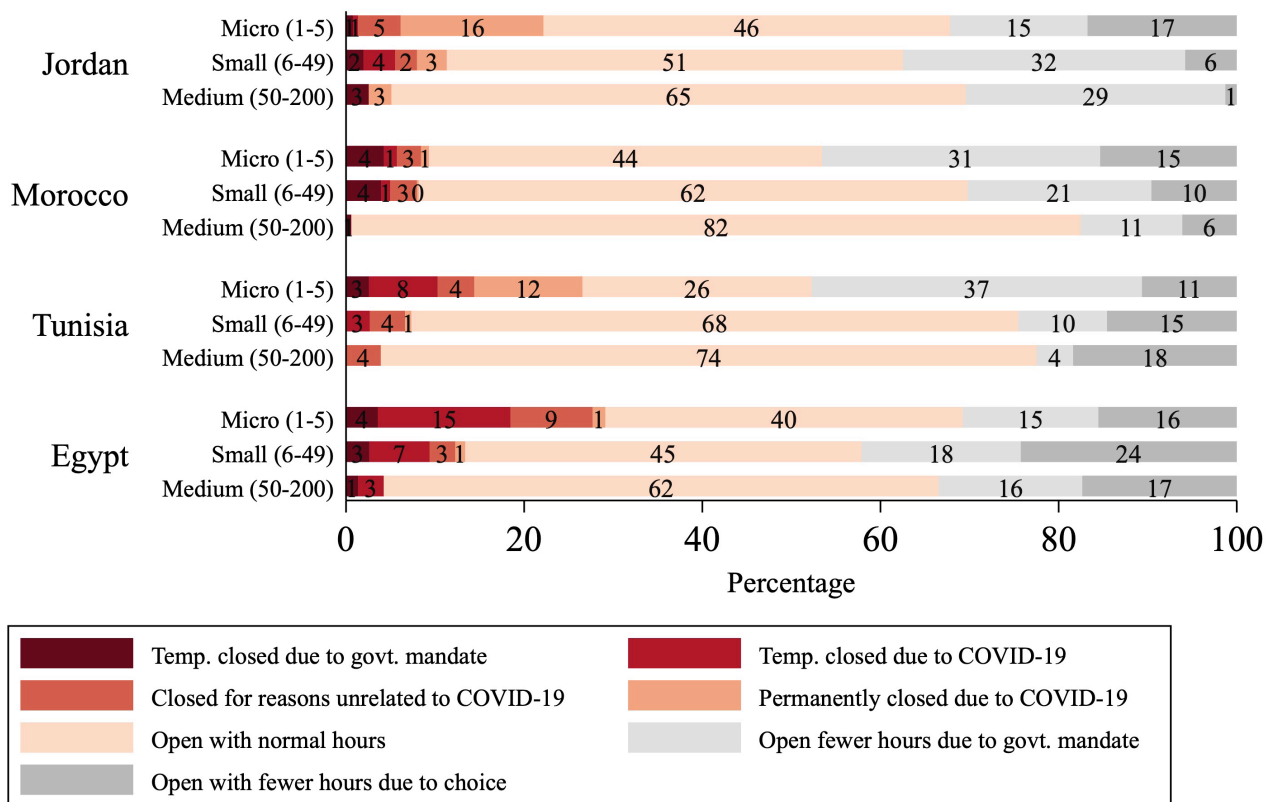
Table 1. Summary of Government Support Policies Targeting Specific Sectors and Small and Medium Enterprises through Spring 2021

	Egypt	Jordan	Morocco	Tunisia
Specific sectors	<ul style="list-style-type: none"> Stimulus of EGP 50 billion (USD 3.1 billion) for the tourism sector Reduction of the preferential interest rate from 10% to 8% on loans (tourism, industry, agriculture, and construction sectors) Loans with a 2-year grace period to aviation sector firms Reduction of energy prices (for the industrial sector and for the aviation sector) Expansion of the export subsidy program by EGP 3 billion in budget of 2020/2021 in comparison to 2018/2019 Real estate tax relief (industry and tourism) 	<ul style="list-style-type: none"> Postponement of bank loan repayments for impacted sectors Support for the tourism sector including deferral of principal repayment on loan payments and subsidized financing to continue paying salaries Concessionary finance facilities for agriculture, renewable energy, and information technology sectors Reduction of the general sales tax and services tax for hotels and restaurants Allowing tourism sector to pay its 2019 tax liability in installments with no penalty 	<ul style="list-style-type: none"> Announcement of Damane Relance program (3.7 billion Moroccan dirhams (USD 414 million) as of May 8) to support businesses including financing to cover working capital needs at subsidized interest rate Facility to provide financing to real estate firms Guaranteed loans to state-owned enterprises to repay their suppliers 	<ul style="list-style-type: none"> Accelerated value-added tax (VAT) reimbursements to support businesses Difference between the policy rate and the actual rate on investment loans covered by the government Deferral of loan repayments extended in tourism sector Off-budget funds to finance businesses in priority sectors and medical equipment 2021 Budget Law: Extension of the state guarantee scheme set up in 2020; Postponement of taxes for firms
Small and medium enterprises (SMEs)	<ul style="list-style-type: none"> Support for small projects impacted by COVID-19 (industrial sector) Extension by the Central Bank in 2021 of initiatives launched in 2020, namely <ul style="list-style-type: none"> (i) initiatives for the tourism sector and distressed companies with debt below EGP 10 million have been extended for another 6 months, (ii) the share of bank loan portfolios that must be allocated to SMEs has been raised from 20% to 25%. An initiative suspending credit score blacklists for non-regular clients and waiving court cases for defaulted customers Microlenders were advised by the Financial Regulatory Authority to consider delays on a case-by-case basis 	<ul style="list-style-type: none"> Expansion in its subsidized lending schemes for SMEs Reduction of the cost and expansion of the coverage of guarantees provided on SME loans Two funds have been established to support enterprises at risk <ul style="list-style-type: none"> (i) One managed by the government (ii) "Himmat Watan" Fund, (financed by the private sector) The Central Bank of Jordan has created a fund (soft loans/low interest loans). The Jordan Loan Guarantee Corporation is designed as the guarantor. Companies accessing these loans cannot fire workers during the duration of the loan. Postponement of the collection of sales tax (the food supply and health sectors) until they sell their goods 	<ul style="list-style-type: none"> Establishment of fund to extend state loan guarantees and deferral of social insurance contributions to firms. Businesses with fewer than 500 employees experiencing difficulties authorized to defer social contribution payments until June 30, 2020. Extension of new credit to SMEs Sovereign guarantee of 95% provided for SME (an equivalent of up to 10% of annual turnover) Firms will have 7 years to repay with a 2-year grace period 3 new facilities launched by the Government to provide financing to very small firms, real estate firms (Damane Relance Promotion Immobilière) and to firms operating in the tourism sector 	<ul style="list-style-type: none"> Cash support to firms (April-May 2020) 1818 Fund (contributions to fight COVID-19 and its impacts) Impacted businesses and sectors benefit from interest rate subsidy on investment loans Guaranteed repayment mechanism for new credit to affected enterprises Support funds for SMEs as well as companies in financial difficulties were established Exporting companies allowed to sell 100% of output locally in 2020 A package to support the private sector from the CBT (Central Bank of Tunisia), requesting banks to defer payments on existing loans and suspend any fees for electronic payments and withdrawals.
Total amount allocated to economic and social support	<ul style="list-style-type: none"> EGP 100 billion (US\$6.4 billion) announced in March 2020, half of which dedicated to tourism 	<ul style="list-style-type: none"> JOD 500 million (US\$ 705 million) of finance facilitation and JOD 680,000 (US\$ 960,000) for businesses affected or responding to the health crisis. 	<ul style="list-style-type: none"> US\$ 1 billion special fund for businesses, households, and medical facilities in March 2020 and MAD 120 billion (US\$ 13 billion) as a fiscal stimulus package announced in July 2020 	<ul style="list-style-type: none"> TND 2.5 billion (US\$ 0.9 billion) as an emergency plan and TND 100 million (US\$ 36 million) fund for health equipment and food reserves

Sources: Reproduced from Krafft, Assaad, and Marouani (2021a). Information obtained from IMF Policy Tracker for COVID-19 (IMF 2021) and various sources (Abouzzohour 2020; Abouzzohour and Ben Mimoune 2020; Ben Mimoune 2020; Beschel 2021; EBRD 2021; FitchRatings 2021; Kebede et al. 2020; OECD 2020; UNICEF and Jordan Strategy Forum 2020; World Bank 2020c, b; a; Younes 2020).



Figure 5. Operating status of firms, by firm size in February 2020 and country, micro, small, and medium enterprises (percentage)



Source: Authors' calculations based on Egypt, Jordan, Morocco and Tunisia COVID-19 MENA monitor February 2021 household survey and quarter one 2021 firm survey.

not have data on the prevalence of micro enterprises⁶ relative to small and medium enterprises⁷ that would allow us to pool the two data sources. As indicated in the macroeconomic data presented above, the tourism-related accommodation and food services industry particularly struggled, with only 24% (Morocco) to 41% (Egypt) of firms open with normal hours. Especially in Egypt and Morocco, closures were common in this sector. Operating fewer hours due to government mandates was also particularly common for the accommodation and food services industry in Morocco (37%), Tunisia (53%) and Jordan (55%) but less in Egypt (12%). In Tunisia, there were disproportionate closures in the manufacturing sector, while in Egypt this industry was particularly likely to be open fewer hours. Although the trade and retail, construction, and other services sectors were somewhat less affected across countries, they too were open fewer hours in many cases.

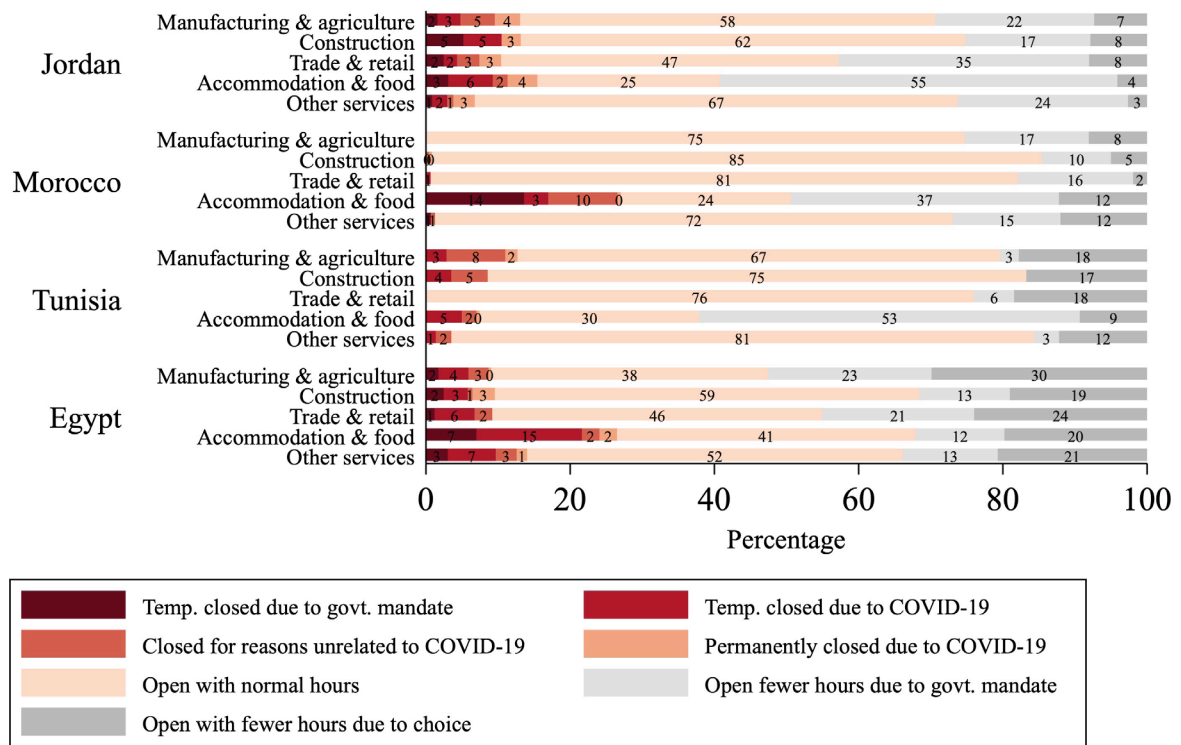
⁶ From the household enterprise survey.

⁷ From the firms survey.

Compared to 2019, firms were facing lower, often much lower, sales or revenues in 2021. Figure 7 compares revenues in the 60 days preceding the survey to those in the same period in 2019 by firm size. Small enterprises (those with 6-49 workers) had the sharpest losses in Jordan and Morocco. In Egypt, there were similar losses in micro and small enterprises, and in Tunisia microenterprises had more losses, with only 13% of them reporting the same or increased revenue. Revenue decreases in the 51-100% range were common, particularly for small enterprises. For instance, 49% of firms with 6-49 workers in February 2020 had revenue decreases of 51-100% in Morocco. Jordan also had a relatively large fraction of firms in this high-loss category, especially among small enterprises (37%). Egypt and Tunisia had a somewhat smaller share of firms in this high-loss category, although nearly one third (32%) of microenterprises in Tunisia and small enterprises in Egypt (29%) experienced this size of loss. The ongoing reduction in micro, small, and medium enterprises' revenue demonstrates the persistent economic challenges a year into the pandemic.

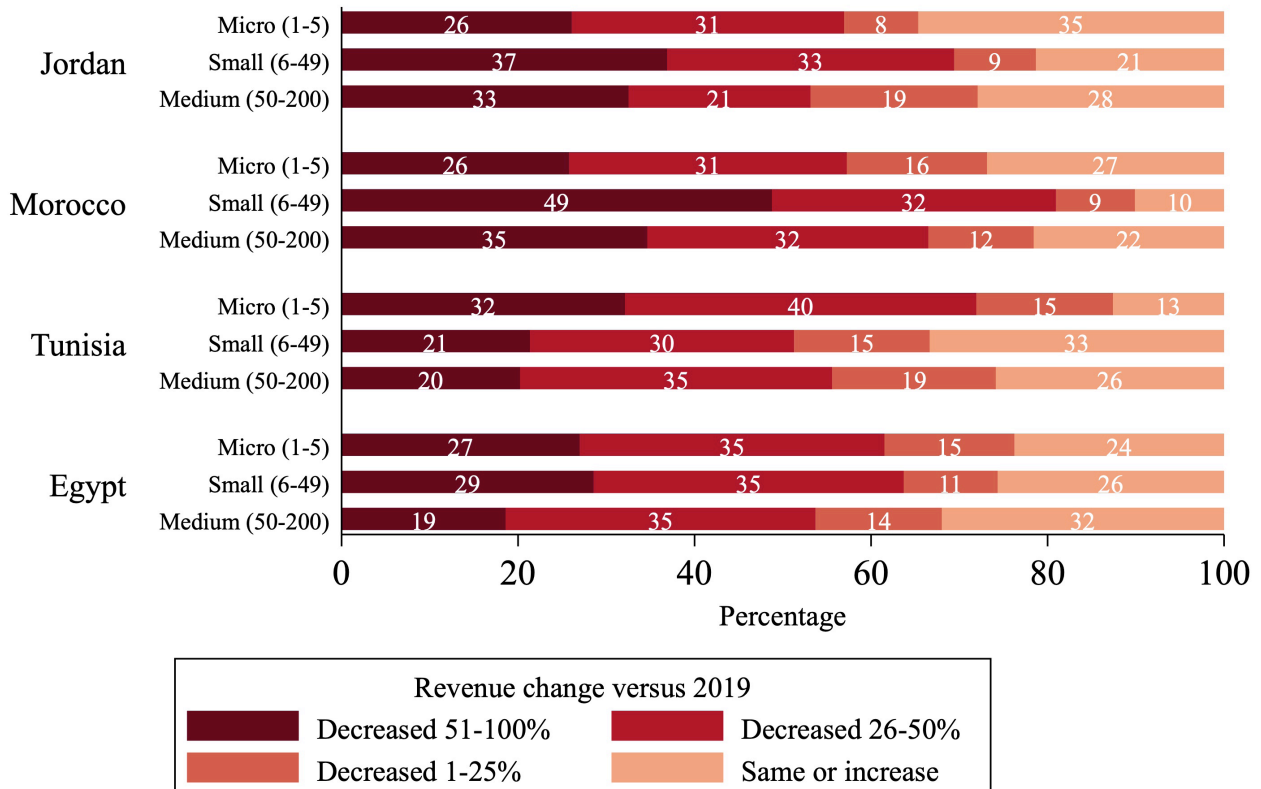


Figure 6. Operating status of small and medium firms, by industry and country (percentage)



Source: Authors' calculations based on Egypt, Jordan, Morocco, and Tunisia COVID-19 MENA monitor quarter one 2021 firm survey.

Figure 7. Revenue change (past 60 days versus 2019), by firm size in February 2020 and country, micro, small, and medium enterprises (percentage)



Source: Authors' calculations based on Egypt, Jordan, Morocco and Tunisia COVID-19 MENA monitor February 2021 household survey and quarter one 2021 firm survey.



Consistent with the patterns of operations and the macroeconomic data, the tourism-related industries — accommodation and food services — experienced the largest revenue declines (Figure 8). Only 15% (Egypt) to 3% (Morocco) of accommodation and food services firms reported revenues in early 2021 that were the same or larger compared to 2019. Between 42% (Egypt) to 86% (Morocco) of accommodation and food services enterprises reported losses of 51% or more. Trade and retail firms were the least likely to report large losses in most countries, but still only from 15% in Morocco to 41% in Tunisia reported the same or increased revenues. These revenue losses across sectors emphasize how the pandemic and associated economic downturn have effects throughout the economy.

enterprises across countries) were closely followed by difficulties in accessing customers due to government mobility restrictions (52%-65%) as difficulties facing businesses, to varying degrees by country and firm size. Access to suppliers was a greater challenge in Tunisia (48%) and Egypt (46%) than Jordan (27%) or Morocco (25%), with challenges with inputs following a similar pattern. Worker absenteeism was particularly a challenge in Egypt (51%), potentially linked to caregiving challenges facing business owners and workers (39%). Access to suppliers and inputs tended to be a particular challenge for the manufacturing and agriculture sector, whereas demand and mobility challenges were particularly limiting for accommodation and food services industries in most countries.

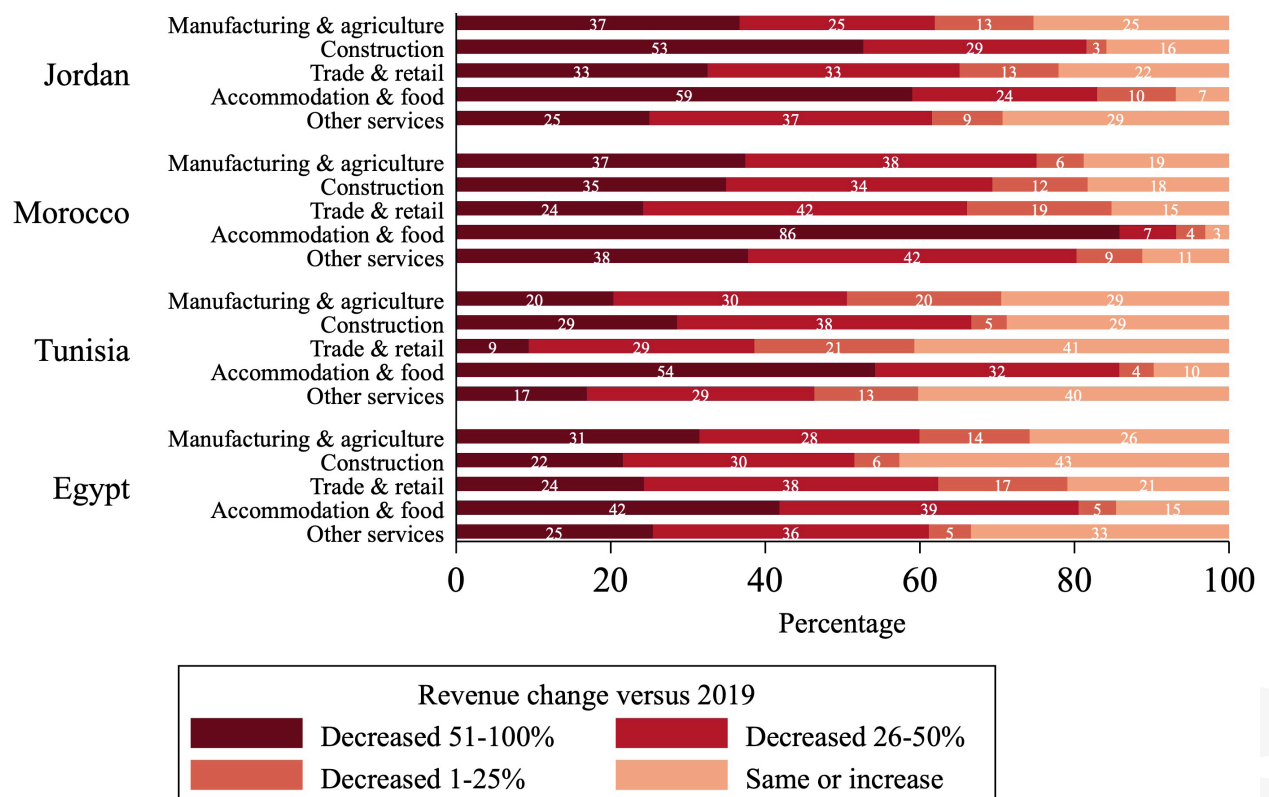
Difficulties facing businesses

The difficulties facing businesses varied substantially by size (Figure 9) and industry (Figure 10). Losses in demand (affecting 61-67% of small and medium

Policies received and needed

The immense challenges facing micro, small, and medium enterprises during the pandemic have been met with important policy responses, but the reach of policies has

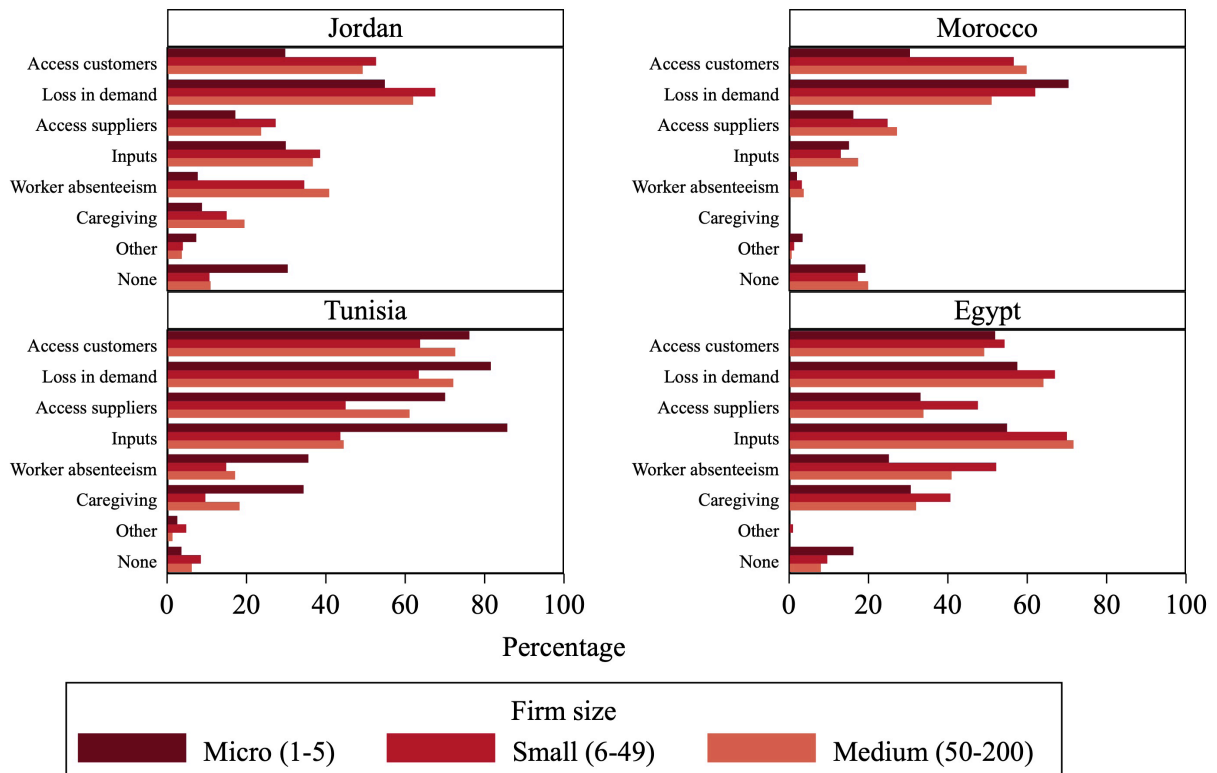
Figure 8. Revenue change (last 60 days versus 2019) for small and medium firms, by industry and country (percentage)



Source: Authors' calculations based on Egypt, Jordan, Morocco, and Tunisia COVID-19 MENA monitor quarter one 2021 firm survey.

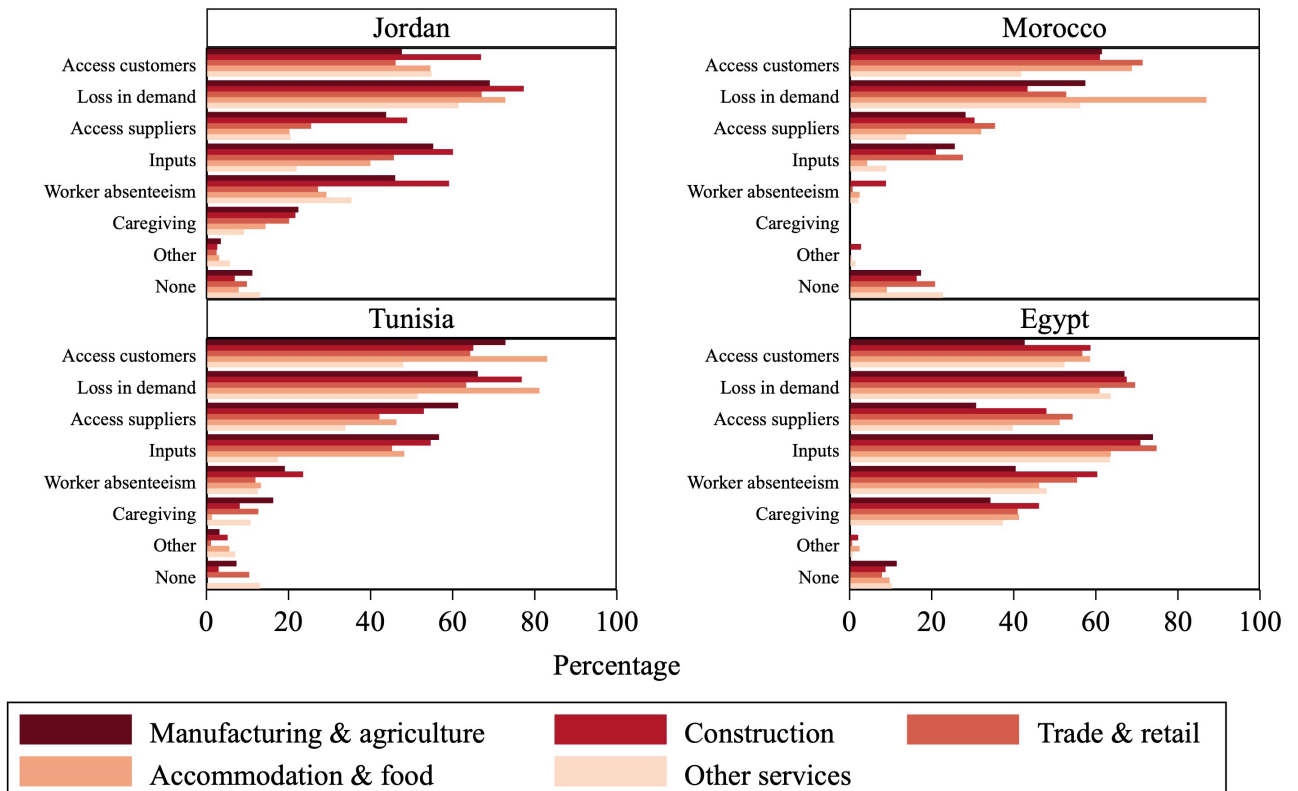


Figure 9. Difficulties facing businesses in past 60 days, by firm size in February 2020 and country, micro, small, and medium enterprises (percentage)



Source: Authors' calculations based on Egypt, Jordan, Morocco and Tunisia COVID-19 MENA monitor February 2021 household survey and quarter one 2021 firm survey.

Figure 10. Difficulties facing small and medium enterprises in past 60 days, by industry and country, (percentage)



Source: Authors' calculations based on Egypt, Jordan, Morocco, and Tunisia COVID-19 MENA monitor quarter one 2021 firm survey.



been limited, and firms report needing more assistance than they are receiving. Figure 11 compares government programs applied for or received by small and medium firms (multiple responses possible) to the most needed policies (only one response allowed). Around 52% in Tunisia, 59% in Jordan, 65% in Egypt, and 67% of firms in Morocco reported they had not applied for/received government assistance. Yet only from 7% (Tunisia) to 30% (Egypt) of firms reported no government support was needed. Business loans were the most common support applied for/received (20-24%) and needed (15-24%) across countries. Firms in Morocco (28%) and Tunisia (34%) reported the need for salary subsidies. Reduced/delayed taxes were also popular across countries (11-23%). Delays in social insurance payments were often applied for/received in Jordan (17%).

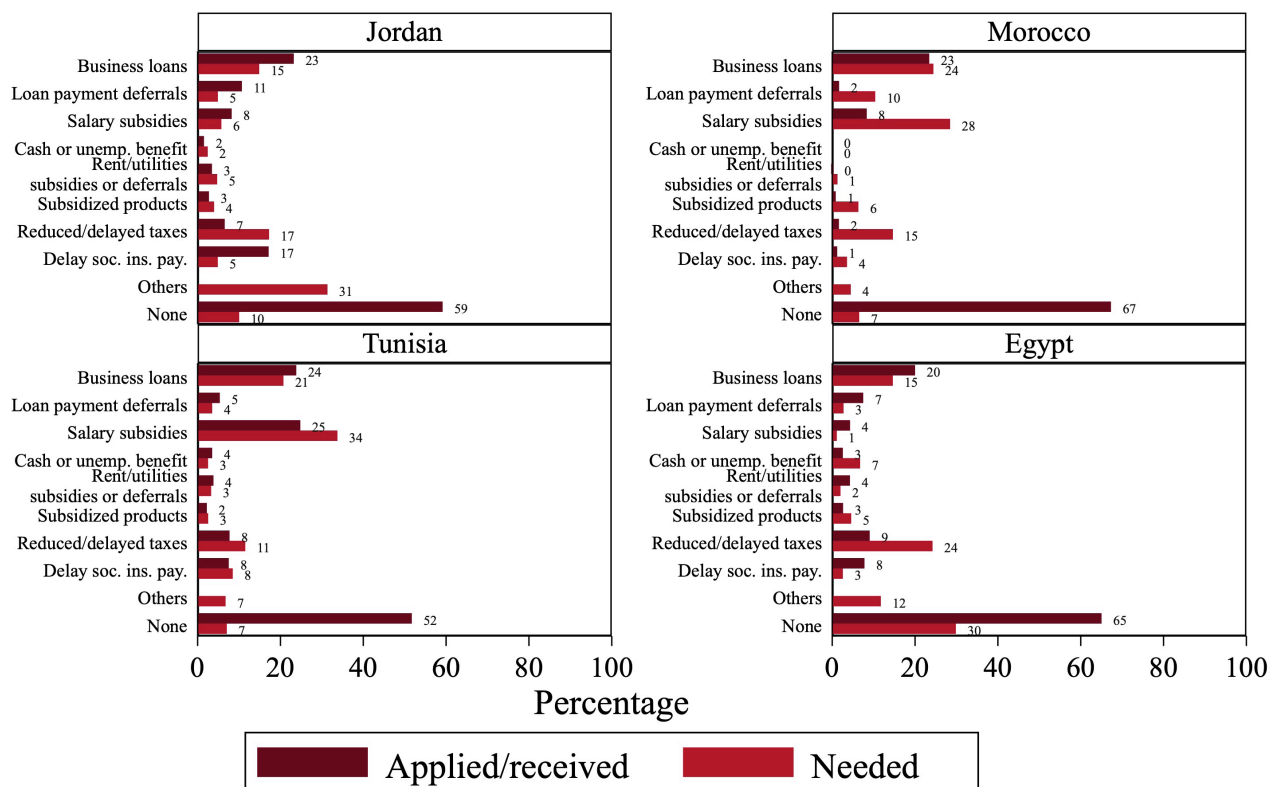
Conclusions

While all four MENA economies we examine here were adversely affected by the COVID-19 pandemic, the effects varied across countries, with Tunisia experiencing the

largest economic losses, followed by Morocco, then Jordan. While its growth has decelerated substantially since 2019, Egypt is the only country among the four that managed to avoid a recession in 2020. The progression of the crisis was also different in Egypt than in the other three countries. By the fourth quarter of 2020, Egypt was growing (albeit anemically, at 0.4% relative to the same quarter in 2019). The other three countries were still contracting, although to a lesser degree in the fourth quarter than the third quarter for Jordan and Morocco, whereas Tunisia's contraction worsened slightly from the third to fourth quarter.

As suggested by the macroeconomic data, we find that the hardest hit industry sector is the tourism-related sector of accommodation and food services, which experienced high rates of closures, reductions in hours of operations, and revenue loss. In the two hardest hit countries, Morocco and Jordan, only a quarter of firms in this sector were able to operate with normal hours. Similarly, firms in that sector experienced the sharpest drop in revenues, with 86% of the sector's firms in Morocco, and 59% in Jordan, experiencing revenue declines of 51-100%.

Figure 11. Government programs received or applied for and policies most needed, by country for small and medium enterprises (percentage)



Source: Authors' calculations based on Egypt, Jordan, Morocco, and Tunisia COVID-19 MENA monitor quarter one 2021 firm survey.
Notes: "Others" not asked about applied/received. Multiple responses possible for applied/received, only one response for policy most needed.

Firms were also differentially affected by size. With respect to closures and reduction in hours of operation, micro firms were most adversely affected in all four countries, with only from 26% (Tunisia) to 46% (Jordan) operating with normal hours. With respect to revenue losses, small firms tended to be more adversely affected than either micro or medium firms in all countries, except for Tunisia where micro firms were more affected. Small firms in Morocco, followed by Jordan, reported deeper revenue losses than in Egypt and Tunisia.

The most common difficulty facing businesses in all four countries was a loss in demand, followed by difficulty in access to customers. These difficulties were reported across the board, with few differences by enterprise size class or by sector. Difficulties in accessing suppliers and inputs were more common in Egypt and Tunisia, with small and medium enterprises most commonly reporting these difficulties in Egypt and microenterprises most commonly reporting them in Tunisia. Only in Egypt was worker absenteeism reported as a common difficulty.

Although policies were instituted in all four countries to support firms through the crisis, the reach of these policies appears to have been limited. Half to three quarters of SMEs reported they had not applied for or received any government assistance. The most common type of support received (and needed) in all four countries was business loans, but firms in Morocco and Tunisia also report needing (and sometimes receiving) salary subsidies. A substantial proportion of firms in all four countries also expressed the need for reduced or delayed taxes.

To conclude, it appears that firms in Jordan and Morocco were experiencing more difficulty than firms in Egypt and Tunisia due to the COVID-induced crisis in the first quarter of 2021. Although the Tunisian economy had the deepest overall downturn in 2020, it appears to have recovered somewhat by the first quarter of 2021 so that the adverse effects on firms were reduced. The downturn in Egypt appears to be shallower than in the other countries, sparing Egyptian firms the worst of the negative outcomes. Yet in all countries, there is a clear need for ongoing support, especially targeted to the most affected industries and firms, as the economic effects of COVID-19 continue to affect micro, small, and medium enterprises.

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