Impact of COVID-19 on Small- and Medium-Sized Enterprises (SMEs) in Iraq

ERF Webinar Series

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Methodology

Sampling:

Uses a **blocking design by governorate** from a list of 2,236 firms in IOM's database from previous exercises covering rural and urban areas.

- All firms have **not** received money from IOM.
- The **optimal sample size** to estimate an average reduction of **four employees with a power of 80%** and a statistical confidence level of 95% is between **650 and 950** observations.
- Respondents were identified in previous data collection exercises done by IOM Iraq across all governorates.

Table 2. Sample Sizes, Time of Data Collection, and Attrition Rate

Round	Date	SMEs	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%

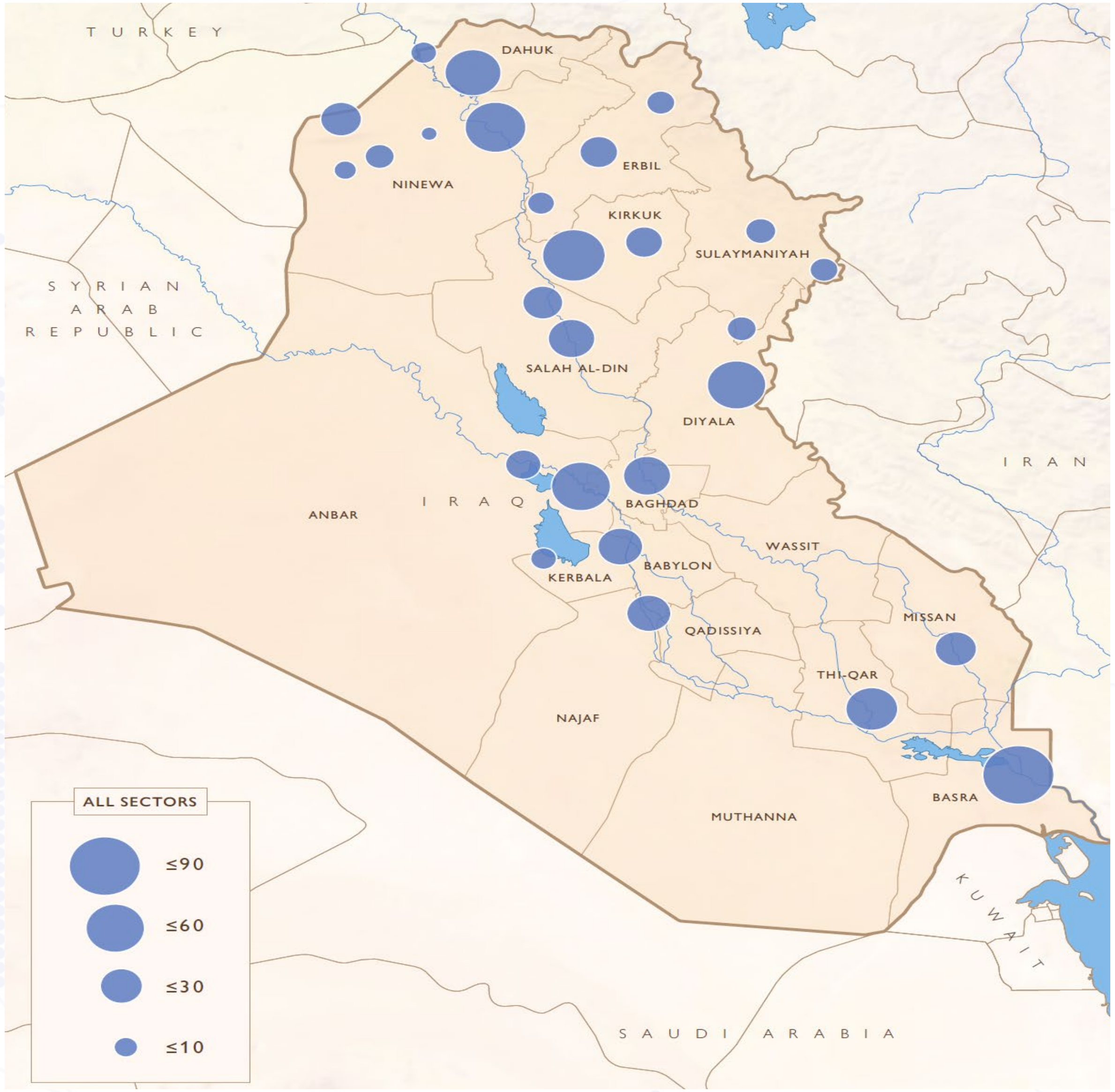


Figure 1. Locations of Sampled SMEs Participating in Rounds 1 - 4 of the Panel Study

Iraqi Economy Before COVID-19

- 2018 and 2019 saw positive GDP growth (6.8% and 2.5% resp.)

- 2012 to 2019, global crude oil prices decreased by 42%
- Social fragilities

Impact of COVID-19 on Iraqi Economy

- COVID-19 presented a complex economic challenge
- The government did not have flexibility/resources to stimulate economy upon the arrival of COVID-19
- Currency devaluation took place in December 2020
- GDP in 2020 experienced negative growth (-11.9%)
- Unemployment rose 10 percentage points
- Largest contraction in economy since 2003

General

- Harshest movement restrictions were between Mar and Sept 2020.
- Employment, revenue, and production were affected.

Average monthly revenue

Month	Average Monthly Revenue
Pre-COVID-19	$6,011
April 2020	$2,007
May 2020	$2,221
July 2020	$3,195
August 2020	$3,141
September 2020	$3,512
October 2020	$3,541
April 2021	$3,849
May 2021	$3,790

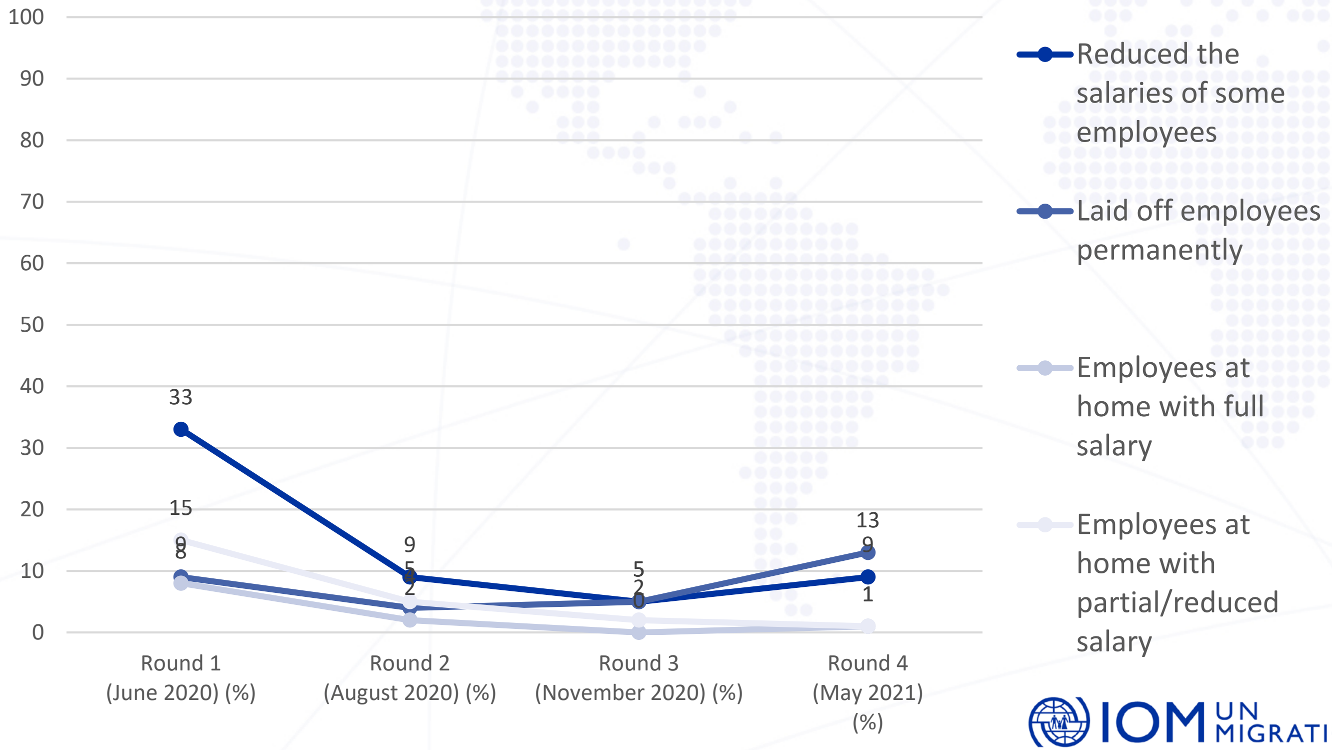
Effect on production

	Round 1 (June 2020) (%)	Round 2 (August 2020) (%)	Round 3 (November 2020) (%)	Round 4 (May 2021) (%)
Firms That Experienced a Reduction in Production	98	77	74	73
Average Percentage Decrease in Production Among SMEs	66	52	49	49

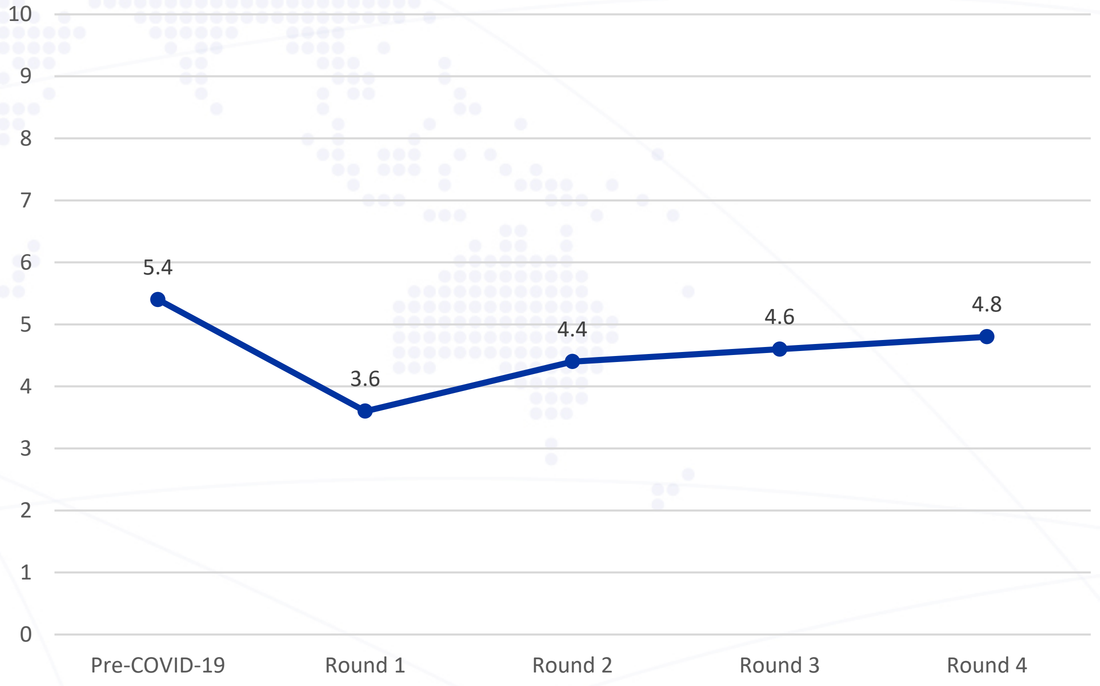
General

- SMEs adopted a range of strategies to cope with the financial difficulties of the pandemic

Coping mechanisms adopted by SMEs



Average number of employees



Gender

- Female workers were more affected than their male coworkers.

Average number of employees, male vs. female

	Pre-COVID-19 (February 2020)	Round 1 (June 2020)	Round 2 (August 2020)	Round 3 (November 2020)	Round 4 (May 2021)
Male	5.1	3.4	4.2	4.3	4.5
Female	0.4	0.2	0.2	0.3	0.3
All	5.4	3.6	4.4	4.6	4.8

% change in number of employees, male vs. female

	Pre-COVID to Round 1	Round 1 to Round 2	Round 2 to Round 3	Round 3 to Round 4	OVERALL: Pre-COVID to Round 4
Male	-34%	26%	1%	6%	-11%
Female	-44%	4%	55%	-10%	-19%
All	**-33%**	**22%**	**5%**	**4%**	**-11%**

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Sectoral Analysis - Employment

Table 8. Average Number of Employees Over Time by Sector (Part-time and full-time employees)

Sector	Pre-COVID-19 (February 2020)	Round 1 (June 2020)	Round 2 (August 2020)	Round 3 (November 2020)	Round 4 (May 2021)
Food and Agriculture	7.0	4.8	5.5	5.4	6.9
General Trade	4.0	2.8	3.7	4.6	4.8
Chemical, Metal, Plastic	4.2	2.7	3.6	3.7	3.5
Carpentry and Construction	6.4	4.4	5.8	5.9	5.3
Service	2.7	2.2	2.3	2.3	2.3
Manufacturing and Textile	5.9	3.9	4.6	4.6	3.9
Automotive	3.4	2.2	3.1	3.2	3.0
Hospitality	7.4	4.8	5.1	5.3	4.8
Education and Technology	28.7	3.3	10.3	10.8	11.0
Medical Services	2.2	2.2	2.2	2.0	2.0
Other	4.5	2.8	4.3	4.2	4.2
All Sectors	5.4	3.6	4.4	4.5	4.8

Table 9. Enterprises That Permanently Laid Off Employees by Sector (percentage)

Sector	Round 1 (June 2020) (%)	Round 2 (August 2020) (%)	Round 3 (November 2020) (%)	Round 4 (May 2021) (%)
Food and Agriculture	13	3	4	10
General trade	0	7	4	11
Chemical, Metal, Plastic	4	3	7	20
Carpentry and Construction	6	1	5	17
Service	6	6	7	7
Manufacturing and Textile	7	3	7	22
Automotive	15	2	0	9
Hospitality	21	4	9	13
Education and Technology	17	17	17	0
Medical Services	17	0	0	0
Other	0	0	0	0
All Sectors	9	4	5	13

Monthly Revenue Changes by Sector

Average monthly revenue among SMEs

Month	Average Monthly Revenue
Pre-COVID-19	$6,011
April 2020	$2,007
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July 2020	$3,195
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Table 11. Percentage change in revenue by sector compared to Pre-COVID-19

Sector	April 2020	May 2021
Hospitality	-77%	79%
Other	-88%	47%
Medical services	-22%	-28%
Education and Technology	-96%	-58%
Automotive	-64%	-52%
Agriculture and Food	-59%	-21%
General trade	-52%	-58%
Carpentry and Construction	-87%	-47%
Manufacturing and Textile	-75%	-32%
Chemical, Metal, Plastic	-77%	-16%
Service	-75%	-68%
All Sectors	-67%	-37%

Decline in Production by Governorate

Table 13. Firms That Experienced a Reduction in Production (percentage)

	February (Pre-COVID-19) to June 2020	June to September 2020	September to December 2020	December 2020 to June 2021
Governorate	Round 1	Round 2	Round 3	Round 4
Anbar	100%	42%	55%	64%
Babylon	100%	70%	88%	75%
Baghdad	100%	0%	61%	85%
Basrah	100%	100%	81%	86%
Dohuk	100%	100%	7%	42%
Diyala	100%	98%	100%	52%
Erbil	100%	100%	100%	98%
Kerbala	100%	100%	100%	95%
Kirkuk	100%	40%	55%	43%
Missan	100%	91%	100%	100%
Najaf	100%	100%	100%	92%
Ninewa	100%	65%	57%	71%
Salah al-Din	100%	93%	77%	94%
Sulaymaniyah	66%	72%	100%	76%
Thi-Qar	100%	100%	97%	84%
Total	98%	77%	74%	73%

Table 14. Average Percentage Decrease in Production Among SMEs by Governorate (percentage)

	February (Pre-COVID-19) to June 2020	June to September 2020	September to December 2020	December 2020 to June 2021
Governorate	Round 1	Round 2	Round 3	Round 4
Anbar	82%	58%	54%	54%
Babylon	48%	55%	40%	54%
Baghdad	51%	51%	32%	56%
Basrah	66%	58%	54%	51%
Dohuk	60%	39%	28%	38%
Diyala	71%	59%	55%	48%
Erbil	70%	68%	76%	43%
Kerbala	70%	68%	53%	56%
Kirkuk	67%	49%	38%	50%
Missan	70%	60%	54%	56%
Najaf	61%	58%	44%	56%
Ninewa	54%	35%	39%	42%
Salah al-Din	65%	44%	43%	41%
Sulaymaniyah	72%	29%	31%	60%
Thi-Qar	65%	42%	38%	45%
Total	66%	52%	49%	49%

Correlation with Lockdowns

Table A4: Changes in Revenues and Employment by Lockdowns

Panel A: Dependent Variable - Monthly Revenue Growth				
	(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
Number of lockdowns days per month	-0.00	-0.03***	-0.04***	0.03***
	(0.00)	(0.01)	(0.01)	(0.00)
Constant	-1.17***	-0.27	0.43**	-0.20
	(0.23)	(0.20)	(0.19)	(0.23)
Observations	617	617	617	617
R-squared	0.18	0.21	0.21	0.20

Panel B: Dependent - Variable Employment Growth				
	(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
Number of lockdowns days per month	-0.05***	-0.01***	-0.01**	0.04***
	(0.00)	(0.00)	(0.00)	(0.01)
	(0.01)	(0.01)	(0.02)	(0.02)
Constant	-0.19	0.16	0.04	-0.13
	(0.13)	(0.15)	(0.19)	(0.25)
Observations	617	617	617	617
R-squared	0.26	0.19	0.14	0.10

Correlation between the number of lockdowns per month and the performance of SME owners (OLS model).

- **Dependent variable**: Panel A is the revenue growth comparing February 2020 (pre-COVID-19) with May 2020 (Column 1)
- **Independent variable:** the number of days the governorate where a firm is located was under lockdowns or curfews.
- **Controls**: having a woman as the top manager, the manager is less than 35 years old, the business is not registered with a national authority, and categorical variables for selling products to local consumers, regional clients, or at the national level.
- **More controls**: firms in February 2020 (pre-COVID-19), the number of male and female employees before the economic crisis started in the beginning of 2020.

Summary of Key Findings

- Production, revenue, and employment have not returned to previous levels.
- Revenue remained 37% below.
- Employment has stagnated at about 1 employee fewer. Women were more impacted by layoffs and job cuts than men.
- Size of the firm and adopting online sales.
- Informal borrowing vs. formal borrowing over time.
- Businesses are not equipped to shield themselves from future external crises.

Policy Recommendations and 'Take Away's

- **E-Commerce**: supported and pursued as one of the main avenues for sustainable development in Iraq and in support of the private sector.
- **Skill enhancing programs**: Emphasis on e-commerce and marketing.
  - Employees laid off during the pandemic should be targeted for these programs.
- Make **formal capital** more quickly available and accessible.
- Increase **businesses' capacities** to shield themselves from maximum loss during future external crises.
- Support **formalizing informal businesses** and industries.

Thanks for your attention and feedback