ERF Policy Brief

Which Firms Performed Better in Social Distancing Times?

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About the authors

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In a nutshell

- *Restrictions tightening and higher volatility of the stringency index are negatively associated with firms' sales.*
- *Larger firms and those with higher access to finance performed better all else being equal.*
- *Access to finance does not seem to lessen the negative effect of the stringency of restrictions on sales.*
- *Firms' which adapted by changing their business model or digitalizing dampened the effects of higher stringency*
- *Only a change in the business model can dampen the effects of higher volatility.*
- *There is evidence of a stronger negative effect of restrictions tightening for foreign-owned and exporting firms.*

The policy brief presents the results of a study on the links between the stringency and volatility of COVID-19 containment measures and firms' performances in four MENA countries, based on the three waves of the MENA COVID Monitor survey.

The stringency of COVID-19 containment measures

The four countries adopted restrictive regimes in the initial stages of the pandemic (see Figure 1), Egypt being the least stringent. In the May-June 2020 period, Egypt and Morocco maintained high levels of restrictions, but Jordan and Tunisia loosened their restrictions. In the July to September period, the four countries relaxed their restrictions, particularly Tunisia which stringency index fell considerably (Krafft et al., 2021).

In fall 2020, the high resurgence of cases led the countries to a increase substantially their stringency indices, particularly in Jordan and Tunisia in the fourth quarter of 2020. If we exclude a brief loosening of the restrictions from early February to early March, Jordan's stringency index remained high through April 2021. Tunisia maintained relatively severe restrictions through February 2021, reduced them from February to April, then tightened them from May to August 2021 as cases surged again, particularly in the deadly July-August 2021 period. Morocco maintained relatively high restrictions until the second quarter of 2021, loosened them from May to July 2021 and tightened them again in August 2021 due to the resurgence of cases. Egypt maintained a relatively stable stringency index through October 2020, but then reduced restrictions until September 2021 (Krafft et al., 2022).

Operational status of firms and revenue change

When we look at the operational status of firms by country (Figure 2) we notice that Tunisia had initially the highest rate of open firms with normal hours with a relatively stable evolution across waves. At the opposite, the situation evolves quickly in Jordan with a substantial improvement of firms opening with normal hours. In Egypt we also notice a substantial improvement between waves 1 and 2, while Morocco is the only country where the situation deteriorates across waves.

However, when we observe firms' revenue change by country across waves (Figure 3) there do not seem to be a correspondence between the evolution of operational statuses of firms and their revenue changes. One of the possible explanations is the time lag that may exist between the implementation of closure rules and their translation in terms of sales and revenue change.

Interactions between stringency, volatility and firms performances

The objective of the paper by Ali et al. (2022) summarized in this policy brief is to study the interactions between the stringency and volatility of COVID containment measures on firms' performances. The analysis is based on regressions relying on three waves of small and medium enterprises surveys, conducted in four countries of the MENA region in 2021.

The main result is that there is evidence of a decrease in firms' sales when countries tighten their restrictions over the previous six months. Moreover, the volatility of closure measures (i.e. higher uncertainty) is also associated to lower levels of firms' sales. In what follows, We first present the baseline results to see which categories of firms performed better on average, all else equal. Second, we perform an interaction analysis to highlight which categories were the most impacted by the stringency or the volatility of closure policies.

Firms with access to finance and larger firms performed better during the crisis, all else equal. Firms that adapted to the crisis by changing their business model or resorting to digital technologies had also higher sales on average.

While access to finance improves average firms' performances, it does not seem to dampen the negative effect of higher stringency and volatility of restrictions on sales. The results are robust to the replacement of the stringency index by the index of international travel restrictions, one of its sub-components.

Moreover, we find that the negative effects of restrictions are stronger for foreign-owned firms. This may be due to their higher reliance on foreign inputs and markets and thus their higher vulnerability to closure policies. In contrast, the volatility of the stringency measures affects all firms similarly, independently of their ownership. However, when we look more specifically at the volatility in international travel restrictions on firm performance, we find that it affects more strongly foreign-owned firms. We get very close results when examining the situation of exporting firms, which is understandable given that foreign owned firms have an export-oriented activity.

Figure 1. Stringency index evolution during the three waves in Egypt, Jordan, Morocco and Tunisia

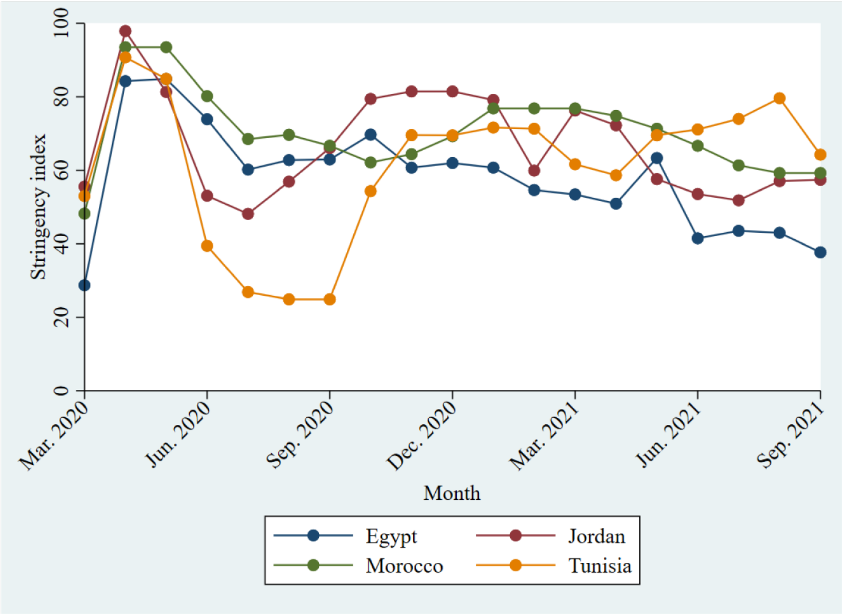


Figure 2. Operational status of firms during the three waves

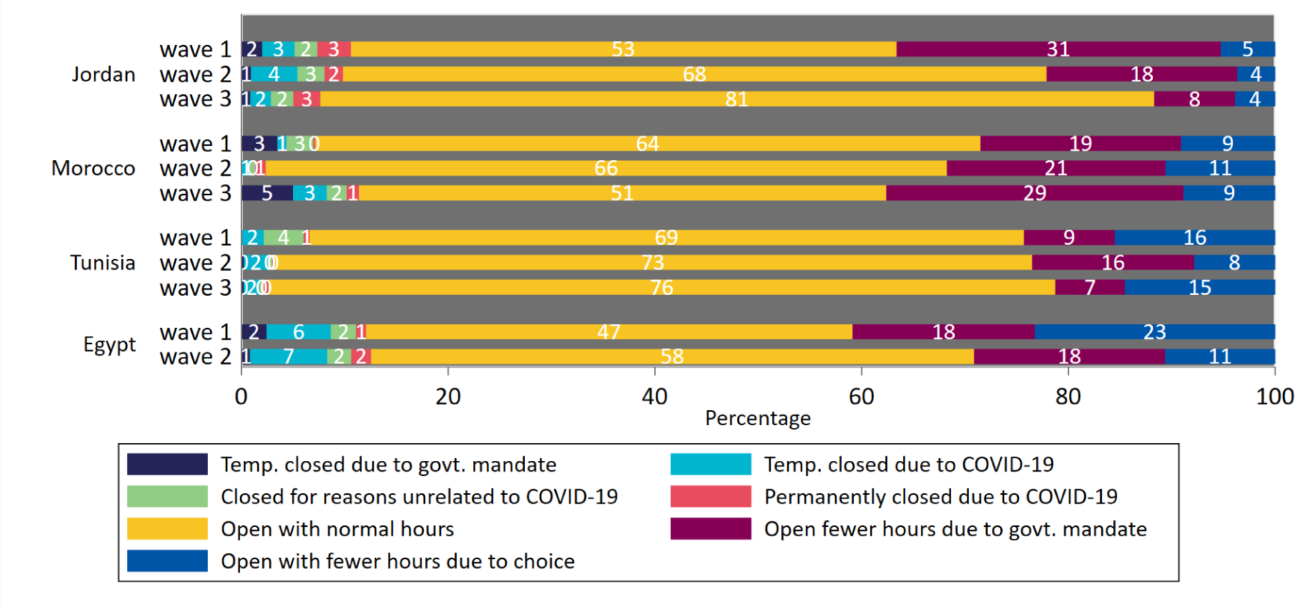
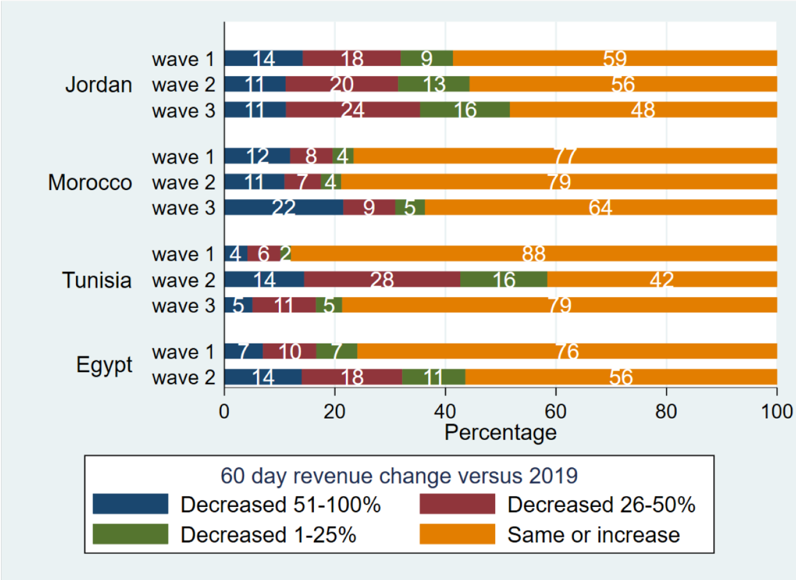


Figure 3. Revenue change through the different waves per country



Besides, adapting through a change in the business model or resorting to digital technologies dampen the effects of higher restrictions on firms' sales. However, only the former is able to dampen the effects of a higher volatility of restrictions. This suggests that by increasing uncertainty, volatility of restrictions seem to impact more negatively firms' performance than their stringency. It may suggest also that digitalization alone is not enough when dealing with a volatile policy environment and that a more adaptable business model may be required.

References

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