

# ERF Policy Brief

## What Should Be Done to Quicken the Pace of Digital Transformation among Business Firms in the MENA Region?

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### In a nutshell

- The worldwide precautionary measures adopted by governments to control the spread of the COVID-19 pandemic, such as closing businesses, social distancing, and restricting mobility, led to adverse consequences on the business sector in all economies.
- The MENA region was not an exception, as the business sector in the region has been hit hard by the catastrophic consequences of these measures. This is the case because the economies of the region are dominated by activities that directly or indirectly require extensive human interactions, including oil exports, tourism, and foreign remittances.
- The existing evidence indicates that adopting digital technologies appeared as one of the most effective strategies to absorb the shock induced by the pandemic containment measures (Seetharaman, 2020; Dwivedi et al., 2020).
- The analysis is based on microdata collected from 5,480 firms surveyed in four countries of the MENA region, namely Egypt, Jordan, Morocco, and Tunisia. The results show that firms of larger size, owned by foreigners, encountering business challenges due to the pandemic, complying with pandemic containment measures, receiving support from the government, as well as firms operating in the service sector are more likely to adopt digital solutions in response to COVID-19 pandemic.
- To accelerate digital transformation among businesses in MENA region, policy makers can apply several measures. These actions may include intensifying internet accessibility to all businesses; granting firms' subsidies; a preferential tax cut; and tax breaks based on their achievement on digitization fronts; establishing a conducive business environment to attract foreign investments; and reforming educational curriculum to bridge the digital divide among population and businesses.

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### *The digital reality in MENA region*

The spread of the COVID-19 emerged as a global health crisis that led to dramatic changes in the business environment worldwide (Bartik et al., 2020, Asmelash & Cooper, 2020). The containment measures adopted by the official authorities, such as social distancing and movement restrictions, have resulted in countless negative consequences on the business sector, including a reduction in sales, trade, employment, and disruption in supply chains (Apedo-Amah et al., 2020). The World Trade Organization predicted that world trade is likely to decrease by 13% to 32% in 2020 (Irwin, 2020). According to ILO (2020), the pandemic lowered the working hours by 10.5%, or 305 million full-time workers at the global level in the second quarter of 2020. In response to these containment measures, businesses are forced to implement digital technologies as one of the most effective strategies to absorb the shock induced by the pandemic (Seetharaman, 2020; Dwivedi et al., 2020). Taking such an initiative is likely to accelerate digital transformation, providing economies with opportunities for growth and development.

Amid the COVID-19 outbreak, the utilization of digital technologies has increased remarkably in the MENA region by individuals, governments, and businesses (World Bank, 2020). However, the far-reaching adoption of digitization in business operations across region is anticipated to confront many challenges, including the failure of households, employees, firms, and populations to access or effectively exploit the benefits of digital technologies (Göll and Zwiers, 2019; UNDP, 2016, and ESCWA, 2015). Thus, the old fragmented technological reality has been shocked by the new business environment created by the pandemic, as all actors were pushed to respond positively to pass the crisis. This was the case because the catastrophic economic impact of the pandemic were expected to be more severe on the MENA region, where oil exports, tourism, and foreign remittances represent the backbone for the majority of economies. According to the COVID-19 Business Pulse Surveys (BPS), the COVID-19 pandemic led to revenue loss, financial distress, and job loss in businesses operating in the region (BPS, 2020).

These surveys also revealed that most of the firms in the MENA region have been slow in adopting technology, remain highly uncertain about the rescue, and exposed to intense drop in demand (BPS, 2020). The BPS reported that digitization represented a coping mechanism for a negligible proportion of firms ranging between 20% and 30% from total MENA firms surveyed. These percentages indicate that the business sector has

not resorted to digital solutions to lighten the pandemic consequences. The dominance of this digital divide would lead to negative consequences on the region's economy, especially with the successive waves of the pandemic. Against this background, many policy issues can be raised on digital transformation among business firms operating in the MENA region:

- What are the urgent policy actions that can be implemented to make business firms in MENA region opt to digitize their business operations?
- What are the strategic policy actions to expand digital transformation to all aspects of life in the MENA region?

### *The drivers of digital transformation among firms in MENA region*

Based on microdata collected from 5,480 firms surveyed by the ILO/ERF COVID-19 MENA Monitor Enterprise Survey (CMMENT) in Egypt, Jordan, Morocco, and Tunisia, the analysis shows that there is a strong association between digital transformation and the outbreak of the pandemic. Specifically, the evidence indicates that most of the firms confronted business challenges during the pandemic have adopted or invested in digitization. Moreover, compared to the firms operating in other sectors, the results reveal that the majority of the firms operating in the services sector have resorted to digital solutions.

The analysis also demonstrates that engaging in digital solutions during the pandemic was positively correlated with both firm's size and firm's foreign ownership. Interestingly, the businesses challenges that arise due to the implementation of the precaution measures play a positive role in pushing firms to digitalize. The analysis also documents a positive correlation between digital transformation and governmental support to the firms. Overall, the analysis confirms that COVID-19 forces a sizable portion of firms in MENA region to digitize business activities. Moreover, about half of surveyed firms have invested in digital solutions such as work from home and online marketing.



## Policy recommendations

In light of the above evidence, many policy actions can be proposed to increase enhance the digital transformation among firms in the MENA region. These actions include:

### *(a) Facilitating the diffusion of digital technologies among firms*

The evidence shows that a large portion of firms in the MENA region resorted to digital technologies to cope with the turbulent environment created by the COVID-19 pandemic. Thus, policymakers are requested to devote more efforts to facilitate the adoption of these digital technologies by implementing an actionable plan. Their initiatives may include making internet and communication accessible to all businesses at competitive prices. The initiative may also include inspiring businesses to construct websites that present them and their products to the customers. Thus, instead of recruiting more staff to match business expansion, firms can invest in digitization to avail online services to customers. Constructing YouTube channels can be also encouraged since this will introduce firms and products to the public.

### *(b) Granting firms a convincing bundle of concessions*

As indicated by evidence, there is a positive association between digital adoption and government support. With this in mind, policymakers should adopt measures that encourage businesses firms to adopt digital solutions. These policies may include granting subsidies, levying a preferential tax cut, and giving tax breaks to the firms. These concessions, however, should be granted to the firms that invest extensively in localizing and diffusing digital technologies. Taking such a step is likely to enhance digital adoption and build an effective precaution mechanism for future pandemics.

### *(c) Encouraging the reception of FDI*

Governments in MENA countries should reduce the digital gap by encouraging foreign direct investment, particularly in the digital sector. The presence of foreign investors who mostly used highly sophisticated technology would generate huge benefits on the digitization front. For instance, the local investors will find a chance to copy digital practices brought in and instigated by foreign investors and implement them in their firms. Moreover, the competitive environment created by the presence of foreign companies motivates local enterprises to keep pace with new developments, especially in the field of digital technologies. Policymakers can further intensify the benefits of foreign companies

on digital diffusion by encouraging hosting those foreign firms working in digital industries.

### *(d) Digitizing the process of business licensing*

The issuance of licenses for new and operating businesses must be executed electronically. Of course, this requires creating an email for the firm under license to receive government statements and other related documents and possibly launching a website. In this regard, policymakers should encourage businesses to turn to email and mobile marketing as an implementable strategy, particularly in the first stage of digital transformation. Picking mobile, smart phones that can host easy-to-install marketing applications are widespread and popular. Accordingly, businesses in the region can rely on mobile and email to increase their sales and realize wider penetration among the public.

### *(e) Monitoring the progress in digital transformation among business firms*

Policymakers and research bodies in the MENA region should work honestly on launching a flexible database to monitor the progress in digital penetration among businesses. Currently, the available information on the digital status of firms is inadequate and prevents initiating serious interventions to spur digitization. The data on digitization should be collected at the local administrative level, passing through the higher administrative divisions (i.e., states, provinces, and districts), and up to the country level. Taking such a step would encourage research that leads informative policy actions. Furthermore, the collected data can be utilized to launch indices to monitor progress in digitization at the region and country levels.

### *(f) Increasing the digital dose in curriculum being taught in schools*

Strategically, policymakers should initiate reforming the educational curriculum in the MENA region. The reform must target bridging the existing digital divide between the population and business firms.

### *(g) Encouraging investment in information and communication technologies (ICT)*

Policymakers in the MENA region should encourage intensifying investment in ICTs via supporting research and development (R&D) to produce advanced technologies that align with the needs of business sector in the region and supply it to users with a lower cost. In this regards, government needs to allocate more budgets to R&D activities through research centers and universities.



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