

IMPACT OF COVID-19 ON SMALL AND MEDIUM-SIZED ENTERPRISES IN IRAQ

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IMPACT OF COVID-19 ON SMALL AND MEDIUM ENTERPRISES IN IRAQ

INTRODUCTION

As of 1 June 2020, the World Health Organization (WHO) has confirmed 6,439 cases of corona virus disease (COVID-19) in Iraq, 205 fatalities and 3,156 patients who have recovered from the disease. Most of the cases were recorded in federal Iraq (about 89%).¹ Measures that the Government of Iraq has taken to curb the spread of COVID-19 have included curfews, school closures and restrictions on travel, including into and within the country. The rapid spread of the virus has exacerbated an already fragile economic situation, impacted by social turmoil, political standstill and the collapse in international oil prices. Already before COVID-19, Iraq's labor participation rate was one of the lowest in the world (48.7% in 2019) and the country suffered from lack of competitiveness in various economic sectors, as well as high government spending on civil servant salaries. While protests, which engulfed different governorates of Iraq in 2019 to demand jobs among other issues, inevitably calmed down as a result of the curfew, these were quick to resume in May after some restrictions were eased.²

Going forward, the already dire situation is likely to deteriorate and become even more challenging for job and economic opportunity creation. Livelihoods have been widely disrupted across the country, driven primarily by movement restrictions. In the private sector, which employs approximately 58 per cent of the workforce in Iraq,³ production and employment have been both negatively impacted by the measures. The lockdown measures needed to contain the pandemic have dealt a severe blow to economic activities – especially to the service sectors such as transport, trade, banking and religious tourism, which constitute around half of the non-oil economy.⁴ According to some recent projections, near-term economic growth will be subdued by low oil prices, a new OPEC+ agreement that has reduced oil production quotas, and unfavourable global

and domestic conditions including disruptions from the COVID-19 pandemic. As a result, the economy is projected to contract by 9.7 per cent in 2020, down from a real gross domestic product (GDP) growth of 4.4 per cent in 2019, with both oil and non-oil sectors contracting by 13 and 4.4 per cent respectively.⁵ The large dependency on oil revenues, coupled with built-up budget rigidities, also limit Iraq's fiscal space to respond to the outbreak and offer a stimulus package to restart the economy.⁶

To shed light on the impact of COVID-19 on Small and Medium Enterprises (SMEs), which were affected by closures and reduced working hours, the International Organization for Migration (IOM) conducted a survey with enterprises active in different sectors in urban areas of Iraq. The inquiry focused on the governorates with the highest rates of displacement, returns and ex-combatants as identified by IOM. To measure the effects of COVID-19 on SMEs, the research uses a stratified sampling strategy applied to a database of urban employers in the areas where IOM's Enterprise Development Fund (EDF) has been implemented.

The analysis finds significant impact on economic outcomes at the business level. Effects on sales and production among firms have been the most pointed, with temporary reductions in paid employment also reflected. In the following sections we describe the survey's design, research strategy and the strengths and weaknesses of the approach used. The subsequent analysis provides findings, and estimates the effects of the operating environment under COVID-19 movement restrictions on a series of variables for respondents. First, the report analyses the overall findings. Next, sections provide an analysis by grouped sector: services, construction and manufacturing, food and agriculture and wholesale and retail. A discussion on the hypotheses and overall findings conclude the report.

1 OCHA, Iraq: COVID-19 Situation Report No. 14. 1 June 2020. Available from: https://reliefweb.int/sites/reliefweb.int/files/resources/20200601_COVID19_SitRep_No.14%20%281%29.pdf

2 Al Jazeera, Hundreds gather in Baghdad in new round of anti-gov't protests, 10 May 2020. Available from : <https://www.aljazeera.com/news/2020/05/hundreds-gather-baghdad-anti-gov-protests-200510095037978.html>

3 As per 2014. Iraq Ministry of Planning. Available from: https://planipolis.iiep.unesco.org/sites/planipolis/files/ressources/iraq_national_development_plan_2018-2022_arabic.pdf

4 The World Bank, Iraq Economic Monitor Navigating the Perfect Storm (Redux), Spring 2020.

5 Ibid.

6 Ibid.

CONTEXT

With a high reliance of the Government of Iraq (GoI) on public sector expenditures, notably salaries and pensions, most employment generated in the private sector since 2003 has been in the informal economy. This includes both informal businesses, businesses that have started but not completed registration processes and businesses that have registered but still do not pay required social security taxes on workers. Experts have been quick to point out how the COVID-19 pandemic and the decline in oil prices will likely compound the inability of the private sector in Iraq to generate desirable jobs. With movement restrictions affecting the ability of businesses to operate normally, and a drop in oil prices and demand forecasted to incur losses to oil revenue, the GoI is expected to maintain expenditures on public sector salaries, while reducing its investment in goods, services and infrastructure. Tapping into the government's reserves, as it may need to, may also incur a devaluation of the currency, which will further exacerbate living conditions for a population heavily reliant on imported goods.

This redirection or diversion of funds away from output-enhancing activities may have additional unintended consequences. For example, a reduction in spending on police forces may increase the enforcement costs of contracts.⁷ A shift away from infrastructure investments using public spending may place the burden of increased transaction costs on business owners, as regular supply chains and sources of credit are altered. Losses to income also may lead to a depletion of savings among the population, and private actors may make portfolio substitution decisions that have a significant effect on economic performance. Against this context, an initial drop in sales for businesses, as a result of government-mandated curfews and lockdowns, may be only a precursor for a wider economic contraction due to take place among businesses in Iraq.

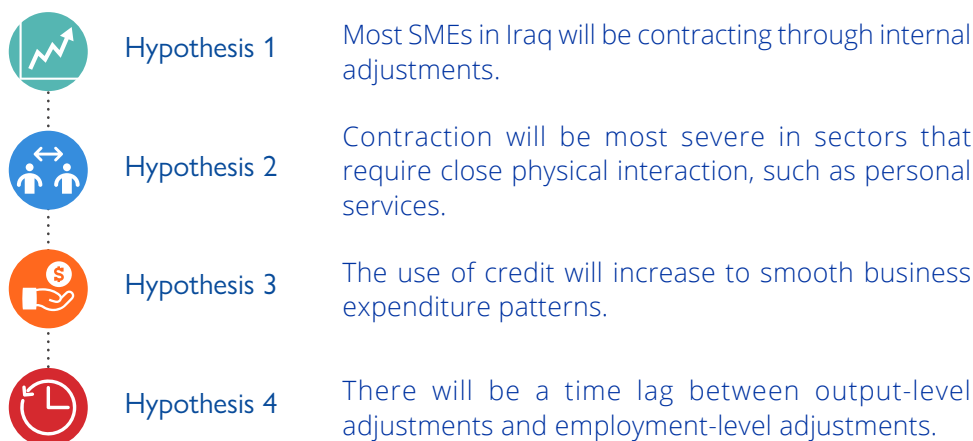
Coping strategies adopted by displaced, poor and marginalized populations have been studied previously in the context of Iraq, and again in the context of COVID-19. However, very little attention has been paid to the ability of private sector firms, including those operating informally, to adapt to changes in the market environment as a result of COVID-19. While this adaptation may seem less critical than humanitarian and public health needs at the moment, the scale of COVID-19 effects and the socioeconomic context of the country suggests the impact on economic performance will have significant overhang effects. For example, a recent study conducted by the Iraqi Federation of Industries, in partnership with the International Labour Organisation (ILO), found that 90 per cent of employers indicated that limited cash flows were preventing their business from fully recovering, while 90 per cent stated that suppliers were no longer able to meet orders. The most observed coping strategy (reported by 40% of business owners) was that of laying off employees.

Both disruption and diversion can limit factors of productivity. Periods of crisis also tend to create temporary uncertainties, creating a premium for liquid assets over fixed ones. It is expected that GDP may fall in the short term due to disruption and diversion, but also in the long term due to depletion of savings, lack of investor confidence and reductions in production, or firm-level contraction. Firm-level contraction can happen through a variety of channels. First, in internal adjustments, firms adjust employment or output at existing facilities, while continuing to use them. Second contracting firms may reduce their production lines or divisions, while expanding ones may decide to open new ones (investments/disinvestments). Third, larger firms tend to use volatile markets to establish or sell control, by buying or selling parts of their operations (mergers and acquisitions).⁸

⁷ Collier, Paul. *On the economic consequences of civil war*. *Oxford economic papers*. 1999;51(1) : 168–183.

⁸ Breinlich, Holger, Stefan Niemann, and Edna Solomon. *A Portrait of Firm Expansion and Contraction Channels*. (2010).

From this broad context, four primary hypotheses can be made:



In this report, we provide results of key questions to test these hypotheses and capture impressions related to issues in the SME sector as a result of COVID-19.

METHODOLOGY

IOM Iraq conducted an assessment among 456 SME business owners. The selection of respondents took place through a sample size calculation with a 95 per cent confidence level and confidence interval of seven, from four bins of businesses IOM surveyed previously. IOM's EDF market assessments use local databases of registered businesses from the Chamber of Commerce and Chamber of Industry offices in urban areas of Iraq with high rates of displacement. The assessments used this information to identify the breakdown of sectors within a given area by prominence, and to develop sample sizes that are representative of the registered businesses in an area.

This process of binning created a stratified sample with a representative number of respondents from IOM's previously conducted market assessments from four combined sectors: service businesses, wholesale and retail businesses, construction and manufacturing businesses and food and agriculture businesses.

A research advantage of designing the survey this way is that there was a good balance of sectors represented. On the flipside, there was a reduced ability to estimate effects with any generalizability by location, although respondents represented 11 different urban areas. A high non-response rate was observed, which may have biased results in favor of businesses expecting an advantage for participating. A low rate of female respondents (only 3.2% of the sample)—which reflects a common challenge IOM

experiences for recruiting female respondents for market and labour market assessments—also makes gender-specific analysis and generalizations less viable.

Tests of balance indicated significant variations in averages between the number of employees across business categories and weekly revenues, as well as a significant difference in the gender of business owners, with an insignificant difference in the age of business owners between the categories. Normality tests revealed right skewed distributions of weekly and annual revenue in addition to firm worth, with many high value outliers, but normal distributions of employee salaries.

Data collection took place from 21 to 26 April 2020 through phone calls, following a brief training on the concepts and terminology. Surveys followed an informed consent protocol that offered respondents a chance to opt out of the survey, and a description of the purpose of the survey. One implication of this approach is that the survey may not capture long-term effects of the COVID-19 crisis, which is expected to be ongoing in relation to employment adjustments. Another limitation is that the research was carried out during an active call for Expressions of Interest in some of the same locations for grant funding from IOM, thus there may have been a social desirability bias in responses among respondents who were aware of the possibility of funding, although no advantage was given to those who participated in the survey.

A man in a plaid shirt is seated at a wooden table, operating a sewing machine. The workshop is dimly lit, with a single light bulb hanging from the ceiling. On the wall behind him, there is a clock and some hanging fabric. The floor is cluttered with fabric scraps and a large pile of dark fabric is visible to the right.

ALL-SECTOR ANALYSIS

ALL-SECTOR ANALYSIS

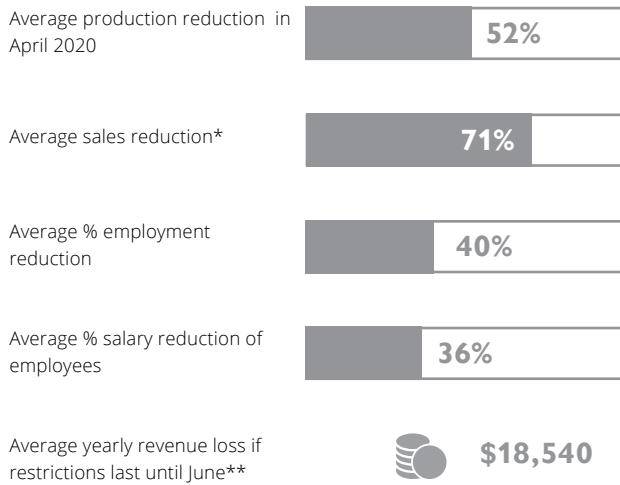


Figure 1. All-Sector Highlights

* Of those SMEs that reported sales and production have been affected

** From estimated yearly revenue if restrictions continue until June compared to typical yearly revenue

SECTOR ANALYSIS

The majority of SMEs surveyed belong to the construction and manufacturing sector (30%), closely followed by food and agriculture (28%). The remaining SMEs belong to the wholesale and retail (24%) and service (18%) sectors. Within these, SMEs fell under the subsectors of hospitality, services, metal, construction, general trade, food, carpentry, plastic, and agriculture.

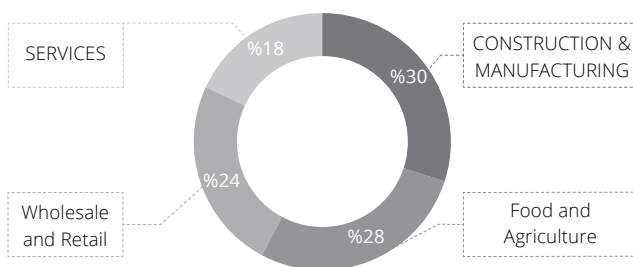


Figure 2. Breakdown of SMEs Surveyed by Sector

On average across enterprises prior to COVID-19, 69 per cent require raw materials or inputs. SMEs are divided as to whether these raw materials/inputs have been accessible, with 54 per cent claiming at least some materials have been impossible to purchase in the period 24 March to 21 April.

However, of the enterprises that did not have trouble finding materials, 42 per cent reported the number of suppliers had changed during the same reporting period. A vast majority of that group reported the number of suppliers decreased (97%). Effects on the supply chain may have also been more significant across geographic locations than across sectors. When analyzing the likelihood to report changes in the number of suppliers available to businesses over the previous four weeks, there were weak significant results between being located in Anbar, and experiencing a lower or higher number of suppliers in the previous month, as well as with being a female company owner in any governorate and experiencing a lower or higher number of suppliers in the previous month.⁹ Modelling did not find significant variance between sectors regarding the likelihood to report more or fewer suppliers in the last four weeks.

Only a small number of SMEs (18%) reported that inventory, stock or raw materials had expired. For those who claimed losses, these amounted to an average of 5,400 United States dollars (USD). Very few SMEs were able to purchase materials on credit in the period 24 March to 21 April (7%).

COVID-19 has had a significant impact overall on sales for SMEs. Nearly all (94%) reported that sales had been affected by an average of 71 per cent in the period 24 March to 21 April. In terms of production, overall businesses have witnessed a reduction of 52 per cent. Of those 43 per cent of SMEs that produce or manufacture goods, a majority (86%) expected future production to be affected by the current month, and to last for three months.

NET PROFIT LOSS

Average weekly revenue typically experienced at this time of the year before COVID-19 across all SMEs is USD 2,764. Comparatively, respondents estimated that in the period 24 March to 21 April weekly revenue has been USD 535. On average, weekly revenue declined by 79 per cent.¹⁰ An average SME in this study would be worth USD 154,520 and would typically make USD 80,207 in net revenue in a year. However, SMEs anticipate that they will lose about USD 18,540 in revenue if movement restrictions continue until June.

⁹ Results based in an Ordinary Least Squares (OLS) model that investigated variant outcomes in the likelihood to report changes in the number of suppliers available to businesses over the previous four weeks. OLS modelling is an estimation method for linear regression using multiple or single predictors.

¹⁰ This calculation is an average of the percentage change in yearly revenue of each company in all sectors.

Therefore, on average, SMEs expect a 27 per cent contraction in revenue.

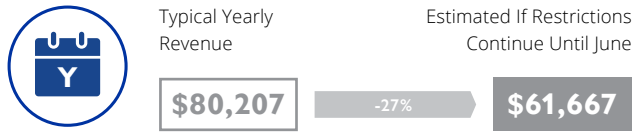


Figure 3. Yearly revenue by Sector

No significant differences in estimated losses to annual revenue by sector or location were observed, although there is a weak significant relationship between estimated revenue losses and being located in Basra. Significant predictors in explaining variance in estimated annual revenue losses include the net worth of the firm (positively correlated to estimate of annual revenue losses) and the number of employees working within the businesses (also positively correlated with estimates of annual revenue losses).

Weekly revenues have been mostly negatively (yet not significantly) affected in the previous four weeks within the hospitality and construction industries, women-owned businesses, and in Basra, Baghdad and Najaf. Contrarily, general trade and food businesses are significantly associated with better weekly revenues compared to weekly revenues during a typical week.¹¹

JOB LOSS

The typical workforce for SMEs in this study is about five employees, and across all sectors 86 per cent are, on average, full time. As a result of COVID-19, in the period 24 March to 21 April the average number of paid employees was 2.8. Across companies of all sizes, the number of paid employees was reduced, on average, by 40 per cent.



Figure 4. Average number of employees by all sector

Respondents reported having on average two employees consistently working in the last month. Overall, only 37 per cent of enterprises reported having employees consistently working during the period 24 March to 21 April, while the remaining introduced different measures, such as reduced working hours. Specifically, for those staff who remain employed, about 14 per cent of SMEs claim they have

staff with reduced hours or days – about three staff on average. In terms of SME employee numbers, this means that 60 per cent of employees have reduced working hours/days. Slightly more SMEs reported that they have employees with reduced salaries: 17 per cent. Salary reductions averaged to about 36 per cent.

	Average % employees who lost their jobs	Average % employees with reduced hours or days	Average % employees at home with full salary
Construction and manufacturing	-52	65	86
Food and agriculture	-45	50	62
Services	-39	90	67
Wholesale and retail	-21	51	82
All Sectors combined	-40	60	77

Figure 5. Average Job Loss by Sector

Comparatively, 23 per cent of businesses state that they are paying full salaries to employees who have been asked to stay at home. Changes in employee numbers indicate that about 77 per cent of employees on average across SMEs are home with full salaries. Laying off employees has been minimal at the time of surveying: an average of 9 per cent according to SMEs.

Overall, 96 per cent of SMEs reported that, if able to open in the week following the survey, they would be able to bring back all full-time staff to work. The hospitality industry, on average, expects to bring back two workers fewer compared to other sectors, and thus has been the most significantly affected in terms of expected job losses.

NEEDS

Half of the interviewed SMEs (51%) consider that they would not be able to cover their rent cost for the month during which data collection took place (April 2020), and 61 per cent said at least one cost had increased in the current month due to COVID-19 restrictions. The highest recurring expenses included: rent (83%), electricity (60%), salaries (58%), materials (30%), water (26%) and transportation (9%). The most critical type of support requested for businesses to survive at the time of data collection (April 2020) were financial support (62%) and lifting the curfew (16%). In terms of future support six months from now, SMEs also cited financial support (59%) and compensation for losses (8%) as the most important support for businesses to recover.

¹¹ Controlling for other factors including location, firm characteristics, and subsector.

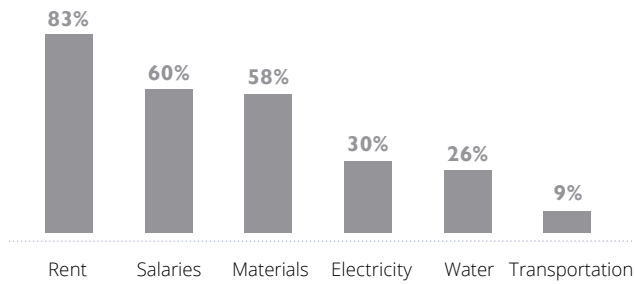


Figure 6. Highest recurring expenses by Sectors

To adapt to changing circumstances, 20 per cent of SMEs have changed their business model or production lines. Of those who made adjustments, 76 per cent reduced working or business hours and 21 per cent changed delivery mechanisms for goods or services.

At the subsector level, general trade and agricultural businesses may not have reduced production, and modelling suggests that production may have even relatively increased in these industries when controlling for other factors. Meanwhile, although not significantly, metal and carpentry businesses, followed by hospitality ones, have been the most likely to reduce production.

CAPACITY TO BORROW

SMEs are very unlikely to have borrowed formally for their businesses in the period 24 March to 21 April (96% said they had not). However, about a quarter have borrowed informally (26%) an average of USD 5,000. Both of these findings may represent a steep increase in both formal and informal borrowing, as a survey run by IOM with 256 similar SMEs in the third week of March 2020 (before movement restrictions were applied), found that only 6 per cent had borrowed from a relative or individual, and only 0.3 per cent had borrowed from a formal source. Over half of SMEs also claimed they had provided financial assistance to others in the community in the last month (56%), compared to 44 per cent who claimed they had not.

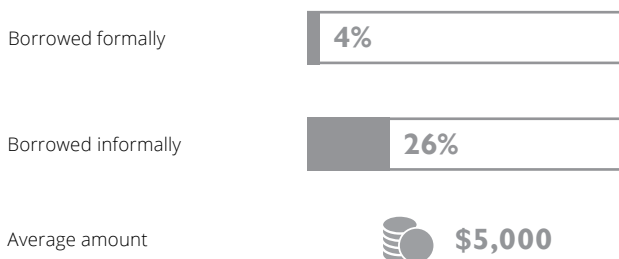


Figure 7. Borrowed money for business by Sector

IMPACT BY GOVERNORATE¹²

The impact of COVID-19 has been felt across governorates in terms of employment and production. Employment reduction and job loss were a major concern in Basra and Salah al-Din, which witnessed 98 per cent and 57 per cent reductions respectively. Production was most significantly reduced in Basra (63%) and Anbar (62%), with Baghdad close behind at 54 per cent.

Anticipated revenue loss is most severe in Basra with a 39 per cent reduction, followed by Baghdad and Salah al-Din at 30 per cent. Cost increases were noted among SMEs for all governorates, especially Kirkuk and Anbar (both 69%) and Ninewa (66%). To compensate for these losses, many businesses across Iraq have chosen to borrow informally. SMEs were most likely to borrow informally, all around 30 per cent, in Diyala, Najaf, Anbar and Salah al-Din governorates. Effects on the supply chain may have also been more significant across geographic locations than across sectors. SMEs located in Anbar are more likely to report changes in the number of suppliers available to businesses over the previous four weeks.¹³


IMPACT BY AGE OF BUSINESS

Revenue reductions are most significant for SMEs established less than six months ago (29%), closely followed by SMEs of more than six years (26%). Given that the newest SMEs are facing multiple challenges, it is logical that they are the most likely to borrow money informally (32%). Businesses of more than six years are the next likely (27%), followed by those established 5–6 years ago (26%).

The oldest SMEs were more likely to note cost increases (74% for SMEs of 5–6 years and 62% for SMEs of more than six years). Moderately old SMEs of 5–6 years and 3–4 years witnessed the largest contractions in employment and job loss (59% and 46%, respectively).

¹² Given the low number of SMEs located in Missan, this governorate was excluded from the thematic analysis by governorate.

¹³ Results from an OLS model that investigated variant outcomes in the likelihood to report changes in the number of suppliers available to businesses over the previous four weeks found weak significant results between being located in Anbar and experiencing a lower or higher number of suppliers in the previous month.



**CONSTRUCTION AND
MANUFACTURING
SECTOR**

CONSTRUCTION AND MANUFACTURING SECTOR

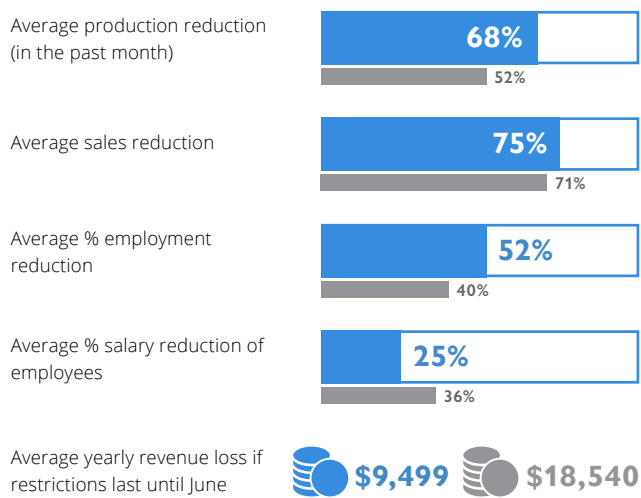


Figure 8. Sector Highlights compared with all sector

SECTOR ANALYSIS

Among all subsectors of construction and manufacturing work, 48 per cent of SMEs considered themselves to be in the metal subsector, followed by carpentry (25%), construction (20%) and the manufacturing subsector (8%). The majority of these SMEs (76%) require raw materials or inputs to function, and 52 per cent have been unable to purchase some raw materials in the period 24 March to 21 April due to COVID-19 related challenges. The carpentry and metal subsectors are in particular need of raw materials or inputs (82% and 77%, respectively). The carpentry and construction subsectors were more likely to report an inability to purchase materials 61 and 72 per cent respectively.

A minority of about 31 per cent of construction and manufacturing businesses have also seen the number of suppliers of their raw materials change in the last month, particularly in the construction and metal subsectors, while carpentry and plastic SMEs were more divided in their answers. Of those who noted a change, 98 per cent said change was a decrease. So far, the expiration of inventory, stock or raw material has not been a challenge for these SMEs. By and large, these SMEs did not purchase materials on credit.

However, a significant proportion of these SMEs reported that their sales have been affected: 94 per cent claim they have been affected, on average, by about 75 per cent.

The subsectors struggling the most are the metal and carpentry subsectors, with averages of 80 and 79 per cent reduction in salaries among their employees respectively.

The production challenge is significant, given that 68 per cent of construction and manufacturing SMEs produce or manufacture goods. As a result of COVID-19, 85 per cent of these SMEs reported their current production levels have been affected and estimated that there has been a production reduction of 68 per cent in the period 24 March to 21 April. The carpentry and metal subsectors experienced the largest reduction in production, at 74 and 71 per cent respectively. Most respondents expect that their future production will be affected in April 2020 (87%) and anticipate that production will continue to be affected for four months. Of those reporting that production has been affected, the carpentry subsector was most likely to express future production concerns for April 2020 (96%).

NET PROFIT LOSS

Profit losses for SMEs in the construction and manufacturing sector in Iraq are considerable. While the weekly revenue before the curfew for these SMEs was typically USD 1,065 during the month of April, average weekly revenue for the period 24 March to 21 April 2020 was only USD 36 on average, a 97 per cent decrease. The carpentry subsector suffered a slightly larger loss than the construction or metal subsectors (99%).

Subsector	Weekly revenue (before curfew)	Weekly revenue (during curfew)	Firm worth (average)	Year net sales (average)	Anticipated losses if restrictions continue to apply until June
Carpentry	1,690	11	30,400	33,971	8,871
Construction	967	90	59,148	58,185	15,474
Metal	787	21	30,636	33,011	6,442
plastic	1,041	73	48,364	30,682	15,110
Subsector average	1,065	36	37,570	37,987	9,499

Figure 9. Revenue and Losses by Subsector, in USD

Construction and manufacturing SMEs are worth an average of USD 37,570 and typically make USD 37,987 in annual revenue. Construction subsector SMEs are typically worth the most, at USD 59,148, followed by the manufacturing subsector at USD 48,363. However, SME respondents expect to lose an average of USD 9,499 if the current movement restrictions continue until June. The average estimated reduction in yearly revenue among construction and manufacturing SMEs is 29 per cent. Anticipated losses are significantly higher for the manufacturing subsector SMEs, which predict a 49 per cent loss in revenue.

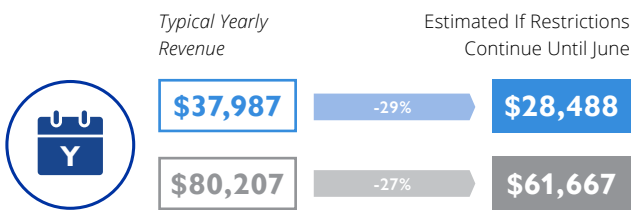


Figure 10. Yearly revenue compared with all sector

JOB LOSS

SMEs in the construction and manufacturing sector typically have an average of five employees, and 95 per cent of their workforce is full time. In the period 24 March to 21 April, the average number of employees for these SMEs was 2.4. On average, the reduction in employment among all construction and manufacturing SMEs was 52 per cent. Employment reductions were most significant in the metal subsector, which saw a 60 per cent contraction.

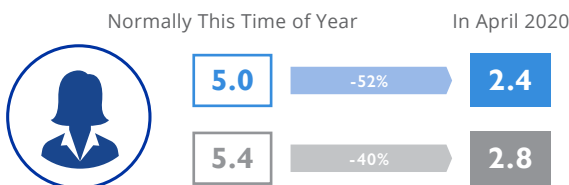


Figure 11. Average number of employees compared with all sector

Sixty-nine per cent reported not having any employees consistently working in the four weeks before data collection took place (24 March to 21 April), which in turn means that only about one third of the employees have been consistently working during the last month. The metal subsector recorded the lowest percentage of active workforce at only 16 per cent, followed by carpentry at 20 per cent.

Subsector	Average number of employees normally this time of year (full and part time)	Average number of employees consistently working now	Average % of employees consistently working	Change in % of employees consistently working
Carpentry	4.6	0.9	20%	-80%
Construction	7.2	2.6	36%	-64%
Metal	3.8	0.6	16%	-84%
plastic	8.6	2.4	28%	-72%
Subsector average	5.0	1.2*	24%	-76%

Figure 12. Job Loss by Subsector

* The combined average number of employees both active and at home with full salary is 2.4.

These businesses are more likely to report employees with reduced hours or days than other sectors: 20 per cent of businesses mentioned that they had about three employees with reduced working time. The manufacturing and metal subsectors were more likely to report this challenge (71% and 66%, respectively). Overall, in this sector, 65 per cent of employees have reduced working hours or days.

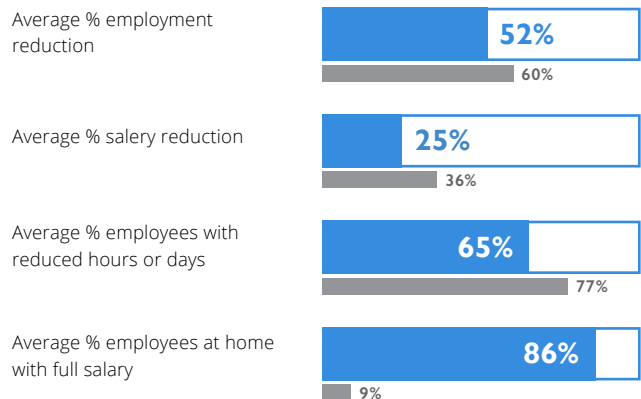


Figure 13. Average Job Loss by Sector compared with all sector

About 22 per cent of SMEs reported to have employees with reduced salaries, reductions of about 25 per cent. The metal subsector SMEs were most likely to report employees with reduced salaries (45%) while the remaining subsectors hovered around 20 per cent on average. The highest salary cuts were cited for the construction and manufacturing subsectors at about 33 per cent.

Thirty-one per cent of the businesses surveyed in the construction and manufacturing sector stated that they were paying full salaries of, on average, five employees who were at home.

The construction and metal subsectors were significantly more likely to report this happening than the other subsectors, where by the construction subsector reported the highest average number of workers at home (7). Only a small number of enterprises (less than 5%) in the metal subsector reported firing employees, while all others did not report taking such measures.

About half of the enterprises surveyed reported not taking any of the measures listed earlier (reducing salaries or, working days, paying full time salaries for employees staying at home or firing employees). The latter contradicts the finding that only about one third reported having employees consistently working in the period 24 March to 21 April, as in this case, about half could be considered as consistently working. If they were allowed to reopen, all SMEs would be able to bring back all their full-time employees in a week's time.

NEEDS

Construction and manufacturing SMEs were less likely, on average, to be able to pay rent for April 2020: 62 per cent said they were unable to do so, compared with 33 per cent that said they would. The problem is especially acute in the manufacturing (82%) and carpentry (65%) subsectors. The most critical types of support requested for businesses to survive at the time of data collection were financial support (88%) and lifting the curfew (8%). In terms of future support six months from now, SMEs also cited financial support (84%) and compensation for losses (6%), which were considered important for businesses recovery.

Construction and manufacturing SMEs are facing several continuing costs, including rent (86%), salaries (83%), materials (38%), electricity (22%) and water (10%). The manufacturing, metal and carpentry subsectors were more likely than all other subsectors to report salaries and rent as continuing costs. Salaries were particularly challenging for the manufacturing subsector (91%) and rent for the carpentry subsector (94%).

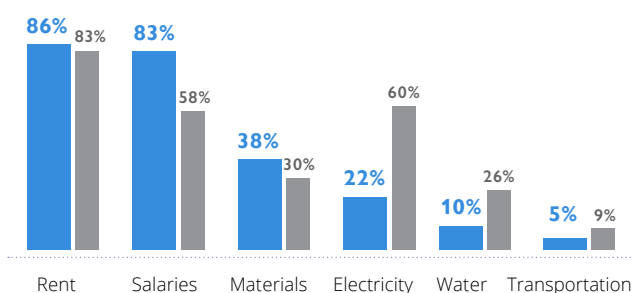


Figure 14. Highest Continuing Costs by Sector compared with all sector

About two thirds of construction and manufacturing SMEs reported that their costs had increased due to COVID-19 restrictions (67%). Cost increases were disproportionately reported by the manufacturing (82%) and construction (74%) subsectors.

A smaller percentage (22%) of construction and manufacturing SMEs changed their business model or production lines as a result of COVID-19. Metal subsector SMEs were the most likely to do so (24%) followed by construction (22%). These changes were achieved mostly by reducing opening or working hours (73%) as well as changing delivery mechanisms (33%).

Of those respondents who claimed to have modified their business model, the manufacturing and construction subsectors were most likely to report that they had changed their working hours (100% and 83% respectively). The carpentry, construction and manufacturing subsectors were equally likely to report that they had changed delivery mechanism (50%).

CAPACITY TO BORROW

No construction and manufacturing SMEs had borrowed any money formally, but 22 per cent reported that they had borrowed money informally in the past month, USD 2,762 on average. These reported different reasons, including payment of debts, rent, purchasing of raw materials, 'daily needs', and paying workers' salaries. The metal subsector was slightly more likely to have borrowed money informally than the other sectors (30%). Overall, among those who borrowed informally, family members represented the main source.

These SMEs also provide financial assistance to the community in the last month, reported by 38 per cent of respondents, especially from the carpentry (41%), construction (38%), and metal (38%) SMEs.

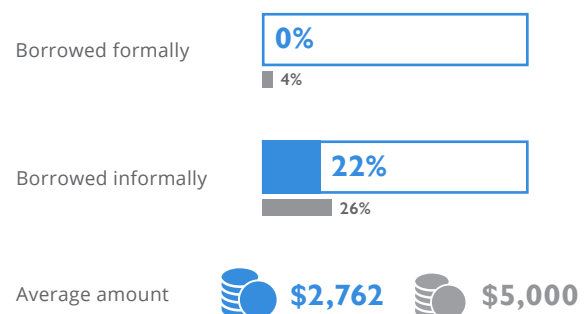


Figure 15. Borrowed money for business by Sector compared with all sector

A photograph of a man with a grey beard and mustache, wearing a blue button-down shirt, looking intently at a green vegetable plant in a field. He is holding a stem of the plant with both hands. The image is overlaid with a semi-transparent green filter. The text "FOOD AND AGRICULTURE SECTOR" is centered in white, bold, uppercase letters.

FOOD AND AGRICULTURE SECTOR

FOOD AND AGRICULTURE SECTOR

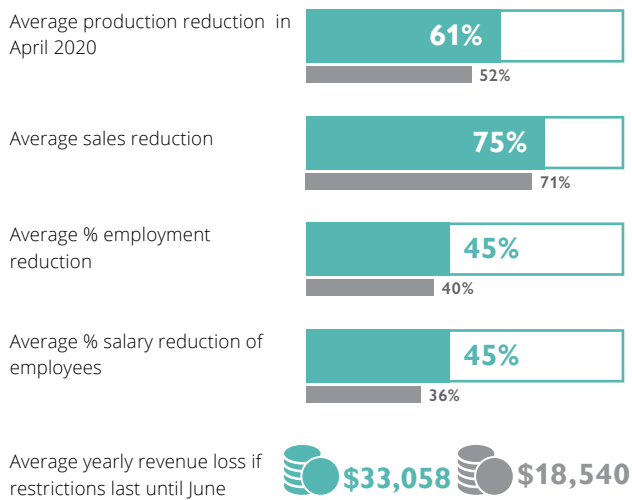


Figure 16. Sector Highlights compared with all sector

SECTOR ANALYSIS

The food and agriculture sector accounts for 28 per cent of all surveyed SMEs. The food subsector comprises the majority of these SMEs (63%), followed by hospitality (21%) and agriculture (16%). A majority of these businesses require raw materials or inputs (83%): 94 per cent of food subsector SMEs mentioned, followed by 65 per cent for both agriculture and hospitality subsector SMEs. About half of food and agriculture SMEs claim that this material has been impossible to purchase in the last month (55%), including about half of food SMEs.

About 44 per cent of food and agriculture SMEs stated that the number of suppliers has changed in the same timeframe, with 98 per cent saying the change was a decrease. Compared to agriculture, the food subsector was disproportionately affected: 55 per cent claimed the number of suppliers has decreased.

The expiration of inventory, stock or raw material is a concern for food and agriculture SMEs – 41 per cent claim they face this challenge, amounting to an average total value loss of USD 5,300. The hospitality subsector was particularly affected, with 69 per cent citing expiration losses, mostly related to basic food items. The food subsector estimated the largest monetary loss of USD 24,9870, mostly because of expired dairy products and sweets.

The vast majority of food and agriculture SMEs state

that sales have been affected (98%) by an average of 75 per cent due to the curfew in the last month. Subsectors have been affected across all categories, with hospitality and food slightly higher (100% and 98% respectively). The hospitality subsector SMEs predicted the highest percentage in terms of how much sales have been affected in the period 24 March to 21 April (87%).

COVID-19 has affected production to a lesser extent. The proportion of those food and agriculture SMEs that produce or manufacture goods is 62 per cent, 61 per cent of which said production has been affected. About 85 per cent of SMEs in the food subsector reported that their production had been affected, followed by 73 per cent of hospitality SMEs and 65 per cent of agriculture SMEs.

All food and agriculture respondents who expect an impact estimated that the average effect on production was 61 per cent in the last month. The food and hospitality subsectors estimated that production had contracted by about 65 and 64 per cent. A higher percentage expected future production to be affected in April (93%) and to last for about three months. Notably, all hospitality SMEs expected production to be affected in April.

NET PROFIT LOSS

Typical weekly revenue for these SMEs was USD 3,910, as compared to USD 903 in the period 24 March to 21 April. The average decrease in revenue among food and agriculture SMEs is 77 per cent. The hospitality subsector was most affected (86% decrease), followed by food (77%) and agriculture (64%).

Subsector	Weekly revenue (before curfew)	Weekly revenue (during curfew)	Firm worth (average)	Year net sales (average)	Anticipated losses if restrictions continue to apply until June
Agriculture	1,724	615	53,3464	49,530	21,464
Food	5,053	1,172	94,957	142,557	33,973
Hospitality	2,072	295	643,480	104,128	39,162
Subsector Average	3,910	903	274,823	119,861	33,058

Figure 17. Revenue and Losses by Subsector, in USD

Before COVID-19, firms were worth about USD 274,823 and typical annual revenue amounted to USD 119,861. Respondents anticipate that the curfew will cause an estimated USD 33,058 in annual losses. The average reduction in revenue is 28 per cent. The agriculture subsector anticipated the highest loss – 43 per cent, as compared to hospitality (38%) and food (24%).

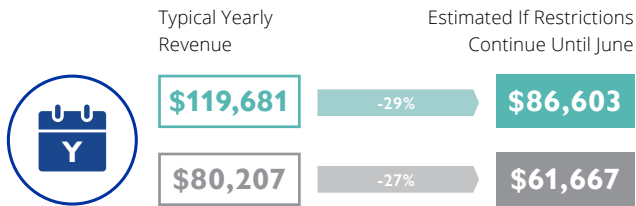


Figure 18. Yearly revenue by Sector compared with all sector

JOB LOSS

Before COVID-19, food and agriculture SMEs employ an average of 8.5 staff and 80 per cent of employees work full time. As a result of COVID-19, the average number of staff has dropped to four. The average reduction in employment is therefore 47 per cent. The hospitality subsector saw the greatest reduction in employment (79%).

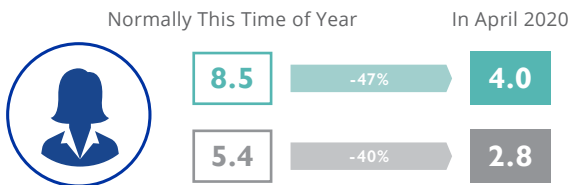


Figure 19. Average number of employees by Sector compared with all sector

Thirty-six per cent reported having employees consistently working in the four weeks before data collection took place (24 March to 21 April), which means that almost two thirds, through different measures, have not been consistently working during the period 24 March to 21 April.

Subsector	Average number of employees normally this time of year (full and part time)	Average number of employees consistently working now	Average % of employees consistently working	Change in % of employees consistently working
Agriculture	5.2	1.5	29%	-71%
Food	9.3	3.9	42%	-58%
Hospitality	8.5	1.8	21%	-79%
Subsector Average	8.5	3.1*	36%	-64%

Figure 20. Job Loss by Sector

* The combined average number of employees both active and at home with full salary is 4.0

Seventeen per cent of food and agriculture SMEs reported they had employees with reduced working hours or days, an average of four employees per business. Businesses were the most likely to report employees with reduced hours (53%).

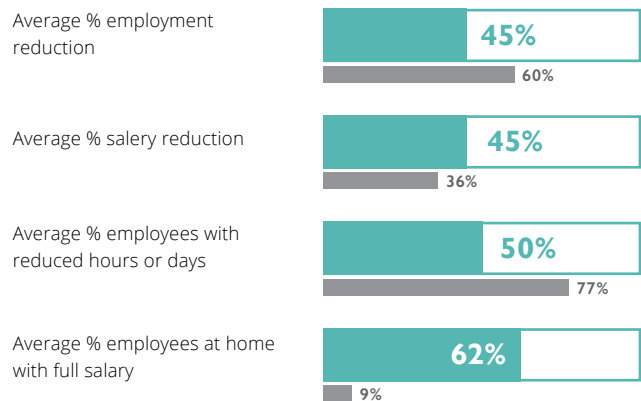


Figure 21. Average job loss by Sector compared with all sector

Similarly, 20 per cent mentioned employees with reduced salaries (a reduction of about 45%). The agriculture subsector had the largest reductions in salaries, of 50 per cent in salary reductions, though food and hospitality are also negatively affected. Food and hospitality recorded only slightly fewer reductions, 44 and 45 per cent, respectively.

About 21 per cent of food and agriculture SMEs continue to pay full salaries for employees at home – this means an average of 62 per cent of employees. The food subsector was more likely to report this issue (25%) with agriculture almost unlikely to report it (5%).

The same subsector was also slightly more likely to have fired employees over the period 24 March to 21 April (16%), especially the food subsector, with 25 per cent reporting firing an employee. Those reporting firing all reported issues closely related to the curfew and the ensuing financial losses (only 1 mentioned an employee changing jobs).

Almost half of the enterprises surveyed reported not taking any of the measures listed earlier (reducing salaries or working days, paying full time salaries for employees staying at home, or firing employees). This result is not aligned with the finding on having employees consistently working in the period 24 March to 21 April, which was mentioned by one third of surveyed enterprises.

Eighty-eight per cent reported that they would be able to bring back all full-time staff to work if they reopened in a week's time. For those who reported they could not, they expected to lose an average of three employees. These employees would be let go due to a reduction in demand (65%) and insufficient revenue to cover salaries (50%), among other reasons.

However, 67 per cent of food and agricultural businesses reported the ability to bring back all full-time employees within six months of reopening. This is lower than the all-sector average.

NEEDS

SMEs in the food and agriculture sector are split in terms of their rent needs for April 2020. Fifty-one per cent of these SMEs could pay rent for the month, compared to 49 per cent that could not. The hospitality subsector was most likely one of the sectors to report problems paying rent (58%), followed by the food (41%), and agriculture (25%) subsectors. The most critical types of support requested for businesses to survive at the time of data collection (April 2020) were financial support (63%) and lifting the curfew (20%), similar to the findings from the construction and manufacturing sectors. In terms of future support six months from the time of data collection (April 2020), SMEs also cited the need for financial support (60%).

Seventy-nine per cent mentioned rent as a continuing cost even with movement restrictions.

The other top continuing costs include electricity (72%) and salaries (52%), followed by water (40%), materials (37%) and transportation (11%).

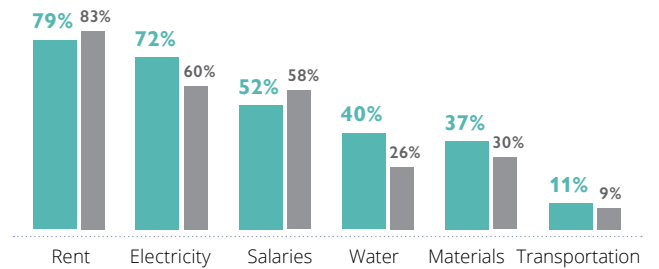


Figure 22. Highest Continuing Costs by Sector compared with all sector

In the food and agriculture sector, SMEs in the hospitality subsector were the most likely to mention rent and electricity as continuing costs (92% and 77%). SMEs in the food subsector were the most likely to mention paying salaries (59%), electricity (76%) and water (41%) as continuing costs.

Costs have increased for over half (54%) of the businesses sampled. Among sectors, 65 per cent of the agriculture subsector reported that costs have increased in April 2020. Food and agriculture SMEs were unlikely to change their business model or production lines as a result of COVID-19: 20 per cent said this change was necessary. These changes included reducing operation hours (80%), as well as altering delivery mechanisms (8%).

CAPACITY TO BORROW

Food and agriculture SMEs were more likely (12%), to borrow formally than other sectors in the period 24 March to 21 April an average of USD 8,463. They also reported having borrowed through informal channels (29%), mostly family members and relatives, an average of USD 4,426. This sector also disproportionately provided financial assistance to others in the community in the previous month (67%), especially SMEs in the food subsector (75%).

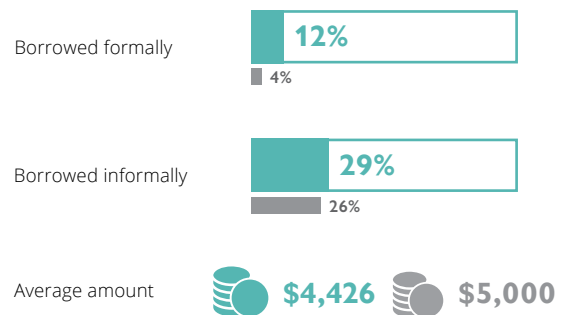


Figure 23. Borrowed money for business by sector compared with all sector

A man in a dark jacket is shown in profile, interacting with a complex control panel. The panel features several circular gauges, a digital display showing '015 10', and various valves and knobs. The entire scene is overlaid with a semi-transparent orange filter. The text 'SERVICE SECTOR' is centered in white, bold, uppercase letters.

SERVICE SECTOR

SERVICE SECTOR

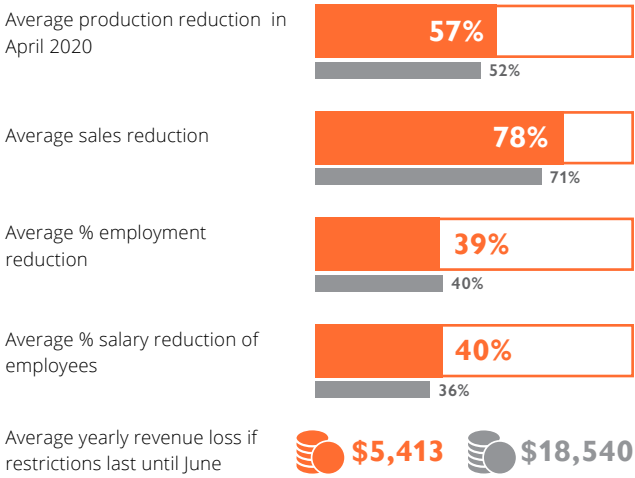


Figure 24. Sector Highlights compared with all sector

SECTOR ANALYSIS

Service sector SMEs were 18 per cent of all SMEs interviewed in the survey. These SMEs are 72 per cent likely to require raw materials or inputs. Of those in need of materials, 47 per cent of SMEs have had difficulty purchasing them in the last month.

About a quarter (26%) of SMEs in the service sector have reported that the number of suppliers of raw materials has changed in the last month, with nearly all of those who noted a change noting a decrease (95%). However, this sector has not experienced much difficulty with the expiration of inventory, stock or raw material – 16 per cent noted an average loss of USD 2,000 during the period 24 March to 21 April.

The service sector has been more likely than others to experience a change in sales due to COVID-19: about 90 per cent of respondents estimate that sales have been affected by 78 per cent due to the curfew in the period 24 March to 21 April. However, they were less likely to experience changes in production: 64 per cent noted a reduction amounting of an average of 57 per cent.

Production effects are somewhat mitigated in the service sector because only 19 per cent reportedly produce or manufacture any goods. Of these, 67 per cent expect production to be affected in April 2020 and to last an average of 2.5 months.

NET PROFIT LOSS

The average weekly revenue for SMEs in the service sector before the curfew due to COVID-19 was USD 724. By contrast, in the period 24 March to 21 April the average weekly revenue for these SMEs was USD 36. On average, revenue of companies in the service sector decreased by 91 per cent.

Subsector	Weekly revenue (before curfew)	Weekly revenue (during curfew)	Firm worth (average)	Year net sales (average)	Anticipated losses if restrictions continue to apply until June
Service	724	36	29,215	23,619	5,413

Figure 25. Revenue and Losses by Sector, in USD

Respondents estimated that for service-related SMEs, firms are worth an average of USD 29,215. Typical annual revenue for these businesses is USD 23,619. If movement restrictions were to be extended until June, these SMEs claimed that annual revenue would decrease by an average of USD 5,413 (24%).

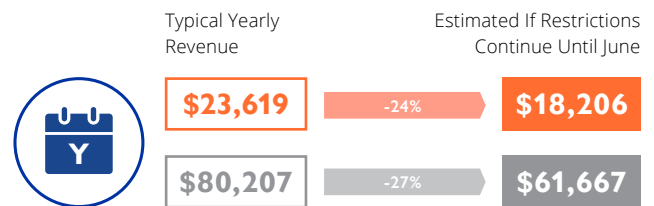


Figure 26. Yearly revenue by Sector compared with all sector

JOB LOSS

The COVID-19 outbreak in Iraq has impacted employment across sectors. For services SMEs, their typical average of 3.2 workers declined to 1.6 over the period 24 March to 21 April. On average, in the services sector the decline in the workforce was 39 per cent.

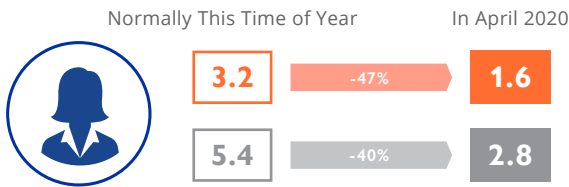


Figure 27. Average number of employees by Sector compared with all sector

On average, 38 per cent reported having employees consistently working in the four weeks before data collection took place (24 March to 21 April), which means that almost two thirds, through different measures, have not been consistently working during the same reporting period.

Subsector	Average number of employees normally this time of year (full and part time)	Average number of employees consistently working now	Average % of employees consistently working	Change in % of employees consistently working
Service	3.2	1.2*	38%	-62%

Figure 28. Job Loss by Sector

* The combined average number of employees both active and at home with full salary is 1.6.

About 10 per cent of these SMEs stated that their employees have reduced hours or days of work – an average of two employees per SME. However, on average, the proportion of companies' employees working reduced hours or days is 90 per cent. These reduced hours are especially significant

considering that 94 per cent of service staff work typically full time, according to respondents. A slightly larger percentage reported that employees had reduced salaries (16%), on average by about 40 per cent.

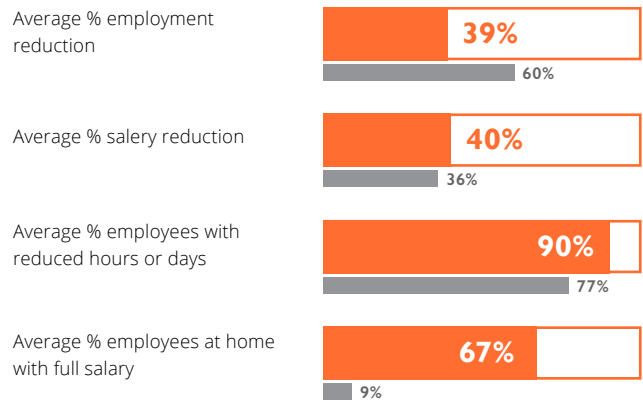


Figure 29. Average job loss by Sector compared with all sector

Some service SMEs continue to employ staff who have been asked to stay at home but continue to receive a full salary: 12 per cent of service SMEs were in this situation, as regards three SME employees on average. Firing, however, have been a minimal issue (2.5%).

More than 70 per cent of the enterprises surveyed reported not taking any of the measures listed earlier (reducing salaries or working days, paying full time salaries for employees staying at home, or firing employees), which roughly aligns with the finding on having employees consistently working in the period 24 March to 21 April, was mentioned by almost 40 per cent of surveyed enterprises.

Nearly all SMEs could bring their full-time staff back to work if they were able to reopen in a week's time (96%). For the small percentage of SMEs that would not be able to recover all staff, the main reasons are limited demand (65%) and revenue not covering salaries (50%).

NEEDS

The surveyed enterprises in the service sector are split as to their rent needs for April 2020. Forty-four per cent of these SMEs could not pay the rent, compared to 49 per cent that could. However, 80 per cent mentioned rent as a continuing cost, even with movement restrictions. The other top continuing costs include electricity (77%), water (36%), and salaries (21%).

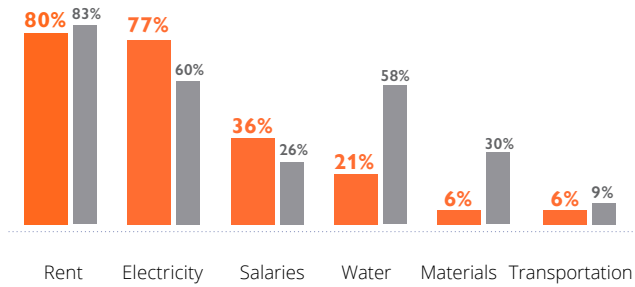


Figure 30. Highest Continuing Costs by Sector compared with all sector

The most critical types of support requested for businesses to survive at the time of data collection (April 2020) were financial support (50%) and raw materials (13%). In terms of future support six months from now, SMEs also cited financial support (42%) and lifting the curfew (16%) to help businesses recover.

In terms of changes in needs, 31 per cent of service SMEs reported that at least one cost has increased in April 2020 due to COVID-19 restrictions. One fourth also reported that they changed their business model or production lines, by reducing their opening or working hours (75%) or using different delivery mechanisms (10%).

CAPACITY TO BORROW

No service SMEs reported having borrowed money formally for their business in the period 24 March to 21 April, compared to 21 per cent that claimed to have borrowed money informally (an average of USD 5,700). Fifty-three per cent of service SMEs provided financial assistance to others in the community in the last month.

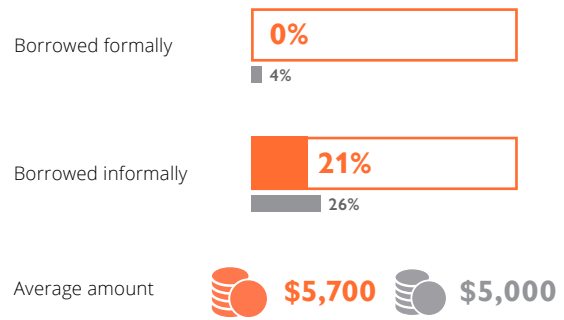


Figure 31. Borrowed money for business by sector compared with all sector



WHOLESALE AND RETAIL SECTOR

WHOLESALE AND RETAIL SECTOR

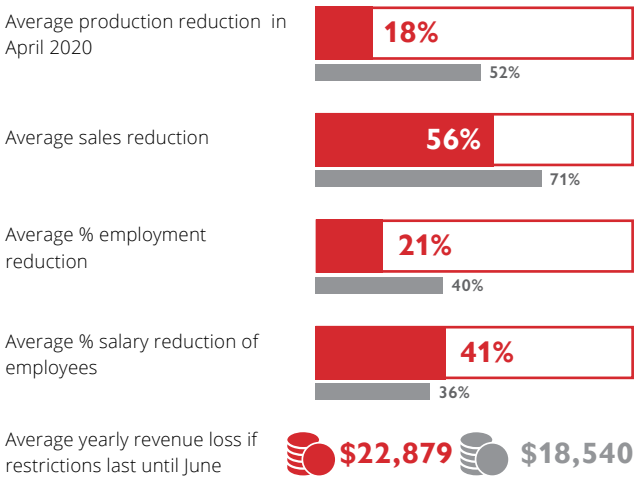


Figure 32. Sector Highlights compared with all sector

SECTOR ANALYSIS

Wholesale and retail SMEs make up 24 per cent of all SMEs in this study. Forty-one per cent of these SMEs require raw materials or inputs, of which 67 per cent say that it has been impossible to purchase inputs in the last month.

A relatively small proportion of wholesale and retail businesses reported that the number of suppliers of raw materials changed in the last month (11%); of these, nearly all claimed they suppliers had decreased (92%). Inventory, stock, and raw material are less likely to expire in this sector (only 15%), but average losses are relatively higher at an estimated USD 8,400.

Sales for these SMEs were a major concern. Almost all businesses (93%) reported that sales have been affected by an estimated average of 56 per cent. Production was less impacted (27% claimed this was the case) by an average of 18 per cent. A low

proportion of these trade or retail SMEs claimed to manufacture or produce goods (6%), but of these, 71 per cent expected future production to be affected by April 2020 and for the impact to last for four months.

NET PROFIT LOSS

Average weekly revenue prior to the crisis was about USD 5,066 for SMEs in the wholesale and retail sector. During the period 24 March to 21 April, however, weekly revenue decreased to USD 1,102 – a loss of 78 per cent. Average value of firms in this sector were estimated to be USD 255,879, with normal annual sales revenue at about USD 128,977. However, SMEs estimate that they will lose about USD 22,879 by June, if the current movement restrictions continue to apply. On average, businesses will lose 25 per cent of revenue.

Sector	Weekly revenue (before curfew)	Weekly revenue (during curfew)	Firm worth (average)	Year net sales (average)	Anticipated losses if restrictions continue to apply until June
Wholesale and Retail	5,066	1,102	255,879	128,977	22,879

Figure 33. Revenue and Losses by sector, in USD

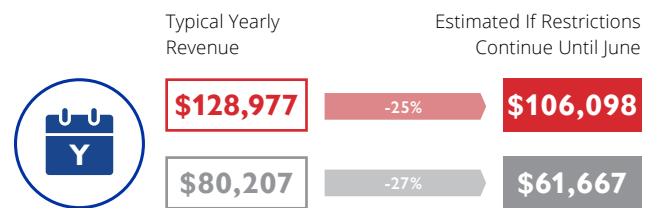


Figure 34. Yearly revenue by Sector compared with all sector

JOB LOSS

Job losses for wholesale and retail SMEs were less severe than for other sectors surveyed. Previously, these SMEs employed an average of four people, and overall 77 per cent of workers were full-time. As a result of COVID-19, average employees were 2.8 over the period 24 March to 21 April. On average, employees decreased by 21 per cent.

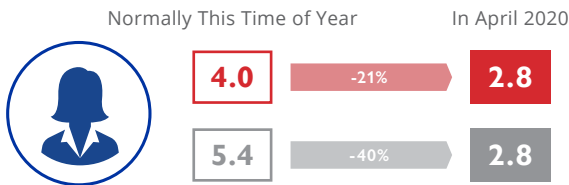


Figure 35. Average number of employees by sector compared with all sector

Other types of reduction, similar to findings in other sectors, were dramatic. The average number of employees consistently working during the period 24 March to 21 April was 2.2; therefore, 55 per cent of the workforce were not consistently working during the same reporting period. A quarter reported not having any employee consistently working during the period 24 March to 21 April.

Sector	Average number of employees normally this time of year (full and part time)	Average number of employees consistently working now	Average % of employees consistently working	Change in % of employees consistently working
Wholesale and Retail	4	2.2*	55%	-45%

Figure 36. Job Loss by Sector

* The combined average number of employees both active and at home with full salary is 2.8.

Only nine per cent of SMEs reported employees with reduced hours or days. Those companies reported that on average, 51 per cent of employees are working reduced hours or days. Similarly, 10 per cent of SMEs reported employees with lower salaries, reduced on average by 41 per cent.

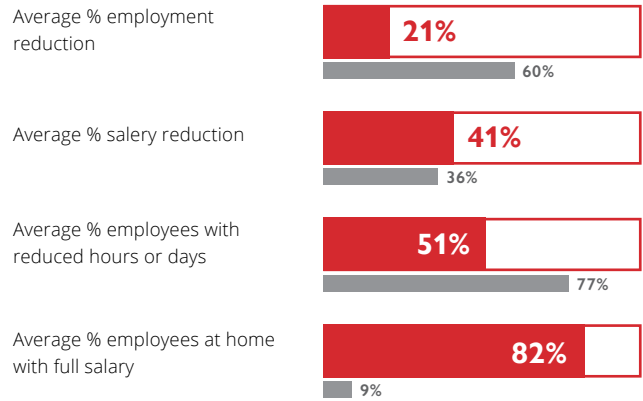


Figure 37. Average job loss by Sector compared with all sector

Wholesale and retail SMEs, however, were more likely to report that they were paying the full salaries of several employees who were asked to stay at home: 24 per cent of SMEs reported this was the case, on average 82 per cent of the workforce in wholesale and retail businesses. These SMEs also indicated that employee loss was a problem: 15 per cent reported that they had had to fire an employee in the period 24 March to 21 April.

Slightly over half of the enterprises surveyed reported not taking any of the measures listed earlier (reducing salaries or working days, paying full time salaries for employees staying at home or firing employees). The latter roughly aligns with the finding on having employees consistently working in the period 24 March to 21 April, which was mentioned by slightly less than half of surveyed enterprises. Ninety-eight per cent claimed they could bring back all full-time staff to work if they could open in a week.

NEEDS

Over half of SMEs in the wholesale and retail sector reported they would be able to pay rent of business premises in April (63%). Rent also featured frequently as a continuing cost for these SMEs (88%), followed by electricity (83%), salaries (60%), materials (29%), water (24%), and to a lesser degree transportation (12%).

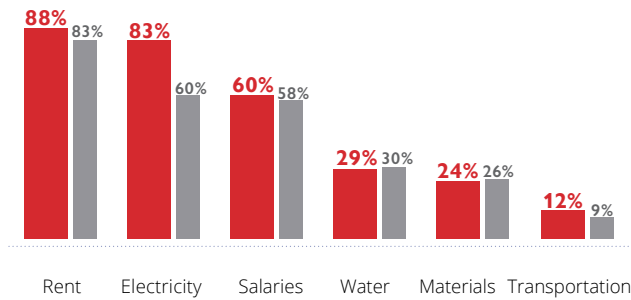


Figure 38. Highest Continuing Costs by Sector compared with all sector

The most critical types of support requested for businesses to survive at the time of data collection (April 2020) were financial support (59%) and lifting the curfew (23%). In terms of future support six months from now, SMEs also cited financial support (47%) and lifting the curfew (13%) to help businesses recover. A vast majority of wholesale and retail SMEs report that there have been cost increases due to

COVID-19 restrictions (81%). As a result of COVID-19 as well, 14 per cent of these SMEs changed their business model or production lines. Among such changes, they mostly reduced their operation hours (75%), as well as changing delivery mechanisms (31%).

CAPACITY TO BORROW

Only five per cent have borrowed formally among wholesale and retail SMEs, about USD 20,000. A larger percentage have borrowed informally (31%) an average of USD 7,000. As well, 69 per cent of these SMEs have provided financial assistance to others in the community in the last month.

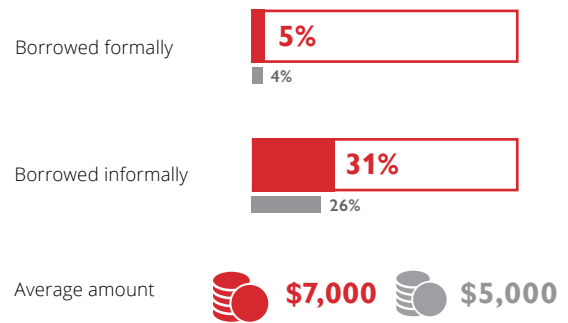


Figure 39. Borrowed money for business by sector compared with all sector

CONCLUSION

The economic impact of COVID-19 on SMEs in urban areas significantly shaped employment, production and revenue, and led to new costs and needs. The construction and manufacturing sectors were the most negatively impacted, while the wholesale and retail sector was impacted the least, according to these overall indicators.

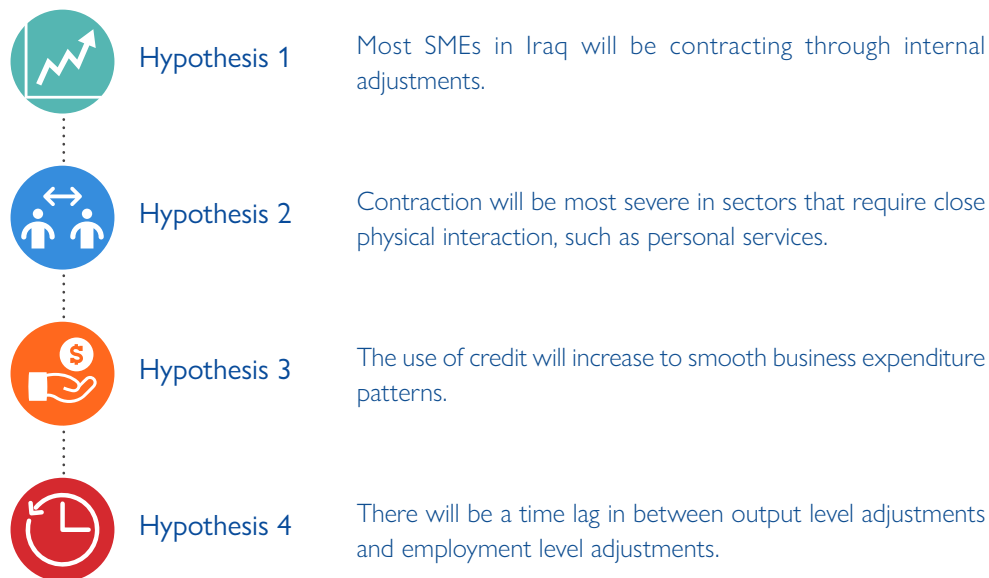
While employment overall decreased by 40 per cent, the construction and manufacturing sector was disproportionately affected by COVID-19 in terms of employment, with paid workforce reducing, in the course of the previous month, by 52 per cent. The wholesale and retail sectors were relatively sheltered from this impact, with a 21 per cent reduction in paid employment.

The impact on hospitality-related businesses as a subsector might be the most severe in terms of long-term job loss.

The construction and manufacturing sector also suffered the largest reduction in production, down by 68 per cent. The food and agriculture sector was the second-most affected in terms of production (61%), especially within hospitality-related businesses, followed by the service sector (57%) falling just above the all-sector average of 52 per cent. In line with impact on employment, wholesale and retail SMEs suffered the least, with only 18 per cent reduction of production.

Estimates of the reduction in annual revenue caused by COVID-19 averaged 27 per cent overall. The construction and manufacturing, and food and agriculture sectors were affected the most, both anticipating reductions of 29 per cent in revenue, while service and wholesale and retail businesses estimate to lose about one fourth of their revenue. In the face of continuing costs such as rent, electricity and salaries, about 60 per cent of SMEs need financial support to survive in the immediate future and to recover within six months after reopening.

These findings contribute to confirming two of the four hypotheses presented at the beginning of the research. For the remaining two, further research should be conducted.



This analysis confirms the hypothesis that most SMEs contracted through internal adjustments. In reaction to production and employment losses, continuing costs, and the difficulty of accessing inputs and raw materials, on average one fifth of SMEs modified their business methods, either by reducing operating hours (76%) or adjusting delivery mechanisms of goods and services (21%). Businesses reduced paid employment on average by 40% to cut costs.

The data did not support the hypothesis that close physical proximity would be the main explanation for variance in contraction rates, although more severe effects to hospitality subsector, in the inability to bring back all fulltime employees, were observed. Hospitality, metal, and carpentry businesses all indicated a higher likelihood to have reduced production when controlling for other factors, but the likelihood was lower for service-oriented businesses. This finding suggest that, while important, physical proximity may not be the only determinant of market demand during a period of intense movement restrictions for public health reasons. Other longer-term investments in durable goods, such as home remodeling projects, purchases of furniture or building upgrades may be postponed by consumers as well, with noticeable effects. Future research in the upcoming months could better assess whether some differences could be established based on the different phases of restrictions and measures to deal with the pandemic.

This analysis also confirmed the hypothesis of increased use of credit across all sectors to smooth business expenditure patterns. While a minimal proportion of SMEs borrowed formally (4%) in high value (an average of USD 11,300), a moderate proportion opted to borrow informally (26%) an average of USD 5,000 –a spike in borrowing since a March 2020 survey of similar SMEs that found informal borrowing rates at six per cent. The food and agriculture sector was significantly more likely to borrow formally (12%), while the wholesale and retail sector was most likely to borrow informally (31%). No companies in the construction and manufacturing and service sectors borrowed formally.

Finally, as to estimating a relationship between changes to output and changes to employment, data did not support a relationship between the factors within industries. While manufacturing industries (metal and carpentry) indicated the greatest change in output, estimated future job losses were most significant among the hospitality sector. This indicates that some changes, such as transforming a restaurant into a take-away business, may be more specific to the industry than to output levels. In other words, data did not support that changes in staffing is a linear relationship with changes to production. Stating that the metal and carpentry sectors were more resilient to job losses may also not be accurate. While the majority of business owners contended that even unpaid employees currently furloughed would soon be brought back to work if movement restrictions were lifted, and that current changes in organizational structures were temporary, other factors indicate unexpected adjustments still to come. For example, 51 per cent of business owners said they could not cover their rent for the month of April, and 26 per cent had resorted to informal borrowing patterns. Future research in the upcoming months to assess businesses' experiences as restrictions either continue or are lifted could clarify this. A second round of data could also reveal whether trends already identified in hypotheses 1 and 3 continue, compound or change over time.

RECOMMENDATIONS

1. Continue to monitor changes through repeated observations of either the same group or a similar group of respondents to capture longer-term effects on output and employment, especially within manufacturing-related and hospitality businesses;
2. Conduct an analysis of the supporting ongoing legal and regulatory efforts by the government of Iraq, including goods exempted from movement restrictions, imposed tariffs and the effective dates of regulations, and incorporate these in ongoing analysis to provide feedback on whether regulatory efforts are effective or not;
3. Support initiatives for business transformation to mitigate the effects of movement and gathering restrictions, such as the development of applications for restaurants to do home delivery, online shopping platforms for furniture businesses, virtual tour options for construction supervisors, or other solutions that can be supported in Iraq;
4. Advocate for freedom of movement for hospitality and food businesses, in addition to farmers and agricultural workers, to prevent the unnecessary expiration of perishable materials;
5. Support the formalization of informal industries to the extent possible, through facilitated exchanges between business owners and local Chambers of Commerce to ensure that informal workers have access to social safety nets, as much as possible, in the case of internal adjustments to employment.

ANNEX ONE: SURVEY SAMPLE

Sector	Number of SMEs	Per cent	Sector	Number of SMEs	Per cent
Construction and Manufacturing	138	30.3	Food and Agriculture	126	27.6
Carpentry	34	24.6	Agriculture	20	15.9
Construction	27	19.6	Food	80	63.5
Metal	66	47.8	Hospitality	26	20.6
Plastic	11	8.0	Plastic	11	8.0
Services	81	17.8	Wholesale and Retail	111	24.3
Services	81	100.0	General Trade	11	100.0

Figure 40. SMEs interviewed by sector

Grouped Sector	Less than 6 months	1 - 2 years	3 - 4 years	5 - 6 years	More than 6 years	Total
Construction and Manufacturing	5	14	10	8	101	138
Food and Agriculture	11	26	15	10	64	126
Services	4	13	12	6	46	81
Wholesale and Retail	2	18	17	11	63	111
Total	22	71	54	35	274	456

Figure 41. Age of SMEs interviewed

	Governorate	Grouped Sector				Total
		Construction and Manufacturing	Food and Agriculture	Services	Wholesale and Retail	
	Anbar	28	13	11	12	64
	Baghdad	22	7	3	10	42
	Basrah	20	19	13	8	60
	Diyala	5	11	9	8	33
	Kirkuk	8	12	9	20	49
	Missan	0	0	0	1	1
	Najaf	3	8	6	7	24
	Ninewa	18	19	14	34	85
	Salah al-Din	34	37	16	11	98
	Total	138	126	81	111	456

Figure 42. SMEs by governorate

	Sum of Squares	Grouped Sector	df	Mean Square	F	Sig.
Year of Birth	Between Groups	630.259	3	210.086	1.586	0.193
	Within Groups	39329.828	297	132.424		
	Total	39960.086	300			
Number of employees	Between Groups	604.908	3	201.636	7.522	0.000
	Within Groups	11231.423	419	26.805		
	Total	11836.331	422			
What is your typical weekly revenue, i.e. before the curfew, (divide by 4 if monthly) this month of the year?	Between Groups	1628655865.828	3	542885288.609	4.092	0.007
	Within Groups	55594615583.269	419	132684046.738		
	Total	57223271449.097	422			
Gender	Between Groups	11.533	4	1.234	44.837	0.000
	Within Groups	138	419	0.028		
	Total	16.469	423			

Figure 43. ANOVA Test of Variance

		Grouped Sector				Total
		Construction and Manufacturing	Food and Agriculture	Services	Wholesale and Retail	
Gender	Female	0	4	10	1	15
	Male	138	122	71	110	441
Total		138	126	81	111	456

Figure 44. Gender of survey respondents, by sector

ANNEX TWO MODEL RESULTS

	Estimated Impact (USD)
Hospitality	-7154.432 (28855.915)
Service	3372.675 (21506.946)
Metal	3459.444 (21715.830)
Construction	-5344.693 (23950.875)
General Trade	19946.477 (22251.606)
Food	27875.284 (21435.060)
Carpentry	160.693 (21933.814)
Agriculture	-8257.362 (26376.977)
Number of employees	2134.480** (0.995.126)
How much would you estimate your firm is worth	0.035*** (0.003)
R sq	0.526
Adj. R Sq	0.484
N	247
F Test	12.557

Notes: Robust standard errors reported in parentheses. Levels of statistical significance indicated by asterisks: * 90 percent, ** 95 percent, *** 99 percent Controls added for governorate, gender, the age of the business owner, and employee salaries

Figure 45. Estimated impact on annual revenue if restrictions continue until June (USD)

	Estimated Impact (USD)
Hospitality	-1234.502 (0.2270.764)
Service	1009.074 (1692.388)
Metal	1516.782 (1708.815)
Carpentry	2256.249 (1725.936)
Agriculture	1719.245 (2075.723)
Construction	-0.418.073 (1884.631)
General Trade	3503.507** (1754.548)
Food	3355.095** (1686.675)
R sq	0.241
Adj. R Sq	0.173
N	247
F Test	3.570

Notes: Robust standard errors reported in parentheses. Levels of statistical significance indicated by asterisks: * 90 percent, ** 95 percent, *** 99 percent Controls added for governorate, gender, the age of the business owner, firm size, net firm worth, and employee salaries

Figure 46. Estimated impact on weekly revenue: then and now, in USD

	Yes		Yes
Ninawa	0.057	Kirkuk	-0.012
	(0.161)		(0.201)
Basrah	-0.056	R sq	0.183
	(0.159)	Adj. R Sq	0.111
Najaf	0.316	N	246
	0.191	F Test	2.531
Baghdad	-0.063	Notes: Robust standard errors reported in parentheses. Levels of statistical significance indicated by asterisks: * 90 percent, ** 95 percent, *** 99 percent Controls added for subsector, gender, the age of the business owner, and employee salaries	
	(0.168)		
Anbar	0.285*		

Figure 45. Has your number of suppliers changed in the last month?

	Per cent		Number of Workers
Hospitality	8.935	Hospitality	2.276***
	(14.744)		(0.451)
Metal	14.448	Services	0.027
	(12.980)		(0.336)
Construction	-4.357	Metal	-0.044
	(14.212)		(0.339)
General Trade	-42.527***	Construction	-0.141
	(12.682)		(0.374)
Food	4.720	General Trade	0.037
	(12.924)		(0.349)
Carpentry	15.201	Food	0.070
	(13.727)		(0.335)
Agriculture	-13.352	Carpentry	-0.067
	(15.392)		0.343
R sq	0.262	Agriculture	0.370
Adj. R Sq	0.225		0.412
N	419	R sq	0.286
F Test	7.077	Adj. R Sq	0.219
Notes: Robust standard errors reported in parentheses. Levels of statistical significance indicated by asterisks: * 90 percent, ** 95 percent, *** 99 percent Controls added for governorate, gender, the age of the business owner, the natural log of the worth of the firm, the natural log of annual revenue, and the natural log of weekly revenue.		N	247
		F Test	4.292
		Notes: Robust standard errors reported in parentheses. Levels of statistical significance indicated by asterisks: * 90 percent, ** 95 percent, *** 99 percent Controls added for governorate, gender, the age of the business owner, the estimated net worth of the business, employee salaries, and numbers of employees	


Figure 47. Percentage Change in production estimated (log-linear estimation)

Figure 48. Number of workers unable to bring back to work once business is fully reopened

IMPACT OF COVID-19 ON SMALL AND MEDIUM ENTERPRISES IN IRAQ

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