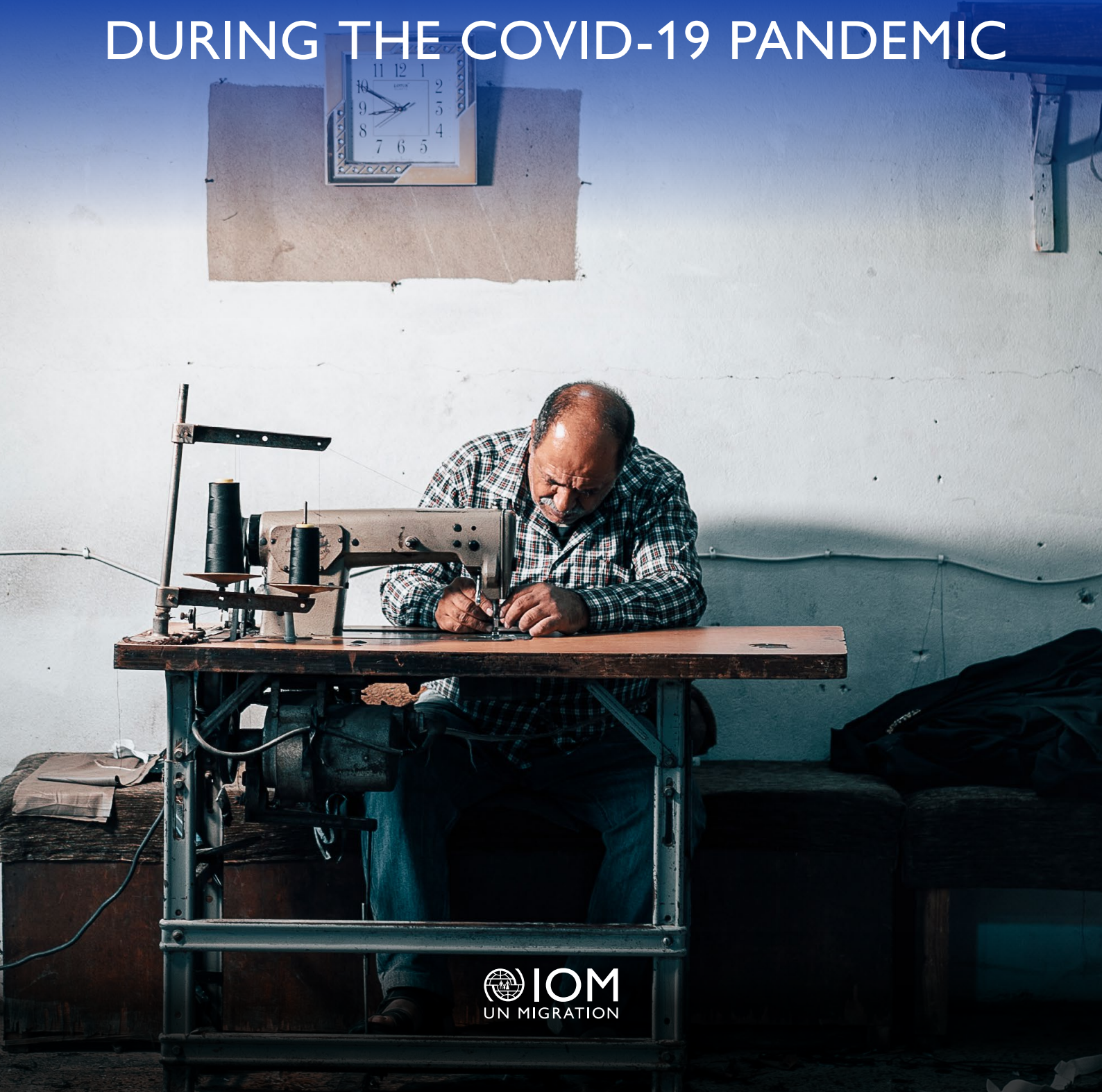


IOM IRAQ

PERFORMANCE OF THE PRIVATE SECTOR WHEN SUPPORTED BY CONDITIONAL CASH GRANTS DURING THE COVID-19 PANDEMIC



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This publication was produced with the financial support of the European Union and the U.S. Department of State, Bureau of Population, Refugees and Migration (PRM). Its contents are the sole responsibility of IOM and do not necessarily reflect the views of the European Union.

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TABLE OF CONTENTS

| | |
|---|----|
| Executive Summary | 4 |
| Iraq COVID-19 Context | 6 |
| Methodology | 7 |
| Recovery After the COVID-19 Crisis | 9 |
| Strategies to Cope with the Impact of the COVID-19 Pandemic | 10 |
| The Effect of the COVID-19 Crisis on the Labor Market and Revenue | 12 |
| Revenue | 13 |
| Production | 14 |
| Panel Model for EDF and Non-EDF Firms | 14 |
| Other Issues Faced by Sector | 15 |
| Risk of Permanent Closure | 16 |
| Impact of Lockdowns and Closure of Border Crossing Points | 17 |
| Conclusion | 18 |

EXECUTIVE SUMMARY

As of 15 October 2021, nearly 2.1 million cumulative confirmed cases of COVID-19 and 22,681 deaths had been reported in Iraq, a fatality rate of 1.1 per cent.¹ The principal strategy to reduce the pandemic's spread in Iraq has involved a range of mobility restriction that have slowed down the economy after the first COVID-19 case in late February 2020. These initial measures had relaxed by September 2020, which likely allowed for some level of economic recovery by mid-2021.

The United Nations' International Organization for Migration (IOM) in Iraq conducted a study of 502 Iraqi small- and medium-sized enterprises (SMEs) that were winners of the Enterprise Development Fund (EDF) Conditional Cash Grants between 26 July and 8 August 2021. The EDF, managed by the IOM, provides financial support to SMEs in 12 governorates in Iraq who have the potential to expand and create jobs in Iraq's private sector.

The SMEs receiving the EDF grant go through a competitive selection based on characteristics such as solvency, sales, debt, and the potential to create new positions. Since 2018, nearly 60,000 firms have applied for the EDF grant and about two per cent of applicants have been selected for financial support, which typically ranges from 5,000 USD to 30,000 USD. The surveyed SMEs fall into seven sectors: food and agriculture, manufacturing, carpentry and construction, materials (chemical and metal), services, technology, and other sectors.

The EDF-receiving SMEs are evaluated in this report relative to firms that have never received financial support from the EDF fund or IOM in general, identified henceforth as "non-EDF" SMEs. Totalling 716, these non-EDF businesses were previously surveyed in a panel study jointly conducted by IOM, the Food and Agriculture Organization (FAO), and the International Trade Center (ITC). The panel study consisted of four rounds of surveys between June 2020 and June 2021.

The analysis looked for differences between the two samples in terms of, principally, revenue and employment during the height of the COVID-19 pandemic in Iraq.

The findings indicate a significant difference between the samples. EDF-supported SMEs are less concerned about the readjustment of the economic situation after the COVID-19 crisis. Whereas 23 per cent of non-EDF firms said they are very concerned about the recovery from the pandemic, only nine per cent of the EDF businesses reported the same level of concern for their operation after the initial shock of the COVID-19 crisis passed. Furthermore, almost half of the EDF firms reported taking steps for future crises (44%), while only 17 per cent of the SMEs that are not in the EDF program are getting ready for external crises in incoming years.

The EDF firms had used different strategies to cope with the economic crisis created by the lockdowns and curfews to reduce the spread of the virus. Since February 2020, the most common strategy has been increasing marketing efforts (57%), followed by sourcing from new suppliers (46%), and creating new production in hopes of boosting sales during the pandemic (43%). About one third of the SMEs with EDF grants stated they temporarily reduced employment, including not paying salaries, as a mechanism to deal with the slowdown of the economy after the first COVID-19 case (29%). A similar proportion of non-EDF firms cut down the number of workers between February and June 2020 (35%).

An important difference in EDF and non-EDF firms is the use of technology to grapple with the economic crisis. Between February 2020 and July or August 2021, 36 per cent of the EDF businesses used online sales and ten per cent of them used teleworking. However, only eight per cent and four per cent of the non-EDF firms used online sales and teleworking from February 2020 to June 2021, respectively.

1 Corona Tracker, 15 October 2021, <https://www.coronatracker.com/country/iraq/>.

Another coping mechanism was taking on debt, either formally such as borrowing money from banks or informally from friends or family. Since the pandemic started in late February 2020, 28 per cent of the SMEs in the EDF program had taken on debt due to the COVID-19 pandemic. Deferred cheques consisted of the most common channel of debt (19%), followed by informal debt (8%). On contrary, more than half of the non-EDF firms had financial commitments (at least 50%) and borrowing money informally from friends or family was the principal channel to finance the business operation (39%).

Compared with non-EDF businesses, the SMEs in the EDF program had more employees from early 2020 to mid-2021. On average, EDF firms had seven employees from February to November 2020 and the number of workers increased to nine in May 2021. Non-EDF firms had six workers before the pandemic started and five by mid-2021.² The labor market has slowly recovered from the crisis, but some SMEs are still behind the pre-pandemic level.

Non-EDF businesses saw bigger discrepancies between male and female employees compared to EDF firms. Between early 2020 and mid-2021, the ratio on average among EDF firms was five men per one woman. This gap was higher in non-EDF businesses, which reported 19 men per one woman, on average, during the same study period.

The COVID-19 crisis and movement restrictions resulted in a reduction in revenues among the surveyed SMEs in the EDF program. The average monthly revenue declined from 7,411 USD to 6,423 USD between February (pre-COVID-19) and November 2020. After the relaxation of the lockdowns, EDF businesses overcome the pre-level revenues and reached 8,375 USD in May 2021. Although non-EDF firms experienced a modest recovery at the end of 2020, they did not return to pre-pandemic revenue levels.

The decline in production has been homogeneous for the SMEs with and without the EDF grant. From February 2020 to July/August 2021, 77 per cent of the EDF businesses reported a reduction of production and sales. About the same proportion of non-EDF firms stated a decline in the economic operation (74%). The production of SMEs with EDF grants in technology sector is the least affected (46%), as well as non-EDF businesses in the food and agriculture sector which had the smallest numbers of firms report a decrease in production and sales (64%).

The health crisis created by COVID-19 also increased other problems for SMEs in the EDF program such as temporary shutdowns of business (89%), reduced investments (36%), reduced logistics services (38%), and clients not paying bills (24%). Non-EDF businesses reported the same categories as the top four main challenges between February 2020 and June 2021.³

The recovery from the economic slowdown produced by the COVID-19 virus has been heterogenous for SMEs of both categories. In July and August 2021, only nine per cent of the EDF firms reported a risk of permanently shut down. Among those firms, 58 per cent do not know when the shutdown could take place. On contrary, 64 per cent of the non-EDF businesses stated a risk of closing doors between February and June 2020 and 25 per cent from December 2020 to June 2021.

When observing the SMEs by governorate, among the EDF firms, Missan is the only governorate in which SMEs saw a decline in employment between February 2020 (pre-COVID-19) to May 2021 (-7%). SMEs in the remaining governorates all witnessed increases or stagnations in employment. SMEs in Sulaymaniyah and Najaf reported the highest increase in the number of workers during the study period. As for monthly revenue, SMEs in Kerbala and Thi-Qar faced a change of -22 and -3 per cent, respectively. Firms in Diyala and Salah al-Din reported the highest increase in earnings (467% and 49%). Erbil was the only governorate where SMEs witnessed an increase in production (7%).

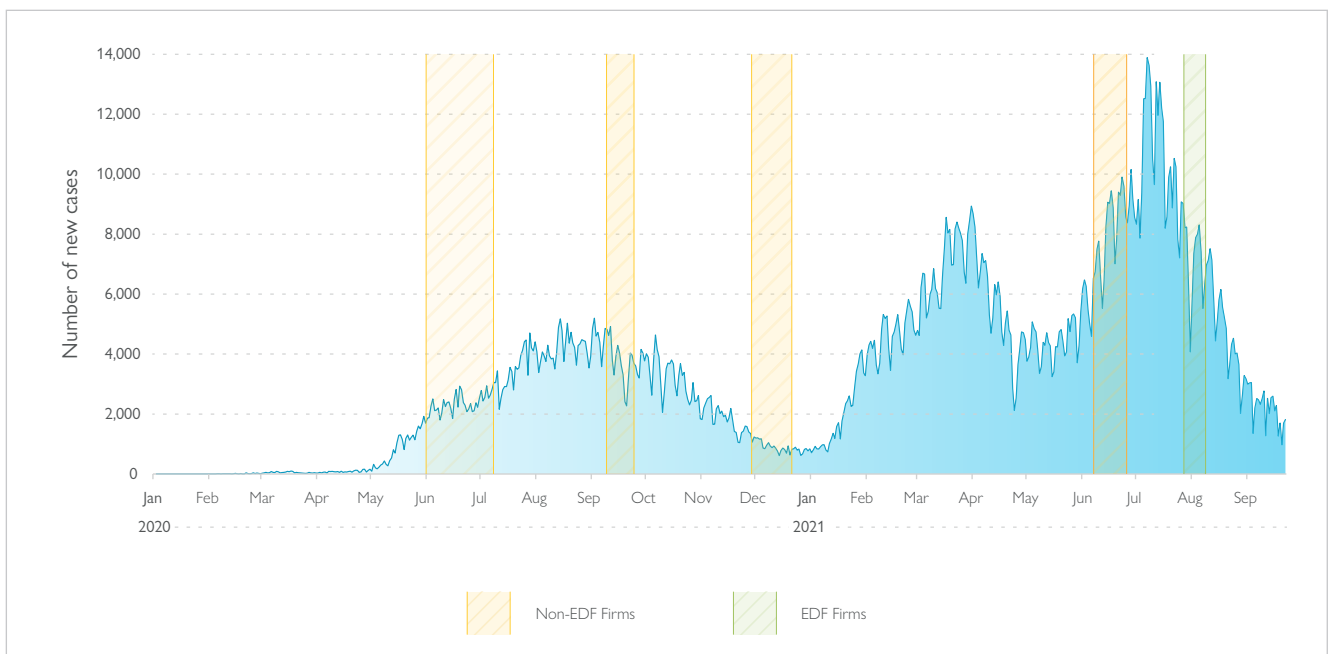
2 Between February 2020 (pre-COVID-19) and May 2021, the change in employment was 43% for EDF firms and -2% for non-EDF firms, on average.

3 The options were: Temporary shutdown, Employee absences due to sickness or childcare, Clients not paying their bills, Reduced logistics services, New problems with infrastructure, e.g. internet or roads, Increased admin bottlenecks, Reduced investments, Stock or raw material expired.

IRAQ COVID-19 CONTEXT

Since the first case reported on 24 February 2020, Iraq has experienced three major waves in daily COVID-19 cases. After a decline in the number of cases from the end of April and early June 2021, Iraq had a continuous increase of cases until 2 August 2021, with cases peaking at 12,734. Following this, there was a reduction in the new infectious that reached 3,554 on 12 September 2021 (see Figure 1).

Figure 1: Number of Daily COVID-19 Cases in Iraq (February 2020 to September 2021)



Note: Confirmed COVID-19 cases. [Source: JHU CSSE COVID-19 Data](#)

METHODOLOGY

From the 847 SMEs granted with the EDF funding, IOM selected 502 respondents using a blocking design sample by governorate. The optimal sample size was calculated between 350 and 650 to estimate an average reduction of four employees with a power of 80 per cent and a statistical confidence level of 95 per cent.

The effect of COVID-19 on EDF firms is compared with a sample of 482 SMEs business that did not apply for or receive the EDF grant in the same sectors as the firms with financial support from the EDF program.⁴ The non-EDF firms are part of a panel study on the impact of COVID-19 on SMEs consisting of four rounds of data collection throughout the pandemic.⁵ Table 1 summarizes the timeline of data collection for both EDF and non-EDF firms.

Table 1: Summary of Data Collection

| FIRMS | ROUNDS | DATE | SME OWNERS | ATTRITION RATE |
|---------|--------|---------------------------------|------------|----------------|
| Non-EDF | 1 | 22 June to 7 July 2020 | 588 | NA |
| Non-EDF | 2 | 9 to 18 September 2020 | 575 | 2% |
| Non-EDF | 3 | 29 November to 15 December 2020 | 551 | 4% |
| Non-EDF | 4 | 8 to 25 June 2021 | 482 | 13% |
| EDF | - | 26 July to 8 August 2021 | 502 | - |

Note: For comparison reasons, the non-EDF sample only contains SMEs in the same sectors as the EDF firms.

The interviews to the EDF and non-EDF firms followed a training of the field researchers on the survey's concepts and terminology and were conducted via phone calls due to COVID-19-related movement restrictions and safety measures. Surveys followed an informed consent protocol that offered respondents a description of the purpose of the survey and a chance to opt-out of the survey if desired.

The EDF firms are in seven sectors. The food and agriculture sector was oversampled, totaling 130 SMEs in the subsectors of agriculture (47), retail and wholesale (16), accommodation and food services (29), and agri-food processing (38).

Manufacturing (104) is the second most represented sector in the sample, followed by carpentry and construction (85), other firms (71), service (70), chemical and metal (24), and technology (18) for a total of 502 SMEs surveyed. From the 716 non-EDF businesses in the four rounds of the panel study data, 482 SMEs fall into the same seven sectors as the EDF firms (see Table 3).⁶ The non-EDF and EDF samples cover 15 governorates. Ninewa has the highest number of surveyed SMEs (15% and 23% in EDF and non-EDF firms), followed by Kirkuk (12% and 10%) and Basra (9% and 10%).

4 The team selected respondents using a blocking design sample by Iraqi governorates from 2,236 firms registered in IOM databases, covering rural and urban areas. The optimal sample size was calculated between 650 and 950 to estimate an average reduction of four employees with a power of 80 per cent and a statistical confidence level of 95 per cent. The 482 are a subsample of the 893 non-EDF businesses.

5 The sample of 893 firms are part of a joint study conducted by IOM, FAO, and ITC titled the Impact of COVID-19 on Small- and Medium-Sized Enterprises in Iraq. Reports and factsheets from each of the four rounds of data collection can be found here: <http://edf.iom.int/Home/CovSME>.

6 The rest of the 716 non-EDF firms are in general trade (111), automotive (54), the hospitality industry (24), textile (19), plastic (16), and medical services (6).

Table 2: EDF and Non-EDF SME Breakdown by Sector

| SECTOR | NON-EDF | PERCENTAGE | EDF | PERCENTAGE |
|----------------------------|------------|-------------|------------|-------------|
| Food and Agriculture | 180 | 37% | 130 | 26% |
| Manufacturing | 39 | 8% | 104 | 21% |
| Carpentry and Construction | 99 | 21% | 85 | 17% |
| Other | 6 | 1% | 71 | 14% |
| Service | 72 | 15% | 70 | 14% |
| Chemical and Metal | 84 | 17% | 24 | 5% |
| Technology | 2 | 0.4% | 18 | 4% |
| Total | 482 | 100% | 502 | 100% |

Note: The Non-EDF firms are 482. This is a sub-sample of the 716 firms in the four rounds of the panel study in the same sectors as in the EDF sample.

The EDF and non-EDF firms are different in observable characteristics, as each type of SMEs come from different samples. About 30 per cent of the SMEs in each sample have managers who are 35 years old or younger. Whereas only three per cent of the non-EDF firms have female top

managers, 17 per cent of the EDF firms are managed by women. On average, the EDF-receiving firms estimate that their firm's value is almost double the value of non-EDF firms (see Table 3).

Table 3: Characteristics of SMEs

| VARIABLE | NON-EDF | EDF |
|--|-------------|--------------|
| Top manager of the business is female | 3% | 17% |
| Top manager of the business is less than 35 years old | 28% | 32% |
| The establishment currently is not registered with or licensed by a national authority | 52% | 35% |
| Estimation of firm value (in USD) | 59,868 USD* | 121,108 USD* |

Note: The non-EDF firms are 482. This is a sub-sample of the 716 firms in the four rounds of the panel study in the same sectors as in the EDF sample.

*The estimation of firm value is in June 2021 for non-EDF businesses, and between July and August 2021 for EDF firms.

The EDF firms need to overcome a competitive selections process where the firms with the highest potential in job generation are chosen by the IOM team. Almost all the EDF firms have received the first payment from IOM (98%). Only

two firms received the first payment in 2018, 98 (20%) in 2019, 137 (28%) in 2020, and 258 (52%) in 2021. On average, firms have received 13,544 USD from the EDF program (the median is 9,680 USD).⁷

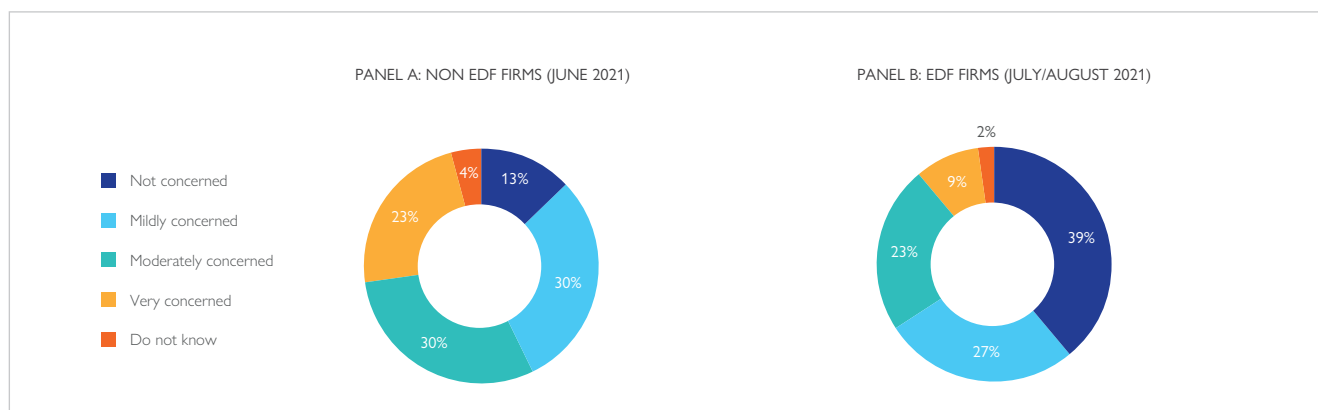
⁷ The minimum amount received is 1,100 USD and the maximum is 183,000 USD.

RECOVERY AFTER THE COVID-19 CRISIS

After more than one year of economic crisis, SME owners who are not part of the EDF program are more concerned about the recovery of their businesses. More than half of the non-EDF firms are moderately concerned (30%) or very

concerned (23%) about the recovery of their business from the COVID-19 crisis. However, two thirds of the EDF firms are not concerned (39%) or mildly concerned (27%) about the recovery (see Figure 2).

Figure 2: How concerned are you about the recovery of your business from the COVID-19 crisis?



Note: The non-EDF firms are 482. This is a sub-sample of the 716 firms in the four rounds of the panel study in the same sectors as in the EDF sample.

Non-EDF firms were less likely to report that they are taking steps to prepare their business for future external crises. Only 17 per cent of SME owners without EDF grants report taking steps. However, 44 per cent of the firms in the EDF program report taking steps to prepare the business for

future external crises. When looking at this response rate in each sector, the lowest rates of preparing for future crises are found in non-EDF firms in the services sector and EDF firms in the manufacturing sector (35% and 8% respectively).

Table 4: Business That Are Taking Steps to Prepare Business for Future External Crises

| SECTOR | NON-EDF | EDF |
|----------------------------|------------|------------|
| Food and Agriculture | 16% | 42% |
| Manufacturing | 18% | 35% |
| Carpentry and Construction | 20% | 48% |
| Other | 17% | 40% |
| Service | 8% | 44% |
| Chemical and Metal | 19% | 51% |
| Technology | 100% | 83% |
| Total | 17% | 44% |

Note: The non-EDF firms are 482. This is a sub-sample of the 716 firms in the four rounds of the panel study in the same sectors as in the EDF sample.

STRATEGIES TO COPE WITH THE IMPACT OF THE COVID-19 PANDEMIC

For the EDF firms, the top coping strategy was increased marketing efforts (57%), sourcing from new suppliers (46%), and creating new products in hopes of boosting sales during the pandemic (43%). For the non-EDF firms, the principal plan to cope with the economic shock of the pandemic was most prominently to temporarily reduce employment, including not paying salaries (35%) in June 2020. One and a half years into the pandemic in June 2021, the primary coping mechanism became requesting for leniency in paying financial responsibilities (29%).

Using technology to cope with the pandemic has been challenging for the non-EDF firms in the sample. Between February and June 2020, only eight per cent of the non-EDF firms used online sales, while the number increased to 13 per cent between December 2020 and June 2021. Online sales has also been part of the coping strategy of the EDF firms: 36 per cent of them use online sales between February 2020 and July and August 2021 (see Table 5).

Table 5. Strategies Adopted to Cope with the COVID-19 Crisis

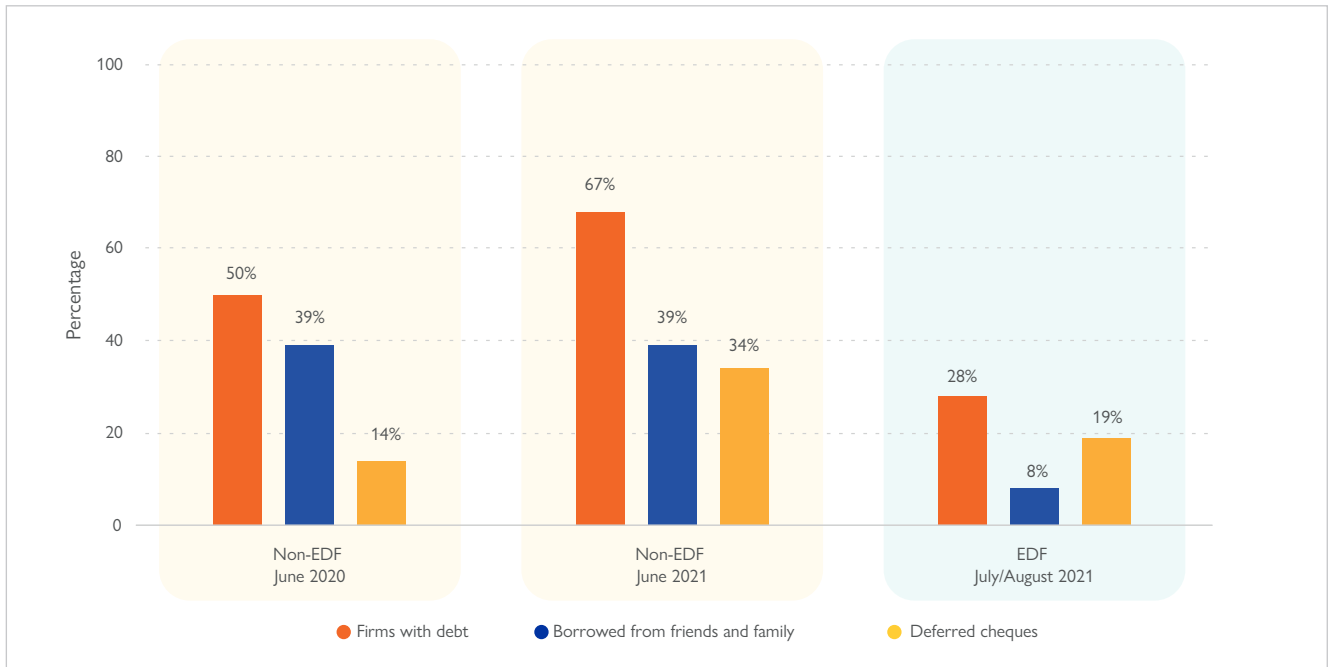
| STRATEGY | % | | |
|--|---|----------------------------|--|
| | NON-EDF FIRMS | | EDF |
| | February 2020 (Pre-COVID-19) to June 2020 | December 2020 to June 2021 | February 2020 (Pre-COVID-19) to July/August 2021 |
| Increased marketing efforts | 7% | 28% | 57% |
| Sourced from new suppliers | 11% | 24% | 46% |
| Created new product in hopes of boosting sales during pandemic | 5% | 13% | 43% |
| Online sales (newly adopted online sales since previous interview) | 8% | 13% | 36% |
| Temporarily reduced employment, including not paying salaries | 35% | 10% | 29% |
| Employees at home with partial/full salary? | 16% | 1% | 21% |
| Teleworking | 4% | 3% | 10% |
| Request for leniency in paying financial responsibilities | 23% | 29% | 9% |
| Employees at home with reduced salary | 8% | 1% | 9% |
| Laid off employees permanently | 8% | 15% | 8% |
| Loaned employees to other enterprises | 2% | 2% | 3% |
| Rescheduling of bank loans | 1% | 1% | 3% |
| Applied for new bank loan | 2% | 1% | 2% |
| Applied for government subsidies | 7% | 4% | 1% |
| Filed for bankruptcy | 3% | 2% | 0% |

Note: Multi-select question. The non-EDF firms are 482. This is a sub-sample of the 716 firms in the four rounds of the panel study in the same sectors as in the EDF sample.

Financial debt is another strategy to grapple with the economic shock created by the spread of COVID-19. Less than one third of the EDF firms had financial commitments (28%) between the beginning of the pandemic and July/August 2021. Among those SMEs with debts, deferred cheques are the principal channel to obtain financial support

(19%), followed by borrowing from friends and family (8%). More than half of the non-EDF business, meanwhile, had incurred either formal or informal debt at some point during the pandemic: 50 per cent by June 2020 and 67 per cent between December 2020 and June 2021 (see Figure 3).

Figure 3. Formal and Informal Borrowing Among Firms



Note: The non-EDF firms are 482. This is a sub-sample of the 716 firms in the four rounds of the panel study in the same sectors as in the EDF sample. The EDF firms are 502.

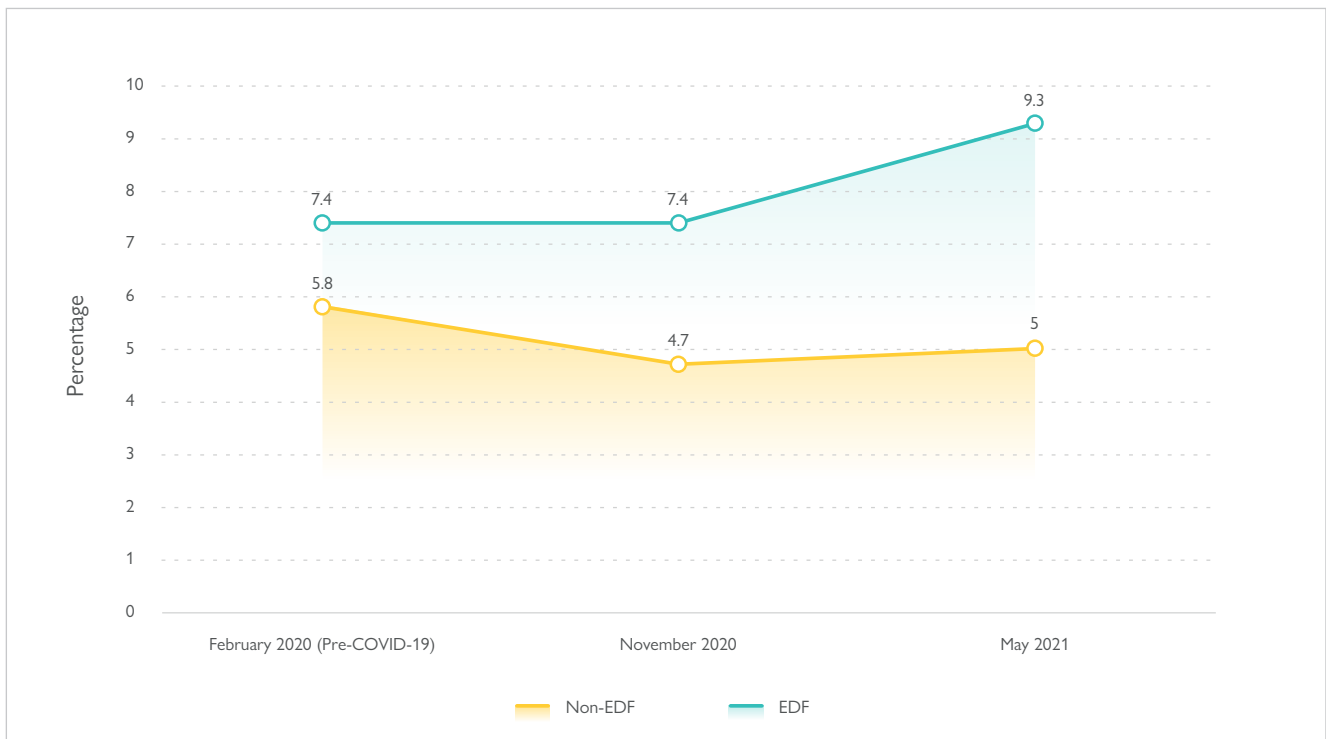


THE EFFECT OF THE COVID-19 CRISIS ON THE LABOR MARKET AND REVENUE

The lockdowns and curfews to reduce the spread of the virus heavily impacted the labor market. Before the first COVID-19 case, EDF firms employed 7.4 workers and non-EDF businesses had 5.8 workers, on average. SME owners who have received an EDF grant saw a full recovery of employment by November 2020. Furthermore, by June 2021, EDF surpassed the number of employees before the pandemic, reaching 9.3

employees on average compared to 7.4 in February 2020. On contrary, non-EDF firms had 4.7 workers in November 2020, about one employee fewer than before the COVID-19 crisis, on average. In May 2021, non-EDF firms became closer but still remain below pre-pandemic employment numbers (see Figure 4).

Figure 4. Average Number of Employees

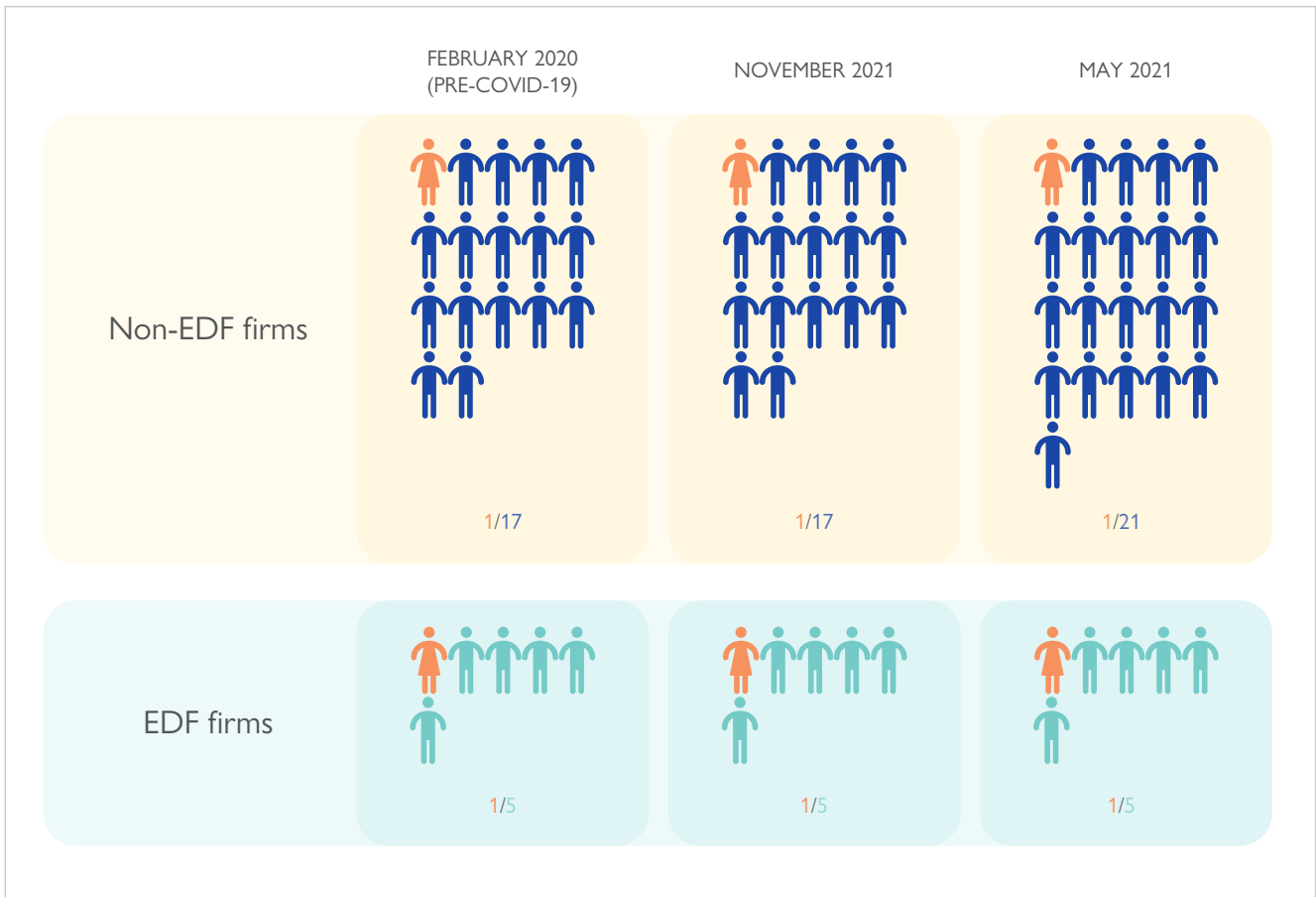


Note: Average includes full- and part-time employees.

The labor market witnessed a downturn in the beginning months of the pandemic when many businesses were closed and movement restrictions prevented normal transportation of goods and people. The fact that, on average, EDF firms have more employees in 2021 than in 2020 might be explained by the EDF program’s emphasis on increasing the number of workers, which is a stipulation imposed on firm owners receiving the funding. The SMEs receiving EDF grants are also partly chosen for their potential to generate more job openings.

The ratio of male to female employees increased after COVID-19 pandemic in non-EDF firms. In February 2020, non-EDF SMEs had 17 men per one woman in the labor market. This gap increased to 21 men per one woman by May 2021. Meanwhile, the ratio of men to women remained stable among EDF firms, at a ratio of five to one during the study period (see Figure 5).

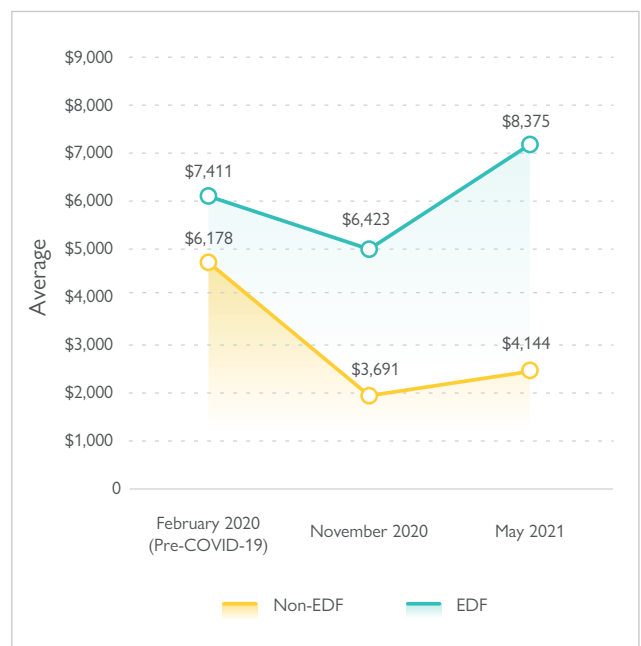
Figure 5. Gender Gap in the Labor Market: Number of Males Employed per One Woman



REVENUE

The economic crisis created by COVID-19 severely affected the revenue of surveyed SMEs. EDF firms on average reported higher pre-COVID-19 monthly revenues than non-EDF businesses, on average. Before the pandemic started in February 2020, the EDF SMEs had almost about 1,000 USD more per month in revenue than the SMEs without the EDF grant (7,411 USD for EDF firms and 6,178 USD for non-EDF businesses), likely a reflection of the selection process, which favors businesses with higher sales as a decision-making criterion. In November 2020, the measures to control the spread of the virus reduced revenues to 3,691 USD for non-EDF firms and 6,423 USD for EDF SMEs, on average. The relaxation of the curfews improved the economic condition for all SMEs. However, the non-EDF firms are still, on average, 2,000 USD below pre-level revenue (4,144 USD in May 2021). Meanwhile, revenue among EDG firms transcended pre-COVID-19 levels, reporting in May 2021 on average a monthly revenue of 8,372 USD (see Figure 6).

Figure 7. Average Monthly Revenue Among SMEs



PRODUCTION

Both non-EDF and EDF SMEs faced a reduction in production or sales since the beginning of the pandemic. Almost all non-EDF firms reported a decline in the production between February 2020 (pre-COVID-19) and June 2020 (99%). After the initial months, production began to recover for non-EDF businesses, but in 2021 between December 2020 and June 2021 74 per cent of these SMEs still reported a decline in production or sales. A large majority of EDF firms also saw a reduction in production and sales between February 2020 and July/August 2021 (77%). Carpentry and construction is the most affected sector among both EDF firms (89%) and non-EDF SMEs (100% from February 2020 to June 2020 and 83% from December 2020 to June 2021). Food and agriculture is the least affected sector among both types of SMEs and in the study period (see Table 6).

Table 6. Decline in Production or Sales

| SECTOR | % | | |
|----------------------------|---|----------------------------|--|
| | NON-EDF | | EDF |
| | February 2020 (pre-COVID-19) to June 2020 | December 2020 to June 2021 | February 2020 (pre-COVID-19) to July/August 2021 |
| Food and Agriculture | 98% | 64% | 72% |
| Manufacturing | 98% | 78% | 82% |
| Carpentry and Construction | 100% | 83% | 89% |
| Other | 100% | 0% | 90% |
| Service | 100% | 82% | 65% |
| Chemical and Metal | 100% | 67% | 79% |
| Technology | 98% | 75% | 46% |
| Total | 99% | 74% | 77% |

PANEL MODEL FOR EDF AND NON-EDF FIRMS

Beyond the raw data analysis, this section builds on a panel model of EDF and non-EDF firms to expand the descriptive study to a statistical analysis of the performance of SME owners during the COVID-19 crisis.⁸ The dependent variable in Column 1, Table 7 is the revenue in US dollars. Similar to the results in the raw data, the panel model shows that EDF firms had 1,605 USD more in monthly revenue than non-EDF firms between February 2020 and May 2021. Furthermore, the dependent variable in Column 2 in the same table is the number of employees. The EDF businesses also reported about two more employees than non-EDF firms in the same study period (1.6 employees). Both panel models control for the gender of the owner of the firm, a binary variable for having a manager younger than 35 years old, dummies for trade locally, regionally, or national, and firm value. The panel model also includes pre-COVID-19 revenue and employment. Finally, the model includes fixed effects for month, governorate, and sector.

Table 7: Revenue and Employees for EDF and Non-EDF firms

| PANEL MODEL | (1) | (2) |
|----------------------------------|---------------|-----------|
| Dependent variables | Revenue (USD) | Employees |
| Dummy equal to one for EDF firms | 1,605** | 1.6*** |
| | (652) | (0.5) |
| Constant | -1,681 | -0.0 |
| | (2,715) | (0.8) |
| Observations | 1,948 | 1,948 |
| Number of Unique ID | 974 | 974 |
| R-squared | 0.48 | 0.6 |

Notes: The panel model combines EDF and non-EDF firms. The panel is strongly balanced, which means that the model only includes SME owners that reported information in three time periods: February and November 2020, and May 2021. The panel model controls for gender ownership of firm, a binary variable for having a manager younger than 35 years old, dummies for trade locally, regionally, or national, and firm value. The panel model also includes pre-COVID-19 revenue, employment, and the EDF grant amount. Finally, the model controls for fixed effects of month, governorate, and sector. The reported binary variable shows the correlation between EDF fund participant and revenue or employment. Robust standard errors in parentheses and cluster at the governorate level.

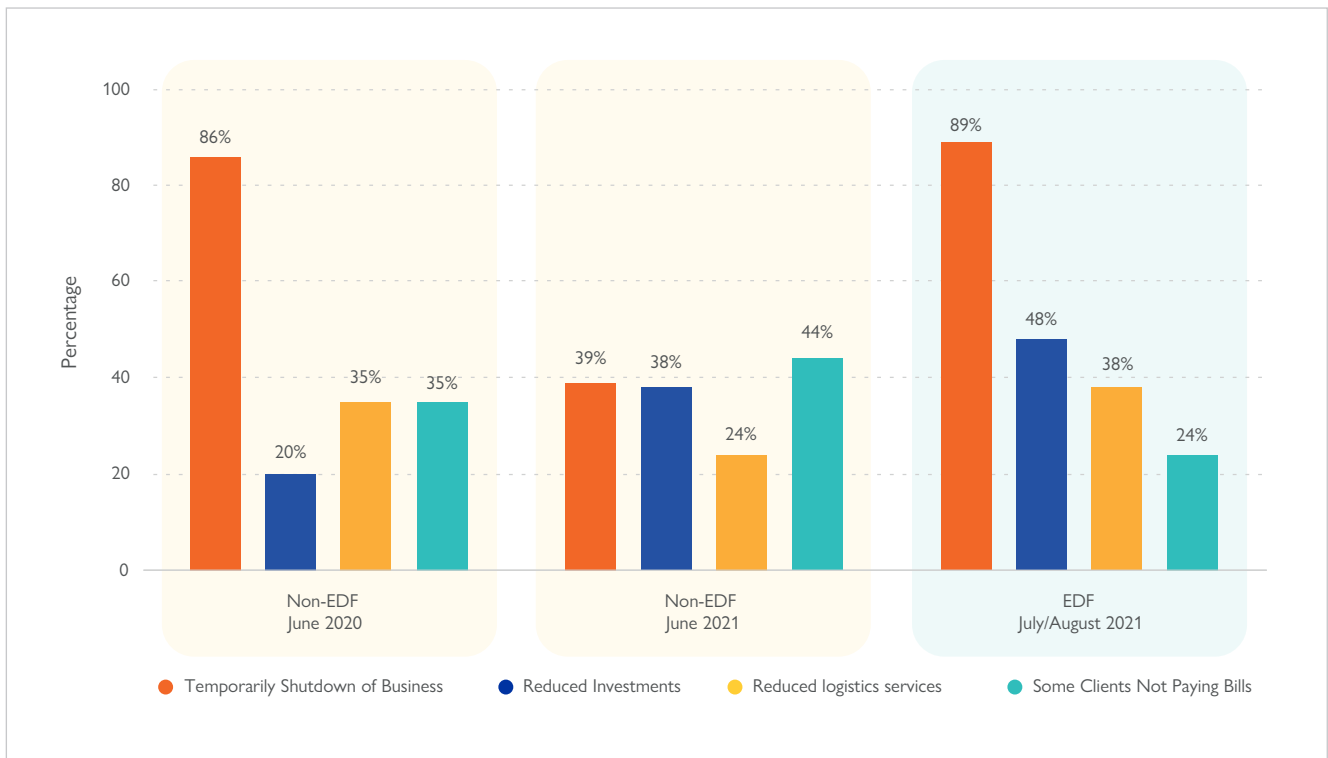
8 A description of the how the panel data looks in an Excel file could clarify the model. The data has at least four columns: identifier of the respondent, month, employment, and revenue. One firm is observed in two rows with equal identifier but different months (either November 2020 or May 2021). Chamberlain, G. (1984). For a summary of panel data please check "[Arellano, M. \(2003\). Panel data econometrics. Oxford university press.](#)"

OTHER ISSUES FACED BY SECTOR

Beyond the reduction in production, employees, and revenues, COVID-19 has also affected the surveyed SMEs in many other dimensions. Temporary shutdowns affected 86 per cent of the non-EDF firms in June 2020 and 89 per cent since the beginning of the pandemic. The relaxation in lockdown measures likely reduced the risk of firms needing to shut down temporarily, as the study observed the rate of these

instances decrease later in the pandemic after lockdown measures partially relaxed (39 per cent of non-EDF between December 2020 and June 2021). The non-EDF and EDF firms also mostly faced the same issues: decline in investment, a reduction in logistic services, and some clients not paying bills (see Figure 7).

Figure 8. Other Problems as a Result of COVID-19 and Related Restrictions

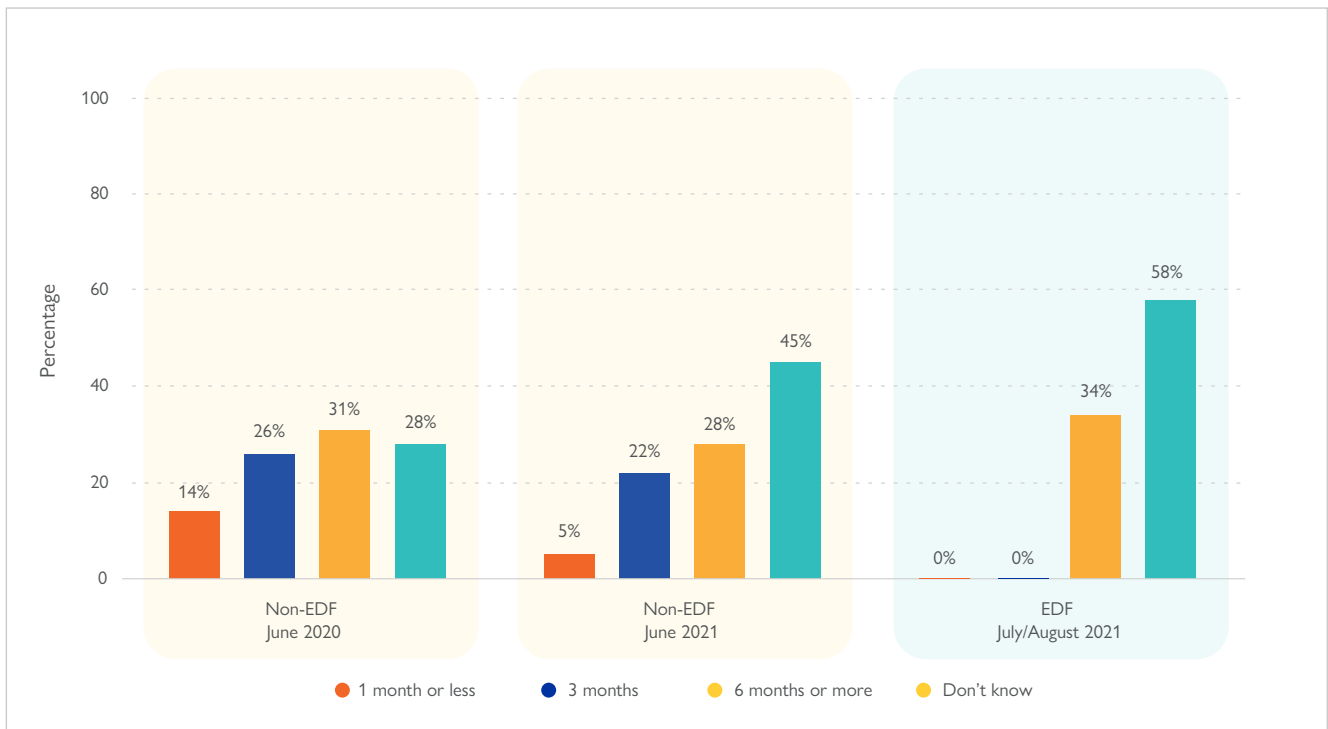


RISK OF PERMANENT CLOSURE

The COVID-19 crisis impacted the economic operation of Iraqi SME owners. However, only nine percent of the EDF firms reported a risk of permanent shutdown. Among those EDF businesses at risk of closing their doors, 58 per cent do not know when the closure can occur and 34 per cent of them claim shutdowns might happen in the following six months or more time following the time of the survey in July

and August. Among non-EDF firms the number of firms at risk of closure declined from 64 per cent in June 2020 to 25 per cent in June 2021. The most selected answer for non-EDF SMEs was that they do not know when the permanent shutdown could take place, 28 per cent in June 2020 and 45 per cent in June 2021 (see Figure 8).

Figure 9: Risk of Permanent Shutdown: Prediction on When It Could Occur



Note: Among SMEs that reported a risk of permanent closure.

IMPACT OF LOCKDOWNS AND CLOSURE OF BORDER CROSSING POINTS

The SMEs in the 15 different Iraqi governorates experienced different effects of the lockdowns to reduce the COVID-19 outbreak. EDF firms in Missan had a decline in employment growth between February 2020 (pre-COVID-19) and May 2021 (-7%). SME owners in Sulaymaniyah and Najaf faced the biggest increase in the number of workers during the study period, 108 per cent and 106 per cent respectively (see Table 7).

EDF businesses in Kerbala and Thi-Qar are the only governorates where revenues declined from February 2020 to May 2021 (-22% and -3% respectively). The firms in Diyala reported the highest increase in revenues, almost four times the income after the first COVID-19 case, followed by SME owners in Salah al-Din (49%) and Ninewa (40%). On contrary, production and sales declined for EDF firms in 14 out of the 15 governorates during the study period. SME owners in Missan and Salah al-Din had the greatest decrease, 85 per cent and 53 per cent respectively. Only firms in Erbil had an increase of seven per cent between February 2020 and May 2021 (see Table 8).⁹

Table 8: Effect of COVID-19 by Governorate for EDF Firms

| GOVERNORATE | FEBRUARY 2020 (PRE-COVID-19) TO MAY 2021 | | |
|--------------|--|------------------------|------------------------------|
| | Employment Growth | Monthly Revenue Growth | Production Percentage Growth |
| Missan | -7% | 3% | -85% |
| Erbil | 9% | 21% | 7% |
| Babylon | 10% | 25% | -38% |
| Thi-Qar | 11% | -3% | -25% |
| Anbar | 11% | 19% | -39% |
| Kerbala | 11% | -22% | -41% |
| Kirkuk | 31% | 37% | -44% |
| Ninewa | 38% | 40% | -12% |
| Salah al-Din | 41% | 49% | -53% |
| Basrah | 55% | 7% | -44% |
| Dahuk | 62% | 11% | -10% |
| Diyala | 64% | 467% | -33% |
| Baghdad | 67% | 27% | -21% |
| Najaf | 106% | 31% | -45% |
| Sulaymaniyah | 108% | 27% | -32% |

Note: Percentage change is calculated by averaging the percentage changes of each SME, which may differ from the percentage change between the two averages shown.

9 For further analysis of the possible effects of lockdown restriction, the EDF and non-EDF firms are combined in one sample. Two linear models where the dependent variable are the employment growth and revenue growth (from February 2020 to July/August 2021) show not difference in these two variables between EDF and non-EDF firms in governorates with more days of lockdowns relative to governorates with less lockdowns. Results are based on a difference in differences model. The analyzed coefficient is the interaction between a dummy variable equal to one governorate with more than 276 days in lockdowns during the last year and a dummy variable for EDF firms.

CONCLUSION

The EDF program provided financial support to SME owners to recover economically in the aftermath of the civil war in Iraq. After the competitive selection process, the businesses that ultimately secured grants from the EDF also performed relatively well during the lockdowns compared to firms that did not receive grants. One and a half years into the pandemic, EDF-receiving firms in the sample reported higher revenues and employment numbers compared to before the first case of COVID-19 in late February 2020.

In most of the economic dimensions (employment, revenues, risk of closure), the EDF firms recovered faster and faced a smaller impact compared with non-EDF SMEs, and were significantly more likely to have more employees and higher revenue than non-EDF SMEs. While difficult to attribute outcomes to EDF grants alone given important prior differences in both samples, modeling that controlled for firm characteristics and grant amounts still found EDF participation to be significant in explaining difference in outcomes. While both similar rates of EDF and non-EDF firms reported declines in sales and production, EDF firms were also found

to have coped in different ways than non-EDF firms, reporting the increased adoption of new marketing strategies as a primary strategy to deal with the pandemic, as opposed the non-payment of salaries and delaying of debts, reported by non-EDF firms as principal coping mechanisms. EDF firms also appear to have managed to avoid a widening of the gender gap during the height of the pandemic among their workforce, and have relied more on supplier credit (through deferred cheques) than non-EDF firms, who were more likely to borrow from friends and family in the last year.

The Iraqi economy has a long road to recovery from the several recent crises, but EDF firms reported higher economic activity than before the pandemic started. This is a sign of how grants could help SME owners in vulnerable contexts to overcome crises, and a positive finding to suggest that conditional cash grants to the private sector might improve resilience, labor effects, and revenue, even during times of relative economic distress, as experienced in Iraq during the height of the COVID-19 pandemic.



IOM IRAQ

NOVEMBER 2021

 iraq.iom.int
 iomiraq@iom.int

UNAMI Compound (Diwan 2),
International Zone,
Baghdad / Iraq

   
@IOMIraq



Funded by the
European Union



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