

This factsheet presents findings from two assessments on the impact of the COVID-19 pandemic on households and enterprises in Iraq carried out in June and July of 2020, one-a Panel Study of Small and Medium Enterprises- by IOM, FAO and ITC, and a second one- also a panel study on Small Scale Enterprises- by ILO, FAFO and the Cash Consortium for Iraq (CCI). Evidence from the two studies indicate that COVID-19 related movement restrictions in Iraq have resulted in steep declines in earnings and revenue. In response, enterprises have resorted to hiring freezes, docking the hours and pay of employees and, in some cases, terminating employees. In addition, some enterprise owners stopped paying social security for workers. Border closures, potentially a boon to local industries struggling with imported competition, have not helped overall sales, and shifts to digital platforms in an attempt to adapt operations have been slow. Designing financial inclusion tools, such as emergency grants, will require a special focus on the recent challenges attributable to COVID-19 movement restrictions in 2020, and an orientation towards directly addressing these effects.

## THE CHALLENGE

COVID-19 movement restrictions are a globally recognized tool to combat the spread of COVID-19 and reduce the burden on health infrastructures. In Iraq, movement restrictions have taken the form of partial and complete border closures, inter-governorate travel bans, and curfews, among others. Mandated movement restrictions have been less than welcomed in Iraq, where popular protests in the prior months had already brought commerce to a standstill in some locations. In order to address new private sector challenges with an ever-changing set of resources and make financing decisions, the need to disentangle COVID-19 related impact from ongoing or other overhang effects will become increasingly important.

## IMPACT

Two studies on the impact of COVID-19 on micro, small and medium enterprises (MSMEs) were launched in 2020 by IOM/FAO/ITC and ILO/FAFO/CCI, interviewing 893 and 1,175 enterprises respectively. Round 1 of the IOM/FAO/ITC led Panel Study of Small and Medium Enterprises surveyed firms located in 15 different governorates, and covered rural and urban areas, with a focus on food and agriculture SMEs. Meanwhile, the ILO/FAFO/CCI led Panel Study's Rapid Assessment of Small Scale Enterprises focused on the Kurdistan region of Iraq (KRI) and the North regions. The KRI includes the governorates of Dohuk, Erbil, and Sulaimanyiah, while the North region constitutes the governorates of Anbar, Diyala, Kirkuk, Ninawa, and Salah al-Din for the purposes of the study.

Both studies found a steep drop in average revenues due to the COVID-19 crisis. Round 1 of the Panel Study of Small and Medium Enterprises by IOM/FAO/ITC found that surveyed SMEs experienced more than 65 percent decrease in revenue when comparing February to May. The contraction in revenue was only two percentage points smaller (63%) when comparing the period before the pandemic to June.

### RISK OF PERMANENT SHUTDOWN

In Round 1 of the Panel Study of Small and Medium Enterprises by IOM/FAO/ITC, more than half of SMEs surveyed reported a risk of permanently shutting down, 63 per cent of the 893 SME owners, yet there was high heterogeneity across sectors in the self-reported chance of permanently shut down. Whereas almost 8 out of 10 firms in the automotive sector reported risk of closing operations, only about half of the firms highlighted the same concern in the general trade and food and agriculture sectors.

Similarly, the ILO/FAFO/CCI led Panel Study's Rapid Assessment of Small Scale Enterprises found that around two thirds of surveyed enterprises are not operating as usual, half were operating with reduced capacity, and 15 per cent were temporarily closed down. In addition, 33 per cent of enterprises indicated that they were not confident that their businesses would survive.

The majority of the surveyed enterprises were not aware of any support packages offered by the government or other actors to help them cope with the present crisis. The most sought-after support was direct financial support, followed by wage subsidies.

## DISPROPORTIONATE EFFECTS ON MARGINALIZED GROUPS

According to the ILO/FAFO/CCI led Panel Study's Rapid Assessment of Small Scale Enterprises, unemployment rates were high among women and youth even before the pandemic and a high degree of informal employment among younger workers. The vast majority of respondents indicated that they had no social security or health insurance coverage. As result of the lockdown, Round 1 of the Panel Study of Small and Medium Enterprises by IOM/FAO/ITC found that 38 per cent of female employees stopped receiving salaries temporarily and 10 per cent of female employees were reported to have been laid off. In contrast, only 25 per cent of male employees faced their salaries being temporarily stopped, and four per cent permanently lost their jobs. While the ILO/FAFO/CCI led Panel Study's Rapid Assessment of Small Scale Enterprises did not find that female employees experienced higher rates of employment termination, and in fact a slight indication of the reverse, findings also highlighted a disproportionate effect of employment termination for younger workers (in the 18-24 year old range).

## LOW UPTAKE OF DIGITAL SOLUTIONS

Both studies found that adopting online services have been challenging for the small firms. According to Round 1 of the Panel Study of Small and Medium Enterprises by IOM/FAO/ITC, only 12 percent of surveyed firms implemented online sales or started teleworking processes. The ILO/FAFO/CCI led Panel Study's Rapid Assessment of Small Scale Enterprises found about ten percent of the surveyed enterprises introduced e-commerce as a response to the current situation. Prior to the pandemic, only 12 percent of the surveyed enterprises used e-commerce, although the use was significantly higher among enterprises in the KRI (24 percent) compared to the northern region excluding KRI (10 percent). Twice as many enterprises in the KRI (16 percent) compared to enterprises in the north (8 percent) have also introduced e-commerce since the pandemic started in Iraq. E-commerce has proven to be a useful tool for sustaining businesses during the pandemic, so the low adoption rate could be an opportunity for intervention.

## GEOGRAPHIC VARIANCE

Round 1 of the Panel Study of Small and Medium Enterprises by IOM/FAO/ITC found that Anbar was the most affected governorate, followed by Diyala and Najaf in terms of employment reduction. Analysis of the border closures highlighted that governorates most affected by lockdowns and closures faced higher reductions in employment and higher declines in average revenue and production.

Overall, findings from studies suggest that impact may be disproportionately impacting female and or younger workers. Digital solutions may face uphill challenges in terms of uptake and utility. Further joint analysis of both studies as subsequent rounds of longitudinal data collection are completed will enable further understanding of changes over time and impact of border closures, sector-level border closures, sector-level variations in shut downs, and additional vulnerabilities among employees that can be raised as appropriate for policy considerations.