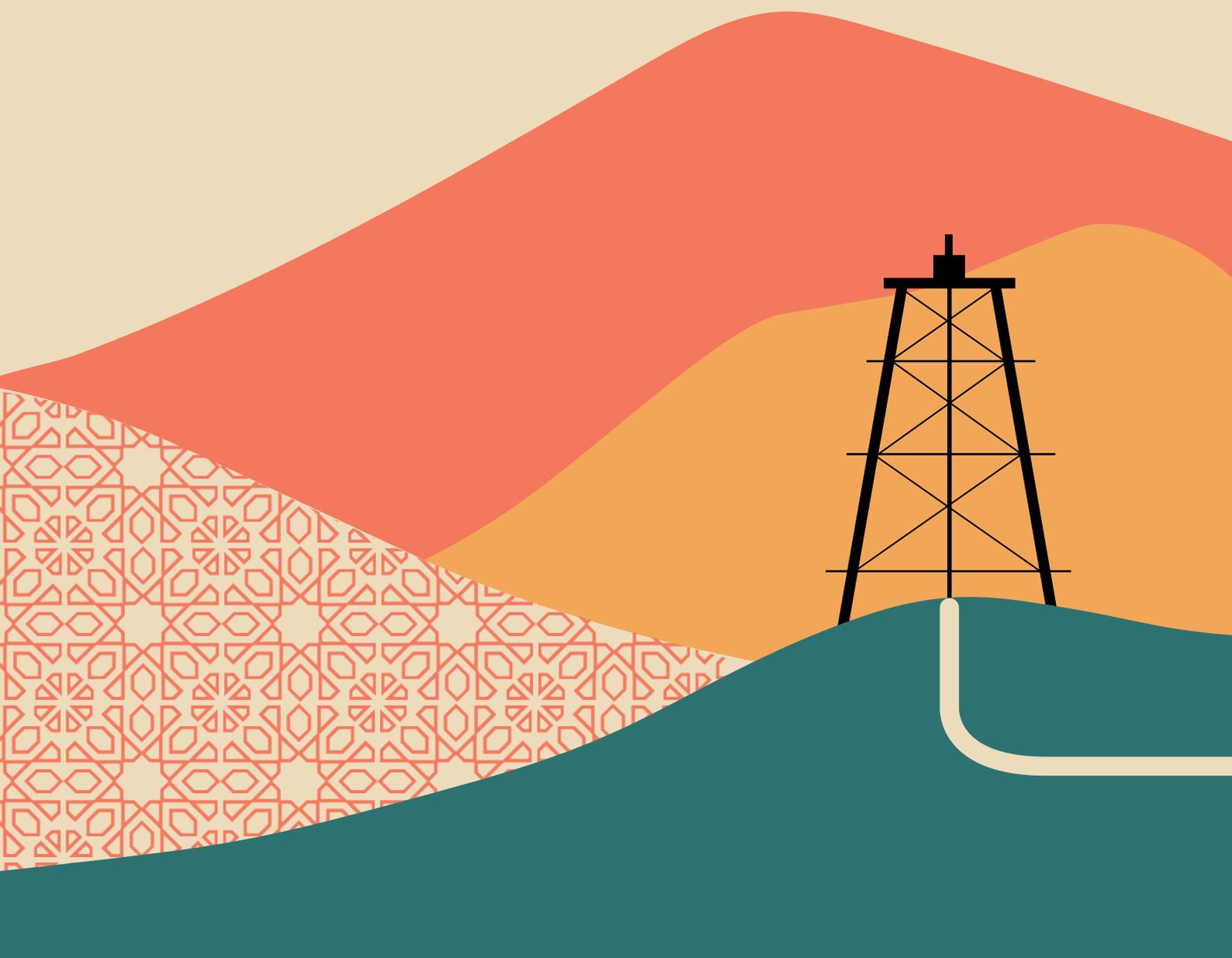




United Nations Development Programme

MICRO-, SMALL AND MEDIUM-SIZED ENTERPRISES IN THE ARAB REGION: STRUCTURAL VULNERABILITIES AT A TIME OF MULTIPLE SHOCKS

Case studies of Egypt, Iraq, Kuwait, Jordan, Morocco and Somalia



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1. Introduction

The COVID-19 crisis has hit the region at a time when many economies have already been limping their way through a wide range of long-standing downturns, structural problems and fragilities. Following a series of large-scale protests in 2011 calling for economic and political reforms, countries such as Libya, Syria and Yemen have slid into civil armed conflicts, leading to destruction, high death tolls, and humanitarian and refugee crises which spill over into their neighbouring States. Most middle-income countries have all suffered episodes of political instability. Oil-dependent economies, such as Algeria, Bahrain, Qatar, Saudi Arabia and the United Arab Emirates, have been struck by the 2014 oil price free fall – the result of surplus supply and fading demand.

The COVID-19 crisis is unprecedented in terms of the danger it poses to health globally. Most countries – including Arab countries – have introduced full or partial lockdown measures to save lives. But protecting human life has had an economic cost in terms of slowed growth and productivity, massive job losses, enterprise closures and broken value chains.

Micro-, small and medium-sized enterprises (MSMEs) account on average for over 90 percent of all enterprises in the region and provide a major source of new job creation, thus occupying a central role in the economies and livelihoods. These MSMEs have been disproportionately affected by the crisis. This paper examines these effects.

More specifically, it analyses the transmission mechanisms from the the shock into the Arab region economies, as well as MSMEs' coping strategies, outlook and government policy responses. The report examines the economies of three country typologies in the Arab region that have been distinctly affected. These are oil-exporting countries (OECs), middle-income oil-importing countries

(OICs) and fragile and crisis-affected countries (FCCs). The report uses Kuwait (an oil-exporting country), Egypt, Jordan and Morocco (middle-income OICs), and Iraq and Somalia (FCCs). It is important to note that the effects of the COVID-19 policy response, and the transmission mechanisms, may differ by enterprise size, but also from sector to sector and by other factors such as enterprise age, and the extent of available IT infrastructure and remote work possibilities.

In this analysis, we draw on recent surveys in six countries representing the three country groupings. To the extent possible, we discuss determinants of enterprise contraction and survival, as well as changes to modes of operation. Because pre-COVID-19 challenges faced by MSMEs affect their status post-crises, we also draw on an analysis of MSMEs' vulnerabilities in each of the three subregions prior to the COVID-19 crisis. Analysis of these data will inform policymaking as to appropriate buffers to support enterprise survival in the presence of shocks and in the longer term.

Sections 2 and 3 of this report provide context. It is important to place the analysis in the broader socio-economic context within which enterprises operate. This is to underline pre-existing structural vulnerabilities. The nature of the MSME sector in the region – enterprise size, age and sectoral distribution – is presented in section 3. Section 4 documents preliminary COVID-related effects based on the available surveys. This section will also provide a reflection on the results and recommendations for building back better. Section 5 concludes the report.



2. Regional structural features and pre-existing vulnerabilities

The three subregions into which this report classifies the Arab region are 1) OECs: Algeria, Bahrain, Kuwait, Oman, Qatar, Kingdom of Saudi Arabia and the United Arab Emirates (UAE); 2) OICs: Djibouti, Egypt, Jordan, Morocco and Tunisia; and finally, 3) FCCs: Iraq, Lebanon, Libya, Somalia, Sudan, Syria and Yemen.

It is important to analyse structural context when analysing MSMEs as this affects the way they grow. The three subregions are foremost distinguished by the characteristics identified in their names, that is being a net oil exporter or importer and whether they are experiencing conflict or protracted crises. Already prior to the shock, each of these subregions has been plagued with distinctive pre-existing structural economic imbalances with implications for the prevailing social contract in each group.

2.1 Heavy natural resources and rents dependent development: implications for exports, GDP and trade balance

Figure 1 depicts the remarkable difference between the first and second groups of countries. On average, in 2019, oil exports as a share of all OECs' goods exports amounted to 82 percent compared with just 20 percent for the group of OICs. The OECs' share of oil in exports greatly exceeds that of its peers in high-income countries in Europe and Central Asia (ECA; just 5 percent) and East Asia and Pacific (EAP; 7 percent). This enormous dependence of OECs on natural resources forms the origin of this subregion's so-called "resource

curse,” that manifests itself as Dutch disease (see Auty, 1990; 1995; and more recently Elbadawi and Selim, 2016; Mohaddes, Nugent and Selim, 2019).¹ The consequent lack of diversification is problematic once the natural resource boom ends, leaving the economy with a need to implement

reforms to achieve structural transformation. Therefore, the presence of Dutch disease has implications for both diversification and the type of prevailing social contract in the region. Many FCCs suffer the “double resource curse” of conflict and Dutch disease.

Figure 1. Share of oil and non-oil exports in total merchandise exports by region (2019)



Source: Authors’ calculations based on the World Integrated Trade Solution (WITS) database.

Notes: Selected classification HS 1988/92. Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

2.1.1 Implications: GDP per capita and trade balance

The abundance of natural resources together with small populations in the OECs (and to a lesser extent in the FCCs) is reflected in gross domestic product (GDP) per capita eight times higher than that of both the OICs and the FCCs² (see Figure 2). It is also reflected in a significantly stronger trade balance. The trade balance is positive for all OECs except Algeria, but negative for all OICs (except Djibouti). To put this further into perspective, the

average trade balance is US\$43 billion in OECs compared with -US\$19 billion in OICs. Driven by the two oil-rich countries – Iraq and Libya – that balance is reasonably positive for FCCs but negative for Somalia, Sudan and Lebanon which have limited natural resources. Note that all comparator middle-income countries in the sub-Saharan Africa (SSA), Latin America and the Caribbean (LAC), EAP and ECA regions are outperforming the Arab OICs in terms of their trade balance (US\$-1.7; US\$1.14; ~US\$97.4; US\$58.9, respectively).

¹ Dutch disease, named after the effect of gas discoveries in the North Sea on the Dutch economy, refers to the adverse effect of natural resource booms on other sectors of the economy. Competitiveness of other sectors is reduced, as are incentives for growing the tax base, and revenues may be used to support unsustainable investments including expanding the public sector (as will be shown in the report).

² If Algeria is excluded, this figure reduces to 6.3 times.



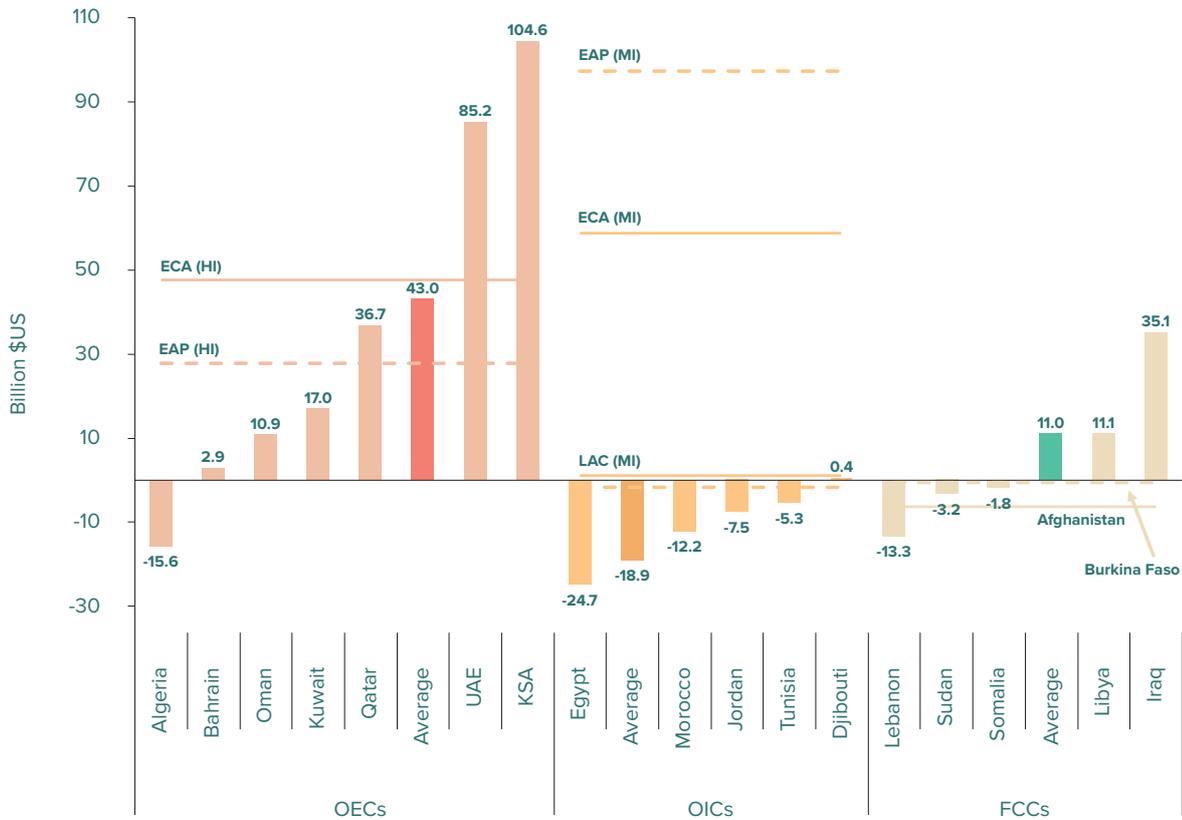
Figure 2. Real GDP per capita by region (2019)



Source: Authors' calculations based on the World Development Indicators (WDI).

Notes: Constant 2010 prices. "GDP per capita" is GDP divided by midyear population. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

Figure 3. Trade balance of goods and services by region (2018)



Source: Authors' calculations based on United Nations Conference on Trade and Development (UNCTAD).

Notes: Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

2.2 Economic structures: employment, informality and diversification

Due to poor enterprise-level data, employment distribution is used as a proxy indicator for enterprise sectoral distribution in the region, recognizing, of course, that some sectors are more capital-intensive than others. In 2019, services accounted for over half of all employment in the Arab region (55 percent; Table 1), with a near equal split between industry (24 percent) and agriculture (21 percent). The agriculture share varied from one third in FCCs – driven predominantly by Somalia (83 percent) and Sudan (40 percent) – and a quarter in OICs, to just 5 percent in OECs. Services – accounting for nearly two thirds of employment in OECs – make up for the low contribution of agriculture in OECs, with a larger contribution in Kuwait (74 percent) and Saudi Arabia (73 percent). In Kuwait, services are dominated by community, social and personal services; real estate; financial intermediation; and transport and communications, accounting for 35 percent, 14 percent, 14 percent and 10 percent of non-oil GDP, respectively (Oxford Business Group, 2017).

Table 1. Employment share by sector in the Arab region (2019)

	Agriculture	Industry	Services	Total
Arab region	21.3	24.1	54.6	100
OECs	5.2	29.8	65.1	100
Algeria	9.9	30.7	59.4	100
Oman	4.6	32.8	62.7	100
Saudi Arabia	2.4	24.7	72.9	100
Kuwait	2.0	24.4	73.6	100
United Arab Emirates	1.4	34.4	64.2	100
Qatar	1.2	54.4	44.4	100
Bahrain	1.0	35.2	63.8	100
OICs	24.3	26.3	49.4	100
Morocco	34.7	21.7	43.6	100
Djibouti	33.1	13.1	53.8	100
Egypt	23.8	27.7	48.5	100
Tunisia	13.0	32.6	54.4	100
Jordan	3.1	24.5	72.4	100
FCCs	30.3	17.4	52.3	100
Somalia	83.1	3.6	13.3	100
Sudan	39.9	16.2	43.8	100
Yemen	29.0	10.0	61.0	100
Libya	18.9	21.9	59.2	100
Iraq	18.1	22.3	59.6	100
Lebanon	13.6	22.5	63.9	100
Syria	10.7	26.6	62.7	100

Source: Authors' calculations based on the WDI.

Notes: The State of Palestine is not included in this table due to the lack of data. "Agricultural employment" comprises people of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to a working-time arrangement. The "agriculture sector" consists of activities in agriculture, hunting, forestry and fishing, in accordance with division 1 (International Standard Industrial Classification [ISIC] 2) or categories A–B (ISIC 3) or category A (ISIC 4). "Industrial employment" comprises people of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to a working-time arrangement. The "industry sector" consists of mining and quarrying, manufacturing, construction, and public utilities (electricity, gas, and water), in accordance with divisions 2–5, ISIC 2 or categories C–F (ISIC 3) or categories B–F (ISIC 4). "Services employment" comprises people of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to a working-time arrangement. The "services sector" consists of wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services, in accordance with divisions 6–9 (ISIC 2) or categories G–Q (ISIC 3), or categories G–U (ISIC 4). Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

2.2.1 Informal enterprises and employment

Any discussion of MSMEs cannot exclude the countless numbers of informal enterprises in the region. Based on current estimates, the Arab region is second only to SSA in terms of the degree of informality. FCCs have the largest rates of informal employment³ (estimated at 69 percent; see Figure 4) compared with either OICs (56 percent) or OECs.⁴ Note that these figures exclude agricultural employment – if this were included, the rates of informality would be significantly larger. Most informality in OICs is

high for the same reasons that unemployment is high (Tansel *et al.*, 2019; El-Haddad and Gadallah, 2020). The region is failing to generate jobs at the levels required, and the State is no longer able to provide the support it did in the past. Therefore, the majority cannot afford to be unemployed, and so need to turn to the informal sector, including self-employment, for jobs. More specifically, the labour market is segmented along formal-informal lines – workers participate in informal work to escape unemployment as they are rationed out of formality in support of the traditional *dualistic* view of the economy.

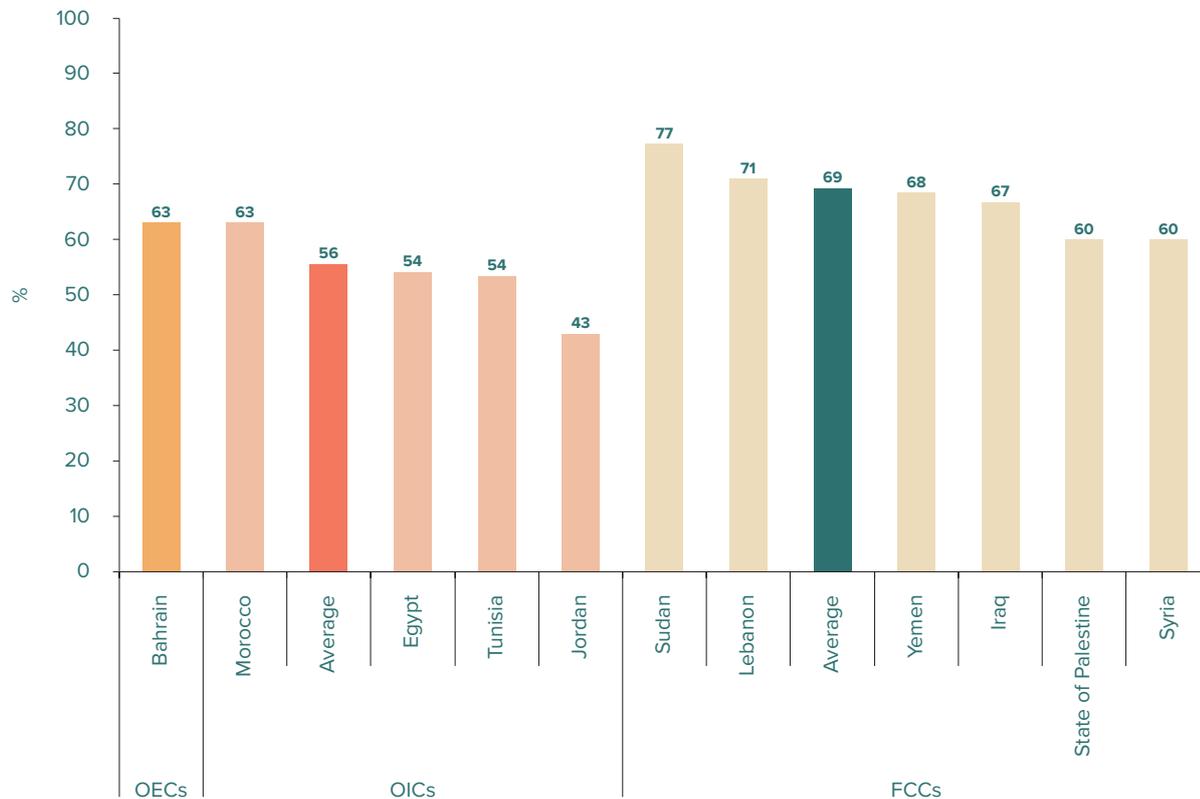
³ "Informal employment" is employment with no contract and no social security coverage.

⁴ Bahrain was the only OEC with data available and therefore the average here may be misleading.

This is in contrast to, for instance, Maloney's (1999; 2004) view of a competitive labour market where economic

agents make a conscious choice to participate in informality based on their rational maximizing behaviour.

Figure 4. Informal employment by region (% of total non-agricultural employment)



Source: Authors' calculations based on the WDI (2020); Syria, Lebanon and Morocco in Aita (2017); Jordan, Iraq, Palestine and Tunisia in International Labour Organization (ILO) (2018).

Note: Egypt, 2018; Sudan, 2011; Yemen, 2014. Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

Informal jobs and businesses in non-conflict-affected areas are low skill, low pay/profit margin, especially for rural migrants. The jobs, and most informal microenterprises, are characterized by subsistence and are concentrated in sectors such as agriculture, construction, street vending and low-value-added services. Such jobs and businesses require physical presence with no possibility for remote work, and so are very vulnerable to lockdown. There are also many informal jobs associated with manufacturing and tourism. This informality is often combined with seasonal employment and temporary positions. Informality carries a wage/profit penalty, is unstable, limits human capital development opportunities and therefore wage and enterprise performance progression. However, resource-rich countries in conflict-affected areas (FCCs) have quite a different informal sector to OICs. For example, Libya's services sector (accounting for 60 percent of non-agricultural employment) is almost entirely informal, including a sizeable smuggling economy across the Middle East and North Africa (MENA) region based on its oil wealth, dependent on the relatively cheap domestic price of oil. Part of Tunisia's trade with Libya used to be

informal trade in oil. Since the price in Libya was a tenth that in Tunisia, there was a lot of rent to be made (Malik and Gallien, 2020). Similar informal trades in oil accrue between Algeria and Tunisia.

2.2.2 Some indicators: GDP growth and diversification

The OICs subregion has experienced positive annual GDP growth rates of 1.6 percent since the 2008 financial crisis compared with a near zero (and declining rate of 0.1 percent for OECs; see Figure 5). However, the group of middle-income EAP (6.4 percent) countries significantly outperforms both oil-exporting and importing countries. Middle-income SSA countries also slightly outperform the group as well (1.7 percent). Even in Afghanistan and Burkina Faso, the two low-income FCC comparator countries, the average annual GDP growth rates for the period are better than those for most of the OICs.

Figure 5. Average annual GDP per capita growth rates by region (2009–2019)



Source: Authors' calculations based on the WDI.

Notes: Weighted average. GDP per capita growth: annual percentage growth rate of GDP per capita based on constant local currency. Aggregates are based on constant 2010 US\$. Djibouti average: 2014–2019. Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

The negative and declining growth rates of OECs have been driven by the declining trend in the oil price since the 2008 crisis.⁵ This poor performance reflects their vulnerability from not having sufficiently diversified their economy. Manufacturing exports, at 76 percent of total goods exports, occupy a far greater share in the exports of OICs compared with both OECs (37 percent) and FCCs⁶ (30 percent). Bahrain (90 percent)⁷ is an outlier in the former group and Lebanon (89 percent) in the latter (see Figure 6). Bahrain is an exception to the oil-dependent performance of the OECs as it pursued investment in human capital and diversification. It paid off, as the country has proven a match for the high-income EAP region in terms of diversification. To a certain extent, the same applies to the UAE.

Tunisia (91.5 percent), Jordan (89.5 percent) and Morocco (84 percent) outperform both Egypt (69.2 percent) and Djibouti among the OICs, as well as most comparator

middle-income groups. They are more or less on par with the EAP region (94 percent). These three countries had undertaken serious steps in their industrial policy strategy, including towards MSMEs, as will be discussed in section 3. Egypt fares slightly better than the middle-income LAC (61 percent) and ECA (65.5) countries.

⁵ For a visualization of the declining trend in oil prices since 2008, see Crude Oil Prices – 70 Year Historical Chart (Macrotrends, n.d.). Available from <https://www.macrotrends.net/1369/crude-oil-price-history-chart> (accessed 25 January 2021).

⁶ Sharply driven by Iraq, Libya and Yemen – extremely poor diversification.

⁷ And to a lesser extent, the UAE, with 56.35 percent.

Figure 6. Diversification: sectoral share of overall goods exports (2019)



Source: Authors' calculations based on WITS.

Notes: "Agriculture" corresponds to ISIC divisions 1–5 and includes forestry, hunting and fishing, as well as cultivation of crops and livestock production. "Manufacturing" refers to industries belonging to ISIC divisions 15–37. "Other industrial" corresponds to ISIC divisions 10–14 and 38–45. Industry corresponds to ISIC divisions 10–45 and includes manufacturing (ISIC divisions 15–37). Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

2.3 Rents from tourism and remittances and their relation to unemployment

Remittances are of particular importance to OICs, especially given the poor employment growth at home. The creation of domestic jobs for the masses across the subregion has been constrained by a number of factors, including enterprise barriers to entry into protected markets (see Heydemann, 2004; Owen, 2004; King, 2009; Henry and Springborg, 2010; Schiffbauer *et al.*, 2014; World Bank, 2014; Atiyas, Galal and Selim, 2015; Chekir and Diwan, 2015; Rijkers, Baghdadi and Raballand, 2017; Malik and Eibl, 2018); a flawed liberalization process; inadequate public services such as in education for a bulging young population; limited government capacity; and relatively poor governance, from insufficient oversight to lack of accountability (El-Haddad, 2020). An

unemployment rate of 12.2 percent (12.4 percent for FCCs) makes OICs and FCCs the subregions with the highest unemployment rates worldwide (authors' calculations from WDI, 2019). These two groups top all world regions in youth and female unemployment, with rates of 29 and 27 percent, respectively.

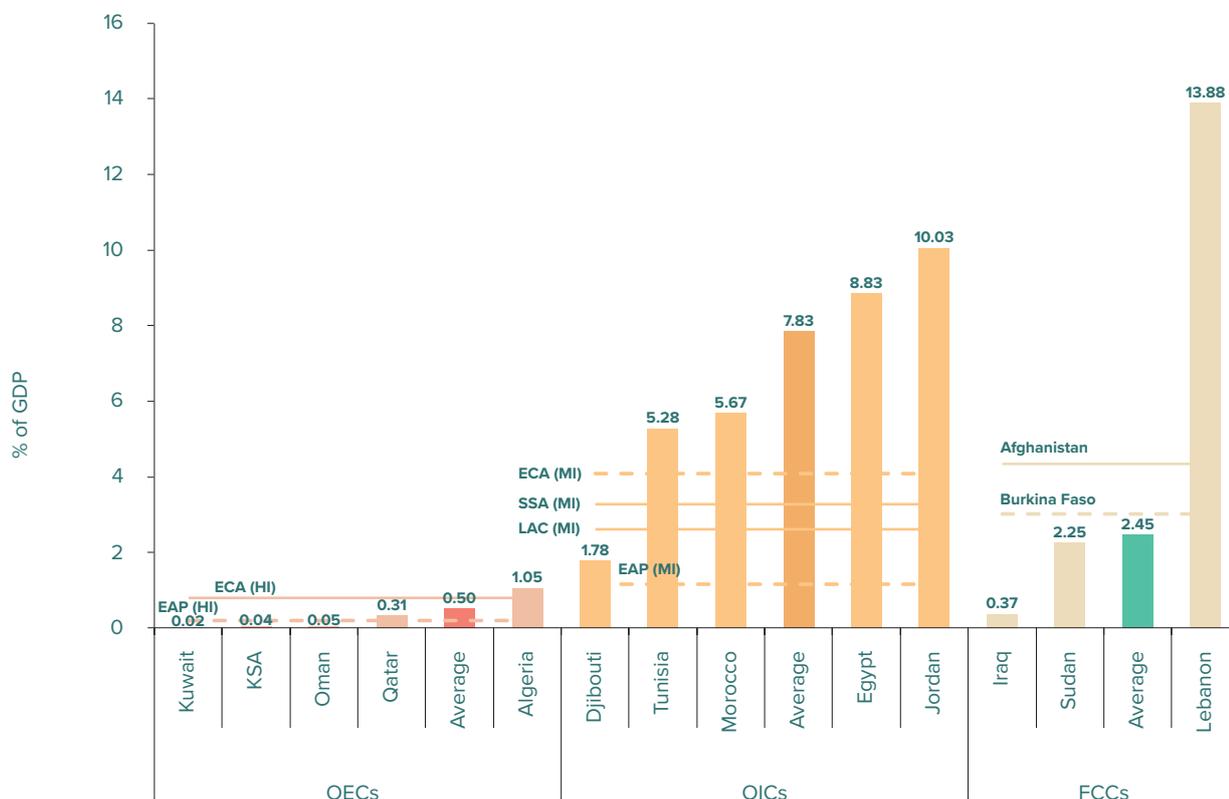
Remittances are high in relation to GDP (7.83 percent) in OICs (see Figure 7), with the heaviest dependence in Egypt (9 percent) – the most populous country in the entire (sub)region – and in Jordan (10 percent). In contrast, remittances are negligible for OECs and FCCs⁸ with the exception of Lebanon in the latter group (where it amounts to around 14 percent of GDP). The downside of remittances is the loss of skilled labour, or "brain drain." Lebanon has been struggling to contend with the brain drain since the onset of its civil war in 1975. Political instability, lack of

⁸ This statement about FCC pertains to the countries with available data, it is also true that remittances are significant for both Somalia and Yemen in that group.

decent job opportunities and social fractionalization have pushed qualified professionals to flee the country in search of better employment opportunities and a better life.

However, this trend is not confined to Lebanon. It is also true of Egypt, Jordan and other OICs.

Figure 7. Contribution of remittances to GDP by region (2019)



Source: Authors' calculations based on the WDI.

Notes: "Personal remittances" comprise personal transfers and compensation of employees. "Personal transfers" consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households. "Personal transfers" thus include all current transfers between resident and non-resident individuals. "Compensation of employees" refers to the income of border, seasonal and other short-term workers who are employed in an economy where they are not resident and to residents employed by non-resident entities. Data are the sum of two items defined in the sixth edition of the International Monetary Fund (IMF)'s *Balance of Payments Manual*: "personal transfers" and "compensation of employees" (2010). Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

Tourism can flourish independently from the level of industrial development, but it is highly vulnerable to global and external shocks such as those brought about by the current pandemic. In OICs, tourism accounts for a substantial share of employment, GDP and foreign exchange earnings. Specifically, tourism contributes 11 percent of overall employment and GDP in OICs (see Figure 8). With respect to OECs, Bahrain is an outlier pulling the regions' tourism average up, so that the average contribution of tourism to employment in OECs is around 8.9 percent and just 8 percent to GDP. Tourism is less significant to FCCs, with the exception of Lebanon, where tourism accounts for above 19 percent of overall employment and 18 percent of GDP.

Figure 8. Contribution of tourism to employment and GDP by region (2019)



Source: Authors' calculations based on World Travel and Tourism Council (WTTC), (2020).

Note: Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.



3. Pre-COVID-19 MSME characteristics in the Arab region

The analysis in this section is mostly based on data from the MSME Economic Indicators Database 2019. These are secondary data (SME Finance Forum, 2019). The primary data are collected by various institutions using different methods, mostly through an enterprise census. Therefore, the data are not always standardized across countries and time which, among other issues, may hamper data comparability and aggregation (ibid.). Furthermore, many data are missing such as specific details on enterprise sizes. These limitations hamper several calculations. Nevertheless, the data provide a rough picture of MSME characteristics in the region pre-COVID-19 that we can use as the basis for the later part of the analysis.

3.1 MSME size, employment, density, age and nature

Table 2 summarizes the most relevant available data for MSMEs in the region. MSMEs represent a substantial part of the Arab regions' economies. They are estimated to account for well over 90 percent⁹ of all businesses in the region (Table 2) and are a major source of job creation, particularly in OICs. They are estimated to provide three quarters of all employment in OICs but only about

⁹ The share for MSMEs given in table 2 exceeds 99 percent. As mentioned earlier, numbers given here should be taken with caution.

one fifth in OECs¹⁰ (Table 2).¹¹ For OECs, this number is significantly lower than that of their comparator high-income countries in other regions (ECA 65 percent and EAP 61 percent). MSMEs in OICs and in FCCs, on the other hand, resemble their comparators in the EAP region (71 percent) in employment creation and provide substantially more employment than ECA middle-income countries (44 percent). MSMEs' contribution to GDP in the Arab region is estimated between 4 and 40 percent (IMF, 2019); the wide range indicates that more accurate estimates are not available.

The region does not follow the expected pattern of enterprise creation. Despite their large role in employment creation, MSMEs are not as “dense” in the Arab region as they are in other regions. In fact, at 22.6 enterprises per 1,000 people, there are about 50 percent fewer enterprises in the Arab region than either the EAP or ECA region. In OICs, there are 10 enterprises less per 1,000 people than there are in EAP middle-income countries. There are also about 30 enterprises less in OECs compared with their comparator regions (Table 2). If Algeria – an exception in the OEC subregion – were removed, this number would be close to 40 fewer enterprises per 1,000 people. Algeria has a lot in common with OICs – in particular its large, unproductive informal sector. Bahrain, Oman and the UAE once again stand out with a remarkably higher density. The three countries have taken serious, successful steps towards modernization and diversification and thus stand out as outliers in comparison with the less diversified oil exporters: Kuwait, Saudi Arabia and Qatar. Driven by Iraq, Libya, Sudan, and to a lesser extent Yemen, the FCCs have an extremely limited density of just 9.2 enterprises per 1,000 people.

In terms of size distribution, OICs have substantially more MSMEs – especially microenterprises (estimated at over 90 percent) – compared with OECs (about 83 percent), and just about 57 percent if Algeria is excluded (see Table 2; Figure 9; Figure 10). OECs have larger enterprises on account of their large capital-intensive oil-extraction industries.

Enterprises are classified as “young” if they are less than five years old, “mature” if they are five to 10 years old, “old” if they are 11 to 19 years old and “very old” if they are 20

years old or above. A striking characteristic of MSMEs in the Arab region is their very old age. MSMEs in OICs (21 years old) are on average about 10 years older than either their EAP (13) or their ECA (12) counterparts. On average, Egypt has the oldest enterprises (23 years old) followed by Tunisia and Morocco (20). Jordan and Djibouti have younger enterprises, though still quite old, at 16 years.¹² It is this phenomenon, as well as the concentration of most enterprises in the “micro” and “small” size categories, that creates the “missing middle” phenomenon, where the distribution of firms is such as there is a concentration of very old, mostly large, enterprises on the one hand and large numbers of very small enterprises on the other.

In addition to the poor business environment in the region, and the lack of local demand, there is a strand of new literature pointing to barriers to entry as a major cause of this phenomenon. According to the political economy literature, these barriers to entry were an instrument of competitive advantage to regime cronies (Heydemann, 2004; Owen, 2004; King 2009; Henry and Springborg, 2010; Rijkers, Freund and Nucifora, 2013; Schiffbauer *et al.*, 2014; World Bank, 2014; Rijkers, Arouri and Baghdadi, 2017; Rijkers, Baghdadi and Raballand, 2017; Rijkers, Freund and Nucifora, 2017; Atiyas, Galal and Selim, 2015; Chekir and Diwan, 2015, Malik and Eibl, 2018, El-Haddad, 2020). These barriers to entry limited competition, thereby increasing the cronies' profits¹³. Banks competed to lend to them, given their substantial rents, as they had become low risk compared with their non-connected counterparts, in turn perpetuating their advantaged position. Given their secured market shares, cronies have no incentive to innovate and non-cronies cannot benefit from doing so in the face of competitors with artificially low costs. Cronies also rarely exit their markets. Since innovative young enterprises are those that create jobs (Haltiwanger, Jarmin and Miranda, 2010; for MENA see Diwan, Keefer and Schiffbauer, 2014; Rijkers, Freund, Arouri and Nucifora, 2014), these patterns of protection have blocked entry and limited job and enterprise creation, resulting in unemployment¹⁴ and growing informality (Cammett and Diwan, 2016; El-Haddad and Gadallah, 2020; El-Haddad and Gadallah, 2018).

As mentioned earlier, most micro- and small enterprises in OICs are informal subsistence enterprises in agriculture

¹⁰ No data are available for FCCs. This calculation is based on data from the MSME Country Indicators Database (2014) which gives substantially different results to employment data available in the SME Finance Forum MSME Economics Indicators (MSME-EI) Database. We used these data as the numbers are a lot more plausible.

¹¹ In other sources, the share of MSME employment in the Arab region is reported to be 45 percent (Ayyagari, Demircug-Kunt and Maksimovic, 2014).

¹² In other classifications, 15 and above is already deemed very old.

¹³ According to the World Bank, in Egypt, politically connected enterprises accounted for only 11 percent of total employment but collected 60 percent of total net profits. In Tunisia, Former President Ben Ali's confiscated enterprises collected 21 percent of all net private-sector profits in 2010 but generated only 3 percent of the total output (World Bank, 2014).

¹⁴ There is a wider range of economic factors that also cause unemployment.



or are low-productivity, low-profit-margin self-employment enterprises – especially those established by rural migrants – concentrated in construction, street vending and low-value-added manufacturing and services. Some researchers argue that these subsistence enterprises often remain informal to keep costs low and avoid red tape (Ayadi *et al.*, 2019). These enterprises have been the most vulnerable to lockdown as they require physical presence with no possibility for remote work. OICs also have informal firms in manufacturing and tourism. This differs from most OECs, where small enterprises and microenterprises are concentrated in higher value sectors such as financial and IT services.

Subsistence enterprises in OICs (and FCCs) rarely engage in exports or integrate in global value chains (GVCs) (Ayadi *et al.*, 2017; Ayadi, De Groen and Challita, 2019; Ayadi *et al.*, 2019). Even in Tunisia, integration into GVCs is poor and mostly limited to assembly work in the manufacturing sector (Sammoud and Dhaoui, 2019). In summary, MSMEs in OICs tend to remain concentrated in low-value-added activities relying on unskilled labour and can also be associated with resource extraction (Ayadi *et al.*, 2019).

Table 2. MSME size distribution, density and employment contribution

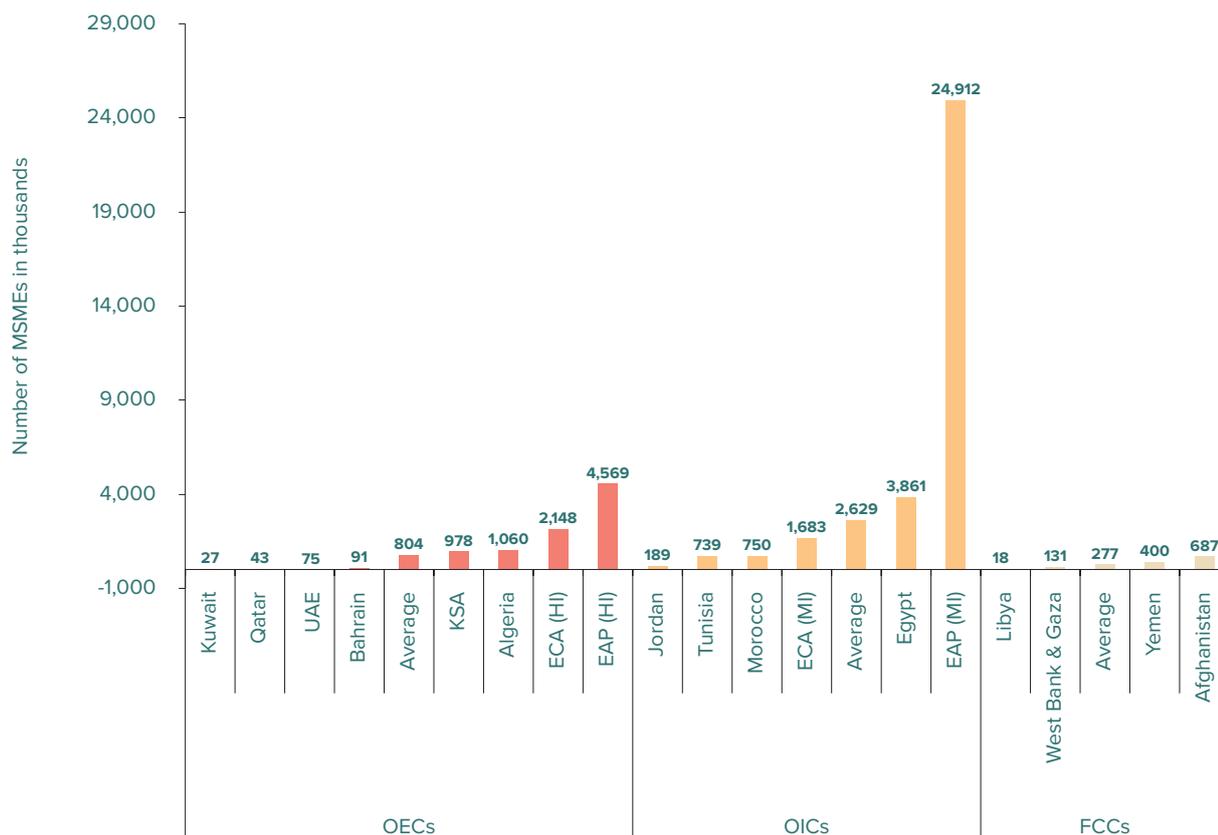
	SIZE in % of no. of total enterprises*				EMPLOYMENT***	DENSITY**	AGE****				
	Micro	Small	Medium	Large			MSME % in total employment	MSME per 1.000 people	Age	Age classification	Median age (MA)
Arab region	89.3	9.4	1.0	0.3	56.23	22.7					
OICs and FCCs							19	old	20	very old	
OECs	83.4	13.2	2.6	0.9	21.16	26.1					
Algeria	97.7	2.0	0.3	0.0	13.9	25.7					
UAE	73.6	20.5	3.2	2.6	42	10.8					
Kuwait	9.8	68.3	19.9	1.9	45	12.2					
Bahrain	92.8	6.0	1.0	0.2	72.7	60.8					
Qatar	48.8	44.5	3.4	3.4	11	17.3					
Saudi Arabia					19.7	29.7					
Oman					5.9	44					
ECA (HI)	92.4	6.0	1.3	0.3	65.38	49.6					
EAP (HI)	80.1	17.0	2.6	0.2	60.76	53.7					
OICs	91.6	8.0	0.3	0.1	75.15	36.8	21	very old	20	very old	
Egypt	88.8	10.9	0.2	0.1	94.8	39.6	23	very old			
Tunisia	97.4	2.2	0.3	0.1	58.9	64.1	20	very old			
Jordan	87.7	10.2	1.6	0.5	31	19.5	16	old			
Morocco	97.7	1.9	0.3	0.1	42	25	20	very old			
Djibouti							16	old			
ECA (MI)	91.6	6.1	2.1	0.2	44.16	22.6	12	old	13	old	
EAP (MI)	89.7	9.1	0.8	0.5	71.16	46.2	13	old	16	old	
LAC (MI)							20	very old	20	very old	
SSA (MI)							16	old			
FCCs	91.9	7.0	0.8	0.3	68.63	9.2	16	old	18	old	
Lebanon	93.5	5.4	0.8	0.3		44	22	very old			
West Bank and Gaza	89.0	9.8	0.9	0.3	82	32					
Yemen					26.4	20	24	very old			
Sudan						1	13	old			
Iraq					98.56	1	10.5	mature			
Libya					67.79	3					
Burkina Faso							13	old			
Afghanistan	96.1	3.6	0.3	0.0	50		9.5	mature			

Source: *Size: Authors' calculations based on MSME Economic Indicators Database (2019). **Density: Authors' calculations based on MSME Country Indicators Database (2014; 2019). Numbers in red: 2014 database; in black 2019. ***Employment: Authors' calculations based on MSME Country Indicators Database (2014) and MSME Country Indicators – Historical Data. Iraq; West Bank and Gaza; Yemen (2004), Bahrain; Egypt (2006), Jordan; Morocco; Oman (2007), UAE (2008), Algeria; Libya (2009), Saudi Arabia (2010), Qatar; Tunisia (2011). ****Age: Authors' calculations based on World Bank Enterprise Surveys.

Note: Interpret with caution as countries' data are based on non-consistent years as follows: Djibouti, Jordan, Lebanon, Morocco, Tunisia, Yemen (2013); Afghanistan and Sudan (2014); Egypt (2016); Burkina Faso (2009). *MI" indicates middle-income countries and "HI" high-income countries.



Figure 9. Total number of MSMEs by region and country (thousands, census data)



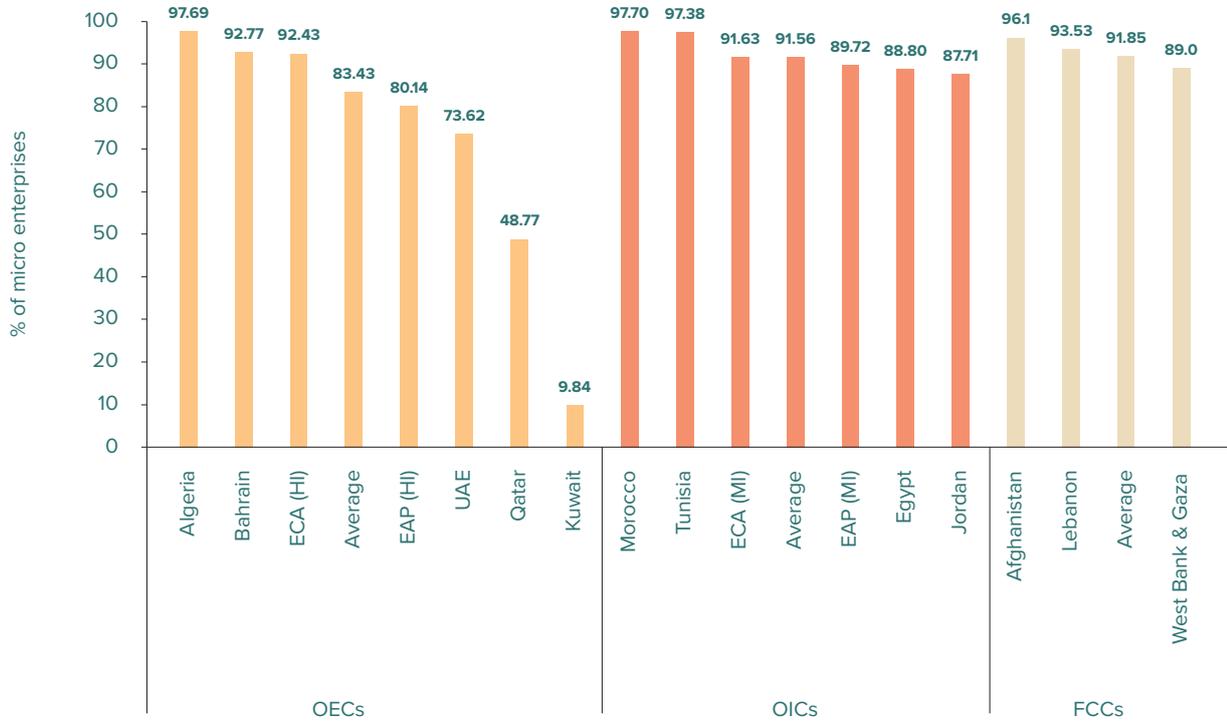
Source: Authors' calculations based on MSME Economic Indicators Database (2019).

Notes: Numbers should be interpreted with caution due to differing data years for each country: Morocco (2002); Kuwait; Lebanon (2004), UAE (2008), West Bank (2012), Qatar (2015), Bahrain; Jordan; Tunisia (2016), Algeria; Egypt (2017)¹⁵. Regional averages are calculated as the weighted average of the values for the indicated countries. The weights are population-based.

15 For methodological notes: <https://www.smefinanceforum.org/sites/default/files/Methodology%20Note%20on%20the%20MSME%20Country%20Indicators%202019.pdf>.

Figure 10. Detailed size distribution by region and country (census data)

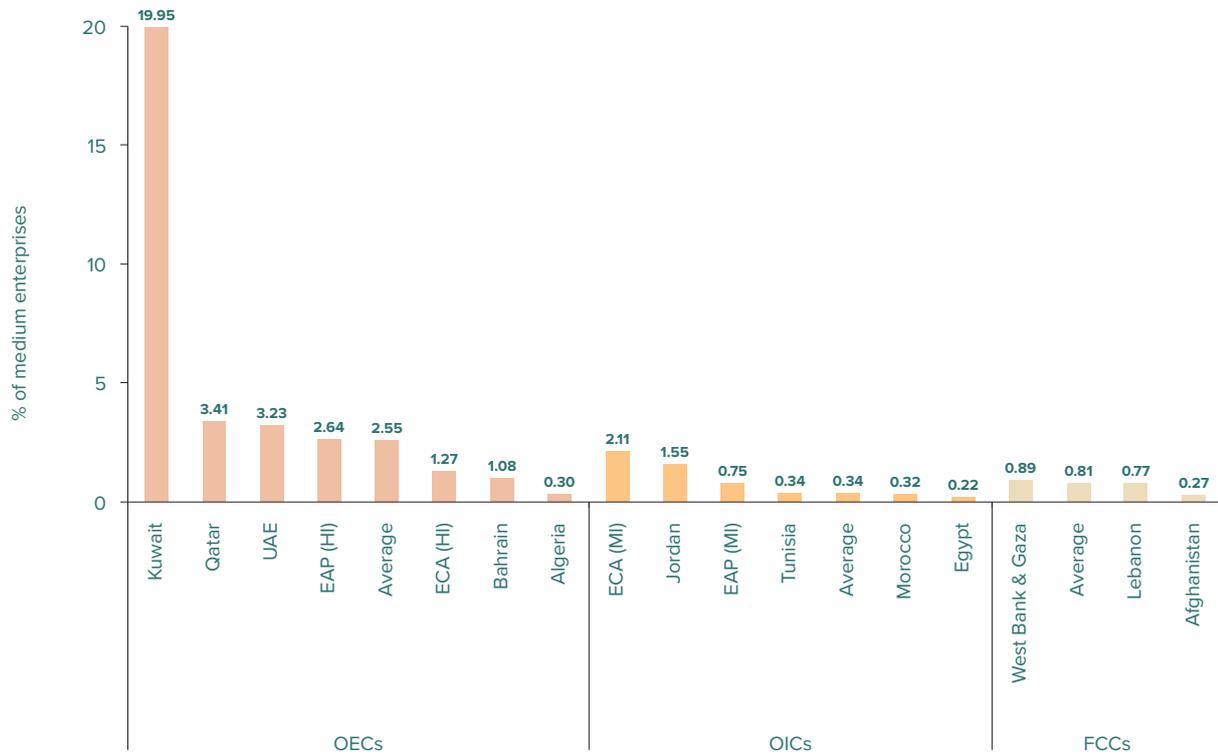
a. Micro



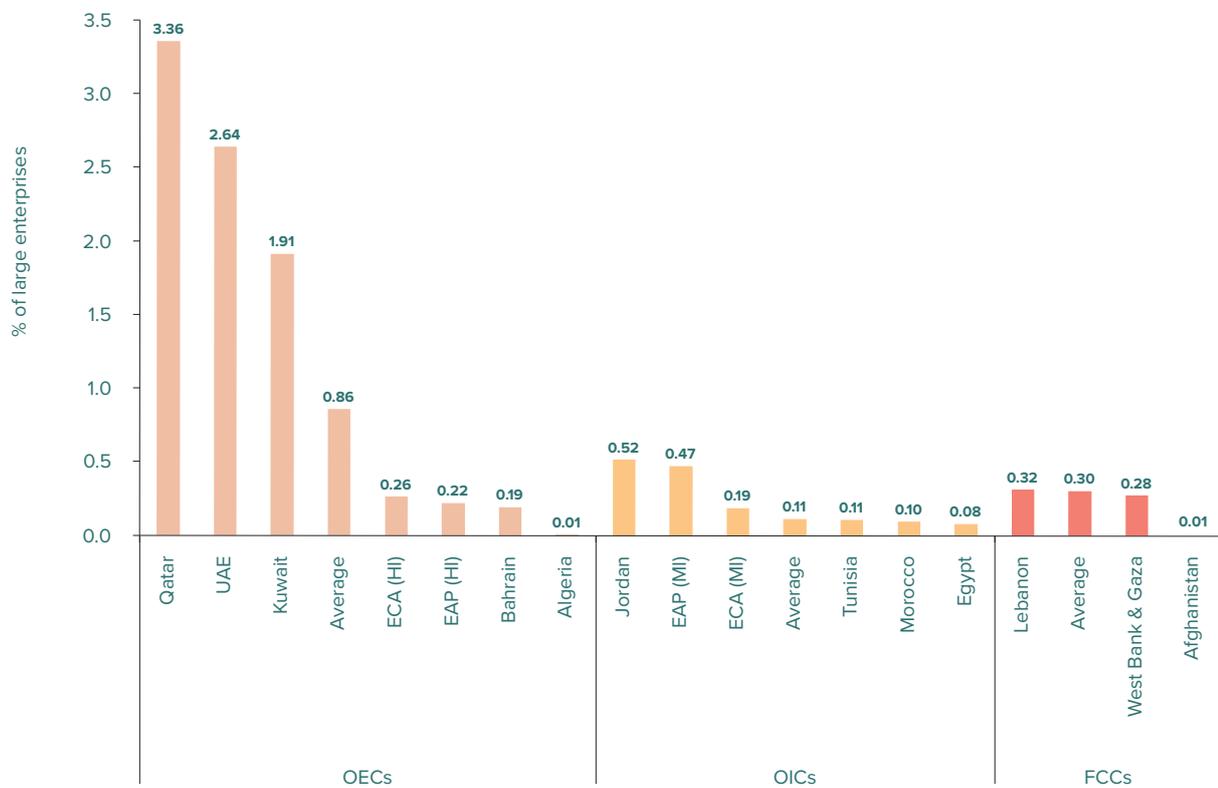
b. Small



c. Medium



d. Large



Source: Authors' calculations based on MSME Economic Indicators Database (2019).
 Note: See notes in Figure 9.





4. Preliminary post-COVID-19 effects

4.1 Oil-exporting countries (OECs): Kuwait as a case study

Kuwait is a small high-income country, with a population of just over 4 million. It is the third richest OEC after Qatar and the UAE (see Figure 2). Its economy is almost entirely dependent on oil and gas. Oil exports account for 90 percent of all merchandise exports (see Figure 1), representing about 37 percent of its GDP. Services dominate the economy at about 74 percent of employment (Table 1), followed by industry (24.4 percent) and a very small agricultural sector (2 percent). The country has a substantial government sector that accounts for about two thirds of the economy. This is why Kuwait has a very small private sector, accounting for a little over one third (36 percent) of economic activity (Ahmed and Al-Owaihan, 2015). The country has one of the lowest MSME densities in the region (12.22 enterprises per 1,000 people – Table 2). They contribute just 3 percent of GDP, compared with an average of 50 percent in high-income countries (Oxford Business Group, 2017). Additionally, they account for roughly 23 percent of Kuwait's workforce, about half of the average in high-income and emerging economies. Its total entrepreneurial activity (TEA) indicator per 100 people of under 2 percent is just 20 percent of the world average of 11 percent (Scarborough, 2014) and is way below what is expected for a country at its income level. Van Stel, Carree and Thurik (2005) and Wennekers *et al.* (2005) have established a cross-country U relationship between TEA and GDP per capita, where the relationship is positive for higher-level incomes. Kuwait is an exception to this overall pattern on account of the generous availability of lifetime job security of government employment for all Kuwaiti nationals, import-dependent consumption patterns made possible by oil wealth and a monopoly-based market structure in many sectors.



Like other OECs, in 2020, the Kuwaiti economy has been severely hit by the shock of the sharp fall in oil prices during the COVID-19 crisis, compounding the earlier fall in 2014, and by the COVID-19 induced lockdown. The IMF World Economic Outlook gives a -8.1 percent growth projection for Kuwait for 2020 and +0.7 percent for 2021 (IMF, 2021). The post-COVID-19 OPEC+ agreement has helped stabilize oil prices. Nonetheless, the IMF expects the oil price to remain 25 percent below its 2019 average. The low price of oil in 2020 had dire consequences for Kuwait's fiscal revenues (-9.4 percent in 2020 and projected at -6.8 percent in 2021; IMF, 2021) and external balances (current account balance was just 0.8 percent of GDP in 2020, but expected to rebound to 8.6 percent of GDP in 2021 according to the IMF).

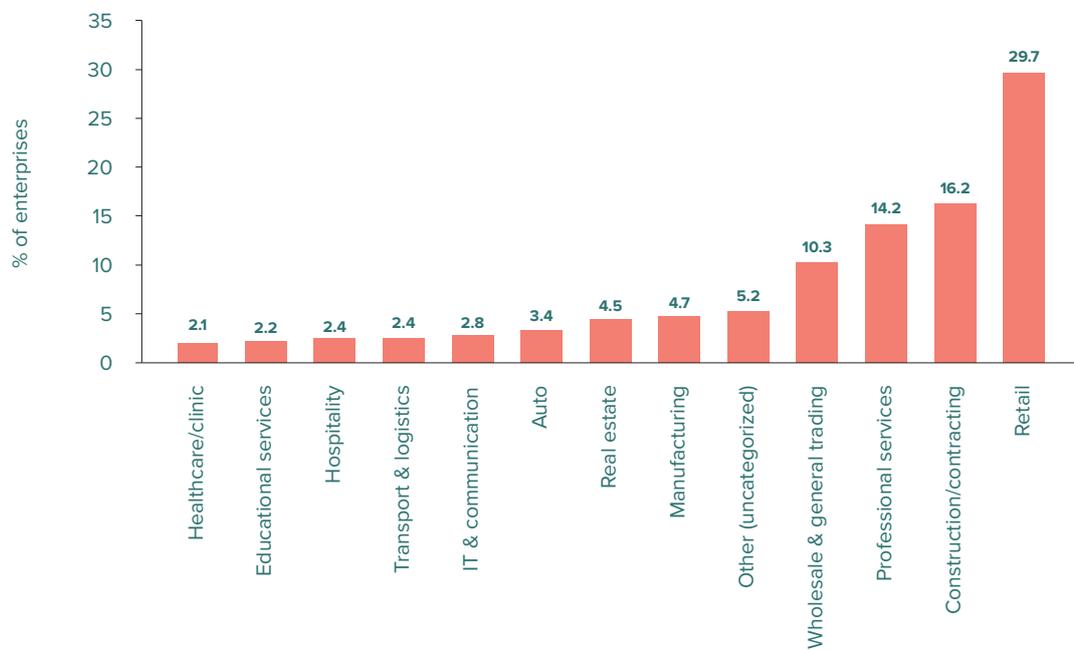
4.1.1 COVID-19 effects on MSMEs: the Bensirri PR Kuwait COVID-19 Business Impact Survey

Being dominated by labour-intensive services, the small MSME sector in Kuwait has been particularly hit by the shock. The data presented here showing this impact are

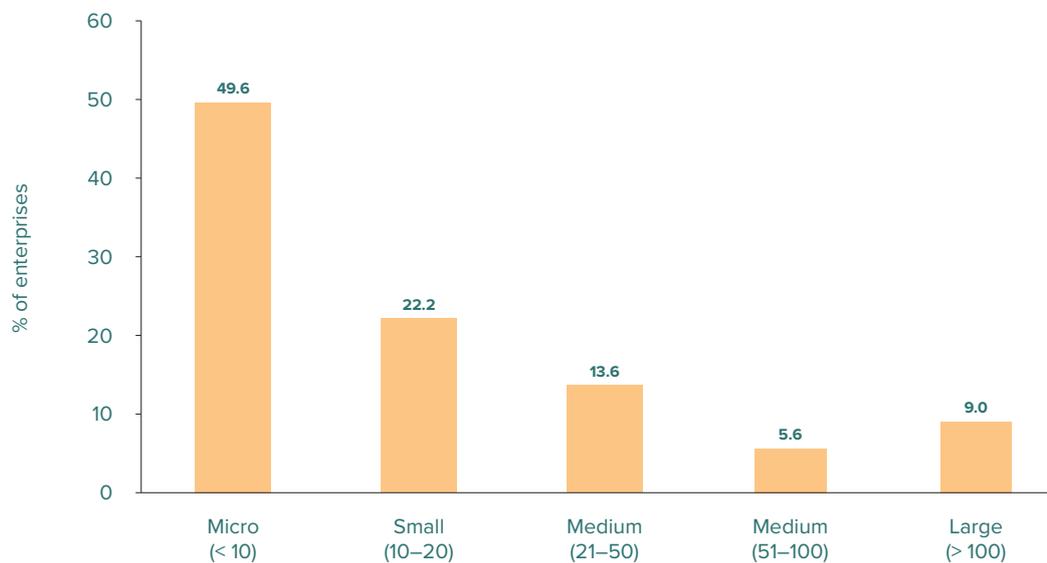
from the Bensirri Public Relations (Bensirri PR) Kuwait COVID-19 Business Impact survey of 536 manufacturing and services enterprises that was conducted in April 2020. The sample includes only formal enterprises that were profitable prior to the COVID-19 crisis. Although the sample is not representative of the economy as a whole, it includes only 9 percent of large enterprises (of over 100 employees – see Figure 11a) and there is no reason for us to believe that refusal to respond was systematic. Because of the prevalence of smaller enterprises, most sampled enterprises are in services. Only 8 percent of surveyed enterprises are in the automotive sector and other manufacturing.

Figure 11. Kuwait’s main sample characteristics: size, sector and age

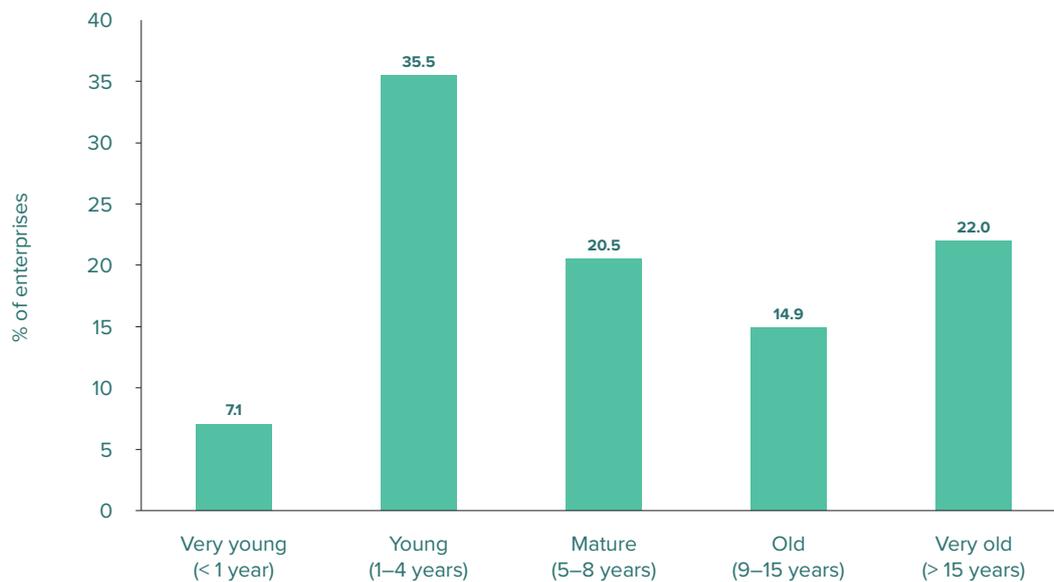
a. Sample sectoral distribution



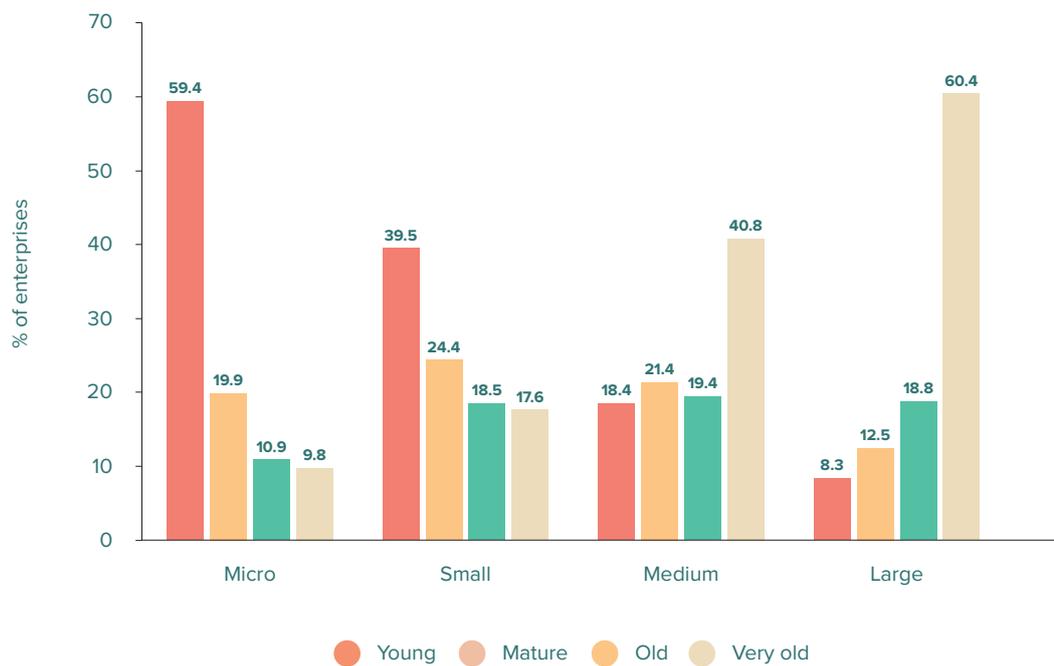
b. Size distribution (by number of employees)



c. Age distribution



d. Age of enterprise by size



Source: Authors' calculations based on Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

Smaller enterprises are not deliberately oversampled,¹⁶ but as is evident from the data, they account for a larger share compared with large enterprises (22 percent – see Figure

11b).¹⁷ This over-representation of small enterprises likely explains why a high proportion of sampled enterprises are young (43 percent – see Figure 11c).¹⁸ Consistent with

¹⁶ The questionnaire was sent to 1,006 enterprises online. No particular methodology was applied to the selection of these enterprises and no sampling methodology is available (Bensirri PR, 2020).

¹⁷ Possibly due to larger enterprises having a greater rejection rate. It is not clear from the survey documentation.

¹⁸ Note that the size and age of enterprises are pre-categorized so that we could not use our standard definitions of size and age accurately, though the definitions used in the survey are quite similar to those used in this paper.



the stylized facts about MSMEs, about 60 percent of all microenterprises in the sample are young (see Figure 11d) and about the same share of large enterprises are very old. In fact, 80 percent of all large enterprises are either old or very old. This distribution clearly demonstrates the “missing middle” phenomenon discussed in the previous section.

4.1.2 Enterprise-level impacts: closures, temporary closures and loss in revenues

Forty-five percent of all surveyed enterprises have suspended or shut down their businesses. Of these enterprises, just over half (51 percent) are microenterprises and about one quarter (27 percent) small. In contrast, the larger enterprises have not been hit as hard – only 4 percent of all closures/suspensions are by large

enterprises.¹⁹ So while 60 percent of all microenterprises and 70 percent of all small enterprises have shut down their operations, only 23 percent of large enterprises have done so (see Figure 12a).

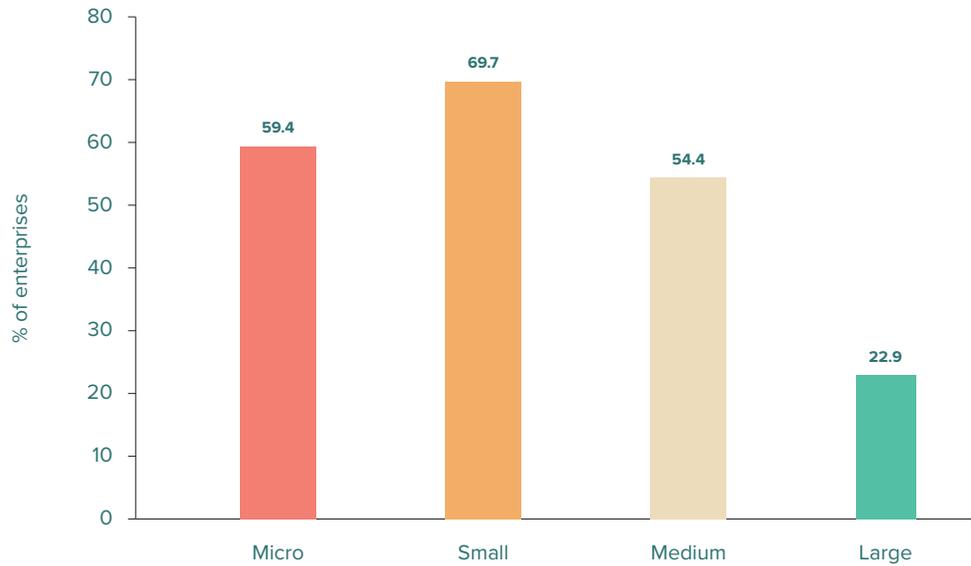
In terms of sectors, the retail sector²⁰ has been the most affected, accounting for 27 percent of all reported closures or temporary closures. This is followed by construction (18 percent), then professional services (15 percent). Revenue loss is similarly distributed. In retail, 46 percent of enterprises witnessed a decline in revenue of more than 50 percent. In construction, 31 percent of enterprises experienced a decline of over 80 percent, and in professional services, 37 percent experienced a decline of over 50 percent.

¹⁹ Medium-sized enterprises represent 18 percent of all enterprises that have shut down.

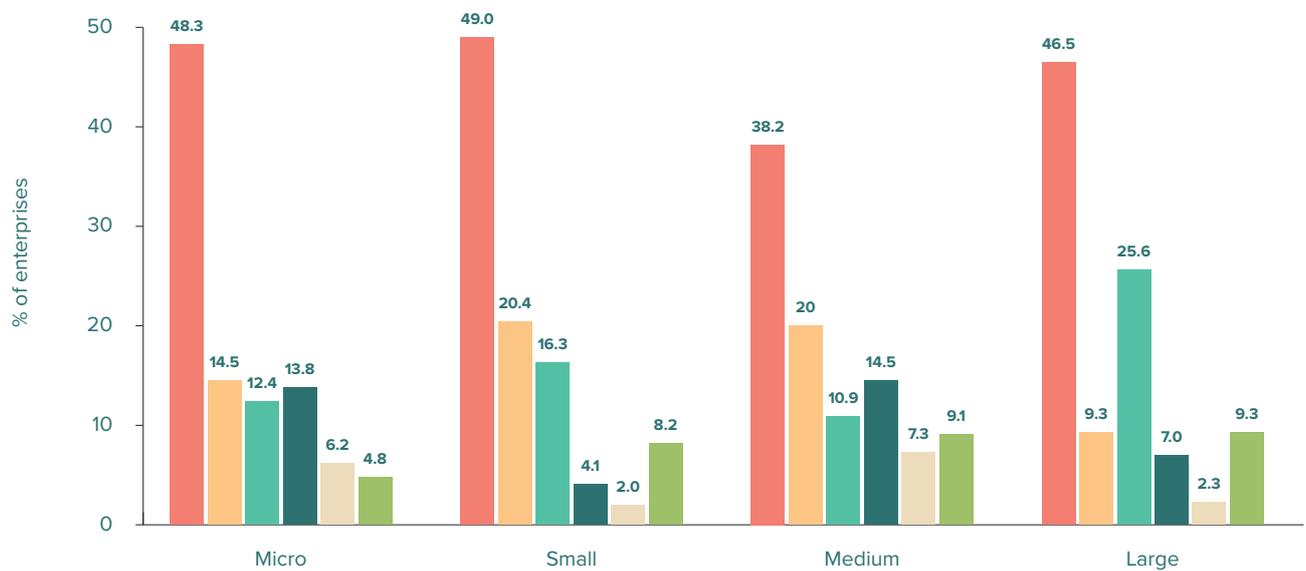
²⁰ Including food and beverage, salons, apparel and furniture retail outlets.

Figure 12. Enterprise closures/suspensions and revenue loss by size

a. Enterprise closures/suspension by size



b. Revenue loss from February 2020 (in share of open enterprises; 292 of 536 enterprises, 54 percent).



- Disastrous: revenues down by more than 80%, still operating
- Extremely negative: revenues down by more than 50%, still operating
- Very negative: revenues down 20–50%, still operating
- Negative: revenues down by less than 20%, still operating
- Neutral: revenues haven't dropped by more than 20%
- Positive: revenues up by 5% or more

Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

Overall revenues have dropped by 80 percent for a quarter of the respondents, and by half for 9 percent of

respondents. For 8 percent of the enterprises, revenues have dropped between 20 and 50 percent. Revenues

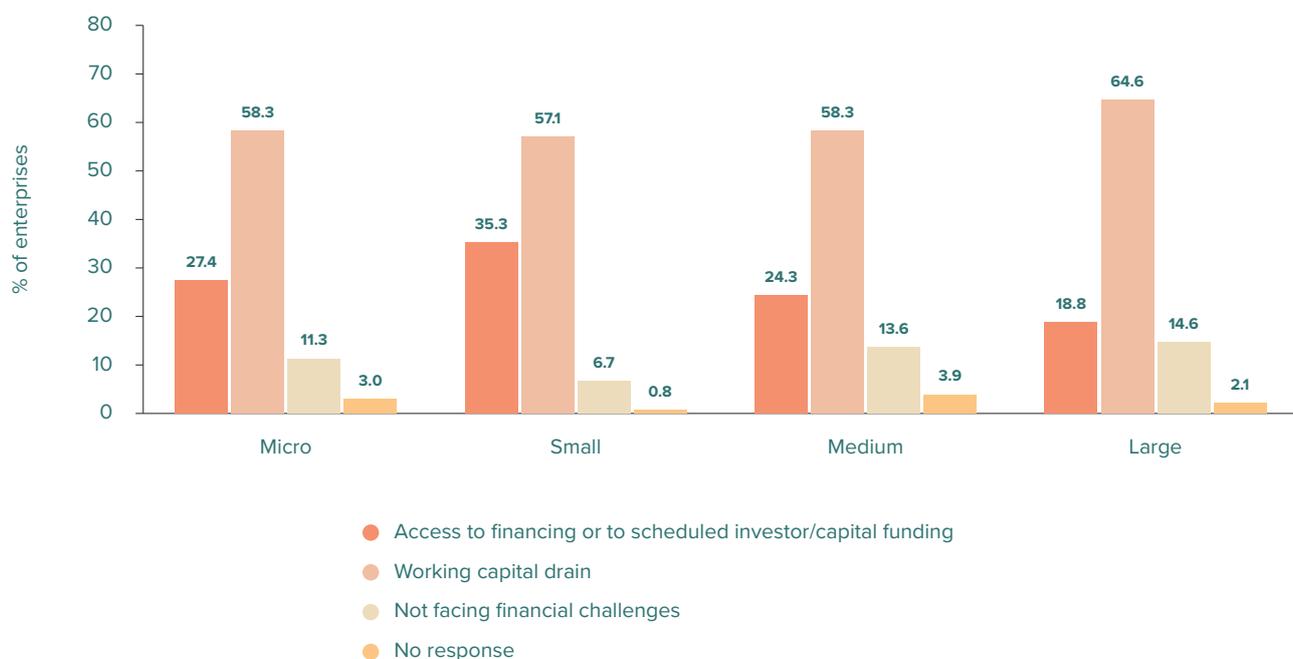
have fallen by less than 20 percent for just 6 percent of all surveyed enterprises. Revenues increased for a very small percentage of enterprises (4 percent).

By size, half of all surveyed micro-, small and large enterprises that are still open have suffered revenue losses of 80 percent or more. Medium-sized enterprises fared slightly better (38 percent– see Figure 12b). A larger share of open large and medium-sized enterprises experienced an increase in revenue. The figure is 9 percent for large and medium-sized enterprises, compared with only 5 percent for microenterprises and 8 percent for small enterprises (that is, 7 out of 145 microenterprises and 4 out of 49 small open enterprises, respectively).

4.1.3 Transmission mechanisms and operational challenges during the COVID-19 pandemic

The survey collected data on the main transmission mechanisms of the double shock into the Kuwaiti MSME sector. As expected, MSMEs face more grave cash flow challenges than large enterprises. Therefore, 27, 35 and 24 percent of the micro-, small and medium-sized enterprises face challenges in access to finance or scheduled investor/capital funding compared with just 19 percent of large enterprises (see Figure 13). All enterprises face working capital drain, with large enterprises experiencing this problem at a slightly higher rate (65 percent of all large enterprises).

Figure 13. Finance and cash flow challenges (q10)

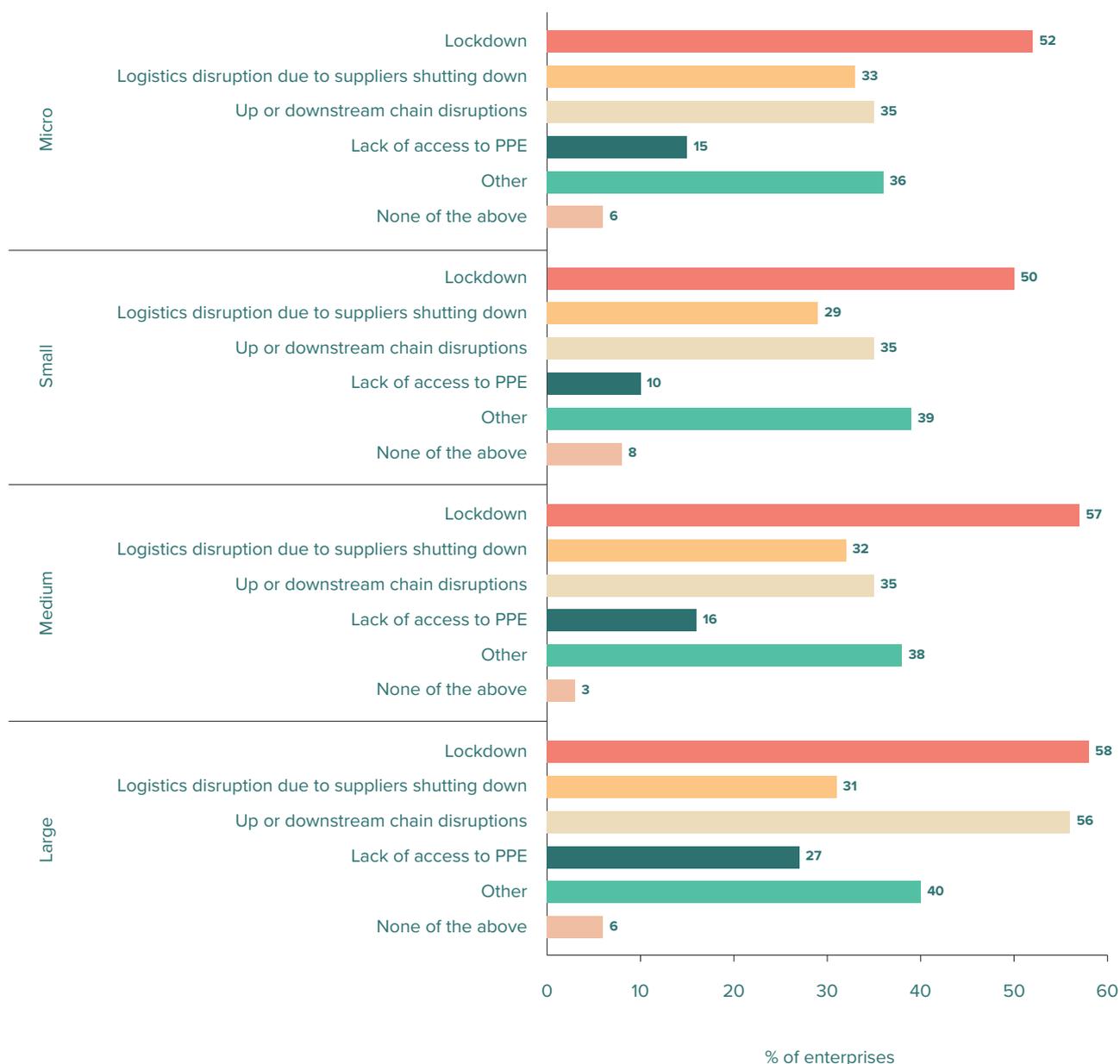


Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

All enterprises were adversely affected by the lockdown which topped all other operational challenges. This problem affected larger (58 percent) and medium-sized (57 percent) enterprises slightly more than micro (52 percent) and small (50 percent) enterprises (see Figure 14). The second most reported disruption has been in the upstream and downstream chain. Again, this problem is most strongly felt by larger enterprises. In fact, “other reasons” are the second most reported problem for MSMEs – they are in third place among large enterprises. Unfortunately, these other reasons are not named in the survey results. The next operational challenge are the disruptions to logistics due to suppliers shutting down or suspending their operations. The unavailability of personal protective equipment (PPE) was

cited as a serious operational challenge by 16 percent of the enterprises, though as a more serious one for larger enterprises (27 percent).

Figure 14. Operational challenges from February 2020 (q9)



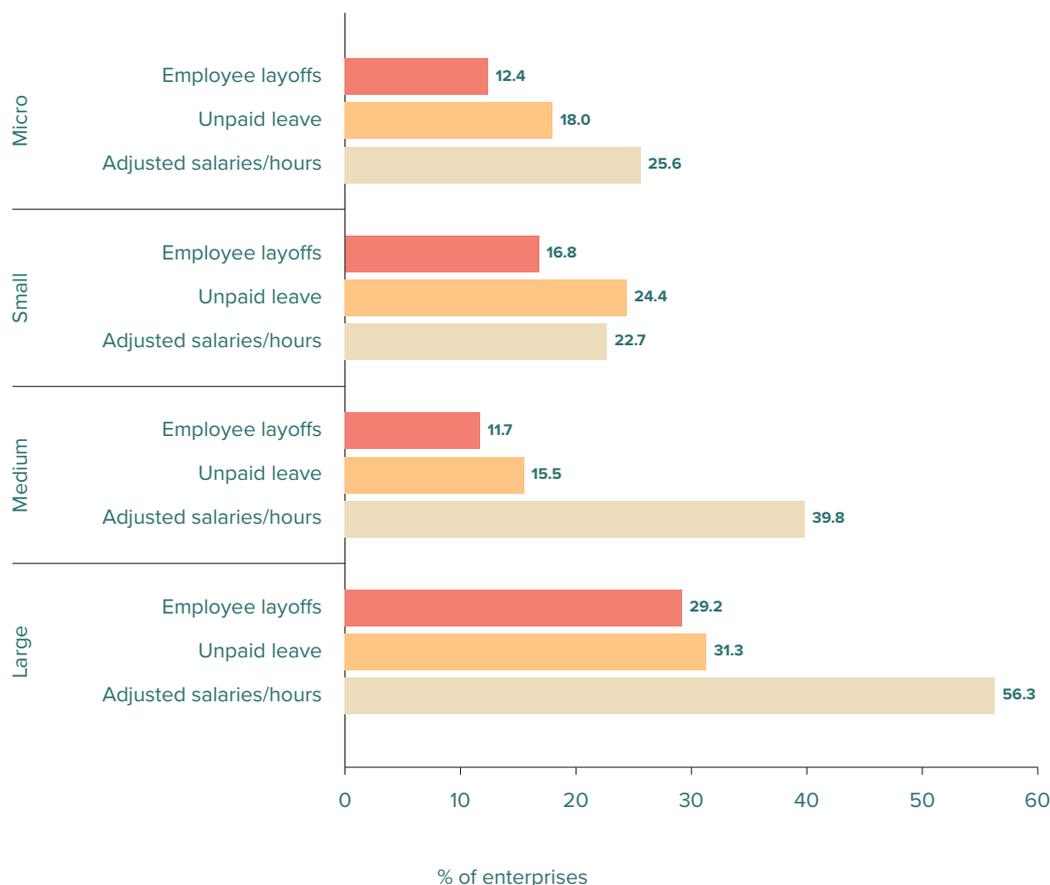
Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

4.1.4 COVID-19 MSME behavioural responses: layoffs, wage cuts and adjustments in working hours

Enterprises have responded to the COVID-19 crisis by firing workers and giving them unpaid leave (see Figure 15). It is notable that large enterprises have taken more actions in response to COVID-19 than micro-, small and medium-sized enterprises. The share of large enterprises taking each action is larger than that of MSMEs for every reported action. Hence, a greater proportion of large enterprises (29 percent) have laid off workers than either micro (12 percent) or small (17 percent) enterprises (see Figure 15).

In addition, nearly one third (31 percent) of large enterprises have given unpaid leave, which is more than one and a half times the share of microenterprises doing so, and about double that of medium-sized enterprises (15.5 percent). Both these actions are against the law in Kuwait. Larger enterprises were also more likely to have adjusted working hours (56 percent of all large enterprises) compared with either of the other smaller sizes. A partial explanation may be that family enterprises are more common among MSMEs, so family members keep working. But that explanation is less likely for the medium-sized enterprises, which have seen the next largest share of firms adjusting salary or hours.

Figure 15. Enterprise behavioural responses: layoffs, wage cuts and working hours (q13)



Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

4.1.5 COVID-19 MSME behavioural responses: implementing coping strategies

To overcome these operational challenges, many enterprises have implemented coping strategies other than firing workers, cutting wages and reducing working hours. Just as larger enterprises have responded more actively to the COVID-19 shocks than other sizes of enterprise, so they are more likely to have adopted virtually every coping strategy response.

The most common coping strategy across all sizes has been to ask the landlord for flexibility in paying the rent. The second most implemented coping strategy, especially by large enterprises, has been moving workers to remote working (48 percent; see Figure 16a). The few MSMEs that work remotely are mostly in the professional services sector, as well as in construction and contracting, and in IT and communication. Larger enterprises however, that work remotely are in retail, presumably larger retail outlets – and very few in manufacturing. Large enterprises are generally more likely to take out loans. Therefore, negotiating more flexibility in loan repayments was large enterprises' third most prolific coping strategy (35 percent of all

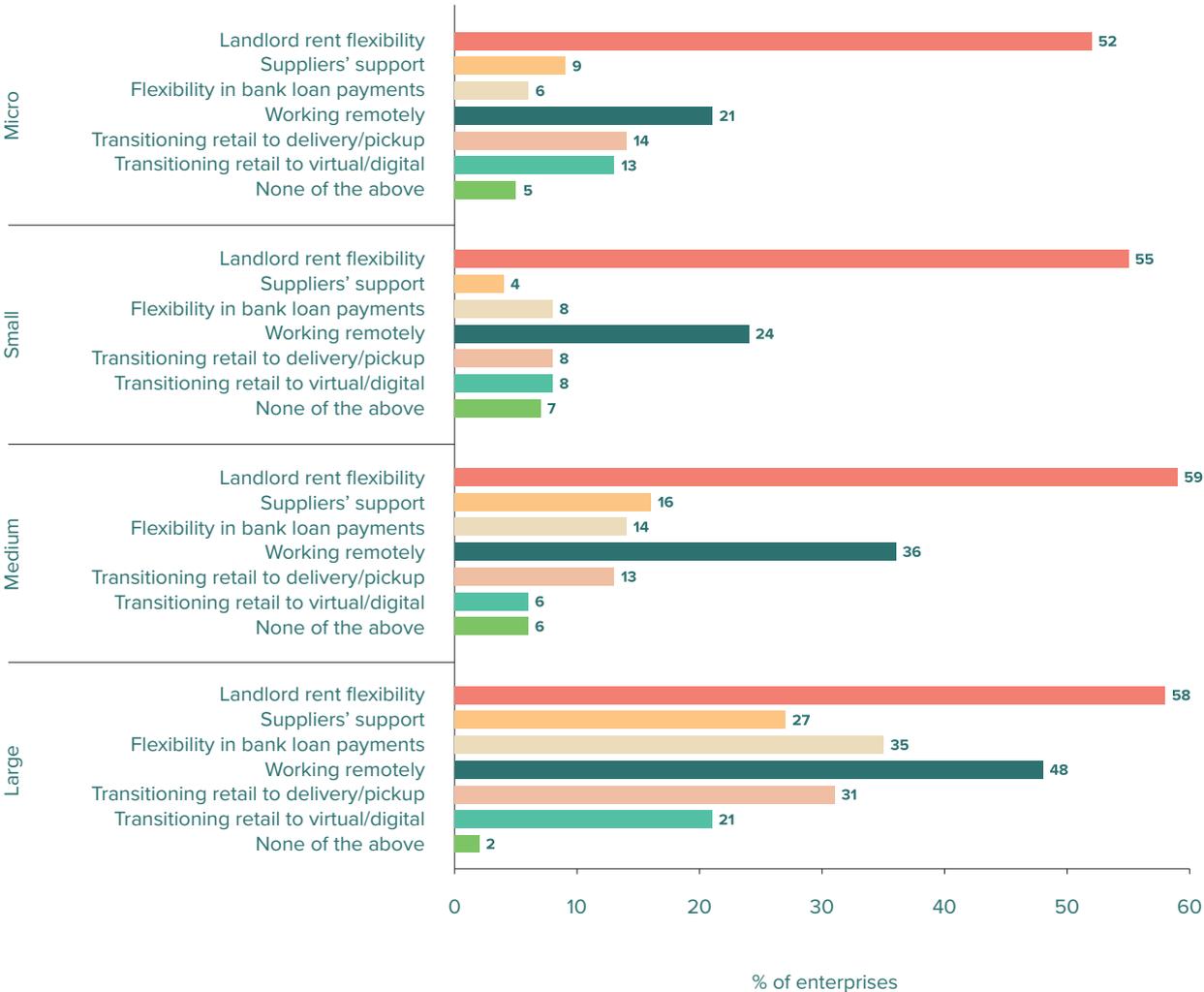
large enterprises compared with just 6 and 8 percent for micro- and small enterprises). MSMEs, on the other hand, increasingly transformed the retail aspects of their activities into delivery and pickup options wherever possible (their third most prolific coping strategy). Large enterprises have done that too (31 percent), although it is only their fourth most prolific coping strategy.

The least important coping strategy for all enterprise sizes has been transforming the retail aspects into more digital and virtual platforms. This finding suggests some inflexibility on the part of Kuwaiti enterprises, or perhaps it is a matter of time. In terms of the mode of operation for businesses that remained open under the current conditions, given that many small businesses work on home premises such that their homes and workplaces/retail outlets/offices may be co-located, half or more than half of all micro- (56 percent), small (47 percent) and medium-sized enterprises (33 percent) work from home (see Figure 16b). In contrast, for larger enterprises, it is important to have a skeleton staff in the office while allowing the rest of them to work remotely.

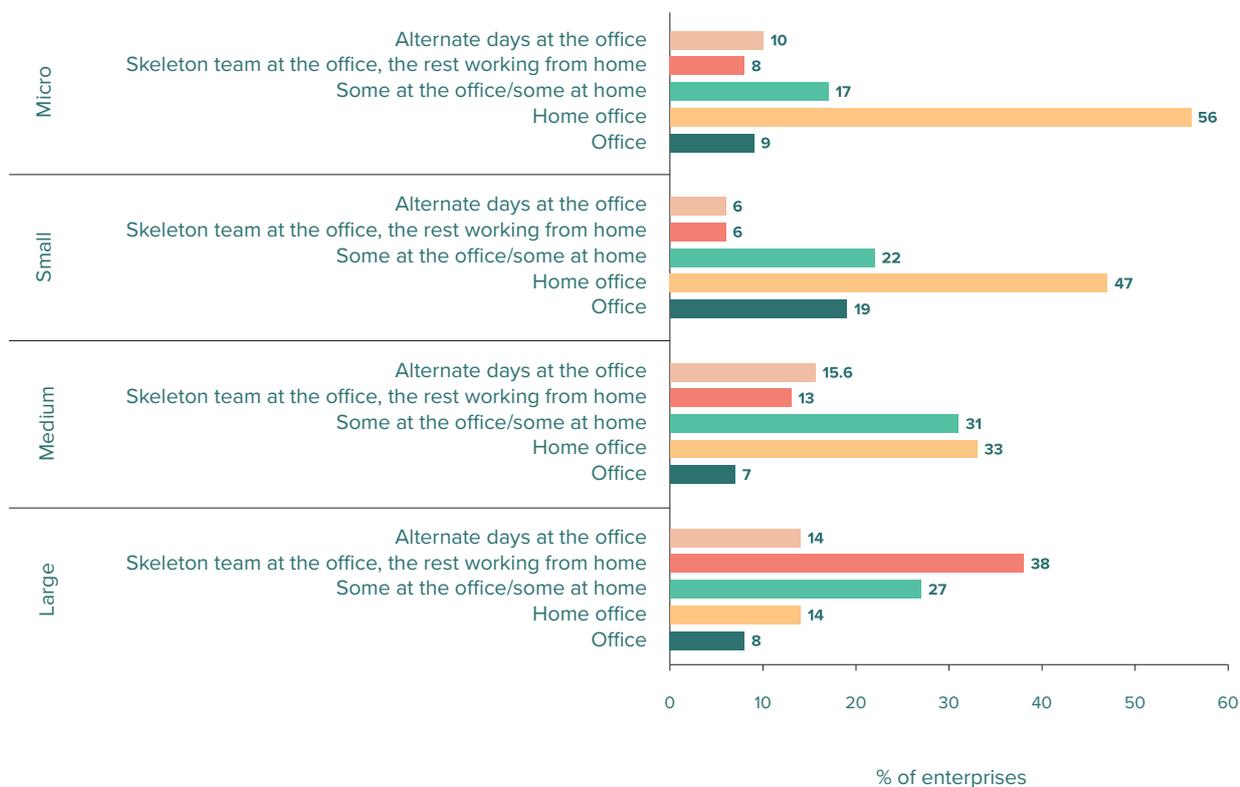


Figure 16. Coping strategies and mode of operation

a. Coping strategies (q16)



b. Mode of operation (q8)



Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

4.1.6 Future projections and enterprise outlook

Smaller enterprises were more optimistic than larger ones. When asked how long they expected their business to be affected by the COVID-19 crisis, more micro- (39 percent), small (34 percent) and medium-sized (35 percent) enterprises expected the impact to last just three to five months (see Figure 17a). However, a substantial number of large firms predicted that the impact would last over a year. This was the view of a quarter of all large firms (27 percent) compared with less than half that for MSMEs.

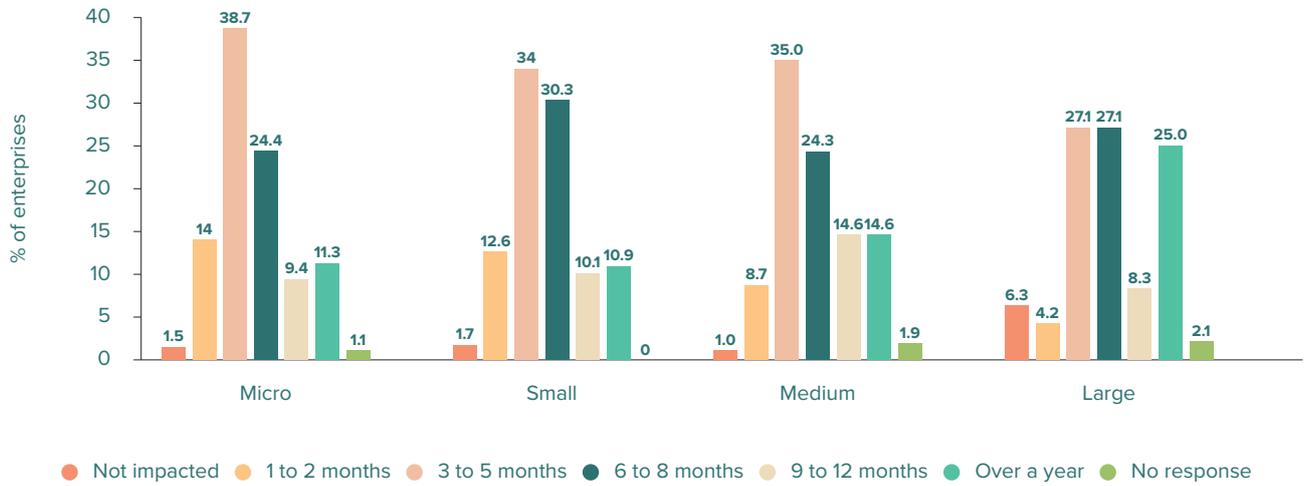
All enterprises shared a general negative outlook for the year 2020 (see Figure 17b), bearing in mind that the survey was conducted in April, before the extent of the pandemic was fully understood. However, those whose revenues had risen during the crisis shared a positive outlook. Regarding their outlook if lockdown persisted, larger enterprises were significantly more negative, predicting that their revenues would drop further, after which they would only manage to survive for just six months (63 percent – see Figure 17c), potentially due to their greater overheads.

Again, smaller enterprises were more optimistic when asked about when they expected their revenues to bounce back to their 2019 levels. A larger share of large enterprises (44 percent) predicted that it would take somewhere between nine months and two years (micro – 32 percent, small – 35 percent; see Figure 17d). For microenterprises, the largest share was for a period of just six to nine months. In terms of when the whole sector would recover, all enterprises gave very similar answers, regardless of size (see Figure 17e).

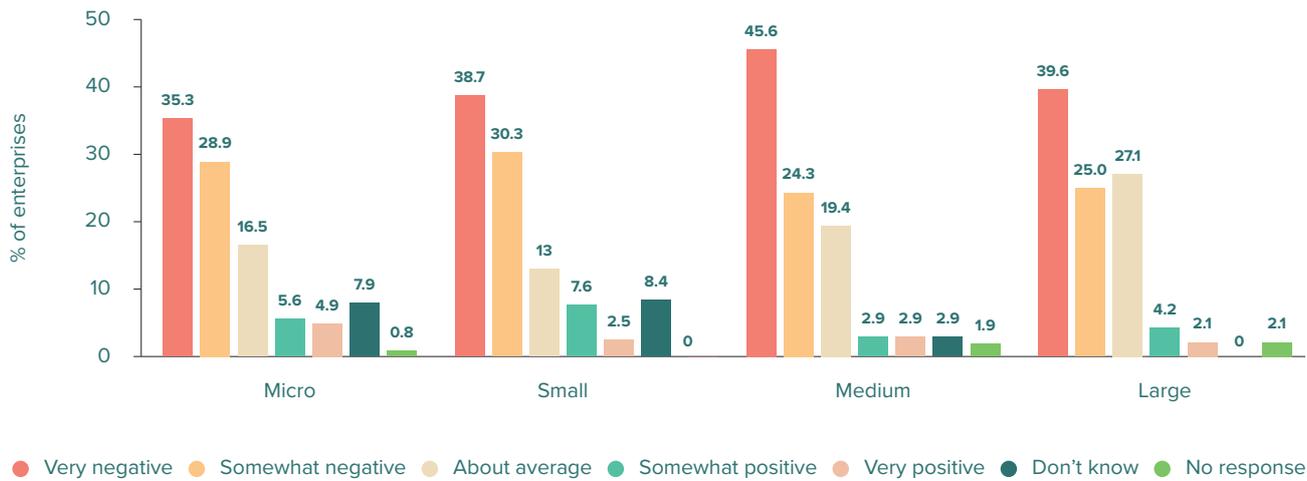
However, when it came to how sustainable their businesses would be under the current conditions, larger enterprises predicted a longer period of sustainability of six months to a year (27 percent of large enterprises – see Figure 17f). In contrast, only half or less of this share of micro- (15 percent) and small enterprises (11.8) believed they would survive that long. Most micro-, small and medium-sized enterprises believed they would last for a period of less than six months (30, 31 and 30 percent, respectively, compared with just 20 percent of all large enterprises).

Figure 17. Predictions and future outlook

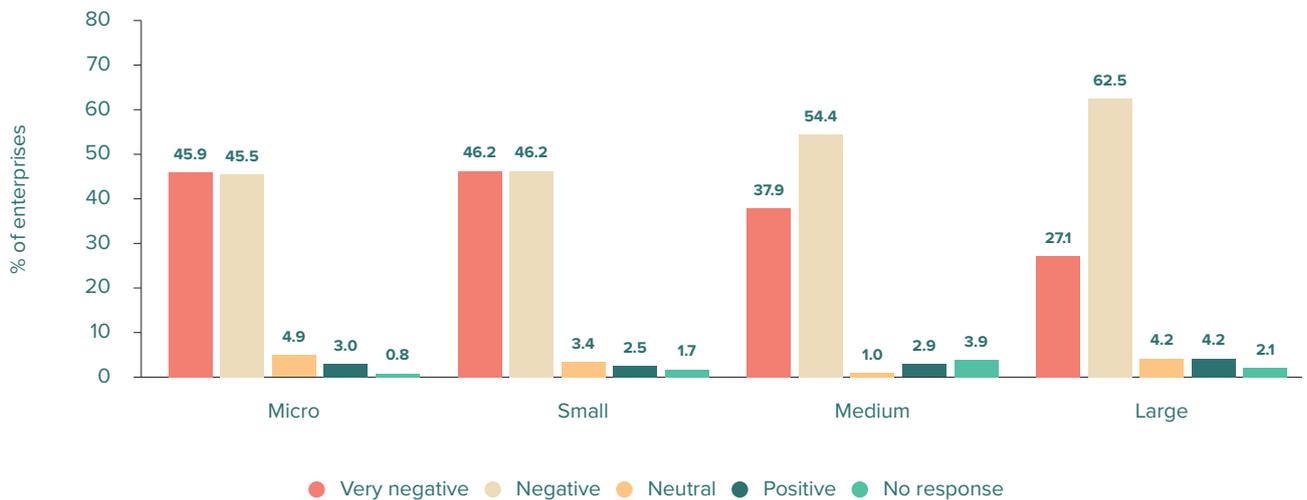
a. Predictions on duration of COVID-19 impacts (q7)



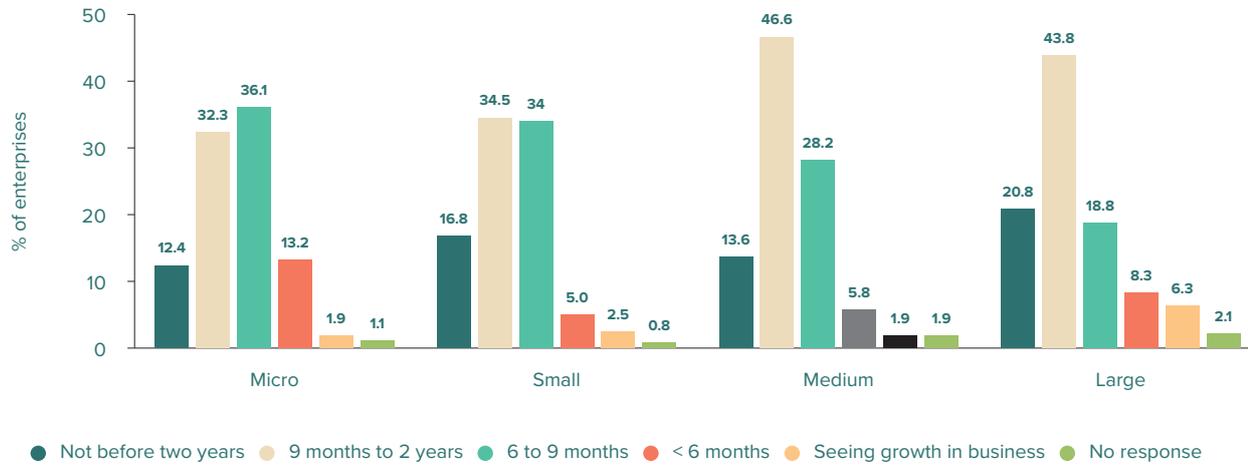
b. Enterprise business outlook for 2020 (q3)



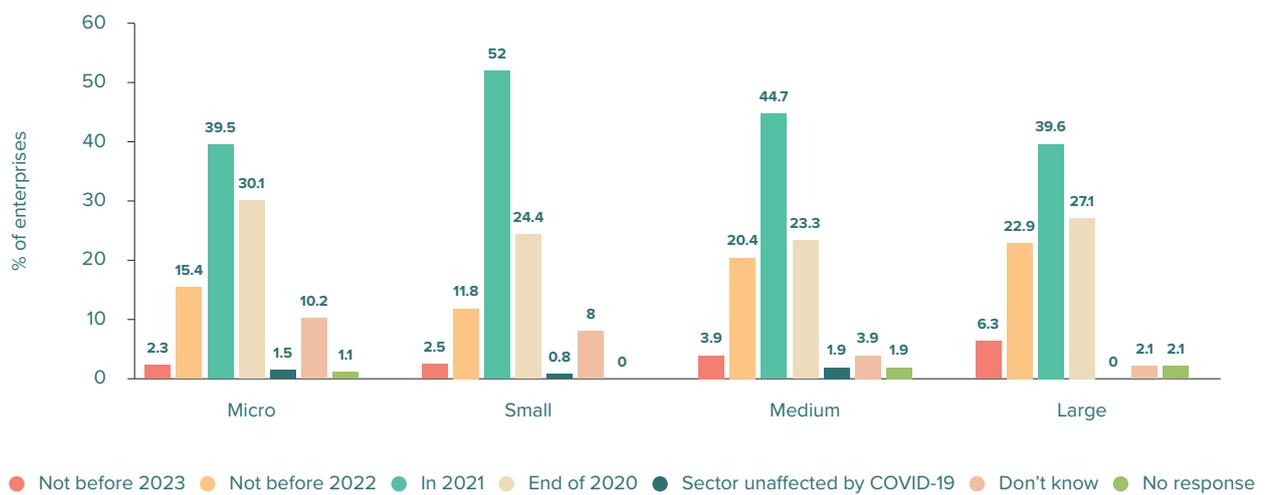
c. Six-month business outlook if lockdown persists



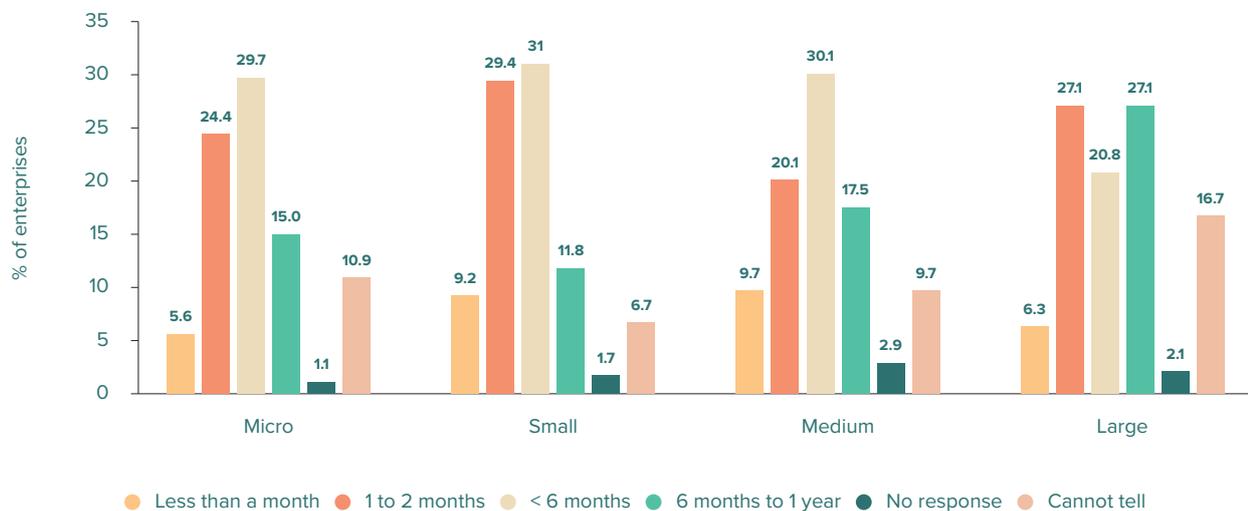
d. Outlook on business recovery to 2019 revenue levels



e. Outlook on sector recovery to 2019



f. Length of business sustainability under current conditions



Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

4.1.7 MSMEs’ future: likely transitions and transformations

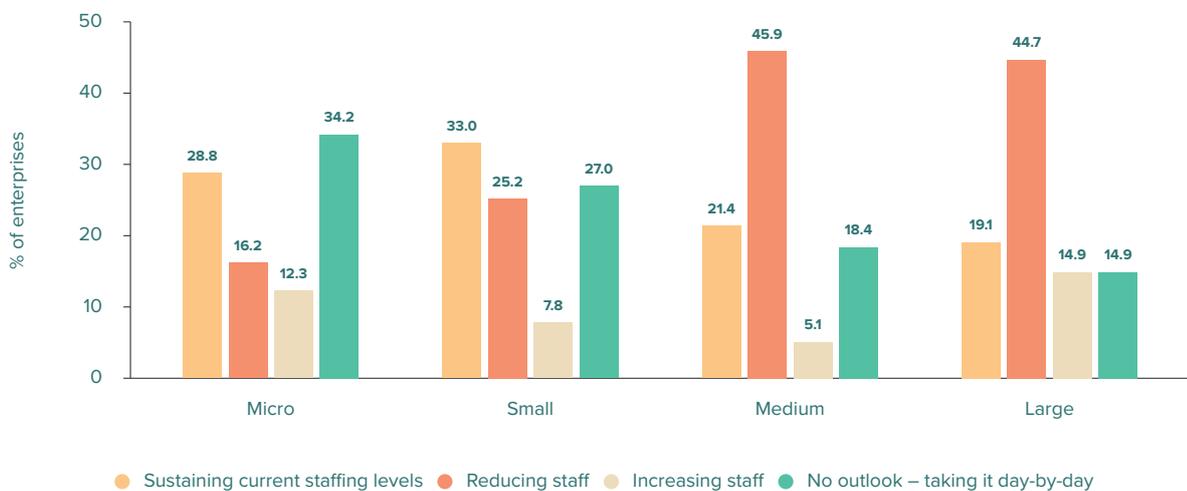
Will the coping strategies that enterprises have already adopted in response to the crisis persist post-COVID-19? Will they be inclined to keep some of the behavioural changes, such as reducing employment in the coming year? Or will they increase employment instead of keeping it at the current level? Half of the larger and medium-sized enterprises responded that they have realized that they can work with fewer people (see Figure 18a). Since they already have a limited number of workers, a smaller share of micro- (16 percent) and small enterprises (25 percent) indicated their intention to reduce employment in the next 12 months. Most of those enterprises plan to keep employment numbers at their current level (micro – 29 percent; small – 33 percent) or do not want to think that far ahead (34 percent), preferring to take it day-by-day. Only a smaller percentage – mostly those who experienced stable or higher revenues – plan to increase employees.

The majority of enterprises of all sizes (between 75 and 80 percent of the respective enterprise sizes – see Figure 18b) did not plan to make any changes to their supply chains. Very few have changed suppliers and only a few more have already switched from foreign to local suppliers (9 percent of all micro-, 7 percent of small, 3 percent of medium-sized and 8 percent of large enterprises). A smaller percentage have already invested in moving their supply in-house (3 percent, 4 percent, 8 percent and 4 percent of the respective enterprise sizes).

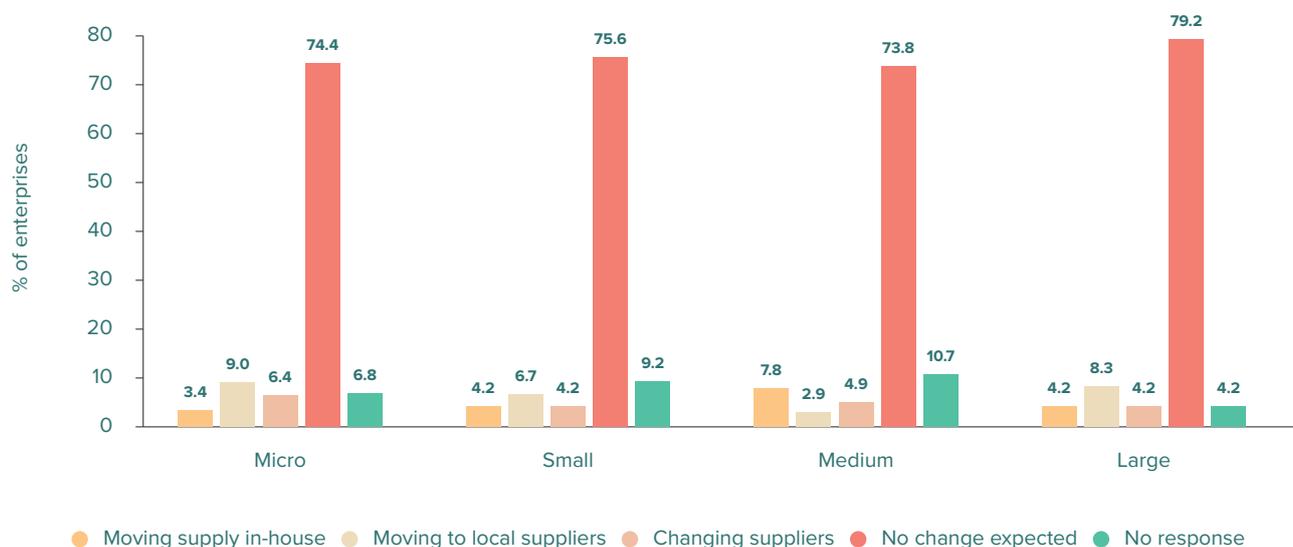
Around one and a half times as many large enterprises were already transforming digitally compared with the proportion of MSMEs doing so (see Figure 18c). Nearly half of the micro- and small enterprises – 47 and 48 percent, respectively – believed a digital transformation was irrelevant to their business, compared with just 31 percent of large enterprises. But an equal proportion of micro- and large enterprises stated that they had already made significant investments in digital facilities; these microenterprises are probably the few new digital-based platform start-ups.

Figure 18. Sustaining current behavioural changes post-COVID-19

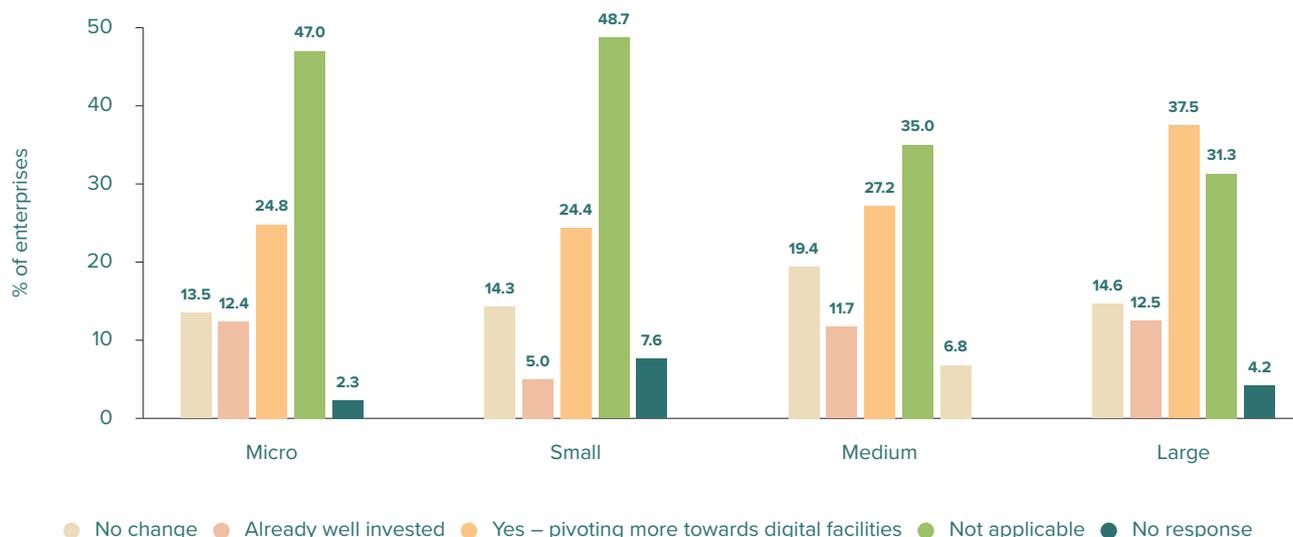
a. Future plans for numbers of workers (12-month staffing forecast)



b. Future changes in supply chains



c. COVID-19-related acceleration of digital facilities



Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

4.1.8 Perceptions of government stimulus package and SME policy

4.1.8.1 A brief overview of the Kuwaiti SME policy

The Government of Kuwait has introduced various initiatives, programmes and policies to promote the role of SMEs. In 1997, it established the National Investment Fund Portfolio to increase investment and attract talented and motivated young Kuwaitis to develop their entrepreneurial skills (Ramadhan, and Girgis, 2018). To achieve the fund's objective, several initiatives were established, such as the Industrial Bank of Kuwait and the Kuwait Small Projects

Development Company (KSPDC). The bank provided financial assistance in compliance with Islamic Sharia law to encourage Kuwaiti youth to start their own projects. Established in 1993, it financed about 593 projects in its first 15 years (ibid.). Likewise, KSPDC aimed to provide access to finance to small Kuwaiti local businesses. The company funded 209 projects throughout its lifespan from 1998 to 2013. It was replaced in 2016 by the National Fund for the Promotion and Development of SMEs (KNFS).

The new fund is supposedly different to its predecessor, covering all sectors; not interfering in the management of the financed projects; providing land; being mandated to

provide incubators in several districts within Kuwait; and assisting the fledgling projects with obtaining government approvals and licenses within pre-assigned time limits. The fund is explicitly mandated by law to assist in diversifying the economy, creating jobs for nationals and supporting innovation. The KNFS has funded 870 SMEs from 2016 until the start of the COVID-19 crisis (Markaz 2020). Promoting the employment of nationals in the private sector is welcome but should not parallel the security provided by government jobs only in the private sector.

4.1.8.2 SME rescue package during the COVID-19 pandemic

Similar to many governments around the world, the Kuwaiti Government has implemented a number of monetary and fiscal measures such as reducing the interest rate to a historic low of 1.5 percent (KPMG, 2020), increasing the financing limit from 90 to 100 percent and introducing a six-month grace period on bank loans, including waiving interest and charges.

The Government has taken several measures specifically aimed at SMEs, such as reducing their risk rating from 75 percent to 25 percent; providing them with concessional long-term loans with joint financing from local banks and the KNFS, postponing instalments to the Kuwait National Fund and the Industrial Bank of Kuwait; and postponing collection of social security contributions from business owners in the private and partially State-owned oil sectors for six months.

In addition, the Government is ensuring prompt payments of any amounts due to the private sector and providing exemptions from some government fees to enterprises in the manufacturing and cooperative sectors if they pass these exemptions on to their clients. Finally, self-employed Kuwaitis who are registered under chapter five of the Social Security Law have been exempted from making their insurance contributions for a period of six months (ibid.).

4.1.8.3 How does the MSME sector in Kuwait view these measures?

Most of the surveyed MSMEs were unaware of these measures: over 60 percent of micro-, 56 percent of small, and half of all medium-sized enterprises either had entirely no knowledge of the package or were not familiar with the details (see Figure 19a). About 75 percent of large enterprises, on the other hand, were either somewhat familiar or very familiar with the package, indicating that support was likely going to the larger businesses or at least that they were better informed of the help that was available.

Half of all large enterprises and 36 percent of medium-sized enterprises surveyed believed the Government's response to the crisis was poor, and about a third of micro- and small enterprises agreed (see Figure 19b). But generally, small enterprises and microenterprises were equally split on how they felt about the package. A substantial share of all enterprises believed at the time that it was still too soon to tell. Furthermore, when asked if Government policies were generally helpful, the absolute majority indicated that they were not, although this sentiment was particularly strong among larger enterprises (88 percent compared with 75 percent, 78 percent and 75 percent for micro-, small and medium-sized enterprises, respectively (see Figure 19c)).

The negative views held by many enterprises about the benefits package were probably related to the constraints attached to these benefits. For example, loans were granted only to existing clients of banks and enterprises should have proven they were in a sector that adds value to the national economy to be eligible (Markaz, 2020). SMEs should also be capable of creating national employment. The enterprises should have been profitable pre-COVID-19, been in a sector that had been affected by lack of mobility due to COVID-19 and must not have defaulted on any of their loan obligations. The SME borrowers should also not distribute any profits as dividends during the loan period. These conditions were designed to safeguard the lender from the risk of credit default but they risked turning away the majority of prospective borrowers (ibid.).

Larger enterprises did not believe support to SMEs was a high priority for the Government (57 percent), and MSMEs themselves agreed (48 percent, 51 percent and 52 percent, respectively – see Figure 19d).

Since enterprises are so critical of the Government's stimulus package and its policies in general, which policy would they like to see implemented? Large enterprises that have already broken the existing Labour Law by firing and giving unpaid leave to so many people (see Figure 15) wanted the Government to revisit the Private Sector Labour Law to include a *force majeure* clause (40 percent; see Figure 20a). MSMEs also wanted to see that happen, although it was not at the top of their list of priorities. The top priority for MSMEs – and the second priority for large enterprises – was to make all government services available online, primarily to reduce the risk of infection but also to increase their own efficiency. The second priority for micro- and small enterprises was improving rent laws for businesses. Since the current crisis is exceptional, changing rent law under the assumption that the crisis will last forever may not be the best policy option or gain general support. Instead, the Government can follow the example of developed governments and pay rent on behalf of businesses.

The importance of the COVID-19 response is evident from the answers to the question of which type of relief programme SMEs wanted to see implemented. The majority of MSMEs chose rent relief by law or decree (see Figure 20b). However, about 60 percent of large enterprises believed that there should be unconditional, zero-interest State or bank funding. MSMEs' second

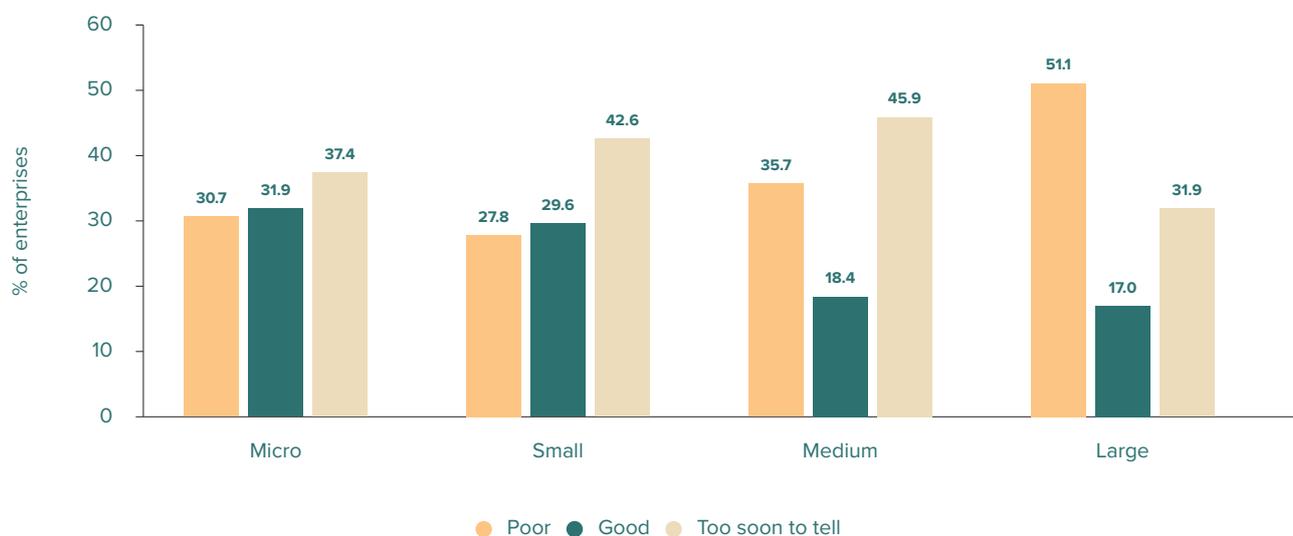
preference was for grants that covered their fixed costs for six months, with the next preferred policy response being unconditional zero-interest funding. More larger enterprises (38 percent) wanted to see no trade taxes as they are typically more engaged in exporting and importing than their smaller counterparts.

Figure 19. Views on the Government stimulus package and response

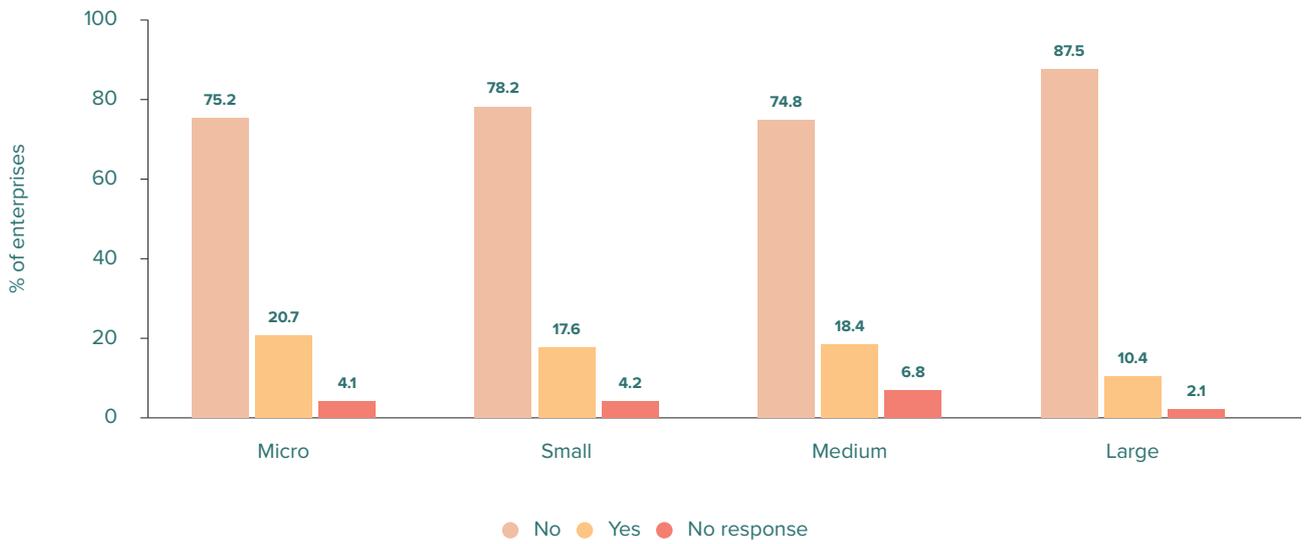
a. Familiarity with the Kuwaiti Government stimulus package



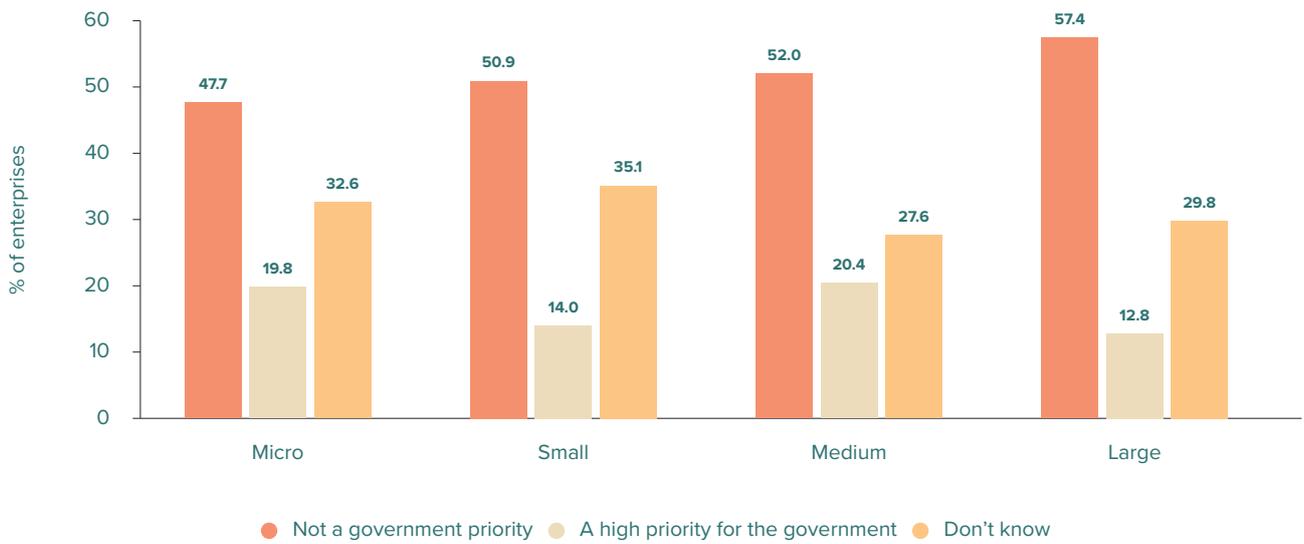
b. Views on the Government's COVID-19 response



c. Opinions on whether the Government’s policies are helpful



d. SMEs’ position on the Government’s priority list

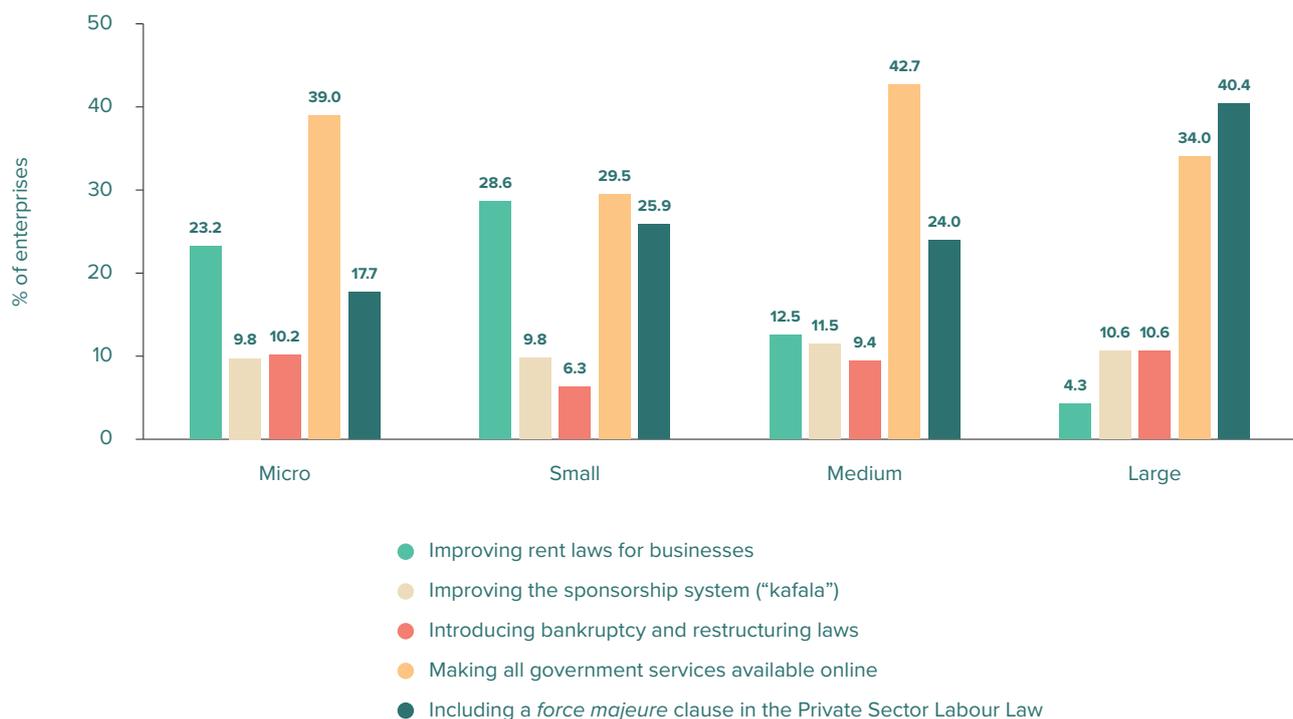


Source: Authors’ calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

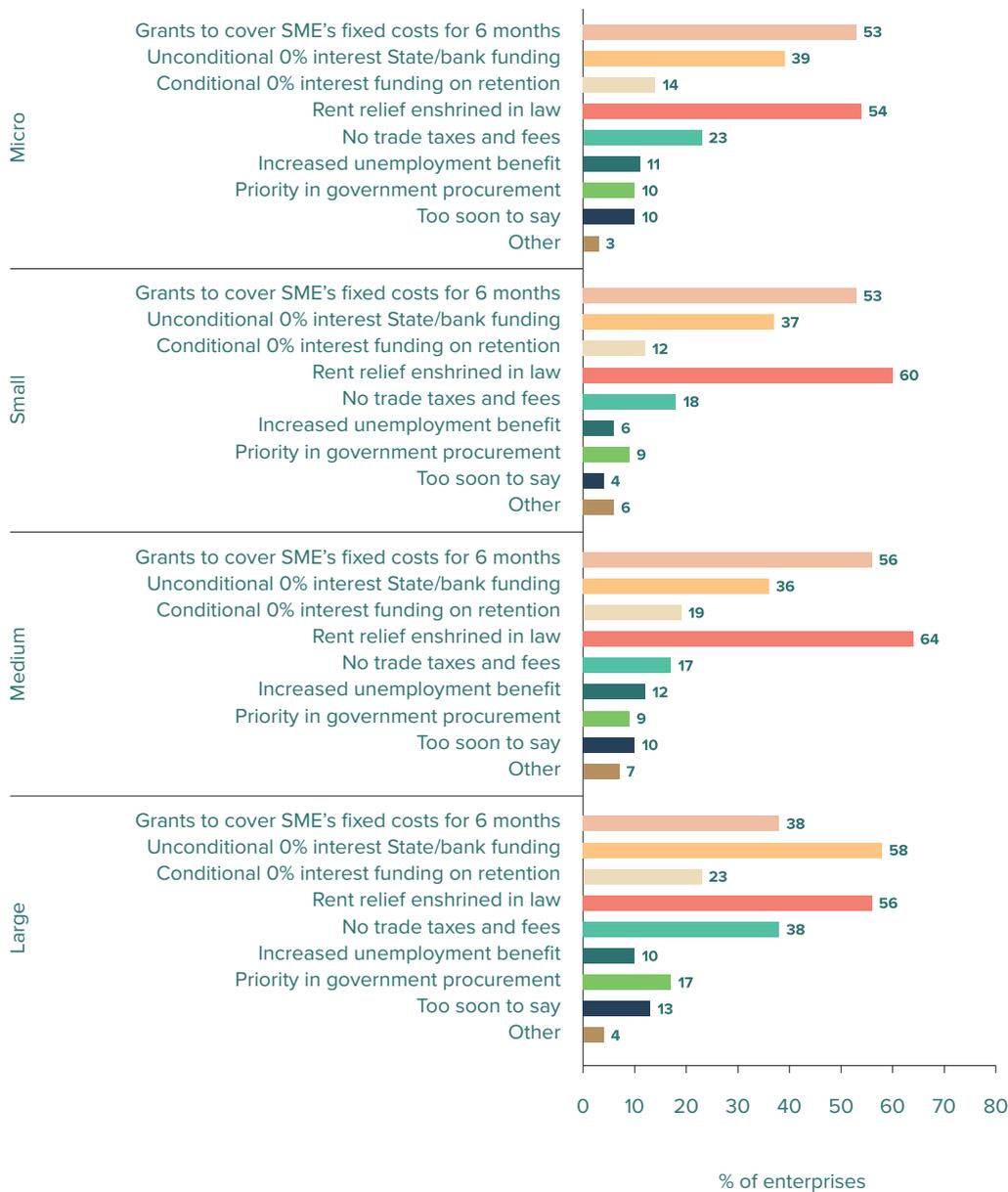


Figure 20. Policy priorities in a pre- and post-COVID-19 world

a. Enterprises' most-needed government policies post-COVID-19



b. Suggested Government response to COVID-19 (q23)



Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

4.1.9 Reflections on the Kuwait case study

The impacts of the double crisis presented in the previous section indicate that larger and older enterprises have not been as severely affected as the smaller, more private sector-oriented MSMEs. The poor response of the latter sector is a reflection of the fact that, despite being very wealthy, Kuwait has performed poorly in terms of diversification, enterprise density – especially of MSMEs – entrepreneurial activity and the size of the private sector.

A number of reasons, other than – although sometimes also related to – Dutch disease account for the structural

vulnerabilities of the Kuwaiti economy. Firstly, the generous availability of lifetime secure government employment for all Kuwaiti nationals provides limited incentives for Kuwaitis to engage in entrepreneurial activities. It is worth noting that Kuwaiti nationals make up less than 20 percent of the country's overall employees and the workforce (Salvini, 2014). A further reason for structural vulnerability in the country is import-dependent consumption patterns that are made possible by oil wealth, including conspicuous consumption of foreign-brand "status goods". Much like the lack of incentive to engage in entrepreneurial activities, the incentive for individuals to engage in risky business

activities is also dampened by the nature of the Kuwaiti welfare state.

Another potential break on private-sector development is that foreigners cannot solely own companies in Kuwait. This means that Kuwaiti private entrepreneurs are also protected from foreign competition by law but does not mean they are necessarily entrepreneurial. Rather, any

foreign business has to have a Kuwaiti co-owner, who can behave as a silent partner, having no active role in the running of the business.

According to the survey results, the fewer Kuwaiti employees an enterprise had, the more likely it was to have suspended its operations or shut down in response to the crisis (Table 3).

Table 3. Incidence of shutdown or suspension by Kuwaiti workforce

Kuwaiti workforce	Suspended or shut down			
	Yes	No	Total	% shut down
None	48	16	64	75%
Myself only	120	70	190	63%
< 5	119	93	212	56%
5–15	16	33	49	33%
16–30	2	7	9	22%
> 30	3	7	10	30%

Source: Authors' calculations based on the Bensirri PR Kuwait COVID-19 Business Impact Survey (2020).

Another structural vulnerability factor is the country's relatively poor innovation environment. Kuwait only outperforms Algeria and Saudi Arabia in terms of institutions, and Algeria alone – the weakest of all OECs – in terms of business sophistication (Table 4). The country is an average performer among OECs in terms of infrastructure, human capital and research, market sophistication and creative outputs.

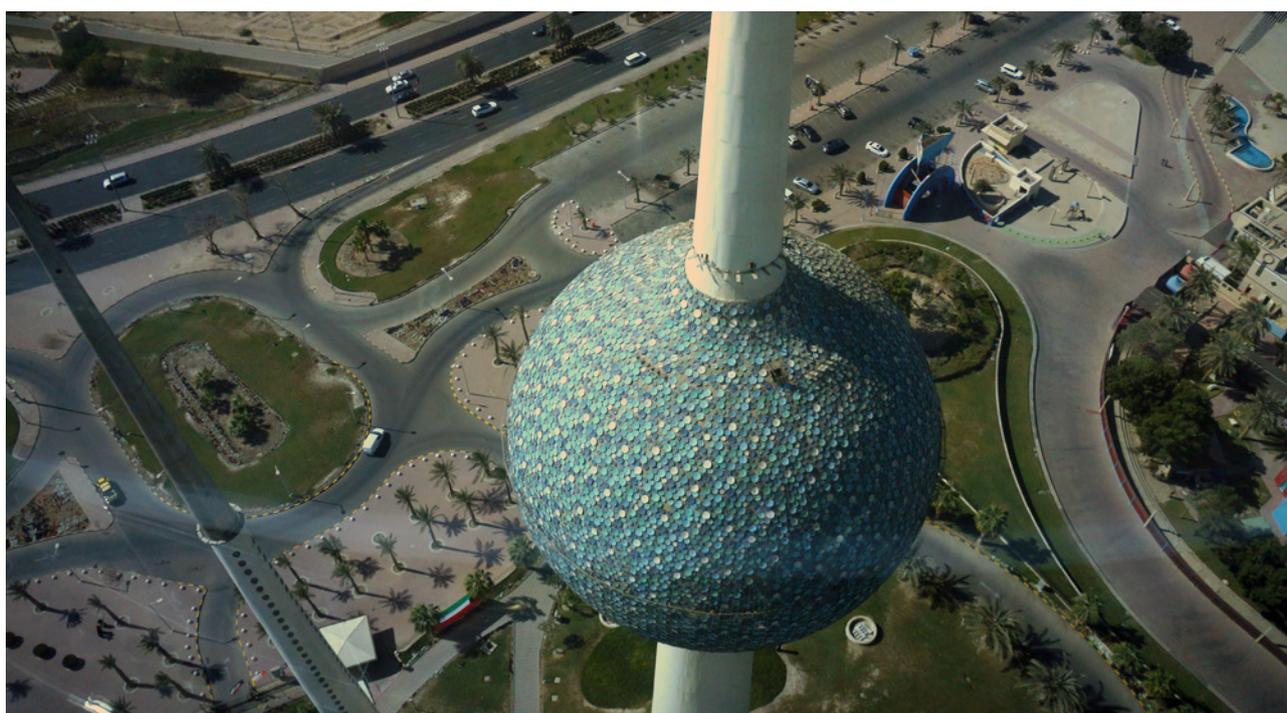


Table 4. Global Innovation Index (GII), by country (2020)

	GII	Institutions	Human capital and research	Infrastructure	Market sophistication	Business sophistication	Knowledge and technology outputs	Creative outputs
Oil-exporting countries (OECs)								
UAE	34	28	17	17	30	22	78	34
Bahrain	79	51	84	43	80	86	86	98
Qatar	70	58	83	28	94	77	85	58
Oman	84	70	43	56	104	95	124	94
Kuwait	78	88	[63]	55	81	[98]	73	88
Saudi Arabia	66	102	31	57	44	[51]	88	69
Algeria	121	104	74	100	130	126	125	118
Middle-income oil-importing countries (OICs)								
Jordan	81	63	78	95	52	94	82	84
Tunisia	65	75	38	74	112	110	52	63
Morocco	75	77	81	71	88	107	60	75
Egypt	96	115	90	99	106	103	65	101
Fragile and crisis-affected countries (FCCs)								
Lebanon	87	103	85	98	90	80	[76]	85
Yemen	131	131	[125]	129	129	[104]	128	124

Source: World Economic Forum (WEF) (2020).

Notes: GII 2020 is available for 131 economies. The most recent values, from 2010 to 2019, were used for each indicator with a few noted exceptions. The data were drawn from public and private sources including United Nations Educational, Scientific and Cultural Organization, United Nations Industrial Development Organization, World Intellectual Property Organization, World Bank, Joint Research Centre, PricewaterhouseCoopers, Thomson Reuters, IHS Markit, Wikimedia, AppAnnie, United Nations Public Administration Network, Yale and Columbia Universities, and World Economic Forum's Executive Opinion Survey. The overall GII score is the average of the scores of the "input" and "output" sub-indices. The sub-index is comprised of five pillars that capture elements of the national economy that enable innovative activities: 1) institutions, 2) human capital and research, 3) infrastructure, 4) market sophistication, and 5) business sophistication. Square brackets indicate that the data minimum coverage requirements were not met at the sub-pillar or pillar level.

4.1.10 *The double shock for Kuwait: major reforms for building forward better*

The current double crisis shows that this oil wealth is only temporary. Kuwait cannot prosper in the long run without diversification. For that to happen, the Kuwaiti people will need to transition to earning their living from productive activities rather than living off oil wealth. The current crises present a chance for Kuwait to gain the political support it needs to adopt the necessary reforms to dynamize its economy and encourage MSME and job creation post-crisis. Recovery from the pandemic and growth of MSMEs should be seen in the context of the overall policy environment for the development of the private sector in Kuwait.

In the short term, it is important to continue extending support to enterprises to survive and recover from the effects of COVID-19, as the threat is not yet over, while at the same time ensuring that there are no discriminatory practices in providing support to the private sector based on ownership of the enterprises. The economic

diversification agenda could be derailed if support to businesses is discontinued. However, the fiscal stimulus is likely to strain the fiscal capacity of the country and potentials for domestic revenue mobilization should be explored. In terms of prioritizing support, focus should be given to younger and smaller enterprises, as they are the ones most affected by the pandemic. They constitute larger share of the private businesses and the growth of private sector in general depends on the survival and growth of such enterprises.

In the medium to longer term, a comprehensive set of reforms are necessary to diversify Kuwait's economy and enhance private sector development. Most OICs have undergone significant reforms since the 1990s. It is time for OECs to do the same. Such reforms should include the following:

As a first step to galvanize the local private sector, reforms should seek to review the benefits of the public employment guarantee scheme in order to incentivize Kuwaiti nationals to engage in the economy.

Second, regulatory reforms should also be considered to strengthen the framework of accountability for public procurement, tenders and bidding processes in order to ensure market competition. Kuwait's Competition Law entered into effect in 2009, with its executive regulations published in 2009 and amended in 2015. However, it was not until 2017 that the Competition Protection Authority (CPA) publicly announced for the first time that it was investigating several cases and pursuing its mandate. Before this, the law remained unimplemented and unenforced (Denny, 2019). The new Public Tenders Law governing the award of public investment projects was passed in 2016. This law is another step towards achieving more competition, as it allows foreign enterprises to be awarded projects without a local agent, a condition that had been required for over half a century (UNCTAD, 2016). Franchising remains unregulated to date. In fact, franchising operations are governed by the 1980 Commerce Law, which gives very generous entitlements (Walker and Walugembe, 2017).

Third, *liberalization* that aims to lift legal monopoly restrictions should be implemented, along with *privatization*.

Fourth, for sectors that will remain in public hands, *public sector reform and better public financial management*, such as the incorporation of public companies, are needed to enhance public businesses' managerial and financial autonomy. Autonomy is intended to harden the (soft) budget constraint²¹ and to discipline government-dependent public businesses. If such discipline is not achieved, failing enterprises are forced to exit the market with no chance for bailout. Better public financial management can introduce similar discipline into public finances and prepare the Government to manage future shocks.

4.2 Middle-income oil-importing countries: Jordan and Morocco as case studies

Jordan and Morocco are upper-middle- and lower-middle-income countries, respectively, both with moderately diversified economies.

At a lower income level, Morocco is considerably more agricultural than Jordan. Agriculture accounts for about 35 percent of all Moroccan employment, whereas agricultural employment is just 3 percent for Jordan (Table 1). Services, however, which account for 44 percent

of employment in Morocco, is the largest sector and dominates the activities of the country's MSMEs. Most agricultural and services micro- and small enterprises in Morocco are informal subsistence enterprises.

Services dominate Jordan's economy, accounting for almost three quarters of the country's overall employment (72.4 percent, Table 1). Tourism is important in Jordan, comprising 18 percent of its employment and 16 percent of its GDP. In terms of contribution to the economy, Jordan is the leading tourist destination among OICs. Though Morocco is also popular, the employment and GDP shares are less than those for Jordan at 12.4 percent and 12 percent, respectively.

Manufacturing, mining, quarrying and construction are the pillars of Jordan's economy, accounting for around one fifth of GDP in 2016 (Oxford Business Group, 2018). Key sectors of the Moroccan economy include agriculture, tourism, aerospace, automotive, phosphates and textiles and clothing (Index Mundi, 2020).

Manufacturing exports represent about 90 percent of Jordan's overall merchandise exports and a little less for Morocco at 84 percent (see Figure 8), both above the regional average (74 percent). Both countries predominately export garments and leather, especially Jordan, which has signed the Qualifying Industrial Zone (QIZ) agreement with Egypt, Israel and the United States of America. For natural resources, Morocco is the largest exporter of raw phosphate in the world. But this has not held it back from also making significant strides in exports and foreign direct investment (FDI) in the automotive, electronics and aeronautics industry (cf. Hahn and Vidican-Auktor, 2017). Both countries, however, have low MSME densities, considerably below the OIC average of 37 enterprises per 1,000 people, at 25 enterprises per 1,000 people for Morocco and 20 enterprises per 1,000 people for Jordan (Table 2). For both countries, this low density is attributable to very high youth unemployment rates, access to finance problems and a number of regulatory obstacles to MSME creation, as well as protected markets, as discussed previously. Nevertheless, MSME's in Jordan account for about a third in total employment (31 percent) and for 42 percent in Morocco (Table 2). Their contribution to GDP is estimated at 40 percent in Jordan, one of the highest, if not the highest, in the region (IMF, 2019).

Both countries' economies have been hit by the crises. COVID-19-associated lockdowns hit the tourism, construction and retail sectors of most OIC countries

21 "[S]oftening of the budget constraint occurs when the strict relationship between expenditure and earnings has been relaxed because excess of expenditure over earnings will be paid by some other institution typically the State. A further condition of softening is that the decision maker expects such external financial assistance with high probability, and this probability is built firmly into his behavior" (Kornai, 1986). See also El-Haddad and Attia, 2012; El-Haddad, 2015b; El-Haddad, 2017. Kornai (1986), the first to use this terminology, argues that there are different ways to soften the budget constraint of the enterprise: 1) soft subsidies; 2) soft taxation; 3) soft credit; and 4) soft administrative prices.

badly as well as all informal micro- and small enterprises in services. Remittances and exports have also suffered (World Bank, 2020a). Jordan implemented a full well-enforced curfew for three months starting in March 2020, which nearly shut down all domestic economic activity, shackling the economy completely (World Bank, 2020b). The economy was projected to contract by 2 percent in 2020 (IMF, 2021).

Morocco is facing a further shock from drought in addition to COVID-19, with GDP contracting by 7 percent in 2020 and projected to grow by 4.5 percent in 2021 (IMF, 2021). Fiscal and external deficits have widened due to lower tax²² and tourism receipts. The trade deficit widened to 2.2 percent of GDP in 2020 and was projected at 3.8 percent in 2021 (IMF 2021), despite the drop in imports and the sharp drop in its exports, tourism revenue and remittances (World Bank, United Nations and Ministry of Planning, 2020).

4.2.1 COVID-19 effects on MSMEs: the post-COVID-19 World Bank Enterprise Survey 2020

The World Bank has undertaken a post-COVID-19 survey to supplement the regular World Bank Enterprise Survey. Business owners and top managers of 601 formal enterprises in Jordan and 1,095 formal enterprises in Morocco were interviewed during July and August 2020. Here, we define enterprises based on the number of full-time employees as micro (10 full-time employees or less), small (between 10 and 50 full-time employees), medium-sized (between 50 and 250 full-time employees) and large (more than 250 employees). Age is defined as previously explained for Kuwait. The weights provided by the World Bank were applied for all calculations to ensure representativeness.

In Morocco, large enterprises comprise half the sample, with microenterprises accounting for a very small percentage (3.5 percent), and small (29 percent) and medium-sized (24 percent) enterprises split roughly equally (see Figure 21a). Most *microenterprises* are informal in Morocco – more so than in Jordan – which may be why they are not covered by this survey. The sample is more or less equally balanced for Jordan. The majority of exporters in both countries are large enterprises, and there are very few MSMEs that export, which is in line with the low-value-creating nature of these enterprises, as discussed earlier in this report (see Figure 21b). Over 93 percent of all microenterprises in Jordan (87 percent in Morocco) cater only for local demand, with similar percentages for small enterprises. More medium-sized enterprises in Jordan (36 percent) export compared with Morocco (18 percent).

Many enterprises in the sample are very old (46 percent for Morocco and 34 percent in Jordan), with a gradually decreasing prevalence of younger enterprises (see Figure 21c). All enterprise sizes have a substantial share of very old enterprises (see Figure 21d), though smaller enterprises tend to have a larger share of young and mature enterprises, as is common for the region. With regard to larger enterprises, Jordan has substantially older enterprises than Morocco, despite Morocco's sample showing a greater percentage of larger enterprises.

The sample mainly comprises the following sectors: wholesale and retail, and motor vehicle services; textiles and clothing; food processing; construction; and hospitality and tourism. The chemicals sector represents about 5 percent of the sample size in Jordan (see Figure 21e).

Motor vehicle services, wholesale and retail, wood and paper, food, and tourism and hospitality are the predominant sectors among microenterprises. The sample for Morocco, however, solely comprises the motor vehicle services and the wholesale and retail sectors (see Figure A1 in the annex). Motor vehicle services and trade are also the main sectors for small enterprises, especially in Morocco (54 percent of enterprises compared with just 25 percent in Jordan), though other common sectors for small enterprises include food, wood and paper, and tourism (with more small tourism enterprises found in Morocco). Jordanian small enterprises are most heavily concentrated in other services (see Figure A2).

Medium-sized enterprises, on the other hand, are more evenly spread across sectors (see Figure A3), though there is some variation between sectors and countries. In Morocco, the most common sectors among medium-sized enterprises are motor vehicle services, wood, food and tourism. In Jordan, food, other services, wood and then motor vehicle repair and non-metallic mineral products (cement, ceramics, glass and lime) are the most predominant sectors of medium-sized enterprises.

Large enterprises are somewhat similarly distributed in the two countries. In Jordan, there are more enterprises in manufacturing exports of food processing, non-metallic minerals, basic metals (such as iron and steel, which are largely non-tradable, and the manufacture of tubes, bars, strips, wires, and sheets of metal), machinery and equipment, electronics and vehicles (see Figure A4). Morocco's large manufacturing enterprises mainly produce wood and paper products and food, with less producing basic metals and machinery. Most large enterprises included in the sample provide motor vehicle and domestic trade services (39 percent for Morocco and 27 percent for Jordan).

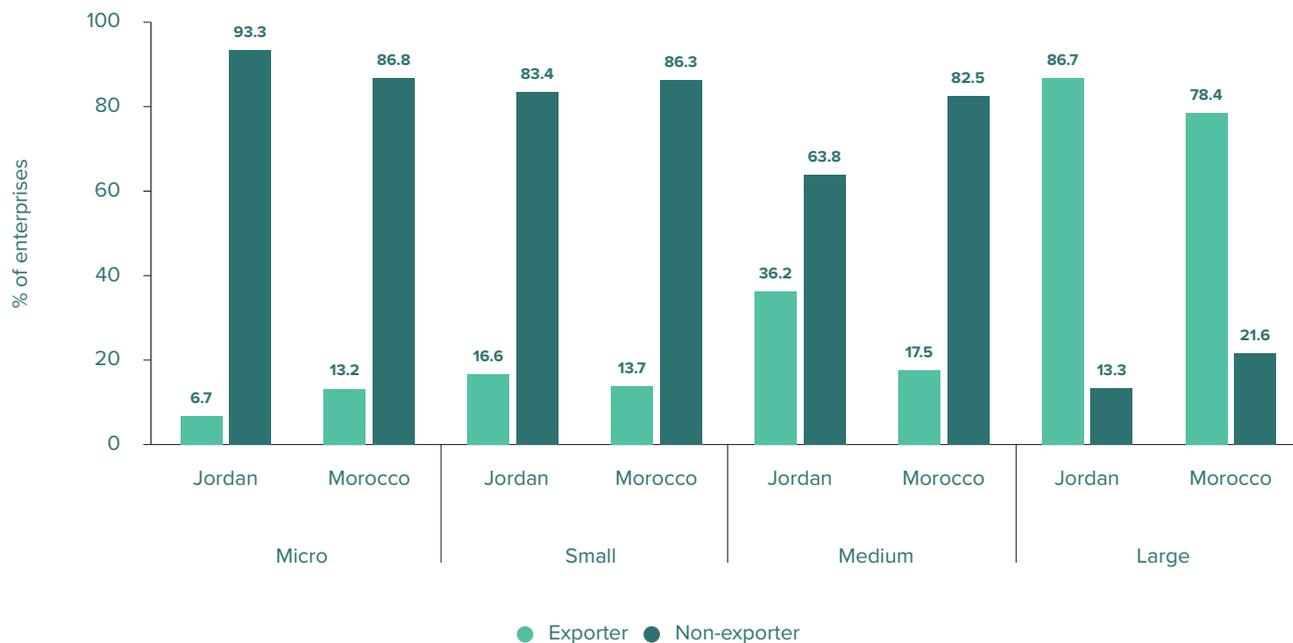
²² Tax exemptions were a commonly used government measure in response to the COVID-19 shock, as will be discussed in the next section.

Figure 21. Main sample characteristics: size, sector, export status and age

a. Size distribution



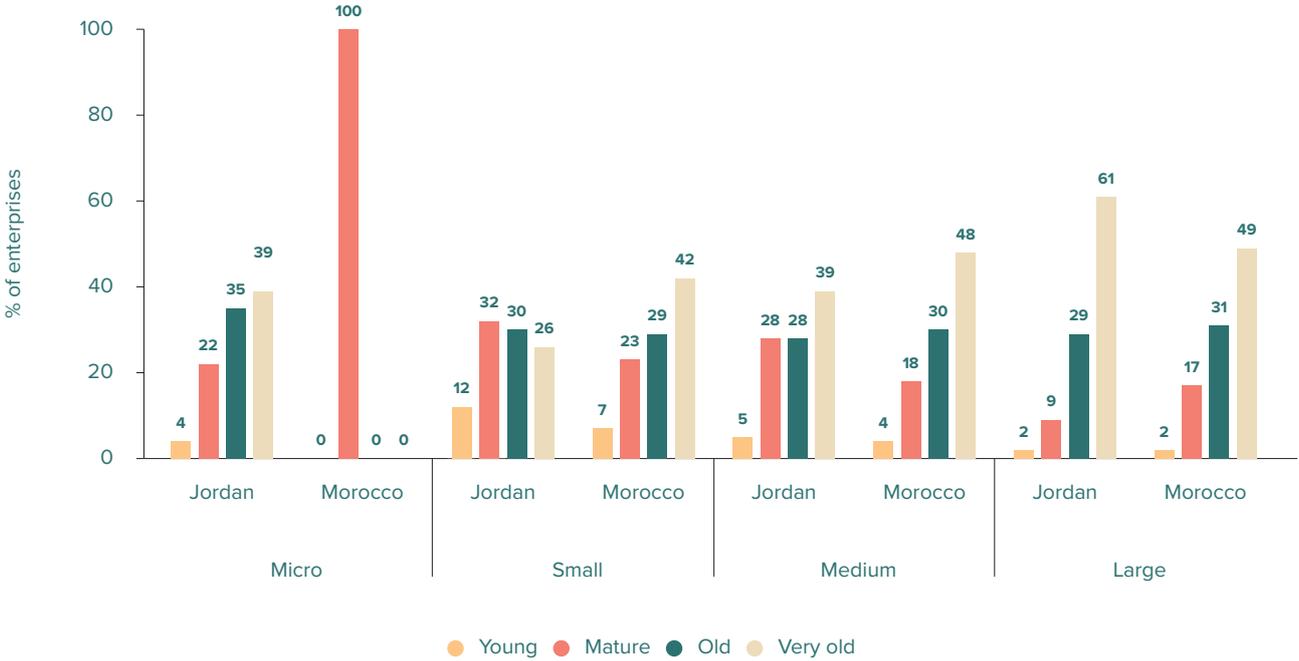
b. Export status by size



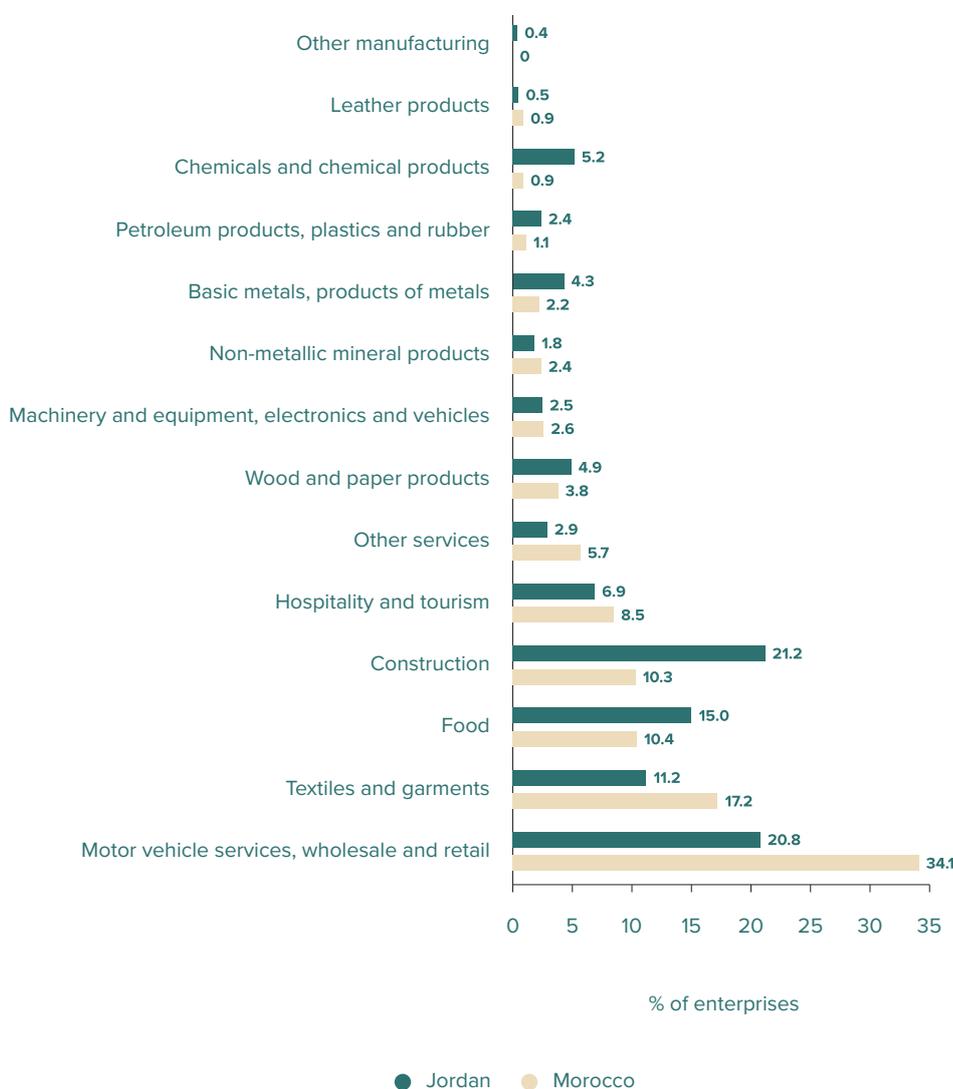
c. Age distribution



d. Age of enterprise by size



e. Sectoral distribution



Source: Authors' calculations from the World Bank Enterprise Survey COVID-19 follow-up (2020).

4.2.2 Enterprise-level impacts: temporary closures and loss in revenue

Temporary closures have affected 96 percent of all enterprises in Jordan and over two thirds of those in Morocco. A greater share of smaller enterprises temporarily closed (micro: 98 percent; small: 97 percent) than larger enterprises (90 percent) in Jordan (see Figure 22a), which was also the case for Morocco, with the exception of microenterprises (only 50 percent temporarily closed due to COVID-19).

A substantial share of enterprises in the two countries have suffered reductions in sales (88 percent of all Jordanian enterprises and 85 percent of Moroccan enterprises), demand for products and services (80 percent reduction

for enterprises in both countries), and working hours compared with the same month in 2019 (54 percent of Jordanian enterprises and 44 percent of Moroccan enterprises – see Figure 22b). The effects are slightly more pronounced for Jordan, which had stricter lockdown measures.

Enterprises across all size groups have suffered reductions in revenue, though again the share is smaller for the largest enterprises (75 percent in Jordan and 83 percent in Morocco compared with 87 percent of microenterprises in both countries, and 93 percent of small enterprises in Jordan and 87 percent in Morocco) (see Figure 22b). Similar patterns exist in the reduction in demand for enterprises' products, as well as in working hours. Larger enterprises' working hours have clearly been reduced less than those



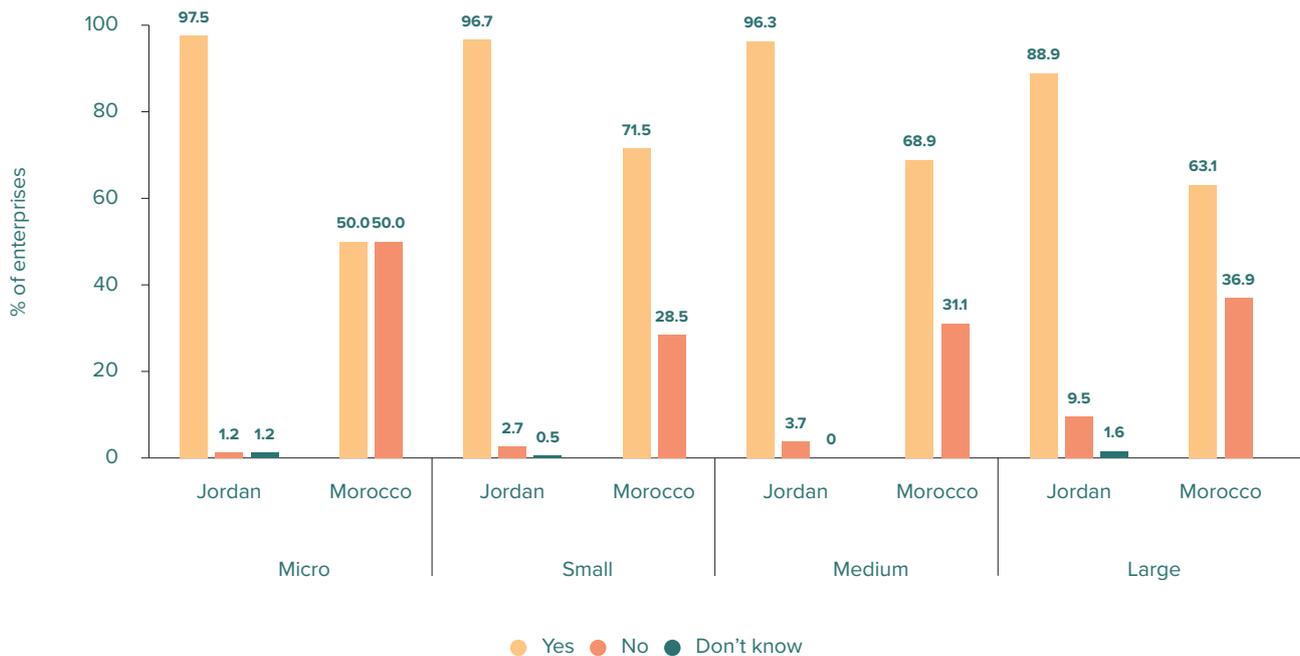
of smaller enterprises in both countries (again, with the exception of microenterprises).²³

The crisis has had a very pronounced negative effect on MSMEs' revenue (see Figure 22c), which has declined somewhere between 75 and 100 percent for a larger share of micro-, small and medium-sized enterprises than for

large enterprises (33 percent, 30 percent, 20 percent and 10 percent, respectively, in Jordan, and 30 percent (small), 20 percent (medium) and 14 percent (large) in Morocco). Smaller revenue reductions (5–25 percent, 26–50 percent and 51–75 percent) have therefore been more or less conversely related to size.

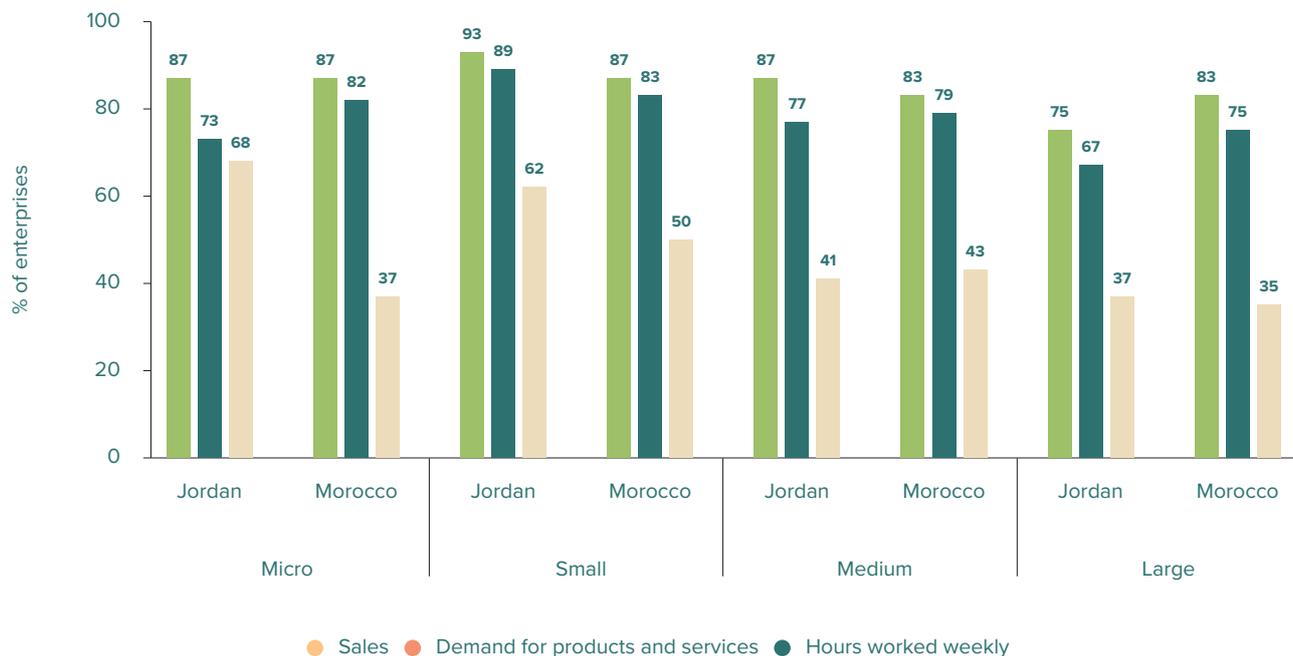
Figure 22. Temporary closures, working hour reductions and revenue loss by enterprise size

a. Temporary closures due to COVID-19

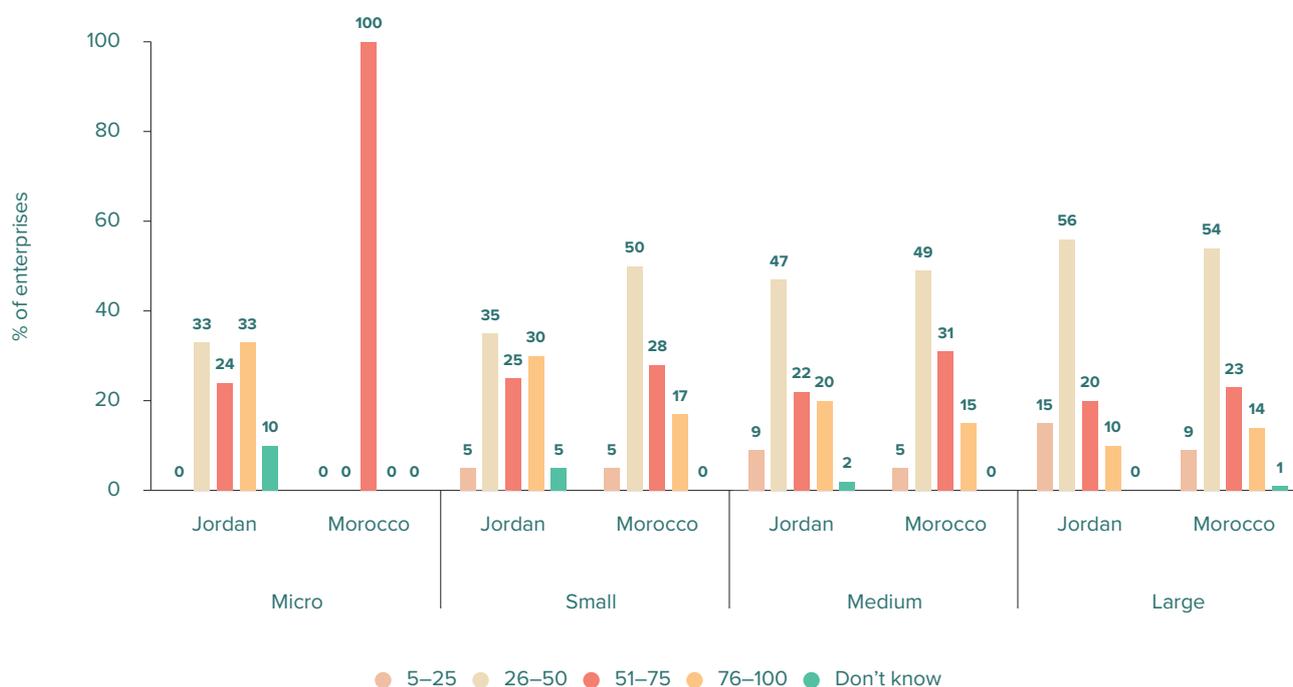


²³ Again, with the exception of microenterprises in Morocco.

b. Reductions in sales, demand and working hours



c. Percentage decrease in revenue



Source: Authors' calculations from the World Bank Enterprise Survey COVID-19 follow-up (2020).

4.2.3 Transmission mechanisms and operational challenges during COVID-19

Unlike the Bensirri PR Kuwait COVID-19 Business Impact Survey, the World Bank Enterprise Survey only inquired about two transmission mechanisms of the COVID-19 crisis.

All enterprise sizes have been negatively affected by cash flow constraints, though larger and older enterprises have been impacted to a lesser degree. For example, 80 percent of large Jordanian enterprises have experienced cash flow constraints compared with a much larger 95 percent of microenterprises and 93 percent of small enterprises.

The same is true for Moroccan enterprises (again with the exception of microenterprises). This pattern is similar with respect to the decrease in enterprises' supply of inputs and raw materials, and finished goods and materials purchased

to resell (see Figure 23). Microenterprises, however, do not fit this pattern because of the relative ease of obtaining local supplies as opposed to imported supplies, which are required by exporters that are predominantly large.

Figure 23. COVID-19 transmission mechanisms (cash flow and supply of inputs and goods)



Source: Authors' calculations from the World Bank Enterprise Survey COVID-19 follow-up (2020).

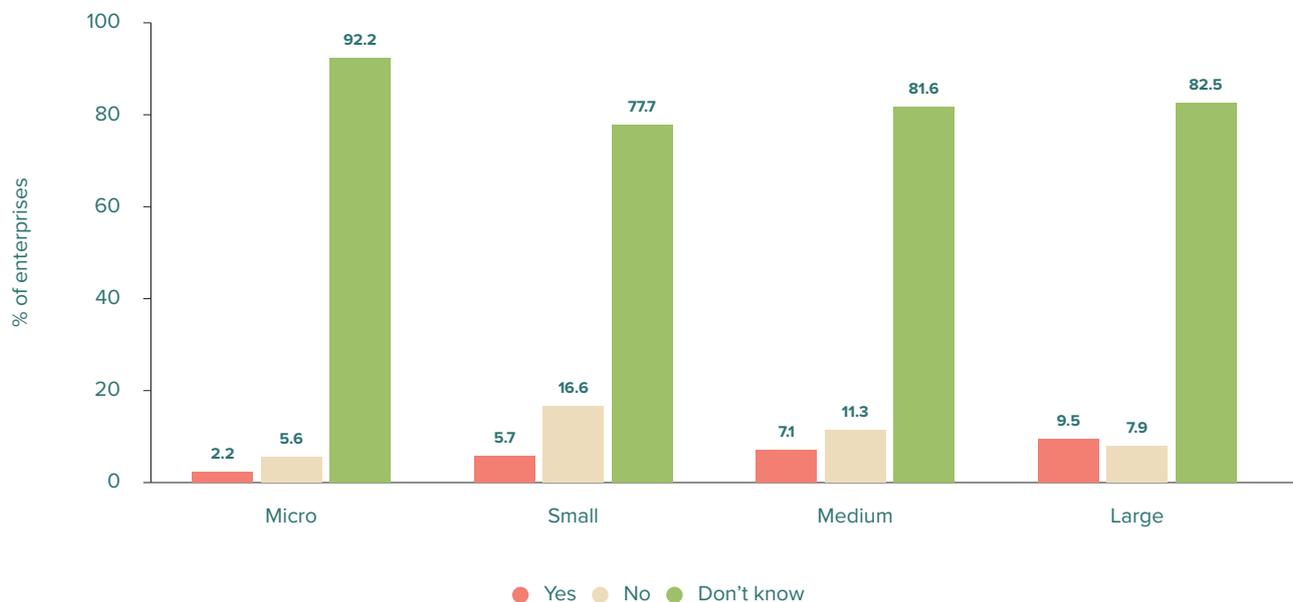
4.2.4 COVID-19 MSME behavioural responses: layoffs and wage cuts

In response to the crises, enterprises have laid off employees and cut wages (see Figure 24). Jordanian and Moroccan enterprises were asked different questions on this issue. In Jordan, enterprises were asked whether they had reduced the salaries for some or all of their employees, to which only a small number confirmed that they had, with a greater share of larger enterprises having done so more than smaller enterprises (10 percent of all large enterprises compared with 7 percent of medium-sized, 5 percent of small, and just 2 percent of microenterprises).

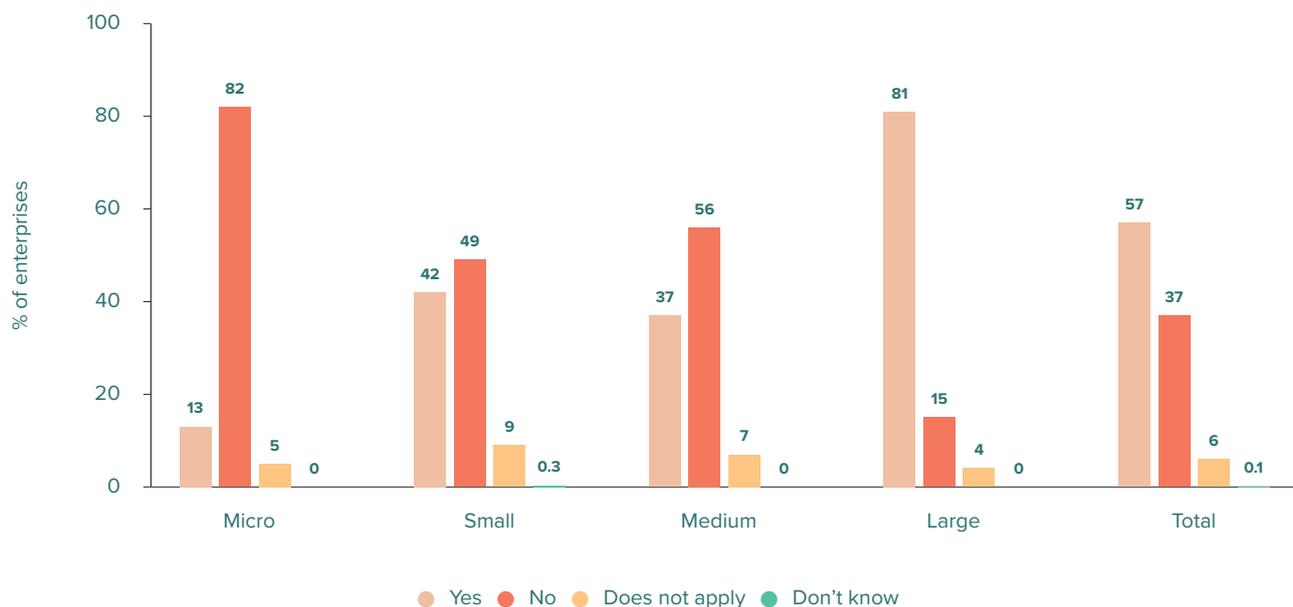
In Morocco, more enterprises have laid off employees (58 percent of all enterprises – see Figure 24b). Again, a greater proportion of large enterprises (81 percent) have laid off workers than have micro- (13 percent) or small (42 percent) enterprises.

Figure 24. Enterprise behavioural responses: layoffs and wage cuts

a. Wage cuts in Jordan



b. Layoffs in Morocco



Source: Authors' calculations from the World Bank Enterprise Survey COVID-19 follow-up (2020).

4.2.5 COVID-19 MSME behavioural responses: coping strategies

To overcome the challenges posed by the COVID-19 crisis, many enterprises have implemented coping strategies other than layoffs and wage cuts.

Every coping strategy asked about has been adopted by some enterprises in each size category. As in Kuwait, large and medium-sized enterprises have generally taken more steps in response to the shock than micro- or small enterprises (see Figure 25). The most common coping strategy for Moroccan micro- and small enterprises has been to start and increase home delivery and collection

options for goods (see Figure 25a). Around one quarter of micro- (24 percent) and small enterprises (25 percent) have implemented such strategies. Among larger enterprises, the most common coping strategy has been to start or increase their online business activity (41.4 percent and 27 percent for large and medium-sized enterprises, respectively), which has been possible due to their readily available infrastructure and more sophisticated production processes. The strategy ranks second for micro- (21 percent) and small enterprises (22 percent). Remote work is the third most common coping strategy adopted by micro- (13.2 percent) and small enterprises (18 percent) but is the second most popular option among large enterprises (38 percent). For most micro- and small enterprises, working remotely is not an option, not just because of their poor digital infrastructure, but because the nature of their services (such as motor vehicle repair) requires a physical presence. Although this is somewhat less true of wholesale and retail services, these depend on transport services, which obviously cannot be performed remotely. Purchases and sales on credit were the coping strategies least implemented among all Moroccan enterprises.

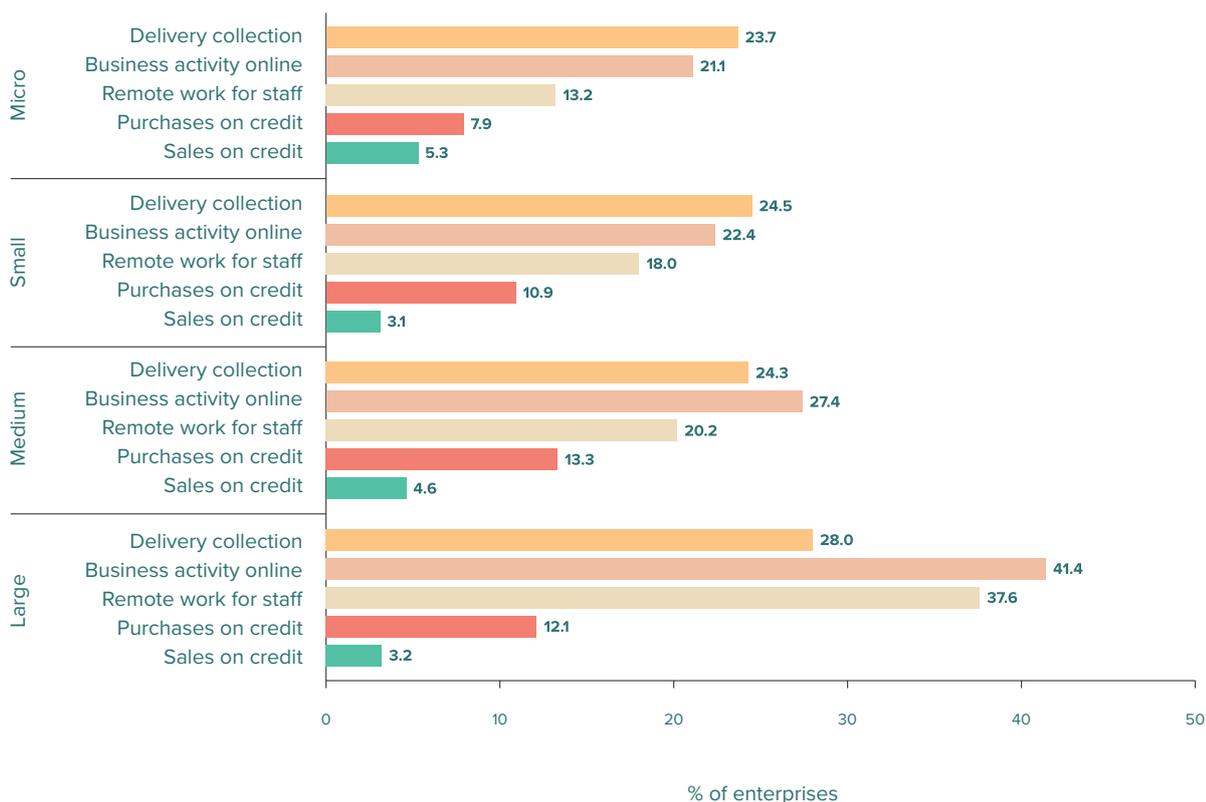
As in Morocco, the main responses from large enterprises in Jordan are increased online business activity (71 percent of all large enterprises) and selling on digital platforms (66 percent) (see Figure 25b). Medium-sized enterprises show a similar pattern, though they have hardly increased

their online sales (just 9 percent of enterprises). In Jordan, all enterprise sizes list online business activity as their top coping strategy (though the proportion is lower among micro- (20 percent) and small (36 percent) enterprises), which was only the case for the largest enterprises in Morocco. Similarly, the use of technology is the second most common coping strategy for MSMEs and the third most common for large enterprises.

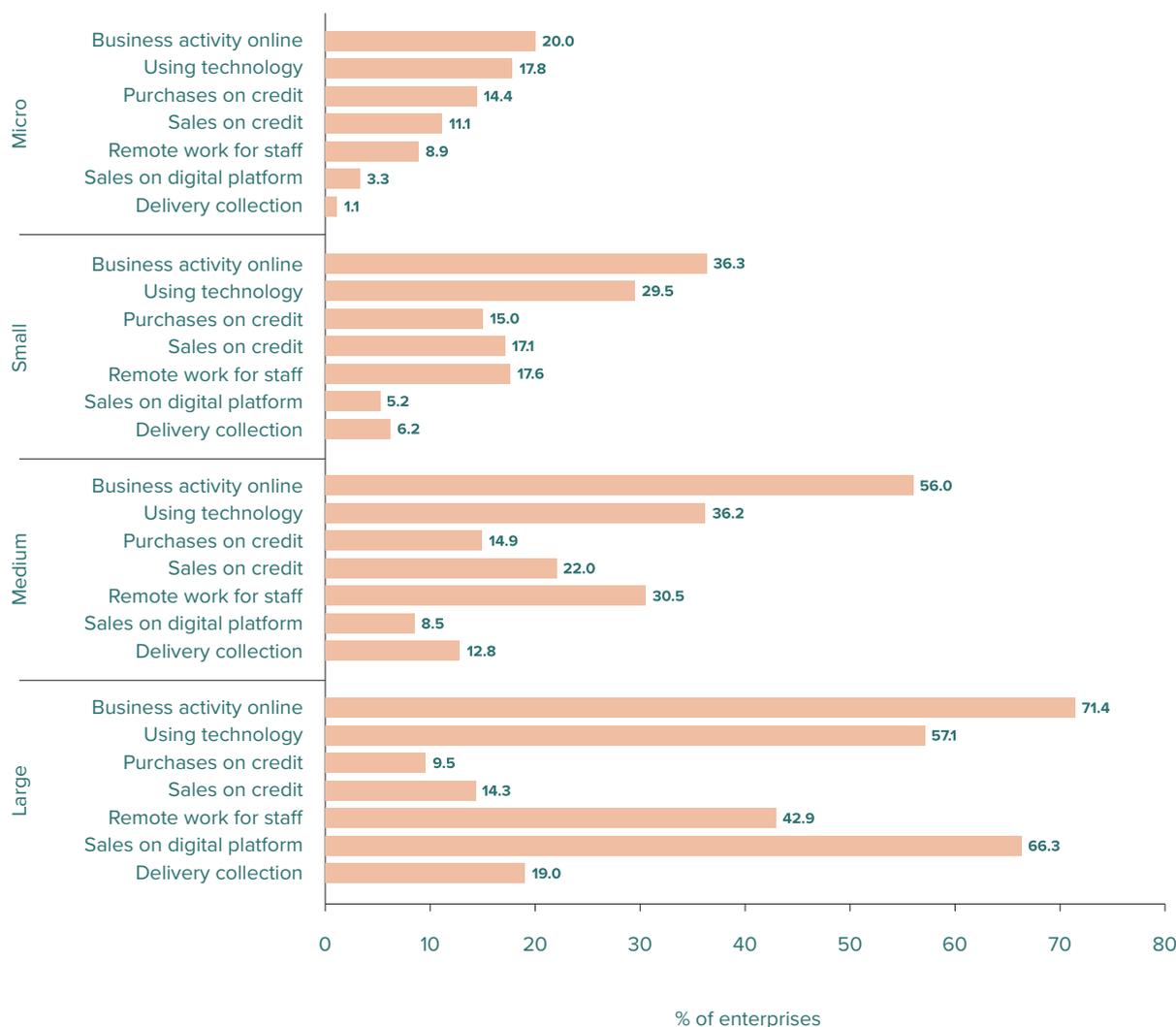
Remote working has been implemented more often by large (43 percent) and medium-sized enterprises (30.5 percent) than micro- and small enterprises (9 percent and 18 percent, respectively), and there has been limited adoption of purchases and sales on credit, results that mimic those for Moroccan enterprises. A somewhat surprising result is that large enterprises have increased home delivery and collection options for goods and services (19 percent and 13 percent, respectively) than smaller enterprises (1 percent and 6 percent). Compared with Morocco, Jordan has a larger share of small enterprises in export manufacturing and construction (a service that cannot be delivered), and conversely, a substantial share of larger enterprises involved in wholesale and retail services (27 percent of large enterprises work in this sector), a potential explanation for the observed trend. In Jordan, the sectors are more widely distributed across the enterprise sizes, especially across medium-sized and large enterprises.

Figure 25. Coping strategies

a. Moroccan coping strategies



b. Jordanian coping strategies



Source: Authors' calculations from the World Bank Enterprise Survey COVID-19 follow-up (2020).

4.2.6 COVID-19 MSME behavioural responses: financial and cash flow-related coping strategies

The previous section showed that Jordanian and Moroccan enterprises face cash flow shortages and financial constraints. This section examines whether these constraints have triggered any particular responses. Most Jordanian enterprises (about 70 percent) have not responded to these constraints compared with just 10 percent in Morocco, which is why Jordanian responses included here should be viewed with caution.

Drawing on equity is the most common response to cash flow shortages and is a strategy that more than half of Moroccan enterprises are using to raise cash (see Figure 26a). It is well established that micro- and small enterprises cannot easily access finance from traditional sources (cf.

Nasr and Pearce, 2012). Since micro- (68 percent) and small enterprises (61 percent) were disproportionately financially hit, they were more likely to use equity compared with medium-sized (53 percent) and large (35 percent) enterprises. Commercial loans were the second most common response, but as expected, were more widely taken out by the larger (and older) enterprises. Over half of all large Moroccan enterprises (53 percent) have taken commercial loans compared with 26 percent of medium-sized enterprises and just 13 percent and 12 percent of small and microenterprises, respectively. Government grants are the next most popular option, which were more likely to be granted to medium-sized (6 percent) and small (5 percent) enterprises.

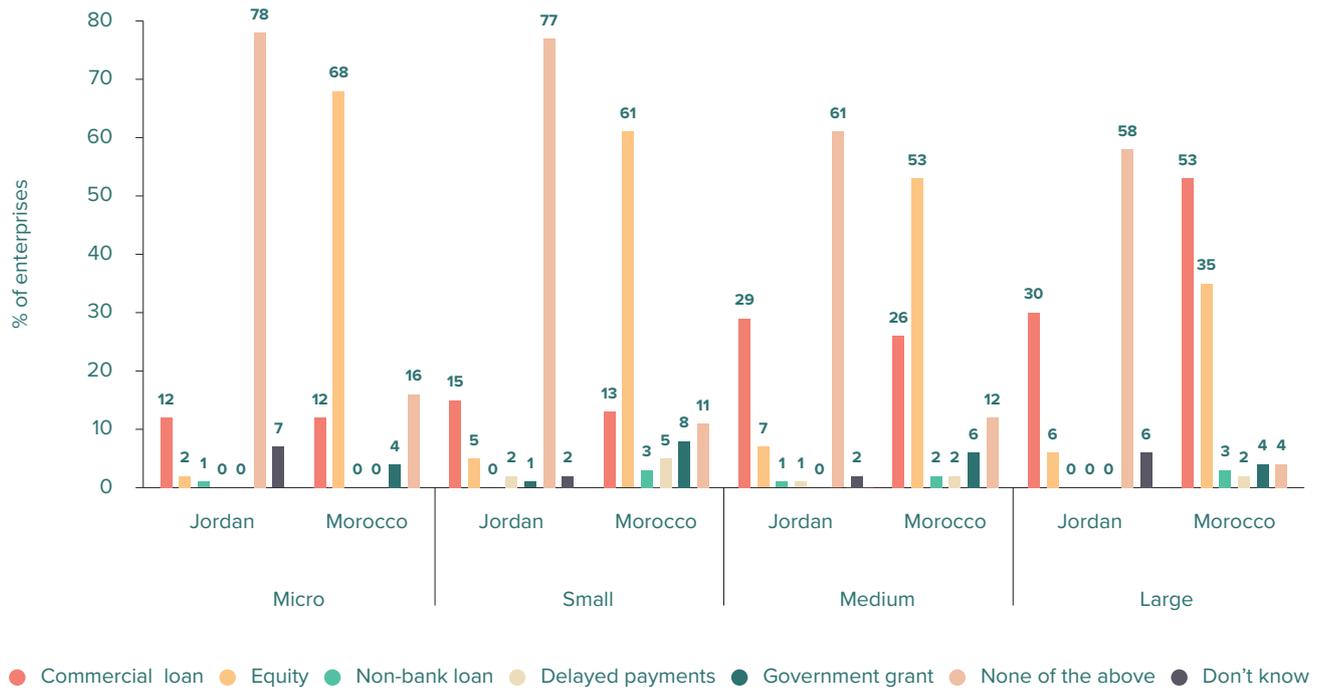
In Jordan, commercial loans have been the top strategy adopted. However, as expected, medium-sized (29 percent) and large (30 percent) enterprises took out nearly

three times more loans than microenterprises (12 percent), and double that of small enterprises – 15 percent.

Only a small proportion of enterprises (1–3 percent) have filed for insolvency or bankruptcy in both countries, though the sample is meant to be drawn from enterprises that are still operating, so those that have closed are not included.

Figure 26. Financial and cash flow-related coping strategies

a. Loans, equity, delayed payments or government grants



b. Filing for insolvency or bankruptcy



Source: Authors' calculations from the World Bank Enterprise Survey COVID-19 follow-up (2020).

4.2.7 Future projections and outlook of enterprises

Larger enterprises have more hope in survival and standing. When asked if they expected their establishment to fall in arrears in any of its outstanding liabilities within the next six months, about half of all Jordanian and Moroccan micro- and small enterprises expected they would. Only 13 percent of large enterprises in Jordan and 22 percent in Morocco believed this would be the case.

4.2.8 Government support and COVID-19-related preferred policies for enterprises

Over half of all enterprises in Jordan received government support (54 percent) compared with just over a quarter of all enterprises in Morocco (27 percent).

In both countries the share of government support received was greater the larger the enterprise (see Figure 27a). The informality of micro- and small enterprises and the associated difficulty in identifying them may be a possible reason for this outcome, as the World Bank Enterprise Survey is only conducted with formal enterprises. However, a more likely explanation could be that larger enterprises tend to be more aware of procedures and have a louder voice than smaller enterprises.

In general, despite limited resources, the Government of Morocco used a wider range of support channels (see Figure 27b). For both countries, the main government support received was for wage subsidies, followed by fiscal exemptions. The next most important form of support in Jordan was access to new credit through government-supported programmes. In Morocco, the third most important form of support was the deferral of credit, rent, mortgage and interest payments. In Jordan, this measure was hardly used, and was not used at all for microenterprises. Cash transfers were also given in Morocco, somewhat more so in the case of large enterprises (42 percent) compared with their medium-sized (35 percent) and small (38 percent) counterparts.

Enterprises were asked about what their most-needed government policies were in Jordan, but not in Morocco. The expressed needs of microenterprises more or less match the measures undertaken by the Jordanian Government with two exceptions (see Figure 27c). Microenterprises would have liked to receive rent, mortgage, utilities and tax deferrals, while small enterprises would have liked to receive more of all the other implemented measures, as well as grants and wage subsidies. The expressed needs of large enterprises more closely matched what they received.

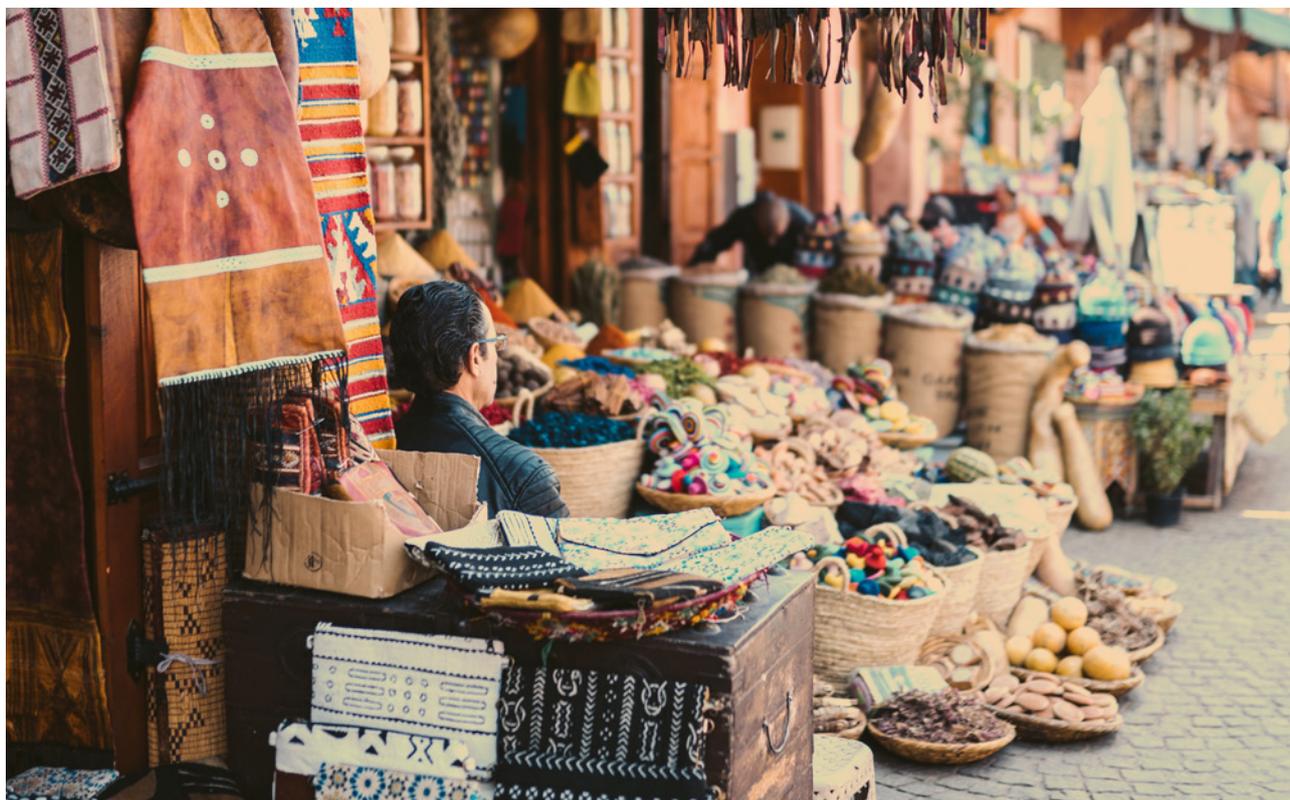
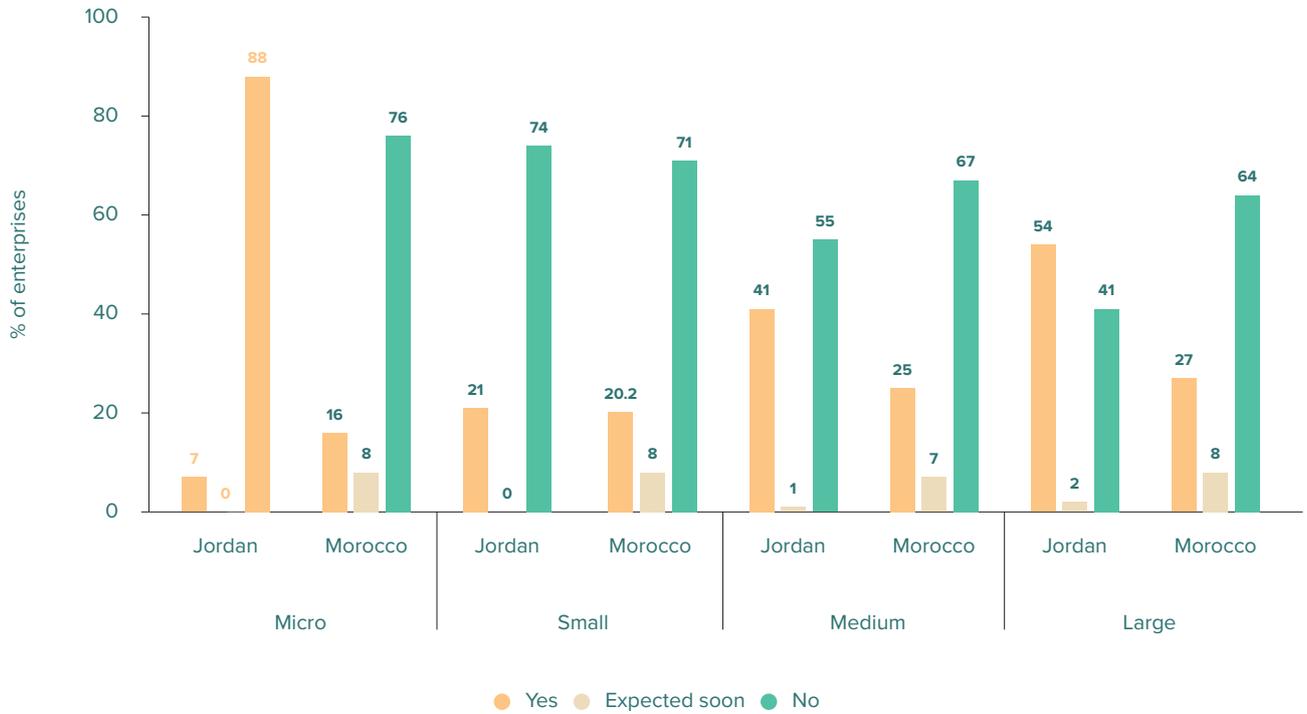
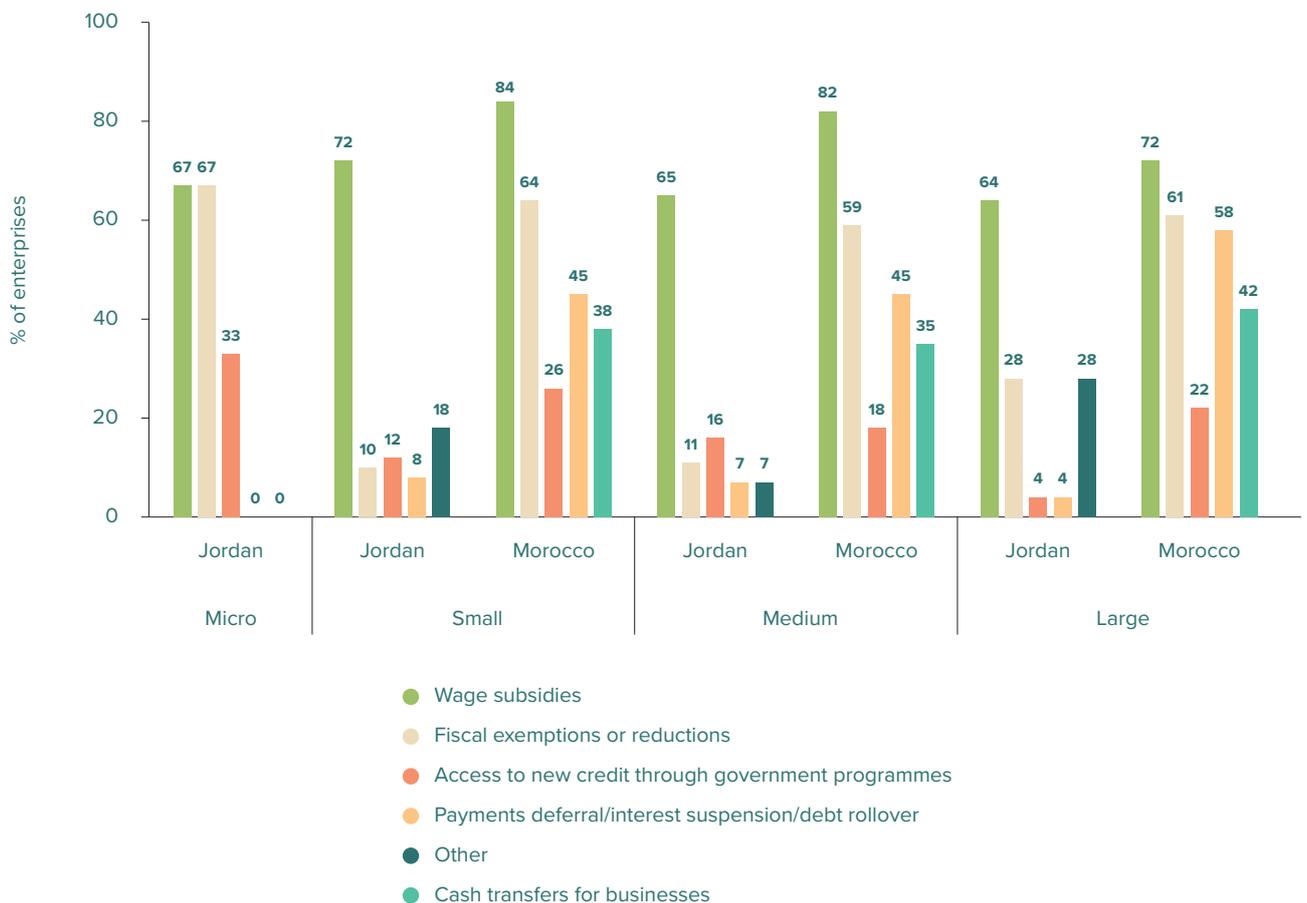


Figure 27. Received government support by type, enterprise size and policy preferences

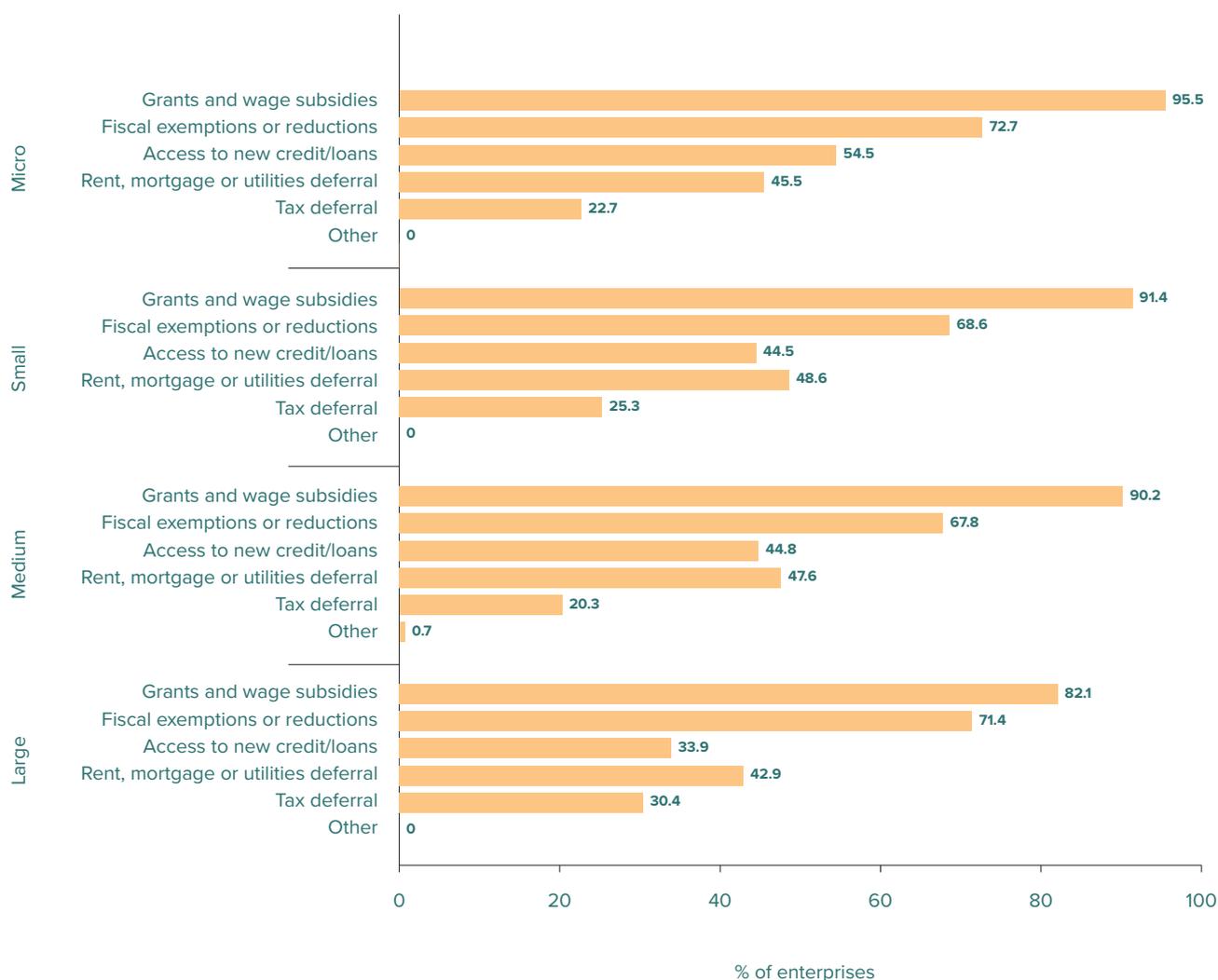
a. Receipt of national or local government support measures



b. Type of government support received in response to COVID-19



c. Businesses' most-needed government policies in Jordan



Source: Authors' calculations from the World Bank Enterprise Survey COVID-19 follow-up (2020).

4.2.9 Reflections on the Jordanian and Moroccan cases

Jordan and Morocco faced multiple crises in 2020, from the COVID-19 crisis and the associated lockdown measures and decline in exports, to falls in remittances and tourism earnings on account of COVID-19 and the partly related oil price crisis. The drought in Morocco in 2020 also affected the country's agriculture sector and associated export earnings. The World Bank enterprise survey captured the direct impact on firms of the COVID crisis but indirectly also the impact on the other crises. The results indicated several major takeaway messages which are described here.

4.2.9.1 Main takeaways of the World Bank Enterprise Survey findings

First, in both Jordan and Morocco, larger and older enterprises have not been as severely affected by the crises as smaller enterprises.

Second, larger enterprises are more likely to have received government support in response to the crisis.

Third, taking commercial loans have been the main response of all Jordanian enterprises to cash flow constraints, which is only the case for large enterprises in Morocco. Moroccan MSMEs' main response has been to raise equity.

Fourth, larger enterprises in both countries had greater access to commercial bank loans, though the enterprise size-loan relationship is less strong in Jordan than in Morocco. In Morocco, large enterprises were 4.5 times more likely to take out loans than micro- and small enterprises, whereas in Jordan, the corresponding figure is significantly less at 2.5 times more likely.

Fifth, as in the Kuwaiti case, larger and medium-sized enterprises have taken more steps in response to the shock than micro- or smaller enterprises (see Figure 25).

Sixth, in both countries, larger enterprises have laid off employees and cut wages substantially more often than smaller enterprises.

Seventh, in Jordan, moving and increasing business activity online is the top coping strategy for enterprises of all sizes, though the proportion is lower among micro- and small enterprises. In Morocco, this is only true of the largest enterprises. The most common coping strategies for Moroccan micro- and small enterprises have been to start and increase home delivery and collection options for goods and services. In Jordan, in addition to increased online activities, a greater proportion of larger enterprises sold their goods and services on digital platforms, which was extremely limited among MSMEs.

Eighth, the sector is important in determining the response. For most micro- and small enterprises, working remotely is not an option. This is not just because of their poor digital infrastructure, but also because the nature of their services (such as motor vehicle repairs) requires a physical presence. This means that remote work has been a response mainly implemented by large and medium-sized enterprises with substantial desk-based business. Large enterprises may also have more sophisticated production with potentially automated production processes that can be developed and implemented remotely.

Ninth, most informal enterprises, which have not been covered by this survey, are in sectors that require physical presence, such as street vending. The impact of the crisis on informal enterprises in Morocco, where informality is more widespread and represents 63 percent of non-agricultural employment (see Figure 6), is therefore expected to be higher. In fact, Morocco seems to have the highest informality rates of all OICs, whereas Jordan has reportedly the lowest informality rate (43 percent).

4.2.9.2 Access to finance and structural constraints to the growth and development of the private sector and MSMEs

The findings confirm that the main constraint to MSME creation and growth during the crisis has been access to finance, which was also the case pre-crisis. SME lending, as a share of total lending, is the lowest in the world in the Arab region, comprising just 3 percent of the total loans portfolio in OECs, and a somewhat larger share of 7 percent in OICs (IMF, 2019; World Bank, 2019). In Jordan, for example, such lending comprises just 11 percent of total bank lending compared with 25 percent in emerging markets (IMF, 2019), despite the financial inclusion strides that will be discussed in a later section. The main sources of funds are internal and informal (family and friends).

Despite the reforms in the financial sector over the last few years (especially in Jordan), there are other obstacles to MSME growth, some pertaining directly to the financial sectors in the Arab region, and others that are structural, legal and political in nature. The most important are listed here.

Limited bank competition and concentration of State-owned banks weakens the incentive for banks to lend to perceived higher-risk MSMEs. Arab countries lag behind other regions in terms of banking sector *competitiveness* (IMF, 2019). Jordan and Morocco have a less concentrated banking sector than the regional average. The Lerner Index (LI) captures market concentration as a measure of market power. Morocco has the most competitive financial sector with an LI of 0.32 compared with Jordan's LI of 0.41. Both are better than the regional average of 0.45 (World Bank, 2019; Anzoategui *et al.*, 2010).

Despite Morocco's more competitive financial sector, smaller enterprises enjoy more commercial bank lending in Jordan. The Jordanian banking industry is free of extensive State ownership and government interference, *meaning* there is an absence of dominant State-owned banks and limited use of directed credit programmes, interest rate controls and credit ceilings (Miani and Daradkah, 2008).

The government and the often monopolized public sector are crowding out lending to the private sector, including to MSMEs. Low-risk lending to the government by investing in Treasury bills leaves very little incentive for banks to lend

to the relatively riskier private sector, especially the MSME sector, which is seen as having the highest risk. Banks in Jordan have recently increased their exposure to the public sector through investments in government securities to fund the public sector's budget shortfall (Bank Audi, 2020). A related reason for low MSME funding is the large and often monopolized public sector in the region. The financial needs of large State-owned enterprises (SOEs) crowd out credit to the private sector, including to MSMEs. This is in addition to the preferential treatment SOEs receive in government procurement and tax and transfer schemes (cf. IMF, 2019).

This seems to be the case in Morocco where, as at March 2020, the Moroccan Treasury held a direct share in 225 SOEs and in 43 companies (US Department of State, 2020). Most Moroccan SOEs (24 percent) operate in the health, education and training sectors, followed by habitat, urbanism and territorial development (19 percent), agriculture and fisheries (15 percent) and natural resources (water, energy and mining – 13 percent) (Organisation for Economic Co-operation and Development [OECD], 2018a). Several sectors remain under public monopoly, managed either directly by public institutions (rail transport, some postal services, and airport services) or by municipalities, such as wholesale distribution of fruit and vegetables, fish, and slaughterhouses (ibid.; El-Haddad, 2020). The latter largely explains why bank loans during the COVID-19 crisis have been issued to the large enterprises in the wholesale and retail trade sector in the country.

In Jordan, despite the privatization efforts in the 1990s and 2000s, SOEs continue to dominate a relevant part of the economy, especially in strategic sectors, such as the National Electric Power Company (NEPCO) and the Yarmouk Water Company (OECD, 2018b). These companies benefit from government support through, for example, the issuing and guaranteeing corporate bonds for NEPCO. However, SOEs do not receive preferential treatment under law and undergo an annual audit every year, the same as all other government departments.

Indeed, Jordan ranks top in the World Bank's 2020 Getting Credit indicators among all OICs, with Morocco ranking last. In the credit bureau coverage indicator, Morocco scores better, though Jordan has made substantial improvements in this category. Credit bureaux are different to credit registries in that they cater for the informational requirements of commercial lenders. In terms of the depth

of credit information available to banks,²⁴ and the strength of the legal rights index,²⁵ Jordan ranks top and Morocco ranks last (World Bank, 2020c).

The aforementioned factors explain why Moroccan SMEs have turned to equity instead of bank loans: on the one hand, banks would not want to lend to them (as explained previously), and on the other hand, MSMEs are not confident that they would be able to generate enough cash flow in the future to repay the loan. As a result, and unlike larger enterprises, MSMEs have given up a share in ownership (equity) to raise funds.

MSMEs' information and communications technology (ICT) infrastructure and educational needs are a further constraint. The previous results show that, especially in Morocco, micro- and small enterprises hardly increased their online business activity or allowed their workers to work remotely. In contrast, Jordanian micro- and small enterprises adopted these practices to some degree, though were less likely to do so than larger enterprises. Jordan's ICT sector is one of the most developed in the region (Oxford Business Group, 2015). The sector is mature, diverse and modernized, and has supporting ecosystem (ibid.), which explains Jordan's much better score on the ICT Development Index (~6) compared to that of Morocco (4.5). Generally, the region lags in terms of broadband access, which is largely due to the restricted competition and State ownership of parts of the telecoms sector and its insufficient regulation, regulatory capture and poor protection of competition (see also El-Haddad, 2015a; 2015b; El-Haddad, 2017). The Moroccan Government owns 22 percent of the national incumbent Maroc Telecom and has not yet paid as much attention to developing the sector as Jordan.²⁶

MSMEs are often unable to fulfil the informational requirements for applying for a loan and are frequently unable to complete the necessary forms, which tend to be unsuited to MSMEs. This may be because MSMEs are unable to keep proper financial records. Investment in the people and their human capital will remain the top investment any government can undertake to support MSME development.

The ease of doing business is still a major obstacle to MSME creation and growth. Registering property, starting a business, paying taxes, trading across borders, enforcing contracts and resolving insolvency continue to stifle

²⁴ The depth of credit information index measures the coverage, scope and accessibility of credit information available through credit reporting service providers such as credit bureaux or credit registries. The score for the depth of credit information benchmarks economies with respect to the regulatory best practice on the indicator.

²⁵ The strength of the legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. The score for the strength of legal rights benchmarks economies with respect to the regulatory best practice on the indicator.

²⁶ Despite liberalization, Jordan Telecom Group has a stronghold on the fixed market (ijma3, 2013). The Government's ownership represents 41.5 percent (Amman Stock Exchange, n.d.). However, the regulatory reforms of the sector are more advanced compared to Morocco.

MSME growth in the region, which is below the world's most advanced regions. In all of these indicators, Morocco outperforms Jordan (IMF, 2019), which likely explains the poor density of MSMEs in Jordan (Table 2).

4.2.10 Responding to the 2020 shocks: an opportunity for reform in Jordan and Morocco?

The COVID-19 crisis has highlighted the pre-crisis structural deficits of OICs. Despite the swift policy response to the pandemic and related shocks, pre-existing vulnerabilities in the region have amplified the impact of the crisis on MSMEs. The response for enterprises in Jordan and Morocco demonstrates the importance of access to finance as a constraint for MSME growth. It also showed that access to a strong IT infrastructure can be an important buffer to support enterprise survival in the presence of shocks. In the long run, better access to IT will help transform firms into more productive, high-value-creating firms despite their small size. The size distribution of firms in OICs and in our case studies is very similar to the comparator regions of the EAP and even of the ECA (see Table 2), with the main crucial difference being in the value that MSMEs add. The possibilities offered by the tech-based “industrial revolution 4.0” provide the potential for innovation and value creation.

Before turning to the discussion of proposed reforms emerging from the above analysis, a review of SME policies in the two countries is briefly presented.

4.2.10.1 Positive SME policies in Jordan and Morocco, but more is needed

Both Jordan and Morocco have substantially increased their emphasis on SME development. Jordan has incorporated SMEs into its financial inclusion policies. The Ministry of Planning has finalized a partial guarantee scheme, the Overseas Private Investment Corporation (OPIC), to improve access to finance. The Government has also approved basic mobile phone payments (Nasr and Pearce, 2012).

The Government has been drafting a national SME strategy and an SME law since 2012. The strategy and the action plan have never been officially approved by Cabinet. Nonetheless, reports indicate that many of the activities have been implemented by the Jordan Enterprise Development Corporation (JEDCO) and other ministries and agencies over the last five years (OECD, 2019). JEDCO's aim is to improve the business environment, especially for innovative and fast-growing SMEs. The Central Bank of Jordan (CBJ) has taken steps to improve SMEs access to finance through strengthening the country's financial infrastructure, which include:

1) lowering the turnover threshold for reporting to the public credit registry; 2) supporting the establishment of the first private credit bureau to improve access to finance and enhance competition; and 3) modernizing the reporting and monitoring systems for banks (ibid.) Some banks are working on increasing lending to SMEs through implementing more advanced transaction-lending techniques. New bank branches were opened in remote governorates and new Islamic banks have been licensed (ibid.). Moreover, after many years in preparation, Jordan introduced a new Secured Transactions Law (20/2018), which broadens the scope of assets that may be used as collateral, such as movable assets. A unified, notice-based collateral registry was also launched (Secured Transactions Law Reform Project, n.d.). As a result, a more positive enabling environment is starting to emerge which should help enterprises contribute to job creation and overall economic growth. Jordan's credit scores are also steadily improving, with the country's more positive performance in granting commercial loans during the crisis attesting to these improvements. However, as indicated, SME lending to total bank lending is still only 11 percent compared with 25 percent in emerging markets as a whole (IMF, 2019) and the main sources of funds continue to be internal and informal, meaning more still needs to be done.

Morocco on the other hand has adopted structural reforms related to MSMEs, but has not undertaken financially-oriented reforms. Relevant strategies include the National Pact for Industrial Emergence (PNEI), 2005–2014 and the Plan for Industrial Acceleration (PAI) 2014–2020. The latter rests on integrating private actors in the implementation of policy measures at the institutional level. Examples of the success of this approach are the close collaboration of the Moroccan Association of Textile and Clothing Industries (AMITH) and the Moroccan Association for Automotive Trade and Industry (AMICA) in enabling the rapid growth of the automotive and aeronautics industries in Morocco (cf. Hahn and Vidican-Auktor, 2017; Hahn and Vidican-Auktor, 2018). This suggests that the nature and objective of industrial policy in Morocco has changed: instead of focusing on low labour costs to attract enterprises to invest in Morocco, decision makers have taken a more systemic approach to industrial policy, and are fostering synergies across sectors, creating ecosystems, and using targeted support measures for enhancing SME capabilities (ibid.). Morocco recently attracted considerable foreign investment, entering new export markets by targeting several new sectors (for example, aeronautics, automotive, electronics), as well as some traditional sectors (such as leather and textiles, and agriculture).

4.2.10.2 Essential reforms for building forward better

OICs need to build back better, that is, to treat the crisis as an opportunity to implement much-needed reforms. The following highlights some key areas for action.

Reducing the State's grip on the economy is an important move to create space for MSME growth and private sector development more generally. Instead of subsidizing, directly engaging in or controlling productive activities (as is also the case in Kuwait), the State could implement a better tax administration system.

A stronger tax base will enable the State to concentrate on its basic role in providing public goods, justice and the redistribution of wealth from the capable to the needy. This is the only means by which States in the region should ensure their legitimacy and is the only sustainable way towards achieving political stability. Moroccan enterprises of all sizes and ages name tax administration issues as a major obstacle, referring to pervasive corruption in tax collection.²⁷ In Jordan, enterprises also list access to finance, political instability and corruption as other major obstacles.

OICs should guarantee a competitive and well-regulated telecommunication sector. In the case study countries, this issue is particularly pressing for Morocco. More widely available broadband access and increased digitalization of the economy will enable more tech-based start-ups and innovation in sectors such as logistics and distribution, transportation, financial technology (fintech), and health care. Digitalization has a positive effect on governance, as it reduces leakages stemming from corruption and favouritism through increasing transparency. Transparency means making it easier to disclose and publish information and give people access to reliable, comprehensive, timely, understandable, and internationally comparable data. Transparency is essential to support accountability, reduce inefficiency, build trust among society's stakeholders and improve a dynamic and fair business climate.

Strengthening the autonomy of competition authorities in OICs is key to implementing these recommendations. In Morocco, the Competition Law was passed in 2014 but the Competition Council was only active as of just three years ago. Although this is a positive step in preventing monopolistic practices of all types of economic units, the fact that the president and the board members are nominated by the executive branch and that some seats are designated for specific categories (such as high

magistrates) and government representatives weakens the level of independence of that authority (Jenny, 2020). Jordan's Competition Law and authority are older. The law was enacted a decade before Morocco's Competition Law in 2004 (33/2004) and came into force the same year. Before that, Jordan had a temporary Competition Law (49/2002). Prior to 2002, there was no specific legislation governing competition in Jordan (Oxford Business Group, 2008). Similar to Morocco, Jordan's competition authority (the Competition Directorate) is not independent from the executive branch and is located within the Ministry of Industry, Trade and Supply (Jenny, 2020).

Building back better means investing in human capital to address the region's structural imbalances. Investing in public goods and services through increased spending on education and health care will eventually reduce the region's large informal sector and address unemployment, which is highest in Jordan and significantly high in Morocco, as in other OICs. The accumulation of human capital will raise the productivity of the formal sector by providing productive employment opportunities, in turn diversifying the countries' production structures away from their current dependence on rents.

4.3 Middle-income oil-importing countries: Egypt case study²⁸

The outbreak of COVID-19 has severely affected the global and Egyptian economy. The real GDP growth rate in Egypt fell from 5.6 percent in 2019 to 3.6 percent in 2020, to an estimated 2.5 percent in 2021 (IMF, 2021). The total exports of goods and services fell from \$52.9 billion in 2019 to \$47.7 billion in 2020 and it is projected to decline further to \$40.3 billion in 2021 before rebounding to \$48.9 billion in 2022. The total export fell in 2020 owing to a fall in oil exports from \$15.7 billion in the period from January to June 2019 to \$13.8 billion in the same period in 2020, presenting a 12.3 percent decline. Imports of goods and services witnessed a decline from \$77.9 billion in 2019 to \$75.2 billion in 2020 (a decline of 3.5 percent) (ibid.). Egypt witnessed a rapid depletion of foreign reserves due to large-scale capital outflows at the beginning of the crisis, in addition to the sharp drop in tourism, Suez Canal revenues, merchandise exports and remittances. Moreover, the unemployment rate increased to 9.6 percent in the fourth quarter of 2020 from 7.7 percent in the previous quarter, with the number of unemployed expected to have reached 2.7 million in the fourth quarter of 2020. Losses were mainly witnessed in sectors such as retail and wholesale trade, manufacturing, tourism, transport and construction

²⁷ World Bank Enterprise Surveys prior to COVID-19.

²⁸ This is a summary of the draft report of a study on "Rapid Assessment of the Impact of COVID-19 on Micro, Small and Medium Enterprises (MSMEs) in Egypt" undertaken by Tamer El-Meehy and Dr. Sherine Al-Shawarby for UNDP Egypt in December 2020 (unpublished).

sectors, and were especially pronounced among informal workers (World Bank, 2020d). Unemployment also declined to 7.2 percent by the second quarter of financial year 2020/21 from 9.6 percent in the final quarter of 2020 (World Bank, 2021). The pandemic is likely to adversely impact the Egyptian economy primarily through the decline in travel and tourist activity, reduced worker remittances, capital outflows and the slowdown in domestic activities as people are asked to stay home (IMF, 2020d).

4.3.1 Impacts of COVID-19 on MSMEs in Egypt

4.3.1.1 Definitions of MSMEs in the context of Egypt

The total number of MSMEs in Egypt is estimated to be over 3.6 million. Microenterprises constitute the largest share of MSMEs at about 94 percent, while small and medium-sized enterprises constitute about 5.9 percent and 0.1 percent, respectively. Law 152 (2020) provides the legal basis for the definition of MSMEs.²⁹

Informal enterprises reportedly constitute an estimated 53 percent of enterprises in Egypt (2 million enterprises out of 3.8 million), employing about 31 percent of the labour force (3.9 million workers). It accounts for about 11 percent of the wages paid (28.6 billion Egyptian pounds [E£]), 11 percent of production (E£362 billion) and contributes about 13 percent of the value added (E£240 billion). According to the World Bank and ILO, informal sector employment accounts for nearly two thirds (64 percent) of total employment in Egypt. It is estimated that one third of the workforce is self-employed.

4.3.1.2 Data

The results in this report are based on data obtained from a phone survey of 1,951 MSMEs, of which 55.3 percent are microenterprises, 32.8 percent are small enterprises and 11.9 percent are medium-sized enterprises. The survey was administered by the Central Agency for Public Mobilization

and Statistics (CAPMAS) – the official statistical agency of Egypt – from 27 June to 11 July 2020. One caveat of the survey is that the sample is not strictly representative of all MSMEs, since the enterprises selected for the survey are those for which CAPMAS have a telephone number in the database of the 2017 Economic Census Framework. Another caveat is that the sample does not enjoy geographic or activity/sector representation. Nevertheless, the findings of this survey can be treated as indicative and useful in setting relevant policy recommendations.

Almost 93.5 percent of respondents were male (93.4 percent in microenterprises, 95.2 percent in small enterprises and 97.4 percent in medium-sized enterprises), showing how few MSMEs are owned and/or managed by women in Egypt (6.5 percent). Furthermore, the larger the enterprise, the smaller the share of women respondents. The average number of workers in the sample was 2.7 for microenterprises, 16.7 for small enterprises and 120.8 for medium-sized enterprises.³⁰ Of the total number of workers, 16.6 percent were women, barely one fifth of the share of male workers (83.4 percent). Microenterprises employed more than 60 percent of these female workers, while 21 percent were employed in small enterprises.

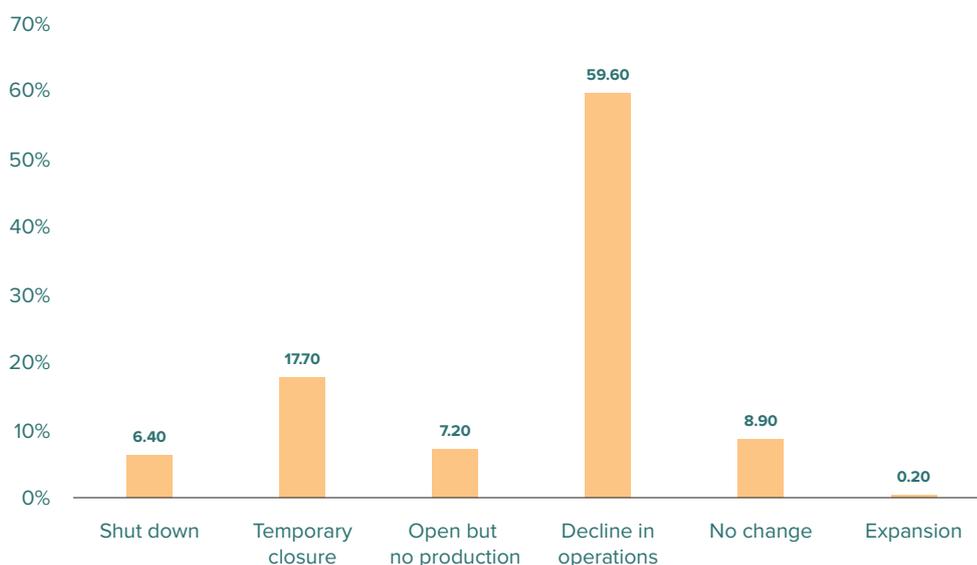
4.3.1.3 The impact of COVID-19 on MSME operations

Analysis of the survey data shows that COVID-19 had a negative impact on MSME operations (see Figure 28). Almost 91 percent of the enterprises in the sample were suffering due to COVID-19. Less than 9 percent of the respondents experienced no change, and less than 0.2 percent experienced expansion. Almost two thirds of the enterprises negatively impacted suffered a decline in their operations, while around 7 percent were still open but with no production. Almost 18 percent suffered a temporary closure and another 6 percent completely shut down. This is consistent with findings from other studies (CHF, Global Communities and US International Development Finance Corporation, 2020).

²⁹ The law defines MSMEs based on the volume of annual turnover, whether the enterprise is industrial or non-industrial, and whether the project is new. According to the law, MSMEs are defined as follows: **microenterprises** are defined as all projects and enterprises with an annual turnover of less than E£1 million or any project that was incorporated no more than two years ago with paid-up capital or invested capital of £0.05 million; **small enterprises** are all projects and enterprises with an annual turnover of £1 million to £50 million, any industrial project that was incorporated no more than two years ago with paid-up or invested capital of £0.05 million to £5 million, or any non-industrial project that was incorporated no more than two years ago with paid-up or invested capital of £0.05 to £3 million; and **medium-sized enterprises** are all projects and enterprises with an annual turnover of £50 million to £200 million, or any industrial project that was incorporated no more than two years ago with paid-up or invested capital of £5 million to £15 million, or any non-industrial project that was incorporated no more than two years ago with paid-up capital or invested capital of £3 million to £5 million. The law defines **informal sector economy** as “[e]ach medium, small or micro project that carries out its activities without obtaining a building or operating license, or any other license or approval that is necessary for the practice of the activity and determined by a decision of the Prime Minister” (Yousry Saleh & Partners, 2020).

³⁰ The average number of workers in all Egyptian enterprises (3.6 workers) is skewed towards microenterprises given their prevalence.

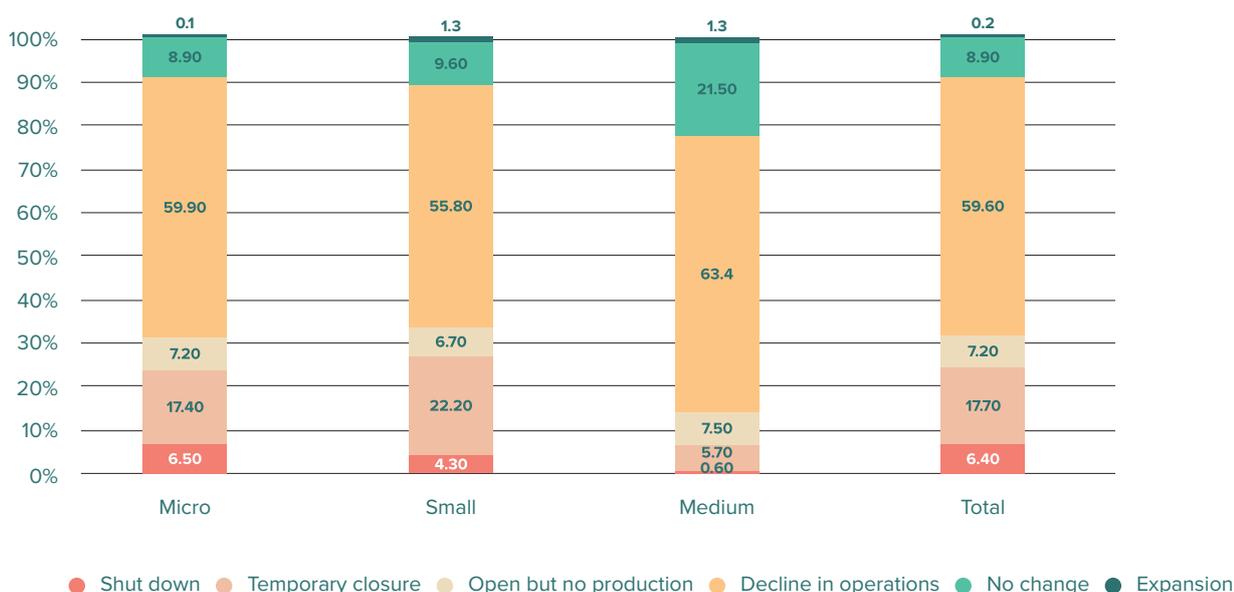
Figure 28. Impact of COVID-19 on MSME operations



The impact observed varies depending on the size of the enterprise, with medium-sized enterprises doing markedly better than micro- or small enterprises (see Figure 29). They were more likely not to experience any change (21.5 percent, compared with an average of 8.9 percent), slightly more likely to cut their operations (63.4 percent, compared with a sample average of 59.6 percent), and significantly less likely to close temporarily (5.7 percent, compared with a sample average of 17.5 percent) or permanently (0.6 percent, compared with a sample

average of 6.4 percent). Respondents in the micro- and small enterprises category either experienced a decline in their operations (59.9 and 55.8 percent, respectively) or had to temporarily close (17.7 and 22.2 percent, respectively). Microenterprises were more likely to close permanently than small enterprises (6.5 percent, compared with 4.3 percent). Finally, it is worth noting that small enterprises were more likely to close temporarily (22.2 percent) compared with micro- (17.4 percent) or medium-sized enterprises (5.7 percent).

Figure 29. Operational status by MSME size



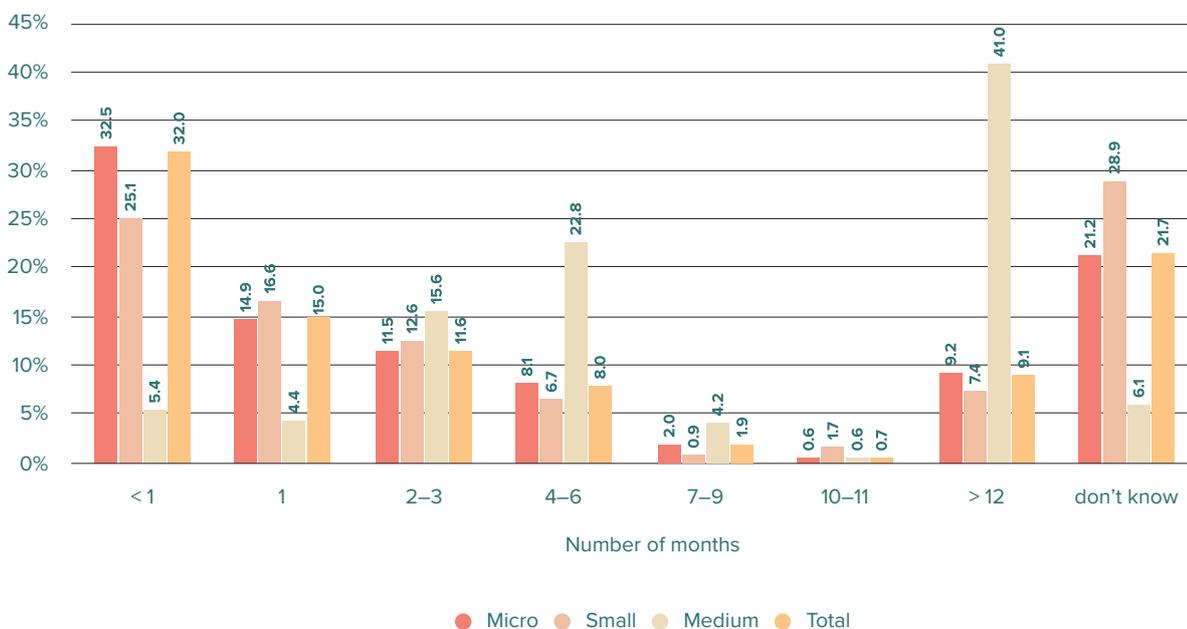
4.3.1.4 Future projections and outlook of enterprises

Respondents were asked about how long they expected their enterprise to continue operating by relying solely on their own cash flow during the crisis. While almost one fifth of the respondents were not sure about how long their enterprise could operate, almost one third of them expected to survive for less than a month. Medium-sized enterprises appeared significantly more optimistic about their ability to cope with the crisis.

With the exception of medium-sized enterprises, expectations to survive decreased as the expected

duration of the crisis increased (see Figure 30). Micro- and small enterprises were the most vulnerable, with 32.5 and 25.1 percent of them, respectively, saying that their cash flow enabled them to survive for one month at most. They were also the most uncertain about their cash flow, with 21.2 and 28.9 percent of them, respectively, not knowing if they could survive, and the vast majority believed that they would not survive for more than six months. Medium-sized enterprises were more optimistic, with 41 percent of them expecting to survive for more than a year, compared with 9.2 and 7.4 percent of micro- and small enterprises, respectively.

Figure 30. MSME expected survival time relying on current cash flow

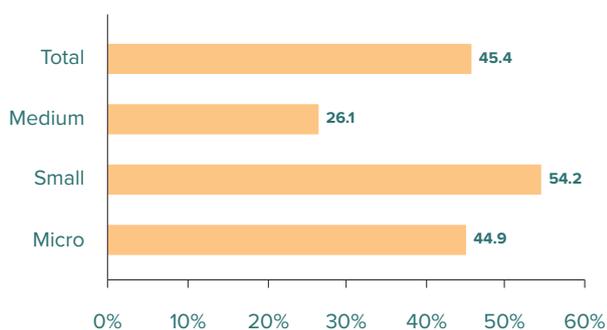


4.3.1.5 Operational challenges encountered by MSMEs during the crisis

a. Shortage of inputs

Almost 45.4 percent of respondents indicated experiencing shortage of inputs (see Figure 31). Small enterprises were the most affected (54.2 percent of respondents), compared with 45.4 percent of microenterprises and 26.1 percent of medium-sized enterprises. This confirms the differences already noted between micro- and small enterprises on the one hand, and between these and medium-sized enterprises on the other.

Figure 31. Percentage of enterprises reporting difficulties in obtaining inputs due to the pandemic



b. Inability to fulfil contracts/meet current demand

Overall, 45.3 percent of respondents reported facing difficulties in fulfilling contractual obligations or demand

fulfilment. Small enterprises were the most affected (50 percent), though not much more than micro- and medium-sized enterprises (45 and 43.7 percent, respectively) (see Figure 32).

Figure 32. Percentage of MSMEs reporting difficulties in fulfilling contracts or meeting demand

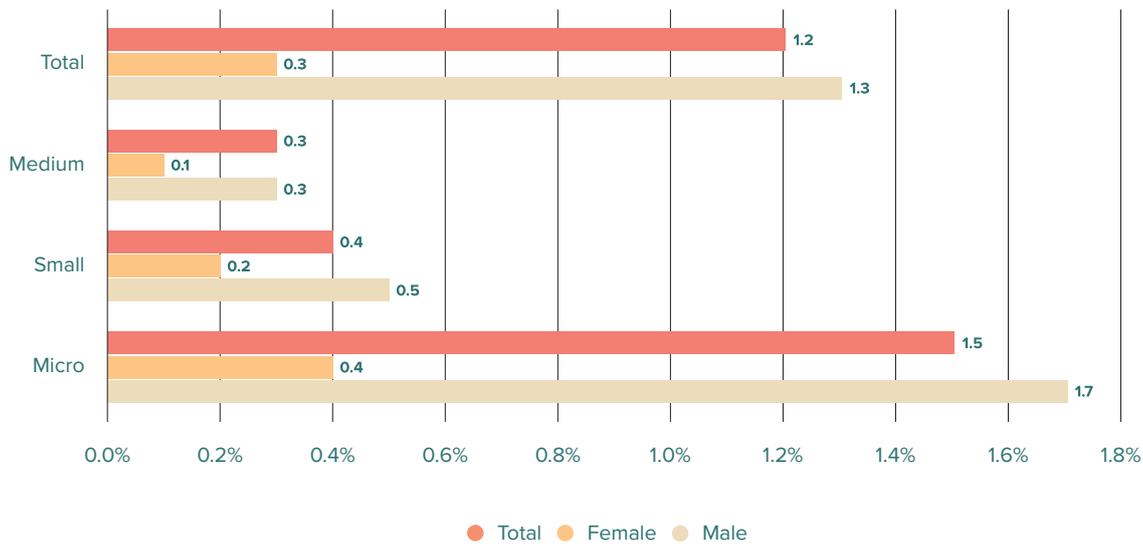


4.3.1.6 Impact on workforce and MSME responses

Respondents were asked about the number and gender of workers infected by COVID-19 (if any), and the number of actual and expected redundancies after COVID-19.

Results reveal a very low infection rate among workers (1.2 percent) during the survey period (see Figure 33). Microenterprise employees tend to be at greater risk of infection (1.5 percent of their workforce), compared with SMEs (0.4 and 0.3 percent, respectively), indicating that enterprise size does not seem to have a significant effect on the rate of infection. On average, the infection rate among female workers is a quarter of that among male workers (0.3 percent compared with 1.3 percent). However, these data need to be interpreted cautiously: the number is likely to be underestimated given the likelihood of respondents withholding information, or COVID cases might have been underreported due to limited testing, especially in mid-2020 when this survey was conducted.

Figure 33. Percentage of workers infected by COVID-19, by gender



On average, the number of workers decreased by 17 percent in all MSMEs (see Table 5). Micro- and small enterprises experienced significantly high redundancy rates (17.9 and 15.7 percent of respondents, respectively) compared with medium-sized enterprises (4.9 percent). Of all the employees dismissed, 99.4 percent worked

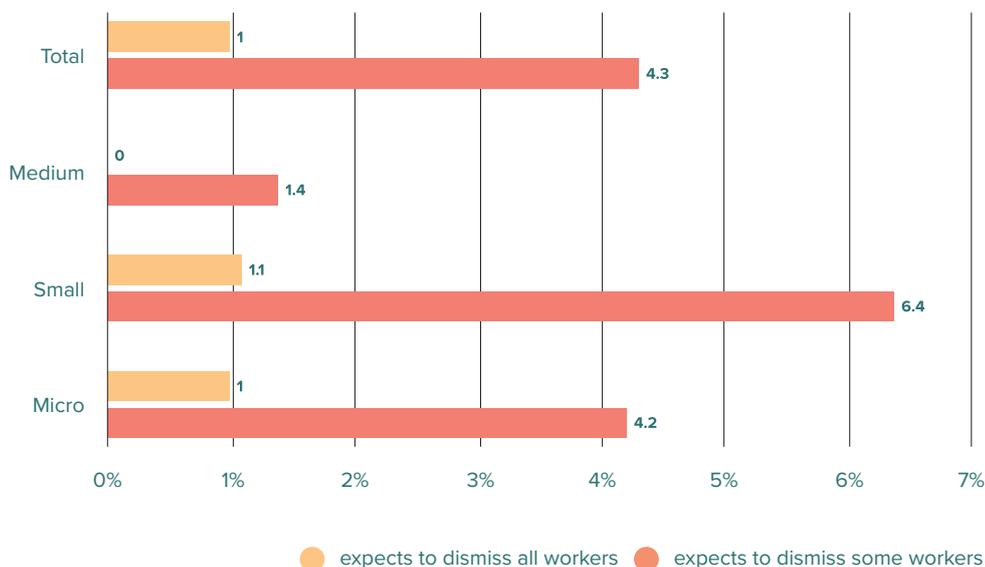
in micro- and small enterprises, of which 74 percent worked in microenterprises. Gender was a significant factor, with redundancy among female workers at 20.1 percent, compared with 16.4 percent among male workers. That said, less than 20 percent of total redundant workers were female.

Table 5. Actual and expected redundancies

	Actual (%)			Expected (%)		
	Male	Female	Total	Male	Female	Total
Micro	18.2	16.0	17.9	4.6	4.4	4.6
Small	12.2	27.5	15.7	-10.7	1.8	2.4
Medium	5.3	2.0	4.9	0.3	0.2	0.2
Total	16.4	20.1	17.0	4.0	3.3	3.9

Respondents were asked about expected future redundancies (see Figure 34). Overall, 4.3 percent of the MSMEs surveyed were expecting further cuts, of which 1 percent were expecting to dismiss all their workers. Micro- and small enterprises had the highest rates, with 7.5 percent and 5.2 percent expecting to make more redundancies, respectively.

Figure 34. Percentage of MSMEs expecting to dismiss employees



Overall, further cuts are expected to be 3.9 percent of the total number of employees before COVID-19. Should this happen, the redundancy rate after COVID-19 will add up to almost 21 percent of the total number of workers before the pandemic. If one assumes this rate to be representative of the MSME sector, which is believed to employ a total of 9,958,242 workers, this would mean that 2,124,381 workers could be dismissed because of COVID-19. Microenterprises have the highest expected redundancy rate (4.6 percent) followed by small enterprises (2.4 percent). Consequently, microenterprise employees are expected to account for 81.5 percent of all MSME redundancies (actual and expected), while those in small enterprises will account for 18.1 percent. Medium-sized enterprises are expecting to lay off about 0.3 percent of the total expected number of workers dismissed from the MSME sector.

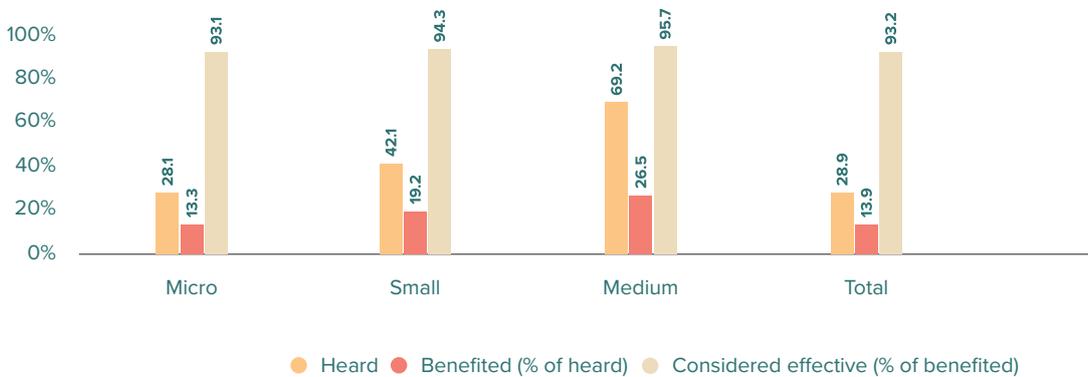
4.3.2 Government measures to mitigate COVID-19 impacts and MSME perceptions of those measures

The measures implemented by the government can be grouped into four areas: i) tax payment facilitation and reduction; (ii) banking initiatives; (iii) cash transactions reduction, and (iv) raising of the credit thresholds initiative. Respondents were asked if they had heard about the initiatives, if they had utilized those initiatives, and if they believed that the initiatives were effective.

4.3.2.1 Tax payment facilitations and discounts

Overall, 28.9 percent of enterprises had heard about tax payment facilitation and discounts, but only 13.9 percent of those enterprises had benefited from it (see Figure 35). Of this 13.9 percent, 93.2 percent found these measures to be effective. The bigger the MSME, the more likely they were to have heard about tax payment facilitations and discounts: 69 percent of the medium-sized enterprises surveyed reported that they had heard about the tax facilities offered by the government, compared with 42 percent of small enterprises and 28 percent of microenterprises. Enterprises' size also positively correlated with their chances of benefiting from such initiatives, albeit less so: only 13 percent of the microenterprises that had heard about them benefited from them, compared with 19 percent of small enterprises and 26.5 percent of medium enterprises. However, size was not a factor in whether these measures were considered effective.

Figure 35. Percentage of MSMEs that heard about and benefited from tax facilities and discounts

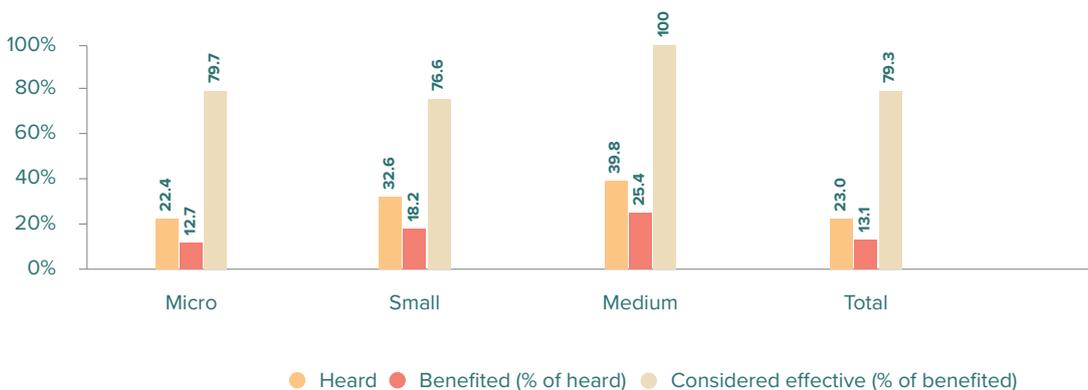


4.3.2.2 Banking initiatives

Overall, 23 percent of respondents indicated that they had heard about these initiatives, but only 13 percent reported having benefited from them (see Figure 36). The bigger the

MSME, the more likely they were to have heard about and benefited from banking initiatives. Size was also a factor in whether these measures were considered effective, specifically between medium-sized enterprises and micro- and small enterprises.

Figure 36. Percentage of MSMEs that heard about and benefited from banking initiatives



It is clear that *ad hoc* banking initiatives are unlikely to generate significant impacts unless accompanied by serious efforts aimed at financial deepening. According to the latest CAPMAS economic census, 97.2 percent of microenterprises, 96.7 percent of small enterprises and 88.8 percent of medium-sized enterprises have not obtained a loan in the past five years.

them and consider them effective. In this way, medium-sized enterprises were clearly privileged in knowing about and benefiting from these initiatives over micro- or small enterprises.

4.3.2.3 Reduction of cash transactions

Overall, more MSMEs had heard about this initiative (45.7 percent, compared with 28.9 and 23 percent in the previous two initiatives) (see Figure 37). Furthermore, more of those who had heard about it benefited (27.2 percent, compared with 13 and 14 percent in the previous two initiatives). The bigger the MSME, the more likely they were to have heard about the measures, benefited from

Figure 37. Percentage of MSMSEs that heard about and benefited from the reduction of cash transactions



4.3.2.4 Raising credit thresholds

Overall, this type of initiative seems to have been of the least benefit, given the the percentage of respondents that heard about the measure (17.1 percent) compared with that of those that benefited from it (8.9 percent) (see Figure 38). There was a wide gap between medium-sized

enterprises and micro- and small enterprises in terms of hearing about the initiative (63.2 percent, versus 21.7 and 16.8 percent, respectively) and benefiting from this initiative (35.6 percent, versus 9.1 and 5.5 percent, respectively). Size was not a factor in the perceived effectiveness of the measures.

Figure 38. Percentage of MSMSEs that heard about and benefited from raising of credit thresholds



4.3.3 Desired support measures over the six months following the survey period

Respondents were asked to prioritize a list of expected support measures (see Table 6). All MSMSEs (regardless of size) ranked “reducing energy prices”, “more tax exemptions” and “more credit facilities” as the three most important measures. Micro- and small enterprises ranked the remaining recommended support policies differently from medium-sized enterprises. Both micro- and small enterprises recommended “facilities in the payment of rent”

as the fourth most-needed measure, and “contribution to staff salaries” as the fifth. In contrast, medium-sized enterprises recommended “contribution to staff salaries” as the fourth priority, followed by “technological solutions for marketing”, while ranking “facilities in the payment of rent” lowest. This shows how medium-sized enterprises are more focused on a smaller number of policy items than micro- and small enterprises. More micro- and small enterprises (14 and 17.5 percent, respectively) than medium-sized enterprises (only 0.8 percent) expressed interest in “other policies”.

Table 6. Desired support measures over the six months following the survey period

MSME size	More credit facilities	More tax exemptions	Contribution to staff salaries	Facilities in the payment of rent	Reducing energy prices	Technological solutions for marketing	Technical, marketing and consultation support	Other
Micro	25.5%	31.6%	9.4%	17.5%	53.3%	4.0%	2.6%	14.1%
Small	24.8%	38.4%	11.4%	19.6%	62.8%	2.1%	3.1%	17.5%
Medium	44.8%	60.0%	7.5%	2.6%	66.1%	5.6%	4.1%	0.8%
Total	25.5%	32.0%	9.5%	17.6%	53.8%	3.9%	2.6%	14.3%

4.3.4 Government policy responses

Like many other emerging economies and developing countries, Egypt has been hit by the economic crisis caused by the pandemic. Egypt responded with a stimulus package worth \$6.13 billion (£100 billion), roughly equivalent to 1.8 percent of the country's GDP. The government implemented a set of measures to address the health and other effects of the pandemic, ranging from providing urgent and necessary medical supplies, and disbursing bonuses to medical staff working in quarantine hospitals and labs, to social protection (including increasing pensions by 14 percent; extending the two targeted cash transfer social programmes, namely Takaful and Karama, to reach more families; a targeted support initiative for irregular workers; a consumer spending initiative to offer citizens a two-year, low-interest loan to pay for consumer goods discounted by up to 10-25 percent and ration card subsidies; and a new guarantee scheme to encourage mortgages and consumer loans by banks and consumer finance companies) (IMF, 2020d). The government also implemented measures aimed at market stimulation, including providing targeted support to sectors particularly affected by the pandemic such as the tourism sector (which contributes close to 12 percent of Egypt's GDP, 10 percent of employment, and almost 4 percent of GDP in terms of receipts); extending the moratorium on the tax law on agricultural land for two years; reducing the stamp duty on transactions and tax on dividends; postponing capital gains tax until further notice; and imposition of a 1 percent COVID-19 tax on all public and private sector salaries and 0.5 percent on state pensions—the proceeds of which are earmarked for sectors and MSMEs most affected by the pandemic.

Other measures aimed at stimulating the market include reduction of the preferential interest rate from 10 percent to 8 percent on loans to the tourism, industry, agriculture and construction sectors, and for housing for low-income and middle-class families; soft loans at zero-to-low interest rates from banks aimed at replacing old cars with natural gas-powered vehicles; a government guarantee scheme to promote lending to critical sectors such as the tourism

industry, manufacturing, agriculture and contracting loans and aviation sector firms. The availability of short-term loans of up to a year has been increased to secure the necessary liquidity for operational expenses until the crisis is over. Microfinance institutions (MFIs) have been advised by the financial regulatory authority to consider delays on a case-by-case basis of up to 50 percent of the value of monthly instalments for struggling clients, and the regulations issued last year requiring banks to obtain detailed information of borrowers have been relaxed.

4.3.5 Towards a speedy recovery from the COVID-19 crisis in Egypt

While it is true that the measures adopted by the government proved effective in the first wave of the pandemic, the findings indicate that most MSMEs have been severely affected and are facing several challenges such as reduction in their level of operation, disruption in inputs supply and demand, dwindling cash flows and employee redundancies. As expected, the pandemic has had a differential impact on MSMEs, with micro- and small enterprises hit harder than medium-sized enterprises and more uncertain about the future. In addition, medium-sized enterprises appear to have been more aware of the government interventions offered to support MSMEs and better utilized them. That said, the share of medium-sized enterprises surveyed who were aware is still low. Following these findings, this report recommends the following measures to ensure MSMEs' recovery from the pandemic's effects and minimize the impacts of other potential waves which could further aggravate these effects.

- i. While the policies are considered effective, there is an urgent need to raise awareness of them: less than 30 percent had heard of any of the policy measures presented during the survey. Such awareness-raising efforts should target micro- and small enterprises, such as by involving regional and local government bodies and non-governmental organizations (NGOs) which have better outreach to these enterprises.

- ii. Given that the level of utilization among those who are aware of policy measures is low (14 percent), special measures should be put in place to improve this. Revisiting and simplifying the eligibility criteria for the utilization of the various tools would go a long way towards bridging this gap. Business development services could also play a key role by disseminating information and assisting MSMEs, particularly micro- and small enterprises, to meet criteria and access the facilities.
- iii. Enhancing access to finance by MSMEs is essential: this is generally limited in Egypt. To address these challenges, is important to capitalize local MFIs and enable them to provide loans to microenterprises and the informal sector on a larger scale. In addition, as experience from other countries shows, direct lending to reach MSMEs is essential. Egypt's Micro, Small and Medium Enterprises Development Agency (MSMEDA) has both the experience and the ability to channel direct loans to small and medium-sized enterprises.
- iv. Promoting MSMEs' access to digital solutions would help address a number of the economic challenges posed by the COVID-19 crisis.
- v. The demand side of the policy packages urgently needs to be expanded. MSMEs, especially micro- and small enterprises, operate on the fringes of poverty and their market is usually focused on the lower and lower-middle classes. While several of the government's measures sought to increase the consumption of this market segment, such efforts need to be sustained and expanded for social and economic reasons.

4.4 Fragile and conflict countries: Iraq case study

4.4.1 Introduction

Iraq's economy is dominated by the oil industry, which accounts for over 90 percent of government revenue and 80 percent of foreign exchange earnings. However, a sustainable economic structure needs to be based on varied industries of different sizes. In addition, the challenge of unemployment needs to be solved by instigating realistic policies that give Iraqis outside the current workforce opportunities, through enterprise initiatives, to create a sustainable non-oil economy that can create jobs. Within this context, promotion of MSMEs, along

with general development of the private sector and other forms of private investment promotion, is important.

Current statistics published by the Ministry of Planning put the economically active population at 42.7 percent – approximately 15.3 million.³¹ The public sector employs nearly 4 million (3.1 million officially registered as permanent staff and 0.9 million estimated temporary contracted staff). The remaining 11.3 million comprises those employed in the private sector, the unemployed and the underemployed. The latter two categories amount to 4.2 million, which means that the estimated number of private sector employees, both formal and informal, is 7.1 million. The unemployment rate is estimated at 10.8 percent, while the underemployment rate is 28 percent, which, combined, represents about 4.2 million. MSMEs can become a sustainable source of employment for women and men in the right environment, providing essential income for business owners, workers and their families, and necessary services and products. MSMEs also add value to the economy by mobilizing domestic and foreign investment.

The total number of MSMEs in Iraq is estimated to be 3.18 million, employing about 6.14 million people. However, there is no reliable information on the size and activities of the informal sector in Iraq. There are no estimates on employment by type of activity or by class of MSMEs, though there is enough evidence suggesting that Iraq's informal economy has expanded considerably since 2003. Small-scale urban services have seen the biggest increases, with smaller increases in agriculture and various small-scale industries. A safe estimate of the size of the informal economy (as in 2006) is around 65 percent of GDP, compared with 35 percent in 2000, though this may be a bit conservative. Approximately 68 percent of the labour force is engaged in informal activity, assuming that many workers listed as unemployed work in the informal economy until formal sector jobs appear.

4.4.2 Data and methodology

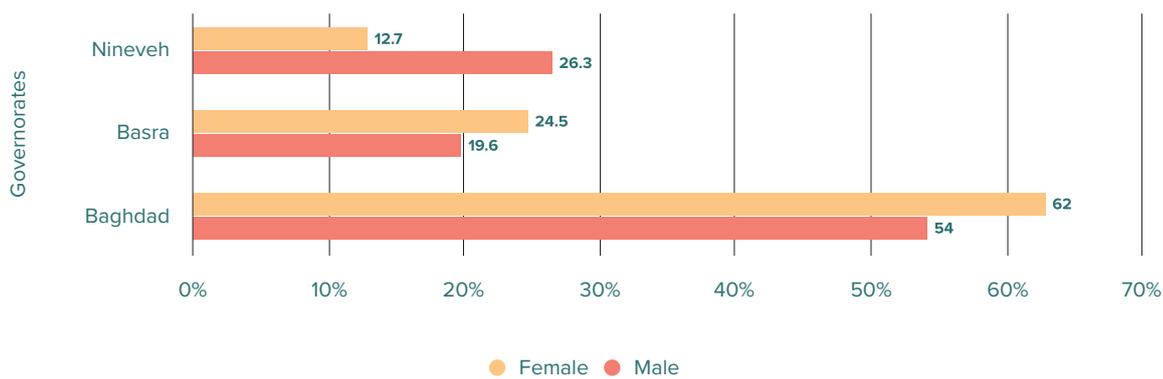
The development of MSMEs is considered a major component of the comprehensive Private Sector Development Strategy designed to diversify Iraq's economy and promote the creation of better, more productive jobs for men and women. Recently, an MSME survey was undertaken by UNDP Iraq with the purpose of building a picture of MSMEs' structures, trends, business dynamics, challenges and opportunities to design informed initiatives aimed at supporting the private sector through MSME or job creation, or even inclusive growth policy. One of the issues emphasized in the survey was the impact of COVID-19 on the MSMEs operating in various sectors.

31 According to the Iraq Household Socio-Economic Survey 2014.

The survey was carried out between December 2020 and January 2021. The UNDP MSME survey adopted the following definition of MSMEs: “Business activities producing an added value in goods or services for sale or barter regardless of the form of their legal form, and thus include both formal and informal businesses”, and used the following Central Statistical Organization of Iraq (CSO) MSME categorization: microenterprises (one to two employees), small enterprises (three to nine employees

excluding the owner) and medium-sizes enterprises (10 to 29 employees excluding the owner). A total of 2017 enterprises were surveyed in three governorates, namely Baghdad (54 percent), Basra (20 percent) and Nineveh (26 percent) (see Figure 39). The smallest geographical area with available information on population or households (district level) was used. About 95 percent of the respondents were males.

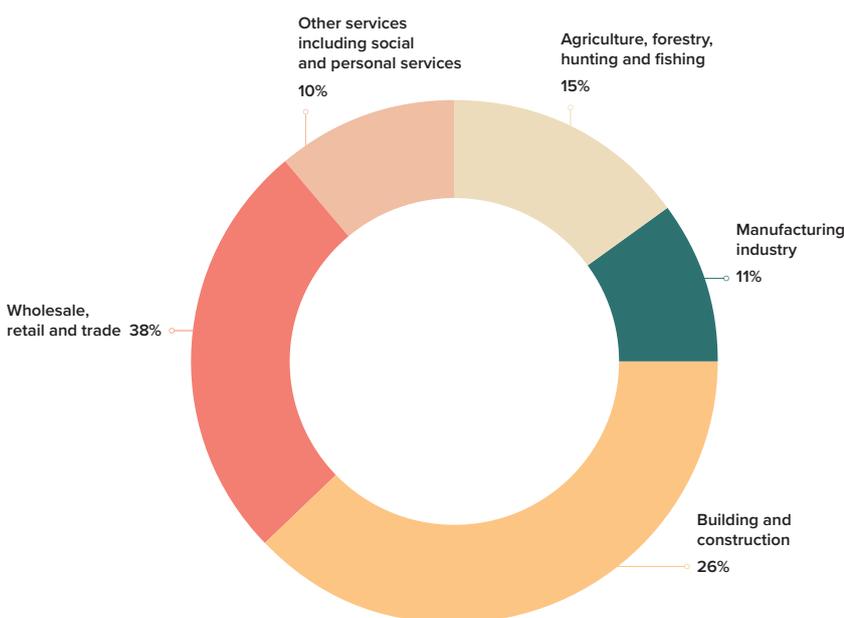
Figure 39. Survey sample distribution by governorate and sex of respondent



The majority of the MSMEs surveyed were informal (83 percent) (not registered with any entity).³² About 93 percent of these were microenterprises, while about 6.7 percent were small enterprises. The study looked at

MSMEs in sectors constituting about 17 percent of GDP; Figure 40 depicts their rough share of GDP after excluding the other sectors.

Figure 40. Share of GDP of the sectors surveyed



Source: CSO primary estimates for GDP for the year 2018.

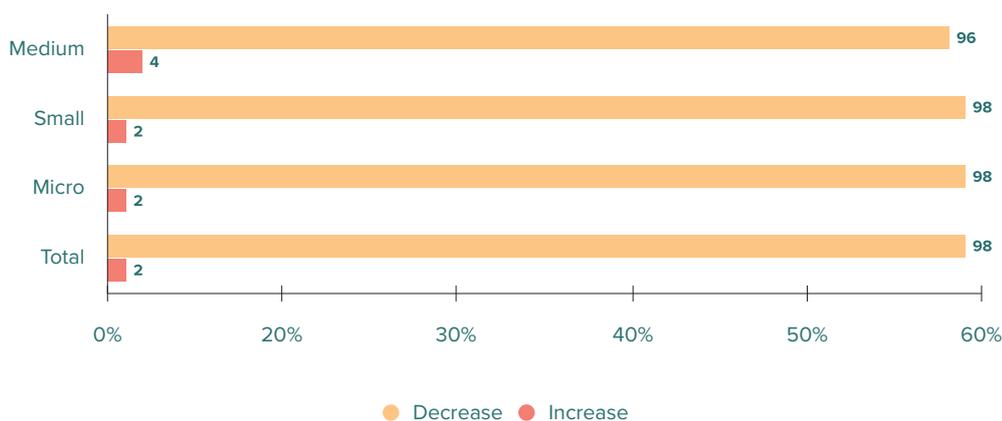
³² Registration entities include tax authorities, social security funds, local municipalities, the Directorate of Industrial Development, company registers, contractor classifications and agricultural associations.

4.4.3 Impact of COVID-19 on MSMEs

4.4.3.1 Impact of COVID-19 on MSME turnover

Over 98 percent of surveyed MSMEs faced a critical decrease in turnover due to the pandemic (Figure 41). A few reported increased turnover, these tended to be medium-sized enterprises rather than micro- and small enterprises.

Figure 41. MSMEs’ reported change in turnover due to COVID-19



4.4.3.2 Impact of COVID-19 on employment and salary payment

The pandemic had a noticeable impact on employment and salaries. About 44 percent of respondents indicated that they put staff on leave due to the pandemic, while 19 percent reported that staff numbers and salaries remained the same. Twenty percent of respondents reported putting employees on part-time hours with part-time salaries (see Figure 42).

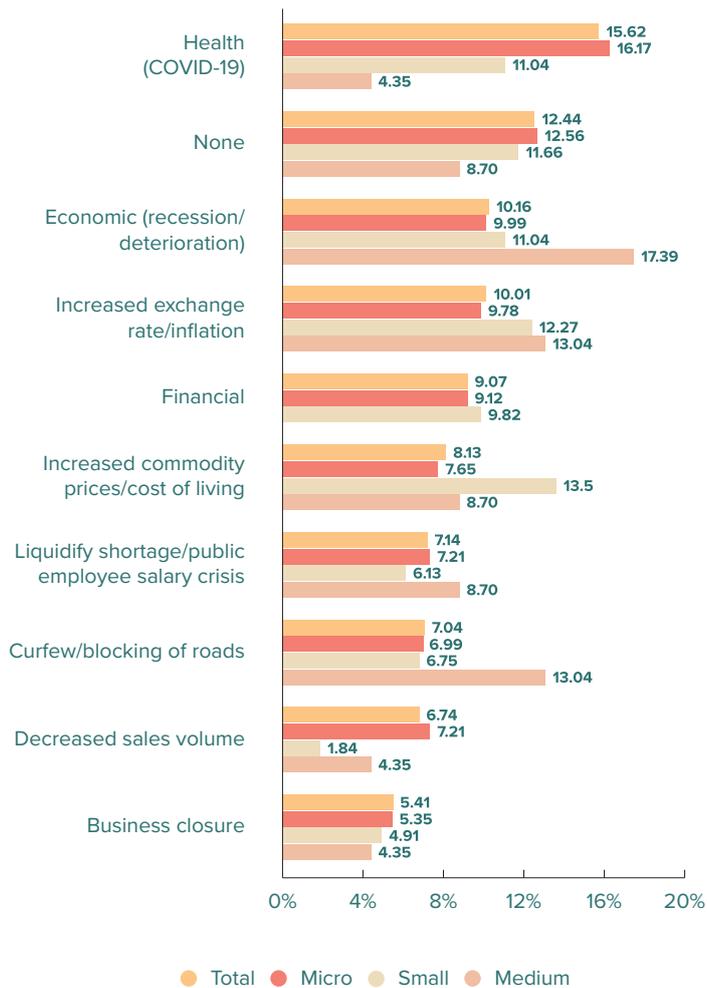
Figure 42. Impact of COVID-19 on employment and salary payment



4.4.3.3 Challenges and opportunities

The survey identified the main challenges that MSMEs expected in the year ahead (see Figure 43). These included health challenges; the impact on the economic situation/recession; macroeconomic challenges such as a rise in the exchange rate and inflation, and liquidity challenges.

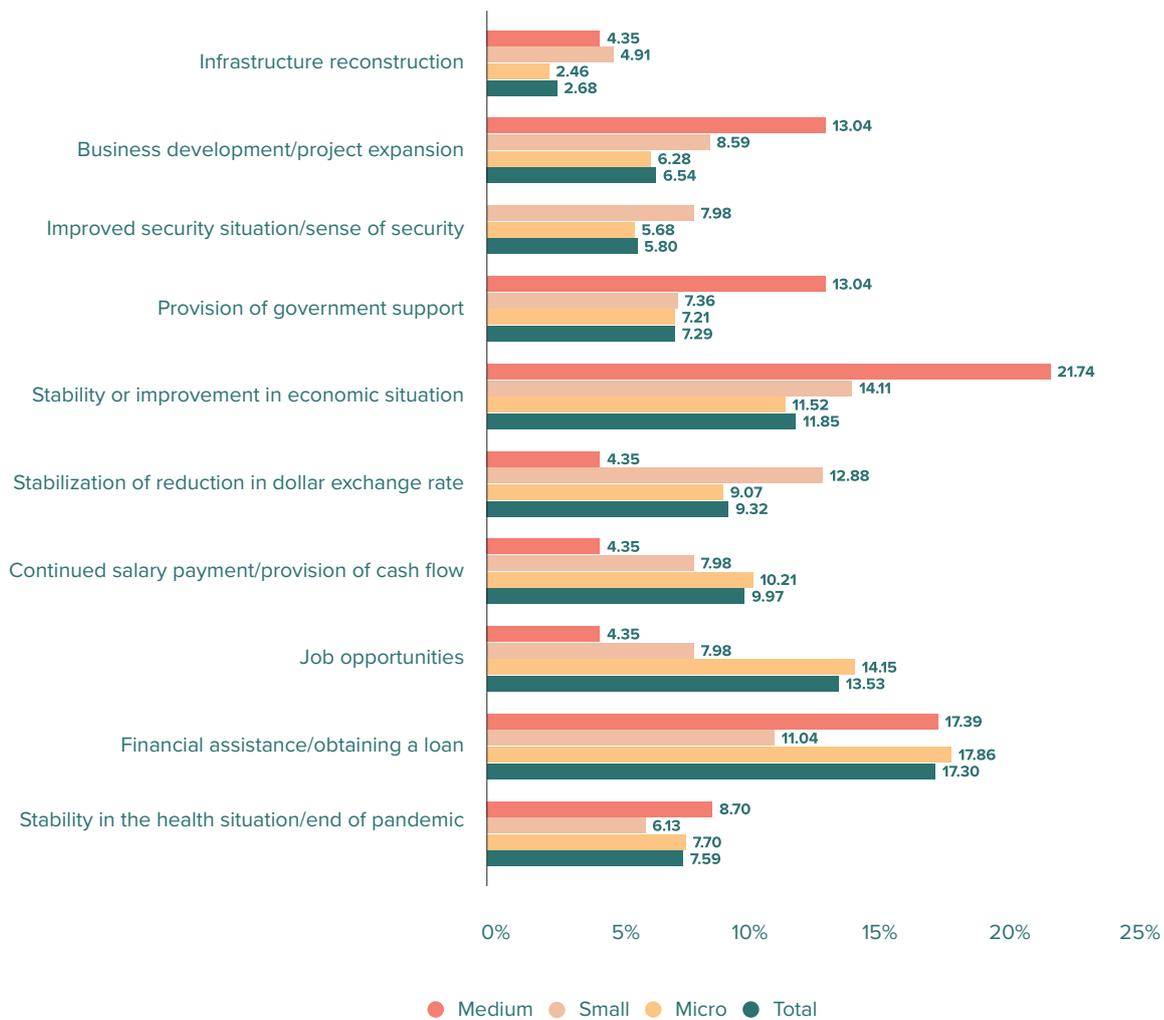
Figure 43. Top 10 challenges expected by MSMEs in the next year



The survey also asked MSMEs to identify factors or opportunities that would have a positive impact on next year (see Figure 44). These included financial assistance or loan acquisition; job opportunities; improvement in the economic situation; stability of salaries being paid; currency

stability; the end of the pandemic; government support, and business development. The major types of government support needed to improve businesses included financial loans, infrastructure development, and better security and availability of raw materials.

Figure 44. Top 10 factors or opportunities that would have a positive impact next year according to MSMEs



4.4.4 Future business outlook (expectations)

Respondents were also asked how they thought their business, the economy and the security situation would evolve compared to other businesses in the business year following the survey (see Figure 45, 46, 47 and 48).

Outlooks differed on the business environment and the economy for the year ahead: 55 percent of respondents

thought the business environment would get worse, while 63 percent said that the economy’s performance in general would decline. Meanwhile, 59 percent expected the security situation to improve. However, when asked specifically about their own business outlook compared with others, the responses were more similar: about 27 percent thought that their business would improve, 38 percent thought that it would decline, and 35 percent expected no change.

Figure 45. MSME expectations of overall business environment performance in 2021



Figure 46. MSMEs’ expectations of the economy in 2021

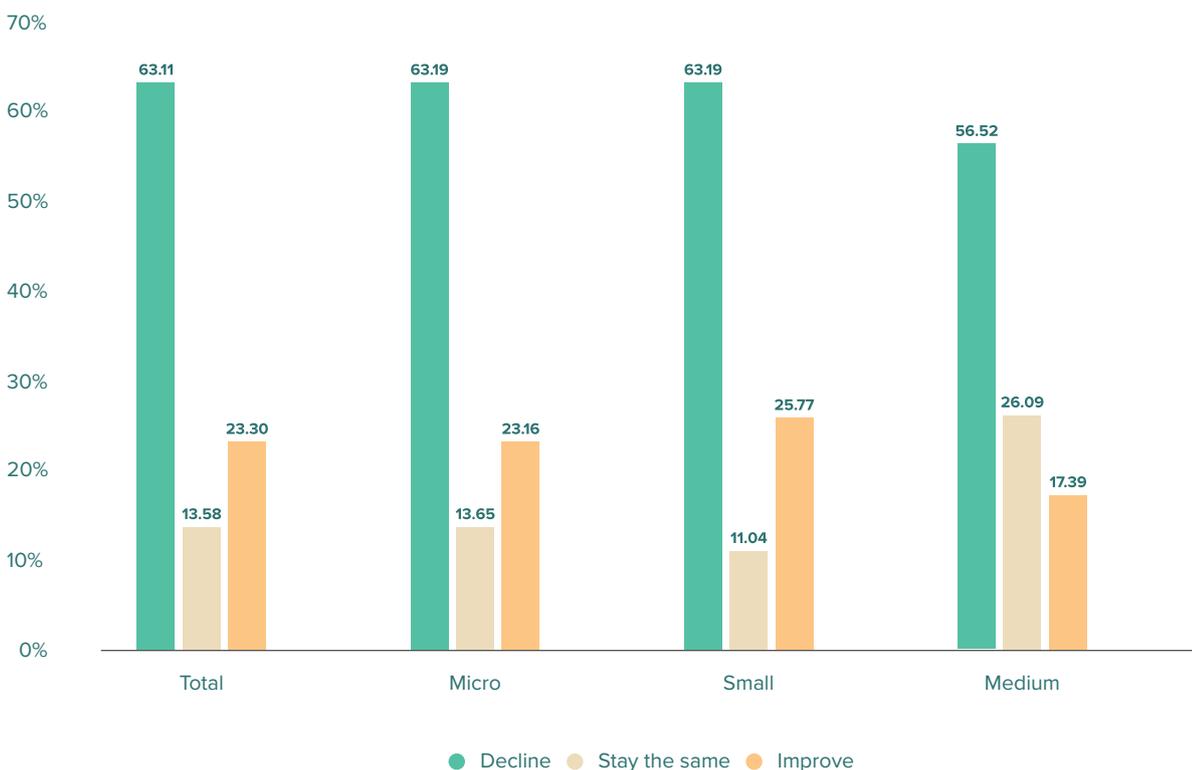


Figure 47. MSME expectations of the security situation in 2021

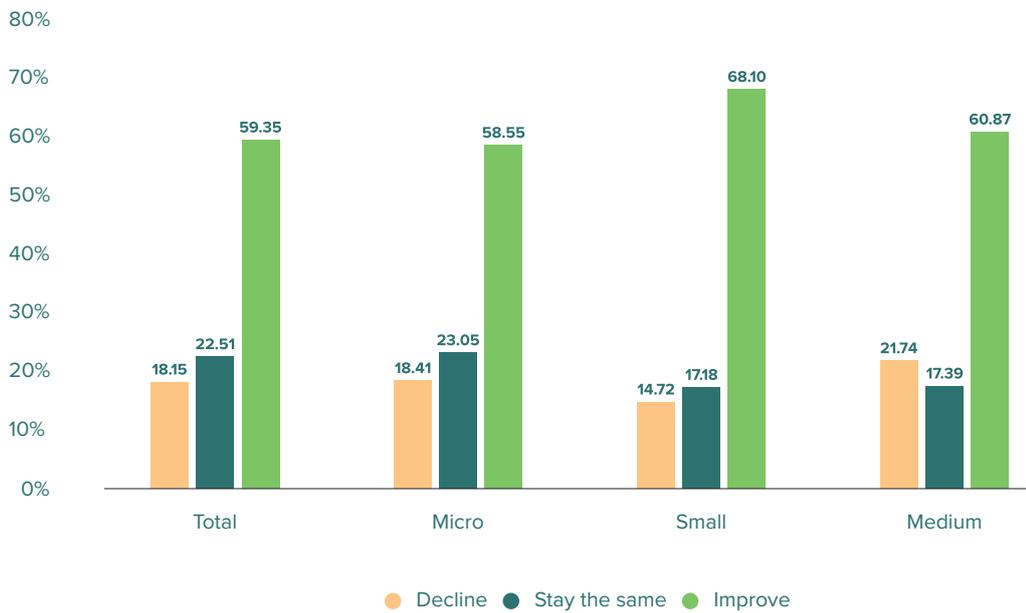
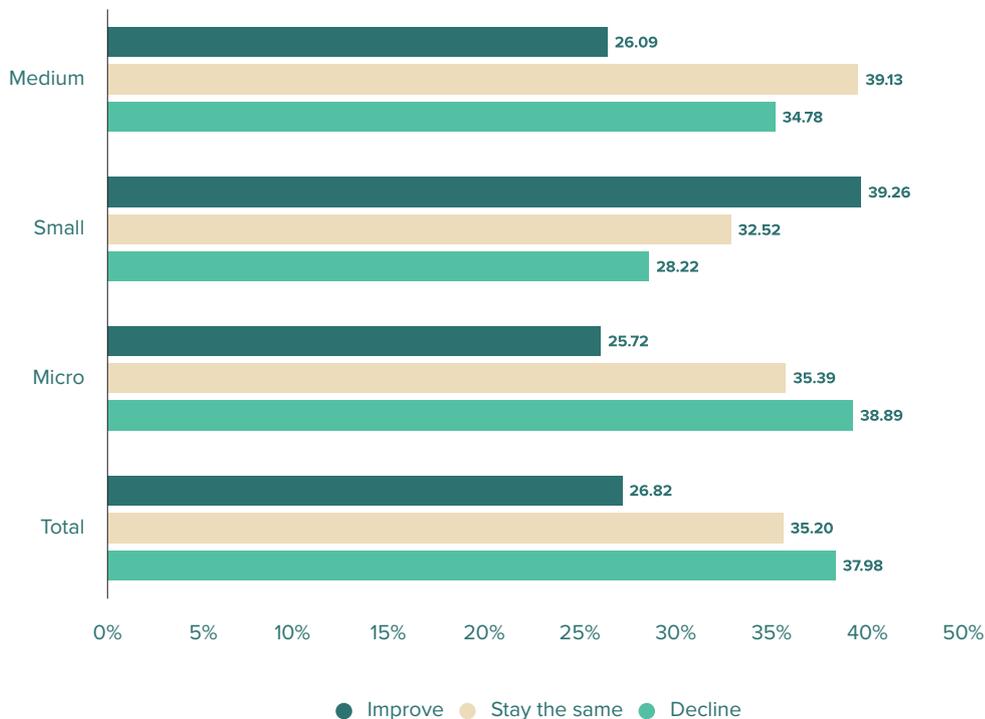


Figure 48. MSME expectations of their business performance compared with other businesses in 2021



4.4.5 Government policy responses

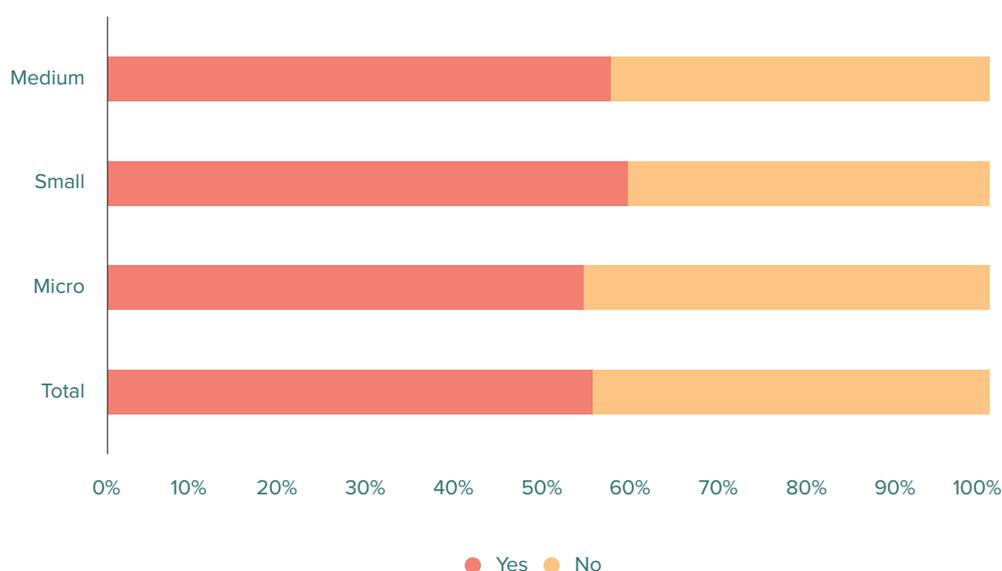
Attempts to contain COVID-19 and mitigate its impacts had negative impacts on non-oil activity, with non-oil GDP projected to have contracted significantly in 2020 (IMF, 2020d). The government has implemented a range of policy measures mainly targeted at limiting the spread of the virus and responding to the health emergencies caused by the virus, with limited support provided to enterprises³³ compared with other countries. This is probably due to the country's limited fiscal position due to its protracted fragility and decline in oil revenue. Some of the measures aimed at addressing the needs of enterprises include the establishment of an Emergency Cell for Financial Reform to ensure financial liquidity, agree measures to rationalize public spending, maximize resources, and propose

mechanisms for reconstruction and investment projects from outside government funding streams, allowing some enterprises to operate during curfew hours (lockdown periods). The Central Bank of Iraq enacted a moratorium on interest and principal payments by MSMEs through its directed lending initiative (the 1 Trillion Dinars Initiative). Banks were encouraged to extend the maturities of all loans as they deemed appropriate.

4.4.6 Perception of MSMEs regarding government responses

Not all MSMEs agreed that the measures implemented by the government in response to COVID-19 were appropriate (see Figure 49).

Figure 49. Agreement with COVID-19 government action

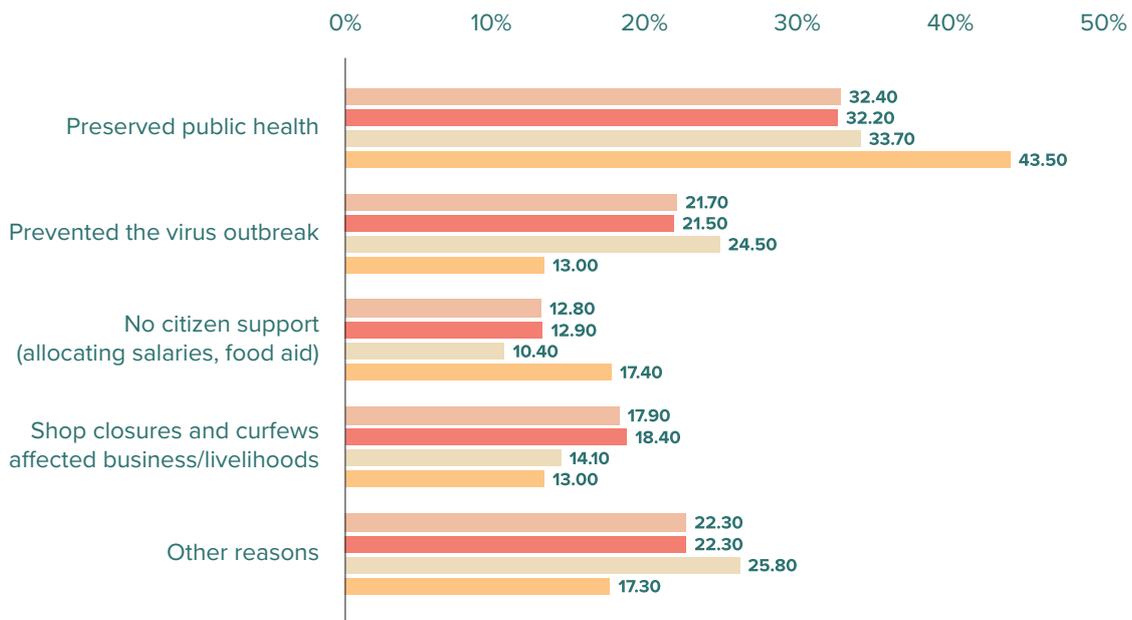


When asked to assess the action taken by the government, the majority of respondents said that it had both positive and negative effects: while it preserved public health (32.4 percent of MSMEs) and it prevented the virus outbreak (21.7 percent), it also resulted in shop closures, the curfews have affected businesses/livelihoods (17.9 percent), and there has not been support for citizens (salaries, food aid) (12.8 percent) (see Figure 50).

³³ See <https://www.ilo.org/global/topics/coronavirus/regional-country/country-responses/lang--en/index.htm#IQ> and <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#> for the range of support provided by the government.

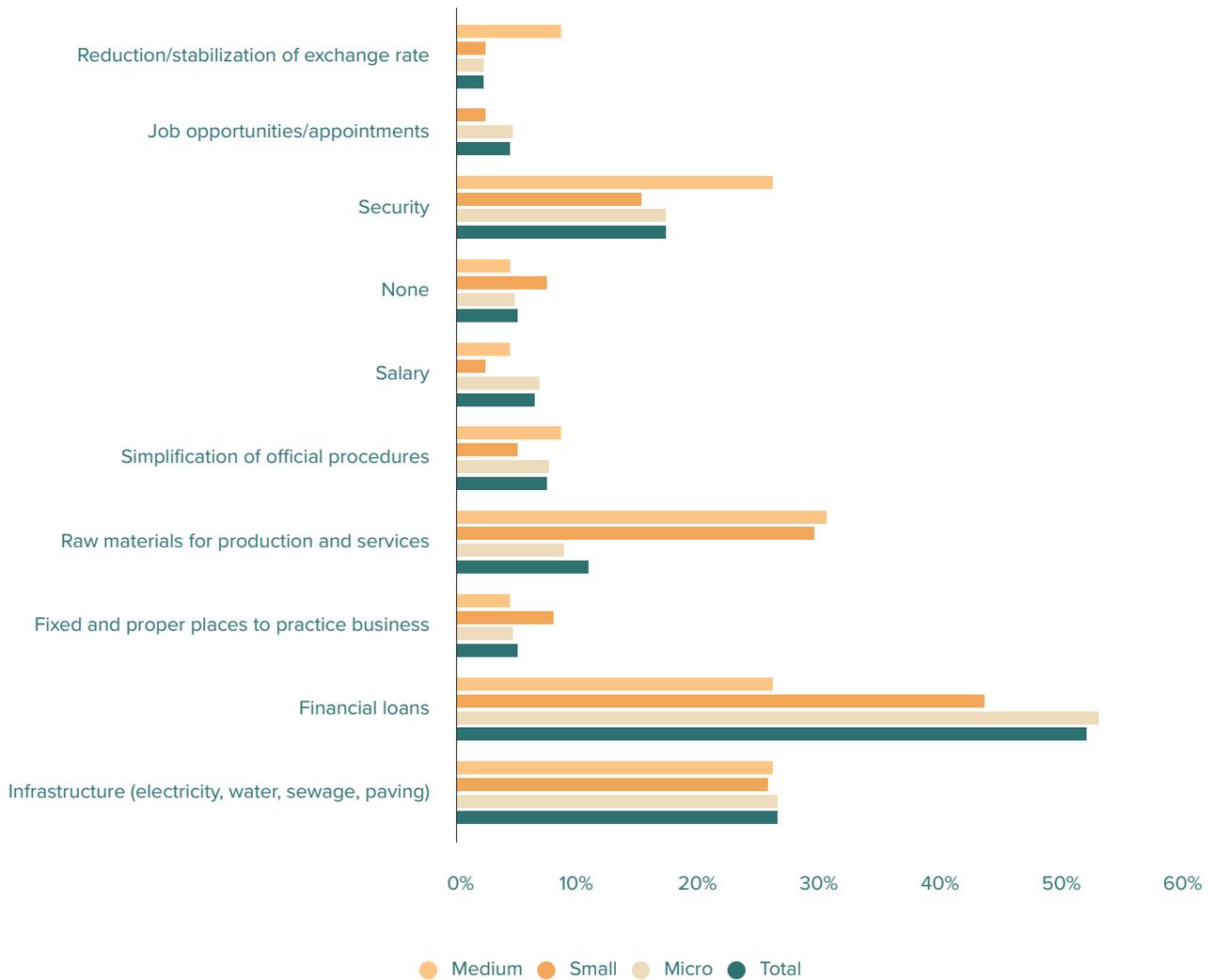


Figure 50. Assessment of action taken by the government



In terms of the government support needed to improve businesses, access to finance ranked top for micro- and small enterprises, followed by availability of raw materials for production and services, utilities and security (see Figure 51). For medium-sized enterprises, the top priority was raw materials for production and services, followed by security, financing and utilities.

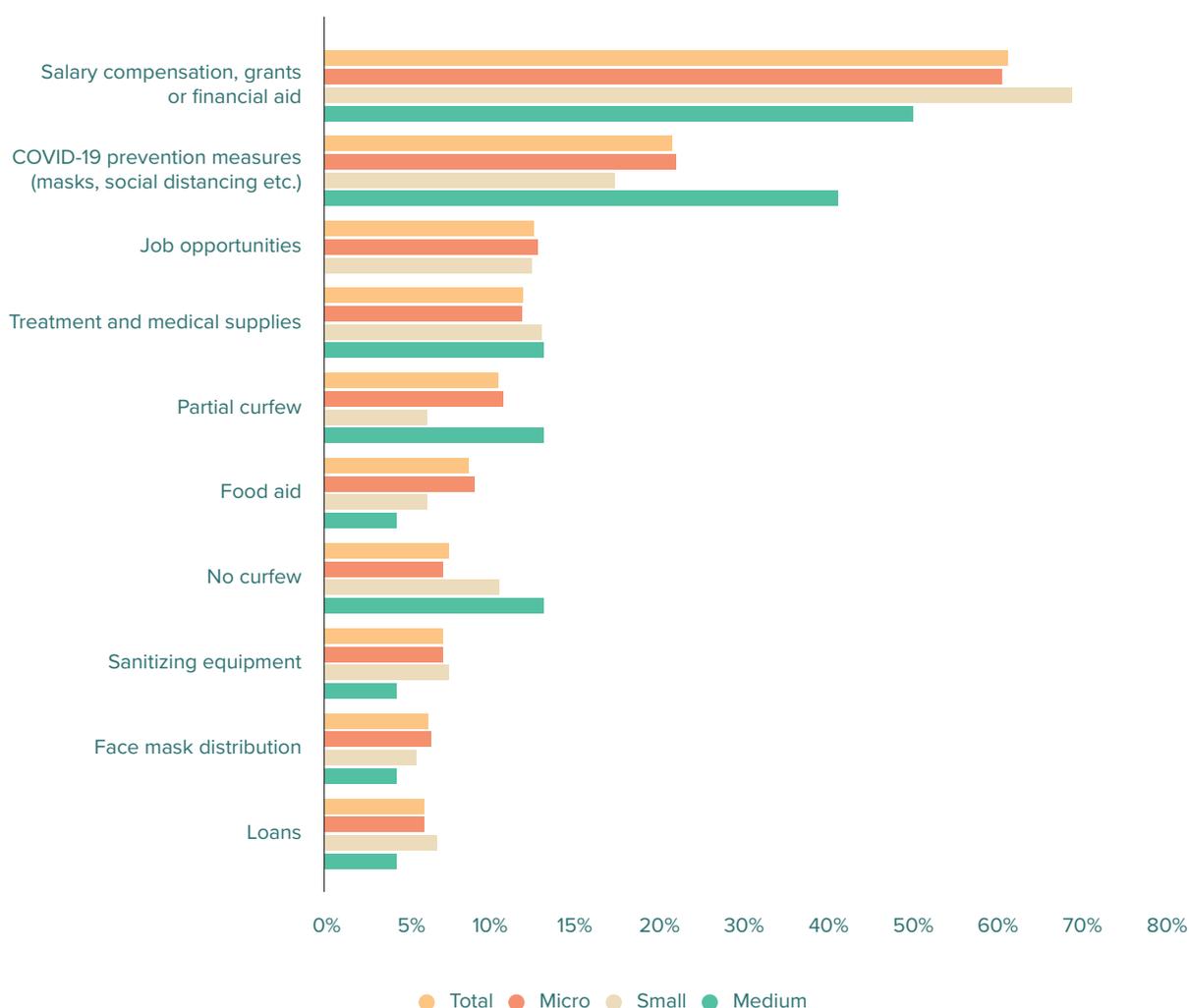
Figure 51. Government support needed to improve businesses



4.4.7 Suggestions for maintaining businesses during COVID-19

Respondents were also asked about the support they expected from the government in the future to enable them to maintain their businesses. The majority proposed salary compensation, grants or financial aid (40.4 percent of MSMEs) and COVID-19 prevention measures (masks, social distancing etc.) (20.6 percent). Figure 52 presents the top 10 suggestions disaggregated by size of enterprises.

Figure 52. Suggestions for maintaining businesses during COVID-19

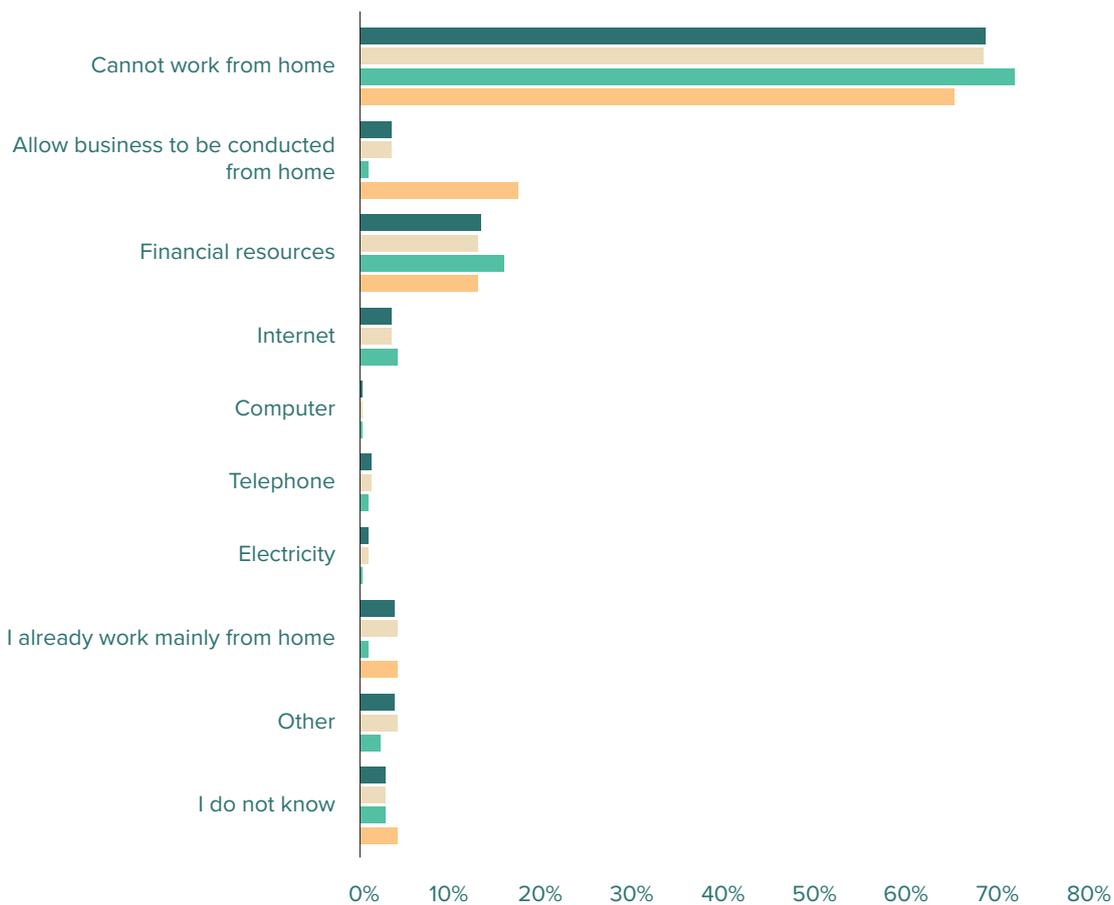


4.4.8 Business tool suggestions

The survey also looked at possible business tools and programmes that would facilitate working from home if the COVID-19 situation lasted for a longer period. For

about 69 percent of MSMEs, it was not possible to work from home due to the nature of their work (taxi driver, farmer, barber etc.), while 13.4 percent suggested financial resources, and 3.5 percent suggested allowing business to be conducted from home (see Figure 53).

Figure 53. Suggested business tools and programmes to facilitate working from home



4.4.9 Summary and recommendations: actions for building forward better

4.4.9.1 Addressing the business impacts of the pandemic

The survey collected data on the impact of the COVID-19 pandemic and lockdown measures on entrepreneurs and their decision-making. The majority of the MSMEs surveyed have faced a decrease in turnover, which in turn has affected employee pay and job security. The survey also investigated MSMEs’ opinions of the government’s handling of the crisis, and which measures they considered important for them to get through the sporadic lockdowns and the pandemic’s negative impact on their operations. The findings have shown that 98 percent of respondents faced a critical decrease in turnover due to the pandemic;

44 percent reported having put staff on leave; 19 percent reported having maintained their staff’s salaries, and 20 percent reported having reduced staff working hours and salaries. The main challenges identified include a decrease in business activities; decreased market demand; loss of revenue; difficulty in employment and paying staff salaries; limited support from the government; severe restrictions on foreigners and nationals entering the country, and prohibitions on domestic travel. With the challenges and opportunities identified from the survey in mind, the following key recommendations are suggested to mitigate the impact of the pandemic:

- Provide financial assistance: small loans, grants or other forms of financial assistance would help MSMEs to become more stable. The data collected in the survey showed that there is little reliance on

funding from formal institutions, with no significant difference between formal and informal MSMEs in terms of sources for financing.

- Provide tax relief: respondents noted that they were still required to pay taxes despite many of them not having an income during the pandemic. Freezing this requirement during these uncertain times would alleviate their financial strain.
- Provide assistance/aid to businesses to cover services such as utilities, wages and logistic support.
- Improve access to financial and business development services.
- Establish a training platform on transforming business models, digitalization, online marketing and e-commerce.
- Assist MSMEs in upgrading their human capital skills by providing incentives (e.g. tax credits, vouchers) for targeted training, and ensuring quality of training providers. Assist MSMEs in conducting in-house sessions based on different skills, focus on creating a more detailed employee training plans.
- Develop and disseminate a specialized training curriculum to provide financial, managerial and technical support to women entrepreneurs.
- Develop “women in business” programmes aimed at sectors that women are more likely to engage in than men.

4.4.9.2 Addressing pre-existing challenges of the MSME sector

In addition to the challenges related to the COVID-19 pandemic, growth of MSMEs could also benefit from addressing pre-existing challenges, which would enhance their resilience to future shocks. These include the following:

- a. Making the operating environment conducive to MSME growth

The findings of the 2020 MSMEs survey provide an evidence base that informs and supports the strategic reform thrusts of the National Development Plan (2018–2022) and the Private Sector Development Strategy, specifically business climate improvements. These include the following:

- Improve the legal, regulatory and administrative requirements for doing business. Most MSMEs in Iraq are informal and do not comply with the current legal and regularity environment because they do not consider it to be relevant to them. The operating environment remains the key barrier to MSME development. This includes business registration, dealing with the government, business performance, access to credit, access to markets, access to technology and innovation, networking, and skill levels.
- Improve investment policies at the federal and local level by focusing on the economic sectors that have the highest impacts on economic growth and job creation.
- Develop the capacities of institutions that govern the development of the private sector.
- Develop skills and enhance productivity at the firm level. The MSME survey confirmed the problem of skills deficiencies, which requires the development of comprehensive action plans for enhancing MSMEs’ technical, business and entrepreneurial skills.
- Review the civil service. Making the public sector lean and efficient for service delivery geared at creating public value is essential for any reform measure. The government recognizes that the existing system is not sustainable and issued a White Paper in October 2020 stating its vision going forward.
- Reduce business informality. This deprives MSMEs of growth and development. Increasing formality is essential to support MSMEs in access to financing, business development and globalization. Government intervention is needed to address informality.
- Improve cross border and international trade to streamline supply chains, reduce costs and facilitate exports.

- b. Enhancing MSME access to finance

In general, access to finance remains a key enabler of MSME development and growth. However, in Iraq, lack of access to finance is the main inhibitor of the development of the MSME sector. The main challenges that MSMEs are facing in this regard include difficulties in raising finance; reliance on personal and family funding; weak government financing schemes; an overregulated and dysfunctional banking system that favours government banking; collateral-based lending that MSMEs cannot

provide, and lack of business and financial planning skills including weak accounting and auditing skills. The above constraints must be addressed to enable MSMEs to acquire the funding or financing necessary for their development, operation, upgrading and expansion. The main immediate recommendations to address these challenges are as follows:

- Develop, promote and expand alternative financial instruments to better serve MSMEs' financing requirements.
- Build capacities of financial institutions and cooperatives to provide business development assistance to MSMEs. It is also important to provide training and technical support that enables MSMEs to access finance, especially in financial literacy and digital solutions.
- Create a suitable institutional and regulatory environment for donors and financial service providers to introduce innovative financial products and services which will lead to greater financial inclusion among “unbanked” and “under-banked” MSMEs.
- Streamline and simplify requirements and processes for MSMEs to obtain loans. Establish clear criteria for suitable applications including an appropriate feedback mechanism for unsuccessful applications.
- Facilitate the creation of a mechanism to offer development financing solutions for MSMEs.
- Implement a credit guarantee scheme to facilitate MSMEs' access to finance.
- Encourage the development of the privately owned microfinance industry to make additional funding available to MSMEs while ensuring speedy, inexpensive and enforceable recourse mechanisms for both borrowers and creditors.
- Build public awareness of financing options that are available to MSMEs.
- Provide a regulatory regime to incentivize MSMEs within a tier system. This could be approached in various ways that are specific to the category (size) of MSME and/or types of activities. Each tier could be given specific incentives in the form of grants, exemptions or business service assistance.
- Support banks and financial institutions to provide women-tailored financing products and services (e.g. credit, saving, leasing, insurance).

- Promote financial inclusion and digital finance services (an entry point could be government-to-person (G2P) platforms for public services, subsidies, salaries etc.). Since many MSMEs use informal financial sources, further exploration of how digital finance could help in formalizing these sources, and identification and implementation of short-term actions that encourage/increase MSME use of digital services for business purposes, are essential.

c. Expanding market opportunities

Due to various constraints, MSMEs, particularly start-ups, do not have strong internal competencies to devise and implement market plans/strategies. In addition, they cannot engage in large-scale and extended sales actions. More efforts are needed to exploit local market potentials and improve the MSME export-readiness. The main recommendations are as follows:

- Develop a central information database (including market information and opportunities for domestic, regional and global access) and online portal for MSMEs, where all data can be accessed via a user-friendly programme (especially using mobile technology).
- Enable government facilitation of promotional events to give exposure to MSMEs so that they can market their products, seek new business ideas and secure business partnerships.
- Open markets with relevant infrastructure to facilitate product marketing and enhance consumer access.
- Support MSME product development, quality improvement, packaging, branding and market networking to enable them compete locally and internationally.
- Promote value chain development, linking wholesale or bulk-buying facilities where viable for MSMEs to ensure markets.
- Create appropriate MSME incentives to encourage and promote exports for MSMEs that are able to engage in international trade.
- Enable relevant government authorities to expand technical and vocational education and training (TVET) to meet market demands, adapt vocational and formal training programmes to new requirements, encourage chambers of commerce, incubators, universities and training providers to

increase capacity, and provide accreditation to high-impact programmes.

d. Addressing informal enterprises' challenges

The 2020 MSMEs survey shows that informal MSMEs dominate the sector, and it recommends the creation of an enabling environment for the formalization of MSMEs. Recommendations include reducing the cost (financial and non-financial) of formalization of informal MSMEs, and implementing systems and procedures that maximize the benefits of being a formal enterprise by:

- developing an enabling business environment by focusing on developing MSME-friendly employment, legal, regulatory and taxation incentive frameworks, and developing infrastructure into coherent and comprehensive sector-focused zones;
- offering simplified tax schemes and social security provisions for formal MSMEs;
- developing strong, effective coordination mechanisms among public and private sector stakeholders to ensure coherent, streamlined MSME support efforts;
- promoting the role of non-state actors (organizations/NGOs/associations) in facilitating informal sector MSMEs' transitions into formal businesses. They could provide registration-related information services, support services like tax filing and facilitate fulfilment of regulatory requirements;
- introducing government e-services (e.g. an MSME portal) for simplified e-government services, administrative procedures (taxes, registration, etc.), to reduce duplication between different authorities.

e. Promoting innovation and competitiveness

MSME innovation and technological competitiveness needs to be strengthened. More specifically, new business models and enterprises need to be created through access to innovative technologies that are affordable, cost-effective and accessible to all MSMEs. Major entry points may include:

- providing financing programmes for equipment, machinery, hardware and software;

- promoting the commercialization of technology and building capabilities to foster digital exposure;
- enhancing e-commerce infrastructure and providing MSMEs with e-commerce training;
- creating an enabling business environment to support continuous innovation and learning in the MSME sector;
- enabling access to modern ICT infrastructure (broadband internet, reliable wireless connections, etc.);
- providing guidance on institutionalizing digitalization in MSME business processes.

4.5 Fragile and crisis countries: Somalia case study³⁴

The largely positive trajectory of development in recent years prior to the pandemic has been arrested by the COVID-19 crisis, with the first year of implementation of the National Development Plan (NDP-9) significantly undermined by a collapse in GDP growth, trade and revenues, alongside the repurposing of Official Development Assistance which undermines both financing and alignment of external flows to NDP priorities. With the combined impacts of COVID-19, flooding, locusts and regional political instability, the country remains hostage to a range of external shocks. A greater focus on identifying and investing in sources of macroeconomic, business and household resilience continues to remain central to sustainable development.

Somalia's GDP contracted by 1.5 percent in 2020, about 4.4 percentage points below the 2.9 percent growth recorded in 2019 (IMF, 2021). It is expected to grow at 2.9 percent in 2021 (IMF 2021). Given the size of the contraction, economic growth and per capita income gains made since 2017 (particularly gains made among lower income groups) have largely been lost, in a period where the economy was still recovering from the 2017 drought. According to IMF, as a result of COVID-19, the average domestic revenue mobilization will be some 0.7 percentage points lower on average over 2020–2024, reflecting lower economic activity (IMF, 2020e). The current account deficit rose to 13.3 percent of GDP in 2020, and was projected at 12.2 percent of GDP in 2021, compared to an average of 9 percent over 2015 to 2019 (IMF, 2021).

34 This section is taken from "Somalia Socioeconomic Impact Assessment (SEIA) of COVID-19" produced by the Government of Somalia with financial and technical assistance from UNDP. It aims to summarize the impact of COVID-19 on businesses in Somalia in 2020. The results presented here do not come from a nationally representative sample survey, but rather are drawn from secondary data sources using different methods, sample populations, sample sizes and industries and markets. For details, see Somalia, Ministry of Planning, Investment and Economic Development (2021).

Without the rapid support of key donors (grants increasing from 41.3 to 47.7 percent of GDP) and remittances (totalling 31.4 percent of GDP in 2020), it is expected that government finances will have dried up, imports will have been severely reduced, and the ability of the government to discharge its functions will have been severely inhibited.

4.5.1 Data and methodology

The data used for this report are based on desk reviews of all prior assessments, studies and background documentation undertaken to assess the impacts of COVID-19 in Somalia, and reports based on key informant interviews with the government and private sector. Given the known disruption to micro- (under five employees), small (5–19 employees), medium-sized (20–99 employees) and large enterprises (100 or more employees), a number of surveys have been conducted looking at the impact of the pandemic on various aspects of businesses. With a particular focus on MSMEs, surveys conducted from May to September 2020 were used, providing considerable insight into the challenges faced by businesses due to the pandemic. Key indicators used for the analysis included assessing differential impacts of the crisis on firms of different sizes, and in the informal sector, these manifested through changes in sales, workforce, inventory and indebtedness, among others. However, it is important to note that these surveys are not nationally representative and results should be interpreted carefully. Annexes 2 and 3 provide a list of the data sources. One limitation of compiling findings from these multiple surveys rather than embarking on a nationally representative sample survey is the different dates and scopes (i.e. functional and geographic) of the surveys, both of which pose problems for interpreting survey findings. To minimize these limitations, the results were triangulated among alternate sources where they exist.

4.5.2 Impact of COVID-19 on businesses

The impacts on micro-, small, medium and large firms have been hugely negative, for both start-ups and established firms, and the costs are still being counted and understood. While few surveys have been undertaken to capture impacts in the final quarter of 2020, the lockdown has clearly had a profoundly negative impact on business viability and employee redundancies, worsened by the high rate of informality of the economy which undermines the possibility of support, such as liquidity support from banks.

Pre-existing development challenges such as lack of access to finance due to underdevelopment of the banking

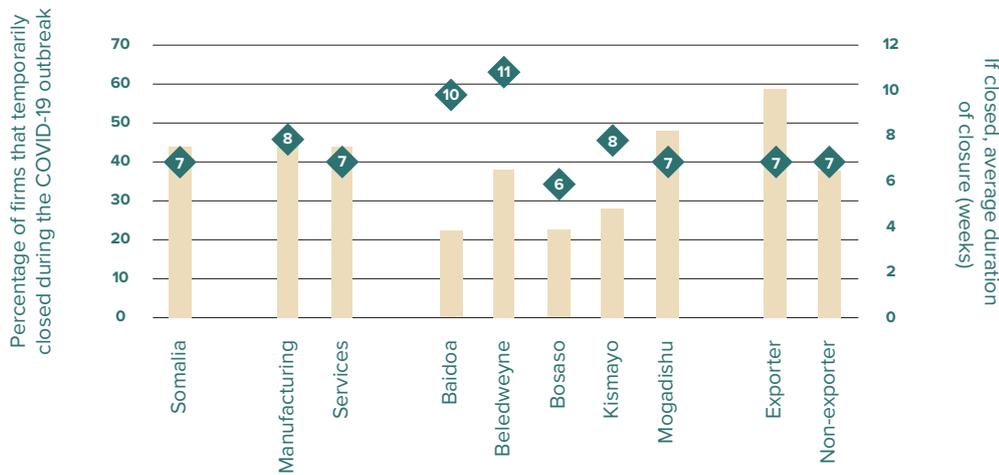
sector exacerbated the situation, with a large number of companies likely going into liquidation. While the impact of COVID-19 will predominantly be felt over the next 12–24 months (after the period in which the surveys were carried out), the impact on business viability for many sectors such as alternative energy, technology and even education may be affected for many years, undermining future investment. The different surveys identified the following impacts, with implications for immediate-, medium- and long-term viability:

- a temporary halt in business operations due to the lockdown;
- lower business demand which affected cash flows;
- cash management challenges including working capital requirements to honour tax obligations, settle supplier debts, repay bank loans and meet rental obligations;
- dismissal of employees, reduction in wages, reduction in working hours, furlough or technical unemployment;
- supply chain/inventory management constraints;
- closure of export markets;
- limitations on future investment decisions.

4.5.2.1 Impact on business operations

The lockdown, combined with health care rules and regulations resulted in disruptions to production, supply chains and a lowering of effective demand, leading to business stress. The results from the COVID-19 Formal Enterprise Survey (MSMEs in Mogadishu) carried out during the first wave provide important insights into the impact of the lockdown and innovations and adaptations to respond to rapidly changing market conditions (Somalia, Ministry of Planning, Investment and Economic Development and UNDP, 2021). An immediate manifestation of this effect was business closures, as social distancing measures and other restrictions forced some businesses to close (Figure 54). According to the survey, about 45 percent of respondents had to suspend operations temporarily due to the COVID-19 outbreak, for an average period of about seven weeks. Surveyed firms in the capital, Mogadishu, and trade-based firms with an export focus were the hardest hit, with 50–60 percent of businesses in these categories temporarily suspending operations between mid-March and July 2020.

Figure 54. Closures and duration, mid-March to July 2020

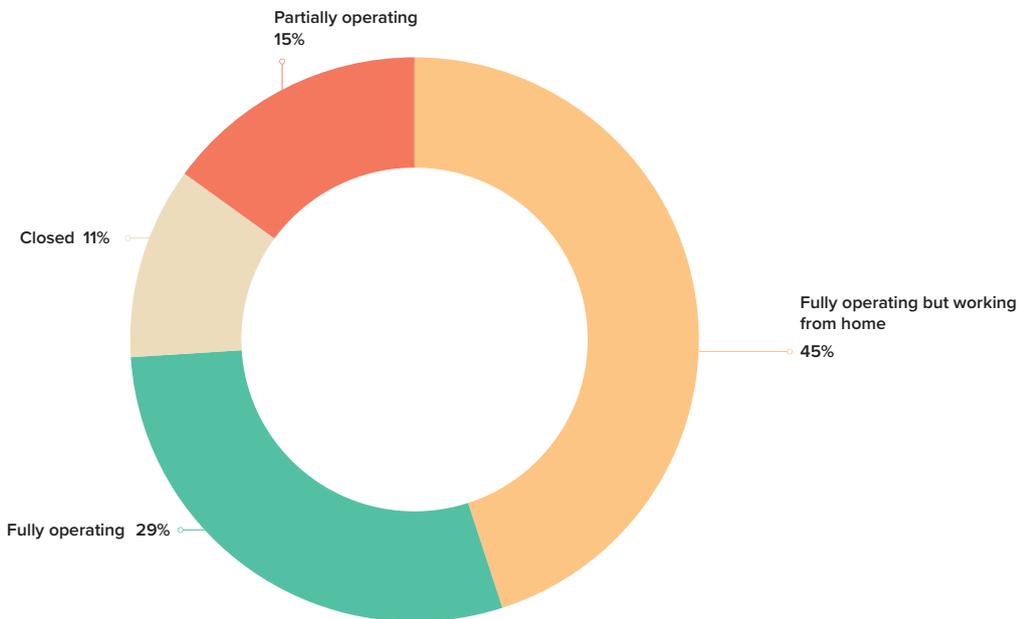


Source: Somalia, Ministry of Planning, Investment and Economic Development and UNDP (2021).

Similarly, the Heritage Institute for Policy Studies (HIPS)' "Impact of COVID-19 on the Economy" survey, which was conducted at the end of July 2020, reports that 45 percent of businesses were fully operating but had employees

working from home, 29 percent were fully operating, 15 percent were partially operating and 11 percent were closed (2020) (Figure 55).

Figure 55. State of businesses (30 July)



Source: HIPS (2020)

A rapid assessment of Somali women-led businesses carried out by the government shows that the COVID-19 pandemic has drastically affected women in small businesses. The pandemic had moderate to severe impacts on many women-led businesses, including street sellers. The women surveyed revealed that the city's curfew has significantly reduced the time they have to

sell their products or services. For example, prior to the pandemic, night-time was tea-sellers' peak sales period. Most women also reported that the businesspeople who normally lend them goods and money for trade suspended their businesses for the lockdown period. When asked to quantify the financial implications of COVID-19 for their businesses, respondents revealed that before the

pandemic and the introduction of restrictions, most of them earned US\$25–105 per week. All of them reported no income at the time of the survey.

4.5.2.2 Impact on sales (revenues)

The formal enterprise survey undertaken in September revealed that the impact on formal firms of all sizes, including small (5–19 employees), medium-sized (20–100 employees) and large (100 or more employees), has been considerable: 75 percent of the businesses surveyed experienced a decline in sales from May to June 2020 compared with the same period in 2019, similar to the impacts seen in regional and global economies. During the same period, sales contracted by 32 percent and

some 90 percent of firms reported liquidity and cash flow shortages, leading to delayed payments (Somalia, Ministry of Commerce and Industry *et al.*, 2020).

Figure 56 presents the results for small, medium-sized and large enterprises by sector of engagement, declaring decline in sales, compared with 2019. Some 70 percent of respondents faced supply and input disruptions, including both raw materials or finished goods purchased for resale. The survey also reported considerable regional disparities, with enterprises in Baidoa, Beledweyne and Kismayo the hardest hit. Large enterprises employing 100 or more people and exporters were also disproportionately affected by the decline in demand and supply shocks, and this is likely still ongoing.

Figure 56. Decline in sales and supply of inputs compared with 2019

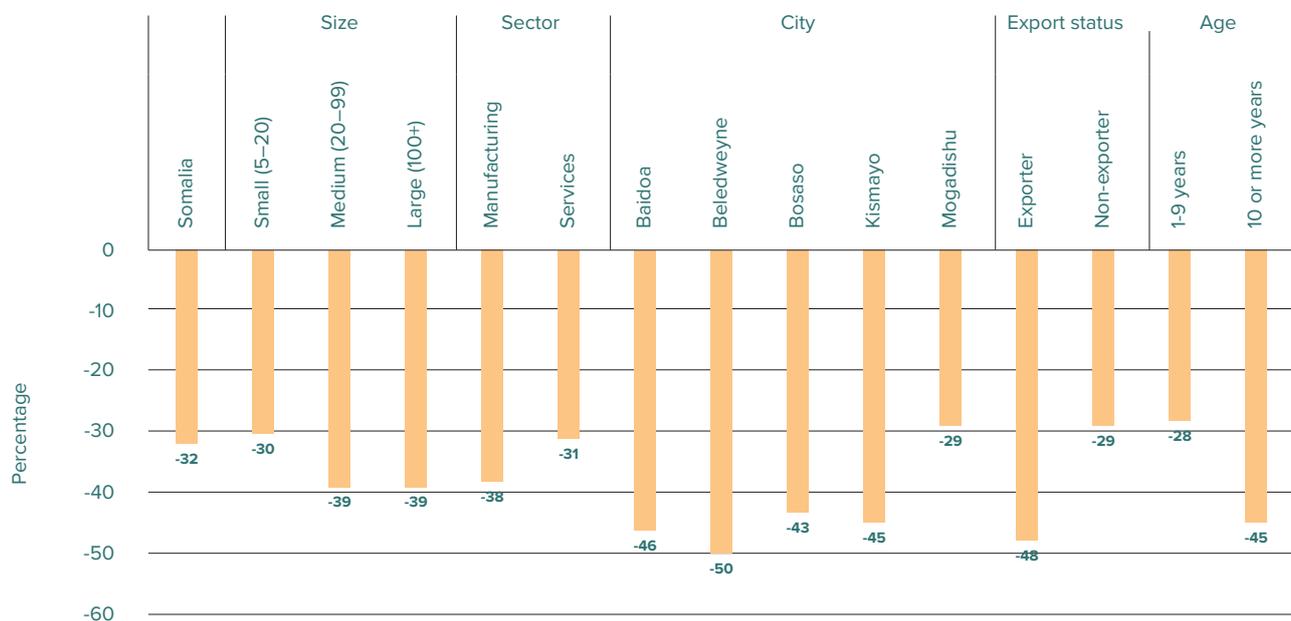


Source: Somalia, Ministry of Commerce and Industry *et al.*, 2020.

Looking at the impact on different markets, businesses across the board suffered a 32 percent decrease in sales in May and June 2020, with Beledweyne the hardest hit. Given that these results reflect the formal sector, some businesses facing liquidity constraints were able to access financing to tide them over. In the informal sector where access to finances is heavily restricted, such a luxury was not afforded. The survey reports that established

businesses (i.e. 10 years or older) were harder hit than newly established enterprises, perhaps reflecting their greater integration into market structures with more established clients, dependencies and contingent liabilities (see Figure 57). Established companies in the export industry operating out of Beledweyne were among the worst affected by the crisis.

Figure 57. Average change in sales in May/June from 2019

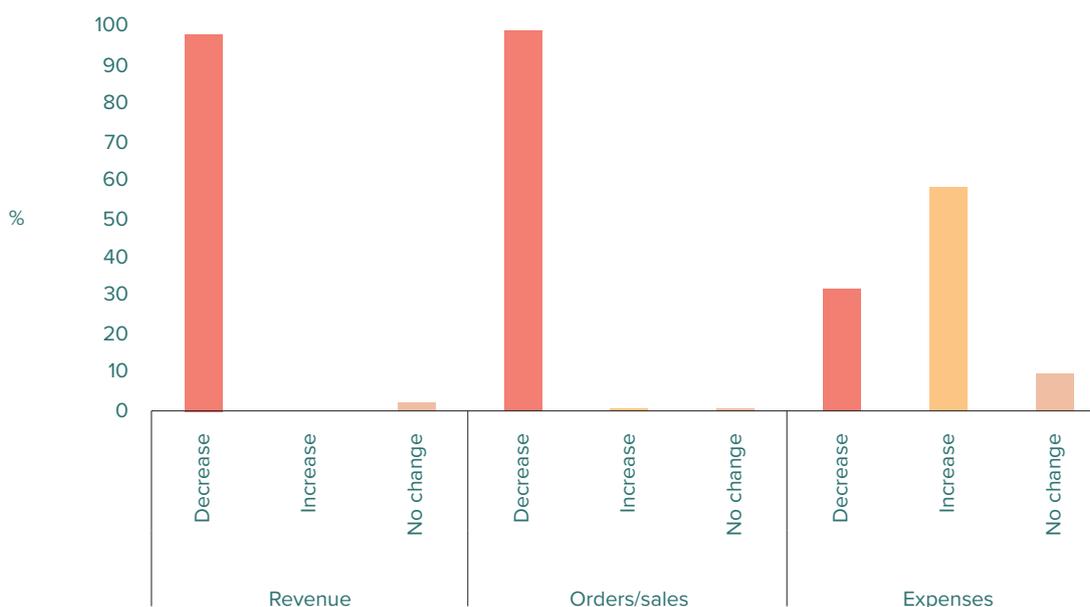


Source: Somalia, Ministry of Commerce and Industry *et al.*, 2020.

Raagsan (2020) provided further insight into the social and economic impacts of COVID-19 on businesses with its survey of women-owned MSMEs in Mogadishu (Figure 58). Respondents were asked about the impacts of the pandemic on their businesses up to the time of the survey. Over 98 percent reported decreased revenue and

sales, and 58.1 percent reported increased operational costs (expenses) to deal with the pandemic. Businesses struggled most with cash flow, cost of sales, rent and repaying loans. In addition, 45.6 percent of businesses said they did not have enough cash flow to last them a month, similar to other survey findings.

Figure 58. Impact of COVID-19 on women-owned MSMEs



Source: Raagsan (2020).

Another survey on the impact of COVID-19 on the economy, conducted at the end of July 2020 (HIPS, 2020), found that for 97 percent of the businesses surveyed, COVID-19 had affected their revenue. Nearly two thirds of businesses reported a decline in revenue of over 20 percent and nearly a third reported a decline of 20 percent or less, while only 3 percent reported no impact. For many businesses, this decline was the result of only being able to conduct partial operations during lockdown. The survey also looked at trade-based businesses involved in exports. Seventy-six percent of export and import businesses have been affected to some extent: 44 percent of respondents indicated that COVID-19 had had a severe impact, and 30 percent felt that it had had a medium impact. Meanwhile, 25 percent respondents perceived a low impact (HIPS, 2020).

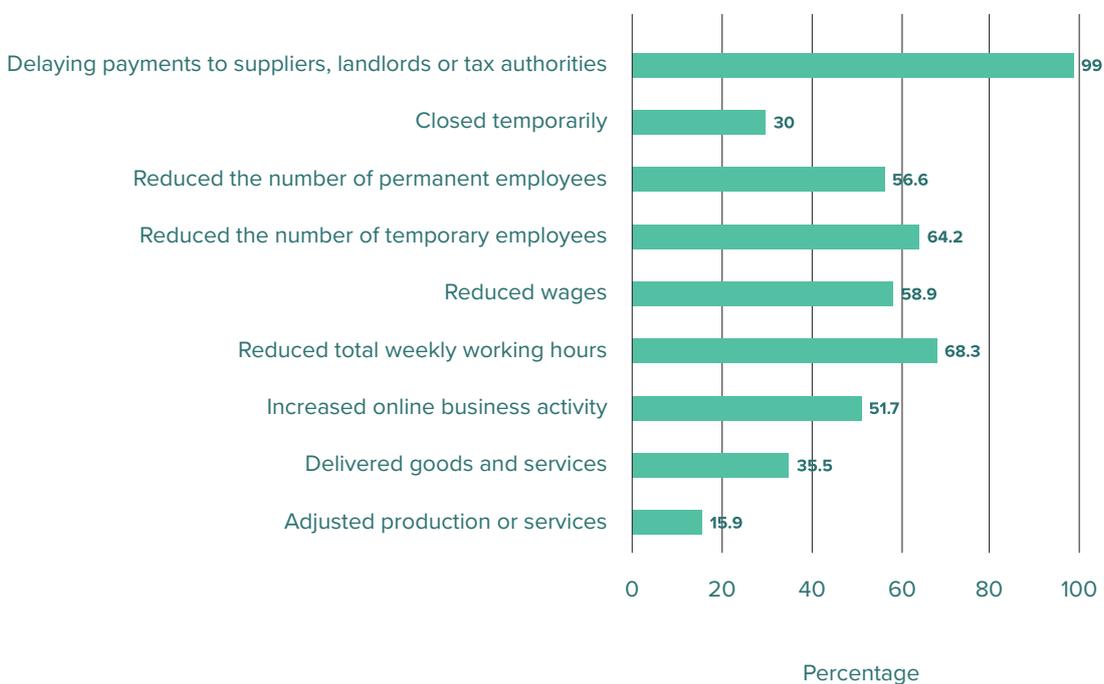
4.5.2.3 Enterprise adaptation and response

As a direct consequence of the global and national economic lockdown, as well as demand and supply side

contractions, businesses have had to adapt and innovate to operate. This has not been easy, not least because the crisis has shifted from a health crisis into one affecting global economic and trading relations. Adaptations have taken various forms, ranging from adjustments to products and services produced, adjustments to delivery mechanisms, increased use of online business activity, and employment-related adjustments (see Figure 59).

While businesses have reported using various approaches, a key question is how commercially viable these businesses were prior to the lockdown, and how many were already bordering on bankruptcy. Businesses that have survived many years of droughts and livestock import bans from Saudi Arabia are more likely to adapt and to survive than a poorly capitalized start-up. Moreover, as noted later, given that supply chains were only just beginning to return to normality at the time of writing this report, trade-based businesses dependent on supply imports are likely to face long-term viability challenges.

Figure 59. Action taken by businesses in response to the COVID-19 crisis



Source: Somalia, Ministry of Commerce and Industry *et al.*, 2020.

About 16 percent of the businesses have changed or adjusted their products or services. More than a third have also adjusted ways of delivering goods and services, relying on delivery and collection instead of on-site sales or services whenever possible. A positive development in terms of survival strategies is increased online business activity, including buying and selling online, with 52 percent

of respondents indicating that they have started or increased their online business activity.

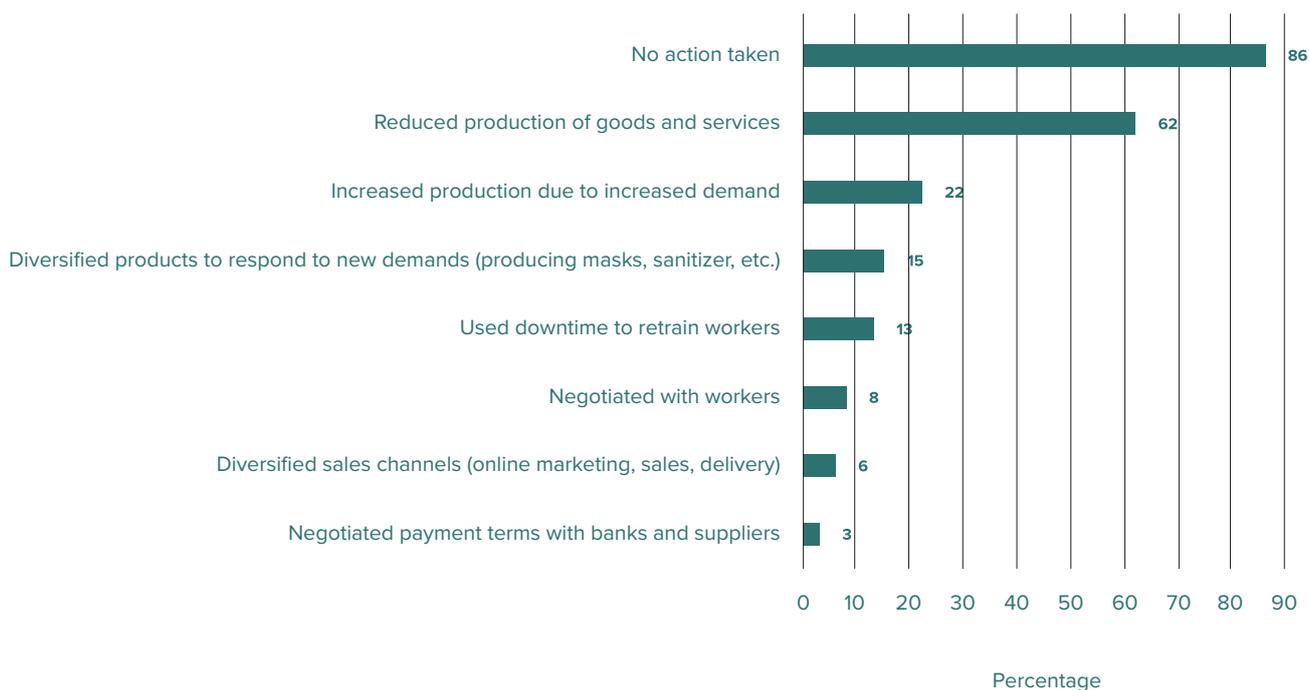
The survey also found that the easiest first adaptation regarding employment was reducing the size of the workforce to lower the wage bill. About 70 percent of respondents reduced working hours while 59 percent

reduced wages. Some 64 percent of businesses reduced the number of temporary workers from February. On average, businesses reduced their permanent full-time staff by 31 percent within the same period. These cuts did not appear to disproportionately affect female employees. The survey shows that businesses adjusted service and product delivery (16 percent) while also adopting technological solutions (51 percent increased online sales) to minimize the impact, including increasing online sales. According to HIPS (2020), 50 percent of the businesses

surveyed had to dismiss workers due to the pandemic, supporting other survey findings.

Raagsan (2020) also provides interesting insight into how women business leaders responded to the crisis (see Figure 60). For the vast majority, at the time of the survey, 86 percent of women had taken no action, with 62 percent simply reducing production of goods and services. Only 22 percent of businesses were ramping up production to meet new demand.

Figure 60. Action taken by women-led MSMEs in response to the crisis

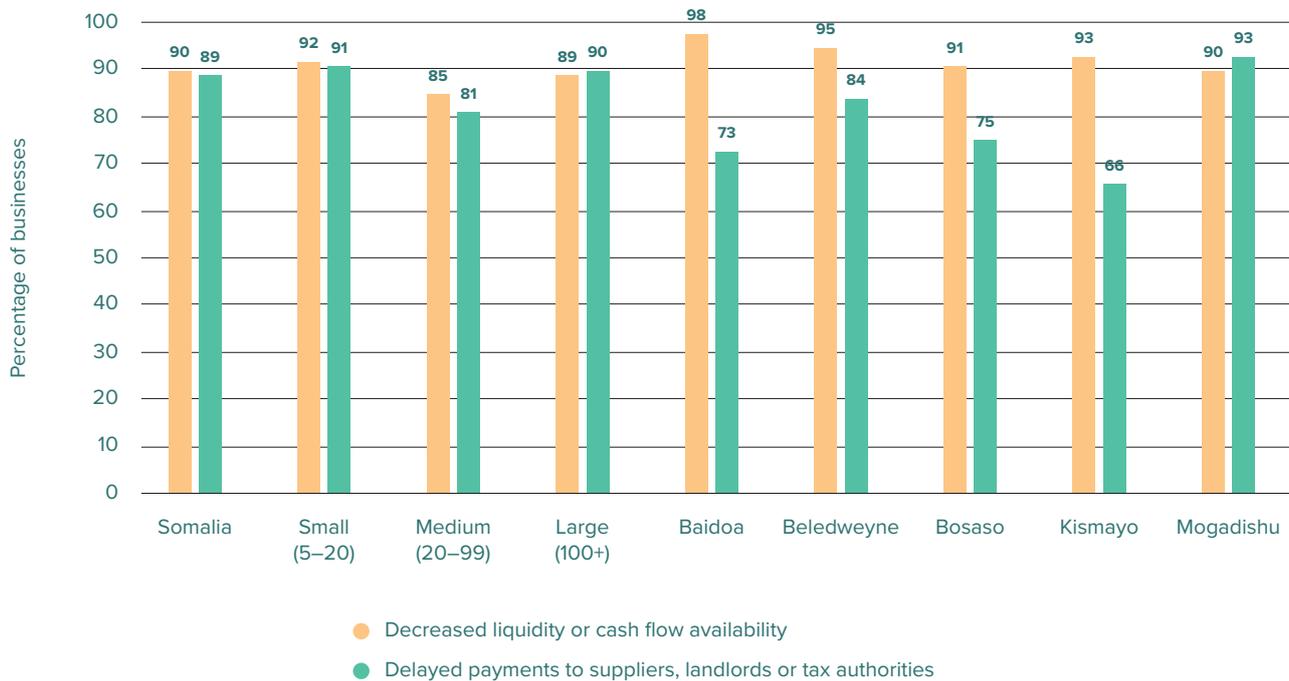


Source: Raagsan (2020).

4.5.2.4 Liquidity and inventory sustainment

The knock-on impact of reduced market demand and supply constraints is cash flow shortages and delayed expenditures and payment of liabilities (see Figure 61). This creates a chain reaction – including forward and backward linkages – because when one business does not pay another, that business will then likely be unable (or unwilling) to pay their own sub-traders or suppliers. Under such conditions, providing liquidity and trade financing for nascent businesses during the pandemic is vital to their very survival. Otherwise, with so many businesses delaying payments, similar to the 2008 Financial Crisis, bouncing back will take many companies many years, even when demand returns, due to supply constraints.

Figure 61. Cash flow shortages and delayed payments



Source: Somalia, Ministry of Commerce and Industry *et al.* (2020).

Most micro- and small enterprises could not access formal credit before COVID-19, and new facilities such as Gargaara³⁵ were seeking to address this. Both access and costs remain constraining factors which have been exacerbated by the pandemic. For many businesses, the impact was severe: they were unable to borrow and reported being in arrears during the survey period.

A large number of women-led businesses have no access to finance for consumption smoothing or other purposes. Raagsan (2020) shows that 90.6 percent did not take out loans from the banks despite experiencing cash flow challenges, since women’s access to credit is heavily limited. Of this 90.6 percent, an overwhelming 86.9 percent said that they did not have access to bank loans. Additionally, 60 percent of those who took out loans reported that the banks did not extend their loan period in the wake of the pandemic despite them facing reduced revenue and sales.

4.5.2.5 Expectation of falling into arrears

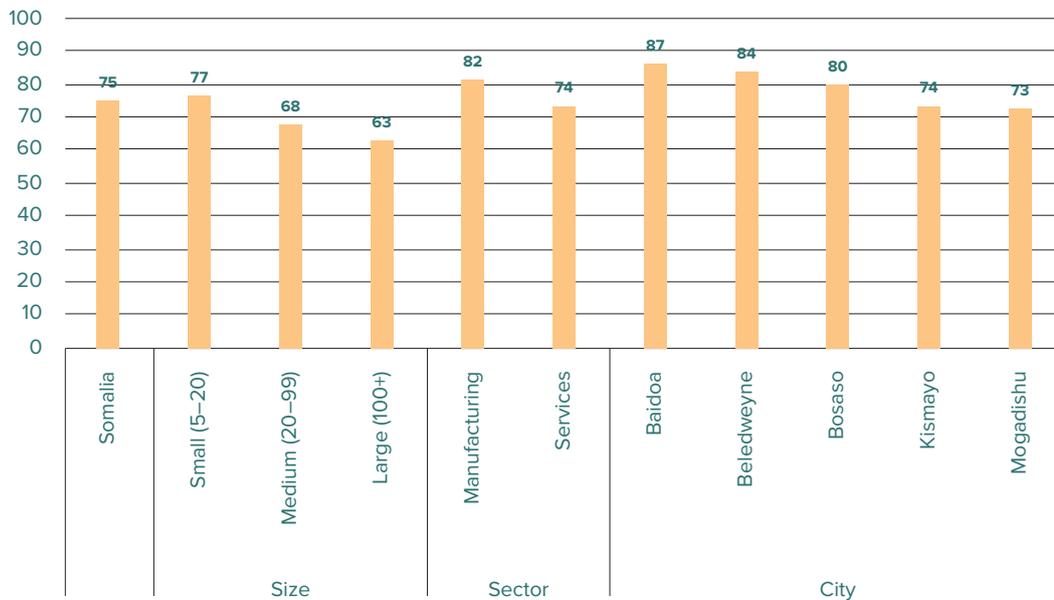
Falling into arrears happens to most start-ups and in times of business cycle stress, these impacts can be industry-wide. It is quite normal for any value chain to be sufficiently connected that stress at any one level (input supplier, producer, packer, transporter, wholesale or retail operator) has a direct impact on all other value chain clients. Figure 62 shows that most businesses expect to fall into arrears (almost 70 percent or more across the board by industry and market). Once in arrears, it takes time for markets to normalize, and for the business to repay them, before reinvesting in the next business cycle.

Figure 63 shows the Nordic Horn of Africa Opportunities Fund (NHAOF) Enterprise Survey Results, illustrating the severity of the inventory stockpile faced by most businesses, with many having less than a month’s worth of stock at the time of the survey. The survey looked at businesses requesting additional support as a result of the pandemic, and focused on those benefiting from the NHOAF. As such, the survey is certainly not representative, but it offers useful insight. According to the survey report, about 70 percent of the businesses with international vendors/suppliers surveyed reported experiencing supply chain disruptions.

³⁵ Gargaara is an apex development finance institution set up by the Government of Somalia to leverage private capital in order to promote entrepreneurship and support progress towards increasing access to financial services for MSMEs. Targeted beneficiaries are Somali individuals, groups and businesses. See <https://centralbank.gov.so/wp-content/uploads/2020/02/GARGAARA-Subproject-Manual.pdf>.

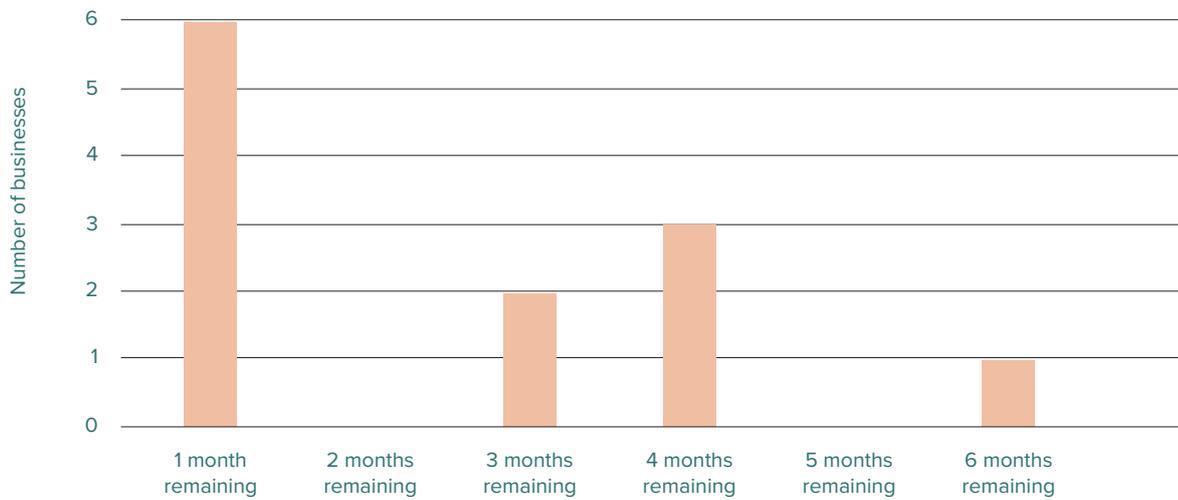


Figure 62. Expectations of falling in arrears



Source: Somalia, Ministry of Planning, Investment and Economic Development and UNDP (2021).

Figure 63. Remaining inventory of businesses with international vendors (months)



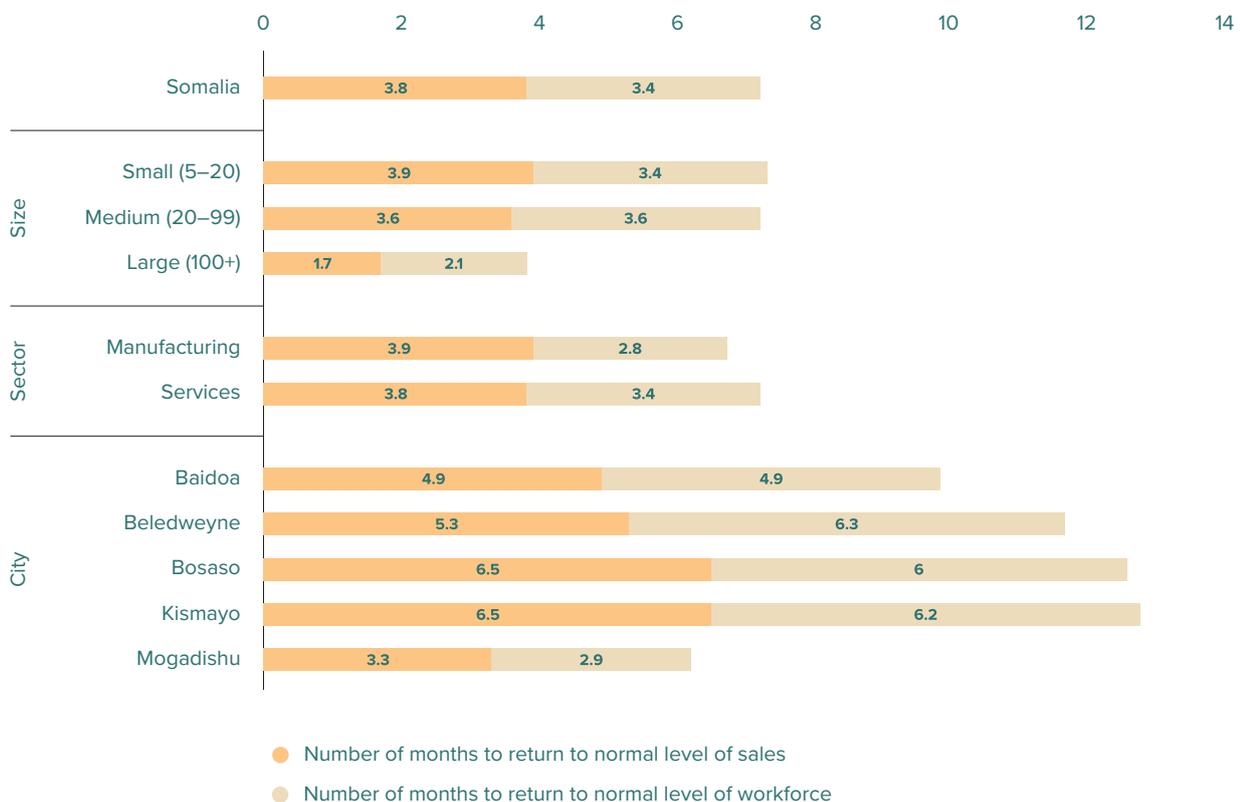
Source: NHAOF (2020).

4.5.2.6 Expectations on return to normal business

Most businesses expected the level of sales to return to normal after three to six months, with large businesses expecting a more rapid return than smaller businesses

(Figure 64). Moreover, in most of the federal member state towns, businesses expected sales to return to normal in around six months, and a return to prior levels of staffing after a year.

Figure 64. Average expected time to return to normal workforce and sales levels (months)

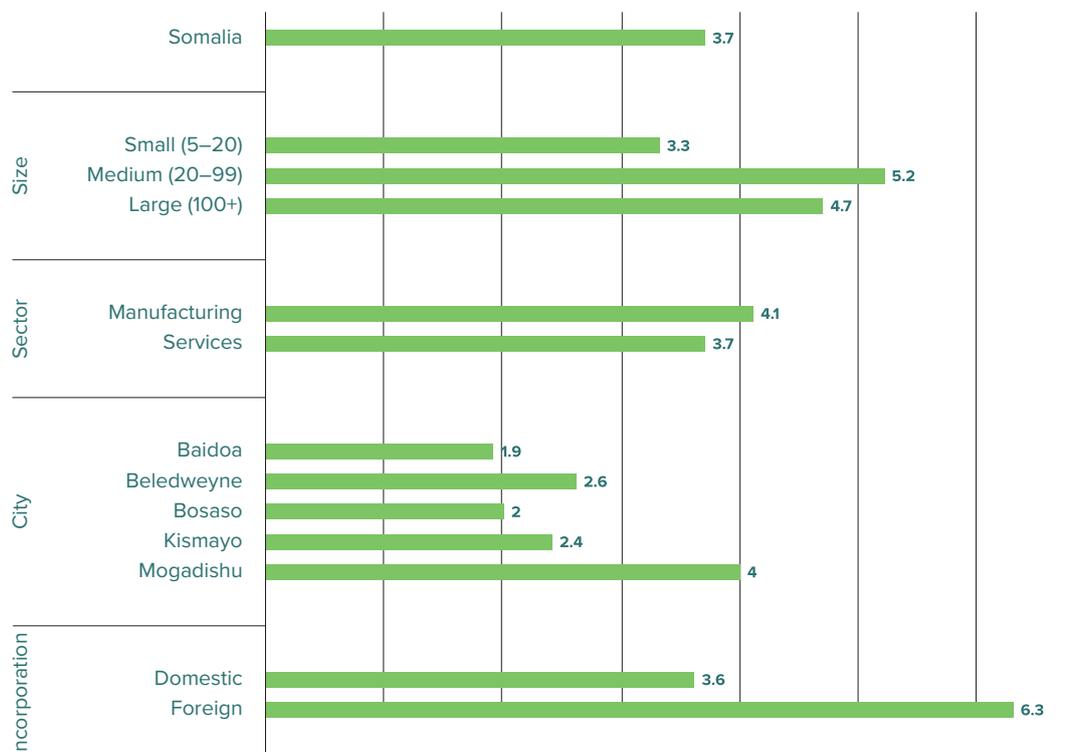


Source: Somalia, Ministry of Commerce and Industry et al., 2020.

Perhaps as important as time expected to return to normal sales is how long businesses expect to survive if sales stop (with their costs unchanged) (see Figure 65). This was 3.7 months on average, with medium-size businesses

having greater liquidity than small and large businesses, and foreign firms had almost double the ability to survive should their entire industry stop.

Figure 65. Average expected survival time if sales stop (months)



Source: Somalia, Ministry of Planning, Investment and Economic Development and UNDP (2021).

The three- to six-month return to normalcy expected reflects the uncertainty created by the crisis, and policy uncertainty which will see a return to normal liquidity and mobility. This uncertainty has a considerable impact when looking at businesses' inventories. COVID-19 is perhaps not a "new normal" for Somalia, since businesses already faced continuous disruptions caused by factors such as trade bans (Saudi livestock), conflict and drought.

4.5.2.7 Impact on employment

No formal survey has been carried out in 2020 on the national employment impacts of COVID-19. This is a complex issue given the high level of informality and seasonality in employment, and in particular the high rate of female youth unemployment (70 percent nationally). The impact of the crisis on employment must be inferred from enterprise surveys. Table 7 highlights the widespread use of different workforce adjustment strategies, including reduction of wages and reduction in working hours.

Table 7. Workforce adjustment strategies made by formal enterprises

Adjustment	Size				Sector		City					Export status	
	National (%)	Small (%)	Medium (%)	Large (%)	Manufacturing (%)	Services (%)	Baidoa (%)	Beled-Weyne (%)	Bosaso (%)	Kismayo (%)	Mogadishu (%)	Export (%)	Non-export (%)
Reduced total weekly working hours	68.3	65.2	78.5	85.2	76.1	67.5	85.1	88.6	66.6	81.0	66.4	79.0	66.2

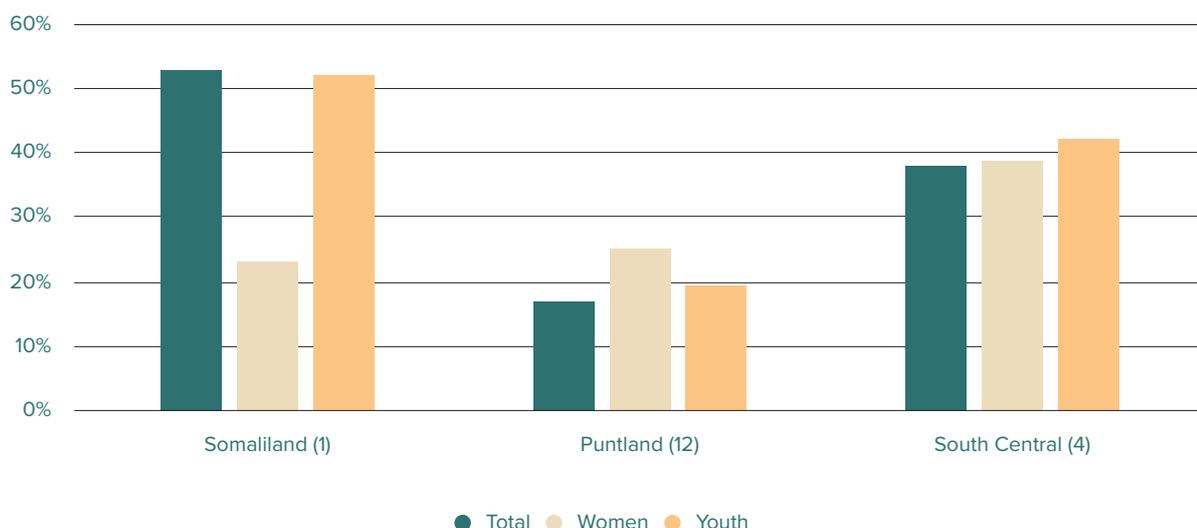
	Size				Sector			City				Export status	
Reduced wages	58.9	61.3	46.8	74.7	54.2	59.5	66.5	52.3	31.9	43.1	61.5	63.1	31.3
Reduced the number of temporary employees	64.2	65.4	59.0	67.8	73.3	63.3	52.5	47.7	62.5	43.8	66.5	69.1	63.3
Reduced the number of permanent employees	56.6	57.6	48.6	84.6	52.1	57.1	63.7	61.4	46.4	46.7	57.5	53.1	57.4
Change in permanent full-time employees since February 2020	-30.9	-31.6	-27.3	-34.4	-22.7	-31.7	-42.3	-39.4	-29.9	-29.2	-30.2	-30.2	-31.0

Source: Somalia, Ministry of Commerce and Industry *et al.* (2020).

This is supported by the results of a survey carried out among NHAOF recipients (17 businesses) in the second quarter of 2020.³⁶ Although the survey is not representative, the results support the general findings of Somalia, Ministry of Commerce and Industry *et al.*, with 195 out of 613 employees (approximately 32 percent) reportedly dismissed due to supply chain disruptions and decreased demand for business products and services. This was most significant in Somaliland, where businesses

dismissed as much as 50 percent of their staff (see Figure 66). Redundancies in Puntland were half that of Somaliland, with South Central coming in at just below 40 percent. The survey results on job losses by sector show a high rate of job loss in the construction sector, although given the low sample size, this is only representative of one construction business (see Figure 67). The transportation and services sectors were the worst hit (see Figure 68).

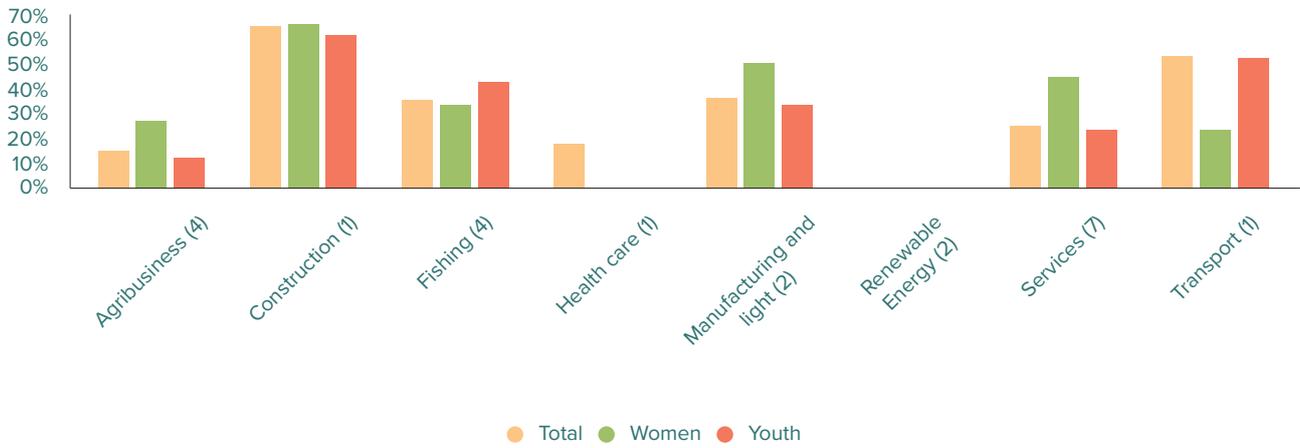
Figure 66. Reported job losses by region



Source: NHAOF (2020).

³⁶ It is worth noting that all NHAOF survey respondents were requesting additional funds due to the COVID-19 pandemic, so the survey is likely skewed towards heavily impacted firms.

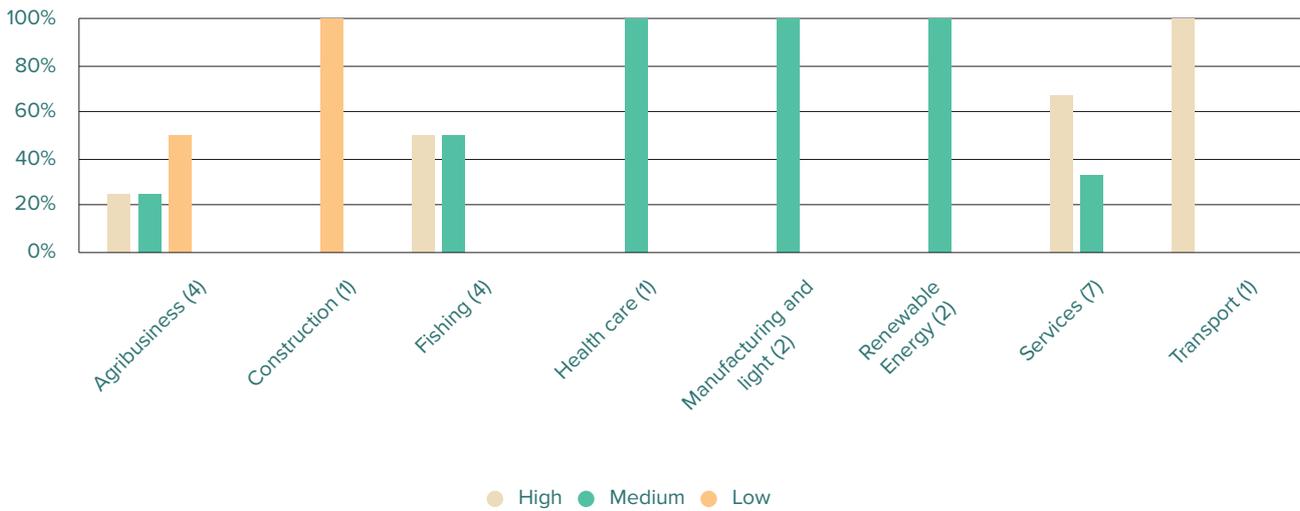
Figure 67. Reported job losses by sector



Source: NHAOF (2020).

Note: Some enterprises are engaged in multiple sectors which is why the total number exceeds 17.

Figure 68. Impact of COVID-19 by sector

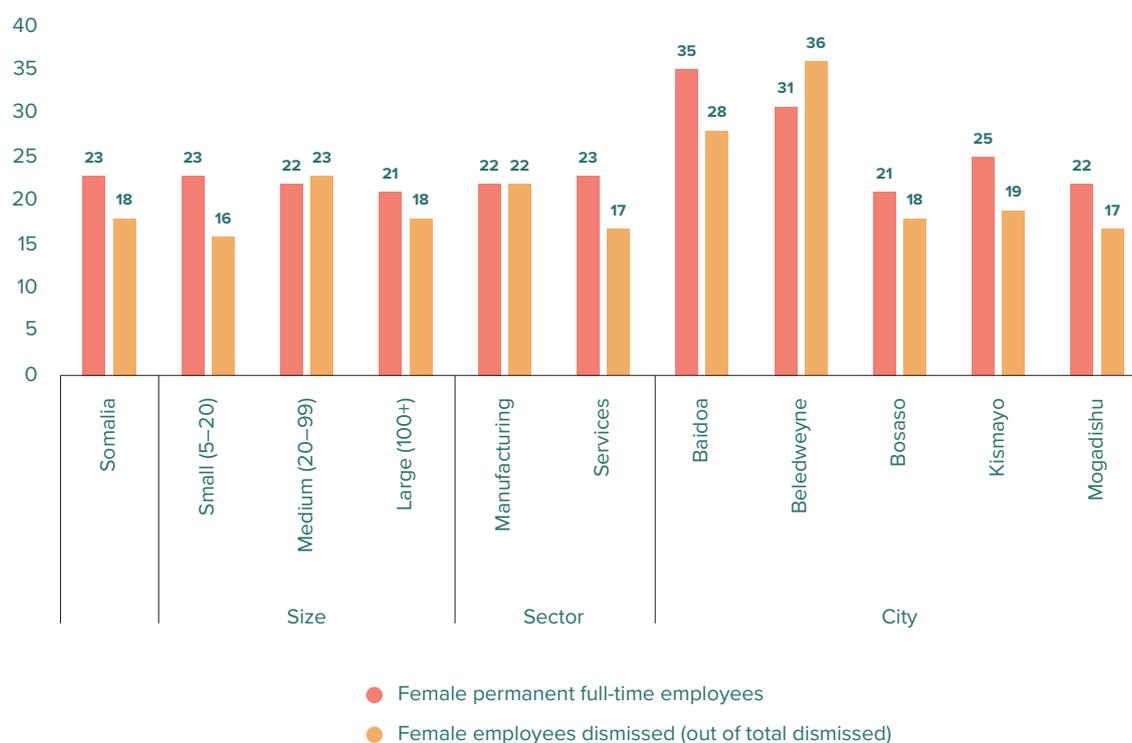


Source: NHAOF (2020).

Figure 69 presents the proportion of full-time female employees in various businesses by industry and location, and shows that women were less likely to be laid off than their male counterparts. This contrasts with other

evidence, which suggests that redundancies during crises often disproportionately affect women and other vulnerable employees.

Figure 69. Workforce adjustments by gender



Source: Somalia, Ministry of Commerce and Industry *et al.* (2020).

Unemployment and underemployment were already widespread, and have been getting worse due to high population growth rates and slow rates of job creation. During lockdown and beyond, the impact on unemployment appears to be moderate to severe. It must be assumed that those who have lost their jobs are unlikely to be employed again until markets resume operation. It is estimated that the number of permanent full-time workers has decreased by 30.9 percent between February 2020 and the survey period (Somalia, Ministry of Planning, Investment and Economic Development and UNDP, 2021).

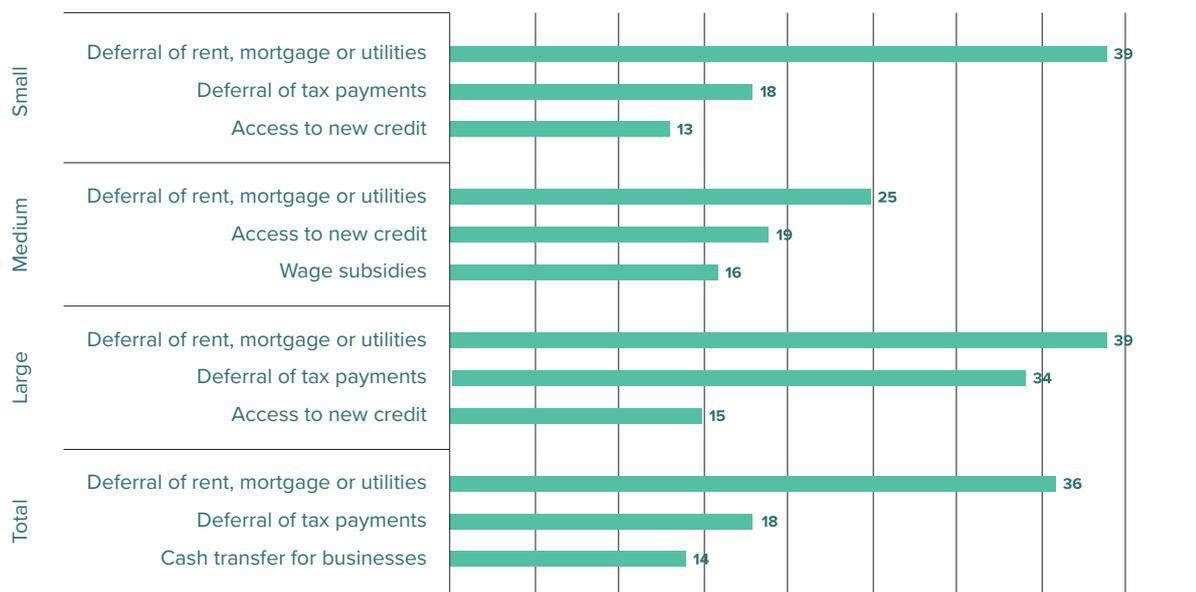
4.5.2.8 Type of assistance required

Four months after the onset of the crisis, only about 1.2 percent of businesses have received some form of support from the government, while another 1.4 percent expect to receive support within the six months following the survey period, suggesting either a lack of comprehensive

support targeted at the private sector in general, or that such support is not being widely communicated (Somalia, Ministry of Commerce and Industry *et al.*, 2020). Many of the surveys mentioned looked at the type of assistance considered most essential, providing useful insight into gaps and stresses. The support desired varied according to firm size, but overall, 36 percent of enterprises suggested a deferral in rent, mortgages and utilities; 18 percent suggested a deferral on tax payments and 14 percent suggested access to credit (i.e. as sought by Gargaara). Other kinds of support suggested included cash transfers for business (9 percent), wage subsidies (9 percent), deferral of credit payments or suspension of interest payments (4 percent), and fiscal exemptions or deductions (3 percent) (see Figure 70). Deferral in rent, mortgages and utilities seems to be a priority for all enterprises. However, since Somalia does not have the fiscal capacity to provide industry-wide bailouts, many of these requests have gone unanswered, with the exception of temporary tax and rental deferrals, which still need to be settled.³⁷

³⁷ A new World Bank-funded social safety-net programme, Baxnaano, and a subsequent emergency locust response are also supporting demand through cash transfers to poor and vulnerable households.

Figure 70. Desired government support by firm size (percentage of respondents)



Source: Somalia, Ministry of Commerce and Industry *et al.*, 2020.

4.5.3 Policy responses to mitigate the effects of COVID-19

The government and the international community have been implementing the Country Preparedness and Response Plan (CPRP). The CPRP appealed for US\$526,844,297: \$255,664,666 for the humanitarian component and \$271,179,632 to support the socio-economic response. The CPRP aims to mitigate the negative impact of COVID-19 on the macroeconomy, business and vulnerability.

Although Somalia is one of the few countries in the world that are unable to provide rapid financial support to businesses (with the exception of tax breaks) due to its weak fiscal position, with support from international development partners, the government has been able to provide some fiscal and financial support such as (i) temporary tax relief on some basic food commodities (partly offset by a permanent tax increase on some other products); (ii) donor-funded expansion of the social safety net; (iii) donor-funded lending support to small and medium-sized enterprises; and (iv) additional donor-funded transfers to federal member states (IMF, 2020e: 4). Government service provision has always been heavily constrained. Assistance was short-lived and linked to the peak period of business stress. For those in receipt of assistance, the impact was largely positive, though large segments of society and firms in many sectors received little to no support. While most businesses did not receive formal support, indirect support, such as delays in paying for tax, was widely reported.

4.5.4 Summary and recommendations

From a long-term perspective, the impact of the pandemic has been made worse by Somalia's weak state fiscal capacities, underlying structural constraints (i.e. the absence of a national currency, financial inclusion, national insurance etc.) and overdependence on external flows for stability. A move towards self-reliance is necessary, but this implies a far more aggressive focus on revenue generation, strengthening of market-based mechanisms to better serve the poor, and use of external assistance in a more catalytic manner. Moreover, given the lack of access to public services, strengthening the resilience of the private sector is critical to securing access to services in times of stress. While the socio-economic recovery response plan is under execution, the following investments should be strengthened in the NDP, to reduce the risks to the government, businesses and households from external shock.

- Emergency fiscal support needs to be expanded. 2021 is expected to be another challenging fiscal year for the government, and emergency support from international financial institutions seems likely, even if elections lead to a peaceful outcome. Official Development Assistance (ODA) is likely to contract not compensated by a commensurate increase in remittances. NDP funding will therefore need to focus on the macroeconomic and fiscal framework to assess the resource envelope prior to determining the budget, based on a sound, albeit difficult, prioritization process.

- Financial inclusion needs to be promoted: COVID-19 has demonstrated how exposed micro- and small enterprises are to economic shock, and how little finance they have access to. While Gargaara and MFIs have played a key role in supporting credit, the reality is that the entire microcredit market – and indeed banking sector – needs further development and support, with a particular focus on meeting the needs of those who remain unbankable. Informality dominates the private sector, making market-based financial intermediation challenging. As a result, removing the capital constraints of micro- and small enterprises must also support the transition to the formal economy, deploying incentives. The possibility of risk sharing (guarantees) to incentivize the financial service providers to engage during periods of recession, and authorization of temporary change to banking ratios such as liquidity ratio should be explored.
- Women and marginalized groups are denied equal access by the market as well as the cultural establishment, including state administration. Anecdotal evidence suggests that banks require a husband to act as a guarantor for loans, even when a woman has collateral. In this context, removing both formal and informal obstacles for women's participation in the economy represents a huge opportunity for promoting inclusion.



5. Concluding remarks

This report has reviewed MSME characteristics, constraints and development both before and after the COVID-19 and oil price shocks.

5.1 MSMEs prior to the COVID-19 and oil price shocks

The first part of this report documented a number of structural features that were present before both crises. The most significant of these are as follows.

First, while MSMEs account for a substantial share of business (about 97 percent of all businesses based on the available data) and provide a major source of employment creation (over half of all employment) in the Arab region, they have limited density, are of an older age and create lower value compared with other similar regions. For various reasons, including barriers to entry in many markets, the countries suffer from a “missing middle,” reflecting the stunted growth of micro- and small enterprises. There are nuances in these characteristics by region, based on the available data. For example, while MSMEs in OICs and FCCs create substantially more employment (accounting for an estimated 75 percent and 69 percent of employment, respectively) than those in OECs (about 21 percent), they create more value in OECs than OICs, which are characterized by low value creation in their large informal sector.

Second, OECs rely heavily on their oil wealth, which disincentivizes their diversification, and private-sector growth, including that of MSMEs. OICs on the other hand, are moderately diversified but also exhibit a heavy reliance on rents, such as remittances. Like oil wealth, these rents are highly vulnerable to global and external shocks such as those brought about by the current COVID-19 pandemic.

Many of the Arab FCCs have been plagued by armed conflict and political instability for the last decade, which has further undermined both economic and political development. The situation has worsened considerably during 2020 as countries suffered multiple shocks: COVID-19, the associated lockdown and the fall in oil prices, which have in turn resulted in falling demand nationally and globally, plunging tourism revenues, and a fall in remittances. Responses in these countries have largely been made possible through support by donors, United Nations organizations and NGOs.

The second part of this report assessed the impact of these shocks on MSMEs in the region, drawing on the analysis of different types of enterprise-level surveys. The surveys were carried out in Kuwait, representing OECs, and Egypt, Jordan and Morocco, representing OICs, and Iraq and Somalia, representing FCCs.

The following section starts by giving an overview of the impacts, responses and relief of enterprises in the case study countries, followed by a discussion of the implications of the findings for policy.

5.2 Overview of study findings

The crisis adversely affected enterprises in all countries, with a high proportion suspending or shutting down their business. The extent of impacts differs from country to country but all of them reported adverse impacts in terms of business operations (sales, revenues, supply chain), employment, access to services, and enterprise responses to the pandemic. The extent of impact on the operation of enterprises in terms of closure or temporary suspension during the lockdowns ranges from 24 percent in Egypt to 96 percent in Jordan. The closure affected microenterprises more than small, medium and large enterprises. A substantial share of enterprises has suffered reductions in revenue (ranging from 75 percent observed in one survey in Somalia to 98 percent observed in Iraq).

As a result of falling revenues, firms of all sizes were negatively affected by cash flow constraints, but larger enterprises suffered relatively less. For example, “only” 80 percent of large Jordanian enterprises had experienced cash flow constraints compared with 95 percent of microenterprises and 93 percent of small enterprises. In Kuwait, 27 percent, 35 percent and 24 percent of micro-, small and medium-sized enterprises faced problems with access to finance and access to capital compared with just 19 percent of large enterprises. In Egypt, the study shows that 97.2 percent of microenterprises, 96.7 percent of small enterprises and 88.8 percent of medium enterprises did not obtain a loan during the past five years.

In Egypt, more than 90 percent of respondents indicated that they were adversely affected by the pandemic and the containment measures, 45 percent of enterprises experienced a shortage in inputs and difficulties in contract or demand fulfilment, and 30 percent of enterprises expected to survive for less than one month by relying on their cash flow, and a further 27 percent for 1–3 months. In Somalia, one survey has shown that about 90 percent of respondents experienced cash flow shortages, and 89 percent had to delay payments to suppliers, landlords or tax authorities. Another survey puts these figures higher (93 percent and 99 percent, respectively).

The behavioural response of enterprises to the crisis has varied among countries and enterprise sizes. Larger enterprises have undertaken a broader range of responses and generally adopted them more widely, meaning that a greater proportion of enterprises have adopted one or more of the following responses:

- Reducing wages: This has not been a common response but has been practiced more by large enterprises in Jordan as well as in Iraq and Somalia.
- Laying off employees: In general, the extent of layoffs varies from country to country, ranging from 15 percent in Kuwait to 58 percent in Morocco. Layoffs has been a common response and mostly adopted by larger enterprises. In Morocco, for example, 58 percent of all enterprises have laid off employees, of which 81 percent are large enterprises. In Egypt, the enterprises surveyed had laid off, on average, about 17 percent of their workers, and expected to dismiss another 3.9 percent. The vast majority (81.5 percent) of the employees laid off are from the microenterprise sector. In Iraq, although there were cases of employees being laid off, the most common response was to put staff on leave, followed by reduced working hours (and salaries) and a decrease in salary amounts. In Somalia, according to one survey, 84.6 percent of large enterprises decreased the total number of permanent workers compared with to 48.6 percent for medium enterprises.
- Implementing unpaid leave: Some countries have practiced unpaid leave as one coping strategy. In Kuwait, one fifth (20 percent) of enterprises have given unpaid leave to employees, while in Iraq, 44 percent of surveyed enterprises implemented the practice.
- Seeking flexibility in rent payments: This has been a common response in Kuwait for enterprises of all sizes. In Somalia, for example, deferral of payment for “rents, a mortgage or utilities” was indicated

by 39 percent of the enterprises surveyed as the most preferred government support for all enterprise sizes.

- **Negotiating flexibility in loan repayment:** Overall, 10.5 percent of surveyed enterprises in Kuwait reported asking banks for flexibility in loan repayment, with large enterprises more likely to ask for such arrangement than MSMEs. This measure was undertaken by 35 percent of all large enterprises in Kuwait compared with just 6 percent and 8 percent for micro- and small enterprises, respectively.
- **Seeking access to commercial bank loans:** Larger enterprises in Jordan and Morocco have had greater access to commercial bank loans, though the enterprise size-loan relationship was weaker in Jordan than in Morocco. In Morocco, large enterprises were 4.5 times more likely to take loans than micro- and small enterprises, whereas in Jordan, the corresponding figure was significantly less at 2.5 times more likely.
- **Drawing on equity:** Smaller enterprises were more likely to draw on equity in Morocco than to take out loans, partly due to banks not wanting to lend to them, but also because the enterprises were not confident that they would be able to generate enough cash flow in the future to repay the loan. Unlike larger enterprises, smaller enterprises resorted to giving up ownership shares (equity) to raise funds.
- **Transforming the retail aspects of their business into more digital and virtual platforms:** This was the only response that was more common among smaller Kuwaiti and Moroccan enterprises.
- **Working remotely:** In Jordan and Morocco, this response was more common among large enterprises. In Morocco, for example, this action has been taken by 43 percent of large enterprises and 31 percent of medium-sized enterprises compared with just 9 percent and 18 percent of micro- and small enterprises, respectively. In Kuwait, 48 percent of large enterprises resorted to remote working. Overall, remote working was mainly adopted by large and medium-sized enterprises with substantial desk-based business. Micro- and small enterprises tended to specialize in services such as motor vehicle repairs, which require a physical presence, implying that remote working was not an option. Large enterprises were more likely to have sophisticated production and potentially automated production processes that could be developed and implemented remotely, in

contrast to smaller enterprises, which had poorer digital infrastructure.

- **Moving business online:** In Jordan, moving to and increasing business activity online is the top coping strategy for all enterprise sizes, though to a lesser extent for micro- and small enterprises. In contrast, this is only true of the largest enterprises in Morocco. Moreover, a greater proportion of larger firms sold their output on digital platforms in Jordan, which was extremely limited for MSMEs. In Kuwait, this has been the least important coping strategy for all enterprise sizes. Nonetheless, in Kuwait, around one and a half times as many large enterprises are already moving towards adopting digital facilities compared with the proportion of MSMEs doing this. Nearly half of Kuwaiti micro- and small enterprises believe that a digital transformation is irrelevant to their business, compared with just 31 percent of large enterprises.

The response of enterprises demonstrates the importance of access to finance as a constraint for MSME growth and survival. In all case studies, MSMEs face more serious cash flow challenges than larger enterprises. Access to finance has disproportionately constrained smaller enterprises, and government support in response to the COVID-19 crisis has disproportionately favoured the largest and oldest enterprises. This finding is more acute for Morocco than Jordan, which still exhibits the same pattern. The findings from Iraq also show that enterprises (especially micro- and small enterprises) consider access to finance (loans) as the most important government support needed to improve business performance.

However, there are significant differences between the three groups of countries in terms of the scope and depth of stimulus packages implemented by governments. As explained previously, this is mainly due to differences in the countries' fiscal capacity. In OECs and, to some extent, OICs, governments provided relatively extensive support, while in FCCs, this was generally not the case. What is also noticeable, especially in OECs and OICs for which evidence is available, is that there was little awareness and utilization of the response packages, with larger enterprises often benefiting from the response packages more than smaller enterprises. Some examples of this include:

- In Kuwait, most MSMEs surveyed were unaware of the government's rescue package: over 60 percent of micro-, 56 percent of small, and 50 percent of medium-sized enterprises surveyed either had no idea of the package, or were not familiar with the details. About 75 percent of large enterprises on the other hand were familiar with the package, indicating that support is likely going to the larger businesses or that they are better informed of the

help that is available. Favouring larger enterprises also meant favouring enterprises with more Kuwaiti nationals. The analysis has shown that the fewer Kuwaiti employees in an enterprise, the more likely it is to be suspended or shutdown in response to the crisis.

- In Egypt, though there are extensive support measures put in place by Government, there is a markedly low level of utilization of the policy facilities. Of those that have heard of these measures and facilities (30 percent of respondents), only 14 percent utilized any of them, with a bias against micro and small enterprises.
- In Somalia, the measures put in place by the Government were not only limited but the assistance was also short-lived, and most businesses did not receive formal support. For those in receipt of assistance requested the impact was largely positive, though large segments of society and firms in many sectors received little to no support.

5.3 Implications for policy

The COVID-19 crisis has highlighted pre-crisis structural deficits of countries across the region. The underlying reasons for these deficits are protected markets with limited competition, as well as State dominance in many areas of the economy. In countries affected by conflict, a major reason is weakened fiscal space, which made it difficult for these countries to implement extensive COVID-19 response measures. In Kuwait, for example, these factors are responsible for relatively low MSME density, substantial informality and economies dominated by large, old enterprises. Kuwait has one of the lowest MSME densities in the region and Jordan appears to have the lowest of the OICs group.

This size and age distribution is problematic since it is relatively small and medium as well as young enterprises that usually drive innovation, employment generation and growth in an economy. Public policy has stifled these enterprises, with the crisis having exacerbated the situation, as government support has favoured larger enterprises, despite MSMEs having been hit hardest.

Although they do not share the same dependence on oil, OICs also suffer from insufficient diversification and restraints that prevent the economy from reaching its potential. These are also largely driven by the prevailing political economy.

Thus, common medium-term policy recommendations for the case studies to build forward better are: 1) create space

for MSME growth and private sector development more generally; 2) guarantee a competitive and well-regulated services sector; 3) strengthen the autonomy of competition authorities (as this is key to effecting the previous two recommendations); and 4) carry out regulatory reforms and public financial management reform.

These policies are now described in more detail for all sets of countries:

OECs are most in need of reform to diversify. While these economies have their own specificities, generally speaking, a comprehensive set of reforms are necessary to diversify them. These reforms are as follows:

- Regulatory reforms should be implemented to strengthen the framework of accountability for public procurement, tenders and bidding processes to ensure market competition.
- Further analysis is required to assess the benefits of state monopolies against their costs, to ensure that those with a lower level of well-being are protected from the negative effects of deregulation measures.
- For sectors that will remain in public hands, public sector reform and better public financial management is needed.

While OICs undertook reforms in the 1990s, more is needed to build forward better – that is, to use the crisis as an opportunity to implement much-needed reforms to diversify these countries' production structures away from their current dependence on rents. These reforms include:

- Enacting and enforcing conflict of interest laws.
- Guaranteeing a competitive and well-regulated telecommunication sector to build strong and accessible ICT infrastructure and services: more widely available broadband access and increased digitalization of the economy (including of public services) will enable more tech-based start-ups and innovation in sectors such as logistics and distribution, transportation, fintech, and health care, and will also improve transparency and governance through reduced leakage from corruption and favouritism.
- Strengthening the autonomy of competition authorities.
- Building a stronger tax base: given the scarcity of fiscal space, and the necessity of maintaining support to the enterprises as long as the crisis continues and well beyond that, it is imperative

to look for other means of financing. It is also important to explore domestic sources of financing (from efforts to increase tax revenues such as a wealth tax, to adjustments in spending commitments). Building a stronger tax base will enable the State to concentrate on its basic role in providing public goods, justice, and the redistribution of wealth from the capable to the needy.

- Reorienting public spending to build human capital: investing in public goods and services through increased spending on education and health care will eventually reduce the region's large informal sector, raise the productivity of the formal sector, address unemployment and provide potential MSMEs with the necessary skills for success.
- Developing size-specific policy packages: it is clear that COVID-19 and the policy packages adopted on both the international and local levels have different impacts on different target groups. In the case of Egypt, for example, the survey results suggest a significant gap in most areas of impact between micro- and small enterprises, and medium-sized enterprises. In addition, as international lessons learned suggest, blanket policies seem to be less effective than targeted ones, although these are more difficult to design and implement.
- Continuing monitoring of the impacts of the pandemic on MSMEs: given the rapidly changing health and economic situation, it is important to move from impact assessment to impact tracking.

For FCCs, pre-existing conditions (unemployment, weakened health services, limited fiscal space) were made worse by the pandemic. These countries did not have the fiscal capacity to provide extensive industry-wide bailouts that other countries implemented. Even when these countries implemented limited stimulus packages, such assistance was short-lived, and was linked to the peak period of business stress. Most businesses did not receive formal support, though indirect support such as delays in paying for tax was widely reported. For those in receipt of assistance, the impact was largely positive, though large segments of society and firms in many sectors received little to no support. Addressing the challenges in these sets of countries would require:

- in the medium to long-term, addressing/improving pre-existing challenges, such as making the operating environment conducive to MSME growth; enhancing MSME access to finance so that they can acquire the investment funding or financing necessary for development, operation, upgrade, and expansion; expanding market opportunities—

for example enhancing access to market information and product quality development; and formalizing informal enterprises by creating the appropriate environment;

- in the short term, donors supporting expansion of social safety nets, and supporting small and medium-sized enterprises with lending, given the limited fiscal space;
- promoting financial inclusion—especially in terms of ensuring that women and marginalized groups have equal access to financial services;
- assisting MSMEs in upgrading their human capital capabilities and skills by providing incentives (e.g. tax credits, vouchers) for targeted training, and ensuring the quality of training providers;
- assisting MSMEs in conducting in-house sessions based on the different skills required by the market, focusing on creating more detailed employee training plans.

Finally and importantly, as we have seen, most business surveys reviewed in this paper are not statistically representative. This was expected given policymakers' need to assess the impact of the pandemic quickly so that they could design and adapt their policy responses accordingly. However, moving forward, the region would benefit from more regular and statistically representative surveys. To this end, regular digital/phone surveys through a panel surveying approach could be conducted between larger periodic field surveys, to track and assess the changing impact of the crisis and other future shocks on MSMEs in the region. This would afford governments and the development community greater agility in assessing and adapting their policy and programmatic tools.

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Annexes

Annex 1. Distribution of samples by size of enterprise

Figure A1. Microenterprise sample – sector distribution

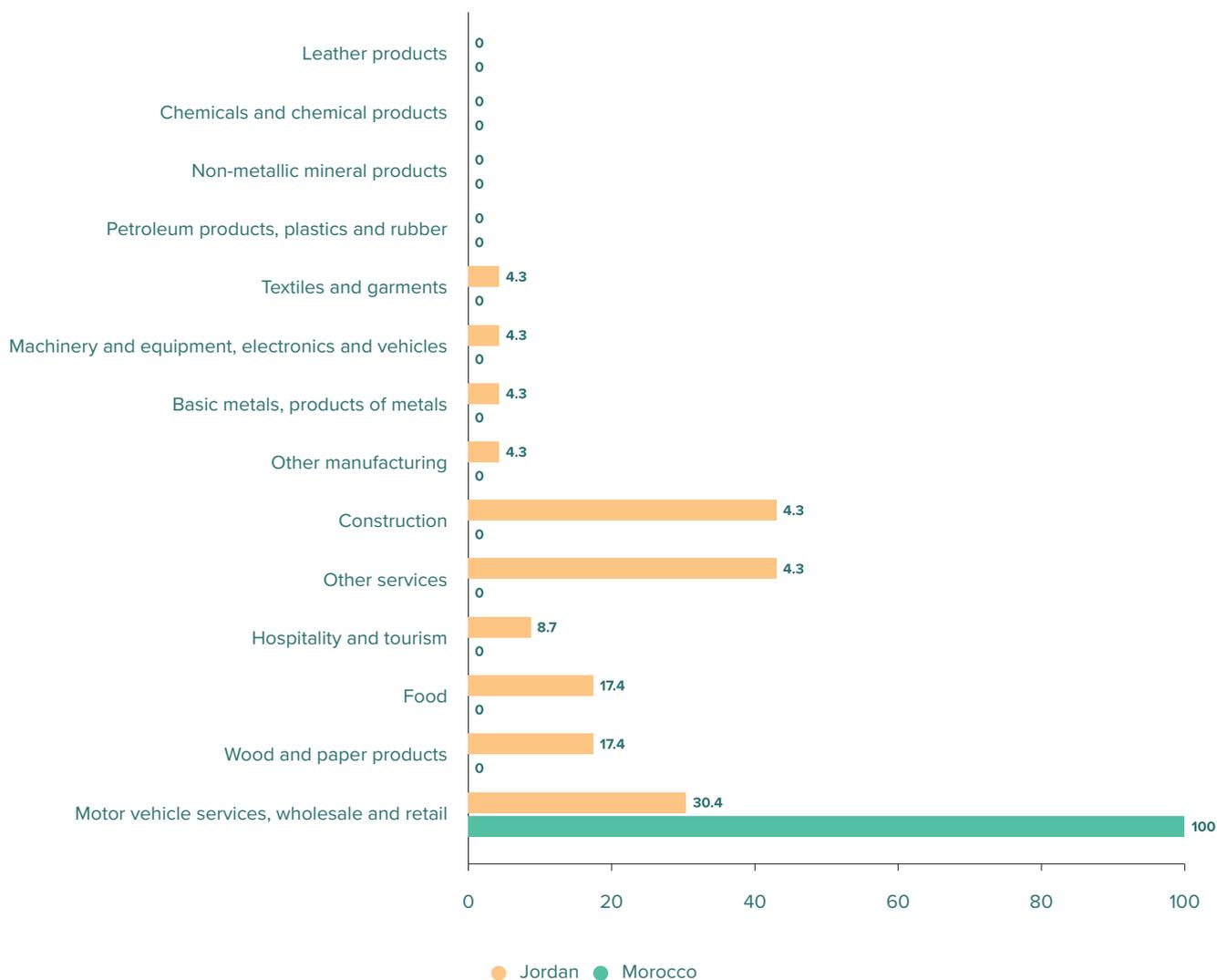


Figure A2. Small enterprise sample – sector distribution

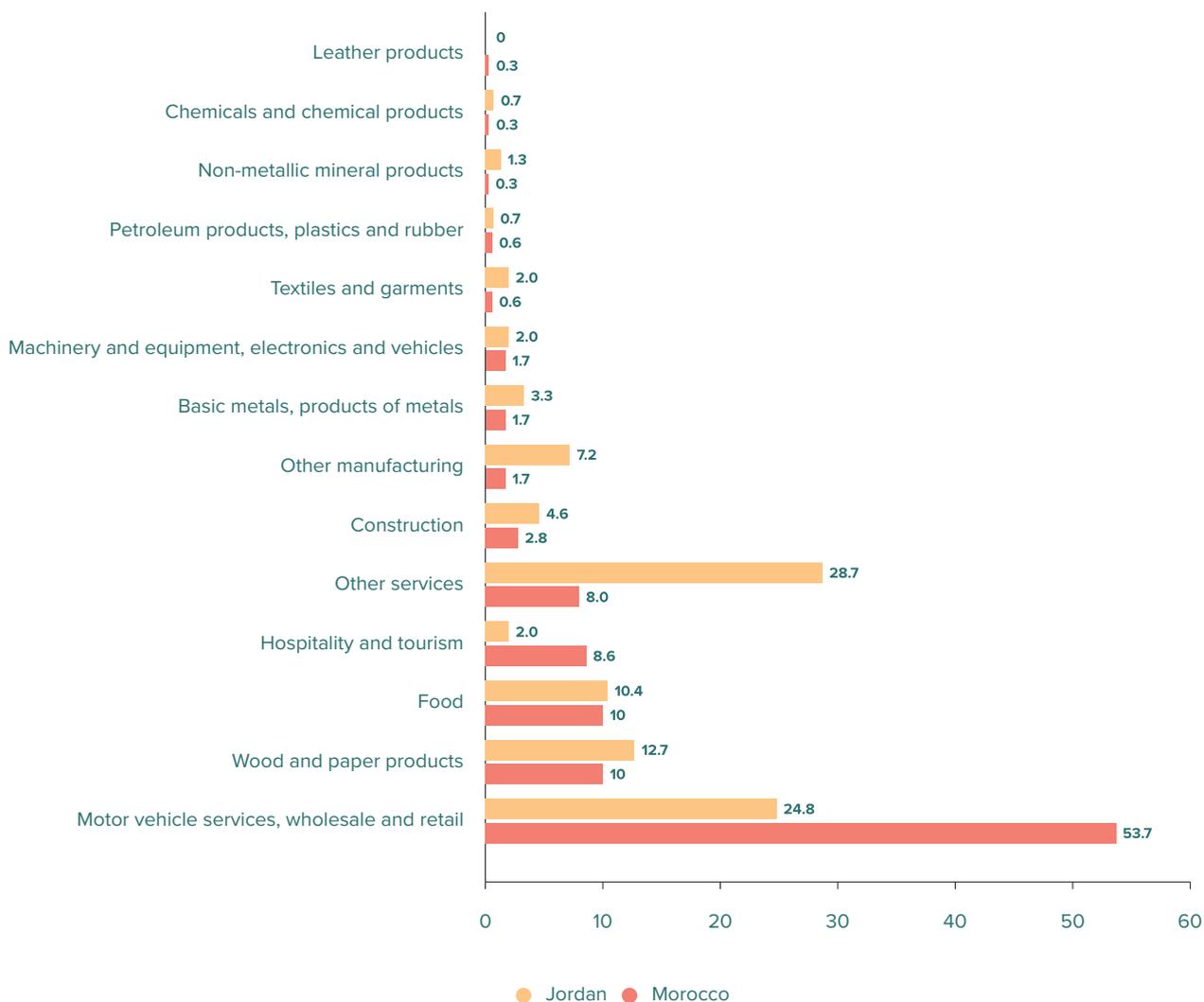


Figure A3. Medium-sized enterprise sample – sector distribution

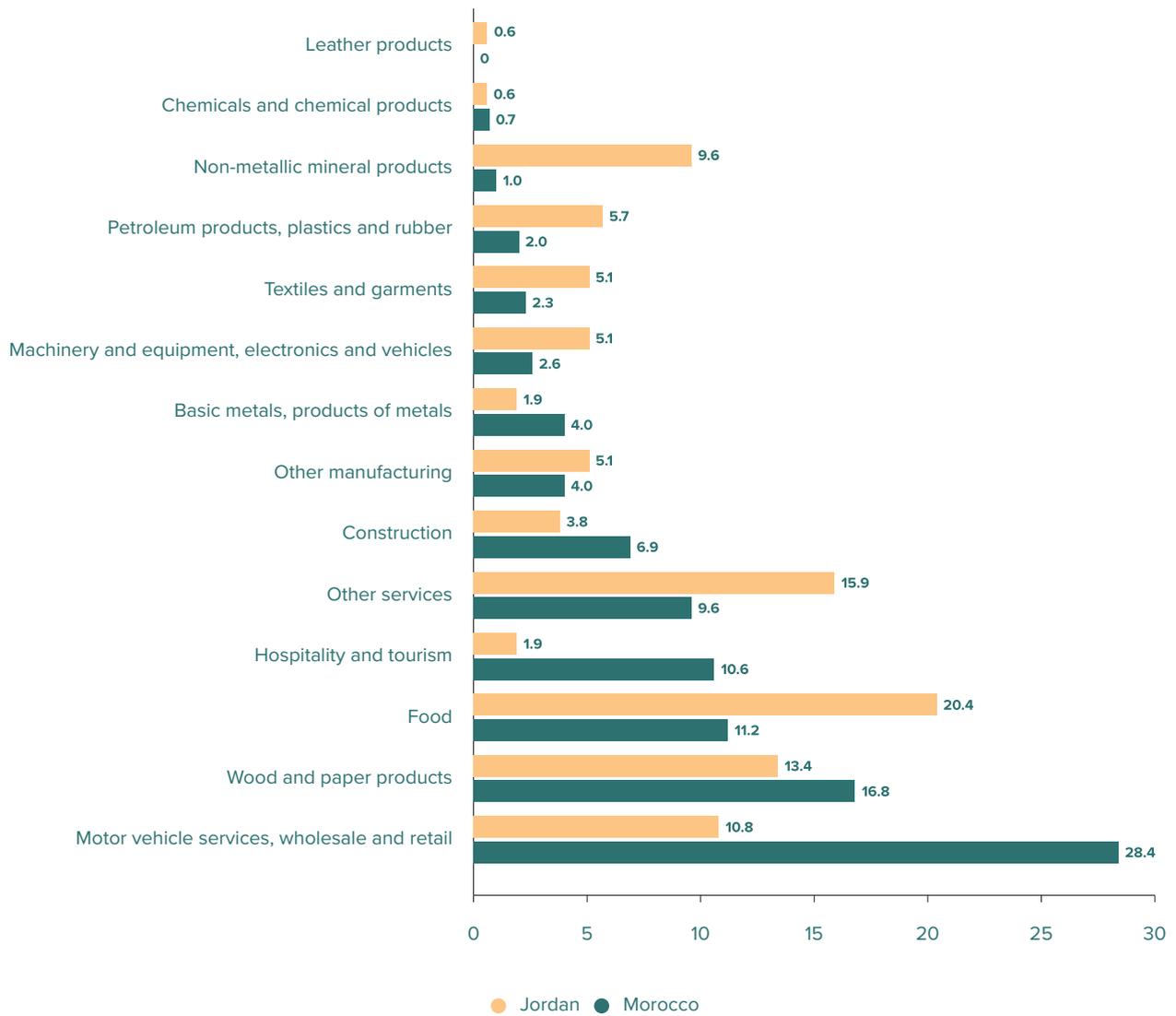
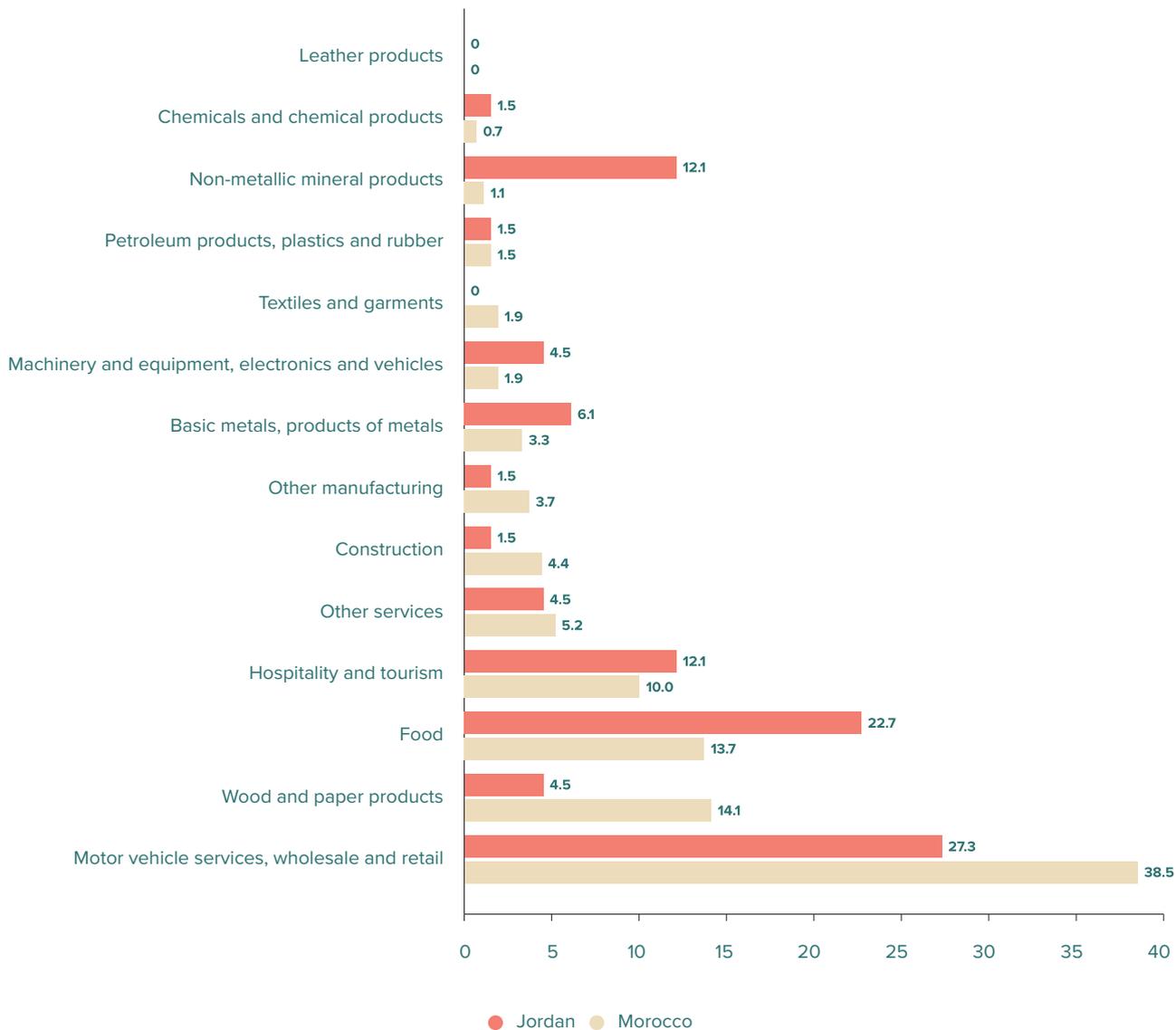


Figure A4. Large enterprise sample – sector distribution



Source: Authors' calculations from the World Bank Enterprise Survey COVID-19 follow-up (2020).

Annex 2. List of relevant sources on the impact of COVID-19 in Somalia

Title	Organization	Month (2020)
Enterprise and livelihood impacts		
Assessing Impact of Corona-virus on Local Market and Livelihood in Puntland	Humanitarian Affairs and Disaster Management Agency (HADMA)	April
Digital SEIA - Micro, Small and Medium Enterprises Survey	UNDP	May
Recommendations and Preventive Measures in Response to COVID-19: Guidance for the Industrial Sector	United Nations Industrial Development Organization (UNIDO)	May
COVID-19 Rapid Survey: ICT Sector	International Finance Corporation (IFC)	May
COVID-19 Rapid Survey: Energy Sector	IFC	May
Situation Analysis of COVID-19 Impact on Somali Productive Sectors	UNIDO	June
Business Impact Survey Analysis	Nordic Horn of Africa Opportunities Fund (NHAOF)	June
Socio-Economic Impact Analysis of COVID-19 in Galmudug State	Ministry of Planning and International Cooperation	June
The Significant Impacts of COVID-19 on the Livelihoods and Health of Somali Communities: Findings From a Nationally Representative Household Survey	Nexus and Ministry of Health	August
Preliminary Findings from the Business Survey in Somalia	Ministry of Commerce and Industry, World Bank, IFC, UNIDO	September
Coronavirus and the Private Sector in Somalia: Results from COVID-19 Focused Enterprise Survey	Ministry of Commerce and Industry, World Bank, IFC, UNIDO, Somali Chamber of Commerce	September
Impacts on vulnerable population		
Rapid Assessment on the Impacts of COVID-19 on Somali Women Leading Small-scale Businesses	Ministry of Women and Human Rights Development	April
IDP Market Feasibility Study: Mogadishu	United States Agency for International Development (USAID), Somalia Cash Working Group, REACH	May
Digital SEIA – Household Survey	UNDP	May
Socio-Economic Implications of COVID-19 on Women-owned MSMEs	Raagsan	May
COVID-19 and Sustainable Development in Somalia/Somaliland: Lives, Livelihoods and Inclusion	University of Bristol, Global Challenges Research Fund (GCRF), Transparency Solutions	July
Joint Market and Supply Chain Update	World Food Programme	August

Source: Somalia, Ministry of Planning, Investment and Economic Development (2021).

Annex 3. List of enterprise surveys

NHAOF [Nordic Horn of Africa Opportunities Fund] COVID-19 Business Impact Survey Analysis: In June 2020, the NHAOF surveyed 17 medium to large businesses that were current recipients of the fund requesting additional funds to mitigate the impact of COVID-19.³⁸ Participating businesses came from Somaliland (1), Puntland (12) and South Central (4) with a total of 613 employees.

Coronavirus and the private sector in Somalia: Results from COVID-19 Focused Enterprise Survey: Between 14 June and

30 July, the International Finance Corporation, World Bank and United Nations Industrial Development Organization (UNIDO), with support from the Ministry of Commerce and Industry and Somali Chamber of Commerce, carried out a rapid enterprise survey. The survey covered 550 formal businesses of all sizes in five cities (Baidoa, Beledweyne, Bosaso, Kismayo and Mogadishu) over three rounds (see Table A1).

Table A1. Sampling in the IFC, World Bank and UNIDO-led enterprise survey

Size / Sector	Baidoa	Beledweyne	Bosaso	Kismayo	Mogadishu	Mogadishu - Micro	Total
Size							
Micro (< 5)						100	
Small (5–19)	35	24	72	31	136		
Medium (20–99)	24	17	25	23	45		
Large (100+)	1	5	0	4	8		
Sector							
Manufacturing	9	4	12	8	20	3	
Retail	15	8	39	14	74	62	
Services	36	34	46	37	95	35	
City total	60	46	97	58	189	100	550

Source: Somalia, Ministry of Commerce and Industry et al. (2020).

Heritage Institute for Policy Studies (HIPS) Enterprise Survey: HIPS undertook an enterprise survey to complement its wider economic analysis. The survey covered 350 business and enterprise managers with a structured, close-ended questionnaire (see Table A2). Major themes included the nature of the business (location, financial or operational activities); whether

it had undergone customer demand disruptions, employee redundancies or supply chain disruptions; what government and international support it had received; and what measures the business suggested to mitigate the impacts of COVID-19 pandemic. Data were collected by professional enumerators conducting computer-assisted personal interviews.

Table A2. Sampling in the HIPS enterprise survey

Surveyed cities	Frequency	Percentage (%)
Mogadishu	96	28.7
Dhusamareeb	48	14.3
Beledweyne	50	14.9
Kismayo	51	15.2
Bosaso	50	14.9
Baidoa	40	11.9
Total	335	100

Source: HIPS (2020).

Socio-Economic Implications of COVID-19 on Micro, Small and Medium Women-owned Enterprises (June 2020):

In June 2020, Raagsan conducted a socio-economic survey of the implications of COVID-19 on women-owned

³⁸ We note that the survey sample is likely to be businesses worse off, limiting its validity.

MSMEs in Somalia. The survey covered 160 women-owned businesses, focusing on trades tending to be run by women (e.g. milk, khat, hospitality, fruits/vegetables). This was complemented by 14 key informant interviews held with experts in the field and policymakers.³⁹

³⁹ According to the Somaliland Annual Statistical Report 2018, khat ordinarily accounts for 30 percent of domestic revenues, or US\$36,449,435. Between \$120,000 and \$150,000 was collected daily from tax on khat imports in Kalabaydh customs station. Previously, retailers would buy Ethiopian khat at \$25 per kg and sell to consumers for \$35–38 per kg. During the khat ban, traders bought contraband Ethiopian khat at \$40 per kg and sold it at \$55 per kg on the informal market. In Somaliland, the import tax paid on a 10 kg bag of khat increased after the ban from \$16–\$18 to around \$40. In Garowe, khat fetched \$55 for 1 kg on the black market and \$70 for 1 kg after the ban.

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