

Resilience in the Time of Covid-19: Lessons Learned from MENA SMEs

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PITCH

Small and medium-sized enterprises (SMEs) represent an important socioeconomic pillar that contributes to overall economic activity in many developing countries. The Covid-19 pandemic that emerged in the early months of 2020 is both a health and an economic crisis with dire consequences for businesses. This article explores the behavior of SMEs in four MENA (Middle East and North Africa) countries, unraveling some short-term effects of the pandemic on these firms.

ISSUES

The outbreak of the Covid-19 pandemic has led to sudden changes in the business environment, resulting in critical challenges for many firms in most sectors around the world. The impact of the pandemic was unprecedented in its scope and no country was spared. Due to the fragile

structures in many developing countries, these countries may find it more difficult to deal with the aftermath of the crisis. Similarly, MENA countries were affected by the health crisis that led to deteriorating economic conditions. Given the severity of the crisis, it is imperative that we understand the challenges faced by SMEs, particularly in developing countries, to draw lessons that would serve to prepare these firms better for facing future shocks. This article¹ sheds light on important issues related to the firm's resilience and capacity to adapt in response to economic hardships in the four MENA countries studied.

METHODS

We use a new survey of representative samples of SMEs from Jordan, Tunisia, Morocco, and Egypt (Combined COVID-19 MENA Monitor Enterprise Survey or CCMMENT). The

survey takes a snapshot of the firms sampled just before Covid-19 and follows them for two waves thereafter – wave 1 in Feb 2021 and wave 2 in June 2021. This allows us to compare firm outcomes in the wake of the pandemic with pre-pandemic outcomes. To explore heterogeneity, we use interaction terms of indicators of the waves and indicators of the four countries, firm size categories, and industries. Subsequently, we explore whether remote work, participation in government assistance programs, and international trade have an impact on the resilience and adaptability of the firms. Specifically, we estimate the differential effects of the pandemic in a difference-in-difference framework on firm outcomes for the SMEs that switch to remote mode, receive government assistance, or participate in international trade.

Authors: Zouheir EL-SAHLI and Mouyad ALSAMARA

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Geography: Jordan, Tunisia, Morocco and Egypt

Themes: International economics, firms, Covid-19

Find out more about this project: <https://www.afd.fr/en/carte-des-projets/impact-covid-19-households-and-firms-mena-region>

¹ El-Sahli and Alsamara (2022). Resilience in the Time of Covid-19: Lessons Learned

from MENA SMEs, AFD Research Papers no. 246.

RESULTS

When asked about the difficulties facing them in the Covid-19 era, MENA SMEs mention loss in demand and problems with inputs (prices and availability thereof) most frequently in wave 1. Tending to the businesses and problems with inputs are the most frequently mentioned difficulties in wave 2 of the survey.

With respect to labor force outcomes, SMEs resorted to wage and work hours' reductions more readily than layoffs in both waves of the pandemic. Firms expect further layoffs and wage reductions in the near future but there is a clear improvement in the second wave compared to the first wave. The industry that is most affected is the accommodation and food services. Workforce in the largest firms and Tunisian SMEs are least affected in their workforce outcomes.

On average, around 7 to 9% of MENA SMEs in the sample close their businesses (temporarily) at any time during the pandemic. The majority of firms choose to adapt their business models in the aftermath of the crisis, mostly by switching to the internet and social media to reach their suppliers and clientele. SMEs expect, on average, a drop in sales of one third in wave 1 and 17% in wave 2 of the

survey compared to 2019 levels, suggesting some improvement in sales in Q2 2021. The same applies to investment. There is, however, plenty of heterogeneity in outcomes across firm size categories, countries, and industry.

Generally, larger firms within SMEs are found to be more resilient and adaptable to the crisis. Namely, compared to their smaller counterparts, larger firms are less likely to close their businesses (temporarily), more likely to adapt their business models in the face of restrictions dictated by the pandemic, and expect lower sales and investment drops compared to pre-pandemic levels.

At the industry level, SMEs in agriculture, fishing, and mining as well as accommodation and food services are found to be more likely to close (temporarily) during the pandemic, reflecting the importance of physical presence in these industries. The education sector is most likely to adapt their business model. On the other hand, accommodation and food services expect the highest drops in sales and investment in the first wave.

Country-wise, just like the labor force outcomes, Tunisian firms are least impacted in the first wave of the

survey across all outcomes but we observe some convergence among the four countries in the second wave owing mostly to (faster) recovery in other countries. Nonetheless, Tunisian and Moroccan firms are less likely to close their business in both waves than their Jordanian and Egyptian counterparts. Egyptian SMEs are most likely to adapt their business models. In addition, while, on average, SMEs in all countries observe worsening sales and investment levels during the pandemic, Moroccan and Egyptian firms demonstrate the best recovery in wave 2 of the survey.

Turning to the differential effects of the pandemic on firms based on their remote-mode status and their participation in government assistance programs or international trade, we find the following. The ability to switch (partially) to remote work improves the SMEs' resilience in the face of closures and increases their capacity to adapt their business models. We find little evidence that government assistance programs improve outcomes of the firms that participate in them. On the other hand, we find evidence that international trade - being an exporter or importer - protects the firm from worse outcomes across the board.

RECOMMENDATIONS

- ▶ Firms can mitigate negative outcomes during the crisis if they are able to operate (partially) remotely. Policy makers can encourage remote work by improving internet quality, reducing internet costs, and advising SMEs on how to deal with concerns related to monitoring worker performance in remote mode.
- ▶ Since the smallest firms among SMEs are found to be the most affected by the pandemic, special attention is needed to improve the resilience and adaptability of these firms. One way to address this would be to devise special programs that specifically cater to the smallest firms.
- ▶ Governments need to communicate their assistance programs more effectively with SMEs. Since firms resorted to wage and work hour reductions, the best assistance programs would be direct wage subsidies or furlough schemes.
- ▶ International trade improves the SMEs' resilience and adaptability during the pandemic. Export promotion programs and lower barriers to trade could serve as a way to improve firm resilience and adaptability in the face of disruptions.