

IOM IRAQ

# LIVELIHOODS POLICY BRIEF NO.2

## CONDITIONAL CASH GRANTS DURING THE COVID-19 PANDEMIC IN IRAQ, JANUARY 2022



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## CONDITIONAL CASH GRANTS TO THE IRAQI PRIVATE SECTOR DURING COVID-19 **POLICY BRIEF**

The Iraqi economy faces a long road to recovery from several recent crises, including the COVID-19 pandemic, which disrupted labour markets and private sector functioning throughout 2020, 2021 and continuing into 2022.

Options available to policy makers to invest in the Iraqi private sector include indirect and direct support to firms, with indirect support including assistance to supporting organizations and market system enhancements, and direct support ranging from skills upgrades to training to conditional and unconditional financial support.

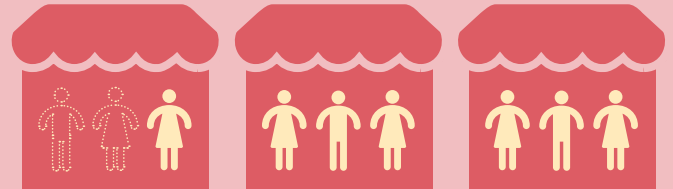
Analysis in this policy brief compares a sample of Iraqi small and medium enterprises (SMEs) that were winners of the Enterprise Development Fund (EDF) – a conditional cash grants programme for firms – with a sample of SMEs that did not receive grants in order to tease out significant differences in coping strategies and outcomes during the height of the pandemic that may be attributable to the assistance received. Findings are taken from the evaluation "Performance of the Private Sector When Supported by Conditional Cash Grants during the COVID-19 Pandemic"<sup>1</sup>, published by IOM Iraq in November 2021.

One and a half years into the pandemic, the sampled EDF-receiving firms reported significant positive revenue and employment impact compared to before the first case of COVID-19 in late February 2020. The primary purpose of the EDF was originally job creation in the wake of the Islamic State in Iraq and the Levant (ISIL)-related damages to urban areas of Iraq. Other secondary effects of the EDF fund are resilience to engaging in coping mechanisms such as shedding workers. This suggests that direct support to firms may be a viable intervention in Iraq to combat the negative economic outcomes of COVID-19.

<sup>1</sup> [Performance of the Private Sector when Supported by Conditional Cash Grants during the COVID-19 Pandemic.](#)

## EMPLOYMENT

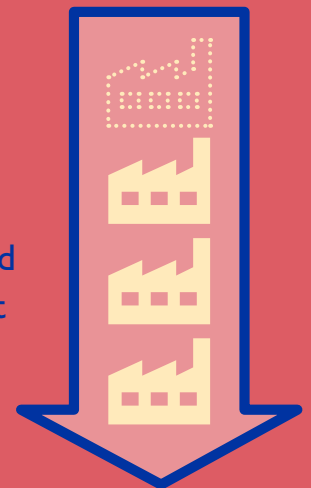
**1/3** of both EDF and non-EDF firms reported temporarily **reducing employment** and delaying paying salaries



*EDF refers to Enterprise Development Fund, an IOM business support programme*

## PRODUCTION

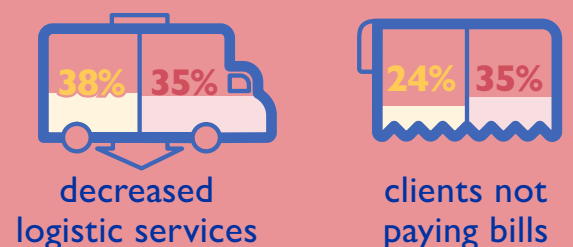
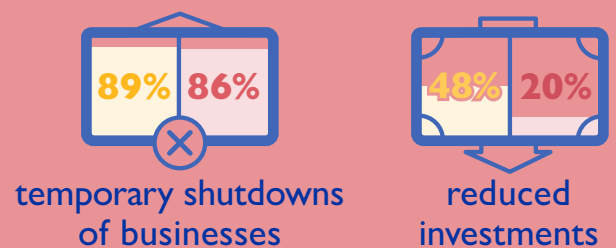
**3/4** of SMEs both with and without EDF support had a **reduction in production and sales**



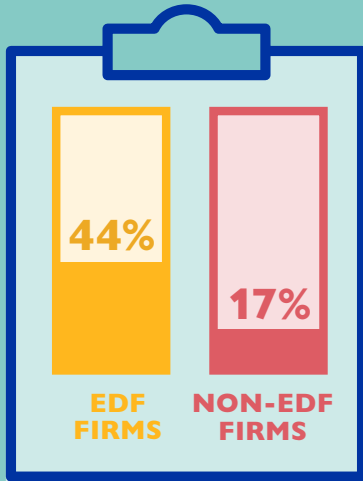
*SMEs refers to Small and Medium Enterprises*

## PROBLEMS

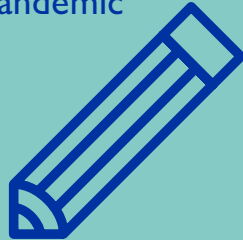
**EDF and Non-EDF** firms reported



# PREPARATION

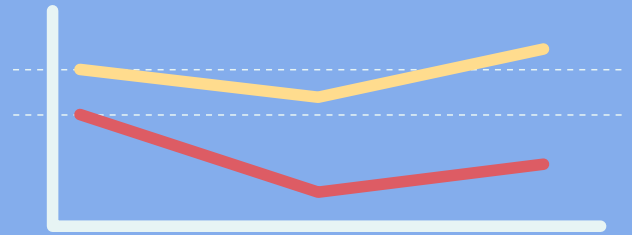


took steps to **prepare their businesses** for the COVID pandemic



Statistics from 22 February 2020

# REVENUES

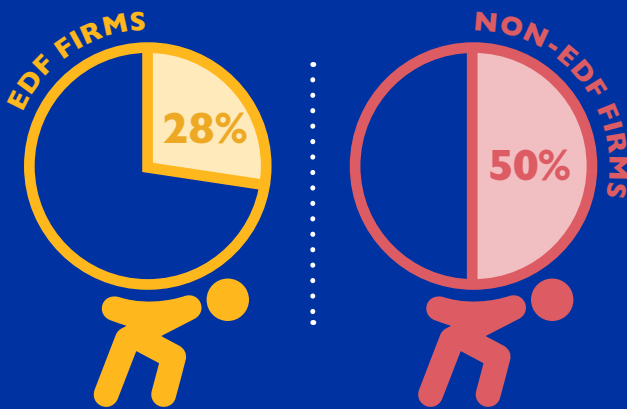


**EDF FIRMS**  
recovered from initial shocks

**NON-EDF FIRMS**  
still have not recovered

Comparison of the Impact of COVID as of May 2021

# DEBT



**have taken on debt** due to the COVID pandemic

Statistics from February 2020

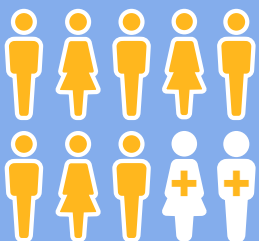
# SHUTDOWN

**EDF Firms** displayed greater durability compared to **Non-EDF Firms** with a significantly less percentage of businesses reporting a risk of shutting down during the pandemic

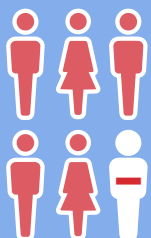


EDF firms' statistics collected Jul-Aug 2021 and non-EDF firms' Feb-Jun 2020.

# EMPLOYEES



**EDF Firms** increased their number of employees from **7 to 9 employees**



**Non-EDF Firms** decreased their number of employees from **6 to 5 employees**

Statistics collected February 2020 (pre-COVID-19) and May 2021

# COPING STRATEGIES

**EDF Firms** compared to **Non-EDF Firms**

**57%** increased marketing efforts

**35%** reduced employment temporarily

**46%** sourced from new suppliers

**35%** withheld salaries

**43%** created new products

**29%** delay paying financial debts

Statistics reflect top 3 coping strategies collected June 2020 and 2021

## CONTEXT OVERVIEW

Since the first COVID-19 case was reported on 24 February 2020, Iraq has suffered from three waves of cases.<sup>2</sup> By December 2021, Iraq had nearly 2.1 million cumulative confirmed cases of COVID-19 and 23,867 deaths, a fatality rate of 1.1 per cent.

The Iraqi government initially closed schools, restricted travel into and within the country and imposed lockdowns and curfews. These initial measures had relaxed by September 2020, which likely allowed for some economic recovery throughout 2021.

In 2018, IOM Iraq launched the EDF to overcome SMEs' lack of access to capital and support large-scale economic recovery following the war with ISIL. The EDF provides financial support to SMEs that have the potential to increase revenue and create jobs in Iraq's private sector. Financing to SMEs has been scaled up since 2019 and increased throughout 2020 and 2021, including in response to the COVID-19 pandemic.

Since 2018, nearly 60,000 firms have applied for the EDF grant, with an acceptance rate of two per cent. The EDF firms need to overcome a competitive selection process where the firms with the highest potential for job generation are selected as winners of the EDF by IOM Iraq. Almost all the EDF firms in the sample have received the first payment from IOM (98%). The average amount received by a firm is 13,544 USD. Overall, 17 million USD has been disbursed to more than 1,000 SMEs, which have hired more than 5,000 persons.

2 The first wave peaked on 8 September 2020 (4,505 cases), the second on 24 April 2021 (7,757), and the last on 2 August 2021 (12,734). Corona Tracker, 3 December 2021, <https://www.coronatracker.com/country/iraq/>.



## METHODOLOGY

IOM conducted a survey of 502 Iraqi SMEs between 26 July and 8 August 2021. The surveyed SMEs fell into seven sectors: food and agriculture, manufacturing, carpentry and construction, materials (chemical and metal), services, technology, and other sectors.

IOM used a blocking design sample by governorate to select the 502 SMEs from 847 graded with the EDF funding.<sup>3</sup> The effect of COVID-19 on these EDF firms was compared with a sample of 482 SMEs that did not apply for or receive the EDF grant.<sup>4</sup> The non-EDF SMEs came from the same

sectors as the EDF firms and were also part of a panel study on the impact of COVID-19 on SMEs consisting of four rounds of data collection throughout the pandemic.<sup>5</sup>

Table 1 shows the breakdown of the EDF and non-EDF firms by sector.

Table 1. EDF and Non-EDF SME Breakdown by Sector

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

Note: The non-EDF firms are 482. This is a subsample of the 893 firms in the four rounds of the panel study in the same sectors as in the EDF sample.

The EDF and non-EDF firms are different in observable characteristics, as each type of SME comes from a different sample. About 30 per cent of the SMEs in each sample have managers who are 35 years old or younger. Whereas only 3

per cent of the non-EDF firms have women top managers, 17 per cent of the EDF firms are managed by women. On average, the EDF-receiving firms estimate their firm value to be almost double the self-estimates of non-EDF firms.

3 The optimal sample size was calculated between 350 and 650 to estimate an average reduction of four employees with a power of 80 per cent and a statistical confidence level of 95 per cent.

4 Blocking design sample by Iraqi governorate. The 482 are a subsample of 893 non-EDF businesses.

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



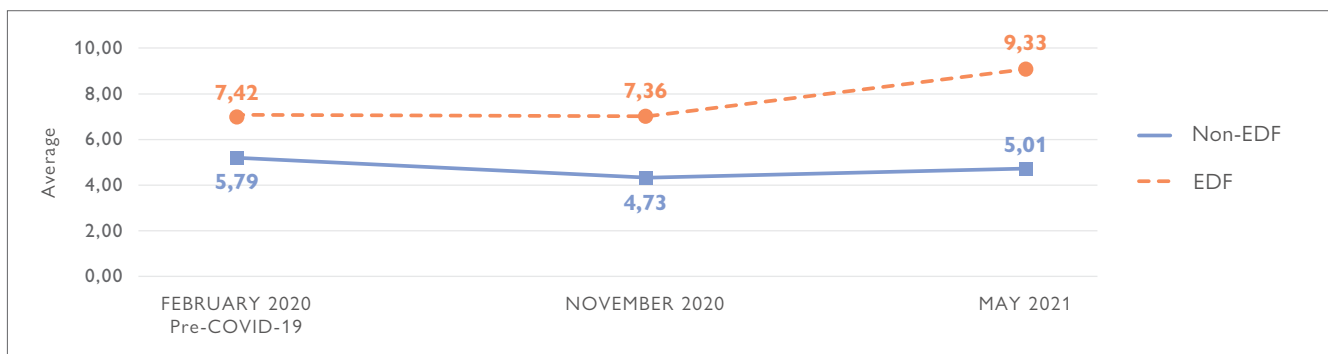
## PERFORMANCE OF SMEs EMPLOYMENT, REVENUES AND PRODUCTION

### EMPLOYMENT

The measures to mitigate the spread of COVID-19 significantly impacted the labour market. Before the first COVID-19 case, EDF firms employed seven workers and non-EDF firms had six workers, on average. By late 2020, EDF firms had reached employment levels that were

higher than before the pandemic (increasing from seven to nine workers), while non-EDF firms continued to employ fewer workers (decreasing from six to five workers by May 2021) (refer to Figure 1).<sup>6</sup>

Figure 1. Average Number of Employees



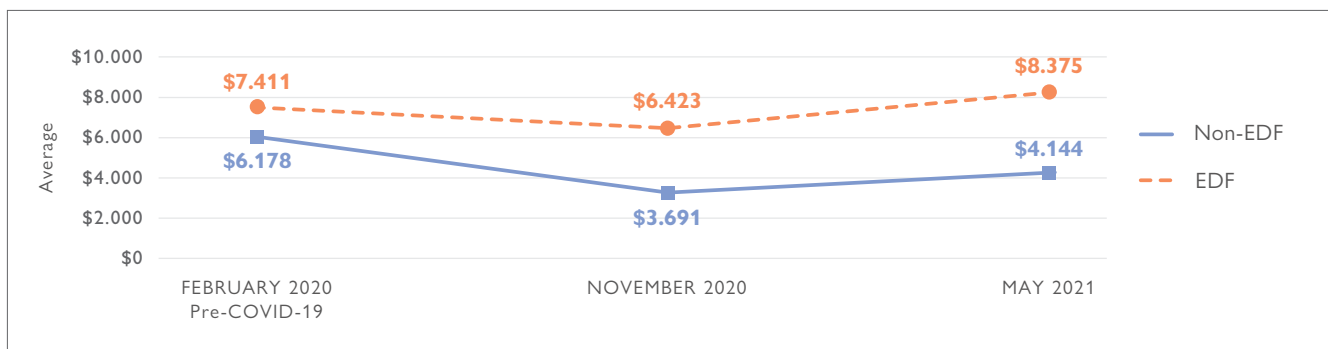
Note: Average includes full- and part-time employees.

### REVENUE

The movement restrictions to reduce the COVID-19 spread resulted in a reduction in revenue among the surveyed SMEs in the EDF programme. The average monthly revenue declined from 7,411 USD to 6,423 USD between February (pre-COVID-19) and November 2020. After the relaxation

of lockdowns, EDF businesses reached an average revenue of 8,375 USD by May 2021, a number higher than earnings before the pandemic. Although non-EDF firms experienced a modest recovery at the end of 2020, they did not return to pre-pandemic revenue levels.

Figure 2. Average Monthly Revenue Among SMEs



<sup>6</sup> The ratio of male to female employees increased after the COVID-19 pandemic in non-EDF firms (21 men per woman by May 2021), but it stayed stable in EDF businesses (5 men per woman by May 2021).

## PRODUCTION

Both non-EDF and EDF SMEs saw a similar reduction in production or sales since the beginning of the pandemic. About 77 per cent of the EDF firms saw a reduction in

production and sales between February 2020 and July or August 2021; 74 per cent of non-EDF businesses saw such a reduction between December 2020 to June 2021.

## OTHER ISSUES FACED BY SECTOR

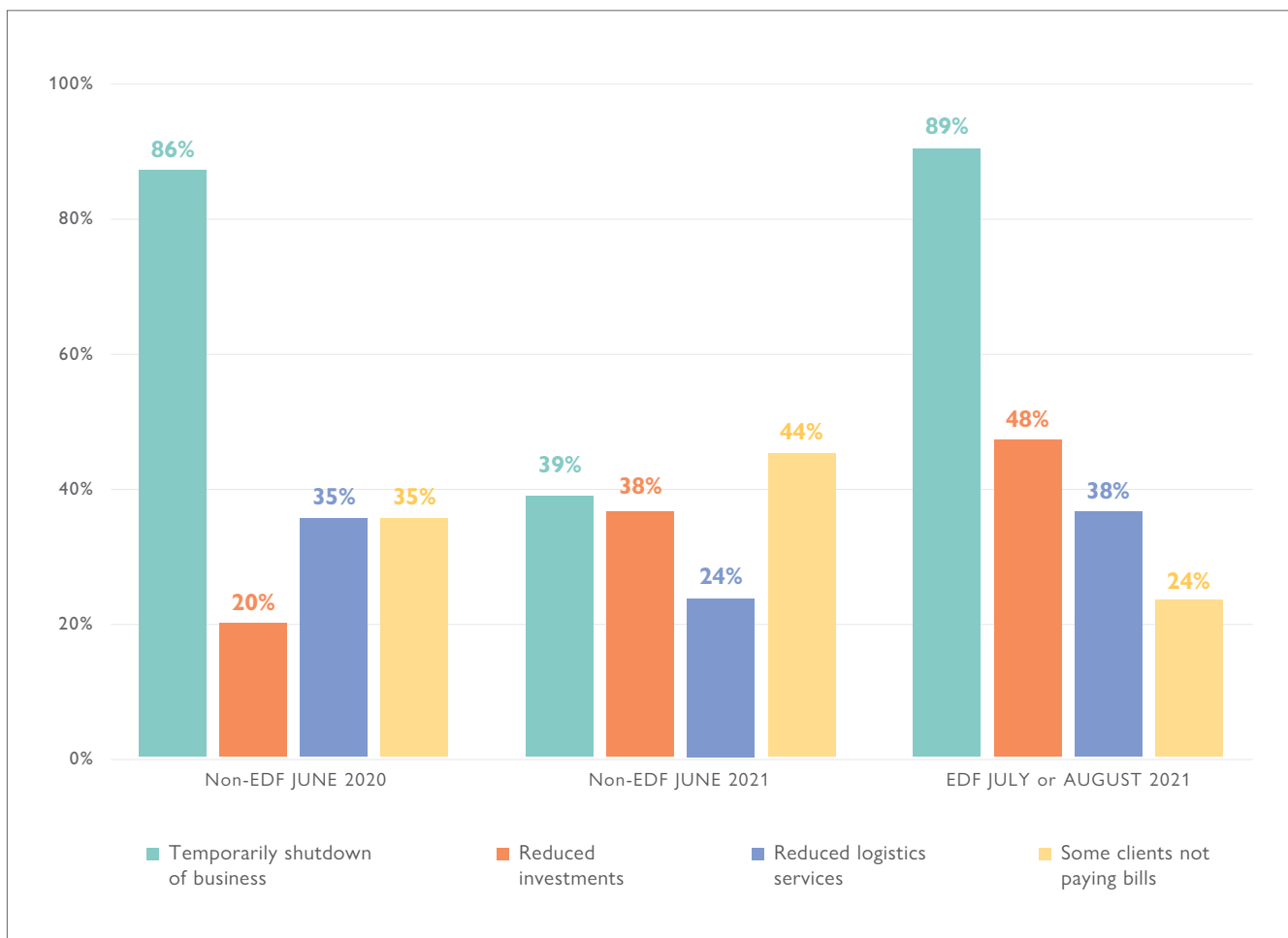
### Temporary shutdown

Temporary shutdowns affected EDF businesses (89% in July or August 2021) and non-EDF firms (86% in June 2020 and 39% in June 2021). All firms faced similar other issues, such as a decline in investments; a reduction in logistic services; and some clients not paying their bills (see Figure 3).

### Risk of permanent closure

Only 9 per cent of EDF firms reported a risk of permanent shutdown. Among those EDF businesses at risk of closing their doors, 58 per cent did not know when the closure might occur.<sup>7</sup> Contrarily, 64 per cent of non-EDF firms considered themselves at risk of permanent closure in June 2020, and 25 per cent considered themselves at risk of closure in June 2021.

Figure 3. Other Problems as a Result of COVID-19 and Related Restrictions



<sup>7</sup> 34 per cent of them claim shutdowns might happen in the following six months or more time after the interview between July and August.

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

For the EDF firms, the primary coping strategies were to increase marketing efforts (57%), source from new suppliers (46%) and create new products with the aim to boost sales during the pandemic (43%). For the non-EDF firms, the principal mechanism to cope with the economic shock of the pandemic was to temporarily reduce employment, including withholding salaries (35% in June 2020) and requesting leniency in paying financial responsibilities (29% in June 2021).

About one third of the EDF firms had financial commitments (28%) between the beginning of the pandemic and July/August 2021. Among those SMEs with debts, deferred cheques were the principal channel to obtain financial support (19%), followed by borrowing from friends and family (8%). Meanwhile, more than half of the non-EDF business had incurred either formal or informal debt at some point during the pandemic: 50 per cent by June 2020, and 67 per cent between December 2020 and June 2021.

## PANEL DATA MODELLING

Given significant incoming differences between the two samples, a panel model of EDF and non-EDF firms was built to expand the descriptive study to a statistical analysis of the performance of SME owners during the COVID-19 crisis.<sup>9</sup> The dependent variable in Column 1, Table 2 is the revenue in USD. Similar to the results in the raw data, the panel model shows that EDF firms had 1,605 USD more in monthly revenue than non-EDF firms between February 2020 and May 2021. In the same table, the dependent

variable in Column 2 represents the number of employees. The EDF businesses also reported about two more employees than non-EDF firms in the same study period (1.6 employees). Both panel models control for the gender of the firm's owner; a binary variable for having a manager younger than 35 years old; dummies for trade locally, regionally, or nationally; and firm value. The panel model also includes pre-COVID-19 revenue and employment. Finally, the model includes fixed effects for month, governorate and sector.

Table 2. Revenue and Employees for EDF and non-EDF firms

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

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

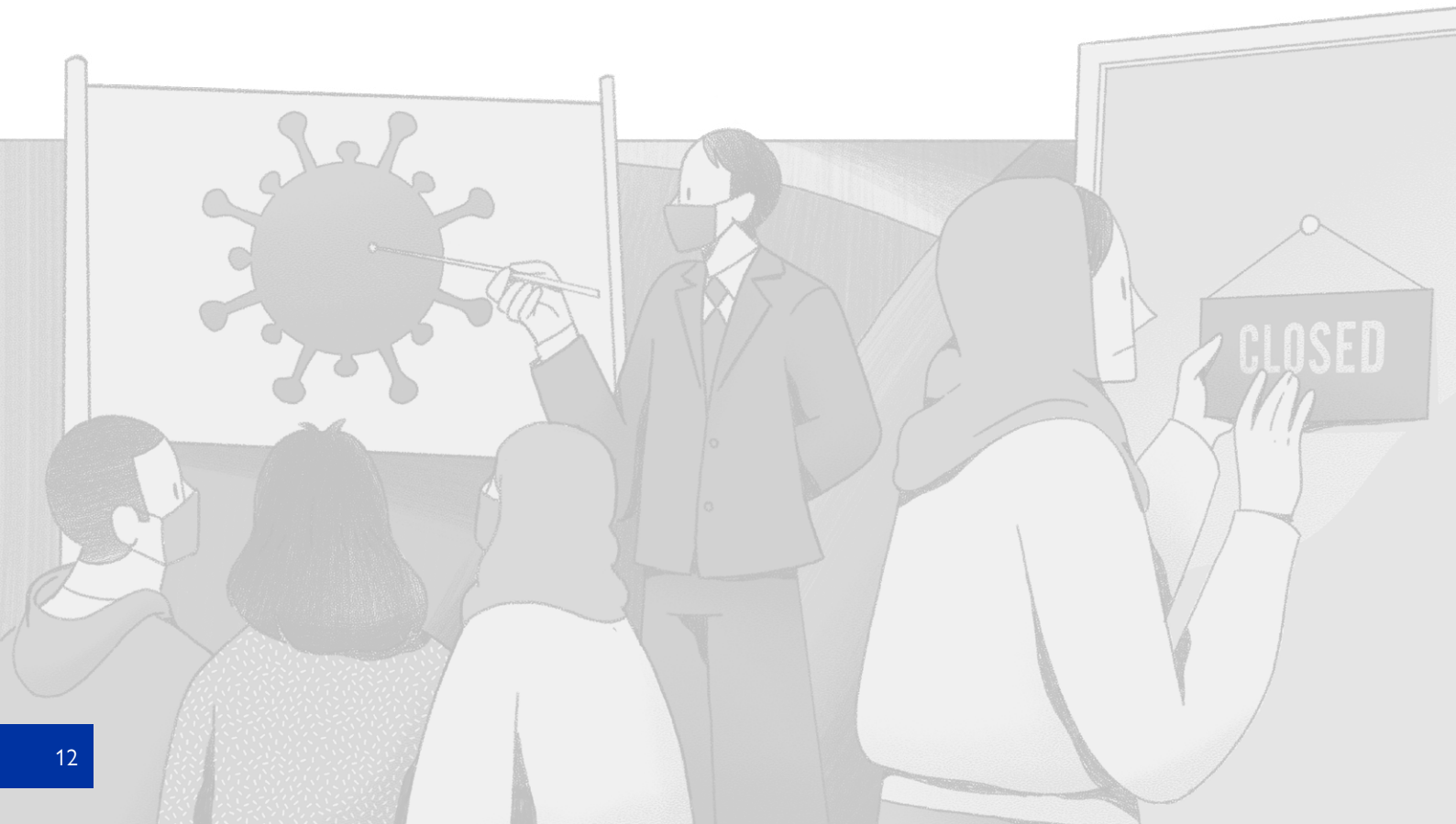
## CONCLUSION AND RECOMMENDATIONS

While most entrepreneurship programming focuses on capacity building and mentorship as key to supporting the private sector, conditional cash grants through programmes like the EDF represent private sector investment directly to high potential market actors, which stimulates recovery.

Although there is currently scant evidence that the effects of private sector investments in post-conflict contexts persist after grants have been paid, this provides some limited evidence that effects may persist when high growth potential firms are able to be identified. Conditional cash grants to businesses may be a potentially effective tool for economic resilience in the face of relative economic distress – representing a scalable opportunity for other country contexts beyond Iraq.

Given the range of potential programming responses that can be employed by humanitarian organizations to promote private sector development, practitioners should consider greater use of conditional cash grants for SMEs. Further, practitioners should also consider the use of conditional cash grants to the private sector as a key mechanism for supporting long-term and sustainable employment and jobs.

For policy makers in fragile and conflict-affected countries, one of the primary goals is to stimulate the economy and employment – to support enterprises, jobs and incomes. Donors and governments should sustain and scale the achievements of conditional cash transfers for SMEs. Donors should continue to expand the amount of aid directed towards private sector development that is provided through conditional cash grants. The Iraqi economy faces a long road to recovery from the several recent crises, but EDF firms reported higher economic activity than before the pandemic started. In contexts where employment is largely informal and precarious, programmes with an emphasis on labour-intensive expansion can promote the growth of firms, irrespective of unexpected political and economic shocks (such as those introduced by the COVID-19 pandemic).





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