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IRAQ DURABLE COMMUNITIES AND ECONOMIC OPPORTUNITIES

UPDATED POLITICAL ECONOMY ANALYSIS

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IRAQ DURABLE COMMUNITIES AND ECONOMIC OPPORTUNITIES

UPDATED POLITICAL ECONOMY ANALYSIS
GOVERNORATE AND SECTORAL FINDINGS

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Cover photo: Nahil Deratna owner, Saif, installs a new package of bees into a beehive. In partnership with The Station, DCEO provided support to Nahil Deratna, an apiarist in Anbar, to adapt his business model and increase online sales during the pandemic. (Credit: Chemonics International Inc.)

DISCLAIMER

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CONTENTS

Acronyms	iii
Executive Summary	I
Objectives	I
Methodology	I
National Level Findings	I
Findings at the Governorate Level	2
Anbar Findings	2
Baghdad Findings	3
Basrah Findings	3
Dohuk Findings	4
Erbil Findings	4
Ninewa Findings	5
Introduction	6
Background	6
Approach to Political Economy Analysis (PEA)	6
Baseline PEA	7
Updated PEA	7
New PEA	7
Methodology	10
Desk Review	10
Key Informant Interviews	10
Ethical Considerations	11
Findings	13
Findings at the National Level	13
Recurrent Findings	13
Impact of Fluctuating Oil prices	15
Impact of Recent Parliamentary Elections	15
Sectoral Changes	16
Anbar Findings	18

Sectoral Findings	20
Baghdad Findings.....	22
Sectoral Findings	23
Basrah Findings.....	25
Sectoral Findings	27
Dohuk Findings	28
Sectoral Findings	29
Erbil Findings.....	31
Sectoral Findings	31
Ninewa Findings.....	33
Sectoral Findings	34
SME Business Enabling Environment.....	35
SME Registration.....	36
Access to Finance	36
Access to Capital	39
Sectors in Focus.....	39
Agriculture	39
Agri-Food	40
E-Commerce and Delivery	41
Start-ups.....	42
Annex A. List of Key Informants	43
Annex B. Key Informant Interview Guidelines	45

ACRONYMS

I00 Solutions	I00 Solutions for Stability (USAID-funded project)
BCJCI	Business Competitiveness and Job Creation Initiative (USAID-funded project)
CA	Conflict analysis
DCEO	Durable Communities and Economic Opportunities (USAID-funded project)
GYVPA	Gender, youth and vulnerable populations assessment
HR	human resources
ICT	Information and communication technology
IDP	Internally displaced person
IQD	Iraqi Dinar
IT	Information technology
ISIS	Islamic State in Iraq and Syria
KII	key informant interview
KRG	Kurdistan Regional Government
KRI	Kurdistan Region of Iraq
MFI	Microfinance institution
MP	Member of Parliament
MSME	Micro, small and medium-sized enterprises
NGO	Non-governmental organization
PEA	Political economy analysis
PERMA	Providing Economic Revival for Microbusiness and Agriculture
PM	Prime Minister
PMUs	Popular Mobilization Units
SME	Small and medium-sized enterprise
USAID	United States Agency for International Development
USD	United States Dollar

EXECUTIVE SUMMARY

OBJECTIVES

The objective of this political economy analysis (PEA) is to explore the relationship between conflict drivers and economic growth – and primarily how Iraq’s political economy affects small and medium enterprises (SMEs) in Anbar, Baghdad, Basrah, Erbil, Dohuk, and Ninewa – to inform interventions under the USAID-funded Durable Communities and Economic Opportunities (DCEO) project in Iraq. Based on a standard approach to PEA, this study sought to:

- Provide an overview of each geographic corridor, specifically in terms of economic opportunities and challenges, and the positioning of the governorate within the Iraqi economy.
- Provide insights about specific economic sectors that have growth potential or are under underserved in each governorate. Specific attention was given to the sectors of agriculture, agri-food, and e-commerce. The study also assessed the start-up environment in each geographic corridor.
- Discuss the landscape of SME access to finance and access to capital within the current context of Iraq.

METHODOLOGY

DCEO conducted 44 key informant interviews (KIIs) with economic and political actors (seven per governorate) including business owners, economic experts, consultants, journalists, banks and lending institutions, government officials, and local and international non-governmental organizations (NGOs). The KIIs were supplemented by a desk review of DCEO deliverables and datasets to maximize the utilization of existing evidence, align findings with BCJCI interventions, and inform programmatic recommendations. The study also incorporates evidence from a desk review of relevant up-to-date research conducted by development actors in Iraq, with an emphasis on quantitative data relevant to DCEO.

NATIONAL LEVEL FINDINGS

Political competition among elites, divided along identity lines, has characterized the economic landscape in Iraq since 2003. This competition is a defining characteristic of the political economy in Iraq and has resulted in a political economy shaped by the intersection of interests of military groups, politicians, businesspeople, tribes, clans, and religious authorities. Political competition in Iraq is itself, in large part, a consequence of the enormous financial rewards of state control over the country’s vast oil resources. The rewards of state-controlled oil revenues have led political actors and parties to engage in populist identity politics – using the state to secure rents and extend patronage to loyalists. This system contributes to sustained political instability and damages the state’s legitimacy.

As reflected in the update to the baseline PEA, the collapse of oil prices in November 2020 coupled with the repercussions of the COVID-19 pandemic have caused significant economic damage. In the first half of 2021, Iraq's gross domestic product (GDP) grew by 0.9 percent and budgetary revenues grew as average oil export prices trended above \$64 per barrel. Despite the positive trend in oil prices, recent fluctuations demonstrate that Iraq's economy remains heavily dependent upon oil and the external factors that affect global prices.

The October 2021 parliamentary elections had a limited impact on Iraq's political economy, particularly insofar as it relates to independent capital and SMEs. Baghdad remains locked in a stagnant government formation process. Shifts in parliamentary representation have not translated into major shifts in the political economy governing private sector growth. Iraq's elite continue to dominate the political economy and control over resources.

Access to finance for SMEs in Iraq remains limited, especially for SMEs looking to raise capital in the range of \$25,000 to \$500,000. Iraq's poor economic performance, instability, and the lack of government guarantees to protect lending institutions contribute to this gap in lending. The Islamic State in Iraq and Syria (ISIS) crisis in 2014 and the COVID-19 pandemic in 2020 highlighted the instability of Iraq's financial markets and led to a further reduction in lending. Capital markets, e.g., private equity investors and venture capital, are similarly limited, especially those with a focus on SMEs. Investors are primarily interested in fixed assets, such as real estate, rather than entrepreneurial enterprises.

There are nonetheless positive trends occurring in Iraq's private sector economy, particularly around entrepreneurship and start-ups, including the recent launch of initiatives such as Iraq Venture Partners.¹ In this context, PEA respondents noted a preference for investment facilitation over loan facilitation. While private sector investment remains preferable to limited (and burdensome) commercial lending products, SMEs are skeptical of foreign investors and require third-party support to negotiate the terms of complex investment deals. This PEA presents timely recommendations for DCEO to support improved access to finance and, more generally, cultivate innovation in Iraq's nascent private sector economy.

FINDINGS AT THE GOVERNORATE LEVEL

ANBAR FINDINGS

According to key informants, Anbar is rich in capital available for productive businesses. The return of stability after the ISIS crisis contributed to economic recovery. Since 2017, investment has focused on real estate as resources pour into reconstruction. Anbari investors who previously focused on investments outside the country are slowly beginning to return to Anbar after identifying opportunities in reconstruction. Economic

¹ "New Venture Fund focused on Iraqi startups announced," Iraq Business News, published on November 2, 2021, <https://www.iraq-businessnews.com/tag/iraq-venture-partners-ivp/>

activity in the commercial sector has improved Anbar's economy in comparison to other governorates; however, the public sector remains a major employer, particularly in the education and health sectors. Recommendations for Anbar include:

- Encouraging local Iraqi production by supporting businesses specialized in processing raw materials in Anbar.
- Partnering with local construction companies and contractors to professionalize their businesses and generate increased sales, given the increased demand for construction services.
- Supporting mid-size, purely private (as opposed to public-private partnerships), industrial firms through firm-level assistance. Larger-scale industrial investment opportunities may be referred to DCEO's investment facilitation pipeline.
- Supporting potato and other vegetable cultivation enterprises, especially in areas around the Euphrates River like Na'imiyah.
- Pursuing clustering opportunities at the input level in the dairy sector (e.g., aggregating milk production from local farmers).
- Supporting start-ups in Anbar by focusing on labor market interventions that build the specific skills needed by start-ups to successfully launch and sustain new enterprises and including regular follow-up and monitoring to ensure that the entrepreneurs can sustain the enterprise.

BAGHDAD FINDINGS

Baghdad is not only the political and administrative capital, but also the main economic center of Iraq. While most oil and gas fields are concentrated in the south, Baghdad benefits from this sector via state revenues and because the trade in this sector is administered from Baghdad. Despite this, Baghdad's economy, like Iraq's economy in general, is still not competitive relative to the economies of other major cities in the Middle East. This presents both an opportunity and a barrier: the economy has growth opportunities, but corruption and a poor business enabling environment continue to constrain economic competitiveness. Recommendations for Baghdad include:

- Supporting e-payment platforms to provide commercial companies with alternatives to cash-on-delivery payments.
- Providing technical assistance in management and marketing to small hospitality businesses in Baghdad.
- Supporting Information and Technology (IT) and online marketing businesses to provide digital services for commercial companies.
- Providing support to start-ups to improve human resources (HR) management.

BASRAH FINDINGS

Given its dependence on oil, the economy in Basrah is still recovering from the drop in oil prices and the devaluation of the Iraqi dinar during COVID-19. These twin economic shocks have put pressure on small businesses and forced many to close permanently. However, the economy in Basrah is forecast to gradually recover on the back of rising oil prices. Apart from oil, the economy in Basrah, especially in southern Basrah, is focused on the port industry, with patronage and political connections dominating the

landscape. Port operations absorb most of the labor force. In northern Basrah, the economy includes agricultural enterprises and, importantly, oil field operations. Recommendations for Basrah include:

- Supporting wholesale businesses by connecting them with e-commerce platforms and improving digital marketing.
- Supporting date processing companies with marketing, packaging lines, and expanding export markets both domestically and internationally.
- Supporting small and medium hospitality businesses with technical assistance in management, design, and marketing.
- Supporting agriculture in western Basrah, with a focus on improving livelihoods for minority communities living in these areas.
- Providing training, seed funding, and capacity-building in business management, business development, operations, and sales for entrepreneurs and start-ups.

DOHUK FINDINGS

Dohuk struggles to compete with Erbil, insofar as Erbil represents the center of economic activity in the Kurdistan Region of Iraq's (KRI). Companies in Dohuk tend to exploit high rates of unemployment by paying low wages, driving economic migration to Erbil. Recommendations for Dohuk encompass:

- Supporting small and medium hospitality businesses in Dohuk with management, design, and marketing skills to stimulate tourism in the region.
- Providing training and technical assistance (e.g., in social media marketing) to businesspeople in the fashion and cosmetics sectors.
- Supporting retail businesses to establish websites and linking them with e-commerce platforms to promote their products.
- Supporting agri-food businesses in Dohuk to establish modern packaging lines to increase their market share locally and abroad, as well as linking them with farmers to provide inputs and localize production as much as possible.
- Support the establishment of a start-up space in Dohuk.

ERBIL FINDINGS

While the oil sector is an important element of Erbil's economy and the KRI in general, there are multiple sectors that have developed over the past decade and constitute significant segments of the economy, such as infrastructure, telecommunications, hospitality and tourism, and healthcare. The public sector continues to play a major role in Erbil's economy, which is largely dependent on oil revenues, both from oil and gas fields in KRI and from the Kurdistan Regional Government (KRG)'s share in federal Iraq's oil revenues. Recommendations for interventions in Erbil encompass:

- Supporting potato production and processing and fish farming.
- Supporting agri-food businesses to improve packaging processes: investing in modern packaging machines, designing new packaging, and improving branding and marketing.

- Supporting tourism enterprises with capacity-building and business development to unlock the untapped potential for tourism in Erbil and the surrounding areas.

NINEWA FINDINGS

The economy in Ninewa is primarily dependent on agricultural activity. Ninewa leads other governorates in agricultural production, particularly wheat. Sharing borders with both Syria and Turkey, the governorate presents strategic opportunities for overland trade. However, due to a lack of effective planning and coordination with the central government, significant land resources in Ninewa remain underutilized, particularly around Mosul. Recommendations for interventions in Ninewa include:

- Supporting integrated fish farming projects to reduce water requirements.
- Supporting integrated poultry projects with in-house breeding processes and localizing the production of fertilized eggs.
- Supporting local agri-food producers with technical assistance to improve marketing.
- Aggregating dairy production and distribution.
- Connecting start-ups with investors to accelerate growth and improve HR capacity, similar to recommendations in Anbar and Baghdad.

SECTION I

INTRODUCTION

BACKGROUND

The DCEO project, known in Arabic as Tahfeez, is a \$125 million United States Agency for International Development (USAID)-funded project implemented by Chemonics International in six governorates in Iraq including Anbar, Baghdad, Basrah, Dohuk, Erbil, and Ninewa, between September 2019 and September 2024. The project has two specific objectives.

The first objective is to advance the economic well-being of Iraqi communities by working with micro, small, and medium-sized enterprises (MSMEs) in six governorates. To achieve this objective, DCEO supports the development of a more business-friendly ecosystem and expands opportunities for young Iraqi entrepreneurs to access tailored support, including cutting-edge business incubation services and in-kind grants to help accelerate the growth of their businesses. DCEO also works with Iraqi business associations to strengthen private sector networks. Finally, through the Marla Ruzicka Iraqi War Victims Fund, the project is supporting eligible individuals through entrepreneurship, business acceleration, and enterprise growth services. This work is implemented by the Business Competitiveness and Job Creation Initiative (BCJCI) task order.

The second objective is to increase the adaptive capacity, social stability, and resilience of vulnerable communities by working with selected communities impacted by conflict to develop locally-driven processes for identifying and resolving tensions sustainably and peacefully through inclusive community dialogue sessions and other practical solutions. Using tailored technical assistance, including skills-building and facilitation support to match each community's needs, the project aims to contribute to long-term local stability. The project is also providing training and networking services to Iraqi victims of war through the Marla Ruzicka Iraqi War Victims Fund to help them gain high-quality and sustainable livelihoods. This work is implemented by the 100 Solutions for Stability (100 Solutions) task order.

APPROACH TO POLITICAL ECONOMY ANALYSIS (PEA)

To inform the first objective of the project, which is to advance the economic well-being of Iraqi communities by working with MSMEs in the six governorates, DCEO conducts Political Economy Analysis (PEA). The aim of the PEA is to give direction to BCJCI's yearly activities by providing knowledge on the economic context of each of the six governorates in terms of the conflict environment, the business environment, potential areas of interventions in terms of sectors and businesses to support, and general challenges to the private sector.

BASELINE PEA

Between January and April 2020, DCEO conducted a baseline PEA that analyzed national-level political economy in Iraq and provided nationwide recommendations. The baseline PEA also helped frame geographical and sectoral priorities for BCJCI, analyzed seven governorates (Anbar, Baghdad, Basrah, Dhi Qar, Erbil, Dohuk, and Ninewa), and provided governorate-level recommendations. The baseline PEA was based on secondary literature, 40 key informant interviews (KIIs), and 144 respondents that participated in a conflict survey across the seven governorates.

UPDATED PEA

Between June and July 2020, DCEO updated the baseline PEA to include the impact of major developments in Iraq (including the formation of a new Iraqi government and the impact of COVID-19). The update focused on the national-level political economy with an emphasis on five of the seven governorates where DCEO operates (Baghdad, Basrah, Erbil, Dohuk, and Ninewa). The update was based on a review of secondary literature and 36 KIIs across the five governorates. Key informants were largely Iraqi political analysts, activists, camp managers, representatives from non-governmental organizations (NGOs), and business owners in different sectors of the economy.

NEW PEA

For FY (Fiscal Year) 2022, BCJCI will continue working in six governorates (“geographic corridors”): Anbar, Baghdad, Basrah, Erbil, Dohuk and Ninewa, as per the map below.

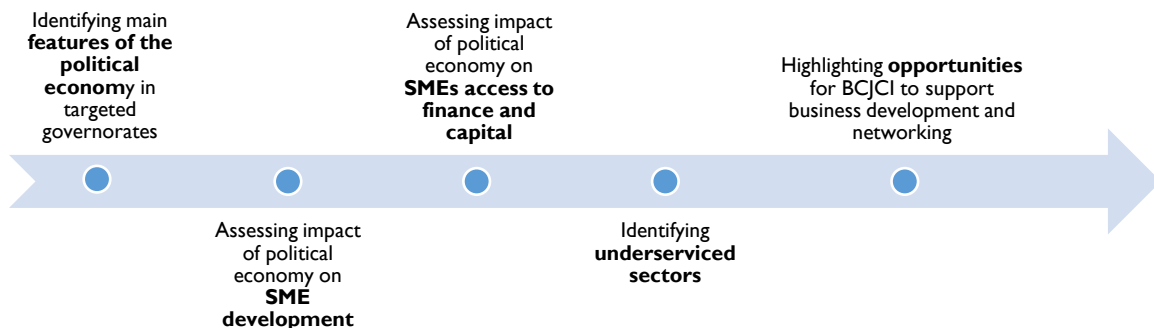


Figure 1 – BCJCI FY2022 business corridors

Chemonics contracted Altai Consulting to conduct this new PEA between November 2021 and March 2022 to inform DCEO (and BCJCI in particular) activity design and implementation.

A PEA enables more strategic responses that account for a country's conflict and power dynamics and how they affect the shape of the economy.² A political economy can be defined as the resulting structure of how power dynamics, both formal and informal, shape the economy of a country on multiple geographical levels (e.g., national, district, sub-district). A PEA is the endeavor to understand the varying economic actors and their interests, in tandem with existing conflict structures and socio-political contexts.³

The analytical trajectory used for this study followed the baseline PEA and was derived from the USAID Applied Political Economy Analysis Guidelines, with some modification as described in the graphic below:



The aim of this new PEA was to explore the relationship between conflict drivers and economic growth – and primarily how Iraq's political economy affects SMEs – in the six governorates by providing new insights to the previous PEA and its update. It was conducted to enable BCJCI to more effectively understand how to operate within the complex context of power and conflict in Iraq. Based on a standard approach to PEA, this study sought to:

- Provide an overview of each geographic corridor, specifically in terms of economic opportunities and challenges, and the positioning of the governorate within the Iraqi economy.
- Provide insights about specific economic sectors that have growth potential or are under underserved⁴ in each governorate. Specific attention was given to the sectors of agriculture, agri-food, and e-commerce. DCEO also assessed the start-up environment in each geographic corridor.

² Haider and Rao, 2010. Political and Social Analysis for Development Policy and Practice.

³ Acosta, Andres and Pettit, Jethro, 2013. A Combined Approach to Political Economy and Power Analysis Discussion.

⁴ Underserved in terms of access to knowledge, capital, service, etc. (not in terms of donor programs).

- Discuss the landscape of SME access to finance and access to capital within the current context of Iraq.

SECTION 2

METHODOLOGY

This PEA is based on 44 qualitative KIIs with economic and political actors in the six targeted geographic corridors and a desk review that covered both DCEO deliverables produced to-date and quantitative research from other development actors in Iraq.

DESK REVIEW

Altai Consulting conducted a review of DCEO deliverables and datasets that have been produced to-date to maximize the utilization of existing evidence, align findings with BCJCI interventions, and inform programmatic recommendations. This review included the following:

- The baseline PEA (April 2020) and its update (July 2020).
- DCEO monitoring, evaluation, and learning (MEL) data and progress reports (annual, quarterly, and weekly); and
- BCJCI FY2022 implementation plan

Additionally, Altai Consulting reviewed relevant up-to-date research conducted by development actors in Iraq, with an emphasis on quantitative data relevant to DCEO. This included:

- The most recent World Bank updates in Iraq, including Iraq' country profile and economic updates.
- Recent publications from news outlets and research organizations; and
- Data provided by public institutions (such as the Ministry of Planning) that Altai Consulting met with during fieldwork

KEY INFORMANT INTERVIEWS

Taking into consideration the scope of the study, the size of the targeted governorates, and the number of interviews needed to reach data saturation, Altai Consulting conducted, on average, seven KIIs per governorate (44 in total). The full list of key informants and their professional profiles can be found in Annex A.

Respondent selection depended on location and the ability of respondents to answer research questions. For example, in some governorates, Altai Consulting focused on interviewing SMEs rather than government officials as the former demonstrated greater willingness to support the research. In other governorates, government officials were more deeply involved in the areas associated with the established research questions. In general, Altai Consulting leveraged initial research to inform the selection of respondents. For example, when a certain sector appeared to be important in a governorate, Altai Consulting selected KII respondents (e.g., business owners) that operate in the sector. Overall, respondents across governorates included:

- Business owners.
- Experts, analysts, and journalists who have knowledge about the political economy in the targeted areas.
- Lending institutions and investors specialized in the SME lending.
- Government officials, including ministerial advisors and municipal government directors; and
- Local and international NGOs working with SMEs

DCEO developed specific KII guidelines to guide the semi-structured interviews, which can be found in Annex B. Altai Consulting aligned the KII guideline with BCJCI’s activities on the ground to make sure that the respondents were able to provide utilization-focused recommendations and avoid general and vague interviews as much as possible. The guidelines include the specific objectives of this study in a series of engaging questions. The KIIs started with neutral, warm-up questions, such as “What do you think of the economic situation in your area?” and “What are the economic challenges in your area?” Interviews gradually moved on to specific questions targeting the primary objectives of the study.

DCEO developed the PEA simultaneously alongside an updated gender, youth, and vulnerable population assessment (GYVPA) and conflict analysis (CA). Given the thematic overlap between these three assessment frameworks, Altai Consulting incorporated relevant questions from the GYVPA and CA into the PEA guidelines for specific respondents. For instance, certain respondents (based on their involvement, background, and/or familiarity with relevant concepts) were asked questions about how the political economy affects conflict and vulnerable segments of the population (including youth, women, and people with disabilities) These responses informed three assessments, findings, and recommendations to guide BCJCI to engage with marginalized groups sensitively and effectively within economic growth activities.

ETHICAL CONSIDERATIONS

Throughout data collection, Altai Consulting incorporated the “Do No Harm” approach. Doing no harm is the intentional act of considering the unintended consequences of development activities on the relationships between groups of people in a conflict context and acting to address those consequences (based on the baseline PEA). Altai Consulting remained aware of the sensitivity of addressing political economy issues in the context of Iraq, as it can be regarded as a highly political subject. This was ensured through:

- Paying attention to which actors were approached: Altai Consulting focused on interviewing experts, analysts, SME owners, and others that were willing to talk openly and honestly about the political economy in the targeted governorates.
- Paying attention to how actors were approached for interviews: When interviewing actors, Altai Consulting emphasized that the aim of the study was to understand how the economy in the targeted areas operates to inform DCEO’s interventions.

The team did not use the expression “political economy” when approaching respondents for the study, as it could be misunderstood with political surveying. Instead, the research guidelines used technical phrasing such as “economic assessment” and “SME research.”

SECTION 3

FINDINGS

FINDINGS AT THE NATIONAL LEVEL

These findings condense both previous findings from the baseline PEA, as well as its update and new findings from this PEA about the characteristics of the national-level political economy in Iraq. There have not been major changes in the shape of the national political economy of Iraq since the baseline PEA and its update were conducted in 2020. Recent fluctuations in oil prices and the October 2021 parliamentary elections – both of which are discussed below – represent the most significant shifts in Iraq’s economy. However, these shifts did not ultimately correspond with meaningful change in the political economy in terms of the actors who control economic resources, the power balance among them, or the intersection of their interests. Thus, the current PEA highlights information from previous PEAs and provides practical (rather than theoretical) insights relevant to the implementation of DCEO.

RECURRENT FINDINGS

Iraq’s political economy remains that of a fragile nation state.⁵ Political competition among elites divided along identity lines has dominated the landscape since 2003. This competition has arguably been the defining characteristic of the political economy in Iraq over the past two decades and has resulted in a political economy shaped by the intersection of interests of military groups, politicians, businessmen, tribes, clans, religious authorities, and others.⁶ Elite competition has impeded the expansion of independent capital that does not favor or align with political powers.⁷ The map of actors in the political economy varies by region.⁸ For example, in the south, tribes and political parties have more of a role in the political economy. In Anbar, parliamentarians and politicians from specific political parties have more influence on the political economy than tribes and clans. Ninewa is similar to Anbar in this sense. In Baghdad, historically important families have investments and strong political connections that enable them to dominate major economic activities. In Erbil and Dohuk, ties between political parties, prominent figures, and local and foreign businesspeople define the political economy.

Political competition in Iraq is itself, in large part, a consequence of the enormous financial rewards of state control that stem from Iraq’s unparalleled dependence upon oil. Oil revenues played a critical role in allowing the Baath regime to fund and control a large state apparatus. Despite regime change, the state continues to play a central role in the economy today.⁹ The rewards of state-controlled oil revenues have led political

⁵ “Political Economy Analysis, with programmatic recommendations for Iraq,” DCEO, 2020.

⁶ Interview with business development consultant in Baghdad

⁷ Political Economy Analysis, with programmatic recommendations for Iraq,” DCEO, 2020.

⁸ Interview with an economic expert based in Baghdad.

⁹ Political Economy Analysis, with programmatic recommendations for Iraq,” DCEO, 2020.

actors and parties to engage in populist identity politics – using the state to secure rents and extend patronage to loyalists. This system has led to sustained political instability and damaged the state’s legitimacy, leaving Iraq vulnerable to instability and violence.

The vast public sector is another important consequence of the use of Iraq’s oil-rich state to extend patronage and extract rents. The public sector has grown since 2003. Relying on oil-derived revenue has led Iraq to a narrow revenue base which weakened the ability of successive governments to invest in major public works that pay longer-term dividends. Given its oil dependency, Iraq’s economy today remains vulnerable to shocks that emanate from fluctuations in global oil prices.¹⁰ The SME economy has yet to recover from the currency devaluation that occurred in December 2020 because of the drop in oil prices during COVID-19.¹¹

A further critical consequence of elite control over an ever-expanding state is the eviction of the private sector. State dominance in the economy has been true over the long-term in Iraq but has worsened post-2003 as political competition intensified. State expansion took place at the same time as Iraq’s economy underwent liberalization reforms. Since 2003, the private sector has continued to be hindered by various factors that stem from Iraq’s distorted politics: lack of access to finance, service interruptions, shortage of skilled workers, supply chain/logistical issues, physical damage and insecurity, a stifling regulatory environment, competition from informal firms, and political and financial corruption.¹²

These economic constraints have been worsened by sporadic outbreaks of violent conflict. Civil war, ISIS, and intensive political competition between identity groups have bolstered non-state armed groups. Armed groups have acquired varying degrees of state recognition, enabling them to control elements of the economy. The (incomplete) integration of armed groups has not only expanded the state but also further fragmented it and entrenched the rent-seeking and patronage-making behavior that has characterized Iraq’s central government since 2003.¹³

The post-ISIS distribution of checkpoints across governorates, districts, and towns in Iraq has significantly affected economic activity, especially across areas that have different political authorities.¹⁴ Checkpoints restrict economic activity and mobility, creating another hurdle within supply chains. In each governorate, local powers use checkpoints to protect their own businesspeople, affecting growth and increasing overall prices of goods and services.¹⁵

The labor market generally lacks many of the skills needed for a strong private sector economy. The education system does not provide youth with skills that align with or

¹⁰ “Political Economy Analysis, with programmatic recommendations for Iraq”, DCEO, 2020.

¹¹ Interview with Chamber of Commerce in Erbil.

¹² “Political Economy Analysis, with programmatic recommendations for Iraq”, DCEO, 2020.

¹³ “Political Economy Analysis, with programmatic recommendations for Iraq”, DCEO, 2020.

¹⁴ Interview with delivery company in Anbar.

¹⁵ Interview with delivery company in Ninewa.

add value to the market.¹⁶ Lack of work experience and scarcity of people who know how to start businesses presents a significant obstacle to economic growth in Iraq.

The limitations discussed above demonstrate the weaknesses in Iraq's private sector economy. On the positive side, the nascent private sector presents numerous opportunities for growth and maturation. The findings presented below highlight key opportunities for development actors, like DCEO, to have a transformative impact on the economy.

IMPACT OF FLUCTUATING OIL PRICES

As reflected in the update to the baseline PEA, the collapse of oil prices in November 2020 coupled with the repercussions of the COVID-19 pandemic have caused significant economic damage and pushed many micro, small and medium enterprises (MSMEs) out of business.¹⁷ The Iraqi economy is still recovering from the twin shock of oil price fluctuations and COVID-19. The economy is forecast to gradually recover on the back of rising oil prices and the Organization of Petroleum Exporting Countries (OPEC) production quotas. In the first half of 2021, Iraq's gross domestic product (GDP) grew by 0.9 percent. Budgetary revenues grew as average oil export prices trended above \$64 per barrel.¹⁸ Despite the positive trend in oil prices, recent fluctuations demonstrate that Iraq's economy remains heavily dependent upon oil and the external factors that affect global prices.

IMPACT OF RECENT PARLIAMENTARY ELECTIONS

The October 2021 parliamentary elections had a limited impact on Iraq's political economy, particularly insofar as it relates to independent capital and SMEs. The party of Muqtada al-Sadr won 74 seats in the 329-seat legislature – twice as many as any other party. Despite these significant gains, Baghdad remains locked in a stagnant government formation process. Political parties that lost seats in the legislature issued numerous threats of violence. Observers anticipate that these tensions will be resolved through compromise over ministerial appointments. In terms of the political economy, ministerial appointments serve as a proxy for access to exploitable public funds.¹⁹ Ultimately, shifts in parliamentary representation have not translated into major shifts in the political economy governing private sector growth. Iraq's elite continue to dominate the political economy and control over resources. KII respondents did not identify any major changes in the economy following the parliamentary elections, and the election cycle in general was not discussed frequently.

¹⁶ Interview with NGO worker (IOM coordinator) in Anbar.

¹⁷ "COVID-19 and Low Oil Prices Push Millions of Iraqis into Poverty", World Bank, updated on November 11, 2020, <https://www.worldbank.org/en/news/press-release/2020/11/11/new-world-bank-report-calls-for-urgent-fiscal-stimulus-and-economic-reforms-to-help-the-poor-and-the-most-vulnerable-in-iraq>

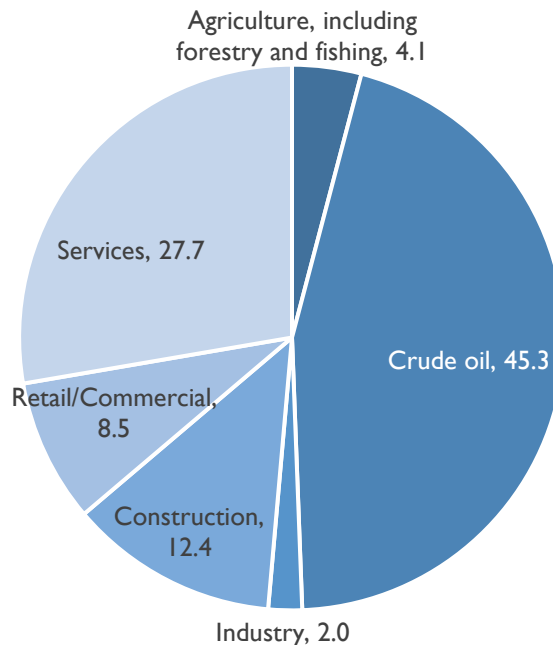
¹⁸ "Iraq Country Profile", World Bank, updated on November 1, 2021, <https://www.worldbank.org/en/country/iraq/overview#1>

¹⁹ "While Iraq's next government may be business as usual, the election has planted the seeds for change", Middle East Institute, published on November 1, 2021, <https://www.mei.edu/publications/while-iraqs-next-government-may-be-business-usual-election-has-planted-seeds-change>

SECTORAL CHANGES

The Iraqi state continues to derive the plurality of its revenues from the oil and gas sector. Over the last decade, oil revenues have accounted for more than 99 percent of exports, 85 percent of the government's budget, and 42 percent of GDP.²⁰ Interestingly, in the first half of 2021, the non-oil economy grew by over 21 percent, owing to the solid performance of the service sector as COVID-19 containment measures were eased, aided by a pick-up in the vaccination campaign.²¹ Below is a table of sectoral contributions to Iraq's GDP in 2021, excluding the Kurdistan Region of Iraq (KRI), provided by the Ministry of Planning in Baghdad. The table below shows how little agriculture (4.1 percent) and industry (2 percent) contribute to GDP compared with crude oil (45.3 percent), construction (12.4 percent combining electricity, water, and construction of buildings), retail/commercial (8.5 percent combining wholesale, retail, and hospitality), and services (27.7 percent combining finance, insurance, real estate and business services, and social and personal services).

EXHIBIT I. GDP CONTRIBUTIONS (%) BY SECTOR IN IRAQ (2021)



Iraqi Ministry of Planning – 2021

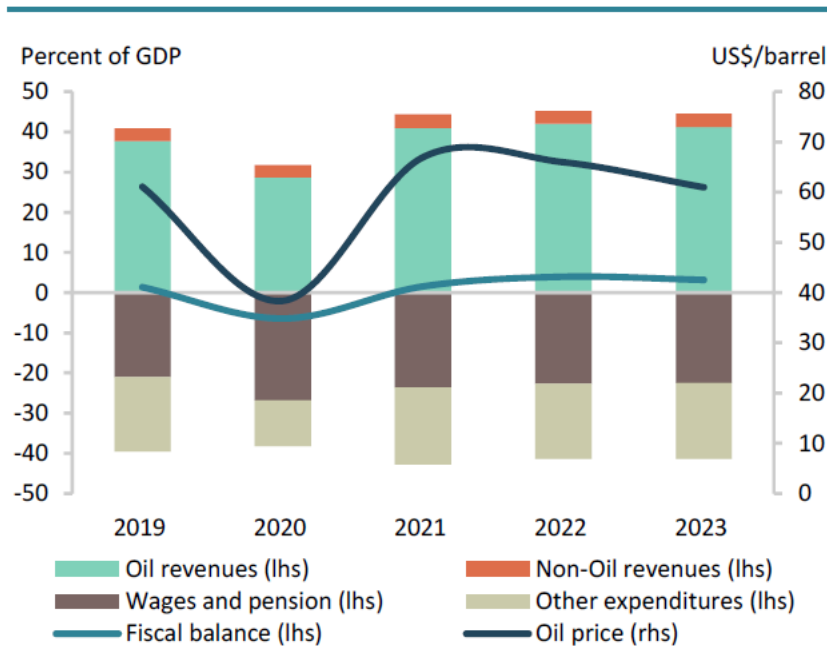
According to the World Bank Economic Update for Iraq (2021), oil GDP will be the main driver of growth in the medium-term. Non-oil GDP is forecast to recover but remain under 3 percent on average over the next three years. Under this scenario, the

²⁰ "Iraq Country Profile", World Bank, updated on November 1, 2021, <https://www.worldbank.org/en/country/iraq/overview#1>

²¹ "Iraq Country Profile", World Bank, updated on November 1, 2021, <https://www.worldbank.org/en/country/iraq/overview#1>

fiscal balance is forecast to remain in surplus in the medium-term, leading the debt-to-GDP ratio to steadily improve, as per the exhibit below.²²

EXHIBIT II. FISCAL ACCOUNT OUTLOOK OF IRAQ (2019-2023)



Iraq's Economic Update - October 2021 (World Bank)

The industrial sector, despite contributing just two percent to Iraq’s overall GDP, presents significant growth opportunities. Industrial production facilities play an important role in the private sector economy, linking e.g., agricultural producers to wholesale distributors. Data on industrial facilities from the Ministry of Planning is provided in the exhibit below. DCEO’s governorates of interest are highlighted in gray, excluding the governorates in KRI for which no data was available. The exhibit shows that the highest concentration of industrial facilities is in Baghdad, despite its small geographic area. Anbar is the largest governorate by geography but contains the fewest facilities due to the general lack of infrastructure.

EXHIBIT III. INDUSTRIAL FACILITIES BY GOVERNORATE AND SIZE

GOVERNORATE	# OF LARGE INDUSTRIAL FACILITIES	# MEDIUM INDUSTRIAL FACILITIES	# OF SMALL INDUSTRIAL FACILITIES
Ninewa	44	13	931
Kirkuk	34	27	1,480
Diyala	74	36	1,667

²² “Iraq’s economic update”, World Bank, published in October 2021, <https://reliefweb.int/report/iraq/iraqs-economic-update-october-2021>

GOVERNORATE	# OF LARGE INDUSTRIAL FACILITIES	# MEDIUM INDUSTRIAL FACILITIES	# OF SMALL INDUSTRIAL FACILITIES
Anbar	14	7	1,678
Baghdad	104	37	4,930
Babil	88	16	3,460
Karbala	18	3	1,358
Wasit	44	4	1,043
Salaheddin	15	9	799
Najaf	31	15	2,112
Qadisiya	56	0	1,409
Muthanna	34	0	783
Di Qar	59	1	1,186
Misan	69	0	1,082
Basrah	35	20	1,829
Total	719	188	25,747

Iraqi Ministry of Planning – 2021

ANBAR FINDINGS

The baseline PEA highlights that across areas of Iraq occupied by ISIS, Anbar is overall second only to Ninewa in the levels of destruction to its residential, educational, health, and other infrastructure. Anbar lost most of its industry and commerce facilities in ISIS-affected areas. However, reconstruction in Anbar is faster than in other heavily battle-damaged governorates, such as Ninewa and Salah al-Din. This has been attributed to the strong representation of Anbari politicians in the federal government.²³

Anbar governorate enjoys a mixed economy of agriculture, trade, services, and industry. According to key informants, the governorate is rich in capital available for productive businesses,²⁴ but most investments, especially after ISIS, have been in the real estate sector. Anbari investors who had focused on projects outside the country over the past 18 years are bringing some of their profits back to Anbar after identifying opportunities

²³ “Political Economy Analysis, with programmatic recommendations for Iraq”, DCEO, 2020

²⁴ Interview with agricultural consultant in Anbar

in reconstruction.²⁵ Indeed, Anbar is known for businesspeople who made fortunes in transportation, construction, and other fields and are now investing in residential complexes, shopping malls, and other construction projects. Examples include the owners of Al Qasas, a family firm building a \$70 million shopping mall in downtown Ramadi.²⁶ The focus of investors on the real estate sector can be justified by the fact that there is demand for it (demand for residential complexes, malls, and hotels), and it presents less risk than other sectors such as industry and agriculture.

The return of stability after the ISIS crisis contributed to economic recovery. In response to ISIS, youth across different economic classes in Anbar became more open-minded and sought to build their own livelihoods, independent from the state, leading to more local private sector activity, mostly in the commercial sector. Increased economic activity in the commercial sector is considered one of the main economic advantages that Anbar now has compared to other Iraqi governorates, in addition to the existence of vast amounts of land available for agriculture and industry and the proximity of the governorate to the Syrian and Jordanian borders. However, the public sector remains a major employer in Anbar, particularly in the education and health sectors. Recent development activity by international and local NGOs has also generated considerable employment in the governorate.²⁷

Ramadi is regarded as the administrative center of Anbar while Fallujah is regarded as the economic center. Due to its proximity to Baghdad and the availability of affordable rents and real estate prices, many day laborers and employees that work in Baghdad reside in Fallujah but commute to the capital daily. Fallujah has witnessed rapid growth and reconstruction after ISIS. Investors from Baghdad and southern Iraq started investing in Fallujah, mostly in the real estate and commercial sectors, pushing up the prices of real estate, goods, and services for residents. The effects of this trend have been particularly acute for poorer segments of the population living in Fallujah.²⁸ Other areas in Anbar are home to various economic activities. For example, Al Qa'im, on the border with Syria and Jordan, is home to significant agricultural activity, with potential in fodder (an important input for livestock and poultry) and date palms.²⁹

There are housing, land, and property (HLP) issues in Anbar. Returnees who were not able to return to their villages or lost their homes after ISIS have been squatting in areas where public services are almost non-existent. In addition, after ISIS, political parties like Al Azm and Takaddom, in collaboration with the Popular Mobilization Units (PMUs), used the chance to unlawfully grab valuable land properties from residents.

²⁵ “After Years as a Battleground, Investment Boom Lifts Iraqi City”, The New York Time, published on July 15, 2021, <https://www.nytimes.com/2021/07/10/world/middleeast/after-years-as-a-battleground-investment-boom-lifts-iraqi-city.html>

²⁶ “After Years as a Battleground, Investment Boom Lifts Iraqi City”, The New York Time, published on July 15, 2021, <https://www.nytimes.com/2021/07/10/world/middleeast/after-years-as-a-battleground-investment-boom-lifts-iraqi-city.html>

²⁷ Interview with IOM coordinator in Anbar

²⁸ Interview with agri-food businessman in Anbar

²⁹ Interview with agricultural consultant in Anbar

SECTORAL FINDINGS

Natural Resources

Anbar is a vast governorate and is home to considerable natural resources (gas fields as well as phosphates, sand, asphalt, sulfur, and bitumen). These natural resources can be used as inputs in the industrial sector. There is a lack of investment in the extraction of these raw materials. The state and politicians often delay the issuance of licenses to invest in natural resource extraction projects. Such projects likewise require significant financial resources and technical knowledge to implement.

Recommendation. To encourage local Iraqi production, BCJCI could work on identifying businesses specialized in processing raw materials in Anbar, especially if the businesses are able to leverage the existing natural resources in the governorate and if their production can be used as an input by other businesses in Anbar or other governorates in Iraq. Interestingly, while this study was being conducted, DCEO engaged with Al Tiraz Al Sharqi Gypsum Company, a construction and industrial company developing a gypsum production facility in Anbar. The company secured a high-quality gypsum mine on a 2.5 million square meter plot of land 45 kilometers outside Ramadi, building on the potential of exploiting natural resources in the governorate.

Construction

Following perceptions of improved safety in Anbar and the opportunities brought by the wave of reconstruction after ISIS, there has been a boom in the construction of residential units. The selection of contractors and real estate developers working in the sector has been politically motivated. Local Sunni politicians, in coordination with PMUs, have attempted to use the reconstruction boom after ISIS to take control over valuable property in Anbar by building construction projects on them. Investors in the sector are usually businesspeople associated with parties, officials, influential people, or their relatives. That aside, the boom in construction in Anbar opened opportunities for self-employed day laborers such as construction workers, electricians, plumbers, painters, decorators, home furnishing, and other professions associated within the construction sector.

Recommendation. Given the increased demand for construction services, BCJCI could partner with local construction companies and contractors to professionalize their businesses and generate increased sales. Self-employed professions in Iraq are typically not registered or formal. Supporting construction firms has the potential to create more employment opportunities – particularly for poorer segments of the population who rely on day labor – and accelerate the growth and quality of the construction sector.

Industry and manufacturing

Anbar was once home to numerous industrial factories involved in the production of cement, glass, and plastic. Many of these factories were destroyed by ISIS or have not been functional since 2003.

Recommendation. There are 14 large, 7 medium, and 1,678 small industrial establishments in Anbar. BCJCI could conduct a mapping of these establishments, assess their potential,

and support or connect them with potential investors. Recently, a cement factory located seven kilometers east of Fallujah was rehabilitated by a Turkish investor in collaboration with the Iraqi Ministry of Industry and Minerals. The factory currently employs 800 residents of Anbar, the majority of whom are from Fallujah. Investments like this present significant employment opportunities but are complex and involve significant negotiations with government partners. DCEO should instead focus on mid-size, purely private opportunities through firm-level assistance. Larger-scale industrial investment opportunities may be referred to DCEO's investment facilitation pipeline.

Agriculture

Anbar is home to vast agricultural lands extending along the Euphrates River. However, the private agricultural sector in Anbar governorate suffers from challenges that stand in the way of investment and development. These challenges are common to all governorates in Iraq, and they are discussed in the section on the agricultural sector later in this report.

Recommendation. Supporting the agricultural sector in Anbar may target fisheries and vegetable products. As mentioned by farmers from Anbar who were interviewed for this study, there is an increase in fish farming projects in the governorate, which has contributed to job creation and income generation for fish breeders. DCEO could support fish breeders in Anbar by improving their forward (linking them to potential markets) and backward links (linking them to input providers or to businesses that can help them improve their production mechanisms by applying new technologies in fish farming).

DCEO may also consider supporting potato and other vegetable cultivation, especially in areas around the Euphrates River like Na'imiyah. Greenhouse agriculture is growing in these areas, especially after ISIS, to ensure non-seasonal production. Moreover, there are potential small and medium projects that can be supported. Key informants cited the need for inputs (identifying opportunities to reduce input costs) and sales (reaching out to markets where products compete in quality since they cannot compete in price with imported alternatives).

Agri-food

Generally, agri-food in Anbar does not go beyond dairy factories, cheese, sweets, pastries, and producers of molasses, brie, and jam. As reflected by an agricultural consultant who was interviewed for this study, several of these factories depend entirely on local products from nearby villages and rural areas. Dairy was considered by several respondents in Anbar among the most promising agri-food sectors in Anbar due to the presence of several dairy factories that provide income for families that raise livestock.

Recommendation. There is a considerable number of dairy factories in Anbar, but there is a need for collaboration among them to aggregate production and promote a consistent brand identity. Many Anbari dairy factories have problems maintaining a consistent supply and quality of inputs, especially milk. The quantities produced by farmers does

not always reach dairy processors. This offers clustering opportunities at the input level (e.g., aggregating milk from local farmers).

Start-ups

As reflected in the KIIs in Anbar, the start-up market in the governorate is stagnant. Respondents cited a lack of motivated and agile start-up leaders like in Baghdad, Erbil, or even Ninewa. Problems facing new start-ups in Anbar include difficulty in establishing qualified technical teams that can run start-ups. The workforce in Anbar suffers from a general lack of business management, business development, operations, and sales experience. Anbar similarly suffers from the lack of access to finance (discussed further in a later section in the report).

Recommendation. The above suggests that support to start-ups in Anbar should focus on labor market interventions that build the specific skills needed by start-ups to successfully launch and sustain new enterprises. As reflected by an entrepreneur who was interviewed for this study, previous experiences with supporting start-ups in Anbar have demonstrated that most supported start-ups stop their activities after the provision of funds or training because they do not know how (or do not have the motivation) to sustain their businesses. As such, development programming to support start-ups should include regular follow-up and monitoring to ensure that the entrepreneurs are able to sustain the enterprise. Such programs should incorporate plans to closely monitor start-up development over the course of one to two years.

EXHIBIT IV. ANBAR RECOMMENDATIONS

ACTIVITY TYPE	RECOMMENDED INTERVENTION IN ANBAR
Firm level assistance to established SMEs	<p>Support companies that produce raw materials in Anbar and link them to interested local buyers from Anbar or other areas in Iraq</p> <p>Provide firm-level assistance to firms in the construction sector; support individuals/contractors to professionalize their business and services</p> <p>Conduct a mapping of industrial establishments, assess their potential, support them or link them with potential investors</p> <p>Support fish farming and vegetables agriculture</p> <p>Support clustering opportunities at the input level in the dairy sector (aggregating milk from local farmers) and the sale/marketing level (creating a common brand for Anbar)</p>
Support to start-ups	Support to start-ups in Anbar should focus on improving their human resources. In addition, start-ups need more support and close monitoring in Anbar than in other governorates.
Investment facilitation	Link businesses in the field of natural resource extraction to foreign investors (businesses in this sector require very large capital)

BAGHDAD FINDINGS

As highlighted in the baseline PEA, the role of the public sector is particularly pronounced in Baghdad, given that all ministries and government departments are headquartered in the national capital. While Baghdad's private sector is diverse, most

private firms remain in the informal sector.³⁰ Baghdad's private sector has expanded following recent bouts of conflict. Many firms, previously based in northern and western governorates that were affected by ISIS, relocated to Baghdad.³¹ Despite this, Baghdad's large and growing youth population faces widespread unemployment, which is one reason Baghdad has seen such strong protests since mid-2019.³²

As it is home to the capital of Iraq, Baghdad governorate receives significant allocations from the central government and its tax revenues are higher. Private investment is concentrated in Baghdad in comparison with other governorates. The concentration of private sector economic activity attracts laborers from the surrounding governorates, many of whom find their livelihood in Baghdad. With many banks, companies, government departments, and institutions located in Baghdad, in addition to high population density, it is safe to say that Baghdad is not only the political and administrative capital, but also the main economic center of Iraq. While most oil and gas fields are concentrated in the south, Baghdad benefits largely from this sector because of state revenues and because the trade in this sector is usually run from Baghdad.

Despite the above, Baghdad's economy, like Iraq's economy in general, is still not competitive relative to the economies of other large cities in the Middle East. This presents both an opportunity and a barrier: the economy has growth opportunities, but corruption and a poor business enabling environment constrain economic competitiveness.

As mentioned by several respondents, Baghdad's private sector economy is largely dominated by powerful families and interest groups that are aligned with political actors. These families typically have an initial sectoral specialty, but also diversify investments into new spaces. For example, Al-Jarjafji family owns Zain (telecoms), the Credit Bank, a delivery company, the distribution companies for Zain, in addition to several advertising companies. The Saadi Waheeb Saihood family owns the American University in Baghdad (AUIB), the Rabban al Safina group (among others, Siemens agent with the Ministry of Electricity), and a bank. The monopolization of the economy impedes the expansion of independent capital that is not aligned with political powers.

SECTORAL FINDINGS

E-commerce

E-commerce, a sector discussed in more detail later in the report, is currently very popular as consumers all over Iraq make online orders from Baghdad-based delivery companies.³³ Large importing companies (of products such as electronics and soft goods) are based in Baghdad and have online platforms through which they directly (through their own delivery) or indirectly (through wholesalers based in other governorates) make sales.

³⁰ Interview with business consultant in Baghdad.

³¹ Interview with economic expert in Baghdad.

³² DCEO, 2020. Political Economy Analysis, with programmatic recommendations for Iraq

³³ Interview with start-up owner in Baghdad

Recommendation. The report details challenges and possible interventions in this sector in a specific section on e-commerce and delivery services. In general, the areas of interventions in this sector in Baghdad could include increased linkages between credit card companies and commercial companies interested in supporting e-payment mobile applications that aim to facilitate e-commerce in Iraq. Payment to delivery companies in Iraq is usually done through cash on delivery, sometimes leading to a lack of liquidity. It is important to support e-payment platforms to provide commercial companies with alternatives to cash-on-delivery payments, as such financial products are rarely used, even in cases of emergency.³⁴

Hospitality

This is a very large sector in Baghdad, yet it is rather underdeveloped, with the landscape of hospitality dominated by prominent and publicly-owned hotels (like Mansour Hotel) or public-private partnerships (such as Babel and Al-Rasheed). Investors that seek to shift away from such enterprises are often required to recruit former government employees or make other concessions which make the investment less attractive. As the capital of Iraq, the development of a well-functioning hospitality sector presents a significant economic opportunity.

Recommendation. DCEO should provide technical assistance in management and marketing to small hospitality businesses in Baghdad to cultivate positive examples of successful hospitality enterprises. DCEO could also provide employee training on hospitality management and other key topics. Investments in the hospitality sector can leverage the history and identity of Baghdad to generate interest and attract investment. Through its work on the business enabling environment, DCEO could also focus on lifting regulatory barriers to investment in this sector.

IT and online marketing

The information technology sector in Baghdad requires support, especially in complementarity with the e-commerce and delivery sector and in providing digital services for commercial businesses.³⁵ One of the respondents in Baghdad mentioned the need for IT businesses that can help commercial businesses develop software, digital marketing, and online sales.

Recommendation. Businesses that provide digital services, such as social media advertising, social media marketing, and home deliveries, are more common in Baghdad than in other governorates.³⁶ Supporting these businesses in providing digital services for commercial companies would have a trickledown effect in improving marketing and sales in Baghdad in general.

Start-ups

³⁴ “Digital Economy in KRI: A Market Study”, Danish Refugee Council, published in March 2021, <https://reliefweb.int/report/iraq/digital-economy-kri-market-study>

³⁵ Interview with business consultant in Baghdad

³⁶ Interview with start-up owner in Baghdad

More than in other governorates, young people in Baghdad are establishing and developing their own businesses, especially in the e-commerce and services sectors. This trend is rapidly developing, but the challenges of finding financial support and human resources remain.³⁷ Emerging start-ups have a long way to go before they become a large component of Baghdad’s economy, especially in terms of financial and technical support to accelerate business growth. Moreover, even with sustainable planning for financial and technical aspects of the business, the labor market continues to lack qualified individuals who can occupy leadership positions within start-ups. The same issue was highlighted as common in Anbar as well.

Recommendation. Provide support to start-ups in Baghdad with improving their HR management and resources. As in Anbar, new start-ups in Baghdad face difficulty establishing qualified technical teams that can run start-ups. Therefore, when training or providing seed fund to start-ups, DCEO should place an emphasis on the recruitment of a workforce that has the necessary skills to run a start-up (business management, business development, operations, and sales)

EXHIBIT V. BAGHDAD RECOMMENDATIONS

ACTIVITY TYPE	RECOMMENDED INTERVENTION IN ANBAR
Firm level assistance to established SMEs	<p>Support the e-commerce sector by increasing linkages between card companies and commercial companies in Iraq that are interested in e-commerce. In addition, support e-payment mobile applications that aim to facilitate e-commerce.</p> <p>Support small hospitality businesses in Baghdad with management and marketing to create a prototype for a competitive hospitality business in the city.</p> <p>Support businesses working in the field of advertising and marketing on social media. This support would have a trickledown effect as it would improve marketing and branding in general in Baghdad.</p>
Support to start-ups	Support start-ups in Baghdad with improving their HR management and resources.

BASRAH FINDINGS

The baseline PEA report highlights Basrah as very much a provincial-level microcosm of the same national dynamics of competition for patronage and rent-seeking opportunities within and beyond state institutions due to the governorate-level political competition over important sources of economic rents and use of violence or the threat of it by armed groups to achieve political and economic objectives. In addition, Basrah faces several significant constraints, beyond its structural dependency on oil, that prevent the expansion of the private sector. The governorate shares the same challenges that were identified at the national level, but some constraints worth highlighting as significant to Basrah are the unreliability of electricity provision and the lack of access to clean and non-saline water, remain unreliable.³⁸

³⁷ Interview with start-up owner in Baghdad

³⁸ “Political Economy Analysis, with programmatic recommendations for Iraq,” DCEO, 2020

Basrah has the highest concentration of oil in Iraq and the only seaport in the country, through which most of the exported oil departs. There are also gas resources in Basrah, but they are not fully utilized. It is estimated that Basrah burns the equivalent of \$27 million of associated gas³⁹ (flaring) every day when extracting oil due to the lack of adequate technology to dissociate this type of gas.

More so than in other governorates, tribes affect the political economy in Basrah. Even though most tribes in Basrah share the same historical background, they often have conflicting interests, mainly because the governorate encompasses an imperative oil sector. Tribal politics affect hiring processes in the oil sector, and there are very intense conflicts regarding oil investments in Basrah among the tribes themselves, as well as between the tribes and the Iraqi state.

Currently, there is a recession in the Basrah's economy due to political reasons, including widespread corruption in the form of 'failed contracts' between local authorities and private companies, which resulted in non-executed or incomplete projects funded by the federal government of Iraq (GoI). Furthermore, powerful militias heavily influence the political economy in Basrah and, consequently, the distribution of financial and natural resources.⁴⁰ According to a member of the National Investment Committee (NIC) branch in Basrah, this year witnessed no economic growth despite official numbers by the Ministry of the Economy (MoE) indicating growth. Since it is heavily dependent on oil, the economy of Basrah is still recovering from the drop in oil prices during COVID-19 and the devaluation of the Iraqi dinar with respect to the US dollar. Many new small businesses have been shutting down operations shortly after opening, and the ones still in operation are suffering.⁴¹ However, as is the case for the overall national economy in Iraq, the economy in Basrah is forecast to gradually recover on the back of rising oil prices especially since Basrah has the highest oil concentration in Iraq.

An important aspect of Basrah's economy is that a large proportion of lands in the governorate is listed as potentially having oil, so investing in it requires the approval of the Ministry of Oil; this in turn both limits the proportion of land available for investment and increases land prices. Apart from oil, the economy of Basrah, especially in southern Basrah, is focused on the port industry, with patronage and political connections dominating the landscape and most of the labor force absorbed by the port. In northern Basrah, however, the economy is more agricultural; more importantly, it is where all currently operating oil fields are located.

Generally, Basrah is perceived as a governorate with massive potential in Iraq from an economic point of view, but investment in this governorate needs encouraging as it is far

³⁹ Associated gas is gas produced as a byproduct of the production of crude oil

⁴⁰ "Iraq Key Socio-economic Indicators for Baghdad, Basrah, and Sulaymaniyah", European Asylum Support Office, published in November 2021, https://reliefweb.int/sites/reliefweb.int/files/resources/2021_11_EASO_COI_Report_Iraq_Key_socioeconomic_indicators_for_Baghdad_Basrah_and_Sulaymaniyah.pdf

⁴¹ Interview with member of the National Investment Committee in Basrah

from reaching its potential. DCEO's investment facilitation activities are very important in the context of this governorate. Basrah is a historically significant trade city in Iraq, and the existence of oil and the port provides the governorate with a comparative advantage to other governorates. Respondents consistently emphasized the potential for economic development in Basrah.

SECTORAL FINDINGS

Commercial sector

Basrah has a comparative advantage in the trade sector due to the port, making it a commercial center in which wholesale trade and singular trade flourish.⁴²

Recommendation. While this is not among the sectors that DCEO usually supports, it is still a vital one in Basrah. DCEO could support wholesale businesses in Basrah by connecting them with e-commerce platforms and improving their digital marketing capacity, so they are able to provide deliveries directly from Basrah to the rest of Iraq (instead of going through Baghdad) and thus building more on the port industry's potential.

Agri-food sector

In the agri-food category, dates processing was mentioned as a sector with untapped potential.⁴³ Basrah's dates are historically known to be distinguished and are of high quality. Most dates in Basrah's market are local, but they are not exported or branded enough.

Recommendation. DCEO could select date processing companies and support them in their marketing and packaging lines under the condition of opening to export markets and other markets in Iraq since export can act as a buffer against currency devaluation, especially in a governorate heavily dependent on oil.

Hospitality

The hospitality sector is important to Basrah since it is considered an "economic hub" in Iraq,⁴⁴ but as is the case in Baghdad, the sector is still far from meeting its potential. Politics, corruption, and cultural norms limit the growth of this sector in Basrah even though it is crucial in a governorate that is home to large segments of economic capital in Iraq.

Recommendation. As is the case of Baghdad, BCJCI can support small and medium hospitality businesses in Basrah with management, design, and marketing to create a prototype for a competitive hospitality business in the city.

Agriculture

Agriculture in Basrah is mostly concentrated in western Basra in the areas of Safwan and Zubair and to a lesser extent in northern Basrah.

⁴² Interview with economics professor at Basrah university

⁴³ Interview with business consultant in Basrah

⁴⁴ Interview with an owner of a mall in Basrah

Recommendation. Supporting agriculture in western Basrah would in turn improve the livelihood of minority communities living in these areas.

Start-ups

In Basrah, more than in other governorates, challenges in terms of the labor tendency towards state employment and the lack of creativity in the private sector cause start-ups to lack the labor market skills they need.

Recommendation. As is the case in Anbar and Baghdad, labor skills activities within a start-up support environment are crucial in Basrah. Therefore, when supporting start-ups with training or seed funds, this needs to be complemented with the recruitment of workforce teams that have the needed skills to run start-ups, such as skills in business management, business development, operation, and sales.

EXHIBIT VI. BASRAH RECOMMENDATIONS

ACTIVITY TYPE	RECOMMENDED INTERVENTION IN ANBAR
Firm level assistance to established SMEs	<p>Support wholesale businesses Basrah by linking them with e-commerce platforms</p> <p>Select date processing companies and support them in their marketing and packaging lines under the condition of opening to export markets and to other markets in Iraq</p> <p>BCJCI can support promising small and medium hospitality businesses in with management and marketing to create a prototype for a competitive hospitality sector in the city.</p> <p>Support agriculture in areas like Safwan and Zubair would in turn support the minority communities that live in them and make their livelihood from agricultural activities.</p>
Support to start-ups	Labor market support within start-up support environment is crucial in Basrah.
Investment facilitation	There is a need to encourage investment in this governorate as it is far from reaching its potential knowing its strategic location. DCEO's investment facilitation activities are very important in the context of this governorate.

DOHUK FINDINGS

The Baseline PEA highlights that Dohuk has higher levels of schooling, employment, poverty rates, and access to services than the average Iraqi governorate. While it has benefited from reasonable stability, Dohuk was also likely negatively impacted by the 2015 economic crisis, with the consequent recession driving up poverty rates just as the influx of internally displaced persons (IDPs) added an additional socio-economic burden.⁴⁵

Dohuk governorate borders Turkey, Nineveh governorate, and Erbil governorate, which is key for its economic development and creating economic opportunities for its residents. Politically, it is mainly ruled by the Kurdistan Democratic Party (KDP), with

⁴⁵ "Political Economy Analysis, with programmatic recommendations for Iraq," DCEO, 2020

minor presence of both the Kurdistan Islamic Union (KIU) and the Patriotic Union of Kurdistan (PUK).

Dohuk suffers from its competition with Erbil, as Erbil attracts most of the KRI's economic activity, depriving Dohuk from many economic opportunities. In addition to that, local companies in Dohuk tend to exploit the high unemployment levels and lack of job opportunities in the city to pay very low wages, resulting in a skilled workforce moving from Dohuk to Erbil for work.⁴⁶

The public sector is a major employer in Dohuk, but there is considerable private sector activity in sectors like construction and infrastructure, oil and gas, healthcare and pharmaceuticals, retail, transportation, agriculture, fashion services, tourism, real estate, and trade. The construction, healthcare and pharmaceuticals, telecommunications, and oil and gas sectors are politically influenced by political parties in Dohuk.⁴⁷

To recover from the economic impact of the drop in oil prices and the COVID-19 pandemic, the people of Dohuk have been pushed to find different ways to establish livelihood. Restaurants and cafes are rising, and many youth started e-commerce businesses, mainly in retail and in the fashion/cosmetics industry.⁴⁸

SECTORAL FINDINGS

Hospitality and tourism

In addition to attractive natural sites, such as the dam, which is fifteen minutes away from the city center, Dohuk has many archeological and historical sites that attract tourists from other parts of Iraq and neighboring countries. This constitutes a significant potential for the hospitality and tourism sector in the governorate, currently completely untapped.⁴⁹

Recommendation. As in the case of Baghdad and Basrah, BCJCI can support small and medium hospitality businesses in Dohuk with management, design, and marketing skills to stimulate tourism in the governorate.

Fashion and cosmetics

In response to recent economic shocks and leveraging the potential offered by social media marketing, many women in Dohuk have started businesses in the sector of fashion and cosmetics and established their own social media marketing on Instagram and other platforms.⁵⁰

Recommendation. Supporting this sector presents a good opportunity to work with women, as opportunities for women in Dohuk are limited because of cultural restrictions. DCEO could select a range of businesswomen in this sector and provide

⁴⁶ Interview with SME owner in Dohuk

⁴⁷ Interview with SME owner in Dohuk

⁴⁸ Interview with SME owner in Dohuk

⁴⁹ Interview with SME owner in Dohuk

⁵⁰ Interview with SME owner in Dohuk.

them with support ranging from skill improvement to social media marketing. This could work better under 100 Solutions activities.

Retail sale with social media marketing and delivery

In Dohuk, youths have started establishing retail businesses with an online presence and delivery services. Such businesses are mostly involved in cosmetics retail, clothing, gift shops, printings, and pharmaceuticals, to name a few.

Recommendation. The online presence of these businesses means that they mainly promote and sell products through social media platforms. DCEO could further support them with establishing their own websites if they aim to grow and reach other areas in Iraq or linking them with e-commerce platforms that can help them promote their products.

Agri-food

Food processing in Dohuk mainly includes the processing of potato into potato chips; wheat, barley, and sesame into *tahini*; wheat into flour; and the drying of fruits. Altai Consulting interviewed businesses in the agri-food sector to investigate needs and potential improvement opportunities. One of them processes local sumac, and the other processes both local and imported sesame into tahini, sesame oil, peeled sesame, and roasted sesame. Among the issues these businesses face is that their products lack proper packaging and branding. Another issue is the struggle to find local inputs because of the weak agricultural sector in Iraq, which forces them to import inputs, thus increasing costs and reducing the quality of their products.

Recommendation. Possible interventions in this sector include supporting agri-food businesses in Dohuk to establish proper packaging lines that can help them increase their market share locally and abroad, as well as linking them with farmers to provide them with the input quantities that they need to localize production as much as possible.

Start-ups

Dohuk is deprived of start-up support and incubation programs. According to respondents in Dohuk, there are no organizations supporting start-ups with seed funding or providing entrepreneurship trainings in Dohuk. Having an active start-up environment in Dohuk is essential to push youths to develop an entrepreneurial mindset and consider launching their own businesses instead of waiting to be employed by the government or companies that pay them low salaries.⁵¹

Recommendation. DCEO could support the opening of a start-up space in Dohuk, like the activities that BCJCI has supported in partnership with Five One Labs (in Erbil, Sulaymaniyah, and Basrah), The Station (in Baghdad and Anbar), Science Camp (in Basrah), and Mosul Space (in Mosul).

EXHIBIT V. DOHUK RECOMMENDATIONS

⁵¹ Interview with SME owner in Dohuk

ACTIVITY TYPE	RECOMMENDED INTERVENTION IN DOHUK
Firm level assistance to established SMEs	<p>BCJCI can support promising small and medium hospitality businesses with management and marketing to create a prototype for a competitive hospitality sector in the city.</p> <p>Supporting SMEs in the fashion and cosmetics sector presents a good opportunity to work with women in Dohuk, as opportunities for women in this governorate are limited because of cultural restrictions.</p> <p>BCJCI could support businesses in Dohuk that sell their retail online with establishing their own websites if they aim to grow and reach to other areas in Iraq or linking them with e-commerce platforms that can help them promote their products.</p> <p>Dohuk is home to many medium sized agri-food businesses which could be supported in expansion and establishing proper packaging lines that can help them increase their market share locally and abroad. Linking agri-food processors with farmers that can provide them with the input quantities they need to keep production local is also a possible intervention.</p>
Support to start-ups	Opening or funding a start-up place in Dohuk is needed because there is none

ERBIL FINDINGS

The baseline PEA highlights that Erbil’s economy reflects its improved political stability. When the baseline PEA was conducted, Erbil was the governorate with the highest percentage of companies across multiple sectors planning to hire in the next five years. However, like all KRI areas, Erbil remains vulnerable to the vagaries of international oil markets and domestic crises that impede oil production.⁵²

Given it is the capital of KRI, Erbil has, in the last decade, become a commercial center, attracting many types of businesses, including small and medium local enterprises, international companies and organizations, and government-supported businesses, which has created a wide range of economic opportunities in the city. In terms of political presence, the city is governed by the Kurdistan Regional Government (KRG), predominantly formed by the two main ruling parties, the KDP and the PUK.

While the oil sector is an important sector in Erbil governorate and the KRI in general, there are multiple sectors that have developed over the past decade and now make-up significant segments of the economy, such as infrastructure, telecommunication, hospitality and tourism, and healthcare. Income in Erbil is still mostly generated from the public sector, which is largely dependent on oil revenues (both from oil and gas fields in KRI, and from KRG’s share in federal Iraq’s oil revenues, which is a regular point of conflict between KRG and GoI).⁵³ The main politically relevant sectors in Erbil are oil and gas, telecommunication, healthcare and pharmaceuticals, and construction.

SECTORAL FINDINGS

Agriculture

⁵² “Political Economy Analysis, with programmatic recommendations for Iraq”, DCEO, 2020

⁵³ Interview with Chamber of Commerce in Erbil

Erbil governorate is home to vast fertile agricultural lands outside the city of Erbil, the main agricultural products of which are wheat, barley, corn, broad beans, cucumber, tomatoes, eggplants, bell peppers, vegetables, pomegranates, lemons, apricots, grapes, apples, oranges, and figs.⁵⁴ However, the sector lacks public support from the KRG, and most services and opportunities provided by this government are politically influenced and not available for everyone within a fair systematic program.⁵⁵

Recommendation. Ideas to support the agricultural sector in Erbil may include:

- Supporting potato production and processing: Recently, a big French fries production factory was established in Erbil governorate with support from the KRG, and it has been successful at utilizing all locally farmed potatoes in the governorate.
- Supporting fish farming: This is becoming an important agricultural sector in Erbil as many farmers are establishing their own fishponds, but there are no local companies producing fish feed, thus forcing farmers to buy expensive imported feed. DCEO could support fish farmers with feed processing machines; this would both limit imports and improve the quality of fish produced in KRI.

Agri-food

The types of agri-food produced in the KRI include potato chips, French fries, tomato paste, tahini, olive oil, animal feed, and flour, among others. In addition, there are numerous types of grapes produced in the KRI, some of which are used in the production of wine. Erbil also has a considerable livestock sector which produces significant amounts of dairy products.⁵⁶

Recommendation. As in Dohuk, agri-food businesses in Erbil lack proper packaging, branding, and even efficient sales procedures. BCJCI can support businesses through their packaging process: purchasing packaging machines or establishing new packaging and branding for businesses. This would absorb the demand on packaging and branding by agri-food processors.

Tourism and Hospitality

In the past decade, Erbil has seen a boom in construction, restaurants, shopping malls, and other real estate development projects. During holidays, and generally during the cooler seasons, Erbil receives hundreds of thousands of tourists, mostly from the center and southern areas of Iraq but also from Iran, Syria, and elsewhere.⁵⁷

Recommendation. Recently, some companies and start-ups have started providing guidance for tourists and organizing tourist trips within different areas in and around Erbil. These businesses could be supported through capacity building and business development to leverage the potential of tourism in Erbil as a governorate and in surrounding areas.

⁵⁴ Interview with Ministry of Agriculture in KRI

⁵⁵ Interview with farming business in Erbil

⁵⁶ Interview with farming business in Erbil

⁵⁷ Interview with Chamber of Commerce

Start-ups

Erbil’s economic development has enabled youths to start their own businesses in recent years. In the capital city, there are a considerable number of organizations working on economic development through incubation and acceleration programs such as Five-One Labs, Rwanga Foundation, Kapita, and Iraq Ventures Partners. Despite the high presence of such organizations in Erbil (compared to other governorates under study), there is room for improvement, especially in terms of outreach procedures. Since advertising and outreach is not sufficiently performed, opportunities seem to be reaching only a certain part of Erbil’s community already connected to the existing start-up network.

Recommendation. It is recommended that a more efficient outreach strategy is implemented so that opportunities reach the maximum number of potential successful entrepreneurs and business owners. This means that when DCEO works with start-up programs in Erbil, efforts must not be replicated with beneficiaries from previous programs. Moreover, beneficiaries cannot be comprised of individuals from social circles connected to already existing start-up programs.

EXHIBIT VII. ERBIL RECOMMENDATIONS

ACTIVITY TYPE	RECOMMENDED INTERVENTION IN ERBIL
Firm level assistance to established SMEs	<p>In agriculture, supporting potato production and processing has the potential to use up all the potato that is locally farmed.</p> <p>In fish farming, special fish feed processing machine could be provided for this purpose which would support many fish farmers and limit imports while improving the quality of fish produced in KRI.</p> <p>In agri-food, supporting businesses that are trying to purchase packaging machines or start-ups that have the capacity to do the whole packaging and sales process for agri-food processors.</p> <p>Support new SMEs providing guidance for tourists and organizing tourist trips within different areas of KRI with capacity building and business development consulting.</p>
Support to start-ups	It is recommended that a more efficient reach out strategy is established so that the opportunities reach the maximum number of potential successful entrepreneurs and business owners.

NINEWA FINDINGS

The baseline PEA highlighted that on top of destruction and the slow pace of reconstruction, the lack of Moslawi political representation at the national level contributes to economic marginalization, as well as the high rates of displacement and social cohesion challenges in Ninewa. Ninewa’s citizens identified job opportunities to improve their economic situation as the most pressing need.⁵⁸

⁵⁸ “Political Economy Analysis, with programmatic recommendations for Iraq,” DCEO, 2020

Ninewa governorate has a long border with Syria, providing a strategic economic advantage to businesses, especially with regards to land transport of goods from Syria and Turkey. The agricultural sector is crucial for the livelihood of people in Ninewa.⁵⁹ The governorate has the most important and largest part of Iraq's share, especially in wheat production.⁶⁰ The Gol has no official agricultural plan for the governorate, leaving a lot of agricultural land, especially in areas around Mosul, uninvested.⁶¹ There is also an issue with the oversupply of graduates from agricultural studies and programs. At least 300 to 600 students graduate from agriculture faculties in Ninewa each year, but they do not have internship opportunities.

The new PEA shows that there is a lot of controversy surrounding NGOs' distribution of development aid in Ninewa. In the Hamdaniya district for example, respondents perceive that their area has not been supported as other areas in Ninewa. They see that areas in northern Ninewa receive more support from INGOs than Hamdaniya and other areas in southern Ninewa do and consider that this unfair distribution of aid has caused further conflict in the governorate.

SECTORAL FINDINGS

Agriculture

Within the agriculture sector, fish farming is a historically economic activity in Ninewa; however, a lot of fish projects in Mosul were recently shut down because of the shortage of water in the rivers around Mosul (and in Iraq in general) because dams built by Iran and Turkey.⁶²

Poultry is also an important agricultural sector in Ninewa, especially in the Hamdaniya district. Hamdaniya used to be considered the capital of poultry in Ninewa, but after the ISIS invasion, a lot of businesses shut down and struggled to bounce back. One the main barriers the sector faces in Ninewa (and generally all of Iraq) is the import of inputs (feed and fertilized eggs), which makes it vulnerable to currency devaluation.

Recommendation. To target the issue of water shortage, support integrated fish farming projects in Ninewa that allow the reduction of water needs in fish farms. In addition, support integrated poultry projects that can carry out the breeding process in-house and ensure local production of fertilized eggs. This work can be done directly with existing hatcheries in Ninewa or with hatcheries in Erbil that have more capital and technical ability, under the condition that they are able to sell to hatcheries and poultry producers in Ninewa.

Agri-food

A main challenge for local agri-food producers in Ninewa is consumer behavior.⁶³ Consumers in the market make purchasing decisions based on the price and do not

⁵⁹ Interview with economic expert in Ninewa

⁶⁰ Interview with economic expert in Ninewa

⁶¹ Interview with entrepreneur in Ninewa

⁶² Interview with entrepreneur in Ninewa

⁶³ Interview with dairy processor in Ninewa

trust local products although some are freshly produced and of high quality. In the dairy sector, there is another issue with the lack of quantities of aggregators that collect the milk from farmers and distribute it to processors, which limits the quantities and predictability of milk supply available to processors.⁶⁴

Recommendation. Support local agri-food producers in Ninewa with marketing and promotion activities to stimulate change in consumer behavior. In addition, help establish aggregator businesses that can collect milk from farmers in Ninewa and redistribute it to dairy factories. Aggregators are very important within the dairy value chain.

Start-ups

There is a start-up environment in Mosul with a lot of skilled youths who have entrepreneurial mindsets especially after the establishment of initiatives like the Station; however, there is lack of investors.⁶⁵ Ninewa, like Anbar and Baghdad, is also a governorate where the lack of skills in the labor market negatively impacts the growth of start-ups.

Recommendation. Connect start-ups with investors to accelerate their growth and support them in improving their HR capacities, like in Anbar and Baghdad.

EXHIBIT VIII. NINEWA RECOMMENDATIONS

ACTIVITY TYPE	RECOMMENDED INTERVENTION IN NINEWA
Firm level assistance to established SMEs	<p>In fish farming, support integrated fish farming projects that allow fish farms to need less water and fertilize ponds through bacterial filtration.</p> <p>In poultry, support integrated poultry projects that can do breeding in-house and ensure local production of fertilized eggs</p> <p>Support the sales of local agri-food producers through better marketing of the quality of local fresh produce.</p> <p>In dairy, support farmers to increase their production and therefore increase the available fresh milk for the agri-food factories. Also, help establish aggregator businesses that can collect the milk from the farmers and redistribute it to dairy factories.</p>
Support to start-ups	Support start-ups with improving their HR capacities.
Investment facilitation	Link start-ups with investors to accelerate their growth

SME BUSINESS ENABLING ENVIRONMENT

Despite recent attempts from government (in both federal Iraq and KRI) to improve SME business environment in Iraq, there are still many challenges. Among the most prominent challenges are the administrative and bureaucratic restrictions SMEs face, especially when it comes to registration (discussed further in a later section below). In addition, SMEs are not provided with access to services from the government like larger

⁶⁴ Interview with dairy processor in Ninewa

⁶⁵ Interview with entrepreneur in Ninewa

companies are (there is discrimination because government and political actors benefit more from larger businesses). SMEs also face the lack of labor skills they need in the market, lack of access to finance (discussed further below), and lack of access to capital (discussed further below).

Furthermore, SME business environment in Iraq is influenced by the general situation of the politicized economy of the country, which limits the participation of independent SME capital in economic activities. For example, any SME that becomes 'too big' in Iraq must be ready to deal with the existing de facto powers, whether by making them partners or by hiring people that are loyal to them.

SME REGISTRATION

Generally, the process of registering SMEs in Iraq is not easy considering a complex bureaucracy pursued by government institutions. This is a main barrier against business development.

Multiple respondents emphasized that the registration process for new businesses in Iraq takes between three and six months. To register, a business needs to have a bank account with a certain amount of money, usually around a few million IQD (depends on size of business, sector, and other factors). On average, it costs the equivalent of \$2,500 to \$3,000 to register a company in Iraq.

Companies that operate only in the KRI need only to register with the KRG. Companies that operate in all of Iraq need to register with both the Gol and the KRG. Companies are registered in a specialized department in the Ministry of Commerce called the Companies Registration Department, with a significant degree of bureaucracy and complexity, which makes those who aspire to establish companies seek the assistance of lawyers to complete registration. SMEs are more affected by this complexity than larger corporations.

While there is not a lot of awareness on steps taken, some attempts were made to facilitate SMEs registration in Iraq. It was said by one respondent that within the KRI, the Dutch Consulate, Five One Labs, and the office of Deputy Prime Minister of KRG have been working on making registration procedures easier for new companies. It is forecast that the process will be completely digitized in the future, but as an interim solution, signatures needed to register a business have been decreased from 36 to 8. Moreover, in 2017-2018, an Economic Reform Unit was formed with the support of the World Bank and several organizations to support SMEs, and they worked with the Procedures Facilitation Unit in the Iraqi government to reduce the steps for company registration from more than 25 to less than 20. They also reduced taxes on companies owned by people younger than 35 years old.

ACCESS TO FINANCE

Gap in access to finance

Access to finance for SMEs in Iraq is very limited, especially in the 25k–500k segment. Loans and financial services to SMEs in Iraq are usually provided by the government and

private banks, as well as investment offices; however, lending does not occur often enough, for several reasons. First, saving does not go above 25 percent in Iraq, so internal credit is very limited.⁶⁶ Second, the Iraqi banking system is not highly reputable, suffers from compliance checks performed by international financial actors, and does not provide proper financial services for businesses. Many companies that import products to Iraq have bank accounts in nearby countries like Turkey, Jordan, or Saudi Arabia because of this. Third, lending interest rates in Iraq are too high for SMEs. Because of that, there is a general perception among SMEs interviewed that obtaining a bank loan will always cause losses, thus reducing the demand for loans. Fourth, interest rates are in principle prohibited by Islamic law. There is a societal agreement, especially in governorates like Anbar, that loans are a taboo, which also reduces demand for loans.

From the perspective of lenders, this gap in lending is also attributed to the deteriorating economic situation and the lack of real guarantees that protect lending institutions. Besides that, the Iraqi trade law prevents lenders from providing more, and better, financial services. This law does not guarantee the rights of the lending institutions when clients fail to pay back their loans.⁶⁷ There is no trust that civil or criminal cases can lead to actual repayment. In short, the return tools for lending institutions in Iraq are weak, and the borrower is more protected than the lender. This not only hurts the financial institutions but also depositors who do not make returns on their money when lending is weak.

The security and political situation also pose a high risk financial environment in Iraq. After the start of the ISIS crisis in 2014, a lot of the loans provided by the government were frozen.⁶⁸ For example, The Agricultural Cooperative Bank stopped providing loans to farmers. A scheme by the Central Bank to provide loans for small businesses (between 5 to 15 million Iraqi Dinars) was halted as well.

Finally, since the COVID-19 outbreak, there have been challenges with SMEs not being able to pay back their installments to finance institutions, which negatively impacted the financial market and led to a reduction in lending.

Response to gaps in access to finance

There has been some work among development actors and microfinance institutions (MFIs) in Iraq to facilitate SMEs' access to finance.

For example, PERMA, a consortium funded by AFD and led by Mercy Corps in Ninewa, is implementing activities to improve the microfinance of farmers and agricultural microbusinesses in the Hamdaniya district. Microfinance of farmers in Iraq is usually done informally in the sense that farmers do not take out formal loans but provide informal loans to one another; in many cases they reach out to the processors to provide them with loans which they pay back upon selling their produce to these

⁶⁶ Interview with a bank in Basrah

⁶⁷ Interview with a bank in Basrah

⁶⁸ There are, however, existing government loans at the moment in Iraq, such as the industrial loan, which has a 4.5percent interest rate, but it is not easy to get without political connections.

processors. In 2021, PERMA partnered with two microfinance institutions (Al-Rabiein Development Center and Al-Tadhamun Organization for Economic Development) to implement the credit guarantee scheme for farmers and agricultural microbusinesses in Ninewa. A credit guarantee scheme provides microfinance institutions with credit risk mitigation through the absorption of a portion of losses, in case of default by borrowers. PERMA's model also included capacity building and strengthening of partner financial institutions and loan distribution to several borrowers in the Hamdaniya district who are involved in agricultural activities, services, and trading businesses (average size of loan is \$4,000). This experience could be duplicated by DCEO to support farmers and guarantee local inputs for agri-food businesses. Credit guarantee schemes proved to be efficient with PERMA in that they allowed the consortium to support more farmers with lower amounts of money (instead of giving farmers grants, they were covering losses on defaults). Some of the microfinance institutions that DCEO can work with were mentioned during interviews:

- Thiqa (meaning 'trust' in English)⁶⁹ is a microfinance institution that was mentioned in Dohuk governorate.
- Iraq Company for Financial Services: this was mentioned in Basrah. It works mostly with SMEs and provides loans of up to \$50k.
- GroFin: it invests in the industrial sector.
- Euphrates Fund: it invests in the industrial sector as well.

Microfinance institutions and their challenges

According to research that was done in 2019⁷⁰, there are 12 microfinance institutions with more than 110 offices in all eighteen Iraqi governorates. To date, the microfinance sector has provided more than 450,000 loans worth over \$1 billion with an outstanding loan portfolio of \$149 million and more than 102,000 clients. It is estimated that this lending activity has sustained or helped create over 250,000 jobs, contributing to Iraqi family income and economic growth.

All MFIs in Iraq are established as NGOs and are historically grant-based. There is a lack of regulatory clarity on how an NGO MFI can legally "transfer" its operating model into an SME or other for-profit corporations. The current law does not prevent NGOs from selling their loan portfolios, provided that the organization uses the proceeds for its permitted activities and in accordance with its mission and provided there is no direct or indirect distribution of profits by the NGO to its members, founders, or employees. This is the main challenge hindering the transformation of these MFIs into solid and professional financing institutions. In addition, recent crises have exacerbated the

⁶⁹ Thiqa's model is that they would give a loan up to 10,000 USD with 12 percent interest which they take immediately. For example, if they provide a loan of 10,000 USD, they will take 2,200 USD immediately and the borrower starts with 8,800 USD. Then every month, the borrower must pay Thiqa back around 10 percent over a year. If the payment is late, every day they will charge a \$10 penalty. Loans are only given after long investigations. If the borrower defaults, they either freeze/lock a property he owns as insurance or allow him to have a "sponsor" whose salary must be higher than a certain range to be accepted as sponsor.

⁷⁰ All numbers were provided by a bank that was interviewed in Ninewa.

institutional weakness of some MFIs, which are increasingly becoming involved in cases of non-payment and fraud, exposing governance and risk management issues. Non-performing loans with a duration of more than 30 days have increased to an estimated six to seven percent in the sector.⁷¹

ACCESS TO CAPITAL

Capital markets, i.e., private equity investors and venture capital funds, are very limited in Iraq, especially in support of SMEs. Investors in Iraq are interested in high profit traditional businesses, such as real estate, instead of creative new businesses. Respondents for this study had very limited notions about capital markets, in terms of what they mean and their existence in Iraq. However, the idea of access to capital (as opposed to access to finance) received more support among SMEs interviewed for this study. In the context of Iraq, investment facilitation is perceived as preferable to loan facilitation. Facilitating SMEs' access to capital is deemed a good idea but only if there is a middle-party that provides insurance and secures SME funds from being taken over by investors through capital investment as SMEs in Iraq are suspicious of investors wanting to own too much of their businesses with little effort, as expressed by several SME respondents.

It is important to mention that Islamic commercial banks in Iraq (which operate basically as investment banks) could be perceived as potential actors in the capital market. They are not as limited as private equity investors and venture capital companies and have different forms of financial services including:

- “Murabaha”: Banks buy the material, real estate, and equipment that a certain business needs, and, in return, the business must pay them back through periodic checks with an interest rate.
- “Mosharaka”: Banks participate as partners in investment based on certain conditions (rate of profit, share of losses, and other factors).
- “Modaraba”: Banks buy shares (not assets), expect them to grow, and expect them to give returns.
- “Ijjara”: Banks own real estate, equipment, and other assets and rent them out.

SECTORS IN FOCUS

These sectors were discussed on a governate by governate basis depending on their potential, but a special focus is given here to discuss their overall landscape and challenges in Iraq because they are the most relevant for BCJCI interventions.

AGRICULTURE

Overview

Historically, Iraq is an agricultural country, but due to lack of public policy and lack of profitability, the Iraqi agricultural sector is declining, especially that it cannot compete with imports. Iraq can potentially compete in the quality market in agriculture as the fruits and vegetables produced in Iraq's countryside are of better quality than imported ones, but farmers need support to leverage this strength.

⁷¹ These numbers were provided by a banker that was interviewed in Ninewa.

Challenges

Competition from imports. Neighboring countries (especially Turkey and Iran) pressure the KRG and GOI not to ban imports or increase taxes on the export of products to Iraq to ensure a flow of foreign currency back to neighboring countries.

Water problem. This problem was exacerbated after Turkey and Iran started building dams. As a result, both the GOI and the KRG started imposing rationing on farmers.

Lack of availability of basic inputs. Agricultural inputs such as seeds and fertilizers are always imported, making farmers vulnerable to price increase (in IQD) during crises of currency devaluation and falls in oil prices. In addition, there is a monopoly on fertilizers by several parties in Iraq.

Marketing of products. Due to the lack of marketing, Iraqi agricultural products do not make up a large share of the market, especially in urban areas.

Use of agricultural land in Iraq is politically influenced and controlled. In Iraq, both the GOI and the KRG must grant farmers permission to invest in lands that are zoned as agricultural, which leads to political repercussions as political parties occupy administrative institutions that have the power to allocate agricultural lands.

The low level of technology used in agriculture. The agricultural sector in Iraq still depends on technology that does not accommodate the growing demand for agricultural products and does not allow it to compete with imported goods.

AGRI-FOOD

Overview

Agri-food producers in Iraq face major competition from imports (mainly from Iran⁷² and Turkey). To adapt to this competition, local producers try to compete in the quality market.

Challenges

Imports of packaging materials. Packaging plastic, paper boxes, and other materials needed by local agri-food factories in Iraq are mostly imported. There are factories for plastic and glass in federal Iraq that could be utilized, but the GOI is not doing so to keep the market dominated by packaging products imported from Turkey and Iran.

Weak internal supply chain for marketing and sales. There are several challenges the marketing and sale activity of agri-food in Iraq faces, including high logistical costs (transport, warehousing, water, and electricity services), fluctuation of food prices (which reduces the chances of stability in the marketing sector), delay in the arrival of

⁷² Iranian companies in specific, using politics, aim to dominate the Iraqi market to bring fresh dollars to Iran. That is why they are interested in the Iraqi market. It is an easy path for them to bring fresh dollars to a country that suffers from significant economic sanctions.

shipments, inability to compete with foreign and large companies, and the closure of border crossings inside Iraq and with other countries.

Some agri-food companies do not have industrial development licenses. It is important for agri-food companies (and generally industrial companies) to be licensed so they can register all the machines and raw materials they import and receive customs cuts.

E-COMMERCE AND DELIVERY

Overview

Altai Consulting met with two entrepreneurs in Anbar and Ninewa respectively working on e-payment and delivery within their regions to explore the landscape and challenges of the e-commerce and delivery sector in Iraq.

Some of the most well-known delivery companies in Iraq are Lezzoo and Talabat, but they, and similar companies, are specialized in food delivery. There are many other lesser known delivery companies that deliver electronics, soft goods, clothes, and other goods like Shopini (in Baghdad), Miswag (an app), and smaller ones inside other governorates that deliver within their governorates or pick up orders from larger delivery companies in Erbil or Baghdad at checkpoints. Most delivery companies use social media platforms to take orders; they do not have websites. If they do, they are not usually used by customers, neither for shopping nor for payment.

Payment to delivery companies is usually done through cash on delivery which creates lack of liquidity sometimes (explained more in the challenges below). Generally, cash is the dominant payment method used by Iraqis and their financial transactions (making payments, receiving salaries, paying bills, and so on). Sophisticated financial products are very rarely used (e.g., insurances), even in cases of emergency.⁷³ The Iraqi state has progressively changed the transfer method of employees' monthly salaries from manual receipt to debit card. While this process may be beneficial to accelerate the e-commerce environment in Iraq, there is still low acceptance of e-payment among Iraqis. Most state employees do not use their debit cards for payments and withdraw their salaries in cash. People in Iraq do not trust banks, and online payment is not part of the culture. They also find that online payment is a method meant to trick them into unwittingly paying a lot of extra fees.⁷⁴

Online payment methods in Iraq, if they exist, are of low quality. FastPay, Taif, NassWallet, Asiaccell, and Zain Cash are some examples. Recently, however, The First Iraqi Bank, a mobile banking initiative, started to operate in Iraq. It allows users to open a fully licensed bank account from their mobile phone. Then a mobile application can be used to make and receive payments online and in person, send money locally and internationally, purchasing products online and transferring salaries. Moreover, Areeba and Visa announced in December 2021 their collaboration on an e-payment platform, Tap On Phone solution. The solution seeks to resolve one of the key constraints of the

⁷³ "Digital Economy in KRI: A Market Study," Danish Refugee Council, published in March 2021, <https://reliefweb.int/report/iraq/digital-economy-kri-market-study>

⁷⁴ Interview with a bank in Basrah

Iraqi economy in its reliance on cash in hand. The e-payment solution will be especially impactful for MSMEs as entrepreneurs and business actors will be able to use their Android devices as a secure payment acceptance device for contactless cards and mobile payments.⁷⁵

Challenges

Delivery companies in Iraq face problems with facilitating delivery through checkpoints. To maneuver around this, smaller delivery companies inside each governorate usually pick up orders at checkpoints from larger delivery companies in Baghdad and Erbil.

Delays in cash on delivery, causing lack of liquidity. Delivery companies in Iraq, especially smaller ones that work only within specific governorates, face a lack of liquidity to pay larger delivery companies in Baghdad or Erbil because of the cash on delivery system. These companies must pay larger delivery companies first before collecting cash from customers, and when the size of the orders by customers exceeds the liquidity in hand, they are made vulnerable.

START-UPS

Overview

The Baseline PEA highlights that there has been considerable progress in promoting entrepreneurship and innovation in Iraq in the past five years, through different pathways, including support with investment, management training, guidance on navigating government bureaucracy, experimenting with technological innovation, and enhancing technical and engineering skills. GIZ has recently supported the creation of an Iraq Innovation Alliance (IIA) to act as a collective body promoting the interests of these stakeholders. IIA members have continued to coordinate their activities and lobby government to make the business environment more supportive of start-ups and businesses in general.

Challenges

Training to start-ups is not followed by funding. It was mentioned that seed funding or in-kind grants should be provided to those who have been through sufficient training.

There is clearly a gap in the outreach procedure of incubator/accelerator projects because many times the same entrepreneurs appear in different events. This recruitment gap was highly emphasized by several respondents in Erbil and in Ninewa as well.

Quotas by donors to support a certain percentage of vulnerable groups can be counterproductive. Sometimes the conditions from donors to include a specific percentage of vulnerable people restricts incubators' ability to choose successful and competent start-ups to support.

⁷⁵ DCEO's final weekly report of 2021 – News section

ANNEX A. LIST OF KEY INFORMANTS

EXHIBIT IX. LIST OF KIS

GOVERNORATE	PROFILES OF INTERVIEWEES
1. Anbar	Ministry of Agriculture
	Municipality of Fallujah
	Agrofood SME
	E-commerce start-up
	Farmer
	Farmer
	Agricultural consultant
	Legal consultant
	Media personality
	NGO worker (IOM)
2. Baghdad	NGO worker
	University of Baghdad
	Ministry of Planning
	Business consulting company
	Economic expert
	Development consultant
	Investment fund
Banker and economic consultant	
3. Basrah	Islamic investment bank
	Business consultancy
	Electronics distribution company (e-commerce and online delivery)
	Commercial mall
	University of Basrah
	Agri-food company
4. Dohuk	Start-up in e-commerce
	Marketing SME
	Agri-food SME (Sweets)
	Hospitality SME (Kitchen)
	Media start-up
	Agri-food SME (Sumac)
5. Erbil	Agri-food SME (Sesame)
	Start-up incubator
	Donor (GIZ)
	Engineering for Technology SME
	Erbil Chamber of Commerce

GOVERNORATE	PROFILES OF INTERVIEWEES
	Medium sized farm Marketing SME Ministry of Agriculture and Water Resources in KRG
6. Ninewa	Delivery SME Agri-food SME Business consultation SME Mosul Bank for Development Economic expert – University of Mosul

ANNEX B. KEY INFORMANT INTERVIEW GUIDELINES

A. Study background

Altai has been contracted by Chemonics International (a private international development firm) to conduct research for a USAID project called Durable Communities and Economic Opportunities (DCEO), known in Arabic as Tahfeez. Altai provides strategy consulting, research, and monitoring & evaluation services in the developing world and so far, we have worked in more than 50 countries in Asia, Middle East, and Eastern and Northern Africa. You can find more about the company on our website: <https://www.altaiconsulting.com/>.

Tahfeez (see: <https://www.usaid.gov/iraq/fact-sheets/durable-communities-and-economic-opportunities-dceotahfeez-project>) is a \$125 million project implemented in six governorates (Anbar, Baghdad, Basrah, Dohuk, Erbil, and Ninewa) between September 2019 and September 2024 . It has two specific objectives:

- 1- Advance the economic well-being of Iraqi communities by working with micro, small, and medium-sized enterprises (MSMEs) in the six governorates to support the development a more business-friendly ecosystem, expand opportunities for young Iraqi entrepreneurs to access tailored support, including cutting-edge business incubation services and in-kind grants, to help accelerate the growth of their businesses. Tahfeez also works with Iraqi business associations to strengthen private sector networks. Finally, through the Marla Ruzicka Iraqi War Victims Fund, the project is supporting eligible individuals through entrepreneurship, business acceleration, and enterprise growth services. This work is implemented by the Business Competitiveness and Job Creation Initiative (BCJCI) task order.
- 2- Increase the adaptive capacity, social stability, and resilience of vulnerable communities by working with selected communities impacted by conflict in the six governorates to develop locally-driven processes for identifying and resolving tensions sustainably and peacefully through inclusive community dialogue sessions and other practical solutions. Using tailored technical assistance, including skill building and facilitation support to match each community's needs, the project aims to contribute to long-term local stability. The project is also providing training and networking services to Iraqi victims of war through the Marla Ruzicka Iraqi War Victims Fund to help them gain high-quality and sustainable livelihoods. This work is implemented by the 100 Solutions for Stability (100 Solutions) task order.

Altai's research for Tahfeez includes two studies:

- a) **Political Economy Analysis (PEA):** The objective of the PEA is to explore the relationship between conflict drivers and economic growth (mainly how political economy affects SMEs' functioning) in the six governorates. It is to enable DCEO to more effectively understand how to operate its first specific objective (supporting business networks and supporting the development of SMEs) within the complex context of power and conflict in Iraq. The PEA will seek to understand who controls what and how that is related to the ethnoreligious differences. This is important to make DCEO aware of the structural constraints within which they can support SMEs and business networks in the selected business corridors. Besides the classical PEA approach, this study will give special attention to 1) SMEs' access to finance and capital, and more specifically the reasons for which Iraqi SMEs experience difficulties accessing credit, and 2) PEA dynamics in specific economic sectors (mainly agriculture, agri-food, e-commerce, and any other underserved sectors that stand out while conducting the PEA for each governorate).
- b) **Conflict Analysis (CA):** The objective of the CA is to conduct a participatory, community-driven conflict analysis in six sub-districts in Iraq: Kasnazan, Zummar, Al-Qosh, Bashiqa, Fallujah and Shatt al Arab.

B. Warm up

Interviewer to refer the introduction to give the interviewee an idea about the project.

- **Goal of the interview:** We are interviewing you regarding the first study: Political Economy Analysis (PEA). The aim of the interview is to understand, from your experience, the composition of the economy of the governorate of [name of relevant governorate]. By 'composition of the economy' we mean the vital economic sectors, the structural/ political landscape of these sectors and the most influential individuals/ groups in them. We are also interested in how this composition impacts the work of SMEs in the governorate, especially their ability to grow, access to finance, access to capital and investment, etc. The goal is to finally figure out the best interventions for Tahfeez to support SMEs and business networks in the governorate within the current political/ power landscape of the governorate and its connection to the rest of Iraq (especially surrounding governorates).
- **Break-the-ice questions:** Tell us about yourself in general (your career, achievements, etc.). Tell us also about your experience working on the economy of your governorate. Have you been involved in projects that seek to improve the business environment? Did you work with development actors supporting SMEs and business networks in your governorate?

C. Main economic characteristics, power dynamics and economic development activities in [name of governorate] governorate

- What are the main characteristics of the economy in your governorate? What are the main sectors, sources of livelihood, characteristics of the labor force,

- etc.? (Interviewer to also probe subtly to power and political dynamics: who controls what? What are the main economic subjects and how do they conflict? What is the role of the state and how does politics limit the economy in general? How do the political dynamics your governorate affect SMEs and how small entrepreneurs maneuver in this environment (i.e., structural constraints)?)
- What are attempts that have been done by development actors to support the economy (SMEs, business networks, business environment, etc.) in your governorate? What works what does not work? Are there general patterns that you can observe? What can Tahfeez learn and do better? (Interviewer to hint to some of the activities that Tahfeez has done with businesses and business networks to give the interviewee some ideas, more details are indicated in the sections below. Also, when the interviewee suggests ideas, interviewer to hint to a broad sense of likely costs and likely impacts of suggested interventions)

D. Sectors for start-ups and firm support

So far, under the economic growth component, DCEO has been providing:

- Support to Iraqi start-ups and entrepreneurs: so far in Sulaymaniyah, Mosul Space, Baghdad (and Anbar as an extension), Basrah, DCEO has worked with Iraqi incubators and accelerators to provide young Iraqis with world-class training, coaching and support to enable them to take a viable business start-up idea and turn it into a money-earner. Last year, for example DCEO supported 287 of them, including start-ups came from diverse fields, with ideas ranging from marketplaces for buyers and sellers of different products, to e-commerce sites for locally made products. Recent examples: We Care (an application that provides childcare services), Ish Hub (an online platform for jobseekers), Lani Cosmetics (a Kurdish makeup brand), and Jwane Design Recycling (a fashion design brand that upcycles used clothing).
- Firm level assistance for larger and more established SMEs: so far in all the targeted governorates, providing firm-level assistance that is designed to meet each individual firm where it stands, including support in material, equipment, in-kind grant, etc. In FY2021, BCJCI worked with 24 client firms, including firms mostly in the industrial sector, like food processing companies comprise but also agricultural producers, two poultry producers, and one large-scale potato farming business, and interesting companies like Nakhla – a unique services firm that is the first to provide integrated date palm care services.

Based on your knowledge and expertise:

- What do you think of this work generally? and What is your recommendation on supporting start-ups and firms in your governorate?
- Who are the start-ups/incubators that DCEO can support? Which are the firm types in your area that fit within DCEO's criteria of firms that can grow and have the ability to receive professional support in terms of material and equipment support, in-kind grants, etc.?

- Are there specific sectors where firms should be supported? Why these sectors and how do we support these businesses in these sectors? Meaning what type of specialization in the sector should we support? What type of businesses exist in these sectors (i.e., who are main players because in Iraq it is usually large, politically protected corporations vs. small businesses, the “missing middle”?) Generally, what are the limitations that these sectors must operate in your governorate? (i.e., political issues that limit growth, investment, etc. and security issues that limit movement, transportation, etc.). *(Interviewer to probe to sectors that DCEO is interested in such as agriculture, agri-food, e-commerce, and any other sector that is underserved in terms of access to knowledge, capital, service, etc., not in terms of donors’ programs.)*
- Specific questions for the agri-food sector if relevant: What processing is done in-country? What is the import penetration? If there are agri-processors in Iraq, are they using locally produced inputs? Or pursuing vertical integration (producing the agriculture products they need themselves)? Can we look at import substitution? Can we leverage investment with these entities to reach back to the farmer-level? Are Iraqi producers providing the inputs from these entities? If they are not, how can DCEO help them with that?

E. SMEs Access to Capital

So far, DCEO has also been providing **investment facilitation** for some companies in Iraq in partnership with an equity company that facilitates investment for private firms (CrossBoundary). Last year they managed to facilitate transactions for 11 companies across Iraq in various sectors, including early-stage technology, education, industrials, agribusiness, telecommunications, and fast-moving consumer goods.

Based on your knowledge and expertise:

- What do you think of this work generally? What is your recommendation on this work in your area regarding the access to capital idea? Do you know of any players? Does it have a chance in Iraq? Do you think it would work better than loans? *(Interviewer to hint to the fact that capital markets, i.e., private equity investors into SMEs etc., are super limited in Iraq, but it would be interesting to understand why, and the exceptions)*

F. SMEs access to Finance

In this area of support, so far, one of the main challenges that DCEO has been facing is that with the absence of a strong banking sector that is able to provide loans to SMES, what would have been a straightforward solution (investing in new production lines or other capital expenditures) has become a complex problem that local SMEs are unable to address.

Based on your knowledge and expertise:

- In your opinion, how would DCEO target this problem? *(Interviewee to hint to formal engagement of Iraqi commercial banks and the challenges it presents):*
- Legal issues that SMEs face: What is the process of registering SMEs today? How easy is it for SMEs to get established and operate within the existing business environment? *(Interviewer to hint the new SME law being discussed in parliament and its possible impact on business environment)*
- SMEs' access to finance and how it influences private sector economic activity: Access to finance to small businesses is very limited (especially in the 25k–500k loan amount segment), why is that gap there? How is that gap filled by informal lending networks?
- Use of credit and microfinance institutions: Who are the players, who provides it, what is the collateral, etc. What are some ways that formal microfinance can address the issue of SME's access to finance? Do these institutions exist in your governorate? What are the challenges they face? *(Interviewer to hint to legal challenges since in Iraq MFIs must register as NGOs under the directorate of the NGOs).*
- Transition away from a cash-based economy and e-commerce platforms: Is there potential for non-cash methods of payment? Would that be useful for SMEs? The main question here is how ready are businesses for such platforms? Knowing that on-deliver payment methods have more success, how does that limit e-commerce platforms in Iraq?

G. Business networks/associations

DCEO has as well been providing **support to business associations/networks**: Not very much happened in this direction in the past year but recently DCEO is conducting/planning events and conferences, such as access to finance and investment conference, microfinance workshop with Sanad, business associations roundtables, etc. Interestingly, they are currently planning a mapping of business associations and private sector networks in all Iraq, with IMMAP. For FY2022, in partnership with the Center for International Private Enterprise (CIPE), will support priority enabling environment actors to identify and alleviate systemic constraints.

Based on your knowledge and expertise:

- Who are the influential businesses/ businessmen in the relevant sectors in your governorate? *(Interviewer to probe political power/ control of sectors and business associations by certain groups. The key here is to explain how power and ethnoreligious dynamics impact business dynamics, formally and informally in the targeted governorate. The aim is to understand which interest groups dominate which sectors, or which steps of the value chains, and how. These interest groups can be tribes, ethnoreligious groups, families, political parties and/or militias.)*
- What is your recommendation on this work in your area regarding the support for business unions/ associations/ networks? Do you think it is a good idea to work with official associations? Or is it better to establish more private

networks for these businesses (especially small and medium ones) to lobby for their rights? If so, how can DCEO support in that?

H. How political economy impacts youth, minorities and women and the role they can play?

- What are the economic opportunities and/or constraints for vulnerable populations in your governorate (youth, minorities, and women), including, but not limited to, establishing SMEs, access to employment, etc.)?
- How does the structure of the political economy affect vulnerable segments of the population (youth, women, people with disability, etc.)?
- How can Tahfeez, sensitively and effectively, engage with marginalized groups (youth, minorities, and women) in business-oriented activities?

I. Wrap up

- Do you have any questions? Are there any ideas you wanted to mention that we did not ask you about? Any feedback?

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