

**Micro, Small and Medium-sized Enterprises in
Iraq; A Survey Analysis**

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October 2012

Executive Summary

The development of micro, small and medium-sized enterprises (MSMEs) must be an element in a comprehensive strategy designed to diversify the Iraq economy and promote the creation of more productive and decent jobs for women and men. Sustainable enterprise development, accommodating firms of all sizes across multiple sectors, is a key ingredient to successful private sector development.

This report provides an analysis of two surveys of MSMEs in Iraq in 2011. In all, 4,533 enterprises were surveyed to better understand the opportunities and challenges facing informal firms and to identify how reforms to the business environment could improve the conditions for MSME development.

The International Labour Organization (ILO) and United Nations Office for Project Services (UNOPS) have run the Private Sector Development Programme in Iraq (PSDP-I) in partnership with the Government of Iraq and other social partners, including the Economic Reform and Diversification Sector Outcome Team. PSD-I ran from 2008 to 2012 to create an effective, coherent, and comprehensive framework for private sector development in Iraq. The surveys reported on here provide important information for the finalisation of the PSD-I and the design of the next steps in supporting private sector development.

The surveys were designed following a review of all the major economic and business assessments that had been conducted in recent years. Using the findings of these assessments, the MSME surveys sought to dig deeper into the key issues affecting MSME development.

Previous assessments have shown that security is a major concern for many businesses. Many MSMEs were also found to operate with low levels of investment in technology or skilled labour. Access to markets is a major obstacle, with many MSMEs experiencing difficulties in obtaining the inputs they require. Similarly, access to financial and business development services is a problem.

Informality was identified among many assessment reports as a dominant feature. Many MSMEs in Iraq are informal and have chosen not to comply with the legal and regulatory framework because it is poorly enforced or irrelevant. It is for this reason that the two MSME surveys conducted in 2011 chose to focus specifically on the experiences of informal MSMEs around the country.

The first MSME survey collected data from 4,000 MSMEs in ten governorates and in urban and rural locations. The second survey drew from 533 respondents in only three governorates. Both surveys focused on informal MSMEs in four sectors: agriculture, manufacturing, construction, trade and retail, and other services.

Here are some of the most interesting and relevant general findings of the surveys:

- Less than ten percent of MSME respondents from the first survey had a college degree or higher. More than half (54%) had not completed secondary school.
- Most businesses included in the first survey were run by individuals (84%), while 12 percent were partnerships and only three percent reported being family businesses.
- Most respondent enterprises exhibited a low degree of sophistication. For example, the vast majority of responding enterprises (93%) did not operate a business bank account and while almost one-third of medium-sized enterprises managed a bank account, less than one percent of micro enterprises did.
- Very few respondents used the Internet for business purposes, although use of the Internet was found to increase with enterprise size, with 26 percent of medium-sized enterprises making use of this medium.
- While the majority of respondent enterprises use a mobile telephone for business purposes the rate of use was found to increase with the size of the enterprise.

Beyond these general issues, the surveys also unearthed a number of interesting issues related to registration, access to markets and business performance.

Business registration

Less than one percent of the respondent firms had attempted to register their business. However, there was some variation found based on the four types of business registration that is typically required in Iraq (i.e., registration with the tax authority, Social Security Fund, local municipality, the Directorate for Industrial Development, and the Companies Registrar). Thirty-two percent of respondents indicated they were registered with the tax authority. Only eight percent of respondents indicated they were registered with the Social Security Fund and only five percent indicated they were registered with the Directorate for Industrial Development. In contrast, more respondent enterprises were registered with the local municipality than any other form of official registration investigated. Thirty-six percent of respondents indicated they were registered with their local municipality. Nineteen percent of respondents indicated they were registered with the Companies Registrar.

When asked about which factors were most influential in their decision to register or not, respondents provide answers that varied across the five areas examined. When asked about which factors were most influential on the decision to register for tax, the three most important factors cited were the access to capital and resources, the access to government support services registration would provide, and the opportunities for tendering and exporting they may result from registration.

When asked about which factors were most influential on the decision to register with Social Security, the three most important factors cited were: the level of information and understanding on the registration process, the reporting

requirements that would result from registration, and the legal status of the business that would result from registration.

When asked about which factors were most influential on the decision to register with the local municipality, the three most important factors cited were: the fines and harassment they received from police and local officials for not being registered, the level of information and understanding on the registration process, and the reporting requirements that would result from registration.

When asked about which factors were most influential on the decision to register with the Directorate for Industrial Development, the three most important factors cited were: the level of information and understanding on the registration process, the reporting requirements that would result from registration, and the opportunities for tendering and exporting they may result from registration.

When asked about which factors were most influential on the decision to register a company, the four most important factors cited were: the opportunities for tendering and exporting they may result from registration, the level of information and understanding on the registration process, the reporting requirements that would result from registration, and the legal status of the business as a result of registration.

Dealings with government

The second survey sought to understand the extent to which respondents had dealt with government. Recognising their generally informal status, it was anticipated that respondents would avoid official observation, but also be subject to harassment by government officials. However, most respondents (78%) indicated they had never been inspected or visited by a public official. Furthermore, 89 percent indicated a public official had never harassed them.

Almost all respondents (99%) had never been invited to attend a meeting or forum with government and 39 percent indicated they were a member of a business organisation—typically a local chamber of commerce and industry.

Entering new markets

Almost all enterprises surveyed in the first survey were not involved in export or import markets: none sold their goods or services outside of the country and none imported goods or services from outside. Only 40 percent of respondent enterprises in the second survey indicated they had previously attempted to expand their enterprise by entering new markets. The most common problems experienced by those that had attempted this were lack of access to finance for expansion (32%), lack of information regard new market (31%), and high competition (31%).

Business performance

Reflecting on the last two years, 64 percent of respondent enterprises reported that their performance was “Okay”; 28 percent reported “Poor” performance and only eight percent rated their performance over the last two years as “Good”.

High competition and few market opportunities (29%), unresponsive government policies (28%), and the lack of access to credit (26%) were the most common reasons for this among the poor performers. However, those who were more buoyant about their past business performance expressed concern about their skills (49%), followed by high levels of competition in the market (27%).

Looking toward the next two years, respondents were more positive: 18 percent indicated their prospects were “Good”, 62 percent “Okay” and only 20 percent “Poor”. Many respondents identified the following areas of business support as “Important” to their future success: gaining access to loan finance, finding new markets to sell to, improving business management skills, and improving networks into new markets.

Critical challenges

The report concludes by identifying the critical challenges facing MSMEs in Iraq:

- Low capacity within many MSMEs;
- Legal and regulatory framework;
- Small market base;
- Policies and programmes;
- Dealing with government;
- Business representation;
- Reaching MSMEs; and
- Business and financial services.

Recommendations

Finally, the report proposes series of recommendations designed to inform the continuing processes in policy, strategy and programme development.

Recommendations for policy development:

- Government policy should connect MSME development with other economic and social development goals, including the promotion of productive and decent employment for women and men.
- Government policy should clearly define the MSME sector and identify critical target groups.
- Regular and structured public-private dialogue is essential.
- Policy coherence across all government ministries should be supported.
- A framework for monitoring changes in the MSME sector should be designed.

Recommendations for strategies and programmes:

- Specific attention should be given to helping firms obtain information about new markets, including foreign markets.

- Exploit the information channels MSMEs currently use to inform and educate MSME owners and managers of the programmes and services available to them.
- Diagnose and respond to market failures that limit the access MSMEs have to finance for start-up and expansion.
- Identify the strategic role of key institutions (such as those proposed by the UNDP, being the MSME Board and MSME Agency) in igniting the market mechanisms required to ensure sustainable outreach.

Recommendations for legal and regulatory reform:

- Attention should be paid to reducing informality and encouraging the registration of MSMEs, making it cheaper, more convenient and more beneficial to register.
- Because of the importance of encouraging MSMEs to increase their participation in foreign markets it is important to give priority to customs reform and other associated fields.
- Employment issues in MSMEs deserve further exploration in order to ensure the quality of employment is not diminished in the drive for more jobs.

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List of acronyms

BDS	business development service
CCC	Combined Company for Legal and Economic Investment Consultation (Firm commissioned to conduct the First and Second MSME Surveys in 2011)
CIPE	Centre for International Private Enterprise
COSIT	Central Organisation for Statistics and Information Technology
ERDSOT	Economic Reform and Diversification Sector Outcome Team
GDP	Gross Domestic Product
GoI	Government of Iraq
ILC	International Labour Conference
ILO	International Labour Organization
MFI	micro-finance institution
MSEs	micro and small enterprises
MSMEs	micro, small and medium enterprises
PPD	public-private dialogue
PSD	private sector development
PSD-I	Private Sector Development Programme in Iraq
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UNIFEM	United Nations Development Fund for Women
UNOPS	United Nations Office for Project Services

1 Introduction

Iraq needs to diversify its economic base and grow through increased levels of international trade. Oil currently dominates Iraq's economy, providing over 90 percent of government revenue and 80 percent of foreign exchange earnings. However, a sustainable and peaceful future requires the development of a more diversified economic base.

It is within this context that the promotion of micro, small and medium enterprises (MSMEs), along with the general development of the private sector and other forms of private investment promotion, is important. Given the right environment, MSMEs can be a vibrant and sustainable source of employment for women and men. They produce essential incomes for business owners and workers and their families, and provide necessary services and products. MSMEs add value to the economy through the mobilisation of domestic and foreign investment.

The International Labour Organization (ILO) and United Nations Office for Project Services (UNOPS) Private Sector Development Programme in Iraq (PSDP-I) was conceived and designed with Iraqi public and private stakeholders and other international stakeholders in an effort to create an effective, coherent, and comprehensive framework for private sector development in Iraq.

The programme aims to achieve:

- Sustainable and increased employment opportunities;
- Poverty reduction;
- The enhancement of the legal and regulatory framework which will allow an increase in sustained domestic and international investment;
- The development of a legal and regulatory framework designed to perpetuate an overall rational, coherent, and economic environment; and
- The diversification of future economic growth in Iraq in a gender inclusive and environmentally sustainable manner.

In early 2008, the United Nations Country Team for Iraq established an Economic Reform and Diversification Sector Outcome Team (ERDSOT). The ERDSOT is comprised of the following UN agencies: United Nations Development Programme (UNDP), ILO, United Nations Industrial Development Organisation (UNIDO), Food and Agriculture Organisation (FAO), United Nations Habitat, and the United Nations Development Fund for Women (UNIFEM).

The ERDSOT formulated the PSDP-I in 2008 with support from the Economic Reform and Diversification Policy Group in Baghdad, the Government of Iraq (GoI)—specifically the Prime Minister's Task Force for Economic Reform, the Ministry of Finance, Ministry of Planning and Development Cooperation, the Central Bank—and other key Iraqi institutions dealing with Iraq's economy.

The PSDP-I is structured along the two outcomes that mirror the ERDSOT Results Framework. The first outcome focuses on improving the policy and regulatory environment for enterprise development. The second outcome focuses on stimulating local economic recovery in three governorates (i.e., Anbar, Basra and Erbil) through private sector development (PSD).

The ILO has supported enterprise development as a means of creating employment for more than three decades. In 1998, International Labour Conference (ILC) adopted Recommendation 189, *Concerning the general conditions to stimulate job creation in small and medium enterprises*. This Recommendation encourages member States to design policies promoting efficient and competitive small enterprises that provide productive and sustainable employment under adequate social conditions. To achieve this, it is necessary to create conditions that provide access to credit, foreign exchange and imported inputs and fair taxation. It is also necessary to provide effective labour laws and regulations to raise the quality of employment in small enterprises and compliance to international labour standards.

In 2007, the ILC produced *Conclusions Concerning the Promotion of Sustainable Enterprises*. This calls on governments to act as a regulator, facilitator and promoter of sustainable enterprises (Para. 16) and on social partners to provide services that include knowledge management, training, awareness-raising, advice and guidance on how to access public and private services, links to research and consultancy resources, and advice on innovative practices at the workplace (Para. 17). The ILC outlines three roles for government in the promotion of sustainable enterprises:

- (1) Creating an enabling environment by ensuring the basic conditions for sustainable enterprise development listed earlier, including through the implementation and enforcement of labour and environmental standards;
- (2) Going beyond these basic conditions by proactively establishing programmes and policies to create incentives for enterprises to develop and behave in a responsible and sustainable way, for instance, through the dissemination of examples of best practice; and
- (3) Behaving as sustainable enterprises, both as employers and procurers of goods and services where applicable.

The Director General of the ILO says “promoting sustainable enterprises is about strengthening the institutions and governance systems which nurture enterprises”. This calls for new forms of cooperation between government, business, labour and society at large to ensure that the quality of present and future life and employment is maximized whilst safeguarding the sustainability of the planet.

This report comments on the findings of two surveys that the ILO-UNOPS sponsored in 2011. The Combined Company for Legal and Economic Investment Consultation (CCC), a local consulting firm, was commissioned to design and conduct the surveys.

The first survey was completed in 2011 and involved 4,000 MSMEs from ten governorates across the country. This survey, described as a “baseline survey”, intended to collect data that would give an overall profile of informal MSMEs across Iraq.

The second survey, conducted in 2012, captured data from 533 enterprises. It was designed to dig deeper into some of the key issues identified in the first survey.

The following chapter sets the scene in which this research was conducted. It examines the findings of other studies that informed the design of the two surveys.

Chapter 3 presents the main findings of both surveys, while Chapter 4 concludes with recommendations for moving ahead.

2 Challenges Facing PSD in Iraq

This chapter provides the general context in which the PSD-I programme has operated by briefly reviewing the business environment and major challenges facing private enterprises, including MSMEs.

2.1 General Legal, Economic and Social Conditions

Over the past three decades the Iraqi economy suffered from costly militarisation, three wars, pervasive state intervention and over a decade of international sanctions. As a result, Iraq's Gross Domestic Product (GDP) per capita is estimated to have dropped from over US\$3,600 in the early 1980s to between US\$700 and US\$1,000 in 2001. However, since May 2003 there has been a significant post-war economic and financial recovery, and Iraq's GDP rebounded quickly following the conflict.¹

Oil dominates Iraq's economy. It provides over 90 percent of government revenue and 80 percent of foreign exchange earnings.² Iraq's dependency on oil makes the economy vulnerable to oil price fluctuations and also sabotage attacks on the oil infrastructure. Thus, economic diversification is important in the long term, even if the oil sector continues to provide the basis for growth and stability in the medium term.

Iraq has a long trading history and its long-term future depends upon reintegrating Iraq within the global trading system. Thus, the government is pursuing a strategy to gain foreign investment in Iraq's economy. This includes an amendment to the National Investment Law, multiple international trade and investment events, as well as potential participation in joint ventures with state-owned enterprises (SOEs). Provincial councils also are using their budgets to promote and facilitate investment at the local level.

The Central Bank has successfully held the exchange rate at approximately 1,170 Iraqi dinar/US dollar since January 2009. Inflation has decreased consistently since 2006 as the security situation has improved. However, Iraqi leaders remain hard pressed to translate macroeconomic gains into improved lives for ordinary Iraqis.

The Iraq Constitution lays the foundation for the political rights required to establish and run a private enterprise. Article 23 of the Iraq Constitution provides for the protection of private property and states that the owner shall have the right to benefit exploit and dispose of property within the limitations of the law. This article guarantees every Iraqi citizen the right to own property anywhere in Iraq prohibiting only ownership of property for the purposes of demographic change. Unless exempted by law, no others (i.e., foreigners) may possess real estate in Iraq. Article 27 deals with public assets and the provisions related to the

¹ UK Foreign and Commonwealth Office, Middle East and North America, Iraq: <http://www.fco.gov.uk>

² US Central Intelligence Agency, Middle East, Iraq: <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>

preservation of state properties. Article 136 states that the Property Claims Commission shall continue its functions as an independent commission in coordination with the judicial authority and the executive institutions in accordance with the law.³

Transparency International's annual Corruption Perceptions Index ranks Iraq as the third worst country in the world for corruption in 2006, 2007, and 2008—and the fourth worst in 2009.⁴ By 2011, Iraq was ranked 175 out of the 183 countries assessed. Iraq had a score of 178 for 2008, which compares to a regional average of 76 and a Gulf country average of 49. The World Bank also placed Iraq at the bottom quartile with regard to governance.⁵

Unemployment remains a problem throughout the country. In July 2004 the Central Organisation for Statistics and Information Technology (COSIT) estimated unemployment at 26.8 percent. While this had reduced to 17.6 percent in November-December 2006, these official figures are not likely to represent the full extent of unemployment in the country. Unemployment is particularly high for young women and men aged 15-24, especially young women.

In 2007, COSIT (2007) reported that half of the workforce in Iraq is severely affected by an underperforming labour market, with unemployment and underemployment respectively at 17 and 30 percent of the workforce. The *Unmet Basic Needs Survey* (COSIT & UNDP 2007), of the same year, reported that over 55 percent of the population were facing serious economic hardship. The dominant role performed by SOEs in the Iraq economy has had a dramatic affect on employment. Productivity in these enterprises is poor and there have been job losses. New employment opportunities in the non-state economy have yet to emerge to begin filling the employment deficit.

The ILO claims that one of the main reasons for these high levels of unemployment is the “preponderance of formal employment in a highly urbanised labour market in which the State has been the dominant employer” (Amjad and Havers 2007:10). Government provides one-third of formal employment. Furthermore, in excess of 200 state-owned enterprises are largely considered as an “impediment to economic growth and improved productivity”. SOEs are a legacy of centrally planned policies and a significant drain on the budget, with more than three trillion Iraqi dinars (equal to three to five percent of the total budget) being spent on this sector.⁶ SOEs can crowd-out the markets in which new and emerging private enterprises can operate and reduce the access these enterprises have to finance, labour and other necessary inputs.

Since 2005, private sector investment in Iraq has averaged between three and four percent of annual Gross Domestic Product, which is considered too low to

³ Order 2/2006 replaced the Property Claims Commission with the Commission of Resolution of Real Property Disputes.

⁴ Transparency International website, accessed 20 October 2012: <http://www.transparency.org/>

⁵ Worldwide Governance Indicators, World Bank website, accessed 20 October 2012: <http://info.worldbank.org/governance/wgi/index.asp>

⁶ International Partners in Iraq (2010) *The Iraq Briefing Book*

generate a significant increase in economic activity and employment. While the oil sector accounts for around 65 percent of GDP, it employs only one percent of the workforce.

In 2003, the United Nations (UN) and World Bank produced a *Joint Needs Assessment* of the investment climate in Iraq. This report highlights job creation as “the single greatest developmental challenge” in the country.

It identifies two major private sector needs.

The first major private sector need identified is to encourage long-term investment. This should be done by building the institutional and policy framework for a vibrant private sector and supporting Iraq’s comparative advantages. This should involve support for the establishment of key public sector institutions; the strengthening of private sector institutions; and improved public-private dialogue, benchmarking, monitoring, and evaluation.

The second major private sector need identified in the joint assessment is to achieve a “medium-term payback”. This requires the development of an SME and Venture Capital Fund to prime the pump and the removal of key bottlenecks to trade and investment.

The World Bank’s Doing Business 2013 report ranks Iraq 165 out of 183 economies. This is a drop of two places in the last year (i.e., Iraq’s international ranking has declined in the last year). See the figure below.

Figure 1: Doing Business 2013, Iraq

Topic Rankings	Doing Business 2012 rank	Doing Business 2013 rank	Change in rank
Ease of Doing Business	165	167	-2
Starting a Business	177	177	No change
Dealing with Construction Permits	84	80	-4
Getting Electricity	46	47	+1
Registering Property	100	98	-2
Getting Credit	176	176	No change
Protecting Investors	128	124	-4
Paying Taxes	65	59	-6
Trading Across Borders	179	181	+2
Enforcing Contracts	141	141	No change
Resolving Insolvency	185	185	No change

SOURCE: World Bank (2012)

2.2 General Business Perspectives

In 2007, the US-based Centre for International Private Enterprise (CIPE) surveyed over 1,630 businesses throughout Iraq. The sample was randomly selected from the registers of various Iraqi chambers of commerce and the Iraqi Businessmen Union. While there were regional variations on the outcomes of the survey, most respondents indicated they were expecting improvements in government policies toward the business community and greater access to foreign markets.

Apart from security, the most commonly perceived obstacle to economic growth was Iraq's lack of legal and regulatory enforcement.

Despite this Iraqis were optimistic about the future, with more than three-fourths of the business owners anticipating growth in the national economy over the next two years. Almost half of the respondents said the business environment was better than the year before and 84% indicated that security was better than the previous year.

Thirty-nine percent of respondents wanted to see more laws and regulations for business. This is understood as a call for a better policy, legal and regulatory framework: one that is rule-based, transparent and easy to comply with, while at the same time protecting enterprises and their workers from anti-competitive behaviours and exploitation.

Then, in 2008, CIPE carried out a series of in-depth focus group consultations with more than 120 Iraqi business leaders in an effort to provide a deeper understanding of the issues they face in conducting business in Iraq (Alkebsi and Shkolniko 2009). Much of the focus group discussions centred on the need for regulatory reform as a means of jump-starting the Iraqi economy and attracting investment. The discussions illustrated the importance of balancing the need for new legislation with refining and ensuring enforcement and implementation of existing legislation. Moreover, the process through which such reforms are initiated and implemented – and not just their resulting outcome – is a defining feature of their success.

Three regulatory reform priorities were identified in the 2008 CIPE study:

- Updating existing laws pertaining to the business community and ensure their consistent and fair enforcement;
- Reducing red tape as it relates to conducting business operations; and
- Enacting the Investment Law of 2006 to promote inclusion of international firms in the Iraqi economy.

The focus group responses are generally consistent with CIPE's earlier surveys of the Iraqi business community, which have shown that 63 percent of Iraqi business owners consider regulatory reform as the most important issue facing the business community besides the security situation.

The CIPE consultations also dealt with the issue of corruption. Business leaders identified several major reasons for high levels of corruption in Iraq (Alkebsi and Shkolniko 2009). These included the lack of willingness by the government to combat corruption as it is part of many corrupt transactions, the unwillingness

and lack of skills in the media to report on corruption and pursue investigative journalism, the high levels of bureaucracy combined with opaque and conflicting laws, a weak judicial system, and a general lack of public awareness of the levels and costs of corruption.

A number of business assessments conducted in Iraq in recent years identify concerns with the lack of government transparency and levels of corruption. Many calls have been made for greater rule of law. Despite these concerns, there appears to be recognition that the government has begun the process of policy and legal reform in order to diversify the economy beyond its substantial oil base and to promote growth through increased international trade. This includes the reform of SOEs.

Reform of the policy and legal framework for PSD is a clear priority. Within this, specific attention is required to improve the legal, regulatory and administrative requirements for starting a business and international trade and investment, reform of taxation administration, improvements in the functioning of government ministries and agencies that regulate the economy and service the private sector, and public-private dialogue (PPD).

At the firm level, the above assessments highlight the need for better access to financial and business development services, skills development and other forms of productivity enhancements at the firm-level, and better representation of the business sector through business membership organisations.

2.3 ILO-UNOPS MSE Survey

In 2008, UNOPS and the ILO surveyed 950 MSEs in the northern, central and southern areas of Iraq to better understand the characteristics of the MSE sector and their operating environment (i.e., legislative, administrative, institutional) so as to identify their needs and challenges. The survey found that most MSEs operate informally with limited access to finance. Access to credit and to business development services (BDS) was found to be almost exclusively based on informal, interpersonal relationships, while the vast bulk of respondents were unaware of micro-finance institutions (MFIs).

Because MSE credit was found to be in “chronically short supply”, the report recommends that existing credit agencies expand their scope and make MSEs aware of their services. Programmes should be established to support the expansion of coverage by existing MFIs and the creation of new MFIs. A clear regulatory framework within which MFIs can operate should be established and MFIs supported in expanding their outreach.

The survey found that most BDS provided were donor or government-funded and did not appear sustainable. Thus, the survey report recommends the development of private BDS markets.

While there is some evidence of an increase in business start-ups in the central and northern areas, the lack of political stability and poor security situation clearly has an adverse affect on the number of women going into business. Women seem to have been withdrawing from the business arena, particularly in

the central and in southern areas.⁷ However, this drastic decline may also be down to a growing conservatism which views women as having a very particular role in society – a role that is not conducive to trading goods and services in the market place. As a result, the survey report recommends that women-specific business development interventions be provided in the short to medium term to ensure that women benefit from MSE support. This could include support from the ILO Strategy on Women’s Entrepreneurship Development.

The survey found the need for regulatory reform both at governorate and national levels to make registering a business or a business premises less bureaucratic and costly. The report also recommends the creation of “one-stop-shops” in each district to allow MSEs to obtain the information they require on regulations, credit and BDS in one place. Government, Employers’ Organizations, Workers’ Organizations and civil society could jointly administer these facilities.

2.4 USAID-Tijara Programme Assessments

In 2009, the USAID-Tijara programme conducted a series of assessments of SMEs in Iraq: *Market assessment: business constraints and opportunities at the business enabling environment and firm levels*.⁸ The 12 survey reports present a rich collection of knowledge on the SME sector. While considerable variation was found across these surveys based on locations and sectors, there were a number of interesting similarities.

Overall, the USAID-Tijara survey reports provide the following profile of SMEs in Iraq:

- Political instability and lack of security were the most common constraint to business identified by respondents in most if not all locations;
- In some cases the concern regarding security also related to high levels of crime and theft (i.e., 96% of respondents in Baghdad considered this a major concern);
- The vast majority of SMEs surveyed were found to be labour-intensive and did not invest much in technology or in the training of their workers;
- Female business-ownership is low, as is female participation in the SME workforce;
- Informality among SMEs is typically extremely high—the Diwaniyah survey report indicates that the national average of firms registered with the government is 29 percent;

⁷ This corresponds with the 2007 CIPE survey finding that showed a dramatic drop in the number of Iraqi firms that employ women: in the Fall of 2005, 63 percent said they employed women, while the 2007 survey showed that this number had dropped to 26 percent.

⁸ These were provincial assessments dealing with the provinces of Baghdad 2009, Salah ad Din 2009, Basrah 2010, Diwaniyah 2010, Diyala 2010, Erbil 2010, Karbala 2010, Kirkuk 2010, Muthanna 2010, Najaf 2010, Ninawa 2010, and Wasit 2010.

- Difficulty in obtaining the inputs required—many inputs were hard to get, expensive and of a poor quality (e.g., in Kirkuk 94 percent of respondents were concerned with customs delays);
- Official corruption was cited in a number of reports as endemic and affecting all aspects of business life (e.g., Baghdad, Karbala);
- Many SMEs lack access to finance and where finance was obtained, it was often expensive—in Diyala, for example, 93 percent of respondent SMEs obtained finance from family and friends rather than commercial banks;
- The lack of good governance and safeguards against unfair competition;
- Poor levels of participation in business membership organisations—the Diwaniyah survey report suggests this region has the highest level of membership at 40 percent, while the Karbala report indicates that 23 percent of SMEs are members of such organisations;
- In some areas electricity is hard for SMEs to get, inconsistent and expensive (e.g., Diwaniyah); and
- In Kirkuk, the slow payment by government and SOEs is cited as a major problem for SMEs in the area.

The USAID-*Tijara* survey also asked respondents to identify opportunities for SME development. This typically focused on the kinds of interventions that could be provided to support the growth of SMEs in the area. The most common responses to these questions were as follows:

- The need for business development services and specifically “management training”—the Erbil survey report indicates that many SMEs these services for free and recommends a change in the culture among businesspeople;
- Establish rule of law and greater transparency in government regulation and administration, including more transparent tax administration;
- A common recommendation across the 12 reports was the need for “training in information technology applications” such as Internet advertising, email communications and website development;
- The need for women business development programmes;
- Support business membership organisations and use these as channels for the provision of business development services;
- Improved dialogue between the SME community and government; and
- Improves access to finance, such as by helping commercial banks extend their services to the SME sector and by helping SMEs become better organised in their efforts to obtain bank finance.

2.5 Summary of Key Issues

There are a number of key issues emerging from the studies presented above.

Security is clearly a major concern for many businesses. While this is an unsurprising finding, it is interesting to note that this takes different forms. In some cases security refers to the disruptions that are a result of military activity, while in other case references are made to high levels of crime, including theft.

Many MSMEs appear to operate with low levels of investment in technology or skilled labour. Some parts of the country are poorly serviced in terms of utilities and infrastructure, which reduces the productivity of MSMEs in these areas.

Access to markets appears to be a major obstacle. MSMEs appear to experience significant difficulties in obtaining the inputs they require. Many inputs are hard to get, expensive and of a poor quality.

Access to financial and business development services is problem for many MSMEs. There appears to be a generally low awareness of the kinds of services on offer and poor access to these. However, the demand for financial and BDS also appears to outstrip supply. Within the micro-enterprise sector there appears to be a high demand for micro-finance, which is reported to be insufficiently regulated. There also appears to be a high demand for local business support services and a number of initiatives have been developed in this field in recent years.⁹ Moreover, there appears to be interest within the GoI for the development of an SME agency, which could oversee the government's support to this sector.

Female participation in the MSME sector is low, reflecting the broader employment profile of women in Iraq.

MSME participation in business membership organisations is reportedly low, although this appears to vary across the country.

Finally, informality is a dominant feature of many of these assessments. Clearly, many MSMEs in Iraq are informal and have chosen not to comply with the legal and regulatory framework because it is poorly enforced or irrelevant. It is likely, too, that these high levels of informality reflect high levels of unemployment and the efforts of Iraqis who need to find some form of employment in difficult times. Many MSMEs appear to be concerned with official corruption.

These issues set the scene for the two MSME surveys that were conducted in 2011/12. These surveys sought to better understand the experiences of informal enterprises and to inform the process of identifying strategic starting points for reform and for the formulation of an MSME policy and strategy. The findings of these surveys are presented in the following chapter.

⁹ The USAID-*Tijara* Provincial Economic Growth Program is a five-year initiative to promote private sector growth and employment in Iraq. It implements an integrated approach to MSME development, which includes support for the Small Business Development Centres.

3 Findings of the ILO 2012 MSME Surveys

Following the general background and assessments presented in the previous chapter, this chapter presents the main findings of the two MSME surveys conducted in 2011-2012.

In 2011, ILO-UNOPS commissioned a local survey team (Combined Company for Legal and Economic Investment Consultation, CCC), to undertake two surveys of the MSME sector in Iraq. These surveys were to focus primarily on informal MSMEs.

The first survey, described as a “baseline survey”, was conducted in 2011 and was intended to collect data that would give an overall profile of informal MSMEs across Iraq.

The second survey, conducted in 2012, was designed to provide an opportunity for the “refinement” of the first, by digging deeper into some of the key issues identified in the first survey.

These surveys are referenced in this document in the following manner:

- CCC (2011) *First MSME Survey Results*, ILO-UNOPS PSD-I, Bagdad
- CCC (2012) *Second MSME Survey Results*, ILO-UNOPS PSD-I, Bagdad

While this document provides a general analysis of the findings of both surveys, the survey reports identified above should be consulted for the full details on the survey findings, including the procedures followed for sampling.

The major goal of the informal MSME sector survey series was to collect representative statistical data to better understand the situation faced by informal MSMEs in Iraq. This includes the contribution MSMEs make to the socio-economic development of the country, the major needs of MSMEs and the barriers to their expansion. To improve the regulatory and wider business environment for the private sector, and specifically informal MSMEs, the nationwide surveys sought to identify barriers impeding MSME sector expansion and business stability. A set of recommendations would be formulated to guide future efforts toward economic diversification, income generation and employment creation.

The findings of these surveys were to support the activities of the tri-partite consultation body that brings together representatives of the GoI, business and workers in an effort to choose policies and measures that promote MSME sector development and generate more employment opportunities for the Iraqi workforce.

The surveys were conducted across the country covering all governorates of Iraq. For the purpose of these surveys, the following classification of MSME were used:

- Micro enterprises: enterprises with three or less employees including owner;
- Small enterprises: with four to ten employees including owner;
- Medium enterprises: with 11 - 50 employees including owner.

The term “enterprise” is used in a broad sense referring to any entity involved in the production of goods or services for sale or barter, including those that are owned and operated by one person and run from home, in special premises or without a fixed location.

Both surveys focused on informal MSMEs. This was defined as MSMEs that were not registered with the relevant agencies. However, as will be noted, despite being selected due to their lack of a business registration, some respondent enterprises reported registration with various agencies.

The survey team applied the international statistical definition of the informal sector adopted by the Fifteenth International Conference of Labour Statisticians (15th ICLS, 1993), informal sector enterprises:

- Private unincorporated enterprises, i.e. enterprises owned by individuals or households that are not constituted as separate legal entities and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of the owner;
- All or at least some of the goods or services are produced for sale or barter;
- The ISEs are not registered under specific forms of national legislation;
- Their employees are not registered; and
- The informal sector enterprises are engaged in non-agricultural activities, including secondary non-agricultural activities of enterprises in the agricultural sector.

The first MSME survey collected data from 4,000 MSMEs in ten governorates and in urban and rural locations.

The second survey drew from 533 respondents in only three governorates. The figure below provides a general overview of the surveys, identifying governorate, enterprise size, and the sex of the respondents.

Figure 2: First and Second MSME Survey Respondents by Governorate, Size and Sex

Governorate	Micro		Small		Medium		Totals
	M	F	M	F	M	F	
FIRST SURVEY							
Nineveh	395	1	42	0	2	0	440
Kirkuk	190	8	19	0	3	3	220
Erbil	276	0	53	0	15	0	344
Anbar	236	6	63	2	1	0	308
Baghdad	1008	65	203	3	11	0	1209
Babylon	265	8	43	0	0	0	316
Wasit	185	8	17	0	0	0	210
Salah Al□ Din	205	3	55	0	1	0	264
Qadisiya	181	6	29	0	0	0	216
Basrah	348	11	29	2	2	0	392
Totals	3289	116	553	7	35	0	4000
SECOND SURVEY							
Nineveh	97	1	11	0	2	0	111
Baghdad	251	16	51	1	4	0	323
Basrah	86	3	7	1	2	0	99
Totals	434	20	69	2	8	0	533

SOURCE: CCC (2011, 2012)

Ninety-five percent of respondents to the first survey were in urban locations.

Both surveys adopted a similar sample profile in terms of the industry sector or economic activities for the respondent enterprises. See the figure below.

Figure 3: First and Second Survey Sample by Sector

Economic Activity (ISIC)	First Survey		Second Survey	
	Number	%	Number	%
Agriculture	184	4.6	30	5.6
Manufacturing	388	9.7	46	8.6
Construction	720	18.0	102	19.2
Trade and Retail	2240	56.0	291	54.6
Other Services	468	11.7	64	12.0
Totals	4000	100.0	533	100.00

SOURCE: CCC (2011, 2012)

3.1 Profile of MSME Owners

The profile of respondents created by the first and second surveys largely reflects the sampling criteria that were used. Little variation across governorate or industry sector was observed in either the first or second surveys.

Any observable differences in the profiles between the first and second surveys do not warrant significant attention. In general, more than fifty percent of respondents were 36 years or older (59.4% in the first survey and 73.3% in the second).

The figure below provides an overview of the ages of respondents to each survey.

Figure 4: First and Second Survey Respondents by Age and Enterprise Size

Age	Micro	Small	Medium	Total	%
FIRST SURVEY					
<15	6	1	0	7	0.2
15-24	303	13	0	316	7.9
25-35	1182	110	6	1298	32.5
36-46	1270	247	12	1529	38.2
<46	644	189	17	850	21.2
SECOND SURVEY					
<15	1	0	0	1	0.2
15-24	18	0	0	18	3.4
25-35	112	10	1	123	23.1
36-46	168	20	1	189	35.4
<46	155	41	6	202	37.9

SOURCE: CCC (2011, 2012)

Less than ten percent of MSME respondents had a college degree or higher. More than half (54%) had not completed secondary school.

Figure 5: First Survey: Education of MSME owner

Entity	Micro	Small	Medium	Total	%
Illiterate	259	197	66	522	5.6
Read & Write	917	549	142	1608	17.0
Primary School	1940	892	136	2968	31.4
Secondary School	1409	544	71	2024	21.4
High School	1006	369	37	1412	15.0
College Degree	690	189	19	898	9.5
Post Graduate	7	0	0	7	0.1

SOURCE: CCC (2011)

3.2 Profile of MSMEs

Most businesses included in the first survey were run by an individual (84%), while 12 percent were partnerships and only three percent reported being a family business.

Figure 6: First Survey: Business Structure

Entity	Micro	Small	Medium	Total	%
Individual	2948	411	21	3380	84.5
Partnership	337	131	14	482	12.1
Family Business	111	17	0	128	3.2
Other	9	1	0	10	0.2

SOURCE: CCC (2011)

However, the above figures do not correspond with the finding from the same survey that shows 50.4 percent of respondents indicating their business were family owned. See figure below.

Figure 7: First Survey: Family Ownership

	Micro	Small	Medium	Total	%
Family	1260	361	23	1644	50.4
Not Family	1109	483	28	1620	49.6

SOURCE: CCC (2011)

The workforce of respondent MSMEs was found to be considerably younger than the owners. While 59.4 percent of the respondent MSME owners were aged 36 years or more, only about one-third (33.4%) of the workers were in this age category.

Figure 8: First Survey: Age of MSME Workers

	Micro	Small	Medium	Total	%
< 18 years	694	387	45	1126	11.9
18-35 years	3288	1587	287	5162	54.7
> 35 years	2245	767	139	3151	33.4

SOURCE: CCC (2011)

3.3 Levels of Formality

Both surveys focused on informal enterprises. However, the determinants of this sampling have been difficult to identify. Certainly, the respondent enterprises exhibit a low level of sophistication. For example, as the figure below shows, the vast majority of responding enterprises (93%) did not operate a business bank account. While almost one-third of medium-sized enterprises managed a bank account, less than one percent of micro enterprises did.

Figure 9: First Survey: Operate a Bank Account

Have Iraqi Bank Account?	Micro	Small	Medium	Total	%
Yes	202	82	11	295	7.4
No	3202	478	24	3705	92.6
% Yes	0.6	6.8	31.4	7.4	-

SOURCE: CCC (2011)

Investigating the use of information and communications technology (ICT) produced some interesting results. As the figure below shows, use of the Internet for business purpose is almost non-existent among micro-enterprises. However, Internet use increases with enterprise size, with 26 percent of medium-sized enterprises making use of this medium.

This trend is repeated when the use of mobile telephones for business purposes is investigated. Overall, the majority of respondent enterprises use a mobile telephone for business purposes and the rate of use increases with the size of the enterprise.

Figure 10: First Survey: Use Internet and Mobile Phone for Business Purposes

	Micro	Small	Medium	Total	%
INTERNET USE IN BUSINESS					
Use Internet	112	59	9	180	4.5
Do Not	3293	501	26	3820	95.5
Yes %	0.03	10.5	25.7	4.5	-
MOBILE PHONE IN BUSINESS					
Use Mobile	2346	485	32	2863	71.6
Do Not	1059	75	3	1137	28.4
Yes %	68.9	86.6	91.4	71.6	-

SOURCE: CCC (2011)

When examining the topic of business registration, it is of no surprise, given the sampling undertaken, that most respondents were not registered and had not attempted to register. In firms of all three enterprise-size categories sampled, less than one percent had attempted to register their business.

Figure 11: First Survey: Attempted Business Registration

Entity	Micro	Small	Medium	Total	%
Yes	255	110	7	372	9.3
No	3150	450	28	3628	90.7
Yes %	0.07	0.20	0.20	9.3	-

SOURCE: CCC (2011)

The second survey sought to better understand the issues associated with registration. This survey recognised that enterprises are required to register with a number of government agencies:

- Tax authority;
- Social Security Fund;
- Local municipality;
- Directorate for Industrial Development; and
- Companies Registrar.

The issues affecting registration with each of these agencies were investigated and a summary of the findings is presented below.

Tax Registration

Thirty-two percent of respondents indicated they were registered with the tax authority. When asked about which factors were most influential on the decision to register or not, the three most important factors cited were:

- The access to capital and resources;
- Access to government support services; and
- The opportunities for tendering and exporting they may result from registration.

Social Security Registration

Only eight percent of respondents indicated they were registered with the social security fund. When asked about which factors were most influential on the decision to register or not, the three most important factors cited were:

- The level of information and understanding on the registration process;
- The reporting requirements that would result from registration; and
- The legal status of the business as a result of registration.

Registration with Local Municipality

Compared with the first two areas of registration examined, more respondent enterprises were registered with the local municipality than any other form of official registration. Thirty-six percent of respondents indicated they were registered with their local municipality.

When asked about which factors were most influential on the decision to register or not, the three most important factors cited were:

- The fines and harassment they received from police and local officials for not being registered,
- The level of information and understanding on the registration process; and
- The reporting requirements that would result from registration.

Registration with Directorate for Industrial Development

Only five percent of respondents indicated they were registered with the Directorate for Industrial Development. When asked about which factors were most influential on the decision to register or not, the three most important factors cited were:

- The level of information and understanding on the registration process;
- The reporting requirements that would result from registration; and
- The opportunities for tendering and exporting they may result from registration.

Company Registration

Nineteen percent of respondents indicated they were registered with the Companies Registrar. When asked about which factors were most influential on the decision to register or not, the four most important factors cited were:

- The opportunities for tendering and exporting they may result from registration;
- The level of information and understanding on the registration process;
- The reporting requirements that would result from registration; and
- The legal status of the business as a result of registration.

Dealings with Government

Finally, the second survey sought to understand the extent to which respondents had dealt with government. Recognising their generally informal status, it was anticipated that respondents would avoid official observation, but also be subject to harassment by government officials.

Most respondents (78%) indicated they had never been inspected or visited by a public official. Furthermore, most (89%) indicated a public official had never harassed them. Of those who had been harassed, about a half (56%) claimed the official had requested an illegal fee, while 44 percent claimed they were threatened with imprisonment. Most threats (70%) came from local officials, while some (25 percent) came from health inspectors. Threats from police were very low (5%).

Almost all respondents (99%) had never been invited to attend a meeting or forum with government.

Thirty-nine percent of respondents reported membership of a business organisation. This was typically membership of the local chamber of commerce and industry.

3.4 Entering New Markets

Because business development is based on the access firms have to new or expanding markets, the MSME surveys sought to better understand the issues facing respondents in this field.

The figure below shows the limited extent to which respondents to the first survey are participating in import and export markets. The involvement of respondents in these markets was not statistically significant. While the involvement appeared to increase with enterprise size, this cannot be reported with any degree of confidence.

Figure 12: First Survey: Involved in Export and Import

	Micro	Small	Medium	Total	%
INVOLVED IN EXPORT					
Yes	3	4	1	8	0.00
No	3402	556	34	3992	100.00
Yes %	0.00	0.00	0.03	0.00	-
INVOLVED IN IMPORT					
Yes	13	13	3	29	0.00
No	3392	547	32	3971	100.0
Yes %	0.00	0.02	0.08	0.00	-

SOURCE: CCC (2011)

This issue was investigated further in the second survey. Only 40 percent of respondent enterprises indicated they had previously attempted to expand their enterprise by entering new markets. The most common problems experienced by those that had attempted this were:

- Lack of access to finance for expansion (32%);
- Lack of information regarding new market (31%); and
- High competition (31%).

The second survey sought to better understand how MSMEs obtained information. This would help to design strategies to promote MSME development.

When asked about the typical sources of information and advice, respondents answered in the following manner:

- Other business owners (30%);
- Newspapers (26%);
- Government publications (23%); and
- Chambers of commerce and industry (15%).

The second survey also asked respondents to rate themselves along four key areas from one to five (i.e., 5 indicating highest rating, 1 the lowest):

- Skills in business management: 87 percent of respondents scored themselves a 4 or 5 (with 60% scoring themselves a 5);
- Knowledge of the markets you operate in: 86 percent of respondents scored themselves a 4 or 5 (with only 35% scoring themselves a 5);
- Business networks: 21 percent of respondents scored themselves a 4 or 5; and
- Knowledge of business support programmes: five percent of respondents scored themselves a 4 or 5.

3.5 Business Performance

Beyond the investigation into market access, the surveys sought to understand how its respondents were performing in business and what was required to improve this performance. The second survey asked respondents to indicate how well they considered their business had performed in the last two years. Sixty-four percent of respondent enterprises reported that their performance over the last two years was “Okay”; 28 percent reported “Poor” performance and only eight percent rated their performance over the last two years as “Good”.

When asked to indicate the factors that most affected their business performance in the last two years, the following factors were cited most frequently by those who reported their performance as “Poor”:

- High competition and few market opportunities (29%);
- Unsupportive government policies (28%); and
- Lack of access to credit (26%).

Those who had reported their business performance as “Okay” or “Good” indicated the following factors:

- I don’t have the skills or experience to do better (49%)
- High competition and few market opportunities (27%); and
- Lack of access to credit (18%).

These findings supplement the findings of the first survey in which respondents were asked to identify the major constraints to business expansion. The figure below presents these results, indicating the concerns around a lack of government support, poor utilities, inadequate transport and security. These findings correspond with the other assessments presented in Chapter 2.

Figure 13: First Survey: Business Constraints

Entity	Micro	Small	Medium	Total	%
Short of manpower	78	39	8	125	1.0
Shortage of Electricity	1959	339	22	2320	18.3
Security Situation	1441	270	11	1722	13.6
Competition with import	930	168	13	1111	8.8
Provision of raw materials	551	130	12	693	5.5
Transportation charges	1165	246	17	1428	11.3
Absence of govt. support	2065	351	19	2435	19.3
Adverse environment	347	69	6	422	3.3
Shortage of basic services	1678	291	12	1981	15.7
Other	345	60	3	408	3.2

SOURCE: CCC (2011)

When asked during the second survey to look forward and indicate how they anticipate their business will perform in the coming two years, 18 percent indicated “Good”, 62 percent “Okay” and only 20 percent “Poor”.

Those who anticipate the next two years will see their business performing poorly indicated this as due to the following reasons:

- The overall environment for small business is deteriorating (20%);
- Utilities (water, electric, gas) are less accessible and available (19%);
- The security situation is progressively deteriorating (17%); and
- Infrastructure is deteriorating (16%).

Those who anticipate the next two years will see their business performing “Good” or “Okay” indicated this as due to more accessible utilities (water, electric, gas) and a better business environment.

Respondents were asked in the second survey to identify the areas where support could improve their future success. In response, the following inputs were cited as “Important” in order of frequency:

- Gaining access to loan finance;
- Finding new markets to sell your goods/services;
- Improving my skills in business management; and
- Improving my networks into new markets.

The following inputs were cited as “Not Important” in order of frequency:

- Getting advice on how to manage my stock better;
- Participating in local business organizations; and
- Getting advice on how to win government contracts.

In addition, respondents indicated the type of government support they considered important to improve their business performance. The top five types of support indicated were:

- Infrastructure (electricity, water, sewage, paving);
- Financial loans;
- Fixed and proper places to practice business;
- Raw materials for production and services; and
- To ease the official procedures (routine).

3.6 Summary of Highlights

The key highlights of the findings of the two surveys are presented below. This helps to set up the conclusions and recommendations presented in the following chapter.

General Highlights

Less than ten percent of MSME respondents from the first survey had a college degree or higher. More than half (54%) had not completed secondary school.

Individuals own the vast majority of respondent enterprises (84%). Only 12 percent of respondents were in partnerships and only three percent reported being family businesses.

Most respondent enterprises exhibited a low degree of sophistication. For example, the vast majority of responding enterprises (93%) did not operate a business bank account and while almost one-third of medium-sized enterprises managed a bank account, less than one percent of micro enterprises did.

Very few respondents used the Internet for business purposes, although use of the Internet was found to increase with enterprise size, with 26 percent of medium-sized enterprises making use of this medium.

While the majority of respondent enterprises use a mobile telephone for business purposes the rate of use was found to increase with the size of the enterprise.

Business registration

Less than one percent of the respondent firms had attempted to register their business. However, there was some variation found based on the four types of business registration that is typically required in Iraq (i.e., registration with the tax authority, Social Security Fund, local municipality, the Directorate for Industrial Development, and the Companies Registrar): where 32 percent of respondents indicated they were registered with the tax authority, only eight percent were registered with the Social Security Fund and only five percent with the Directorate for Industrial Development. In contrast, more respondent enterprises were registered with the local municipality than any other form of official registration investigated.

When asked why they were not registering, most complained about the costs of registration and the associated reporting costs, as well as the time required to register, including time taken in traveling or waiting. The most common reasons cited in favour of registration were the subsequent access this provided to insurance and protection, government support programmes, and financial resources.

Dealings with government

Most respondents (78%) indicated they had never been inspected or visited by a public official. Furthermore, 89 percent indicated a public official had never harassed them. Almost all respondents (99%) had never been invited to attend a

meeting or forum with government and 39 percent indicated they were a member of a business organisation—typically a local chamber of commerce and industry.

Entering new markets

Almost all enterprises surveyed in the first survey were not involved in export or import markets: none sold their good or services outside of the country and none imported goods or services from outside. Only 40 percent of respondent enterprises in the second survey indicated they had previously attempted to expand their enterprise by entering new markets. The most common problems experienced by those that had attempted this were lack of access to finance for expansion (32%), lack of information regarding new markets (31%), and high competition (31%).

The most important source of information and advice for MSMEs was found to be other business owners (30%). The other sources were: newspapers (26%), government publications (23%) and chambers of commerce and industry (15%). Respondents rated their skills in business management and their knowledge of markets highly, but were less confident about their business networks and their knowledge of business support programmes.

Business performance

Reflecting on the last two years, 64 percent of respondent enterprises reported that their performance was “Okay”; 28 percent reported “Poor” performance and only eight percent rated their performance over the last two years as “Good”. High competition and few market opportunities (29%), unsupportive government policies (28%), and the lack of access to credit (26%) were the most common reasons for this among the poor performers. However, those who were more buoyant about their past business performance expressed concern about their skills (49%), followed by high levels of competition in the market (27%).

Looking toward the next two years, respondents were more positive: 18 percent indicated their prospects were “Good”, 62 percent “Okay” and only 20 percent “Poor”. Many respondents identified the following areas of business support as “Important” to their future success: gaining access to loan finance, finding new markets to sell to, improving business management skills, and improving networks into new markets.

4 Conclusions and Recommendations

This chapter draws conclusions from the general assessments and survey findings presented earlier in this report. It then presents a series of recommendations for guiding further policy and strategy developments.

4.1 Conclusions: Challenges to Sustainable Enterprise Development

The conclusions that can be drawn from the ILO-UNOPS surveys and the assessments conducted by other agencies are presented below as challenges to sustainable enterprise development.

The challenge of low capacity

Many MSMEs in Iraq have been found to have a low capacity for competing effectively in new and growing markets.

The ILO-UNOPS surveys indicate that less than ten percent of MSME respondents had a college degree or higher and more than half had not completed secondary school.

Most enterprises were simply organised, with individuals running 84 percent of the MSMEs surveyed by the ILO-UNOPS.

Challenges of the legal and regulatory framework

The assessments summarised in Chapter 2 highlight how reform of the legal and framework for PSD is a clear priority. Within this, specific attention is required to improving:

- The legal, regulatory and administrative arrangements for starting a business (i.e., registering a business and obtaining the necessary permits) and protecting investors;
- The administration of taxation; and
- The efficiency of customs and other cross-border trading regulations.

The reform of government ministries and agencies that regulate the economy and service the private sector is also required. Government programmes and services need to be improved and become more focused on the specific needs and opportunities of the Iraq business community.

Informality is a dominant feature of many assessments conducted by other agencies. Clearly, many MSMEs in Iraq are informal and have chosen not to comply with the legal and regulatory framework because it is poorly enforced or irrelevant. It is likely, too, that these high levels of informality reflect high levels of unemployment and the efforts of Iraqis who need to find some form of employment in difficult times.

The ILO-UNOPS surveys targeted informal, unregistered firms. Even these firms were more likely to register with the local municipality and tax authority than

with the Social Security Fund and the Directorate for Industrial Development. The greatest obstacle to registration appears to be the costs and time associated with registering.

The challenge of a small market base

Almost all enterprises surveyed by ILO-UNOPS were only involved in local markets. None were involved in export or import markets. Only 40 percent of respondent enterprises in the second survey indicated they had previously attempted to expand their enterprise by entering new markets.

The ILO-UNOPS surveys identified the high competition and few market opportunities as a major constraint on business growth.

The most common problems experienced by those that had attempted this were lack of access to finance for expansion, lack of information regarding new markets, and high competition.

Challenges of the policies and programmes

One third of the respondents to the ILO-UNOPS surveys expressed a concern with unsupportive government policies. There is a clear need for government policy to identify the support requirements of MSMEs in the country and to connect its response to these requirements in an integrated and comprehensive manner. Government should lead the process of policy and programme formulation in close partnership with the business community as well as other civil society groups, including Workers' Organisations.

The challenge of dealing with government

Most MSMEs have very little contact with government. Some 78 percent had never been inspected or visited by a public official.

Practically all respondents had never been invited to participate in a meeting with government. This issue is linked to the challenge of business representation (see below) because it is business membership organisations that typically provide a means for business to discuss their concerns with government, whether at a national, governorate or municipality level.

The challenge of business representation

The assessment reports reviewed in Chapter 2 typically report that MSME participation in business membership organisations is low, although this appears to vary across the country. Better representation of the business sector through business membership organisations and participation in public-private dialogue is a priority.

Only 39 percent of the respondents to the ILO-UNOPS surveys indicated they were a member of a business organisation—typically a local chamber of commerce and industry. This affects the ability of MSMEs to raise their concerns with government as well as to share relevant information with one another on business development issues and markets.

The challenge of reaching MSMEs

The most important source of information and advice for MSMEs was found to be other business owners (30%). The other sources were: newspapers (26%), government publications (23%) and chambers of commerce and industry (15%). Respondents rated their skills in business management and their knowledge of markets highly, but were less confident about their business networks and their knowledge of business support programmes.

The vast majority of responding enterprises (93%) did not operate a business bank account. In the case of micro enterprises, less than one percent managed a bank account.

Very few micro and small enterprises use the Internet for business purposes. This frequency increased with enterprise size as 26 percent of medium-sized enterprises reported making use of the Internet for business purposes.

While the majority of respondent enterprises use a mobile telephone for business purposes the rate of use was found to increase with the size of the enterprise.

The challenge of business and financial services

Research by other agencies cited in Chapter 2 confirms the view that there is a generally low-level of awareness of the kinds of business and financial services on offer and poor access to these. However, the demand for business and financial services also appears to outstrip supply. MSMEs require better access to business and financial services—this includes the deepening and development of financial markets (e.g., improved banking services, venture capital and SME financing) along with systemic improvements in the provision of non-financial business services.

Within the micro enterprise sector there appears to be a high demand for micro-finance, which is insufficiently regulated. There also appears to be a high demand for local business support services and a number of initiatives have been developed in this field in recent years. Skills development and other forms of productivity enhancements at the firm level are also required.

One of the most interesting findings of the ILO-UNOPS surveys was that among the respondents that had rated their business performance over the last two years as “Okay” or “Good”, half indicated concern with their business management skills and experience. Thus, despite doing quite well, many enterprise owners and managers lack confidence in their own skills.

The first ILO-UNOPS survey reports that 76 percent of its respondents were not interested in participating in business training. Indeed, 95 percent of respondents had not previously participated in any form of business management training. However, this finding probably speaks more to the awareness of MSME owners and managers to the concept of business management training, than it does to the demand for BDS. Indeed, other studies of the MSME and SME sectors report a high demand for BDS services as well as financial services.

Almost one-third of respondents to the ILO-UNOPS surveys identified the lack of access to credit as the most common reason for the poor performance of their

business in the last two years. Many more cited access to loan finance as an important ingredient to the future success of their business.

The most common demand for development assistance was in gaining access to loan finance, finding new markets to sell to and improving market networks, and improving business management skills.

4.2 Recommendations

Drawing from the above challenges facing MSMEs in Iraq, the following recommendations are proposed to inform the continuing processes in policy, strategy and programme development.

Recommendations for policy development

The following recommendations are made to inform the formulation of government policy that promotes the development of sustainable enterprises in Iraq:

- Government policy should be formulated that connects MSME development with the pursuit of other economic and social development goals, including the promotion of productive and decent employment for women and men.
- Government policy should clearly define the MSME sector and identify critical target groups.
- Because reform is a continual process that requires close and regular engagement between government and the business community. Regular and structured public-private dialogue is essential if government's reform efforts are to remain focused on the practical and priority concerns of private enterprises.
- Policy coherence across all government ministries should be supported. This includes the need for a clear and consistent link between the National Development Plan for 2013-17, the proposed SME Law and the proposed Law on Supporting Income Generating Micro-enterprises.
- A framework for monitoring changes in the MSME sector should be designed. This should include the monitoring of the quantity and quality of employment in the MSME sector on a gender-disaggregated basis.

Recommendations for strategies and programmes

The following recommendations are made to inform the design of strategies and programmes that promote the development of sustainable enterprises in Iraq:

- Access to markets is critical for enterprise growth and competitiveness. Specific attention should be given to helping firms obtain information about new markets, including foreign markets. This includes markets for business inputs as well as markets to sell to. MSMEs experience significant difficulties in obtaining the inputs they require—many inputs are hard to get, expensive and of a poor quality.

- The ILO-UNOPS survey has provided some interesting insights into the ways MSME owners and managers obtain information. These information channels should be exploited further to inform and educate MSMEs about the programmes and services available to them.
- There are a number of market failures that limit the access MSMEs have to finance for start-up and expansion. More investigation into the functioning of financial markets is required to better understand how MSMEs are excluded from these. Reforms that stem from this investigation are likely to involve the revision of government legislation and the organisations that monitor and provide financial services, including commercial banks and micro-finance institutions.
- As with the financial market failures referred to above, there are sector-specific markets and value chains that need to be assessed in more detail to better understand how they can be made more inclusive and effective. Based on the diagnosis, this will involve the reform of government institutions and regulatory agencies as well as private actors, such as standards agencies, sector associations, and others.
- Further investigation is required to better understand the ways in which MSMEs obtain finance and to examine these markets in order to design interventions that improve the access MSMEs have to finance that can be used to fuel growth.
- The establishment of the proposed MSME Board and MSME Agency warrant careful attention. While these structures present the opportunity to focus on the specific needs of the MSME sector and coordinate the government's response to these, care should be taken to ensure the services provided by these structures ignite the market mechanisms required to ensure sustainable outreach.

Recommendations for legal and regulatory reform

The following recommendations are made to create a more conducive legal and regulatory framework for sustainable enterprise development in Iraq:

- Attention should be paid to reducing informality and encouraging the registration of MSMEs, making it cheaper, more convenient and more beneficial to register. Informality is a dominant feature of the MSME sector in Iraq, especially micro and small enterprises. However, it is clear that responses to registration are not uniform. Tax registration is comparatively high, as is local municipal registration—although this varies. Registration with social security and the Directorate for Industrial Development is low, requiring further attention.
- Because of the importance of encouraging MSMEs to increase their participation in foreign markets it is important to give priority to customs reform and other associated fields. The *Doing Business 2013* report indicates that some improvement in trading across borders has occurred in the last year, but there is clearly a long way to go.

- Employment issues in MSMEs deserve further exploration in order to ensure the quality of employment is not diminished in the drive for more jobs. Similarly, attention should be given to boosting enterprise competitiveness through improvements in productivity and the ways legal and regulatory reform can contribute to this.

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