

IOM Iraq

LIVELIHOOD POLICY BRIEF NO.5

TARGETING SME'S INVESTMENT READINESS THROUGH DATA-DRIVEN HEURISTICS

FEBRUARY 2023



Ministry for Foreign Affairs of Finland



KEY FINDINGS

The United Nations' International Organization for Migration (IOM)'s Enterprise Development Fund (EDF) is an innovative livelihoods approach to contribute to economic recovery and private sector revitalization in Iraq through tailored support to small and medium enterprises (SMEs).

In April 2022, IOM conducted a pilot study of 265 SMEs enrolled in the EDF program, of which 203 agreed to participate. This data provides useful insights into the characteristics of these firms and their business owners, their current practices and economic situation, and the challenges they face. The data also helps the EDF programme and other development partners to understand whether the firms want to expand, how they want to expand, and what they might need to help them do so.

On average, surveyed firms employ ten workers and made a revenue of 5,814 USD through sale of products and services in the four months prior to the survey. Raw materials and total salaries are the most significant expenditure categories for SME owners (6,177 USD and 4,938 USD, respectively). Between December 2021 and March 2022, the average profit was 1,891 USD. According to the SME owners, the average initial capital was 9,713 USD, and the firms' average long-term and short-term assets were, respectively, 38,992 and 58,769 USD. However, the distributions of these variables have long tails to the right, with a relatively small number of larger firms skewing the mean. The median initial capital, which provides a better measure of the situation of the typical firm enrolled in EDF, was 4,000 USD, and long-term and short-term investments were 8,000 USD each.

In the sample, most SME owners use personal savings as the primary business financing (77%). However, saving is

challenging for most of the surveyed firms. The principal reason for having very little income after paying all business expenses (42%). Few firms borrow money from traditional loans (23%) or are interested in receiving new investors (30%). Although 63% of the surveyed businesses faced financial issues, 84% planned to expand their current products or services. For marketing, SME owners use mostly social media (68%) and business websites (53%). The principal management strategies are maintaining annual records of income, expenditure, cash flows, assets, and liabilities (61%), paying bills on time (54%), and asking consumers their opinion about the products (37%).

The data supports existing evidence that credit constraints are a key issue for SMEs in Iraq and shows that they are highly correlated with the informality of businesses, i.e., not being registered at the chamber of commerce or ministry of industry. Factors correlating positively with accessing loans include the business owner having more household members, less fixed assets and less savings. Registration in the ministry of commerce is significantly and positively correlated with chamber of commerce registration, but negatively correlated with savings.

Business owners were also asked for proxies of future outlook, which include projected revenues and plans for expansion. The main correlates of revenue projection (above \$5,000) for the year following the survey include higher profits, access to finance, higher savings, more hours worked and more household members. This supports the case for easing access to finance for SMEs through the EDF and partnerships with private sector financial institutions, in order to support businesses' ambitions and expansion plans for the future.

MOTIVATION, CONTEXT AND RESEARCH QUESTION

Training programs for firms are increasingly recognized as a useful and effective policy tool to enhance the performance of businesses in development settings and a rising number of impact evaluations show positive effects on firm outcomes (McKenzie, 2021).

Small- and medium-sized enterprises constitute the majority of the firms in Iraq. According to the International Finance Corporation (IFC) there are more than 1 million SMEs in Iraq, constituting more than two-thirds of the private sector (IFC, 2016). How ready are these firms to invest and expand? And how can the government of Iraq, IOM and other development actors assist in making these SMEs investment-ready? To answer these questions, we first need to ask: how do we measure investment-readiness and what does it mean? Then, what are its impacts on firm outcomes and performance?

This policy report focuses on lessons learnt from the baseline survey data collected as part of a pilot study of an investment readiness program. The sample of the study includes Iraqi small- and medium-sized enterprises that were winners of the Enterprise Development Fund (EDF).

EDF is an innovative programme of the United Nations' International Organization for Migration (IOM) to support economic recovery and private sector revitalization in Iraq through grants for SMEs. The fund provides financial capital to SMEs in agriculture, manufacturing and service industries. Small enterprises usually include four to ten employees including the owner, while medium enterprises consist of 11 - 50 employees including the owner. Micro enterprises are defined by the International Labor Organization (ILO¹)

as enterprises with three or less employees including the enterprise's owner.

Investment readiness programs have proven effective at bridging gaps in access to private finance according to the literature. Cusolito et al (2021) implemented an investment readiness program in the Western Balkans that caused an increase of 0.3 standard deviation in the firms' investment readiness scores, based on several measures including business management practices. One key finding in their paper is that the intervention improved business outcomes three years later for small firms and those that have the lowest probability of getting funding from any other source, while it did not have a significant longer-term effect on larger firms. These results highlight the importance of measuring long term outcomes (McKenzie and Woodruff, 2014) and targeting investment readiness programs to the firms with the highest potential (McKenzie, 2021). IOM's investment readiness pilot in Iraq adopts this targeted approach, with the survey showing a median firm size of seven employees and limited access to private finance among the enrolled businesses.

An innovative approach to achieve long term impacts involves designing programs that satisfy the dynamic needs of the firms in a given local context. The purpose of the analysis presented in this brief is to serve as a needs assessment for the firms that inform the design and planning of the interventions that IOM will implement on this sample, as well as an extended larger sample of SMEs in Iraq. The larger follow up study will employ an adaptive treatment algorithm to optimize the service provided to firms based on the best available evidence.

1 ILO Iraq MSME Analysis Final.pdf (psdc-iraq.org).

METHODOLOGY AND COVERAGE

An investment readiness program provides training to small and medium enterprises to help them become ready to invest and expand. It focuses on building entrepreneurs' knowledge of what potential investors in the targeted market are interested in. If an investor is looking at investing their money in a business, they will look for particular criteria in the firms that appeal to them as an indicator of the firms' success. So, the aim of the investment readiness program is to prepare the firms to, firstly, **know** what these criteria are and, secondly, **satisfy** them. The training program includes training on financial literacy, including bookkeeping, marketing and incentivizing the firms to build sufficient financial capital.

In April 2022, IOM collected data from 203 SMEs out of 265 targeted for the study. There were about 90 questions about the firm owners' backgrounds, their household structure, business description, sources of financing, management practices, constraints and future expectations. An outline of the pilot baseline survey is available in table A1 of the Appendix.

Table 1 below shows the number of firms from each district and figure 1 displays them on the map. We randomly selected

five districts then randomly selected 54 SMEs from each of the following districts: Baghdad, Basra, Kirkuk, Sulaymaniyah and Erbil (49 SMEs only).

The SMEs were randomly selected from firms who were awarded² the EDF program. About 92% of the SME owners received the first EDF payment when IOM interviewed them. The surveys were collected between April 12 and April 24, 2022.

Table 1: Baseline targeted survey sample per governorate

Governorate	Total
Baghdad	54
Basra	54
Erbil	49
Kirkuk	54
Sulaymaniyah	54
Total	265

Figure 1: map of Iraq with the governorates where the pilot study took place highlighted in yellow



2 Upon applying to the EDF grant, firms are selected subject to eligibility criteria including have an Iraqi nationality, being able to afford the initial amount of the project they intend to implement (for which they are applying for the EDF grant), and having a particular realistic timeline to do so.

FIRM CHARACTERISTICS

FIRM OWNER CHARACTERISTICS

SME business owners, particularly of informal businesses, must often make trade-offs between their business and household budgets. This section describes the household structure characteristics to which the firm owners belong, since these may be important predictors of firm behaviour. On average, households have six household members, two of which are children. 40% of the firm owners have attained a university degree, while 15% have their highest level of education as intermediate school, and 14% have completed only primary school.

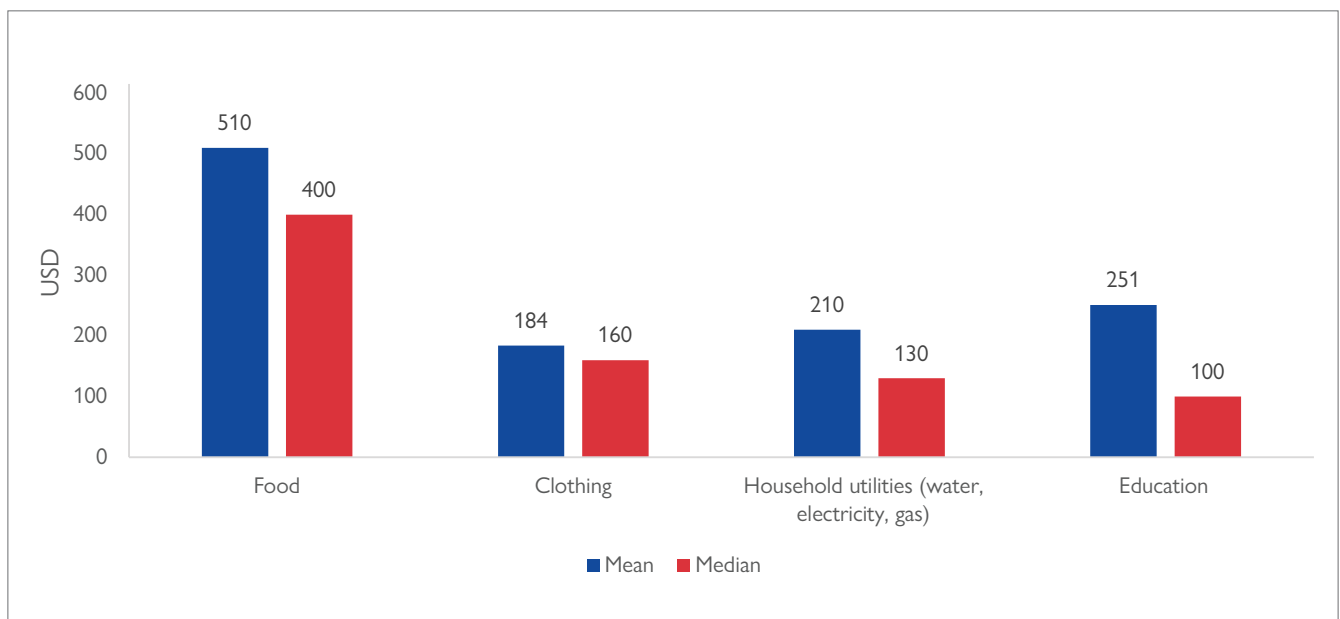
Graph 1 shows the expenditure categories for the households. On average, households spend the most on food. The fraction of spending that goes to food is more than half the total spending on average, while that on education is less than 20%. For the households reporting any educational spending (N=101), the fraction of spending that goes to education is about 36%. The large share of income spent on basic consumption needs exposes business owners to price volatility in the context of the global rise in inflation following the war in Ukraine. Constraints in access to finance may therefore

affect not only the ability of SMEs to invest in long-term business development, but also to weather temporary shocks.

On average, SMEs reported profits of 1,932 USD in December 2021 and 1,943 USD in March 2022, with a decline in January and February 2022. Although it is hard to statistically predict the level of profits made by a firm, an important exception is the significant correlation between profit and the firm's savings rate (see Table 4, correlation coefficient 0.222). In Iraq's context, characterized by a high level of uncertainty and imperfect financial markets where there are significant borrowing and credit constraints, savings may signal the business's profitability and credit-worthiness, suggesting that it may be important to include savings promotion as a component in investment readiness programmes.

Column 3 of table 5 also shows that profits and tax registration are significantly and positively related, which is expected as higher profits are more likely to be reported and tend to be made by bigger firms.

Graph 1: Household³ expenditure per category



3 Households refer to those whom the SME owners belong to.

SME EMPLOYEES

Table 2 describes the employee statistics for the sampled SMEs⁴. On average, SMEs have ten workers in total, eight of which are permanent⁵ employees. Close to three quarters of

all employees are male (74%), revealing an important gender gap in labour market participation. In our sample, the average monthly salary per permanent employee is 613 USD⁶.

Table 2: Descriptive statistics of the SME's sample

Variable	Obs.	Mean	Median	Std. Dev.	Min	Max
Total employees	192	10	7	11	1	1007
Permanent employees	192	8	6	10	0	100
Female employees	192	2	0	5	0	40
Male employees	192	8	6	9	0	91
Salary of employees (USD)	192	613	400	544	0	2000

LEVEL OF FORMALITY

We consider registration in the Chamber of Commerce to be a proxy measure for the formality of the business. We find that 63% of the SMEs in our sample are registered in the Chamber of Commerce. Another measure of formality is the location from which owners work, which varies between factories (59%), own home (22%), and office (7%). On average, firm owners work nine hours per day.

BUSINESS MANAGEMENT PRACTICES

Common business management practices reported in the sample include keeping the business account separate from personal account (51%), getting financial training (34%), and maintaining annual records of income, expenditure, cash flows, assets, and liabilities (61%). SME owners stated paying bills and debts on time (54%), asking customers about the quality of firms' products (37%), and checking competitors to see prices and products for sale (29%) as the most important management practices.

About one third (32%) reported that their products or services need intellectual property (IP) protection. Among the SME owners who are looking for IP protection, 40% are planning to apply for trademark, 35% for patent, and 34% for their right of industrial design.

4 Note that some questions have received no responses or were skipped, which means that the observations for some questions are less than our targeted sample (265).

5 Permanent employees are defined as those who have been working with the firms for at least six months or have contracts that last for at least half a year.

6 We don't ask questions in our survey about non-permanent employees, since they are the minority (only 20% of the employees on average are non-permanent).

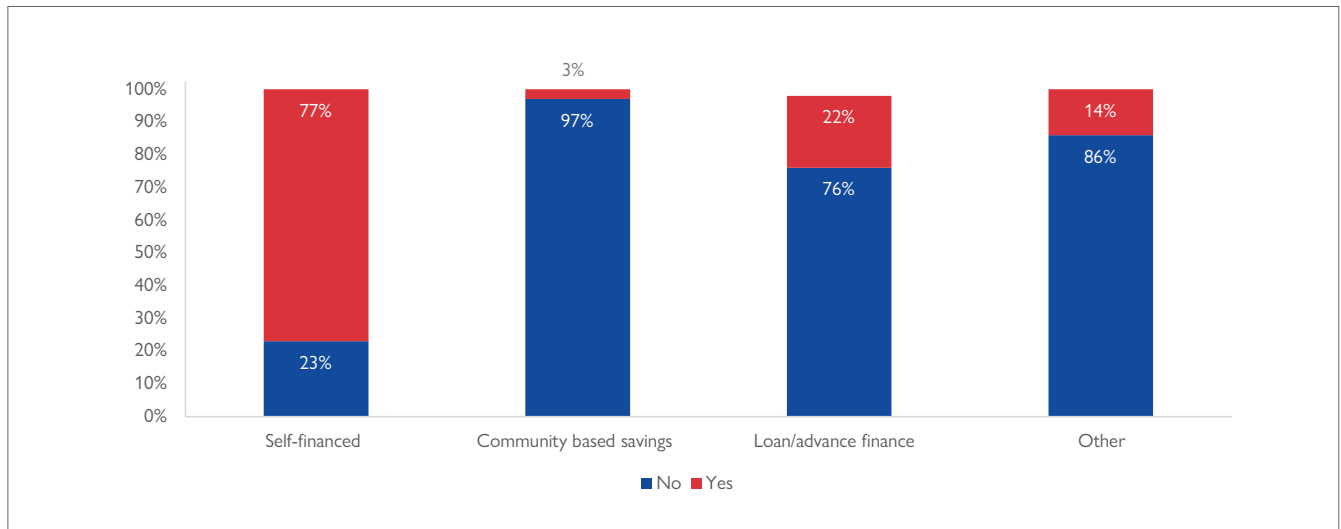
7 In our sample, only 1 firm reported 100 employees and reported them as all permanent employees.

SOURCES OF FUNDING

Graph 2 shows that most SMEs rely on self-funding as the main financing strategy for their business projects (77%), compared to only 22% having access to commercial loans. On average, SMEs spend 15,758 USD on self-funded projects

and, conditional on access to finance, 21,336 USD on loans. In addition, graph 3 shows the main reasons why firms don't have a formal bank account.

Graph 2: What are the main sources of project financing?



Among the SMEs using a loan or advance finance, 62% obtain credit from microfinance organizations (Table 3). The second main providers of loans are wholesalers and suppliers (24%),

while only 7% of SMEs obtained loans from banks, where the main reason reported was lack of trust in the banks.

Graph 3: What are the main reasons for not opening a formal bank account? (N=163, in percentage)

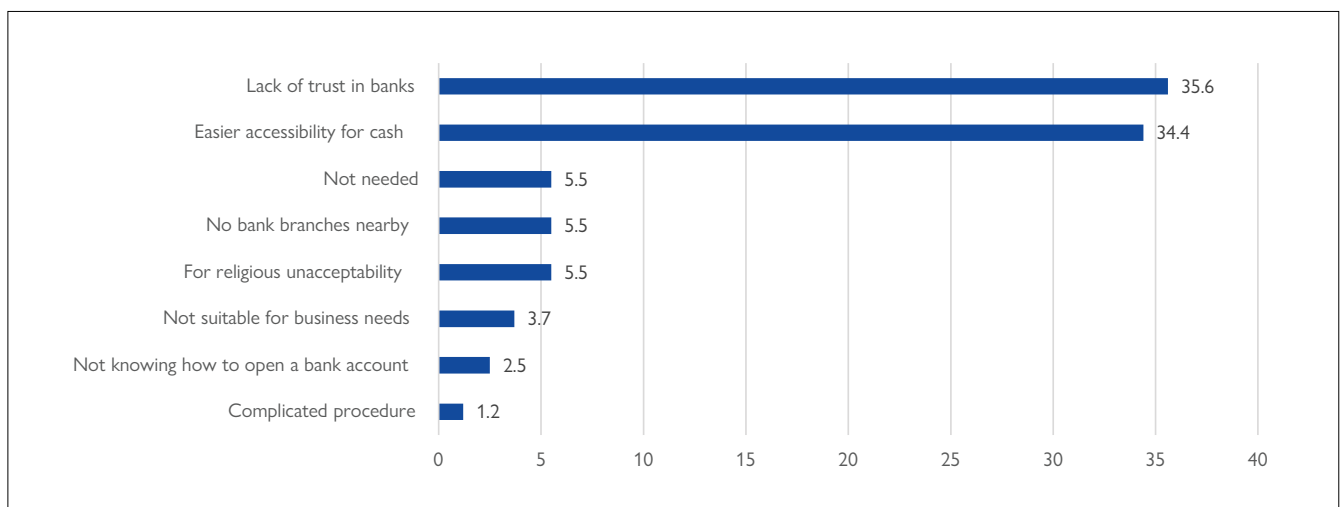


Table 3: What is the main source of the loan/advance?

Source	Count	Percent
Microfinance organization	28	62%
Wholesaler/supplier	11	24%
Bank	3	7%
Credit company	1	2%
Relatives and friends	1	2%
Other	1	2%
Total	45	

DEMAND FOR LOANS

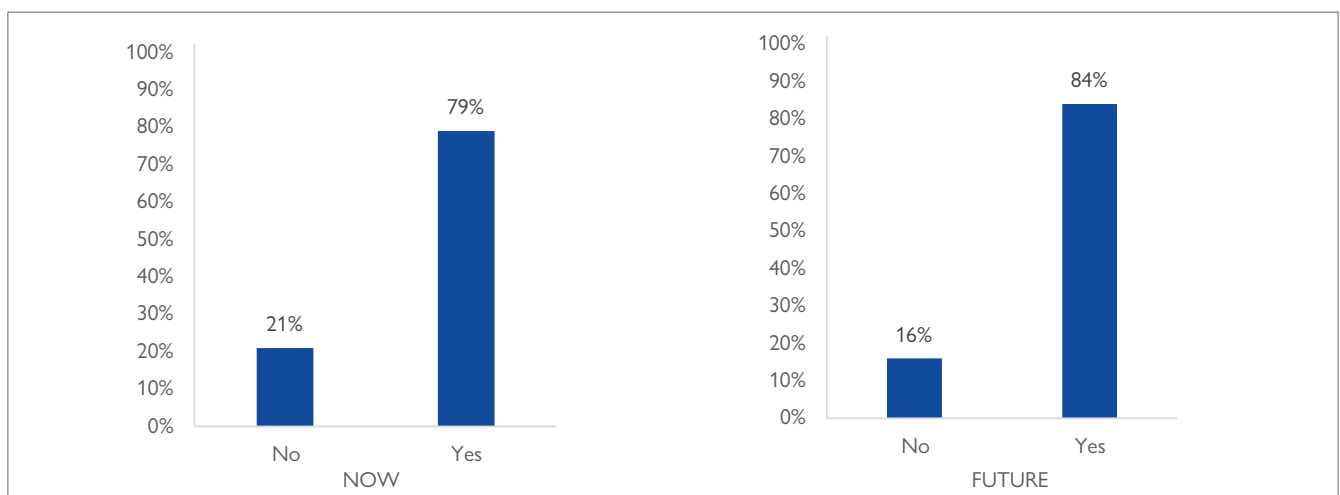
The answer to the following question might sound obvious, but do firms actually need more money? Graph 3 displays what the exact wording in the survey was: “Do you need more money for your business now⁸?” and “Do you need more money for your business in the future?”. As expected, most SMEs need more business funds both as soon as possible (79%) as well as in the future (84%).

Current demand for funding may reflect either a need for liquidity to sustain business operations or a desire to immediately expand the firm. On the other hand, if the firm needs money in the future, this is likely to reflect their plans to expand their business. The data shows that most firms need funds for both purposes, motivating efforts to facilitate access to finance for Iraqi SMEs. The findings suggest that such programmes should focus on both short-term liquidity needs and longer-term investment, rather than focusing on

short- or long-term borrowing alone. Investment readiness interventions that can sustainably improve long-term access to finance can therefore complement immediate cash grants that can flexibly be allocated to cover operational expenses and invest in capital assets. These efforts can be enhanced by partnering with private sector financial institutions to develop their capacity to satisfy the SMEs’ needs for both short-term liquidity and longer-term investment.

A small subgroup of SMEs neither need money now nor in the future (10%). This result shows that the question was valuable to ask, as it depicts the firms’ needs for finance and their intention to use it, and that the majority do need funds. Firms who do not express a need for more money may be unwilling to expand or have already satisfied their financing needs.

Graph 4: Do you need more money for your business?



⁸ Now is at the time of surveying which was in April 2022.

For the SMEs who responded that they want to expand their business in the future (84% out of 203 responses), graph 5 shows the responses on how the firms plan to finance their expansion. Most firms plan to sell assets in order to finance their future growth (57%), while only (19%) plan to access credits with a formal loan, the second most common strategy, and 15 per cent intend to use informal loans. While

table 4 shows no robust correlation of asset liquidation with other firm characteristics or outcomes, liquidating assets has the potential to reduce firms' resilience since they are an important store of value that can help them buffer temporary shocks. From a policy perspective, it is therefore important that firms are able to access alternative sources of financing if they wish to expand their business.

Graph 5: How do you plan to finance the expansion in the future?

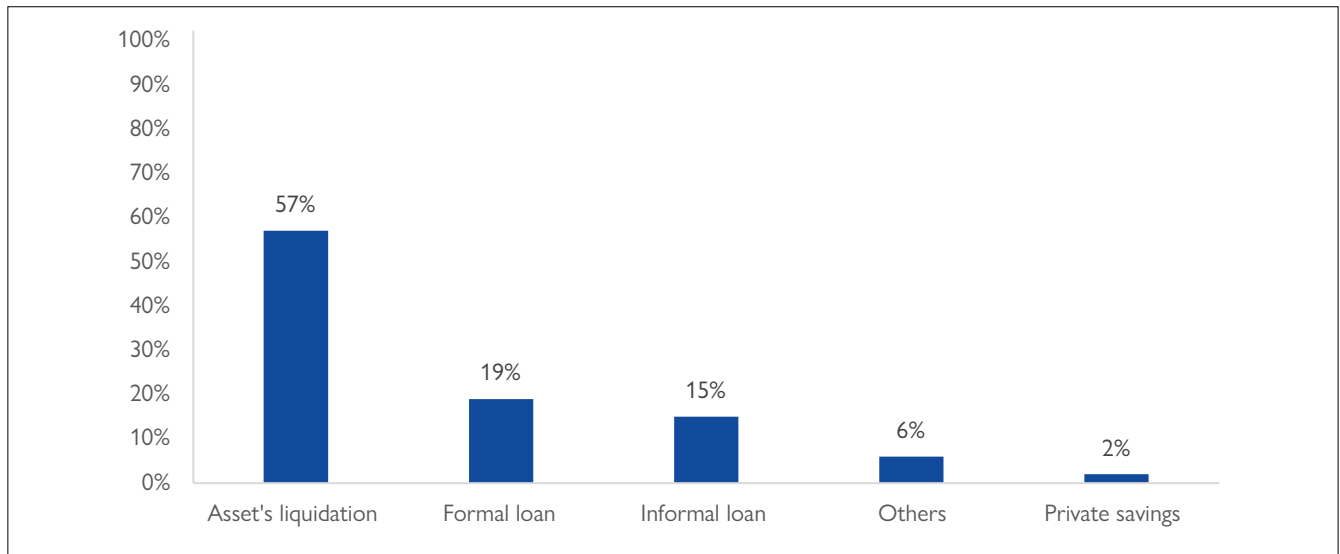


Table 5: Correlation Matrix between key variables in the data

	Loan	Ministry registration	Tax registration	Chamber of commerce registration	Education	Employees	Profit	Assets liquidations	Hours worked	Household members	Fixed assets	Savings
Loan	1											
Ministry registration	0.0712	1										
Tax registration	-0.0845	0.462***	1									
Chamber of commerce registration	-0.0593	0.469***	0.736***	1								
Education	-0.0362	0.167**	0.157*	0.135	1							
Employees	-0.0813	0.180**	0.264***	0.202**	0.147*	1						
Profit	0.0454	0.0833	-0.00792	0.0903	0.00675	0.106	1					
Assets	0.0507	0.0953	0.0891	0.0211	0.0374	0.0949	-0.0922	1				
Hours worked	-0.0539	0.0389	0.0576	0.0307	0.00180	0.0789	-0.0215	0.169*	1			
Household members	0.199**	-0.0639	-0.0822	-0.0515	-0.190**	-0.0570	-0.0142	0.00811	0.0819	1		
Fixed assets	-0.101	0.177**	0.0725	0.147	0.0139	0.0228	0.0703	-0.129	-0.00860	-0.0510	1	
Savings	0.0299	0.121	0.203**	0.127	0.0891	0.0840	0.222**	0.0212	0.0558	-0.0458	0.0730	1

* P<0.05, ** P<0.01, *** P<0.001

CHALLENGE TO ACCESS FINANCE FOR SMES

To be in the best position to design policies that help Iraqi SMEs grow, we need to understand what the challenges that firm owners face are in the first place. Let us first step back: the challenges that SMEs face might be in expanding their business, or even operating it. Are SMEs struggling to access finance, business-critical knowledge, or both combined? In this section, we focus on a particular financial challenge that the SMEs in our sample face, which is accessing loans to support business development.

Most SMEs with loans stated that the procedure to acquire the loan was simple (71%). But that percentage refers only to those who have already successfully secured a loan, an unlikely outcome in a context where only 7 per cent of SMEs obtained loans from banks. A key challenge is therefore to facilitate access for the 93 per cent who are cut out of the formal financial sector, rather than smoothing the experience for those that managed to access it.

PREDICTORS OF FINANCIAL INCLUSION

So, why are most Iraqi SMEs either unable or unwilling to borrow from formal banks? The positive assessment of the borrowing process by those that do borrow might hint towards the presence of significant heterogeneity among firms, with some businesses lacking access to credit as a result of administrative barriers, their limited size, or the local market environment. Alternatively, SMEs themselves may be failing to apply for formal loans if there is a gap between the actual and the perceived process difficulty of loan acquisition, which hinders firm owners from applying, or a prejudice that the probability of getting the loan is too low to make it worth applying. A third explanation might be that they think that they will be paying high interest rates on the loans, or that in the first place paying interest on the loans does not align with the Islamic foundations of their beliefs.

While the data collected as part of the pilot study is unable to conclusively answer this question, it shows that firm characteristics indeed correlate with the probability of having a loan, supporting the first hypothesis advanced above. The

main predictors of accessing loans include being registered in the ministry of commerce (a proxy for formality), having more household members, having less fixed assets and having less savings (Table 6, column 1). There are two broad motivations for accessing loans: an urgent short-term need and a long-term vision of expansion. When a firm has less savings and fixed assets and more household members, it might be “pushed” to borrow. While loans can serve as an important buffer that helps businesses overcome temporary shocks, not all firms in the sample have access to this lifeline.

Two policy recommendations arise from these observations: first, more firms should benefit from access to loans, and if formal registration as a business encourages this, then policies should be designed to ease and facilitate the process of formal business registrations. Secondly, economic advisory should promote financial sustainability by incentivizing access to loans not just for short term urgent need satisfaction, but also long-term goals of investment and business development.

Table 6: Main correlates with having access to loans, registration in the ministry of commerce and profits

VARIABLES	Loan finance	Register in ministry of commerce	Profit in standard deviations
Loan finance		0.021 (0.064)	0.215 (0.153)
Ministry registration	0.145** (0.066)		0.026 (0.143)
Profit in standard deviations	0.037 (0.036)	0.021 (0.021)	
Years of Education	-0.008 (0.017)	0.016 (0.015)	0.038 (0.027)
Household members	0.031** (0.012)	-0.010 (0.009)	-0.015 (0.019)
Tax registration	-0.109 (0.095)	-0.037* (0.021)	0.506** (0.211)
Chamber registration	-0.011 (0.083)	0.663*** (0.051)	-0.153 (0.143)
Employees	-0.003 (0.002)	0.002 (0.001)	0.003 (0.008)
Asset's liquidation	-0.063 (0.088)	0.031 (0.073)	0.189 (0.209)
Hour worked per day	-0.011 (0.012)	0.008 (0.009)	0.024 (0.018)
Firm's fixed assets in standard deviations	-0.044*** (0.014)	0.016 (0.017)	0.054 (0.081)
Savings in standard deviations	-0.033** (0.015)	-0.026** (0.010)	0.228*** (0.031)
Constant	0.178 (0.172)	0.221* (0.131)	-0.511** (0.255)
Observations	189	189	189
R-squared	0.095	0.515	0.121
Robust standard errors in parentheses			
*** p<0.01, ** p<0.05, * p<0.1			

PREDICTORS OF BUSINESS FORMALITY

If registration in the ministry of commerce is a main predictor of access to loans, what are the predictors of being formal? Registration in the ministry of commerce is significantly and

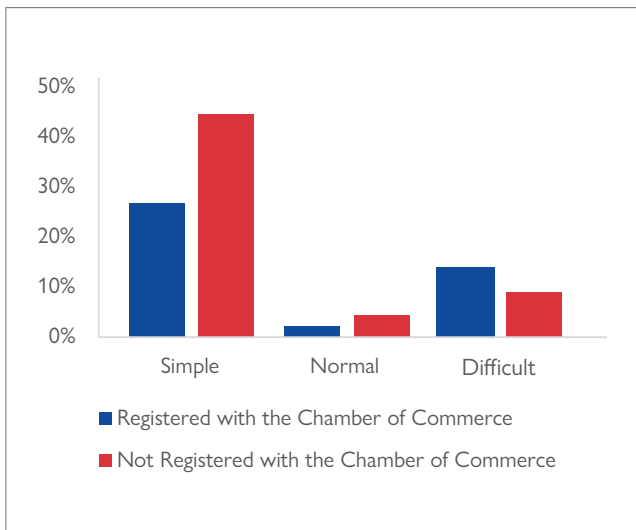
positively correlated with chamber of commerce registration and significantly and negatively correlated with savings (Column 2, table 6).

LOAN-RECEIVING FIRMS

LOAN ACQUISITION PROCESS

While registering in the Chamber of Commerce or Industry is a significant predictor of having a loan, among the firms who secured one registration does not correlate with the firm reporting an easier loan acquisition process. On the contrary, the proportion of loan recipient reporting a simple process is higher among unregistered firms (Graph 6), although the small sample size means that this finding is not representative. Nevertheless, this result suggests that other unobserved factors may play an important role in determining firms' trajectory through the loan approval and acquisition process.

Graph 6: How difficult are the procedures to acquire the loan? (N=45)

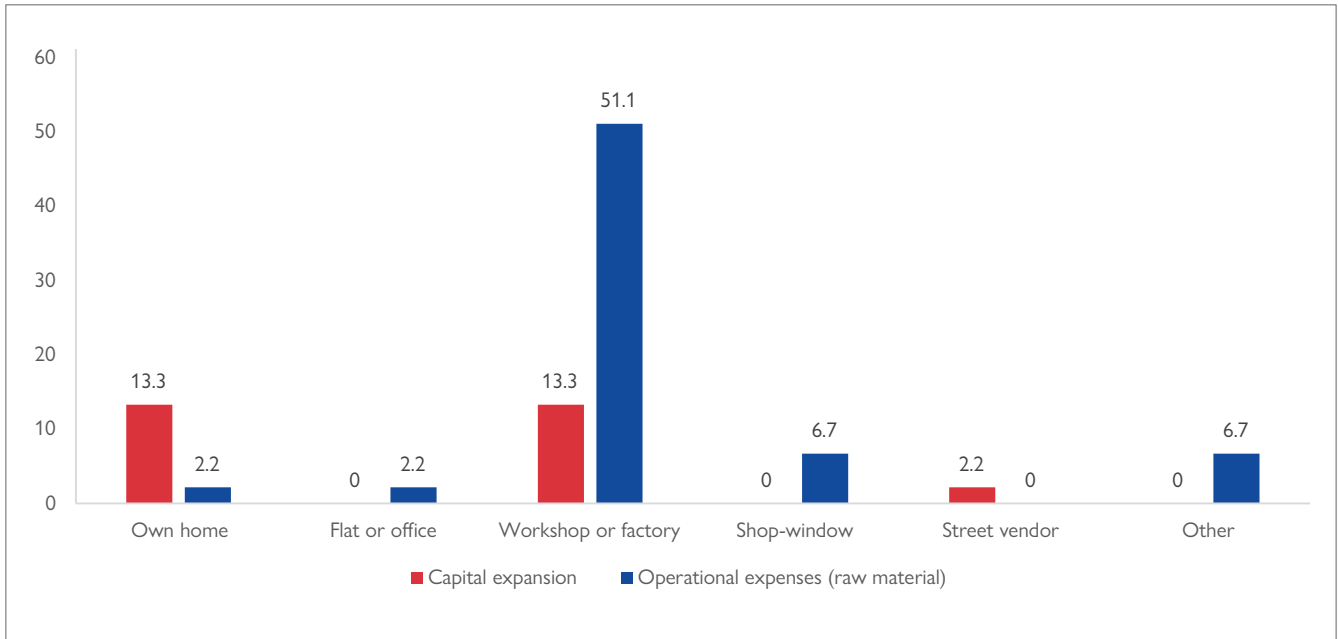


LOAN USAGE PATTERNS

SMEs who acquired a loan spent it mainly on operational expenses (69%). Twenty-three factory firms spent loans on raw materials (51%). 13% of SMEs in workshops spent the funds on capital expansion. Firms reported that the interest rate is suitable (95%). This implies that the perceptions that we described earlier (process difficulty of loan acquisition, high interest rates) are potentially incorrect, if only SMEs get incentivized and try to acquire loans, and these perceptions can get adjusted by experiencing the process of accessing finance. This motivates the initiative of encouraging firms to open formal bank accounts, because it will help bridge some knowledge gaps that the firms have and in turn make the idea of acquiring a loan much more feasible.

An important question to ask is why do firms need the loans? Graph 7 attempts to answer this question by asking the firms what they used the loans for. For the firms who already operate at a factory or workshop, they used most of the loan value to operate their business. But, for the firms who are operating at their homes or at a street vendor, they used most or all the loan value for capital expansion as opposed to just operational purposes.

Graph 7: How did you use the loan? (N=45)



BUSINESS OUTLOOK

What makes the firms most ambitious and hopeful about the future performance of their business? Proxies of future outlook include projected revenues and plans for expansion. Column 1 of table 7 shows that the main predictors of revenue projection (above \$5000 for the next year at the time of surveying) include higher profits, access to finance, higher savings, more hours worked and more household members. While further research is needed to establish whether this correlation can be given a causal interpretation, easing access to finance may increase the probability of future expansion

and therefore result in a more ambitious outlook for their business's future performance. Alternatively, more optimistic firms may be more likely to seek out and obtain a loan.

Column 2 of table 7 shows surprising results where firms who reported that they wanted to expand are correlated with a plan to liquidate assets for expansion but also with lower profits. A possible interpretation is that these firms don't know the "recipe" for successful long-term expansion, highlighting not just a financial constraint but a knowledge constraint as well.

Table 7: Main correlates with firms' future outlook

VARIABLES	(1) Projected Revenue>\$5000	(2) Plan to Expand
Profit	0.0469** (0.0199)	-0.0628*** (0.0132)
Ministry Registration	0.0286 (0.0801)	-0.0627 (0.0501)
Loan	0.216** (0.0929)	0.0368 (0.0531)
Tax Registration	-0.0811 (0.115)	-0.00749 (0.0837)
Chamber Registration	0.0171 (0.106)	-0.0371 (0.068)
Education	0.0101* (0.00575)	0.00578 (0.00538)
Employees	-0.000963 (0.00205)	0.00104 (0.00131)
Assets Liquidations	0.0647 (0.0705)	0.235*** (0.0461)
Hours Worked	0.0307** (0.0124)	0.00237 (0.00621)
Household Members	0.012 (0.0147)	0.00298 (0.0111)
Fixed Assets	0.017 (0.0413)	-0.0219 (0.0375)
Saving	0.0578** (0.0248)	0.0379 (0.0243)
Current Assets	-0.0304 (0.0262)	-0.0362 (0.0296)
Constant	-0.216 -0.164	0.683*** -0.121
Observations	182	182
R-squared	0.129	0.242
	Robust standard errors in parentheses	
	*** p<0.01, ** p<0.05, * p<0.1	

POLICY RECOMMENDATIONS

This report presents key insights for policymakers from an analysis of data collected by IOM on a sample of responses from 203 Iraqi small and medium enterprises to better understand their investment and financial needs. This pilot responds to the recommendation for more targeted interventions made in a recent review of state-of-the-art research on investment readiness (McKenzie, 2021).

In the absence of nationwide official statistics on SMEs, a common situation in post-conflict recovery settings like Iraq, firm-level data collected through panel surveys can provide valuable information about the challenges faced by SMEs and inform policy makers on the obstacles that these firms face against growth. Carefully analyzing this survey data can help policy makers and private sector financial institutions develop better programs and interventions that respond to firms' actual needs in an uncertain business environment.

Even though they represent the majority of the firms in Iraq and contribute almost 90% of private sector employment across the country, small and medium enterprises remain underdeveloped in Iraq, as noted by the IMF in a recent report⁹. The number of micro-, small- and medium-enterprises per 1,000 people is substantially lower than both the MENA region and emerging/developing countries. There is great potential for SMEs to be an engine for economic growth and development in Iraq, contributing to post-war recovery and generating resources to address socio-economic challenges linked to the return and reintegration of displaced populations.

In order to achieve this goal, firms need support to enhance their potential to invest, expand and grow. While there are approximately seventy commercial banks operating in the country, Iraq remains predominantly a cash-based economy, characterized by pervasive mistrust of formal sector financial institutions¹⁰. Access to finance is a key condition for business development, motivating programmes supporting SME financial inclusion and investment readiness. A first step to help these firms become investment ready is to understand what hinders them from doing so.

The data presented in this report helps answer outstanding questions on the characteristics of these firms, their economic status quo, and the challenges they face. The data also helped us understand whether the firms want to expand, how they want to expand, and what they might need to help them

do so.

Among the key findings is that credit constraints are a key issue for SMEs in Iraq, not only for short-term financing but also longer term, motivating efforts to support access to finance by responding to a variety of financing needs across different time horizons. This enables firms to satisfy their operational costs and start working towards their expansion goals. Investment readiness, by facilitating access to private financial institutions, plays a key role in sustainably addressing credit barriers.

Moreover, informal businesses that are not registered at the chamber of commerce or ministry of industry are more likely to lack access to finance. More research is needed, however, to understand if this correlation can be given a causal interpretation, i.e. to confirm if promoting registration and business formalization actually improve firms' investment readiness. Nevertheless, this result suggests that programs could also be designed to help firms formalize their business, and encourage them to take the step and register.

Micro-level data, such as the one presented in this report, can inform which policies should be implemented to support SME growth and provide evidence-based heuristics to guide the design and implementation of economic recovery programmes. Understanding the predictors of firm performance and financial access in the Iraq market is the first step in designing effective interventions that build on existing knowledge from the experimental literature and adapt it to the local context. Combining IOM's extensive programme expertise in supporting Iraqi SMEs, the lessons we learnt from the data on firms' business practices, growth and investment, and insights from economic theory on firm behaviour and market dynamics under uncertainty, we can shape interventions that best serve these businesses comparative advantage for growth.

The results of this pilot study will be used to develop a scalable investment readiness programme whose impact will be tested through an experimental evaluation, the results of which will be published in future reports. In the long run, we are hopeful that supporting firms' growth and investment will contribute to macro-level outcomes, bolstering Iraq's economic recovery. In turn, generating economic opportunities at home is a crucial step in addressing migration drivers and supporting the return and reintegration of displaced populations.

9 IMF Country Reports No.19/249 (July, 2019).

10 IMF MECA. Iraq selected issues: Financial Development and Financial Inclusion. IMF Country Report No. 19/249. (Washington, DC: IMF, 2019), 40

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