



ANALYSIS OF IOM EDF BUSINESSES' ACCESS TO FINANCE

MAY 2020

Table of Contents

Introduction	1
Sample characteristics	1
Registration of businesses	1
Book keeping	2
Profitability and expansion of businesses	2
Loan amount and conditions	3
Job creation	4
Key takeaways	5

ANALYSIS OF IOM EDF BUSINESSES' ACCESS TO FINANCE

Between 18 and 25 March 2020, IOM Iraq conducted a phone survey consisting of 28 questions on 256 SME's benefiting from grants under the EDF program. The survey was done in the context of improving SME access to finance. It was designed to give insight into the situation of Iraqi SMEs in terms of registration with government bodies, financial transparency, and access to loans and insurance products. However, it is worth noting that the survey was done in the month prior to the country-wide lockdown related to the COVID-19 pandemic, which in theory would affect the result of few forward-looking questions.

SAMPLE CHARACTERISTICS

According to the following tables, 95% of the surveyed participants reported having 20 employees or less, and 46% had between 6 to 10 employees. Most of them (89%) are established businesses with more than 5 years of operation. Their reported net worth (Land, building, machines, tools, goods and raw materials) varies between USD 25,000 and USD 150,000, with only 20% reporting a net worth more than USD 150,000. 32% of the respondents' business premises are owned and the rest (68%) are rented.

Number of Employees		
1-5	71	28%
6-10	119	46%
11-20	52	20%
more than 20	14	5%
Total	256	100%

Table 1. Number of Employees

Years business has been operational		
1-5	28	11%
6-10	52	20%
11-20	102	40%
21-30	51	20%
More than 30	23	9%
Total	256	100%

Table 2. Years business has been operational

Business net worth		
Less than \$25,000	72	28%
\$25,000 - \$49,999	53	21%
\$50,000-\$ 99,999	47	18%
\$100,000- \$150,000	34	13%
More than \$150,000	50	20%
Total	256	100%

Table 3. Business net worth

REGISTRATION OF BUSINESSES

Twenty-nine per cent (29%) of respondents do not have formal registration documents with a government body, like the Ministry of Trade, Ministry of Industry or the Ministry of Tourism. When asked if they plan to register their businesses soon, only 8 of 73 responded favorably, but only one respondent confirmed that they have knowledge of the cost and time it takes to register their business.

Is your business registered with a government body, like the Ministry of Trade, Ministry of Industry or the Ministry of Tourism?

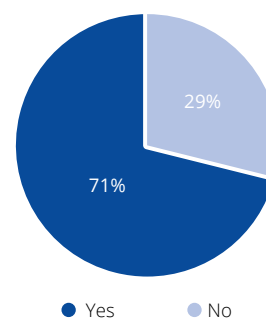


Figure 1. Registered businesses

Respondents gave various reasons for not registering their business. Eleven reported that they simply do not need registration to carry out their operations or that no one requested them to register. Four reported that they do not need registration because they are in the agriculture sector. Five cited taxes or fees as reasons preventing them from registration, and five mentioned "lack of trust in government" or "political issues". Seven of the respondents gave reasons that their business premises are rented and not owned or because they are working from home.

On further analysis of the relationship between size of business and lack of registration, it was found that 82% of the non-registered ones have less than 10 employees.

BOOK KEEPING

As an indicator of financial transparency, respondents were asked several questions about their book-keeping practices. 20% reported not recoding sales and expenditures or not keeping accounting records to calculate their annual profits. It is worth noting that most of this group members (80%) have less than 10 employees. A further 41% of businesses do their own book-keeping without the help of an accountant or an accounting software, while 36% use the services of an accountant. Only three percent use accounting software. In the latter group, six use simple spreadsheet software (excel and google sheet) and one uses more advanced software (ERPNext).

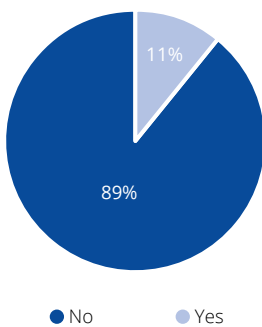


Figure 2. Book keeping practices

BANKING AND INSURANCE SERVICES

Only 11% of the respondents have opened at least one bank account. The most used bank is Al Rafidain Bank (9 respondents). Two respondents reported having a bank account with the Industrial Bank. When asked if they had applied for a loan before, only one respondent answered favorably (applied to Al Rashid Bank but was not granted the loan). With regards to insurance products available to businesses, none of the businesses were aware of any insurance products offered to businesses in their city.

Do you have a bank account?



Are you aware of any insurance products offered to businesses in your city?

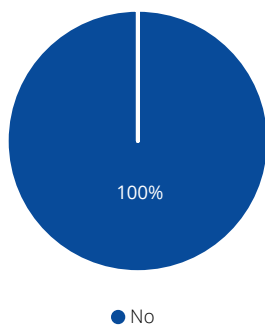


Figure 3. Bank account and Insurance service

PROFITABILITY AND EXPANSION OF BUSINESSES

As presented in the following charts, 58% of businesses reported having profits in excess of household expenses in the past 12 months. At the time of the survey, 73% had expansion plans for the next 6 to 12 months.

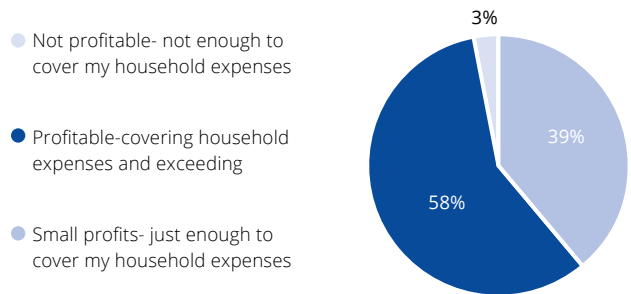


Figure 4. Business profitability in past 12 months

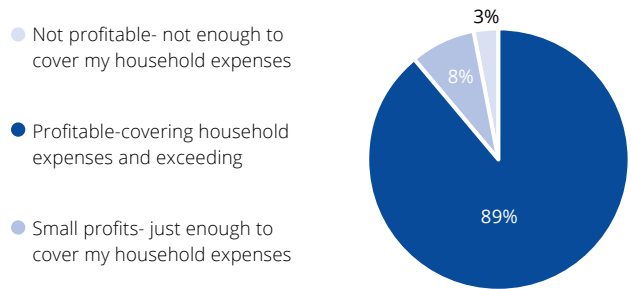


Figure 5. Business profitability in next 12 months

Do you have plans to expand your business in the coming 6-12 months?

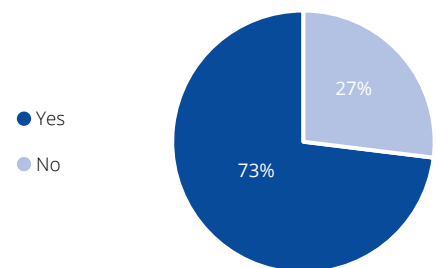
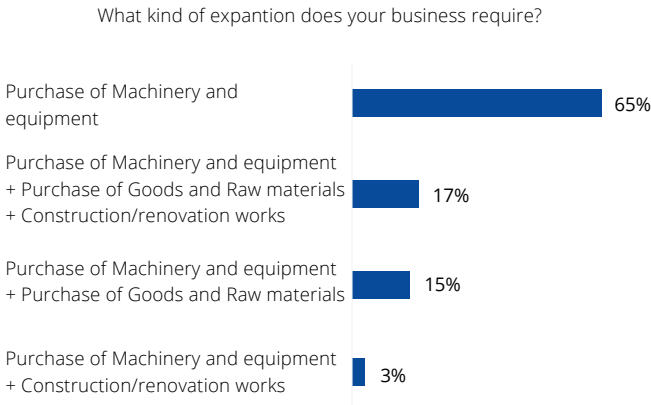


Figure 6. Business expansion

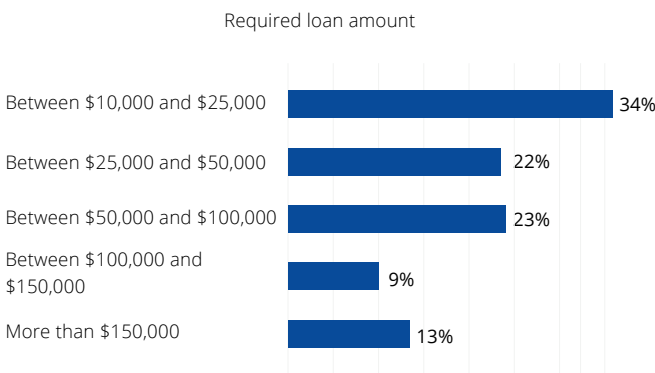
As per the following chart, the majority of respondents required machinery and equipment or a combination of machinery and raw materials.



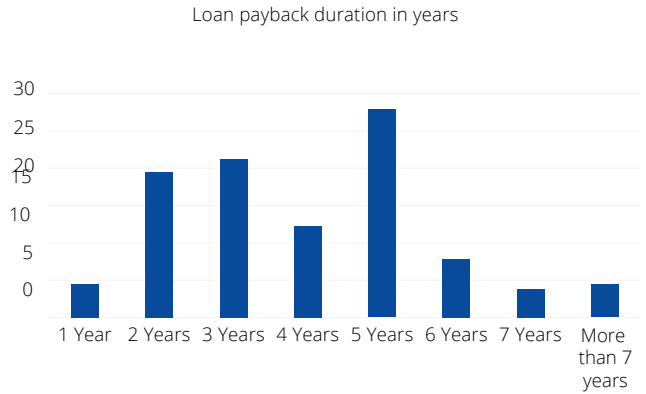
When asked if they would consider taking a loan to finance expansion, an overwhelming majority (97%) said yes, and when given the choice between traditional or Islamic loans, 99% preferred Sharia Compliant Islamic loans, although, all of them prefer the loans to be disbursed in cash instead of assets because of the flexibility that comes with cash.

LOAN AMOUNT AND CONDITIONS

As shown in the below chart, the most requested (34%) loan size is between USD 10,000 and USD 25,000. This result corresponds with the fact that more businesses are concentrated in the small category (10 employees or less).



Survey participants were asked about their preference for the loan payback period. As reflected in the following chart, the most common answer was 5 years (27%) followed by 3 years (21%) and 2 years (19%). The mean (average) value of all responses was 4.16 years.



Because it is common for businesses to overestimate their capability of repayment, we asked how much monthly payment they can afford to pay to the bank and calculated the repayment period by simply dividing the (minimum) required loan by the monthly payment. The average payback period according to this calculation was 6.02 years.

As explained by the following charts, monthly payments are preferred over quarterly payments. Additionally, 61% of respondents prefer a zero interest loan and 39% prefer zero administration fees. This indicates that administration fees are generally more desirable.

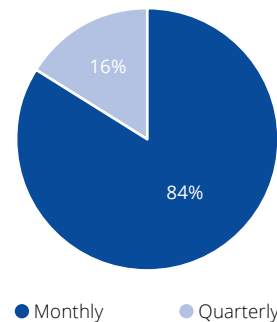


Figure 7. Frequency of loan repayment

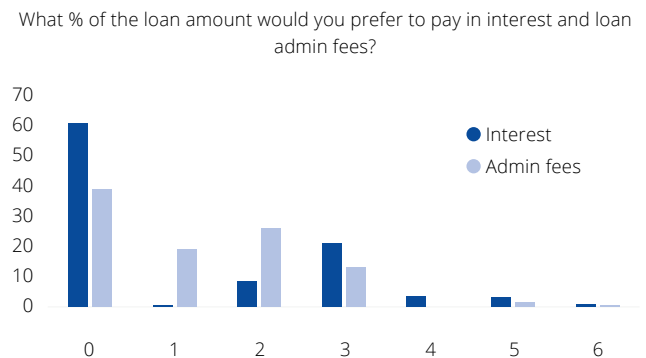


Figure 8. Interest and loan admin fee

Except for one participant, all survey participants are willing to offer some sort of real collateral to the bank. 58% can offer machinery and 27% can offer land and buildings. This result corresponds with the fact that only 32% of the participants own their business premises.

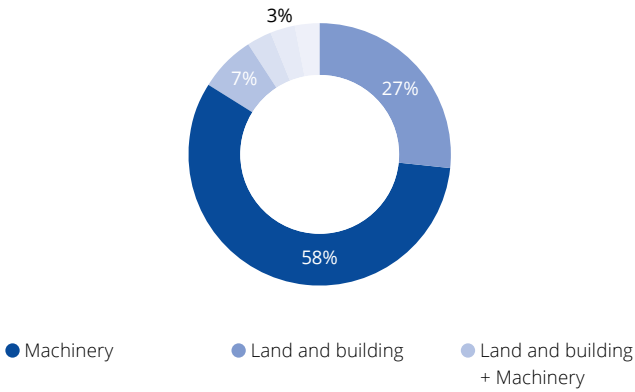


Figure 9. Type of collateral

When asked if they can provide a guarantor as co-signer for the loan, 92% responded positively. Of those who can provide a guarantor, 41% can provide more than one guarantor.

Can you possibly have guarantors to co-sign for the loan?

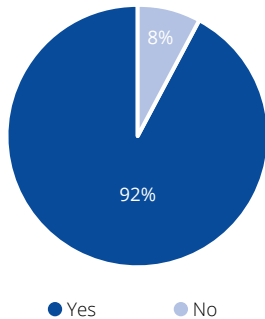


Figure 10. Guarantors to co-sign for the loan

JOB CREATION

Sixty-four per cent (64%) of the respondents confirmed that their expansion projects will create additional job opportunities. However, 92% of these projects create only one additional job, as explained by the following table.

Will your expansion plans create job opportunities?

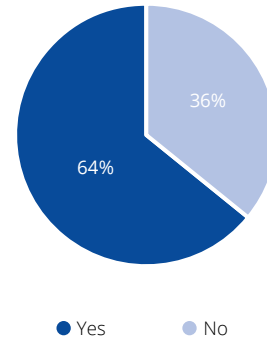


Figure 11. Expansion plans to create job opportunity

How many jobs?	Count	Percentage
1	107	91.5%
2	6	5.1%
3	2	1.7%
4	2	1.7%
Total	117	100%

Table 4. Job creation


KEY TAKEAWAYS

- Business registration among SMEs is not yet at optimal level. Entrepreneurs need to be made aware of the benefit of registering their operation with official bodies (for example, access to loans) and the process of registration must be clarified in terms of procedures, cost and time.
- Financial transparency remains lagging. More businesses do their own book-keeping without relying on accountants or accounting software. This would create an issue with presentation and accuracy of financial statements when they apply for loans from banks.
- Most of businesses do not have access to a bank account and none of them had applied to a loan before.
- Essential insurance products like fire insurance are not available in the market.
- A positive business environment prevailed before the COVID-19 crisis, whereby most of businesses had expansion plans and were looking to invest in productive assets like machinery.
- There is a general positive attitude towards obtaining a Sharia Compliant Islamic loan with administrative fee, and there is willingness to offer collateral and guarantors.
- Majority of SMEs are short on real-estate collateral because their premises are rented. This confirms the fact that most of them have difficulty accessing traditional debt finance.
- At least 133 additional jobs will be created if all surveyed applicants had access to loans, although some expansion projects intend to make businesses more efficient and competitive without adding jobs.


ANALYSIS OF IOM EDF BUSINESSES' ACCESS TO FINANCE

MAY 2020

IOM IRAQ

 International Organization for Migration
The UN Migration Agency - Iraq Mission
Main Office in Baghdad
UNAMI Compound (Diwan 2)
International Zone, Baghdad, Iraq

 <https://iraq.iom.int/>

 For more information please contact IOM Iraq's
Public Information Unit, Tel: +964 51 402 2811,
Email: iraqpublicinfo@iom.int

    @IOMIraq

This programme is supported by:

 KfW



USAID
FROM THE AMERICAN PEOPLE



From
the People of Japan



Kingdom of the Netherlands

© 2020 International Organization for Migration (IOM)

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior written permission of the publisher.