MARKET MAPPING OF SMES FOR ACCESS TO FINANCE PROGRAMMING

REFERRALS FROM CHAMBERS OF COMMERCE AND INDUSTRY
AND IRAQI INDUSTRIES FEDERATION
BAGHDAD, KIRKUK, SULAYMANIYAH AND ERBIL

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EXECUTIVE SUMMARY

This report outlines the results of a market mapping exercise undertaken by IOM in partnership with the Chambers of Commerce and Industry (CoCIs) and Iraqi Industries Federation in Baghdad, Kirkuk, Sulaymaniyah and Erbil. The analysis is based on 343 small and medium-sized enterprises (SMEs) referred by the CoCIs who agreed to participate in a screening interview. These firms were identified from over 3,000 listed in the records shared by the CoCIs, highlighting the need for updated SME information systems.

IOM enumerators interviewed these firms by phone to screen suitable businesses and ascertain their interest in loans and business advisory services. The report classifies businesses based on their level of formality and investment readiness: interest in loans, bank accounts, tracking finances and being registered with a ministry. Out of the firms surveyed, 154 (45%) are considered suitable for loan referrals and 149 (43%) may benefit from business advisory services to strengthen their investment readiness.

The report analyses the characteristics of the screened firms, including financial data, business size, age, gender gaps, and geographical differences. The chosen screening criteria resulted in firms with higher average asset and profit values, longer operation trajectories, and more female employees. However, the formal requirements for successful loan referrals tend to disadvantage female business owners and firms in governorates with a high incidence of displacement.

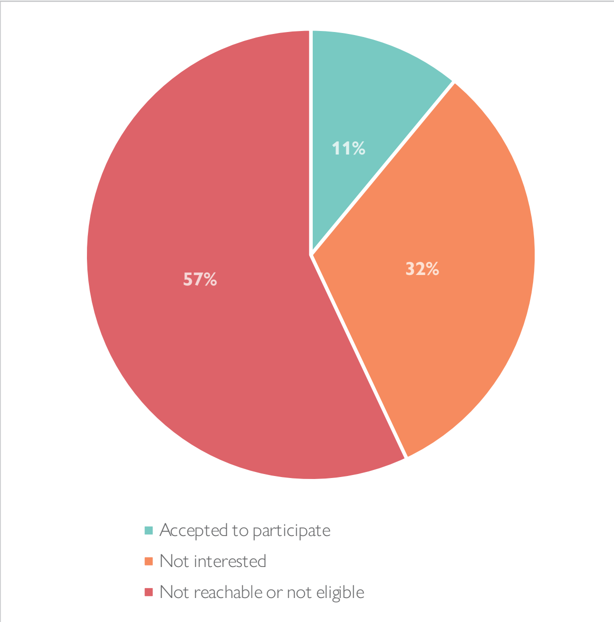
For SMEs not considered suitable for loan referrals, the report analyses the criteria they lacked and their willingness to participate in IOM's business advisory capacity-building services. Among the 318 businesses interested in advisory services, more than half (169) met the investment readiness conditions for referral. At the same time, 93 (29%) lacked experience in relationships with financial entities (measured by having a bank account), 62 (19%) lacked proper financial tracking, and 42 (13%) lacked registration.

We propose several recommendations to enhance SME access to finance. First, the 154 identified SMEs should be referred to partner financial institutions for subsidized loans, leveraging collaboration with development partners. For identified informal enterprises, expanding financing options and offering advisory services is crucial, as they often face exclusion from traditional funding. Efforts to boost the investment readiness of SMEs through capacity-building initiatives will also broaden their eligibility for future loans. Targeted support is essential for female entrepreneurs and businesses in conflict-affected areas to overcome financing challenges, with interventions such as bank engagement and training programmes. Strengthening national SME information systems in partnership with Chambers of Commerce will improve data accuracy for long-term programming. Meanwhile, open calls for proposals should continue to recruit businesses inclusively, reaching those in underserved regions until national registries are updated.

REFERRAL AND SCREENING PROCESS

The data used in this report come from a comprehensive effort conducted in 2023 to identify SMEs that could benefit from business advisory services to strengthen their investment readiness, loan referrals to banks and public credit facilities or business development grants from IOM's Enterprise Development Fund. As part of this process, IOM engaged 12 business associations in several governorates, including CoCIs, the Iraqi Industries Federation and business unions. The data contained in this report are based on lists of businesses located in Baghdad and Kirkuk and registered with the Iraqi Industries Federation in Baghdad, as well as businesses registered with the CoCI of Sulaymaniyah and the CoCI of Erbil.[1] IOM developed a phone screening tool, in coordination with KFW, to assess business potential for access to finance programming by gathering information on their status, capacity and interest in loans and advisory services.

Figure 1: outcome of contact attempt with firms registered with the four CoCIs



1 The Chambers of Commerce and Iraqi Industries Federation branches of Thi Qar and Basrah also expressed a willingness to participate. These governorates were not included in the subsequent screening exercise due to lack of dedicated funding for programming in these areas.

The three participating business associations shared the details of 3,080 businesses contacted for screening purposes. Of these businesses, 57 per cent were unreachable and 32 per cent declined to participate in the screening interview (Figure 1). In total, 343 firms (11%) were interested in loan referrals, advisory services or business grants and underwent the screening interview. Most interested companies are in Baghdad Governorate, which accounts for 63 per cent of businesses, compared to 29 per cent in Sulaymaniyah and 8 per cent in Erbil. Only two businesses are in Kirkuk. Most companies operate in the manufacturing sector (204, or 59%), followed by services (65, or 19%) and other sectors, which mainly encompass food (36, or 11%).

Out of the screened firms, only 28 business owners are female while the remaining 315 are male, highlighting an important gender bias in existing SME records. Gender disparities are also evident in the SME's employment, with 143 businesses (42%) having at least one female employee while 200 firms (58%) not having any. Regarding education, 30 per cent of business owners in the database have an undergraduate degree, 20 per cent have a high school degree and 15 per cent have intermediate school education.

LITERATURE REVIEW

Research has extensively examined the influence of financial accessibility on firm productivity and employment growth, showing that firms with greater access to finance tend to perform better. Campello and Larrain (2015) demonstrate that firms with improved financial access achieve higher productivity and generate more jobs. The relationship between financial access and faster job creation is also reaffirmed by Cao and Leung (2020). In line with this finding, Ayyagari et al. (2021) reveal that firms with credit availability experience employment growth rates 1 to 3 percentage points higher than those lacking such access (Soumaré, 2022).

In the Middle East and North Africa region, the financial systems are predominantly bank-driven, with a strong preference for lending to the public sector and a select number of large private enterprises, leaving SMEs with limited access to credit (Bakhouche, 2021). Banks in the region often perceive SMEs as high-risk due to their informality, poor financial reporting and lack of credit history, resulting in high collateral requirements, costly loans and a challenging application process. In countries like Iraq, distrust in the banking sector, rooted in its past illiquidity, adds another layer of difficulty (ILO, 2023).

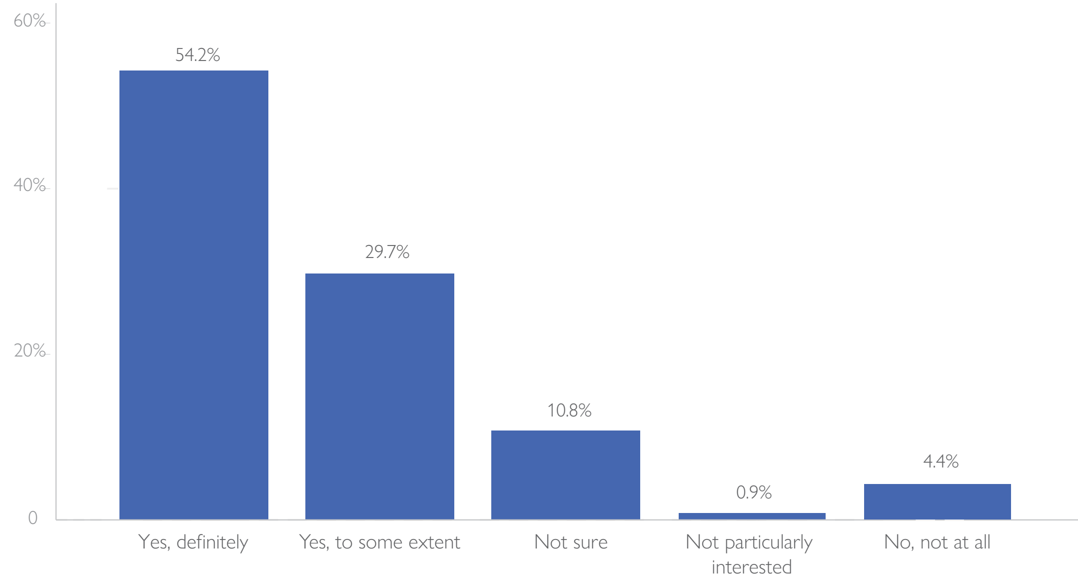
For firms that do not meet financial entities' criteria for credit, advisory services play a crucial role as they boost the growth and development of SMEs, particularly in guiding their fundraising efforts and overall business performance. Ogane (2020) emphasized the importance of external advice, showing that guidance from managers within the same industry helps entrepreneurs overcome fundraising challenges. Additionally, advice from accountants significantly enhances new firms' performance, suggesting a value-added impact beyond initial assessments. Moreover, Mole et al. (2016) found that SMEs' demand for advisory support, especially from private providers, is primarily driven by growth objectives and a firm's size. The study also highlighted that newly founded and women-led firms are more affected by market failures in accessing advisory support.

Regardless of the type of assistance offered, individual traits are crucial in determining success, so targeting high-potential recipients and providing additional support to disadvantaged demographics is paramount. This is especially relevant in contexts where credit constraints bind, and opportunities for formal employment are limited, particularly for women (Crépon et al., 2024). Observable characteristics of business owners, such as gender, age, and business sector, can be significant predictors of the success of the SME. Overall, high-ability male entrepreneurs in their thirties tend to do better, highlighting the additional barriers faced by female entrepreneurs (McKenzie and Sansone, 2019; Fiala, 2018).

WILLINGNESS TO EXPLORE LENDING OPTIONS

In the first place, Figure 2 showed those candidates who answered positively ("Yes, definitely" or "Yes, to some extent") when asked about their willingness to explore commercial loan options. Interviewees showed broad interest in exploring lending options; 54 per cent of candidates were interested in exploring commercial borrowing opportunities and 30 per cent were curious to some extent. This leaves a group of 288 possible candidates for short-listing.

Figure 2. Interest in exploring commercial borrowing opportunities



Note: The graph displays the answers to the question "Are you interested in exploring commercial borrowing opportunities, including formal equity investment or equity-based finance and Shariah-compliant loans?" of 343 interviewed business owners. Businesses that answered "Yes, definitely" and "Yes, to some extent" were considered for short-listing.

INVESTMENT READINESS AND FORMALITY INDICATORS

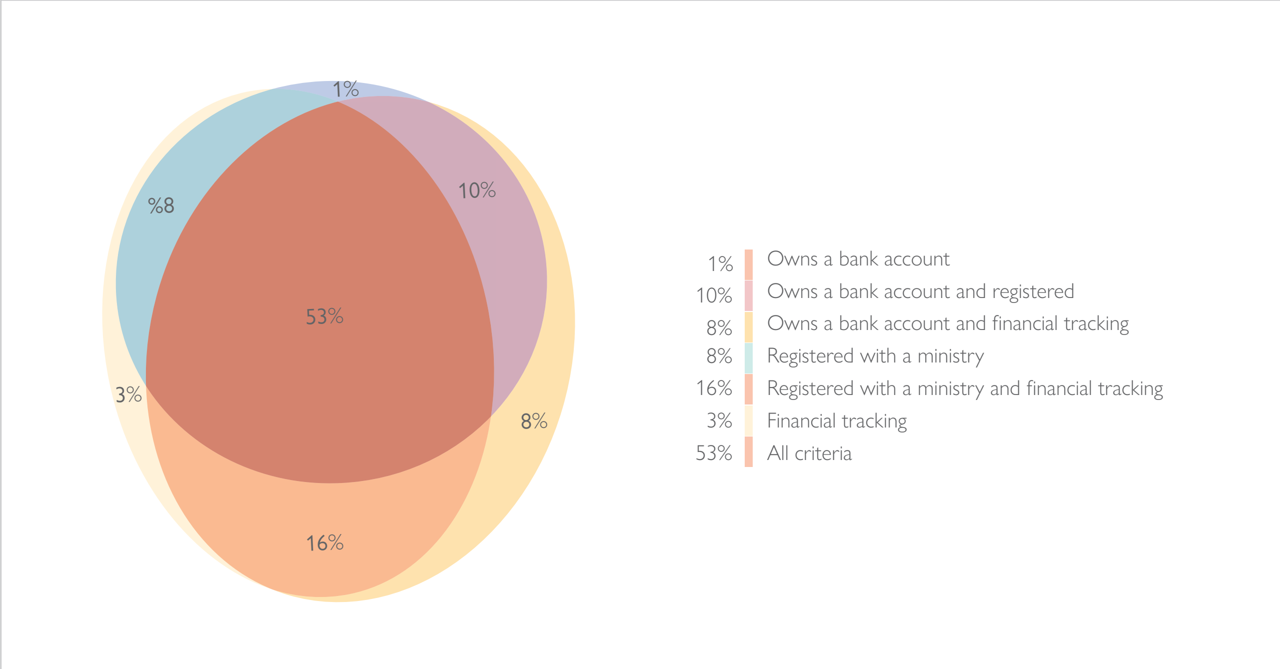
SMEs were classified based on three variables: investment readiness and formality indicators. These indicators were: "Is your business registered with the Ministry of Trade, Ministry of Industry or any other ministries?", "Do you have a bank account?" and "Do you keep track of your financial and other business records?". Businesses who satisfied all three criteria and expressed interest in commercial loan options can be considered suitable for loan referrals.

Most surveyed SMEs are registered with the Ministry of Trade, Ministry of Industry or another ministry. Registered businesses comprised 86 per cent of the referrals who reported an interest in exploring commercial loan options. Registration with regional Chambers of Commerce, a condition for inclusion in this exercise, is another common formality indicator and correlates strongly with official registration with a ministry. This screening criterion was satisfied by 249 businesses.

Besides formal registration with a government entity, the two additional indicators for loan referral are proper financial tracking and having a bank account. This report considers this last factor a positive indicator of economic practices, indicating previous relationships with financial entities. In the original list, 80 per cent of firms keep track of their finances in writing, and 71 per cent have a bank account (credit, savings, or other). Figure 3 shows the percentage of candidates that meet each criterion. As shown, most unsuitable businesses lacked a bank account but were registered with a ministry and kept track of their finances. Such businesses would benefit from advisory services and related investment readiness programmes.

Fifty-three per cent of candidates satisfied all three criteria. This translates to 154 short-listed referrals interested in commercial loans and satisfying basic investment readiness criteria.

Figure 3. Percentage of interested businesses by level of formality

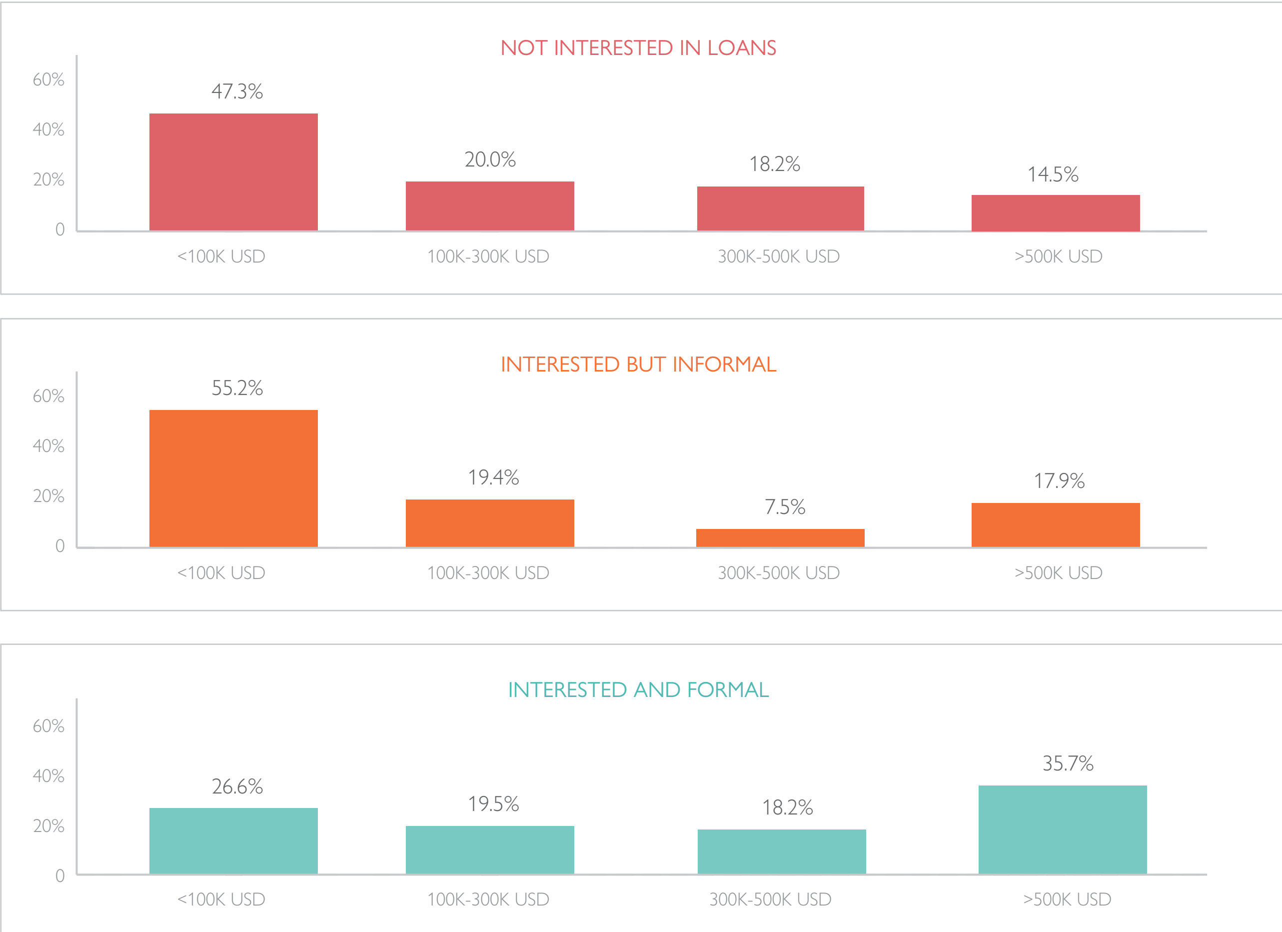


Note: The graph displays a Venn Diagram of the suitability criteria for short-listing within the businesses that are interested in commercial loan options. Variables signal the formality of listed businesses, including having a bank account, financial tracking, and being registered with the Ministry of Trade, Ministry of Industry, or any other ministry. Percentages show how many firms meet each criterion. The final group of short-listed companies includes those that meet all the requirements and expressed interest in commercial loans (Figure 1), amounting to 154 SMEs.

FINANCIAL INDICATORS

This section investigates the financial indicators of referred businesses, comparing formal and informal SMEs. Regarding assets, the referrals interested in exploring commercial loan opportunities have higher asset values than those who did not show interest. Having short-listed businesses that are investment ready based on the three criteria explained above, Figure 4 shows that these firms tend to have higher asset values than the other referrals.

Figure 4. Asset value according to suitability criteria

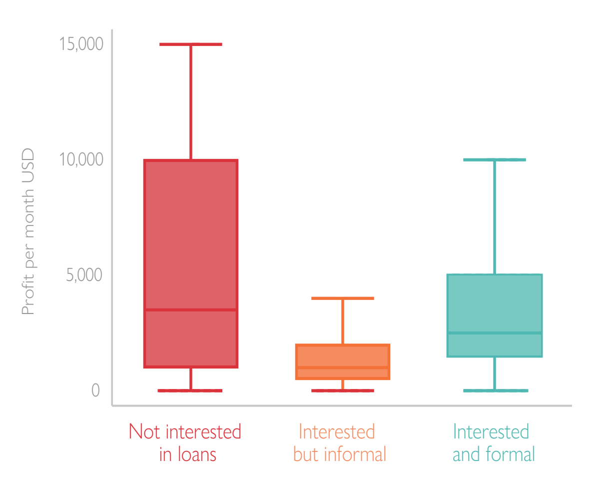


Note: The graph shows the distribution of answers to the question "How much are your firm's net assets (equity)?" by each group of criteria, interest in commercial loans, and formality. The group displayed in the first panel had no interest in commercial loan options (55 businesses), the group displayed in the second panel showed signs of informality (134 firms) and the last panel displayed formal and possible candidates for referral (154 companies).

Despite relatively high asset values, interested businesses have lower profits than those who did not express interest in loans (Figure 5). This result suggests that some companies experiencing financial difficulties may seek loans for additional liquidity. Yet, on average, formal enterprises that satisfy the investment readiness criteria have higher profit levels than other interested businesses. The entire group of firms interested in commercial loans has a mean profit of 5,390 United States dollars (USD), while the reduced sample of formal businesses has a mean profit of USD 6,805.[2]

2 Uninterested firms have a mean profit value of USD 23,457, a median value of USD 3,500 and a standard deviation of USD 48,221. Meanwhile, interested and informal firms have a mean profit value of USD 3,763, a median value of USD 1,000 and a standard deviation of USD 11,495. Finally, interested and formal firms have a mean profit value of USD 6,805, a median value of USD 2,500 and a standard deviation of USD 18,933.

Figure 5. Profit value according to suitability criteria



Note: The graph shows the distribution of answers to the question "How much are your business profits per month on average in USD?" by each group of criteria (interest in commercial loans and formality). The group displayed in the first panel had no interest in commercial loan options (55 businesses), the group displayed in the second panel showed signs of informality (134 firms) and the last panel displayed formal and possible candidates for referral (154 companies). The boxes show the values where 50 per cent of the data is accumulated. The line inside the box shows the median value of the distribution. The whisker below the box shows the lower 25 per cent of the distribution, and the whisker above shows the upper 25 per cent. This graph excludes outliers. Any SME owner with a profit above the value at which 75 per cent of the distribution stands, plus 1.5 times the range between the 75 per cent percentile and the 25 per cent percentile or below the value at which 25 per cent of the distribution stands, minus the same range, is taken as an outlier.

Panel A of Table 1 shows that, overall, there is visible correlation between asset and profit values. When analysing formal and interested SMEs (Panel B), the largest amount displays high asset levels and high profits.

Table 1. Cross-tabulation of firm assets and profit

PANEL A. ALL FIRMS				
	Assets			
Profit	High	Medium-high	Medium-low	Low
High	43	18	13	13
Medium-high	27	17	30	25
Medium-low	12	6	15	46
Low	5	7	9	57

PANEL B. INTERESTED AND FORMAL				
	Assets			
Profit	High	Medium-high	Medium-low	Low
High	27	8	5	4
Medium-high	17	13	15	14
Medium-low	9	2	9	15
Low	2	5	1	8

Note: The table shows the relationship between asset and profit level for the entire sample of SMEs (Panel A) and for those who expressed interest in loans and were regarded as formal (Panel B). The first panel is tabulated over a total of 343 firms and the second is tabulated over a total of 154. Cell colour signals the number of firms in each category, where red indicates a large number relative to the mean and white indicates a low number. In assets, the four categories correspond to the ones displayed in Figure 4, with >500K corresponding to the "high" level and <100K to the "low" level. For profit, categories were made according to quantiles. Twenty-five per cent of referred firms had profits below 1,000 USD, which were categorized as low, 50 per cent of referred firms had profits below USD 2000, so the medium-low category goes between USD 1,000 and 2,000, 75 per cent had profits below USD 5,000, so the medium-high goes between USD 2,000 and 5,000, and all profits above USD 5,000 were categorized as high.

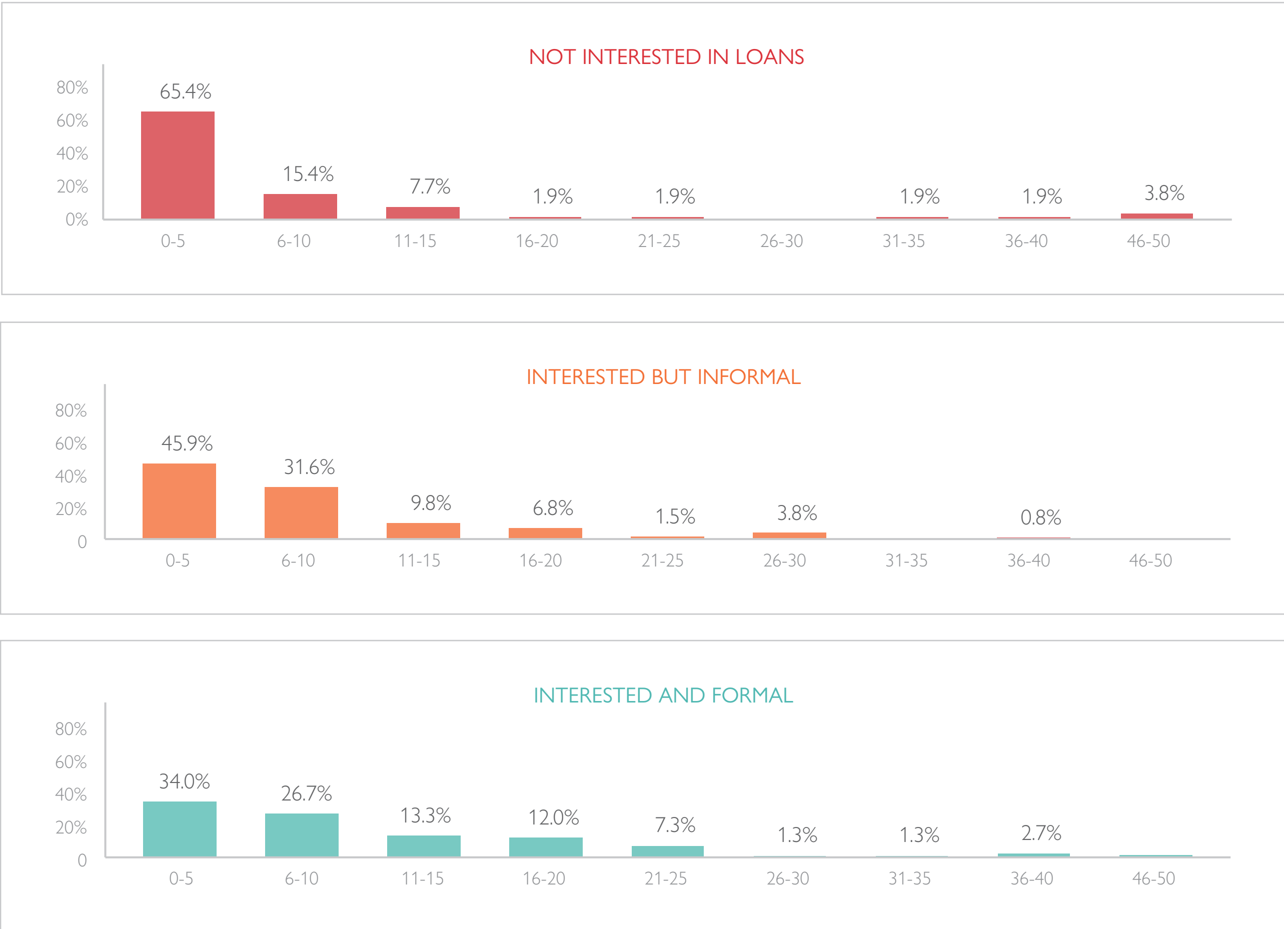
Importantly, even among formal and interested businesses, 98 per cent are self-financed, following the overall trend among SMEs. The formality indicators used as investment readiness criteria selected only one company with a formal loan and one business borrowing resources from friends and family. With this outlook, the screening mechanism has picked businesses that have on average, better financial performance but are not already accessing financial markets.

BUSINESS AGE AND SIZE

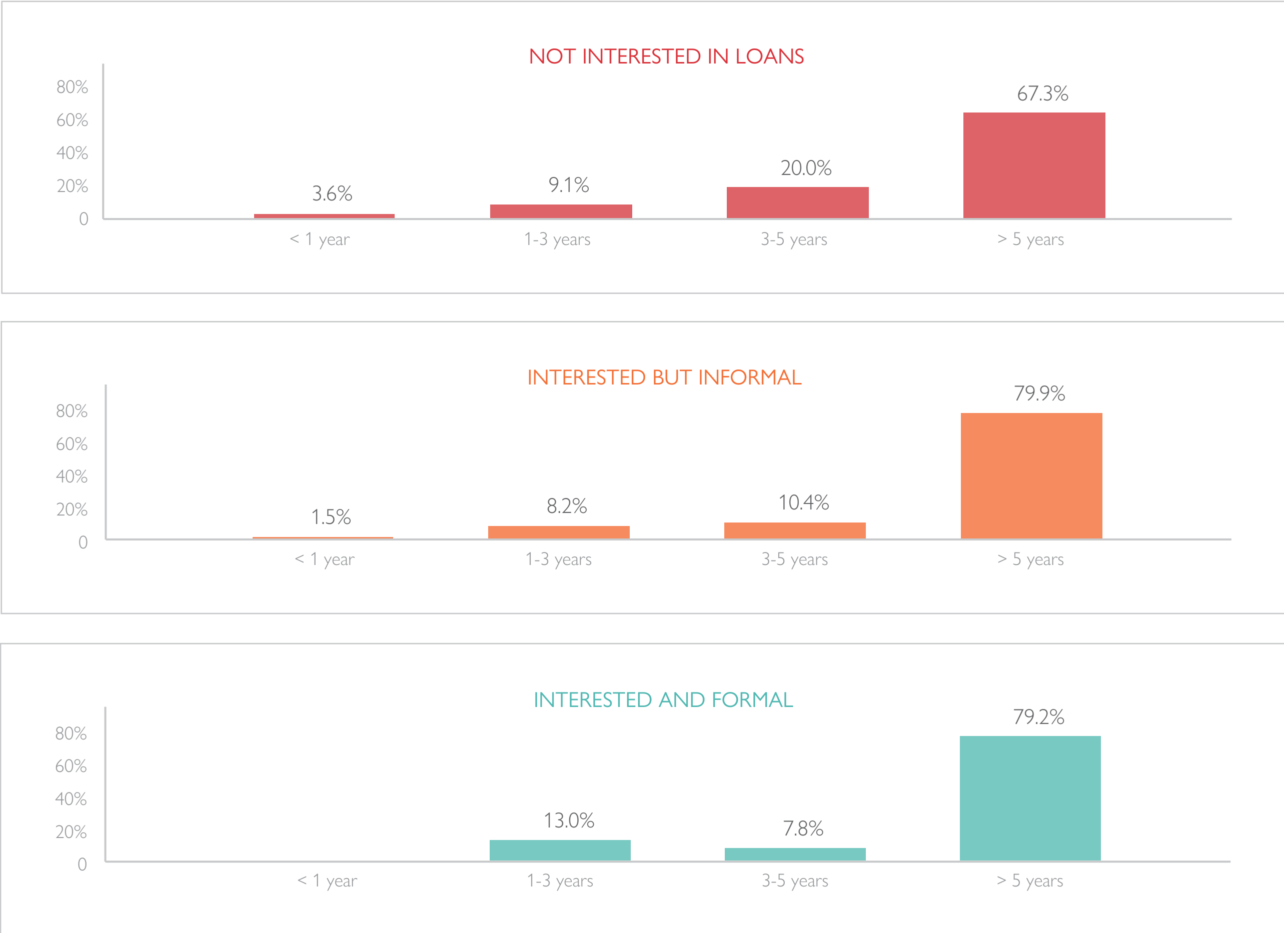
Businesses that satisfy the investment readiness and formality indicators have a longer lifespan and a higher employee count. None of these firms have been in operation for less than a year, and compared to informal businesses, a higher percentage of companies have been in operation for one to three years (Figure 5, Panel B). By number of employees, informal firms in the sample have an average of nine employees, while businesses that satisfy the investment readiness criteria have an average of 14 employees (Figure 6, Panel A).

Figure 6. Business size and lifespan according to suitability criteria

Panel A. Business size



Panel B. Business lifespan

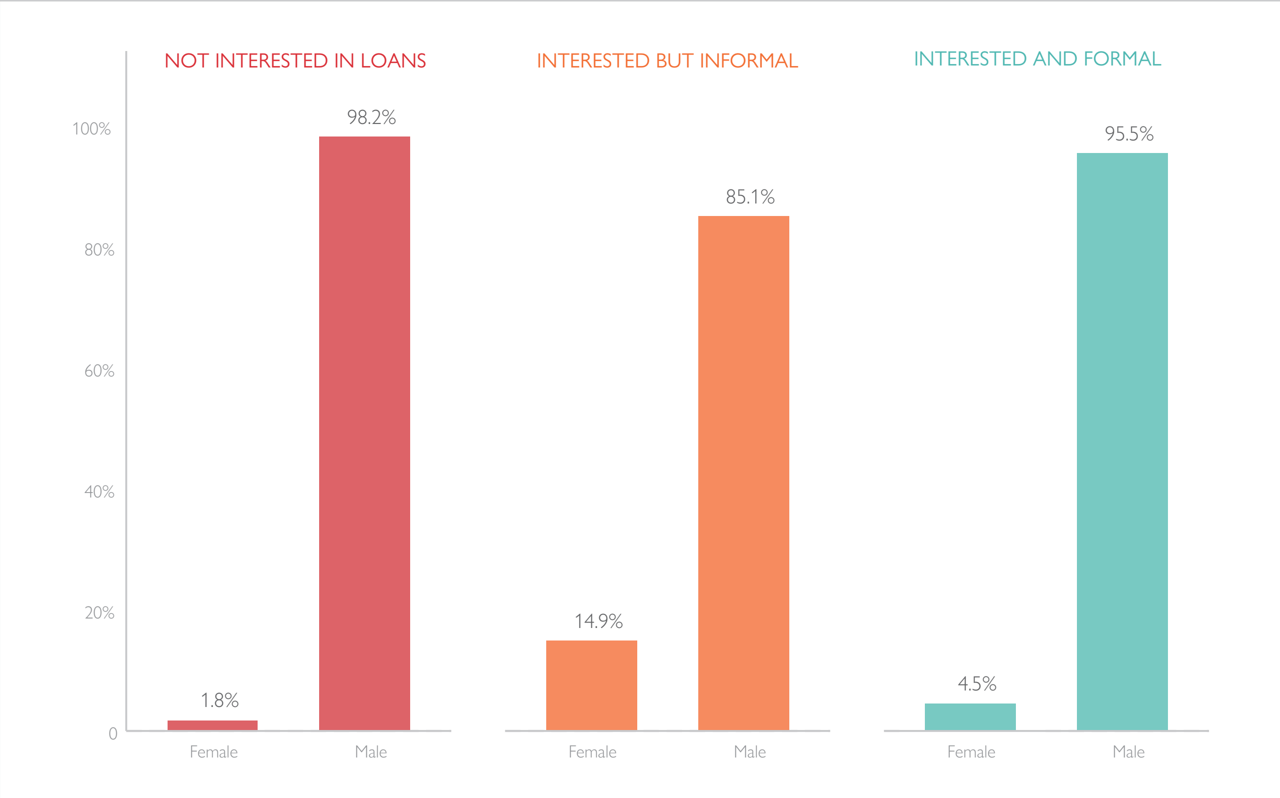


Note: The graph shows the distribution of answers to the questions "What is the total number of your employees (besides yourself)?" in Panel A and "How long has your business been in operation?" in Panel B by each group of criteria (interest in commercial loans and formality). The first group (not interested in commercial loans) includes 55 SMEs, the second group (interested firms that show signs of informality) consists of 134 SMEs, and the last group (formal and interested, short-listed SMEs) includes 154 businesses.

DEMOGRAPHIC TRENDS

The demographic composition of businesses that satisfy the investment readiness criteria can shed light on the additional difficulties specific groups face, including females, displaced business owners or residents of certain Iraqi governorates. Even though the referrals list includes only a few female-owned businesses (28), Figure 7 analyses their distribution by the gender of the business owner and finds that female-owned firms tend to fall within the informal group. This finding aligns with other evidence pointing to barriers to female entrepreneurs' entrance into formality (Hyland and Islam, 2021; IOM Iraq, 2021). Of the 28 female-owned businesses, seven were deemed formal, interested in commercial loans, and would be suitable for loan referrals. All single or widowed female entrepreneurs in the sample owned informal businesses, suggesting the presence of additional barriers for specific groups of women.

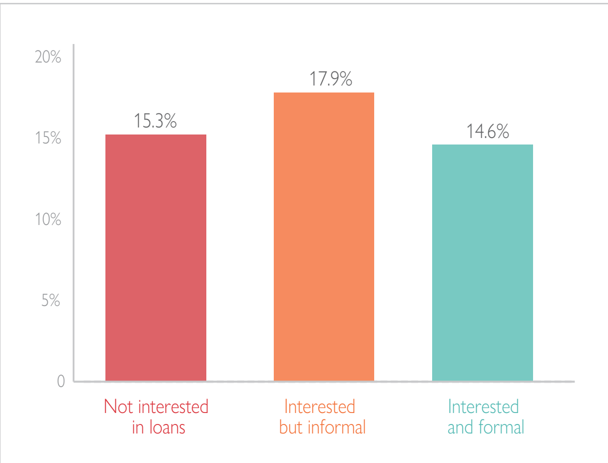
Figure 7. Female business owners by suitability criteria



Note: The graph shows the distribution of answers to the question "What is the gender of the business owner of the firm?" by each group of criteria (interest in commercial loans and formality). The first group (not interested in commercial loans) includes 55 SMEs, the second group (interested firms that show signs of informality) consists of 134 SMEs, and the last group (formal and interested, short-listed SMEs) includes 154 businesses.

In terms of female hires, businesses that satisfy the investment readiness criteria have slightly lower percentages of female employees (average of 14.6%) than informal businesses (18%) and those not interested in commercial loan options (15%) (Figure 8).

Figure 8. Average share of female employees by suitability criteria

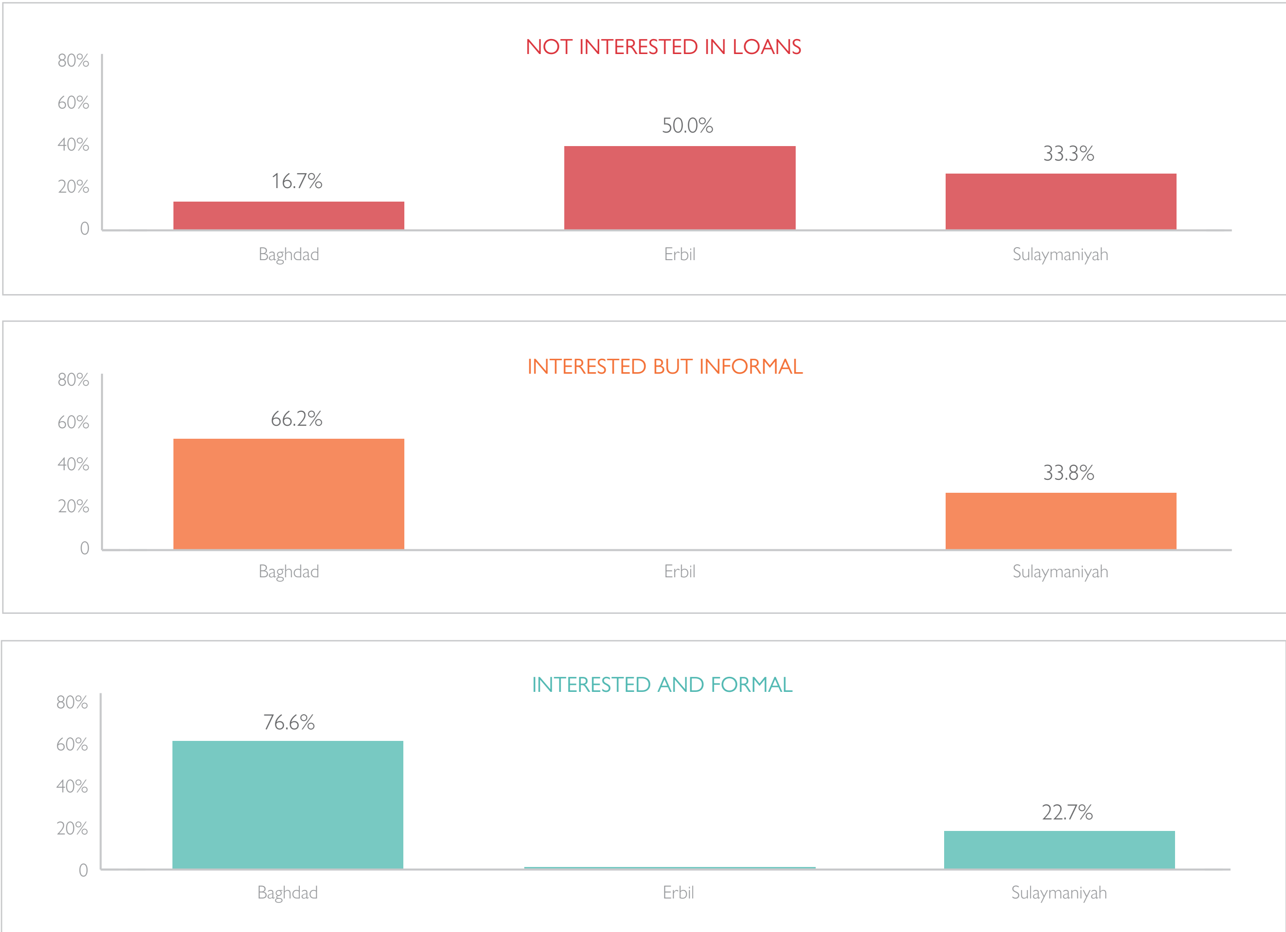


Note: The graph shows the average of answers to "What is the total number of your employees (besides yourself)? Number of female employees" by each group of criteria (interest in commercial loans and formality). The first group (not interested in commercial loans) includes 55 SMEs, the second group (interested firms that show signs of informality) consists of 134 SMEs, and the last group (formal and interested, short-listed SMEs) includes 154 businesses.

Among the referrals, most formal and investment-ready firms are in Baghdad and in Sulaymaniyah (Figure 8). The original list of referrals contains firms from four governorates in Iraq, two of which have some of the highest rates of internally displaced persons and returnees. Erbil Governorate is the second-largest recipient of IDPs after Dahuk (222,865), while Sulaymaniyah is the fourth-largest recipient (126,474). Meanwhile, Baghdad Governorate has one of the lowest IDP populations in the country (26,532 persons). Almost 60 per cent of the referred businesses in Baghdad satisfied all the investment readiness and formality criteria, compared to 36 per cent in Sulaymaniyah and less than 4 per cent in Erbil. While these findings are only indicative given the small number of governorates included in the exercise, they suggest that displacement-affected regions of Iraq face hurdles in access to finance that could be addressed through investment-readiness programming.

Regarding education level, most university graduates satisfied the formality and investment readiness criteria (56%), while most candidates with less than intermediate school education (68%) fell short of the formality indicators.

Figure 9. Business location by suitability criteria



Note: The graph shows the distribution of answers to the question "Where is your firm located?" by each group of criteria (interest in commercial loans and formality). The first group (not interested in commercial loans) includes 55 SMEs, the second group (interested firms that show signs of informality) includes 134 SMEs, and the last group (formal and interested, short-listed SMEs) consists of 154 businesses.

DEMAND FOR ADVISORY SERVICES

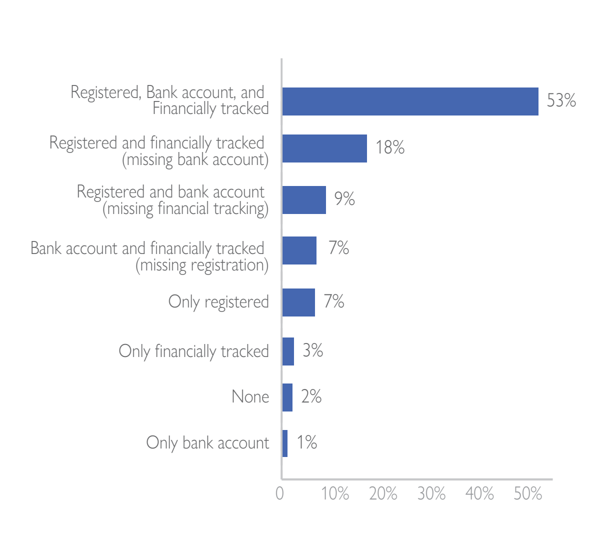
Beyond interest in commercial loans, business owners were also asked about their willingness to participate in IOM's capacity-building exercises. This question gives insights into the demand for advisory services that could help SMEs become investment-ready and qualify for loan referrals in the future. Of the 343 interviewed referrals from the CoCIs, 318 (93%) said they would be willing to participate in IOM's financial capacity-building exercises based on their needs and 25 said they would not.

Of the 318 business owners willing to enroll in IOM's exercises, more than half already satisfied the investment readiness criteria for loan referrals (53%), according to their formality indicators. Figure 10 shows which of the three criteria was lacking by those who expressed interest and those who did not.

Among businesses interested in advisory services, the main gap was the lack of a bank account (29%, or 93 businesses), followed by lack of financial tracking (19%, 62 businesses), and lack of registration with the relevant ministry (13%, 42 businesses). Figure 10 shows the prevalence of different combinations of gaps among interested businesses.

Among businesses not interested in IOM advisory services (25), about half satisfied the investment readiness criteria for loan referrals (48%). The distribution of investment readiness gaps among interested and uninterested firms are very similar, signalling that informality is unlikely to be the only reason driving businesses' interest in IOM programmes. Some companies may benefit from increased awareness about the importance of investment readiness and formalization.

Figure 10. Formality of businesses interested in IOM capacity-building



Note: These graphs show the percentage of businesses meeting each suitability criteria. Panel A shows these percentages for those who answered "Yes" to the question "If IOM offers business capacity building and financial capacity building based on your needs, would you be willing to participate?" and Panel B shows these percentages for those who answered "No" to the same question. The first panel contains percentages based on a total of 318 positive answers, and the second panel includes percentages based on a total of 25 negative answers.

CONCLUSION

This report has identified 154 SMEs that satisfy essential formality and investment readiness criteria for loan referrals among 343 firms referred by the CoCIs in four governorates. The requirements focus on registration with relevant ministries, having a bank account, tracking financial records and a demonstrated interest in exploring commercial borrowing options. These criteria can help to ensure that referred firms are best positioned to succeed with loan opportunities.

The analysis shows that businesses satisfying the investment readiness criteria have more robust financial profiles and longer operational histories than those not short-listed. However, the screening criteria also reveal significant gaps for female entrepreneurs in certain Iraqi regions. Among referrals, female business owners and businesses in governorates with a high IDP population, such as Erbil, faced more essential barriers to meeting formal criteria. These gaps highlight the need for targeted interventions, such as advisory services and capacity-building programmes, to support the growth of informal SMEs and enable them to access financial services.

RECOMMENDATIONS

1. **Refer suitable businesses to partner financial institutions.** The market mapping exercise identified 154 SMEs ideal for loan referrals based on interest and fundamental investment readiness indicators. IOM will collaborate with development partners such as ILO and private financial institutions to facilitate access to finance for this subset of businesses, exploiting ongoing initiatives that provide subsidized loans to SMEs.
2. **Provide suitable financing options for informal businesses.** The findings in this report suggest that basic formality requirements commonly applied by financial institutions to determine eligibility for loans can result in the exclusion of a large share of SMEs, even among businesses referred by CoCIs. Ensuring that alternative sources of financing are available to these enterprises is essential, as they often have a high growth potential and play a crucial role in generating new employment. Initiatives such as the Enterprise Development Fund can help bridge existing gaps in financing access for informal enterprises. They can be accompanied by policy interventions promoting the engagement of private financial institutions in the informal sector.
3. **Support SMEs investment readiness to broaden the pool of firms suitable for loan referrals.** Forty-three per cent of referred SMEs can benefit from targeted capacity-building efforts, fostering relationships with financial institutions by facilitating bank account openings, supporting business registration with relevant ministries and strengthening bookkeeping and financial tracking practices. By promoting business formalization and investment readiness, IOM can help promising SMEs to become bankable, positioning them as viable candidates for future loan and investment opportunities.
4. **Develop tailored interventions to address the barriers faced by female entrepreneurs and businesses operating in areas affected by conflict and population displacement.** Female entrepreneurs and businesses located in governorates with high populations of internally displaced persons are less likely to satisfy essential formality criteria. The lack of updated business registries in conflict-affected areas limits the pool of businesses screened through this market mapping exercise. To ensure inclusive private sector development and level the playing field, targeted interventions should be developed to address the barriers disadvantaged groups of entrepreneurs face and broaden the pool of businesses considered suitable for loan referrals. Possible interventions include encouraging relationships with banks and financial institutions and training programmes to support better business practices and enhance investment readiness.
5. **Strengthen national SME information systems.** Most businesses listed by the CoCIs with which IOM collaborated for this market mapping exercise were unreachable due to outdated contact details. Strengthening partnerships with these institutions to improve national business registries and information systems is vital to facilitate targeted programming for SMEs in the long-term and make this a viable strategy for beneficiary selection.
6. **Recruit programme participants through open calls for proposals.** Until national information systems are updated, open calls for proposals advertised widely in targeted areas will continue to provide a more inclusive and efficient recruitment pathway to identify businesses interested in access to finance programming. Current registries are biased towards major urban centres, penalizing female entrepreneurs and those conducting business in areas affected by adverse shocks such as conflict and population displacement.

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