

THE ENTERPRISE DEVELOPMENT FUND BUSINESS TRAJECTORIES AFTER ONE YEAR



Enterprise
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EXECUTIVE SUMMARY

Purpose of this report

Iraq's path to economic recovery after conflict necessitates robust support for its business sector and small and medium enterprises (SMEs). SMEs are a powerful engine for employment creation, playing a crucial role in fostering long-term economic stability, resilience and the achievement of durable solutions for displaced persons. The Enterprise Development Fund (EDF) has been instrumental in this recovery process, providing targeted financial support to SMEs across various sectors to catalyze growth and job creation. The present report shows the findings from a panel survey of Iraqi SMEs that received financial support through the EDF. The aim is to break down and analyze businesses' advances and drawbacks over the first year after aid disbursement. The conclusions provide valuable feedback for the program and are intended to serve as a foundation for targeted interventions and overall improvements.

Main Takeaways

The analysis reveals that most SME owners recognize the positive impact of EDF on their businesses, improvements in business operations, meeting owners' needs, and overcoming barriers. Eighty per cent of business owners reported six months after the award that they would have employed fewer people than their current level without EDF support, highlighting the fund's role in job creation. Most recipients confirmed this assessment a year after being awarded the grant.

About 85 per cent of companies hired at least one employee by the endline. In gross terms, EDF recipients hired an average of 4.3 employees per firm over twelve months.¹ In net terms, the average company went from 5.3 employees at the time of the award to 8.4 by the endline survey twelve months later.² This corresponds to a net increase of 3.1 employees. Compared to their job creation goals, 49 per cent of recipients met or exceeded their employment creation commitment in net terms, with 17 per cent of the awarded SMEs reporting a higher increase than committed in their business plan. An additional 15 per cent of firms undershoot their net target by only one worker. Across the 1,628 firms included in the study, net job creation amounts to approximately two-thirds of the gross commitments made in the firms' business plans.³

The support of the EDF has been especially crucial for female entrepreneurs who face more severe challenges in expanding their business in Iraq due to higher informality, educational barriers, poor access to capital, and lower productivity in their sectors (IOM Iraq, 2022). Six months after the baseline, female-owned businesses hired 2.5 women for every man, increasing to three women per man at the 12-month mark. In contrast, male-owned businesses predominantly hired men, at a ratio of ten men for each woman hired. Nevertheless, women-led companies also faced higher challenges in achieving their commitments regarding job creation, highlighting the need for complementary support to address the multifaceted barriers female entrepreneurs face in Iraq. EDF support also helped displaced entrepreneurs and those returning from displacement rebuild their businesses, narrowing the gap relative to host community business owners after twelve months.

A key finding is the gradual formalization of businesses, with more enterprises registering with the government and adopting formal bookkeeping practices over the twelve months following the award (12 pp. increase in registration and 22 pp. increase in formal bookkeeping practices). This shift is critical for consolidating and expanding Iraq's private sector, historically constrained by political and economic challenges. Formalization is also essential for improving

¹ This value comes from the sum of the answers to "Did you hire any new workers in the last 6 months? (Number of new workers)" at midline and endline.

² The standard deviation for this variable is 6.5 workers, and the median value is seven workers.

³ Overall, the findings align with solid evidence in the literature in favor of cash grants increasing employment in SMEs ([Muraközy & Telegdy, 2023](#); [Kersten et al., 2017](#); [Baird et al., 2018](#)).

access to capital as it is often a requirement for consideration by financial institutions, business development services (public and private), and investors (ILO, 2014).

Businesses reported higher average incomes during the study period, but the profit increase was not statistically significant. This finding has two likely explanations. First, the real benefits of financial inputs on profitability may take longer to materialize. Second, since these firms operate within competitive markets, the lack of abnormal profit growth suggests that the transfer is not, on average, resulting in increased market power.

The report's recommendations emphasize the importance of continuing to support private sector recovery and long-term development in Iraq, focusing on inclusivity and sustainability. Simplifying and enhancing access to formalization processes for SMEs is a low-cost intervention that can accelerate job creation and credit access. Improving access to private finance by reducing collateral requirements, streamlining loan application processes, and addressing demand-side barriers is also critical. Other recommendations include closer public-private partnerships for SME development, targeted support for female business owners and entrepreneurs who experienced forced displacement, and new initiatives targeting business development and adaptability. The study also underscores the importance of understanding the drivers of net job creation among EDF recipients and across demographic groups, as many firms underperform relative to their goals, suggesting non-financial barriers. Rigorous impact evaluations should be conducted to assess economic and social outcomes for EDF-funded businesses, their employees, supply chains, and surrounding communities.

METHODOLOGY

This report illustrates the results from a panel survey consisting of three interviews with SMEs that received financial support from EDF in Iraq. The EDF programme aims to foster economic recovery and job creation. The programme provides financial support to SMEs across various economic sectors, targeting those with high potential for job creation. Depending on their needs and capacities, businesses receive conditional cash grants ranging from 5,000 to 30,000 United States dollars (USD). These are disbursed in installments, each answering mutually agreed milestones. The selection process covers multiple stages of scoring based on a custom algorithm and a due diligence process. The eligibility criteria are adjusted according to market assessments and the needs of different target groups but include firm size, ownership by an Iraqi, years of operation, cost per job, and specific business sectors (IOM, 2018). To apply, candidates must submit a proposal for a business plan explaining how the grant will help them expand their business ideas and create economically sustainable job opportunities.

The survey questionnaire encompasses multiple topics that showcase the trajectory of businesses before and after disbursement, including business registration, business dynamics, and financial data, employees' information and workplace, job security and economic inclusion, value chain, perceived EDF effect on businesses, and COVID-19 effect on businesses.

The baseline round is carried out after signing the contract and before the first payment. At the time of writing, 2,454 business owners completed the baseline survey. Six months later, 2,051 SMEs answered the first follow-up, and 1,628 SMEs responded to the endline round a year after the baseline. The descriptive analysis contained in this report focuses on businesses that have completed the entire follow-up cycle, up to the endline phase, between 2019 and February 2024. The study excludes 34 businesses whose grants were cancelled or terminated because of a failure to comply with the agreed business plan.

Further analysis presented in Figures 7 and 11 exploits the staggered roll-out of the grants in the full dataset to estimate the effect of EDF on profits and employment, using a difference-in-differences strategy to control for firm characteristics and aggregate economic fluctuations in each year-quarter. The results should be considered indicative, given the lack of a true control group and the potential for unobserved time-varying confounders.

Additional limitations of the study include the possibility of reporting bias, as the analysis relies on self-reported information from business owners. Such data can be subject to inaccuracies or intentional exaggeration, especially concerning sensitive financial data or job creation figures. The focus on businesses that have completed the interview cycle may introduce some selection bias, for instance if businesses remaining in the study throughout the three rounds of interviews are the most successful in following the business plan. On the other hand, it ensures like-for-like comparisons between rounds, avoiding compositional differences between rounds that may reflect period effects linked to the fact that many businesses who have reached the endline were awarded grants during the COVID-19 pandemic. It also reduces the risk of attrition bias, which could arise if businesses dropping out of the follow-up phases systematically differ from those that remain.

RECIPIENT CHARACTERISTICS

The sample of 1,628 business owners includes those who completed all three rounds of interviews between the second quarter of 2019 and the first quarter of 2024. It represents 66 per cent of the total number of businesses in the program. Relative to the entire EDF grantee population, this group has a similar composition in demographic terms, geographical terms, and overall business characteristics. The group is composed of 310 female (19%) and 1,318 male business owners (81%). Regarding displacement, the sample includes 953 host community members (58%), 608 returnees (37%), and 65 IDPs (4%).⁴ The highest number of businesses are in Ninewa (446, or 27%), followed by Basrah (226, or 14%), Kirkuk (196, or 12%), Baghdad (133, or 8%), and Salah al-Din (128, or 8%). Regarding business size, at baseline, the average business had 5.3 employees, and the largest business had 64 employees, with a standard deviation of 4.8 employees. The largest sectors by number of businesses included in the study are manufacturing (362, or 22%), agriculture (254, or 16%), services (253, or 15%), and food (251, or 15%).

BUSINESS OWNERS' PERCEPTIONS OF EDF

In the aftermath of conflict, sustainable economic recovery is crucial to rebuilding communities and fostering long-term peace. SMEs are often the backbone of local economies in fragile environments and significant contributors to employment and stability (Hoffman and Lange, 2016; International Trade Center, 2023). The literature about programmes such as the EDF points to a positive effect when targeted at business growth and start-ups, with increased survival of SMEs and business earnings (Baird et al., 2018). In Iraq, most interviewed SMEs agree or strongly agree that the EDF has aided their business in terms of improving the company (97% on average), meeting their needs as business owners (96% on average), overcoming barriers (97% on average), and thanks to the relevance of the programme to their work (98% on average) (See Appendix A). The results are similar for female and male SME owners.⁵

Without the support of EDF, 80 per cent of business owners stated they would have hired fewer workers at midline and 56 per cent at endline (Figure 1). Female entrepreneurs are more likely to report that they would have employed fewer people had they not obtained the EDF grant, highlighting the role of EDF in generating business opportunities for women (88% for women and 79% for men at the midline, 66% for women and 55% for men at the endline). Women are more prone to work in informal and low-productivity sectors and face additional barriers in accessing finance and growing their business, which may result in worse initial conditions for female-owned SMEs (Hyland and Islam, 2021; Islam and Amin, 2023; IOM Iraq, 2021b).

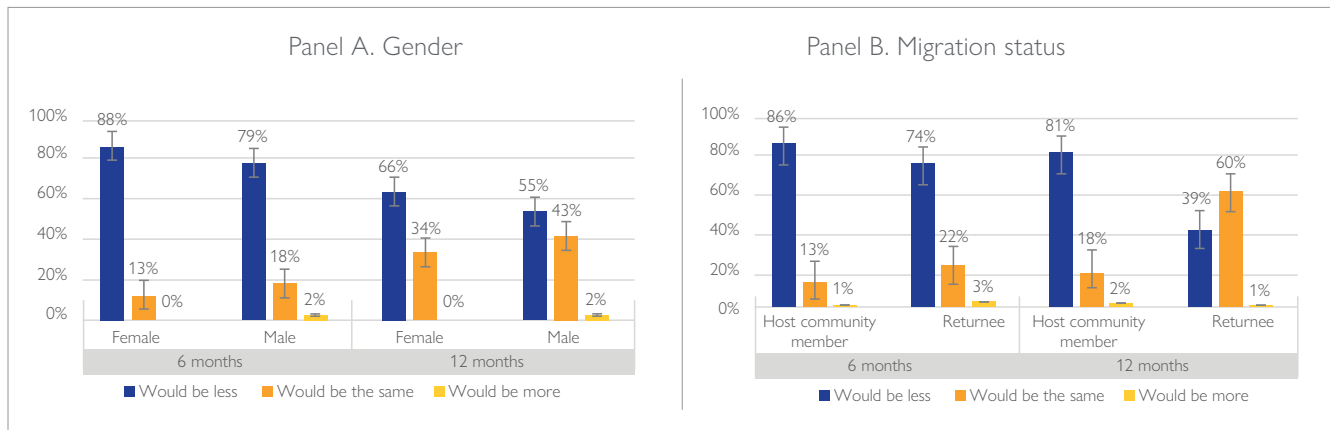
On the other hand, host community members stated they would have hired fewer workers without the EDF to a

⁴ Two business owners did not state their migration status.

⁵ Most business owners stated their contribution to the community increased due to the EDF support six and 12 months after baseline, with no significant heterogeneity by gender. They reported being more involved in community events because of the EDF support at both midline (85%) and endline (92%).

larger extent than returnee business owners. By the endline, a very high proportion of returnees (60%) affirmed they would have hired the same number of workers without the grant. In comparison, only 18 per cent of host community members said they would have hired a similar number of employees without the grant.⁶ This report's section on employment digs deeper into these trends.

Figure 1. Workers without the EDF



Note: This figure shows the answer to the question, “Would the numbers of workers be different if you did not receive the EDF grant?” A total of 449 answered this question at midline, and 289 answered at endline, there are not enough answers from IDPs to carry out an analysis for this displacement group. As this question addresses the effect of the EDF, it was not included in the baseline interview.

IOM also asked interviewees to evaluate the programme’s management. Most business owners reported having no issues with delayed payments at midline and endline (69%). However, around a third of those who answered the question said they experienced delays between the time of the milestone verification visit and the receipt of payment (the average reported delay was 27 days).⁷

Takeaway

- According to the awarded business owners, the EDF program has significantly contributed to enterprise growth and to the creation of new jobs.
- There is a consensus among supported entrepreneurs that the EDF grants effectively improved their businesses, met their needs, and helped them overcome barriers.
- Male and female SME owners reported similar satisfaction levels with the program.

FORMALITY

In Iraq, informality is deeply rooted in the business ecosystem, with 67 per cent of people having an informal job (ILO, 2022). The public sector has the most significant demand for labour due to the country’s dependency on oil and trajectory with political unrest, leaving the private sector strongly underdeveloped. National regulations impose complex barriers to formalizing SMEs and employment contracts, leaving employees with limited social security protections (ILO, 2021). In post-conflict settings, the transition to formal practices requires stability and security for the necessary investments to occur (Lewis et al., 2019).⁸

⁶ As this question was answered by a smaller sample of businesses, there are not enough answers from internally displaced persons (IDPs) to carry out an analysis for this displacement group.

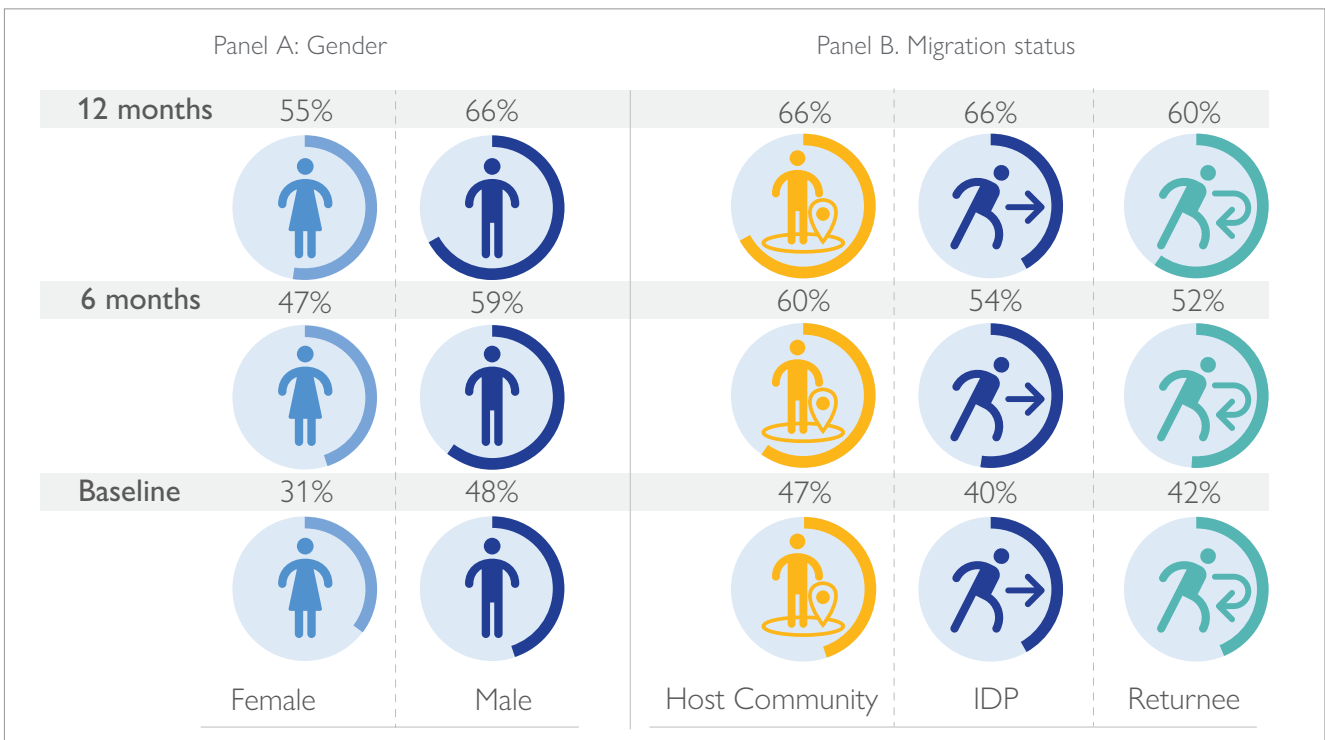
⁷ When asked how long were the reported delays, interviewees reported a maximum of 365 days and a minimum of 2 days, with a median value of 75 days.

⁸ Informality is one of the consequences of violence (Schoofs, 2015). Informal enterprises are also often associated with lower

Since financial struggles are a crucial barrier to formalization, one of the aims of the EDF, in the context of job creation, is the formalization of participating businesses. Two critical elements of formalization are business registration by national legislation and the adoption of robust bookkeeping practices (ILO, 2021). Formalization is an essential step towards making SMEs more “investment ready,” as banks and other private financial institutions often exclude informal enterprises from the loan market due to their higher perceived risk and a lack of sufficient documentation (Abraham and Schmukler, 2017). Because previous research from outside Iraq is inconclusive about the effect of cash transfers on formalization, the programme actively encourages granted businesses to register with relevant statutory bodies by including registration as a non-enforced milestone requirement.⁹

Figure 2 displays the percentage of EDF businesses registered with a Ministry or the Chamber of Commerce. In Iraq, most EDF businesses are not registered with the Chamber of Commerce, with a statistically significant increase for both men and women six months after baseline. A higher proportion of business owners answered affirmatively when asked about being registered with a Ministry. Even though only 38 per cent of the businesses were registered with a ministry at baseline, there is a marginally significant increase of 10 pp after six months, leaving 48 per cent of companies registered with a ministry. This percentage rises to 56 per cent after 12 months. The highest proportion of businesses registered with a ministry was recorded with the Ministry of Agriculture (19% at baseline and 29% at endline), followed by the Ministry of Health (4% at baseline and 11% at endline) and the Ministry of Education (13% at baseline and 9% at endline). Total registration with any of the two entities increased between the baseline and endline by 19 pp.

Figure 2. Businesses registered with an authority



Note: Each round includes 1,628 business owners. Four per cent of businesses at baseline had an expired registry with the Chamber of Commerce or industry, and 3 per cent at midline and endline. Three per cent of companies at baseline had an expired registry with a ministry. This percentage was 2 per cent for midline and endline. The group comprises 310 females and 1318 males, 953 host community members, 65 IDPs and 608 returnees.

At baseline, fewer female-owned SMEs were registered with ministries (29%) or the chamber of commerce (8%)

productivity and low-quality jobs (Benjamin, 2023).

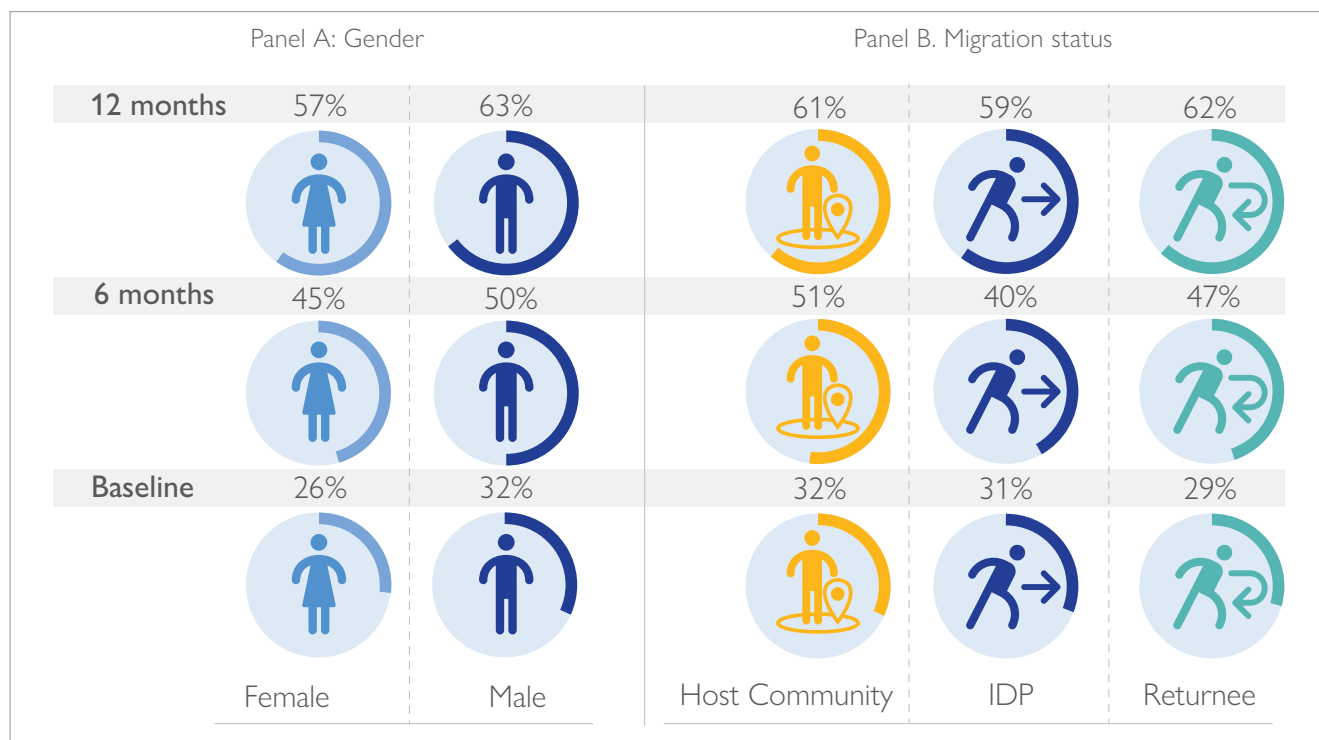
⁹ The literature presents mixed findings regarding formalization through registration after cash transfers. Enterprises do not tend to transition to formality, even when encouraged through subsidies or barriers to entry are eliminated (La Porta and Shleifer, 2014). However, direct payments have been shown to affect a firm’s registration (De Mel et al., 2013).

than male-owned businesses (40% and 21%). By endline, 50 per cent of female-owned companies were registered with a ministry and 26 per cent with the chamber of commerce, compared to 57 per cent and 37 per cent for males, respectively. Previous research has found that Iraq still has some room for improvement in its legal framework to encourage female entrepreneurs (UNDP, 2022), so female-owned firms have a higher likelihood of starting in the informal sector (Hyland and Islam, 2021), which tends to resist formalization (Goyal and Heine, 2021). Conversely, across migration status, all groups tended to increase the proportion of registered businesses in similar magnitudes.

IOM analysed bookkeeping practices as these positively affect general SME performance and can be beneficial for boosting financing options for these enterprises (Adela et al., 2024; GIZ, 2023).¹⁰ As previously mentioned, a complete set of accounts is one of the criteria IOM Iraq uses for regarding an enterprise as formal (ILO, 2021). The International Labour Organization (ILO) also treats accounting as a relevant criterion where quasi-corporations might not be excluded from informality statistics by their registration status with the government (ILO, 2013). Detailed and comprehensive financial planning techniques are associated with improved business operational performance and achievement of organizational objectives (Osiyevskyy et al., 2016). In Iraq, the overall percentage of EDF businesses with a written budget between baseline and endline significantly increased by 13 pp, going from 31 per cent to 61 per cent. This aligns with research showing that cash grant programs often motivate business owners to improve their business practices (Grimm et al., 2021).

Male SME owners were slightly more successful at adopting a written budget 12 months after baseline and had a higher percentage of businesses using a written budget at baseline (Figure 3, Panel A). Whereas across displacement categories, returnees went from having the lowest proportion of businesses without written budgets (29% at baseline) to the highest one (62% by endline) (Figure 3, Panel B). Furthermore, although 72 per cent of businesses did not have a system for keeping track of their inventory at the baseline, the percentage of the companies that use a record-keeping system increased at the endline (52% overall, see Appendix B). This variable had approximately the same distribution and showed similar results across genders (an increase of 25 pp for females and 24 pp for males one year after baseline).

Figure 3. Businesses that keep a written budget



¹⁰ Several authors have found that firms (40–50%) are more likely to start keeping records and paying taxes due to cash grants up to four years after disbursement (Blattman et al., 2014).

Note: Each round includes 1,628 business owners. The group comprises 310 females and 1,318 males, 953 host community members, 65 IDPs, and 608 returnees.

Takeaways

- Informality is prevalent in Iraq's business environment, and the private sector remains underdeveloped.
- The EDF program has led to a notable increase in business registration with relevant ministries.
- Female entrepreneurs encounter more significant hurdles to formalization than their male counterparts.

PROFITS

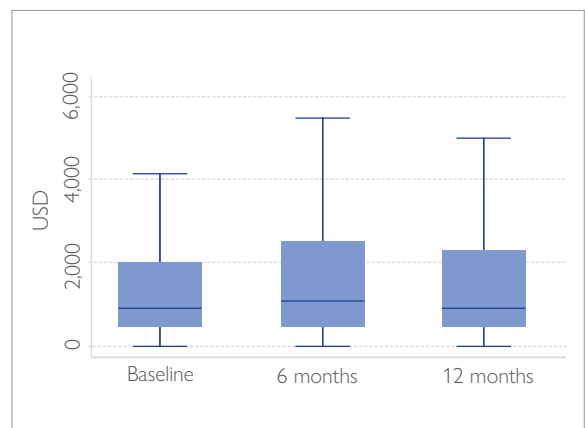
In fragile economies, cash-based interventions have shown high return rates as they promote business expansion (Blattman and Ralston, 2015). As opposed to creating dependency, targeted interventions can encourage individuals in crisis-affected countries to expand the size of their businesses and tend to have positive results on sales and earnings (Baird et al., 2018; Blattman et al., 2014; Muraközy and Telegdy, 2023). Therefore, monitoring profit as a measure of financially sustainable business growth is integral to EDF firms' follow-up.

On average, SMEs reported the highest income at midline, with USD 2,117, compared to the baseline (USD 1,849) and endline (USD 1,993). For baseline and endline rounds, the median value of this profit was USD 1,000, and for midline, it was USD 1,200. Figure 4 displays boxplots for profit at each interview stage. These plots represent the distribution of the variable, where the box shows the values where 50 per cent of the observations are grouped, and the whiskers show the upper and lower 25 per cent of the distribution. The line within the box represents the median value. The baseline stage had a higher accumulation of businesses around lower profit values; 25 per cent of SMEs had profits of USD 600 or less in the previous month, while at the endline stage, 25 per cent had profits below USD 750.¹¹

Many studies have demonstrated that cash transfers increase business investment (Blattman et al., 2014; Muraközy and Telegdy, 2023; Perez et al., 2020). However, this investment often does not translate into immediate earnings growth. There is a standard short-term limitation on the earnings increase, as businesses typically require time to incorporate these investments into their operations effectively (Grimm et al., 2021; Jayachandran, 2021). Furthermore, unrestricted cash transfers to firms should not increase prices or profit in competitive markets beyond short-term adjustments (Delius and Sterck, 2024). Also, in underdeveloped markets, the growth of SMEs does not necessarily come at the expense of competitors (through increased prices and market share). Still, it can come from overall market growth (McKenzie and Puerto, 2021).

Figure 4. Distribution of business profit over the last month (in USD)

Note: Each round includes 1,628 business owners. 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.



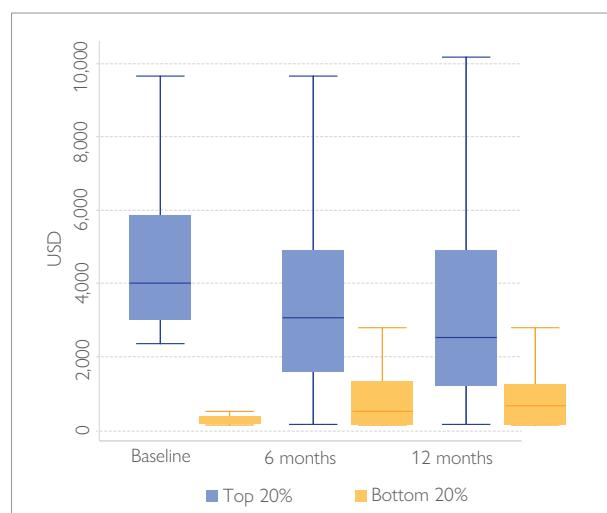
¹¹ The standard deviation was USD 3,817 at baseline, USD 4,643 at midline and USD 3,118 at endline.

When taking subsamples for the best and worst performing 20 per cent of enterprises in terms of profit at baseline, we find that the firms that had the highest earnings in the baseline did not considerably change their income level six and 12 months after the aid of the EDF, as opposed to the worst-performing 20 per cent of firms (See Figure 5). Although the bottom 20 per cent did not reach the profit levels of the top 20 per cent, this result indicates that the worst-performing firms might benefit the most from the cash grant. Recent literature on the effect of cash grants and subsidies has concluded that microenterprises tend to improve more and across more dimensions than larger firms (Dvouletý et al., 2021; Srhoj et al., 2020). Trends for the top 20 per cent follow what was shown in the overall results (Figure 5). The lack of growth in profit margins may result from increased investment or expenses after EDF disbursement. The latter would boost earnings and profit in the longer term while possibly decreasing margins in the short term.

Meanwhile, the bottom 20 per cent might not prioritize investment but margin increase (Figure 5). These results also hint at the possibility of poor profits due to highly competitive markets, where grants to businesses do not result in additional market power. Hinting random fluctuations in profits would make profits at baseline a poor predictor of future business success, warning against being over-reliant on baseline measures when selecting businesses.

Figure 5. Distribution of business profit over the last month for best and worst-performing firms at baseline (in USD)

Note: Each round includes 1628 business owners. 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.

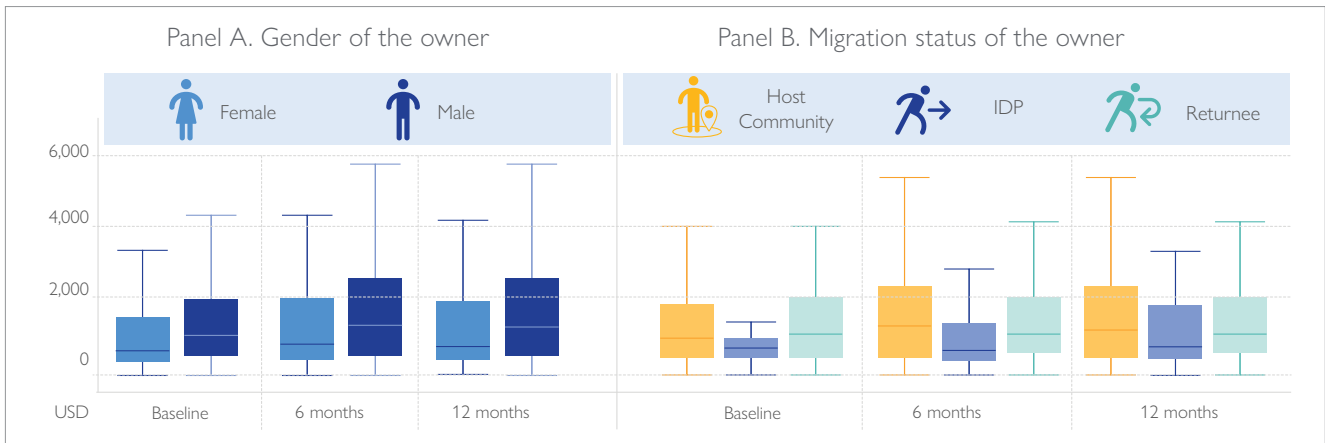


Examining the same variable by gender shows that the profit distribution for male SME owners was more skewed towards higher values across all rounds (Figure 6, Panel A). Male entrepreneurs also show more evidence of increased profits six months and 12 months after the intervention. These findings align with several studies showing that female-owned businesses may benefit less from receiving cash grants than males. Possible mechanisms proposed by the literature include a need for jobs in more flexible and less profitable business sectors because of traditional gender norms emphasizing women's role as caregivers or a higher propensity of expropriation for female earnings within households (Bernhardt et al., 2019; Fiala, 2018; Jayachandran, 2021).

The profit distribution for returnees had consistent values across the three rounds of interviews (Figure 6, Panel B). Meanwhile, IDP business owners significantly increased their midline and endline profits, although this variable's range was still below the range for returnees and host community members. The latter had the highest profit values for all three rounds. The mean profit value for host community members at baseline was USD 1,895, USD 1,038 for IDPs, and USD 1,867 for returnees.¹² Therefore, IDPs see a consistent increase in average profit across rounds, while returnees see a consistent decrease.

¹² Each displacement group saw a change of 31 per cent, 27 per cent and -12 per cent by midline. By endline, host community members, IDPs and returnees saw a respective change of -9 per cent, 11 per cent and -0.5 per cent when compared to the midline.

Figure 6. Distribution of business profit over the last month

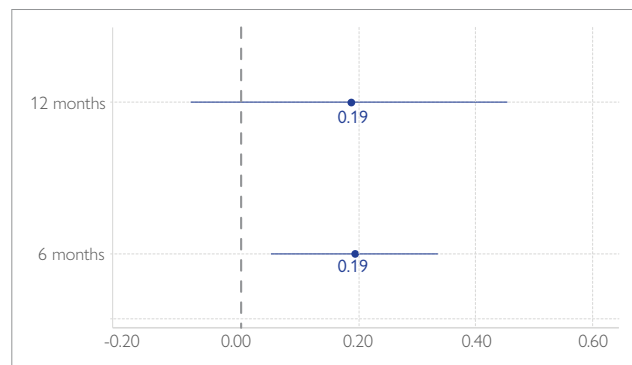


Note: Each round includes 1,628 business owners. The group comprises 310 females and 1,318 males, 953 host community members, 65 IDPs and 608 returnees. The boxes show the values where 50 per cent of the data is accumulated. The diamond inside the box shows the median value of the distribution. The whisker 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.

During the best month of sales in the past year, profit margins were similar between rounds. The baseline stage had an average profit of USD 3,075 for the best month, USD 3,593 at the midline and USD 3,466 at the endline. The median value for all rounds was USD 2,000.¹³ Estimation results that control for seasonality, other aggregate time shocks and firm-specific factors (See Appendix D) show that the midline data point is significantly associated with higher profits, as shown in Figure 7. Both the midline and endline rounds are associated with 19 per cent more profit than the baseline, but the difference is not statistically significant at the endline. These values can be interpreted as evidence of the positive effect of the disbursement on profit levels in the short term.

Figure 7. Profit correlation to survey round

Note: The figure displays estimated average marginal effects on profit in the last month with 95% confidence intervals. The regression was controlled for fixed effects at the firm level and the interview date (by quarters). The regression included 2,358 businesses. Those that hadn't completed all rounds of interviews were incorporated to enhance the estimation.



Takeaways

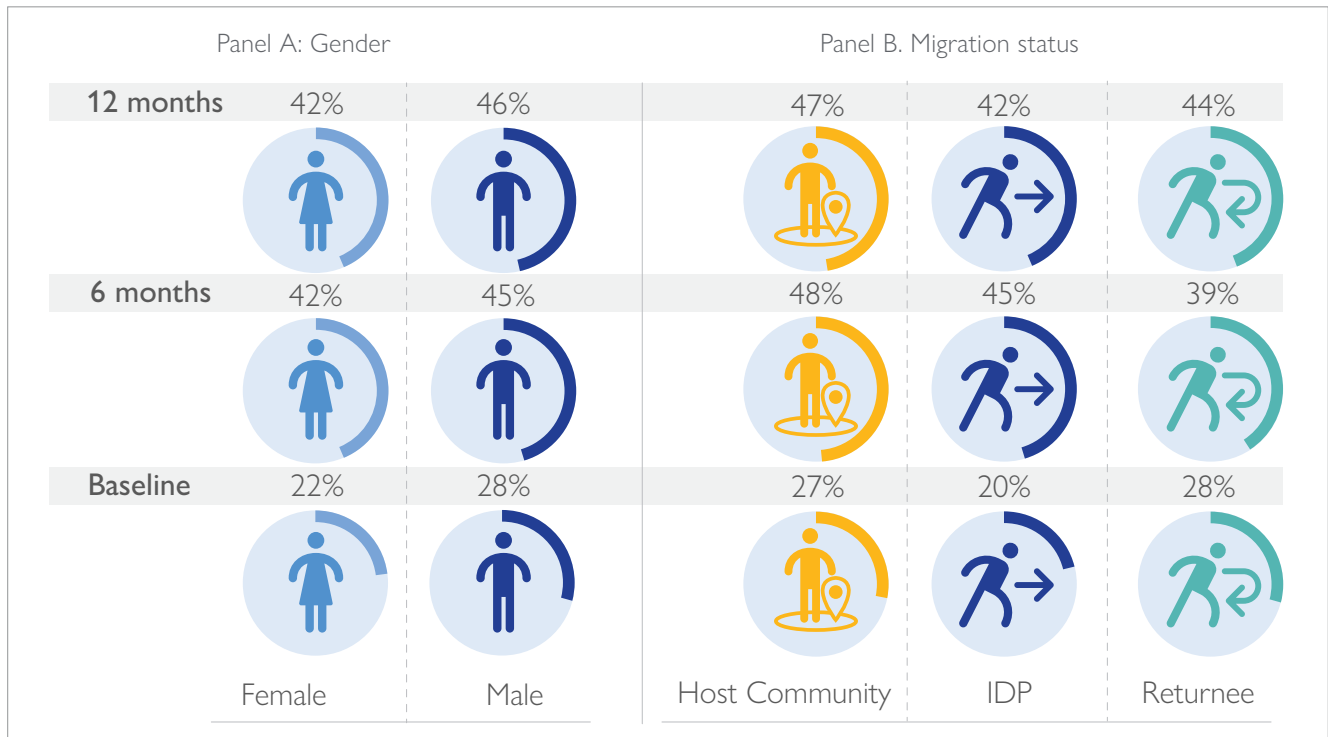
- EDF grantees witnessed a short-term increase in profits after the award, with the highest average income reported at midline.
- The increase in earnings varies across baseline performance levels, with the lowest-performing firms showing the most significant improvement. This suggests that cash transfers might be more beneficial to struggling businesses.
- Females and returnees see lower profit values overall, while IDPs see significant increases in profit at both six and twelve months.
- Long-term profit growth is limited, which may be due to increased investment or market competition.

13 The standard deviations: USD 2,000 for baseline and midline and USD 2,200 for endline.

DEBT AND ACCESS TO FINANCE

At baseline, 79 per cent of owners reported that they do not need a loan from a microfinance organization or the government (82% of females and 77% of males). However, this proportion of respondents decreased to 55 per cent at the endline (58% for females and 54% for males). The increase in the share of business owners who need a loan (across genders and migration status) might indicate a higher willingness to borrow from microfinance organizations (Figure 8).

Figure 8. Businesses in need of a loan from a microfinance organization or government



Note: Each round includes 1,628 business owners. The group comprises 310 females and 1,318 males, 953 host community members, 65 IDPs and 608 returnees.

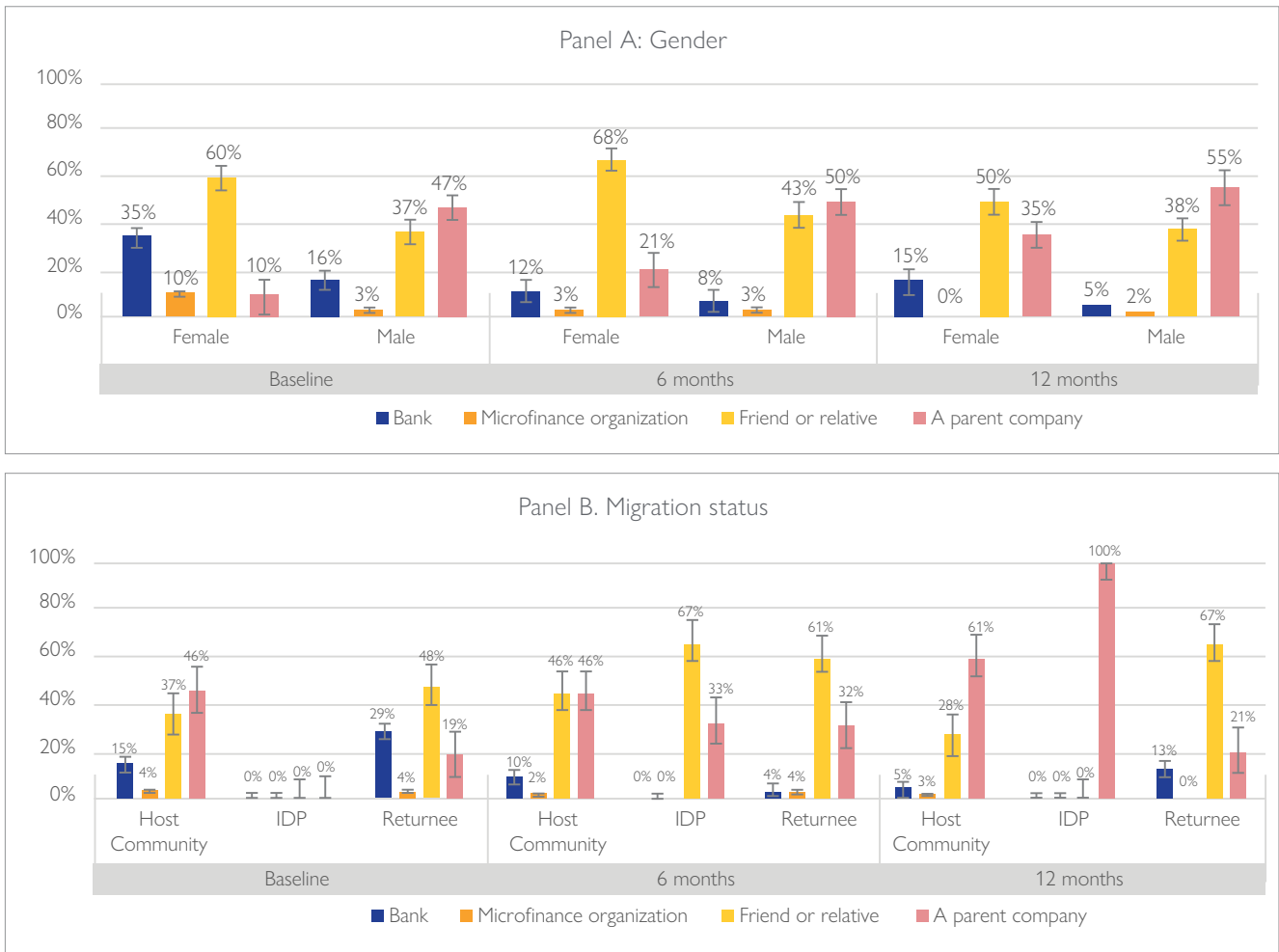
At baseline, 94 per cent of interviewees answered that they had no creditors from the mentioned options (banks, microfinance organizations, friends or relatives, or a parent company). This percentage decreased slightly to 90 per cent at the midline before returning to 93 per cent at the endline. Most SME owners with a loan came from friends or relatives or a parent company, with microfinance organizations having the lowest proportions (Figure 9).¹⁴ Previous IOM studies in Iraq have found that most SME owners prefer borrowing from family or friends rather than formal sources because of burdensome collateral requirements, bureaucratic protocols and high interest rates (IOM, 2023). During the COVID-19 pandemic, SMEs in Iraq incurred new debt, mostly contracted informally with family or friends, with less than 20 per cent of businesses using formal debt mechanisms (IOM, 2021).

In Figure 9, Panel A, more female business owners tended to have loans from friends or relatives than their male counterparts (59% and 39%, respectively). Men borrow more from a parent company than women (51% and 22%, respectively). These findings align with previous studies showing that women have more difficulty accessing financing and are more prone to borrow from family and close friends (OCDE, 2016). When analysing trends of creditors by migration status, we find that almost no IDPs (three at midline and four at endline) had a loan with any of the mentioned entities. Those who answered said they owed it to a friend, relative or parent company. Returnees mostly borrowed from friends or relatives (59% on average), a percentage that increased by survey rounds. Host

¹⁴ Most business owners said they had no additional investments in the studied period (99%).

community members were the most diversified in credit sources, with an average of 51 per cent having a loan with a parent company, 37 per cent with friends or relatives and 10 per cent with banks (Panel B in Figure 9).

Figure 9. Sources of loans



Note: Percentages are calculated based on the number of interviewees of each gender who reported having a loan from any of the mentioned sources. At the baseline round, 20 females and 79 males stated having a business creditor, 34 females, and 120 males said the same six months after, and 26 females and 93 males did so after one year. At the baseline round, 71 host community members, 31 returnees, and zero IDPs stated they had a business creditor. A total of 123 host community members, 28 returnees, and three IDPs said the same six months later, and 79 host community members, 39 returnees, and 4 IDPs did so after one year.

Takeaways

- The proportion of SME owners expressing a need for loans increased after the EDF award, reflecting a growing willingness to seek additional financial capital.
- Many loans are still sourced informally, with friends or relatives being the predominant lenders, particularly among female and returnee entrepreneurs.

EMPLOYMENT

Job creation is a vital factor in economies recovering from conflict and the main objective of the EDF. Employment can provide stability, facilitate the economic and social reintegration of displaced populations and provide a source of livelihood for local communities (Brück et al., 2016). The private sector can play a vital role in this context as it can be very resilient, but the quality of the jobs can worsen due to conflict (IEG, 2013). As a result, monitoring the conditions of employees among EDF beneficiaries, their wages and the hiring process is vital. These firms have the potential for job creation and better hiring practices, which are enhanced by the aid of the EDF.

At the beginning of the programme, participating SMEs set specific objectives for hiring new employees as part of their business plan. These objectives are evaluated at periodic milestone reviews, which must be satisfied to be eligible for the remainder of the grant. Nevertheless, participating businesses remain free to adjust employment in other parts of their business. Doing so is essential for them to respond dynamically to often volatile market conditions. This section sets out to analyse whether EDF businesses generated new employment across the business over the 12 months following the award. While the EDF business plans should be completed by the time of the endline, discretion is used on occasion to provide extensions when appropriate justifications are given by the firms. The analysis does not include any jobs created more than twelve months after the award.

Overall, the 1,628 firms in this study committed to creating 7,572 jobs, an average of 4.6 per firm. Based on figures reported by participating firms to IOM's independent internal monitoring team, EDF firms hired an average of 4.3 employees over 12 months (3.1 at midline and 1.2 at endline). By the midline stage, most companies had hired between one and five employees in the previous six months (62%) (Figure 12).¹⁵ Altogether, this translates to 7,013 jobs created by these businesses over one year after the cash grant. Meanwhile, at baseline, an average of 0.5 workers had been hired in the previous six months. At this stage, 88 per cent of businesses had not hired any employees in the previous six months.

Panel A of Figure 10 shows the 59 per cent of businesses that met or exceeded their hiring goals after 12 months (967 firms), and Panel B shows the 81 per cent of companies that hired new employees by the endline (1,326 firms). Among those that did not meet their goals after 12 months, 11 per cent of businesses fell short of their hiring commitments by only one employee, which results in 70 per cent of firms being very close to or above their projections (see Appendix C). This compares to 16 per cent of firms that exceeded their hiring commitment by one or more employees. On average, those above the target hired 3.4 workers more than the set goal.

Figure 10. Job creation



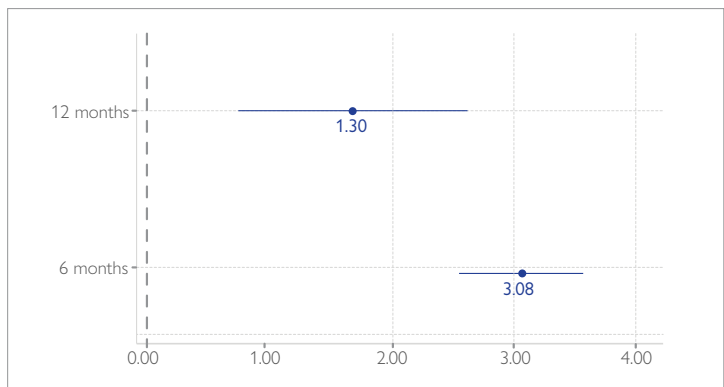
Note: Businesses on the red line or above met their hiring objectives during the program (up to one year after baseline). The graph includes the answers of 1,628 business owners.

¹⁵ On 20 interviews the number of workers hired in the last six months was higher than the number of current employees.

Employment may be influenced by temporary macroeconomic shocks and seasonal factors as well as receipt of the grants. To address this challenge, this study ran a two-way fixed effects model controlling for firm characteristics and the date of the survey by quarter. The analysis shows a statistically significant increase in job creation across survey rounds. The midline round is associated with three additional workers, and the endline round is associated with 1.7 additional workers, both relative to the baseline (Figure 11). Coefficients associated with fixed effects at the quarter-year level indicate that seasonality affects employment, as some periods have statistically significant positive effects on the variable (mostly the fourth quarter of each year) (See Appendix E). Actual hiring averages were 1.2 new workers at the midline and 3.1 at the endline, so intervening factors most likely tended to reduce hiring six months after baseline and increase it 12 months after baseline. This suggests a tendency for the grant to boost hiring in the short run (six months after disbursement), with the increase softening by the endline phase.

Figure 11. Job creation correlation to survey round

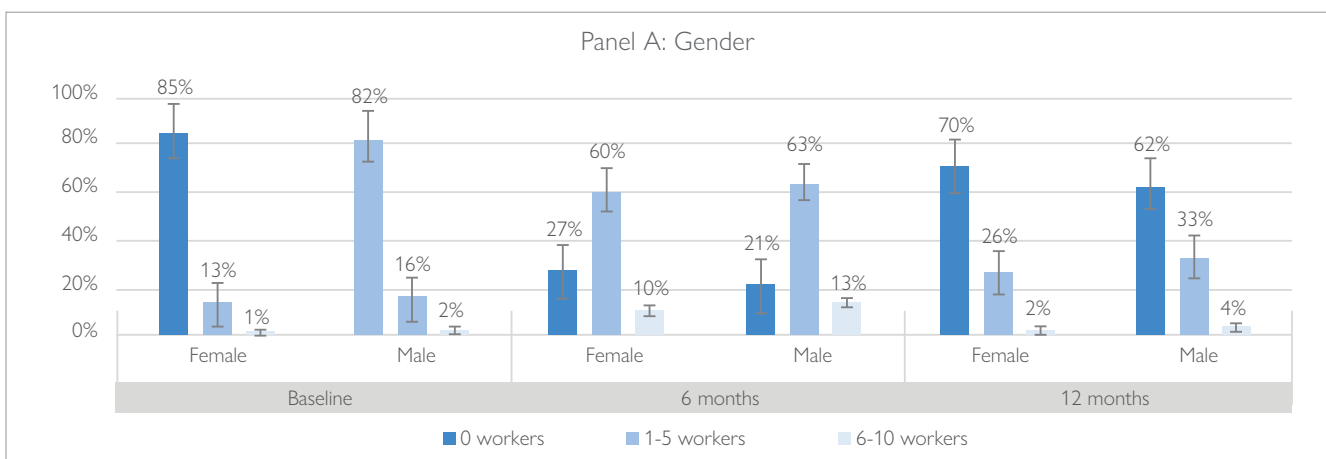
Note: The figure displays estimated average marginal effects on the number of new workers in the last six months with 95% confidence intervals. The regression was controlled for fixed effects at the firm level and the interview date (by quarters). The regression included 2,453 businesses. Those that hadn't completed all rounds of interviews were incorporated to enhance the estimation.



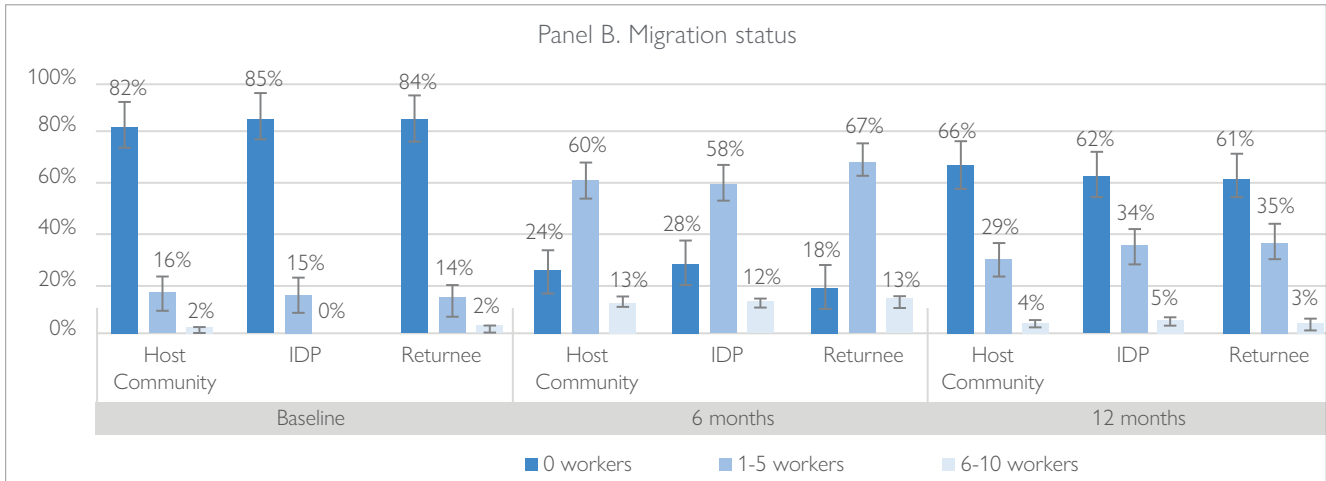
The downside of the new hires indicator is that some SMEs could fire and rehire employees between the midline and the endline, leading to double counting in case of high employee turnover. Moreover, new employment generated due to the EDF business plans may be compensated for by layoffs in other parts of the business. An alternative, more conservative approach estimates net job creation after 12 months by taking the difference between the total number of employees (part- or full-time) at the endline and the number of workers reported before joining the EDF (that is, the initial number of workers). This net difference is compared with the commitment made in the EDF business plan.

At the time of the award, the average company had 5.3 employees, which increased to 8.4 by the endline 12 months later (see Figure 12).¹⁶ This significant net increase of 3.1 employees, or 58 per cent of initial employment levels, aligns with solid evidence in the literature in favour of cash grants increasing employment in SMEs (Muraközy and Telegdy, 2023; Kersten et al., 2017; Baird et al., 2018). Across the 1,628 firms included in the study, the increase corresponds to 5,051 new jobs created in net terms – or two thirds of the gross commitment made in the firms' business plans.

Figure 12. New workers hired in the previous six months



16 The standard deviation for this variable is 6.5 workers, and the median value is 7 workers.



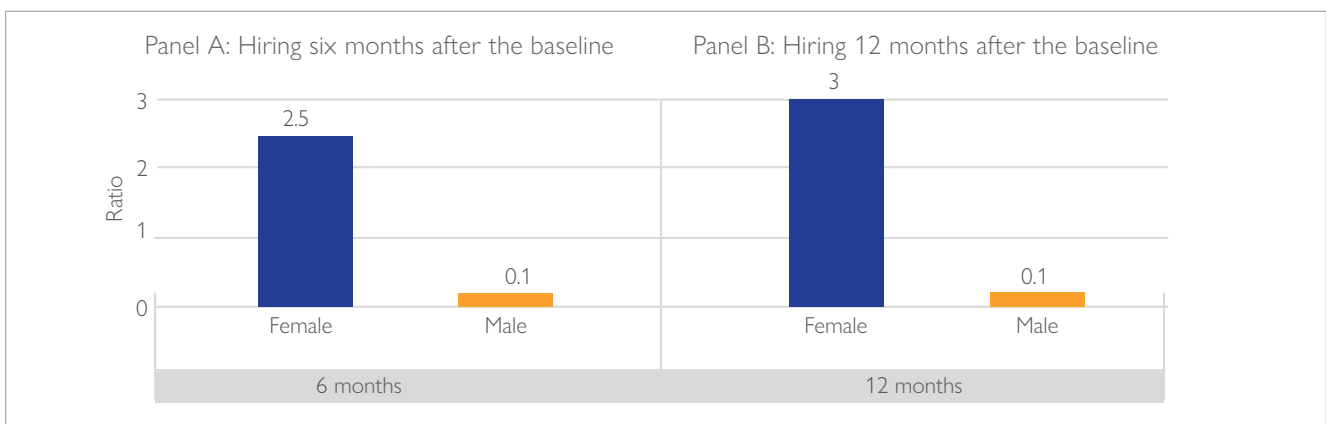
Note: Each round includes 1,628 business owners. The group consists of 310 females and 1,318 males, as well as 953 host community members, 65 IDPs and 608 returnees.

In the Appendix, Table C, Panel B, shows the difference between net job creation at endline (part-time plus full-time employees at endline minus the number of employees before starting the EDF programme) and the goal committed in the EDF business plan. This calculation shows that 49 per cent of SMEs met or exceeded their employment creation commitment in net terms, with 17 per cent of the awarded SMEs reporting a higher increase than committed in their business plan. An additional 15 per cent of firms undershoot their net target by only one worker.

Tendencies by displacement groups show that IDPs struggled to meet their hiring commitments more significantly than host community members and returnees, as 51 per cent of IDPs (33) met or exceeded their projections. In comparison, 60 per cent of host community members (561) and 64 per cent of returnees (385) did so. Looking at gender differences, 58 per cent of female business owners met or exceeded their hiring commitments, compared to 62 per cent of males.

The gender of the business owner is a major determinant of female employment creation. In net terms, female owners hired 2.5 women per man six months after the baseline (see Figure 13, Panel A) and three women per man 12 months after the baseline (see Figure 13, Panel B). Male owners hired 10 times more males than females at 6 and 12 months after the baseline.

Figure 13. Female to male ratio of new workers hired by the gender of the business owner



Takeaways

- Participating SMEs significantly increased their workforce over twelve months. On average, firms hired 4.3 new employees in gross terms and 3.1 in net terms.
- Close to fifty per cent of businesses met or exceeded their hiring commitments in net terms within twelve months, and almost sixty per cent in gross terms

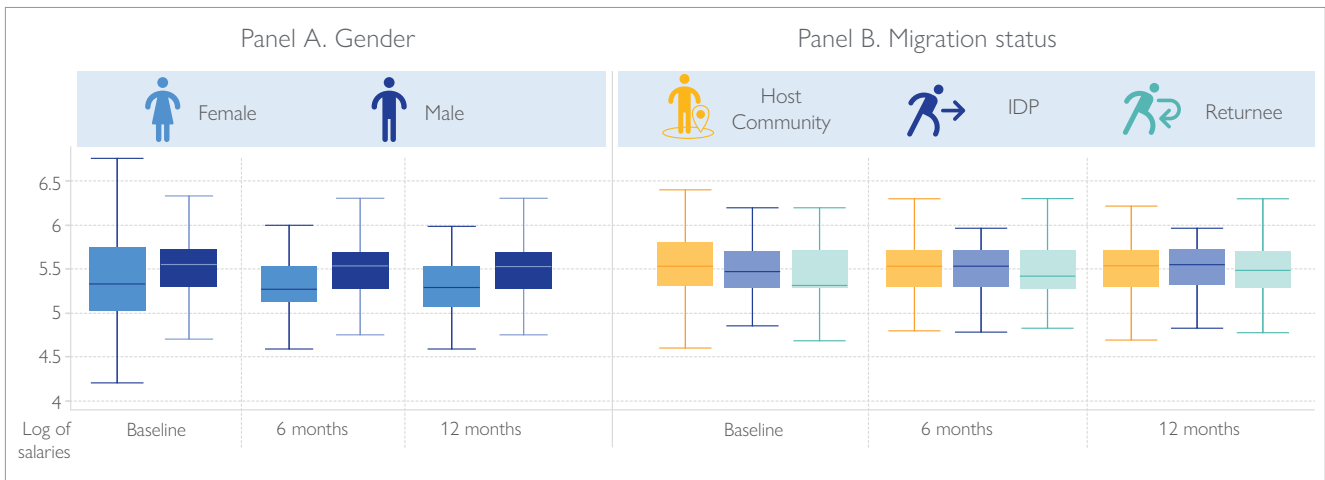
- There were some disparities in meeting the hiring targets for IDPs and female business owners.

WAGES

Figure 14 displays the distribution of monthly wages. Throughout the three rounds of interviews, the distribution remains approximately the same. The mean salary ranges between USD 245 and 249 from baseline to endline, and the median is constant at USD 250. The literature regarding grants to SMEs has inconclusive wage results (Kersten et al., 2017). Some studies find unequal effects depending on the employee’s skill level, where only highly skilled workers and managers see wage increases (Muraközy and Telegdy, 2023).

Even though the distributions show no significant shift between rounds, some heterogeneous patterns emerge from gender differences (Figure 14, Panel A). At the midline stage, female business owners tended to reduce the variation in employees’ minimum wages, taking the standard deviation from USD 109 at baseline to USD 94 six months later, and 12 months later, they had lower maximum values of minimum wages. Women entrepreneurs have been found to face more pressure to share their resources, either profit or business grants (Jayachandran, 2021). For female and male business owners, employee wages followed a bimodal distribution reflecting different skills levels.¹⁷ The wage distribution showed no distinct trends for businesses owned by IDPs or returnees. This result contrasts what was shown in the last section regarding job creation, as businesses tended to hire more employees but without a change in wages.

Figure 14. Monthly wage distribution for employees by gender of the business owner



Note: Each round includes 1,628 business owners. The group consists of 310 females and 1,318 males. The group comprises 953 host community members, 65 IDPs and 608 returnees. Any SME owner with wages 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.

Most business owners answered negatively when asked if they had trained apprentices in the last six months (81% overall). By midline, the proportion of interviewees who said “yes” increased by six percentage points to 24 per cent. At the same stage, female and host community entrepreneurs were likelier to have trained apprentices (28% of females and 27% of host community members).

Takeaways

- The distribution of wages remained consistent, with no significant shifts in mean or median values.

¹⁷ Research has shown that wealth tends to display this bimodal distribution, leaving two groups, a “poor” and a “wealthy” group, with a gap between both groups (Balboni et al., 2021).

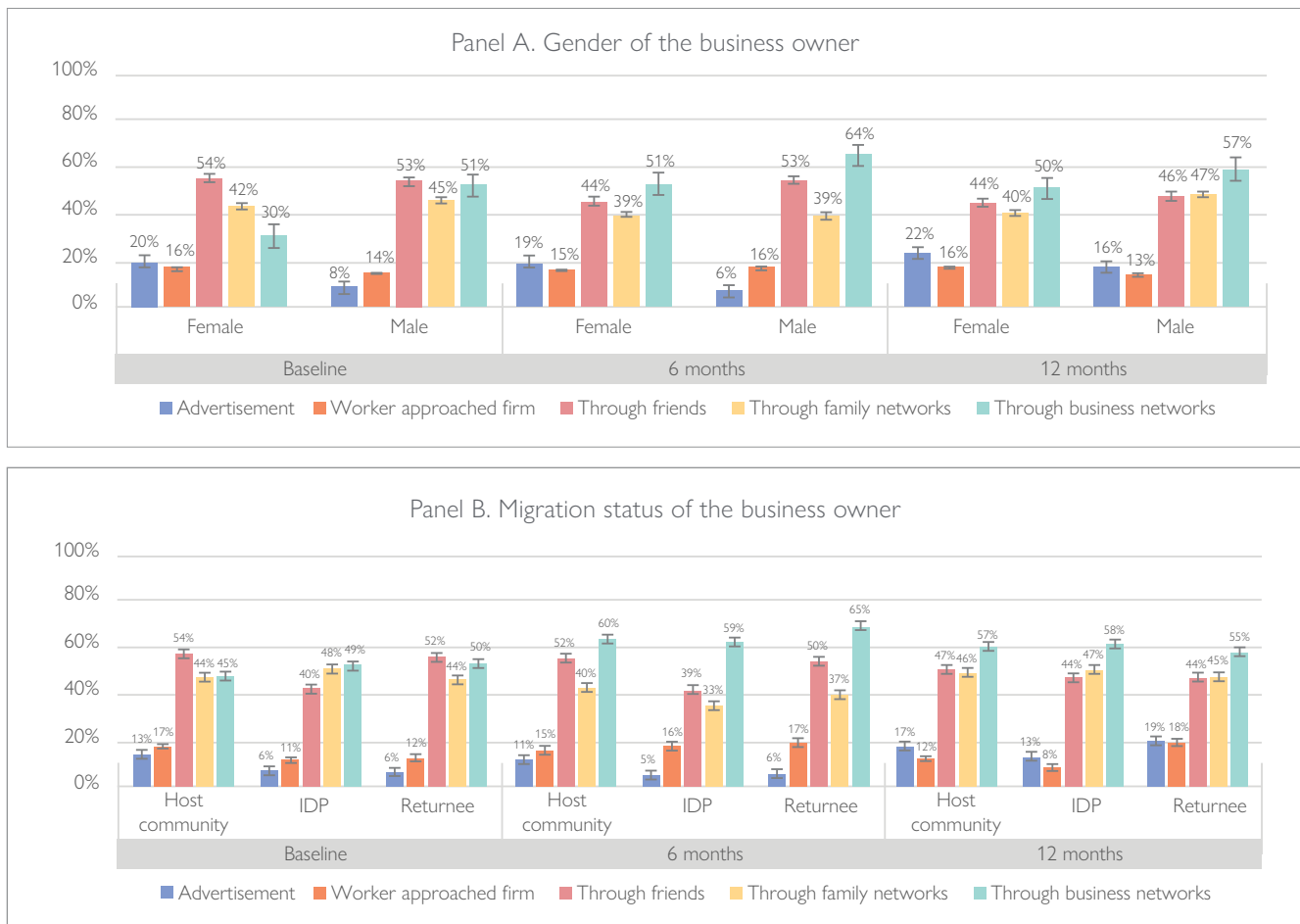
- Some differences emerged based on gender, with female business owners narrowing the variation in minimum wages and setting lower maximums. This pattern may reflect the added pressure women face in resource sharing.
- Although businesses increased hiring rates, wages did not follow a corresponding upward trend.

HIRING PRACTICES

In Iraq, informal hiring methods are the most common, including through personal connections and word of mouth (IOM Iraq, 2021a). Across EDF beneficiaries, business networks were the most popular method for hiring employees at the midline and endline stages (58% and 54%, respectively, Figure 15). The usage of business networks was closely followed by friendship networks, with 52 per cent of businesses using this method at baseline, a percentage that decreased to 44 per cent by the endline. The proportion of firms hiring through family networks also decreased at midline, going from 43 per cent at baseline to 37 per cent.

The rate of businesses where workers are related to the owner also significantly increased six months after baseline by eight pp. Male business owners were significantly more likely to use business networks (55% against 43%) and less likely to use advertising than females (10% against 20%). Diversifying the hiring patterns of female business owners could improve skill allocation between the private and public sectors, which shows high levels of inequality (ILO, 2021). There are no distinctive patterns in hiring methods by migration status (Figure 15, Panel B).

Figure 15. Methods through which workers were found



Note: Each round includes 1,628 business owners. The group comprises 310 females and 1318 males, 953 host community members, 65 IDPs and 608 returnees. This is a multiselected question.

Takeaways

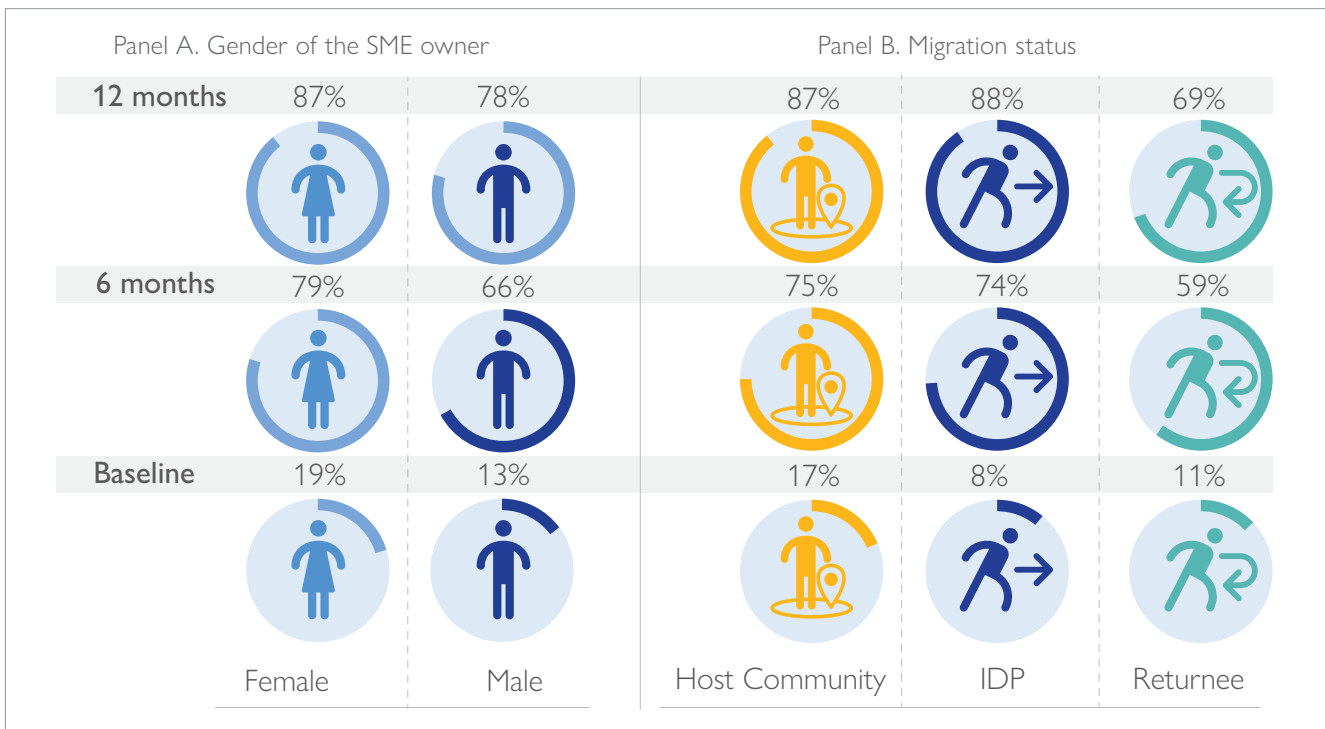
- Informal hiring practices dominate, with business and friendship networks playing a pivotal role in employee recruitment among EDF beneficiaries.
- By midline and endline, business networks became the most common hiring method, while reliance on friendship and family networks decreased.
- Male business owners were more likely to use business networks, while female entrepreneurs were relatively more likely to use advertising.

WORKING CONDITIONS

Written employment contracts and registration of employees in social security are well-known indicators of informal work within the formal sector (WIEGO, 2012). The high rate of employees not enrolled in social security is a broader phenomenon in Iraq, where the private sector is fragile compared to the public sector, and most employment is informal (IOM Iraq, 2021a). The institutional structure of social protection is highly politicized and fragmented (Alzobaidee, 2015).

At baseline, most employees in the sample of businesses did not have a written contract. Six months after baseline, the percentage of companies that hire their employees through contracts increased statistically from 14 per cent to 80 per cent.¹⁸ The increase in employees hired through contracts shows a positive trend in the formalization of EDF beneficiaries.¹⁹ Female business owners were slightly more likely to have employees with written contracts six (79%) and 12 months (87%) after baseline (19%) than male owners (66% after six months and 78% after 12 months) (Figure 16, Panel A). Compared to host community members, IDPs and returnees did not use contracts with their employees significantly in the last two rounds (Figure 16, Panel B). The findings align with previous research showing that employers receiving cash grants tend to employ fewer casual workers (Grimm et al., 2021; Jayachandran, 2021).

Figure 16. Businesses that use contracts with employees



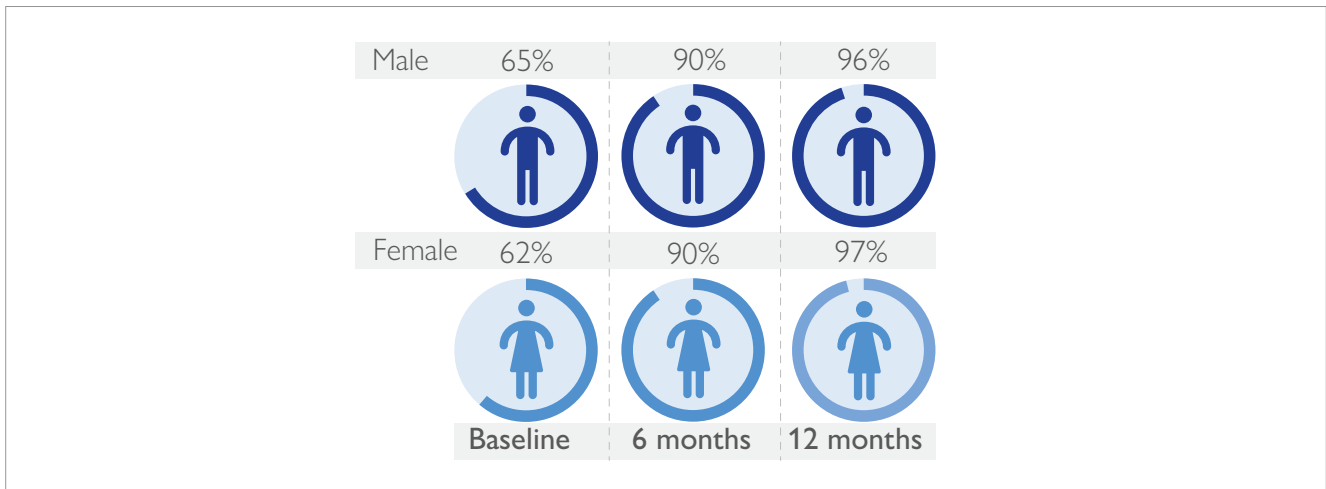
18 Most businesses didn't have employees enrolled in the social security system (63% on average across all rounds).

19 In Iraq, employers are open to hiring through formal methods and consider it convenient for their business (IOM Iraq, 2021a).

Note: Each round includes 1,628 business owners. The group comprises 310 females and 1,318 males, 953 host community members, 65 IDPs and 608 returnees.

Furthermore, most businesses responded affirmatively to implementing health and security measures in their activities (having fire extinguishers available, first aid kits and equipment such as gloves, helmets, glasses and vests) (Figure 17). The percentage increased from 65 per cent to 96 per cent a year after baseline. This is a positive result when put in the context of labour conditions in Iraq, as the ILO has pointed out a lack of Occupational Safety and Health protocols in the country and a high rate of work-related deaths and fatal accidents (ILO, 2023).

Figure 17. Businesses that implement health and security measures



Note: Each round includes 1,628 business owners. The group consists of 310 females and 1318 males.

Takeaways

- There was a significant shift towards formalizing employment among EDF beneficiaries, as seen by the sharp increase in the use of written contracts six months after baseline.
- Although female business owners were less likely to hire more employees, they were slightly more likely to formalize employment through contracts than their male counterparts. This trend also extended to implementing health and safety measures in their operations.
- Despite progress, IDPs and returnees showed lower rates of contract use.

EDF BUSINESSES DURING THE COVID-19 PANDEMIC

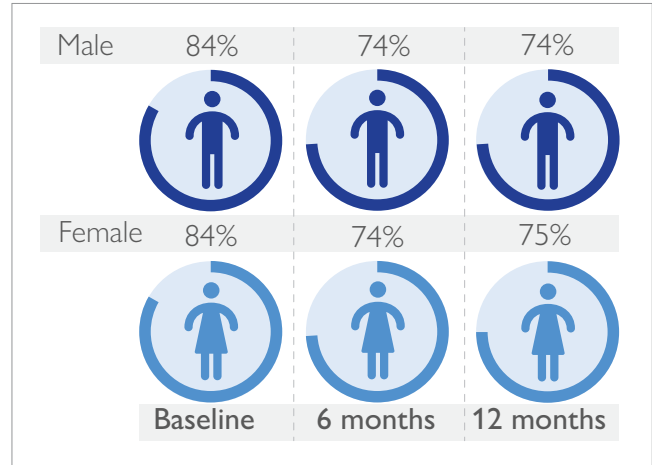
During the COVID-19 pandemic, the Iraqi economy faced two important shocks: mobility restrictions that lowered economic activity and a sharp decline in oil prices, the country's primary industry. This situation worsened the already complicated outlook on employment, with unemployment surpassing 2018 levels and disproportionately affecting vulnerable groups such as IDPs, women and youth (IOM, 2021). The crisis severely impacted SMEs in Iraq, leading to significant production, sales and employment declines. Many firms reported being at risk of permanent closure, and even though this danger had decreased by the end of 2020, revenues did not reach their pre-pandemic levels. Coping strategies shifted over time, with businesses initially reducing employment and later focusing on financial negotiations and increased marketing efforts. The pandemic also widened the gender gap in the labour market temporarily (IOM, 2021).

EDF business owners were asked about the effect of COVID-19 on their businesses. For the midline and endline stages of interviews, respondents had a higher tendency to answer that COVID-19 had not affected their business

(25% each) (Figure 17). This trend shows no distinctive patterns for female or male business owners. Half of the interviewees also answered that they were negatively affected by COVID-19 (an average of 75%) but could not overcome these difficulties with the aid of the EDF. Most respondents, particularly female business owners, stated they could have hired more employees without COVID-19 restrictions at baseline (63%).

Figure 18. Businesses that were affected by COVID-19

Note: A total of 523 participants answered this question at baseline (454 at midline and 309 at endline). At baseline, 4 per cent of interviewees responded that they were positively affected. This percentage was 2 per cent for the midline and 3 per cent for the endline. The initial group consisted of 97 females and 426 males.



A panel study on SMEs by the IOM (2021) concluded that these enterprises were strongly affected by COVID-19 lockdowns and restrictions in production, sales and employment. Within their sample, more than half of firms reported being at risk of permanent shutdown. Employment and revenue levels among studied SMEs remained below pre-pandemic levels well into the end of 2020, and firms reported recurring to temporarily reducing employment and skipping payroll payments to cope with the crisis (IOM, 2021). EDF-supported businesses during the COVID-19 pandemic showed more resilience and were less likely to lay off workers than similar businesses that did not receive a grant (IOM Iraq, 2021c).

Takeaways

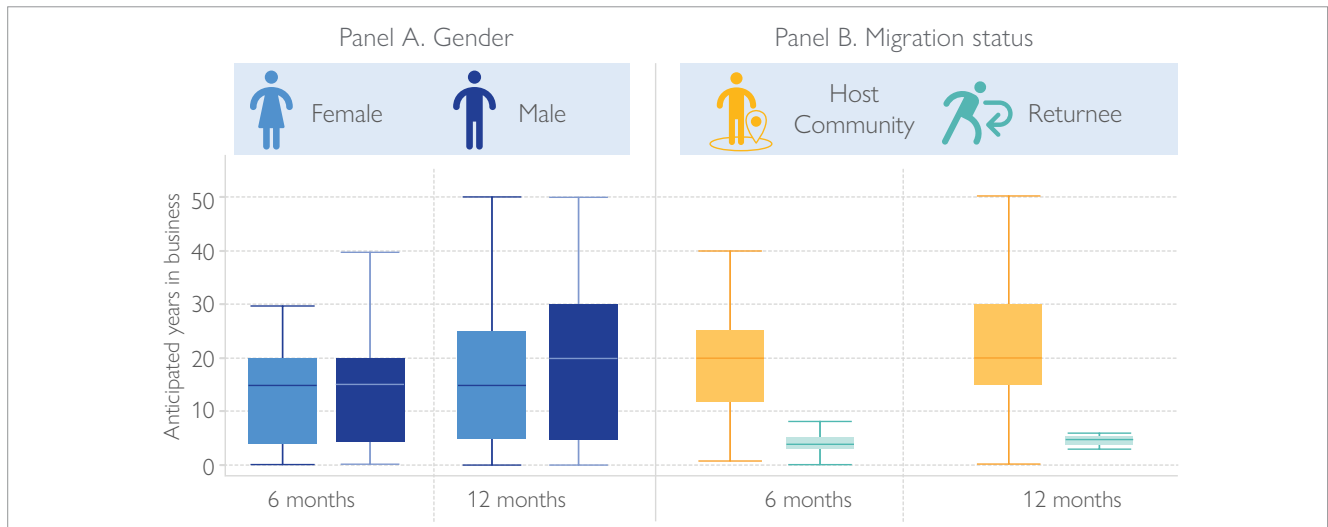
- The pandemic severely hit Iraq’s economy, especially SMEs, with women, youth, and IDPs being the most hit. EDF grants helped to dampen this negative shock.
- Despite some resilience, the gender gap widened, and SMEs struggled to return to pre-pandemic levels.

FUTURE OUTLOOK

Most owners believed their businesses could remain operational for an additional 1–10 years in both rounds of interviews (42% overall) (Figure 18). Similar percentages of owners felt their company could stay in business for 10–20 years and 20–30 years (32%). This belief shifted for both female and male business owners, with expectations of 20–30 years on the market being much more common by endline for males. For females, the median value remained at 15 years, but the upper 10 per cent increased their aspirations from 25–50 years to 35–50 years.

By migration status, host community members tended to be the most optimistic about the outlook of their businesses, with 50 per cent of this group believing they could remain in the market for an additional 15–30 years. Returnees had the lowest aspirations in this sense, as 50 per cent of their answers accumulated between four and five additional years. Although a tiny group of IDPs answered this question (9 at midline and 18 at endline), their aspirations increased significantly (the highest 25% answered 20–22 years at midline and 25–50 years at endline). Furthermore, despite no statistically significant change in the percentage of businesses that generate enough income to cover family expenses, the rate remained high at an average of 85 per cent throughout the midline and endline. The aspirations of business owners are a significant predictor of their living standards and wellbeing, and business grants can significantly improve these expectations and consequently increase levels of investment (Orkin et al., 2023).

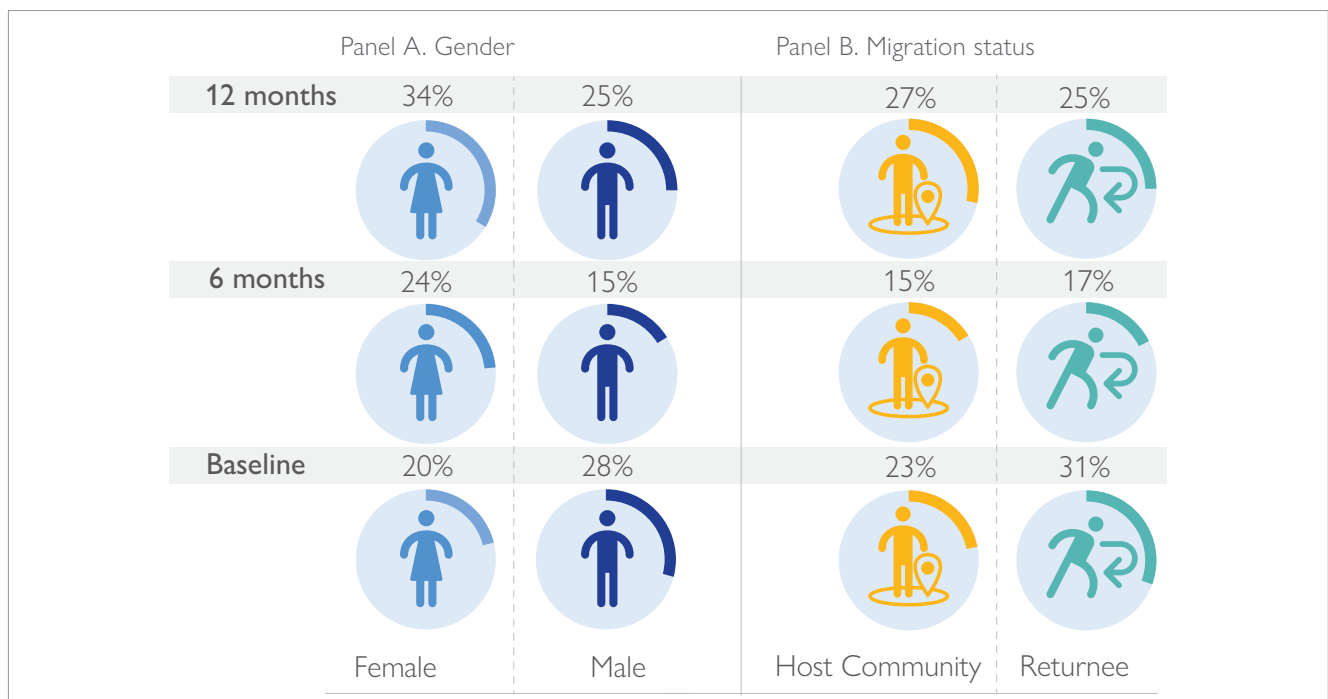
Figure 19. Expected years of remaining in the market



Note: A total of 221 business owners answered this question at the midline and 487 at the endline. This group does not include enough answers from IDPs to carry out an analysis of this displacement group. The box shows the values where 50 per cent of the data are accumulated, and 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. Dots beyond whiskers represent outliers. Any SME owner whose answer is 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.

Business owners were also asked about the barriers to growing their business, most of them citing not facing any obstacles to growth (78% on average) (Figure 19). Interestingly, more female SME owners reported having barriers to growth 12 months after baseline, a percentage that showed a reduction for male interviewees. This finding suggests that women-run businesses face increasing obstacles to further development as they expand. This percentage only increased for host community members when zooming into displacement groups (from 23% at baseline to 27% by endline) (Figure 19, Panel B).

Figure 20. Business owners facing significant barriers to growth



Note: There were 849 answers to this question at baseline, 670 at midline and 355 at endline. The group does not include enough answers from IDP business owners to analyse this displacement group.

Takeaways

- At both the midline and endline interviews, over sixty per cent of business owners believed that their businesses could remain operational for at least ten years.
- Male owners showed increased long-term aspirations, and host community members generally exhibited more optimism than returnees and IDPs.

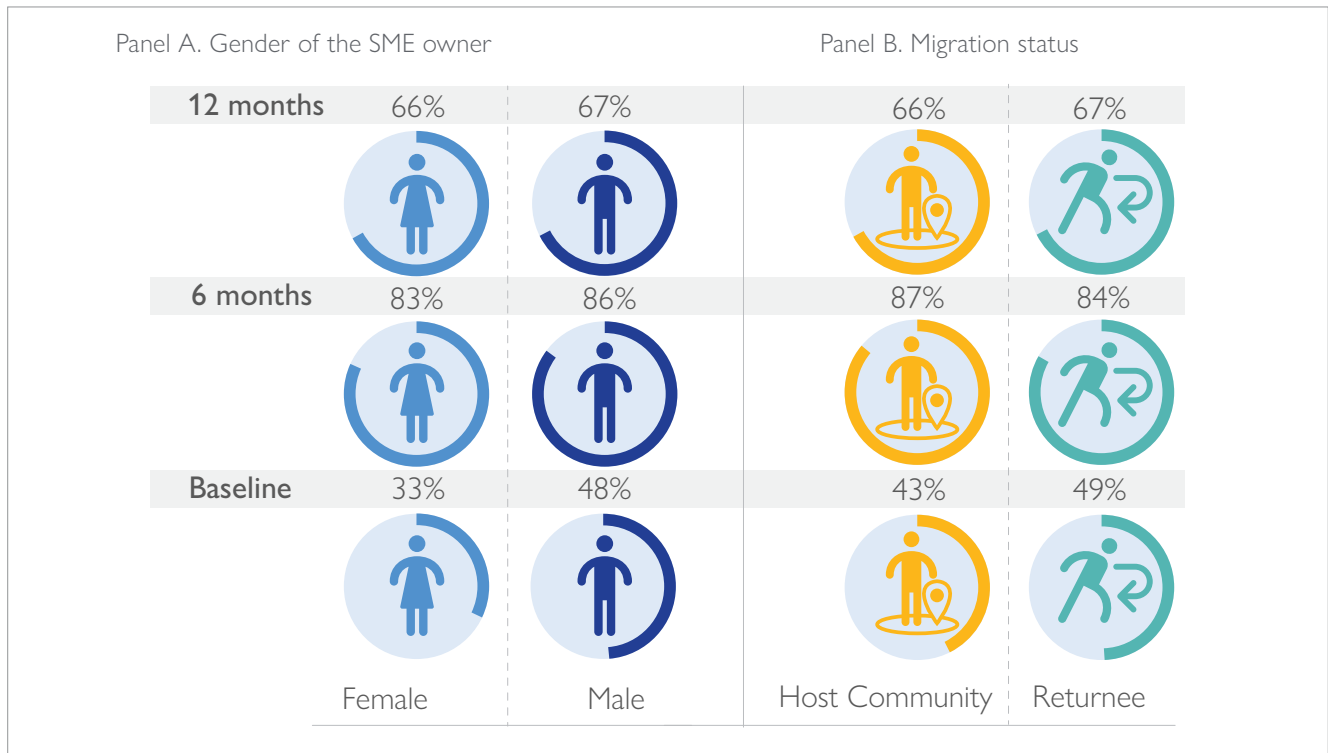
BUSINESS DEVELOPMENT

Investing in intangibles is an integral part of SME growth. Research has shown that firms investing in advertisement or research and development (R&D) perform better (Chiao et al., 2006; Esteve-Pérez and Rodríguez, 2013). These enhancements can open the way for sales growth and access to finance (Kumar, 2017). Therefore, the EDF's monitoring process includes a close follow-up of investment in intangibles like advertisement, product development and consultancy services.

Within the sample, most businesses do not employ advertising (57%), a percentage that remains approximately constant throughout the three rounds of interviews. Across business owners, social media was by far the most common channel through which advertising was carried out, with 95 per cent of observations in all three rounds of interviews.

Most businesses had not developed or improved a product at baseline. When asked at midline and endline, business owners reported that their companies had developed products at a significantly higher rate (85% at midline and 67% at endline) (Figure 20). At baseline, more female business owners had not developed or improved a product (66%) than male business owners (52%). However, six and 12 months after this round, both genders converged towards a similar level. This shows once again that female-owned businesses tend to be in worse conditions than male-owned SMEs when they receive the aid of the EDF and that the EDF can help reduce some of these gaps. Similarly, when disaggregating results by displacement history, IDPs saw the most significant increase in the percentage developing a new product or service, going from 19 per cent at baseline to 84 per cent six months later and keeping the highest value amongst migration groups 12 months later (75%). However, the entire sample of business owners did not answer this question, leaving very few responses by IDPs (31 at baseline, 19 at midline and four at endline).

Figure 21. Businesses that improved or developed a new product or service in the previous six months



Note: 861 respondents answered this question at baseline, 896 at midline and 860 at endline. The group does not include enough answers from IDPs to carry out an analysis of this displacement group.

Business owners mainly reported not having a business mentor across all rounds of interviews (average of 90%). Additionally, most interviewees reported not employing consulting services for their business activities the previous year (an average of 97%).

Takeaways

- A substantial portion of businesses in the sample did not engage in advertising, with social media being the primary channel used.
- There was notable progress in product development, with a marked increase in businesses developing or improving products.
- IDPs showed the most significant gains in product innovation. Female business owners, who initially lagged behind their male counterparts in product development, also exhibited progress.

CONCLUSION

The findings presented in this report provide evidence of the pivotal role played by the EDF in promoting economic recovery and resilience in conflict-affected areas of Iraq by supporting business recovery and employment creation. The EDF has enabled SMEs to overcome significant barriers through targeted financial aid and comprehensive support mechanisms, leading to increased formalization, improved business practices and substantial job creation. These efforts align with the main policy goals of the EDF, which focus on fostering local economic recovery and resilience by enhancing the livelihoods of Iraqi citizens. Through employment creation, EDF-supported businesses contribute to the economic reintegration of IDPs and returnees, and broader efforts towards community stabilization and peacebuilding. Continued support and adaptation of the EDF will be essential to sustain and further these achievements, ensuring a sustained recovery and bridging the gap between humanitarian and development assistance in post-conflict Iraq.

SUMMARY OF FINDINGS

	Comparing midline with baseline	Comparing endline with baseline	Gender gap	Forced displacement gap
Formality	● Large improvement	● Large improvement	● Narrowed	● Narrowed
Profits			● Stable	
Debt and access to finance			● Narrowed	● Stable
Job creation			● Widened against women	● Narrowed
Wages	● Stable	● Stable		● Stable
Hiring through business networks	● Large improvement	● Slight improvement	● Narrowed	● Narrowed
Written employment contracts		● Large improvement	● Widened in favor of women	● Stable
Future outlook		● Stable	● Narrowed	● Narrowed
Business development		● Large improvement		

Note: The percent change of each indicator throughout survey rounds was used to determine overall results. From 0 to 1 pp in binary indicators was interpreted as stability, from 1 to 10 pp was interpreted as a slight increase, and beyond 10 pp was interpreted as a significant increase. Regression coefficients were interpreted through their significance, where a non-significant coefficient associated with any survey round was interpreted as stability. Numeric variables not analysed through a regression were evaluated through percent change in the range of their distributions. The gender gap is between female and male business owners in the indicators used. If the difference is reduced between survey rounds, the gap narrows. The migrant gap is calculated as the difference in the indicators used between host community members and the average between IDPs and returnees.

RECOMMENDATIONS

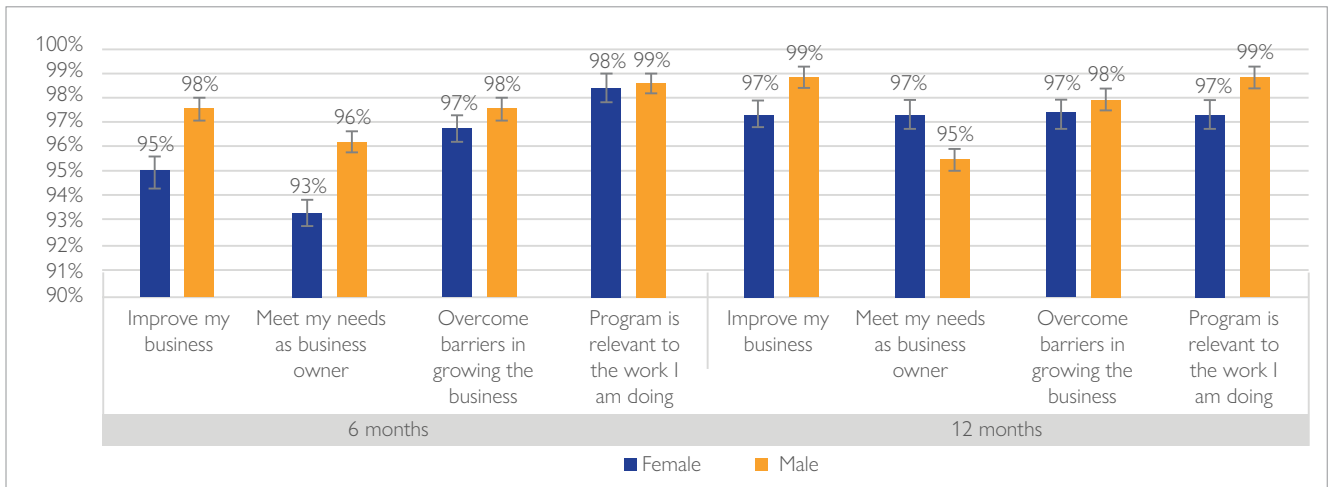
1. **Continue Supporting Employment-Creation in Areas Recovering from Conflict or Affected by Climate Shocks:** Continued support to SMEs through conditional business development grants can help address Iraq's high rate of unemployment, support a sustained recovery in conflict-affected areas and mitigate the impact of climate change on rural livelihoods. Business grants continue to play an important role in sustaining Iraq's recovery given the considerable barriers to accessing loans faced by most SMEs, complementing longer-term development efforts to improve access to private finance.
2. **Improve Access to Private Finance for Long-Term Business Development:** Despite noticeable improvements in the demand for microfinance services at midline, the increase was not sustained at endline and access to bank loans remains extremely low among SMEs. The limited access to private finance is a crucial constraint preventing sustainable business expansion and growth. To sustain and further enhance business development in the long term, addressing barriers in accessing private finance for SMEs is important. On the demand side, these efforts can address firms' investment readiness by supporting the adoption of improved accounting practices, business formalization and financial literacy. On the supply side, efforts should be made to address the burdensome collateral requirements, application processes and high interest rates that limit SMEs' ability to access loans.
3. **Address Employment Quality and Inclusivity:** Employment saw significant improvements, but female business owners reached their hiring objectives to a lesser extent than males. This discrepancy has important implications for labour market inclusivity, considering that female entrepreneurs are much more likely to hire other women. Many SME owners also continue to rely on friends and family networks to hire new employees, which can limit the inclusion of marginalized groups. The results on working conditions show that a third of male business owners continue not to issue formal contracts to their employees at endline. Although these indicators show marked improvements after receiving the EDF grants, the analysis suggests that the quality and inclusivity of these jobs is not evenly distributed. Therefore, women's inclusion in business networks should be further enhanced, and inclusive, formal hiring by male entrepreneurs should be encouraged. Further research could also shed light on differentials in hiring patterns by men and women.
4. **Enhance Business Development and Adaptability:** Business development efforts showed considerable improvement during the first six months but slowed down at endline. This indicates potential challenges in sustaining innovation and growth in the long term. To address these challenges, recovery and development actors should introduce ongoing business development support, including access to new technologies, market expansion strategies and continuous innovation incentives. Providing information on market trends and advisory services addressing knowledge barriers and promoting business adaptability can equip SMEs with the skills to thrive in a dynamic economic environment.
5. **Enhanced Access and Simplification of Formalization Processes:** Promoting collaboration between relevant government bodies and business sector organizations to streamline business registration processes to make them more accessible and less cumbersome for SMEs. Simplifying these processes can encourage more businesses to formalize, leveraging the requirement as a steppingstone rather than a barrier. This could involve reducing bureaucratic hurdles, offering digital solutions for registration and providing clear guidelines and assistance throughout the process. Stakeholders should ensure that formalization processes are accessible to all entrepreneurs, including women, displaced persons and returnees, persons with disabilities, and those with limited education or digital access.
6. **Targeted Support for Female Business Owners:** Develop specific initiatives within the EDF programme that address female business owners' unique challenges, building on the achievements of the existing EDF-Women adaptation. These could include offering mentorship programmes, tailored financial products and networking opportunities designed to overcome social and economic barriers. Efforts should also be made to educate and involve family members, increasing support for female entrepreneurs at the community and family levels. At national level, policy and advocacy efforts should focus on promoting a supportive and inclusive environment for women in business.
7. **Targeted Support for Business Owners Affected by Forced Displacement:** Despite progress along many business dimensions, entrepreneurs who are internally displaced or returning from displacement are less likely than non-displaced entrepreneurs to report positive prospects for the future of their business. Targeted initiatives should be developed to address their specific

needs, building on the existing EDF-Tameer adaptation. Promising initiatives include networking opportunities for displaced entrepreneurs, the provision of psycho-social support, and less stringent conditions on grants that recognize the additional costs involved in rebuilding businesses destroyed as a result of the conflict. At national level, policy and advocacy efforts should ensure that development efforts are inclusive and address the often persistent economic gaps linked to a history of displacement.

8. **Incentivize Private Sector Participation:** As Iraq's recovery progresses, finding sustainable sources of finance is essential to provide the capital needed for business development. Encouraging private sector entities to collaborate with the government, United Nations system and non-governmental organizations to support SMEs, particularly in conflict-affected areas, is vital in achieving a sustained and resilient recovery. Suitable initiatives could include matching grants, shared investments, or the creation of privately funded business incubators that focus on sectors with high potential for employment growth. Such partnerships could provide financial support and expertise, thus boosting recovery and sustainable development.
9. **Understand the Drivers of Net Job Creation Among EDF Recipients:** Further research is needed to understand the factors shaping EDF recipients' performance towards their job creation goals. While most firms deliver on the terms of the agreed business plan, a significant share undershoots the target in net terms. The lower than expected number of jobs created by these firms may constitute an optimal response to evolving or volatile business conditions, but also suggests the presence of non-financial barriers preventing successful business expansion. Further research should investigate the social and economic factors predicting business performance relative to the agreed goals in order to inform the fund's targeting criteria and complementary programming.
10. **Evaluate Impact Across Economic and Social Dimensions:** While the findings presented in this report are consistent with a positive impact of EDF across multiple business dimensions, the study's focus on granted businesses means that it is not possible to isolate the programme's impact from selection bias, or the possibility that the positive trends shown above are the result of targeting more successful businesses. Rigorous impact evaluations should be conducted experimentally to estimate the impact of EDF on business outcomes and its broader economic and social impact on employees, supply chains, and targeted communities. To address this recommendation, IOM is conducting two randomized controlled trials in collaboration with Emory University and the University of California – Santa Barbara, focusing on the community effects of EDF and other livelihoods assistance, and with the University of Oxford and Imperial University, studying the impact of EDF and advisory services on SMEs' investment readiness.

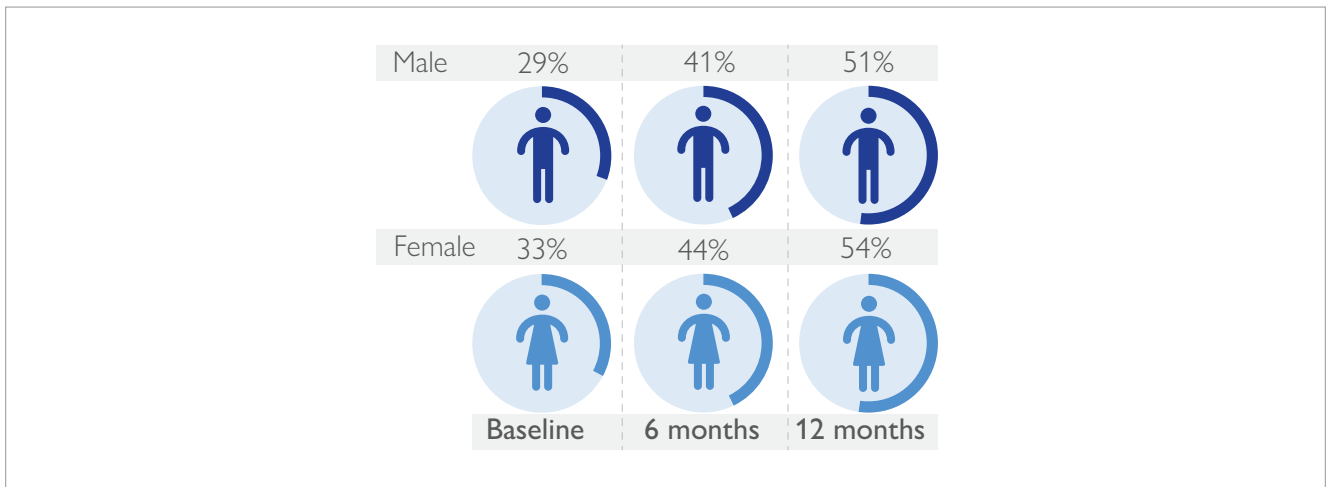
APPENDIX

Figure A. Business owners who believe the EDF programme has helped by gender



Note: Each round consists of 1,628 businesses. As this question addresses the effect of the EDF, it was not included in the baseline interview. The options “strongly agree” and “strongly disagree” were added to “agree” and “disagree,” respectively.

Figure B. Use a record-keeping system for stock



Note: Each round includes 1,628 business owners. The group consists of 310 females and 1318 males.

TABLE C. JOB CREATION COMMITMENT

Panel A. New hiring workers at midline and at endline minus committed hiring workers

(New hiring workers in midline + new workers in endline) - number of new workers committed to hire when joining EDF	Frequency	Percentage	Cumulative percentage
Fewer than -5	168	10%	10%
-5	74	5%	15%
-4	84	5%	20%

-3	101	6%	26%
-2	154	10%	36%
-1	248	15%	51%
0	526	33%	84%
+1	115	7%	91%
+2	61	4%	95%
+3	26	2%	96%
+4	19	1%	97%
+5	11	1%	98%
More than +5	30	2%	100%

Panel B. Net employment at endline minus committed hiring workers

(Employees at the endline – employees before starting the EDF) - number of new workers committed to hire when joining EDF	Frequency	Percentage	Cumulative percentage
Fewer than -5	89	6%	6%
-5	49	3%	9%
-4	82	5%	14%
-3	98	6%	20%
-2	160	10%	30%
-1	169	11%	40%
0	530	33%	74%
+1	149	9%	83%
+2	93	6%	89%
+3	59	4%	92%
+4	30	2%	94%
+5	27	2%	96%
More than +5	63	4%	100%

Note: Panel A shows question 15. “Did you hire any new workers in the last six months? (Number of workers)” the midline and endline stages were added and compared to the hiring commitment before the baseline round. The total number of observations is 1,598. For Panel A questions 11 and 11.1, “How many persons do you currently employ? (Part-time and full-time)” at the endline stage were compared to the total number of employees and the hiring commitment before the baseline round. The total number of observations is 1,628.

Table D. Regression coefficients for logarithm of profit

Variables	Coefficients
Midline	0.194** (0.0727)
Endline	0.189 (0.137)
2019-Q2	0.306 (0.609)
2019-Q3	0.121 (0.586)

2019-Q4	0.151 (0.548)
2020-Q1	0.0514 (0.517)
2020-Q2	-0.221 (0.481)
2020-Q3	-0.0799 (0.443)
2020-Q4	-0.104 (0.419)
2021-Q1	-0.149 (0.380)
2021-Q2	-0.0651 (0.357)
2021-Q3	-0.184 (0.325)
2021-Q4	-0.139 (0.297)
2022-Q1	-0.121 (0.269)
2022-Q2	0.0321 (0.236)
2022-Q3	-0.0764 (0.204)
2022-Q4	0.181 (0.172)
2023-Q1	0.0315 (0.141)
2023-Q2	0.0473 (0.124)
2023-Q3	-0.0820 (0.101)
2023-Q4	0.0844 (0.0920)
Constant	7.107*** (0.296)
Observations	5,381

Note: Estimation results for fixed effects model with the logarithm of profit in the last month as a dependent variable. This includes fixed effects at the firm level and by the interview quarter. Standard errors are shown in parentheses. * $p < 0.05$,

** $p < 0.01$, *** $p < 0.001$.

Table E. Regression coefficients for the number of new workers

Variables	Coefficients
Midline	3.084*** (0.257)
Endline	1.701*** (0.482)
2019-Q2	3.108 (2.150)
2019-Q3	3.522 (2.053)
2019-Q4	2.992 (1.936)
2020-Q1	4.661* (1.810)
2020-Q2	2.712 (1.696)
2020-Q3	3.370* (1.550)
2020-Q4	2.994* (1.475)
2021-Q1	3.738** (1.329)
2021-Q2	2.227 (1.254)
2021-Q3	2.455* (1.131)
2021-Q4	2.173* (1.043)
2022-Q1	1.491 (0.937)
2022-Q2	0.559 (0.831)
2022-Q3	1.181 (0.716)
2022-Q4	1.198* (0.610)

2023-Q1	0.746 (0.496)
2023-Q2	0.0667 (0.440)
2023-Q3	-0.364 (0.358)
2023-Q4	0.267 (0.330)
Constant	-1.535 (1.044)
Observations	6,120

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