



ACCESS TO FINANCE FOR MSMEs IN IRAQ



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BACKGROUND

Micro, Small and Medium Enterprises (MSMEs) face many obstacles to access financial products in post-conflict settings in Iraq. Financial resources are rarely available to MSMEs due to longstanding difficulties between banks and prospective customers.

From the MSMEs perspective, high collateral requirements and interest rates act as barriers to loans. From the banks' perspective, these barriers are reflective of MSMEs being relatively costly to serve and presenting

unattractive risk versus return trade-offs. Due to these difficulties, linking MSMEs to sources of finance requires third-party support.

Developing trust between businesses owners and banks is an extended process which requires encouragement and strong contributions from organizations who are working in the sector. IOM is supporting this process by implementing a range of activities to increase access to financial services.



INCREASING ACCESS TO FINANCE SERVICES

IOM’s access to finance strategy currently consists of a parallel approach which provides:

i) on the demand side, capacity-building support to MSMEs through **advisory services** aiming to improve their “investment readiness”.

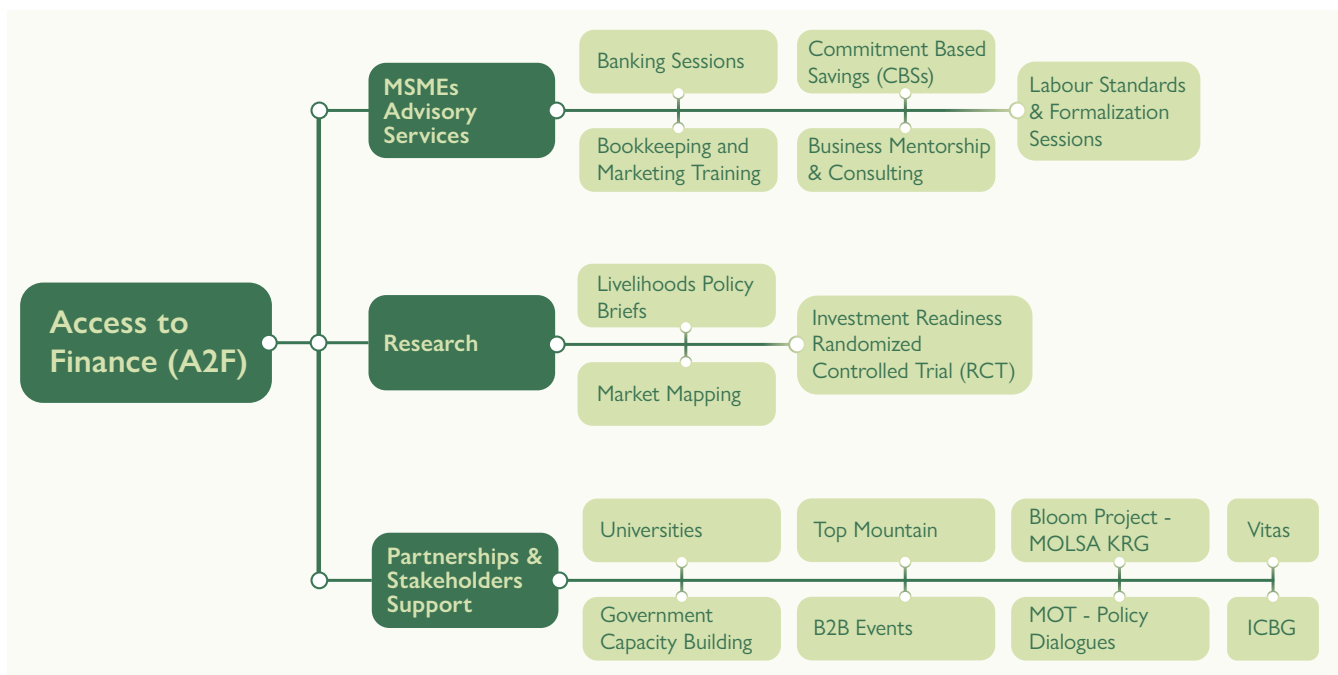
ii) on the supply side, ecosystem-building support through **engagement with financial institutions**, public-private partnerships, and research and data dissemination.

These two approaches bridge the gap in providing financial services to MSMEs in Iraq by making them more appealing to financial service providers and vice versa.

On the demand side, supported MSMEs receive assistance in designing commitment-based savings plans,

training in marketing and record-keeping using ILO’s **Improve Your Business** curriculum, banking orientation sessions, referrals to commercial financial services, mentorship services, and training on labor **standards and regulations**.

Among the activities seeking to strengthen the entrepreneurship and financial ecosystem, IOM conducts market analysis, mapping, and research in partnership with national and international actors to create awareness about the potential of the MSME sector in Iraq and produce rigorous evidence about the impact of A2F interventions. The strategy also involves conducting business-to-business (B2B) workshops and supporting local stakeholders, including public sector agencies, trade organizations, and financial actors, to promote access to financial markets.



KEY FIGURES

382	Banking Sessions	1151	IYB (e.x. Bookkeeping & Marketing Training)
120	Commitment Based Saving	7	Livelihoods Policy Briefs
136	Business Mentorship & Consulting	6	Market mapping exercises
1200	Labour Standard Sessions	3	B2B Events
235	Capacity Building for Governmental and non-governmental partners	7	Partnerships

1. MSMEs ADVISORY SERVICES AND BANKING ORIENTATION SESSIONS

MSME Advisory Services provides financial and business development support tailored to the needs of Iraqi MSMEs seeking to enhance their capacities. These advisory services include capacity building, information provision, consulting, mentorship, and more. They also involve interested businesses in banking and financial literacy sessions developed in partnership with leading global universities, helping MSMEs become investment-ready.



I. BANKING ORIENTATION SESSIONS

Banking sessions strengthen linkages between the supply and demand sides of the market, providing a referral mechanism and follow-up platform to foster relationships between business owners and financial service providers such as banks, microfinance institutions and financial companies. These linkages reduce barriers faced by both MSMEs and financiers, with the banking orientation sessions organized and managed by IOM and conducted in coordination with financial entities.

IOM has engaged directly with a number of prospective partner financial institutions, including the **National Bank of Iraq, Ashur Bank, International Development Bank and the Kurdistan International Bank of Iraq**, alongside microfinance institutions and companies such as **VITAS Iraq, Iraqi Company for Financing MSMEs – ICFSME, and First Finance Company**, hosting events/forums for banks to present their services directly to prospective customers.

IOM has also developed a network of contacts among commercial banks and MFIs for the purpose of referral

of EDF MSMEs to formal sector financial institutions. IOM has hosted a number of events, bringing together commercial bank representatives and MSMEs for purposes of networking, confidence building, and promotion of formal sector financial services.



II. BOOKKEEPING AND MARKETING TRAINING

IOM provides a two-day intensive training session in accordance with the International Labour Organization's (ILO) "**Start and Improve Your Business**" (SIYB) methodology. This training focuses on key business management principles, with a primary emphasis on marketing and bookkeeping based on needs assessments. Participants in the marketing sessions learn strategies to attract and retain customers, increase sales, and boost long-term profits. The training covers product positioning and 'the seven P's' of marketing (price, promotion, place, packaging, people, process, and physical evidence.)

Complementary to these trainings, bookkeeping sessions provide guidance to business owners on maintaining essential financial records to facilitate evidence-based profit and sales forecasting, thereby improving business performance. Participants learn to document activities and transactions, including cash flow, costs, sales, and debts. The training also highlights additional records vital for micro, small, and medium enterprises (MSMEs), such as inventory, salaries, assets, and agreements with suppliers and customers.

By contributing to business formalization and helping local entrepreneurs to satisfy common requirements for loan eligibility, advisory services help to create a pool of promising, investment ready firms who are capacitated to access private financial markets.

III. BUSINESS MENTORSHIP AND CONSULTING

IOM's business mentorship and consulting program provides tailored support to entrepreneurs through a combination of classroom and non-classroom training sessions. This program includes guidance on business planning and hands-on mentorship to address specific challenges faced by businesses. Each participating business is paired with an experienced mentor who works closely with the owners to identify gaps, assess their needs, and develop strategies for improvement. This service spans for a period of six months and includes classroom services in addition to one-to-one visits and mentorships. This collaborative approach ensures that businesses receive tailored practical solutions to enhance their operations, build resilience, and foster sustainable growth. The mentorship program emphasizes personalized support, enabling businesses to overcome obstacles and achieve their full potential.

IV. COMMITMENT BASED SAVING MECHANISM

The **Commitment-Based Savings (CBS)** mechanism aims to support business owners in achieving specific savings goals tied to their business needs. This approach considers how setting savings objectives can enhance the investment readiness of firms, serve as an alternative to formal credit, and help businesses meet financial targets. The mechanism has been applied across different contexts, including small and medium enterprises (MSMEs) and vulnerable beneficiaries under broader economic empowerment initiatives. This structure promotes financial resilience and prepares participants for sustainable business growth.

V. LABOUR STANDARDS & FORMALIZATION SESSIONS

This session is designed for all MSMEs that have received the Enterprise Development Fund grant from IOM. Its purpose is to enhance their understanding of good practices in relation to the business environment, work standards, safety, and security in the workplace. The session aims to increase their knowledge about IOM's procedures in contract implementation and help

them understand their requirements. Additionally, it educates participants on Iraqi labor and social security laws. Other topics in the session include **Complaint and Feedback Mechanism (CFM)** that helps participants to understand of ways of communication and claim their issues to IOM, Protection from Sexual Exploitation and Abuse and Sexual Harassment (PSEAH), business registration channels, requirements, and benefits, and workplace safety measures and standards. The session provides detailed guidance on ensuring the safety of workers and the business environment, emphasizing the importance of implementing required safety measures and standards in their workplaces.



VI. REFERRALS

As part of the project process, IOM developed a systematic referral mechanism to facilitate the referral of IOM beneficiaries to external services and products while also enabling the inclusion of external potential beneficiaries and MSMEs in A2F and other livelihood services. To support this mechanism, IOM, through its Information Management System (IMS), developed tools to systematically record and protect data for various A2F services. A tool was created to manage referrals to and from IOM's A2F services.

This mechanism has allowed IOM to refer over 3,000 SME owners across Iraq to and from partners such as chambers of commerce, the Iraqi Industry Federation, GIZ, and VITAS.

2. RESEARCH

IOM has demonstrated in-house capacity to conduct high-quality research to strengthen the entrepreneurship ecosystem in Iraq by generating and disseminating market insights and by informing access-to-finance programming

and policy. This research focuses on understanding the behavior of MSMEs, including their financing practices, perceptions of formal financial institutions, awareness of available financial services, business growth plans, and barriers to accessing commercial loans. IOM's efforts have yielded a comprehensive understanding of MSME needs, enabling financial institutions to tailor their products, services, outreach models, and terms to better attract and support these enterprises. Key research initiatives include market mapping to identify opportunities, livelihoods policy briefs to inform strategic planning, and conducting a **randomized controlled trial (RCT)** to evaluate the impact of investment readiness interventions.

So far, IOM has conducted six **market mapping** exercises, both [independently](#) and in [collaboration with national trade organizations](#) such as the Chambers of Commerce and Industry and Iraqi Industries Federation. These initiatives have focused on identifying promising MSMEs for access to finance programming and referral to financial institutions. The results of all assessments are publicly available and contribute to addressing market information gaps for private and public stakeholders.

Livelihoods policy briefs provide synthetic insights on pressing themes such as [the effects of regional instability on economic recovery in Iraq, MSMEs' loan preferences and barriers, women's entrepreneurship, and using data-driven heuristics to support MSME investment readiness](#). By combining original data points with a review of available evidence from Iraq and elsewhere, they are an essential source for policymakers and private sector actors interested in understanding market dynamics for MSMEs in Iraq.

The Investment Readiness RCT is a flagship initiative of IOM Iraq, conducted in partnership with researchers at the **University of Oxford, Imperial College London, and the University of Cambridge**. Over the course of three years, the study will assess the impact of different combinations of capital grants and advisory services for MSMEs on business performance and investment readiness. It will also provide evidence about the extent to which business owner contributions affect these outcomes by increasing their 'skin in the game', informing blended finance models that can foster MSMEs' transition to sustainable growth while maintaining job quality. While the main study remains in progress, a small-scale pilot conducted in 2023 shows [promising results](#).

3. PARTNERSHIP

I. THE BLOOM PROJECT

The International Organization for Migration (IOM), in collaboration with the Kurdistan Regional Government (KRG) and its **Prime Minister's Office (PMO)**, is supporting the digitalization of the government-led Bloom Project. This initiative promotes economic growth in the Kurdistan Region by providing low-interest, low-collateral loans to small and medium-sized enterprises (SMEs) in the agriculture sector through private banks. The project aims to enhance agricultural productivity, create jobs, and foster sustainable economic development while building trust in financial institutions.

IOM's contribution includes replicating its successful **Information Management System (IMS)**, developed under the Enterprise Development Fund (EDF) program, to streamline loan management and SME selection. The IMS facilitates transparent communication among partner banks, incubators, and government entities, ensuring efficient oversight. Additional support includes developing a project website, implementing monitoring and evaluation (M&E) systems, and organizing awareness sessions across Erbil, Duhok, Sulaymaniyah, and Halabja to help EDF grantees and SMEs access the program's benefits.

Learn more about the project: Bloom Project [Bloom Finance Initiative](#)

II. VITAS

The Cooperative Housing Foundation (CHF-Vitas Iraq), in collaboration with IOM, successfully implemented transformative initiatives to enhance access to finance for small and micro-enterprises in Iraq. These efforts included transitioning CHF-Vitas from a non-profit organization to a for-profit entity regulated by the Central Bank of Iraq, marking the first transformation of its kind in the country. This structural shift expanded its outreach, enabling the organization to provide loans and financial services to a broader customer base. Additionally, CHF-Vitas piloted a green energy financing project that promoted renewable energy adoption among SMEs in Baghdad and Basra. Supported by IOM's **Enterprise Development Fund**

(EDF), the program provided solar product loans, partnered with energy suppliers, and reduced interest rates to incentivize sustainable energy solutions, contributing to economic growth and environmental sustainability.



III. GOVERNMENT CAPACITY BUILDING

IOM provides capacity-building support to government partners to strengthen their ability to foster entrepreneurship and support economic development. This includes training government staff in key areas such as business planning, performance analysis, financial management, and risk mitigation. For example, in collaboration with the **Ministry of Labor and Social Affairs (MoLSA)**, IOM delivered tailored training on business planning. This equipped participants with practical skills to assist entrepreneurs and SMEs in developing business plans, accessing financial capital, and improving their operations. By enhancing the capacity of government staff, IOM enables its partners to better support startups, vocational training graduates, and SME business owners, driving sustainable economic growth and stability. IOM closely communicates with MoLSA in Baghdad to develop a longstanding partnership that includes providing capacity building for MoLSA staff and exchanging information between the two parties to improve capacities.



IV. BUSINESS TO BUSINESS (B2B) EVENTS

IOM organized **Business-to-Business (B2B)** workshops to strengthen collaboration between the public and private sectors, fostering partnerships that drive economic development and create sustainable opportunities. These workshops have served as vital platforms for addressing key challenges, proposing innovative solutions, and connecting diverse stakeholders, including government entities, private enterprises, and individuals seeking to enhance their business networks.

One significant achievement was facilitating discussions on **exporting local products** in partnership with Ministry of Planning and Ministry of Trade and Industry of KRG and federal Iraq, where stakeholders analyzed challenges and proposed actionable solutions to enhance Iraq's trade capacity and competitiveness in international markets. These workshops successfully identified bottlenecks, developed strategies for expanding market access, and promoted locally produced goods. A [policy brief](#) was published jointly by IOM and by the Ministry of Planning summarizing key conclusions and recommendations from the workshop.



IOM also hosted two editions of the **Iraq National Trade Forum (INTF)** in partnership with the International Trade Centre (ITC), bringing together representatives from the public and private sectors to address trade-related challenges and explore opportunities. These forums fostered policy dialogue, knowledge exchange, and partnerships that have significant impact on Iraq's economic development.

KEY FIGURES FROM CONDUCTED BANKING SESSIONS AND PARTNER FINANCIAL INSTITUTES REFERRALS



Demand and Supply issues and challenges that have been observed and could be addressed in the future programming include:

DEMAND SIDE	SUPPLY SIDE	OTHER ISSUES
<ul style="list-style-type: none"> • Religious concerns from the business owners about interest rate. • Not having the required legal documentations. • Limited trust in the banking system • Lack of awareness about available banking and financing options. • Inability to secure appropriate loan guarantees. • Risk aversion linked to insecurity and market instability • Stigma around using banking products 	<ul style="list-style-type: none"> • Limited offer of financial products that are adapted to SME needs • High loan guarantee requirements. • Lack of clarity in regulations and requirements. • Centralization of government services and process • Geographical limitations in banking services, particularly in rural and conflict-affected areas. • Lack of communication and outreach. 	<ul style="list-style-type: none"> • Frequent changes of instructions and lending opportunities initiatives. • Insecurity and political instability at local, national and regional levels • Fluctuations in market conditions 



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