INVESTMENT READINESS BASELINE STUDY

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LIST OF ACRONYMS

EDF	Enterprise Development Fund
IFC	International Finance Corporation
ILO	International Labour Organization
IOM	International Organization for Migration
IDP	Internally Displaced Person
IQD	Iraqi Dinar
RCT	Randomized Controlled Trial
SME	Small and Medium-sized Enterprise
USD	United States Dollar

EXECUTIVE SUMMARY

Small and medium-sized enterprises (SMEs) form the backbone of Iraq's private sector, employing approximately half of Iraq's employment. However, access to finance remains a critical barrier to growth, particularly in a post-conflict environment. This study uses a baseline survey of 518 firms – with seven workers on average, 46.2 per cent of whom are women – participating in the Enterprise Development Fund (EDF) programme as well as access to finance trainings to analyse financial constraints and inform policy interventions. Iraq has over 1 million SMEs that constitute about two thirds of the country's private sector. However, the baseline data show that 52 per cent of firms lack formal registration, limiting their access to financial services and government support. Tax registration remains low, with only 32 per cent of firms registered, highlighting informality as a major barrier to business growth. To address these formalization challenges, we recommend implementing streamlined one-stop registration processes, creating graduated formalization incentives tied to grants and credit access, and establishing business service centres in underserved regions.

Financial access remains a challenge, with only 30 per cent of women and 20 per cent of men owning a bank account, illustrating significant financial exclusion. While 58% of firms report using self-financing—allocating an average of 39.6% of their financing mix to it—only 15% of firms have accessed any debt financing. Among those, debt represents an average of 6.5% of firms' financing structure. These findings underscore the need to develop SME-specific lending products with reduced collateral requirements, establish tiered financing schemes matching business growth stages, and strengthen sharia-compliant financial instruments. Loan access varies significantly across demographic groups, with returnees receiving the highest average loan amount of 13,617 United States dollars (USD), compared to USD 7,366 for host community members and USD 3,420 for internally displaced persons (IDPs). This suggests a need for specialized financial products for IDPs and targeted financial literacy training for returnees who, despite receiving larger loans, demonstrate weaker financial management practices. Gender disparities are also evident, as women receive significantly smaller loans, averaging USD 4,396 compared to USD 14,933 for men, despite showing stronger financial management practices. These disparities call for expanding the EDF-Women initiative with increased capital allocations, establishing gender-responsive financing with simplified application processes, and creating mentorship networks for female entrepreneurs.

Confidence in financial institutions is low, with only 3.1 out of 5 firms trusting public commercial banks, and even lower trust in private Islamic banks at 2.4 out of 5, with 24.9 per cent of respondents fearing loss of savings. To rebuild trust, we recommend improving awareness of deposit insurance frameworks, simplifying banking procedures, creating authentication systems for Islamic institutions, and launching educational campaigns on banking services. Additionally, firms face significant barriers to savings, with 42 per cent citing insufficient income and 25.9 per cent reporting irregular cash flows, which limits their financial resilience. Creating flexible savings products tailored to irregular business cash flows, establishing matched savings programs, and developing community-based savings associations could help address these challenges.

The research is part of a randomized controlled trial (RCT) to evaluate the impact of three key interventions: grants, financial training and blended finance. Firms will receive an average of USD 17,000 in capital grants, while financial training will equip businesses with financial management skills to improve credit access. The blended finance model requires firms to co-finance at least 50 per cent of the grant amount, testing the effect of "skin in the game." Operational inefficiencies are also evident, as profits do not increase proportionally with sales, suggesting a need for targeted technical assistance in financial planning and cost control, as well as sector-specific efficiency benchmarking tools. By analysing baseline conditions and implementing these targeted recommendations, this study aims to inform policies that enhance financial inclusion, gender equity and economic resilience for SMEs in Iraq.

INTRODUCTION

This research project seeks to address the financing constraints faced by small and medium-sized enterprises (SMEs) in Iraq, particularly in a post-conflict environment. SMEs constitute the majority of firms in Iraq, contributing significantly to private-sector employment. Approximately 61.6 per cent of the employed population work in the private sector, while SMEs account for 80 per cent of the private sector. Hence, SMEs contribute to about half of Iraq's employment (ILO, 2021). Despite their critical role, SMEs remain underdeveloped due to various constraints, particularly financial and knowledge gaps. The project will use an RCT to evaluate the impact of capital grants worth an average of USD 17,000 each, financial training and blended finance on firm growth and labour outcomes. The study targets SMEs aiming to expand their operations, with a particular focus on businesses led by displaced populations, returnees and host communities.

This report presents baseline findings from an ongoing study examining financial constraints SMEs in Iraq face. As a post-conflict economy, Iraq's private sector plays a crucial role in economic recovery, yet businesses struggle with financing gaps that hinder their growth and sustainability. The baseline survey, conducted with 518 firms, establishes the pre-intervention conditions of SMEs before the implementation of financial grants, training and blended finance programmes. This initial analysis is crucial for understanding SME characteristics, assessing financial barriers, exploring demographic disparities and informing policy interventions.

The study provides insights into firm size, employment patterns and financial access to identify key constraints. It evaluates firms' reliance on self-financing and their limited access to formal credit institutions. It also highlights differences in financial inclusion based on gender, displacement status and regional factors. These findings will guide policymakers in refining support mechanisms to maximize the effectiveness of capital grants, financial training and blended finance in fostering sustainable economic growth in Iraq's SME sector. The study's design ensures that findings from follow-up evaluations will isolate the causal impact of different financial interventions on SME performance, enabling evidence-based policy decisions.

RESEARCH OBJECTIVES

This research aims to understand how financial interventions (grants and training) can support SMEs in Iraq. Specifically, the study examines whether providing grants to partially finance SMEs' ambitious expansion plans can lead to meaningful growth, particularly when accounting for the displacement status of the business owners. It also explores the effectiveness of external finance training in helping SMEs secure the additional capital needed to overcome financing gaps, while assessing how the impacts of such training differ among returnees, IDPs and host community members. A key component of the study investigates whether a blended finance approach – where grants are paired with a requirement for higher co-financing contributions from business owners – leads to better outcomes in achieving firm expansion goals, and whether the effectiveness of this approach varies based on the displacement status of the business owner. Finally, the research seeks to identify the mechanisms through which grants affect capital, labour and firm processes, while analysing how these mechanisms differ across returnee, IDP and host community businesses. The study provides critical insights into the design of financial support programmes that can foster SME growth, create employment opportunities and contribute to sustainable economic resilience in post-conflict contexts.

RESEARCH HYPOTHESIS

This study's core hypothesis is that SMEs in Iraq, particularly in a post-conflict context, face substantial financial barriers that hinder their growth and sustainability. The "big financial push" suggests that larger financial interventions, rather than incremental microloans or small grants, are necessary to spur meaningful expansion. This hypothesis is supported by the observation that small-scale interventions, such as microgrants, often fail to create sustained business growth or job creation due to limited capital that does not address the structural constraints faced by SMEs.

Larger financial injections allow firms to invest in higher-return activities, such as upgrading technology, expanding operations or hiring skilled labour, which are critical for scaling up. Studies such as McKenzie (2017) on business plan competitions in Nigeria and De Mel et al. (2019) on capital injections for SMEs show that larger grants lead to significant improvements in profitability, employment and firm sustainability. Furthermore, in post-conflict settings like Iraq, SMEs often face compounded challenges, including damaged infrastructure, reduced market access and limited trust in financial institutions, which require more substantial support to overcome effectively.

A key element of this study is testing whether requiring business owners to contribute a certain threshold relative to the grant some of their own money (referred to as "skin in the game") alongside the grant leads to better business outcomes. By comparing businesses that receive grants with and without co-funding requirements, the research aims to provide policymakers with insights into how best to structure financial support programmes. The goal is to understand whether requiring business owners to invest their own money improves the sustainability and effectiveness of these grants.

This "big financial push" that refers to the EDF grants targets small firms with detailed expansion plans that have been vetted through IOM's rigorous multistage selection process. The process begins with an orientation and screening stage, where general eligibility is assessed. Firms that pass this stage move to the expression of interest, where the latter are then assessed with mostly quantitative criteria, resulting in a 66 per cent rejection rate. Next, firms undergo a verification visit, where the validity of their information is critically assessed, leading to a 75 per cent rejection rate. At the application stage, firms submit detailed plans for quantitative evaluation, with all applicants proceeding beyond this point. The investment committee visit follows, where trained committee members conduct a qualitative evaluation of firms' proposed expansion plans, leading to a 48 per cent rejection rate. The final stage, negotiation, involves finalizing terms with firms, with less than 5 per cent facing rejection or self-electing out of the grant. By providing significant capital to businesses that pass this rigorous selection process, IOM ensures that only firms with strong potential for growth and job creation are supported. These findings will help inform future efforts to foster long-term growth, job creation and resilience in post-conflict economies.

LITERATURE REVIEW

A critical knowledge gap in the literature is how SMEs can contribute to post-conflict economic recovery and the reintegration of displaced populations. In Iraq, SMEs form a significant part of the private sector but face persistent challenges in accessing formal financial resources, which limit their potential to grow, hire and contribute to economic stabilization (World Bank, 2022). Our baseline study confirmed that access to finance remains a key constraint for SMEs in Iraq (IOM, 2023b). This project explores the relative importance of grants, financial training and external finance in addressing these constraints and supporting firm growth and employment generation.

A vast body of microfinance research documents that typical small-scale microcredit loans have shown minimal impact on business performance and employment creation. Studies such as the work by De Mel et al. (2019) suggest that while microfinance tends to have limited average effects on generating long-term employment, significant heterogeneity exists. In particular, bigger firms may experience higher returns. The EDF programme, however, adopts a "big-push" approach, offering substantial grants tied to job creation, which has shown promising results in administrative data. This project will rigorously evaluate the impacts of such large-scale interventions, focusing on how significant capital injections and accompanying financial training can spur sustainable firm growth and employment in a post-conflict setting. McKenzie (2017) finds that a large-scale business plan competition in Nigeria, which awarded substantial grants to winners, led to significant increases in firm creation, survival, profitability and employment, including a notable rise in the likelihood of firms growing to 10 or more employees.

Furthermore, policy reports by IOM and the International Finance Corporation (IFC) underscore the importance of tailored financial solutions for SMEs. IOM highlights that Iraqi SMEs face numerous barriers to accessing formal finance, including complex loan requirements, high collateral demands and religious concerns about interest-bearing loans. As a result, many SMEs rely on informal lending from family and friends, which is insufficient to meet their long-term business needs (IOM, 2023a). An IFC report complements these findings by showing that the formal financial sector remains largely inaccessible to SMEs, with only 9 per cent of lending reaching the sector (IFC, 2022). Regulatory gaps, high interest rates and weak banking infrastructure exacerbate these challenges.

This research contributes to the sparse literature on blended finance by exploring how large grants can potentially attract external finance to support SME growth, as evidenced in a recent study in Pakistan (Bari et al., 2024) as well as McKenzie (2017). We also aim to contribute to the emerging literature on investment readiness programmes, which prepare small firms for scalable growth (Cusolito et al., 2021). By addressing both the supply- and demand-side barriers to finance, this project has the potential to provide unique insights into the role of SMEs in post-conflict recovery, with a particular focus on fostering sustainable growth and meaningful employment outcomes.

SAMPLING

METHODOLOGY AND SAMPLING

This study focuses on 518 firms that applied to the EDF programme and met basic eligibility criteria. Importantly, this sample is not representative of all Iraqi SMEs, or even of all businesses in target governorates. Rather, it provides insights into firms that have shown interest in expanding operations, have viable business plans and meet specific selection criteria.

The EDF programme follows a rigorous multistage selection process to ensure grants are allocated to firms with strong potential for growth, job creation and economic recovery. The process begins with basic eligibility screening (3–30 employees, operational prior to 2019, Iraqi ownership), followed by a systematic evaluation through the following stages:

1. **Orientation and screening**: General eligibility is assessed based on business size, years of operation and ownership status.
2. **Expression of interest (EoI)**: Businesses submit initial applications that are assessed using mostly quantitative criteria, resulting in approximately 66 per cent of applications being rejected at this stage.
3. **Verification visit**: Field staff conduct on-site verification of information provided in the EoI, which leads to a 75 per cent rejection rate as businesses are evaluated on actual operations, employee conditions and feasibility of expansion plans.
4. **Application stage**: Shortlisted businesses submit detailed expansion plans including marketing strategies, financial projections and labour plans along with supporting documentation such as supplier certificates, quotations for future purchases and registration documents.
5. **Investment committee visit**: Senior IOM staff conduct qualitative evaluations of proposed expansion plans, assessing business viability and sustainability, which leads to a 48 per cent rejection rate.
6. **Negotiation**: Final terms are established with approved businesses, with less than 5 per cent facing rejection or self-selecting out of the programme at this stage.

The selection criteria emphasize both financial viability and social impact. For instance, firms are evaluated on their ability to create sustainable employment relative to the grant amount requested, with benchmarks typically set at one additional staff member per USD 3,200–3,700 granted, depending on the donor. Additional weight is given to businesses that demonstrate solvency, with scores adjusted based on outstanding debts relative to current profits. Furthermore, community stabilization is prioritized through additional points for businesses owned by women or those that employ IDPs and returnees.

This systematic approach ensures that the 518 businesses in our sample represent firms with strong potential for growth and job creation, despite not being statistically representative of the broader Iraqi SME landscape. When interpreting the results throughout this report, readers should consider these selection characteristics.

In terms of analysis, the report presents several coefficient plots to illustrate relationships between business characteristics and outcomes such as profitability and access to finance. These plots display regression coefficients (shown as dots) with their associated confidence intervals (horizontal lines extending from each dot).

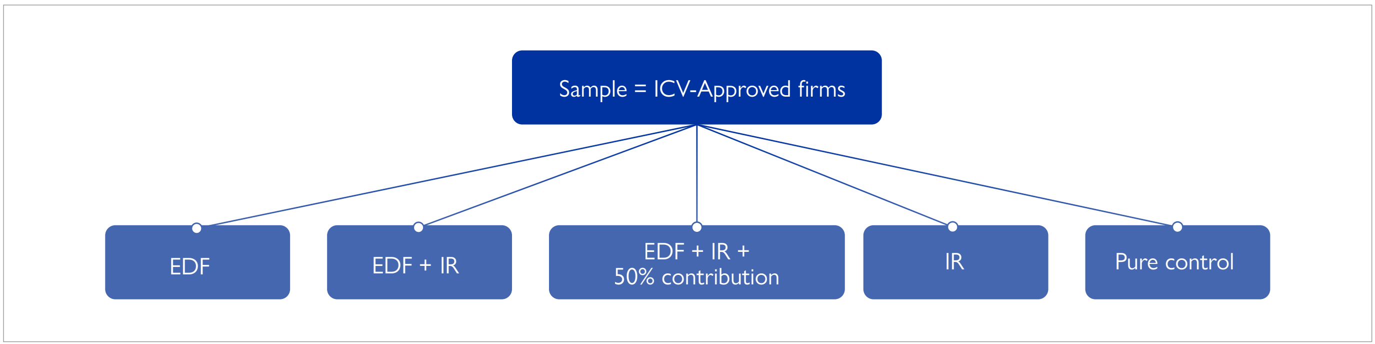
When interpreting these plots:

- The position of the dot relative to zero indicates the direction and magnitude of the relationship. Dots to the right of zero suggest a positive association, while dots to the left suggest a negative association.
- The length of the horizontal line represents the 95 per cent confidence interval. Shorter lines indicate more precise estimates.
- When a confidence interval crosses the zero line, it suggests the relationship is not statistically significant at the 95 per cent confidence interval level.
- Variables with confidence intervals entirely above or below zero show statistically significant relationships with the outcome.

These plots help visualize which factors have stronger associations with outcomes like business profitability or access to finance, while controlling for other variables in the model. However, readers should *note* these relationships represent correlations rather than causal effects.

RANDOMIZED CONTROLLED TRIAL DESIGN

Figure 1. Randomized Controlled Trial Design



The first treatment arm is a "Grant'; firms receive a financial grant called the EDF. This grant is designed to provide immediate financial support, allowing firms to invest in necessary resources, expand operations or cover other critical expenses. The hypothesis is that this direct financial injection will improve firm performance.

The EDF programme follows a rigorous multistage selection process to ensure grants are allocated to firms with strong potential for growth, job creation and economic recovery. To be eligible, firms must have between three and 30 employees (except if women-led), be operational prior to 2 019 and be owned and managed by Iraqi nationals. These basic eligibility criteria form the foundation for the selection process, which progresses through several stages, including pre-screening, verification visits and qualitative assessments by an investment committee.

The selection criteria emphasize both the financial stability of businesses and their potential social impact. For instance, firms are evaluated on their ability to add staff relative to the size of the grant requested, with benchmarks set at one additional staff member per USD 5,000 granted. Additional weight is given to businesses that demonstrate solvency, with scores adjusted based on outstanding debts relative to current profits. Furthermore, community stabilization is prioritized: businesses owned by women or those that hire IDPs and returnees receive additional points during evaluation.

On average, EDF grants amount to USD 17,000, providing substantial financial support to enable ambitious firm expansion plans.

The second treatment arm is "Grant + Training"; in addition to the financial grant, firms receive training. The training includes financial training and a mock loan application process. The theory here is that combining financial resources with capacity-building activities (like training) will have a synergistic effect, leading to better utilization of the grant and enhanced firm performance. Moreover, the finance training we provide aims at supporting these firms in securing the additional capital required to fully meet their financing gap, which is the gap between what the firms request as needed capital and what they receive as a grant from IOM.

The training is delivered in two parts. The first component, based on the International Labour Organization's **Improve Your Business** (IYB) framework, focuses on core bookkeeping and financial literacy skills. The second component, a novel financial landscape session, is tailored to the local context and introduces firms to Iraq's financial system, available loan products, institutional options and loan characteristics, including pricing. Firms are also guided through the loan application process, culminating in a practice session where they complete mock loan applications.

This combination of financial support and tailored training ensures that SMEs are not only equipped with capital but also the necessary tools to secure additional financing and improve financial management practices. By addressing both supply- and demand-side barriers to finance, the EDF programme aims to unlock the growth potential of SMEs in Iraq while contributing to long-term economic resilience and community stabilization.

The third treatment arm is "Higher Contribution Grant + Training"; firms receive a grant conditional on a higher contribution from the firms themselves (at least 50% relative to the EDF grant), along with the training. The rationale is that requiring firms to have more "skin in the game" will lead to more careful and effective use of the grant, combined with the benefits of training. **The third treatment arm is "Training"**; firms receive only the training without any financial grant. This tests the hypothesis that capacity-building alone (without financial support) can lead to significant improvements in firm performance due to one of the following two mechanisms: (1) better utilization of existing financing resources, or, (2) better capability to obtain additional external financing. In our survey, we measure the firms' loan applications and we observe their use of the grants and hence we are able to disentangle the two mechanisms. The last arm is "Pure Control"; firms do not receive any intervention.

PROGRESS TO DATE

Table 1 provides the distribution of firms across nine governorates, with Salah al-Din having the highest number of firms (110), followed by Kirkuk (94) and Ninewa (64). Smaller governorates like Sinjar have significantly fewer firms, with only 12 recorded.

Overall, the total number of firms in the sample is 518. So far, the take-up of the EDF-related arms is 99 per cent , while for the training component, take-up data are still being received.

Table 1. RCT sample to date

Governorate	Number of firms
Diyala	48
Salah al-Din	110
Erbil	55
Duhok	46
Ninewa	76
Kirkuk	94
Baghdad	35
Sulaymaniyah	54
TOTAL	518

BASELINE DATA[1]

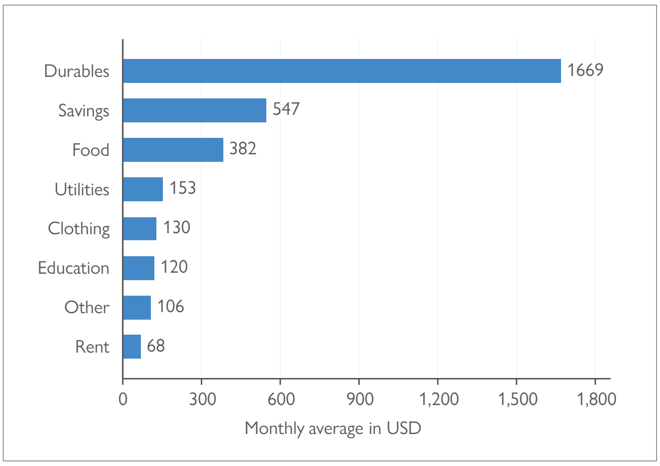
Note: When interpreting the results, particularly regression analyses presented as coefficient plots, readers should *note* that these show correlations rather than causal relationships. Coefficient plots display estimated relationships between variables, with horizontal lines indicating confidence intervals. When the confidence interval does not cross zero, we can be more confident that a relationship exists. However, these relationships should be interpreted as associations rather than causal effects.

SOCIOECONOMIC CHARACTERISTICS OF BUSINESS OWNERS

Figure 2 shows that SME owners or entrepreneurs allocate significant household expenditure to durable goods (USD 1,669) and savings (USD 547), while investing minimally in education (USD 120) and rent (USD 68). This pattern reflects the dual financial burden of managing household and business expenses.

The analysis of owners' migration status by gender reveals significant patterns in displacement and return dynamics across a sample of 518 respondents (Figure 3). Host communities represent the largest group, comprising 66.4 per cent of all respondents, while returnees constitute 30.7 per cent (including both domestic and international returnees). The surveyed population shows a relatively balanced gender distribution, with women representing 47.1 per cent and men 52.9 per cent of respondents. Notably, IDPs make up only 2.7 per cent of the sample. The gender breakdown within these categories shows distinct patterns, particularly in return migration, with men showing higher rates of return compared to women.

Figure 2. Household expenditure per category (monthly averages in USD)



1 We report all financial Figures in USD; however, the data is collected in Iraqi dinars (IQD), winsorized at the 5th and 95th per centiles, and then converted to USD using an exchange rate of USD 1 = IQD 1,310.

Figure 3. Percentage distribution by migration status and gender

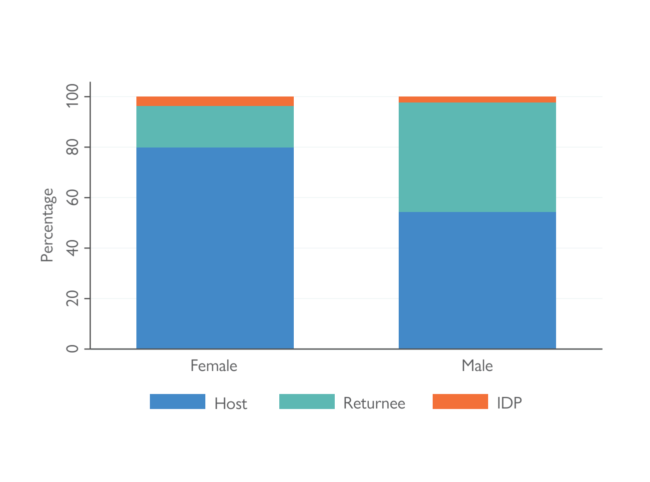


Figure 4. Distribution of firm owners by governorate

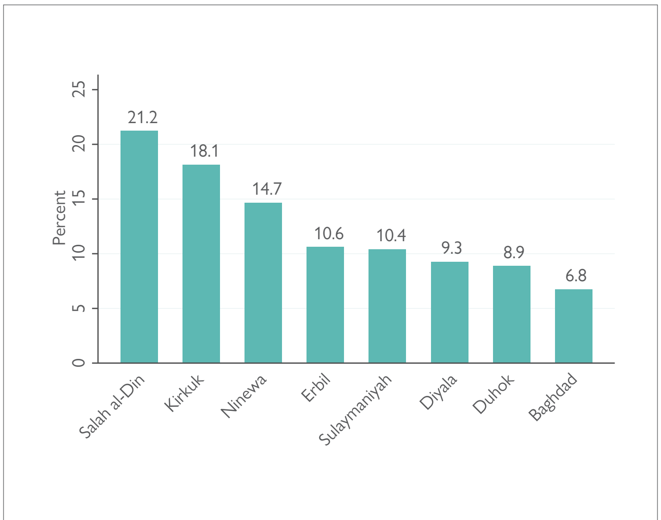
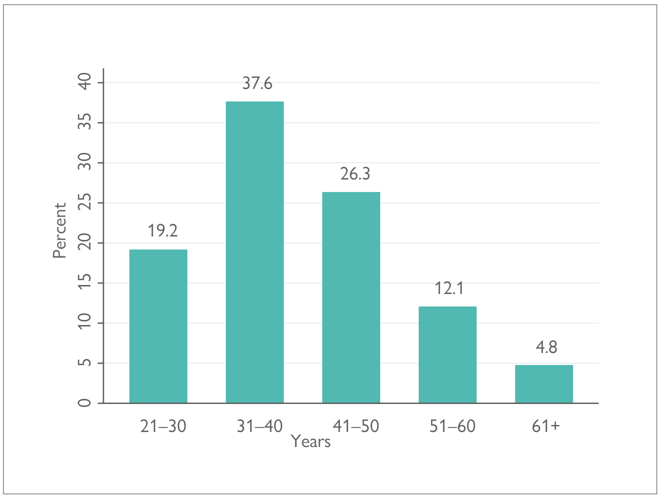


Figure 5. Distribution of firm owners by age group



The firm owners in Figures 4 and 5 are predominantly located in Salah al-din (21.2%), Kirkuk (18.1%) and Ninewa (14.7%), with lower representation in Baghdad (6.8%). In terms of age distribution, most firm owners fall within the 31–40 years age group (37.6%), followed by 41–50 (26.3%), while younger (21–30) and older (61+) age groups are less represented. This result suggests that firm ownership is concentrated among middle-aged individuals, with a regional emphasis on northern and central governorates.

BUSINESS OVERVIEW

Table 2 provides a snapshot of SME characteristics in our sample, with firms employing an average of 6.78 workers and reporting monthly profits of USD 1,950. However, 52 per cent of firms lack formal registration and only 32 per cent are tax-registered, highlighting a high level of informality that limits access to formal financing mechanisms.

Table 2. Summary statistics

	Mean	Sd[2]	Min	Max	N
Total employees	6.78	6.79	0.00	70.00	518
Number of businesses	1.02	0.26	0.00	3.00	518
Monthly profit	1 950.51	1 853.75	167.20	7 333.24	518
Days per week	6.68	4.80	0.00	72.00	518
Hours per week	51.08	19.87	0.00	168.00	518
Business registration: up to date	0.45	0.50	0.00	1.00	518
Business registration: expired	0.02	0.15	0.00	1.00	518
Business registration: no	0.52	0.50	0.00	1.00	518
Tax registration: yes	0.32	0.47	0.00	1.00	518

2 Standard Deviation.

Table 3 details business finances, showing that salaries and raw materials constitute the largest expenses. Firms rely heavily on self-financing, with average cash assets of USD 18,381 and inventory valued at USD 7,641, indicating liquidity constraints that hinder scalability.

Table 3. Business financing overview (USD)

	Mean	Sd	Min	Max	N
Sales					
Monthly sales (last month)	10 376.94	11 872.57	988.00	45 600.00	518
Monthly sales (2 months ago)	10 521.89	12 489.44	912.00	47 120.00	518
Monthly sales (3 months ago)	11 069.60	14 457.28	836.00	57 000.00	518
Best month sales	15 391.12	19 519.08	1 216.00	76 000.00	518
Expenses					
Salaries	2 461.06	2 882.58	114.00	19 000.00	518
Raw materials	6 772.70	13 614.63	0.00	76 000.00	518
Machine rental	128.32	451.33	0.00	3 306.00	518
Maintenance	161.04	486.71	0.00	3 800.00	518
Utilities	386.50	734.56	0.00	4 560.00	518
Loan payments	87.91	462.45	0.00	3 800.00	518
Rent	436.51	743.64	0.00	4 560.00	518
Other expenses	52.76	259.28	0.00	1 938.00	516
Profits					
Last month	1 950.51	1 853.75	167.20	7 333.24	518
Two months ago	1 916.21	1 788.88	228.00	6 840.00	518
Three months ago	1 838.67	1 722.40	198.36	6 840.00	518
Best month	3 689.23	3 629.21	494.00	15 200.00	352
Assets					
Inventory	7 641.76	17 108.90	0.00	98 800.00	518
Accounts receivable	5 914.76	13 948.36	0.00	76 000.00	518
Fixed asset 1	4 605.08	12 222.46	6.08	88 160.00	518
Fixed asset 2	3 501.68	8 581.54	0.00	57 000.00	352
Fixed asset 3	1 295.64	3 998.76	0.00	30 400.00	518
Liabilities					
Total outstanding loans	9 799.65	26 521.27	0.00	190 000.00	78

FINANCIAL INSIGHTS

Respondents were asked to indicate the percentage share of each source of financing currently used in their business (debt, equity self-financing, equity from others or other sources). These percentages represent each firm's own financing mix, not monetary amounts or shares of total financing across the sample. The survey did not enforce a total of 100 per cent. Figures presented (e.g. 6.5% debt financing, 39.6% self-financing) therefore reflect average percentage allocations reported by firms, rather than weighted proportions of total financing in USD terms.

Table 4 shows that SMEs primarily rely on self-financing, which accounts for an average of 39.6 per cent of their financing mix, while debt financing contributes an average of only 6.5 per cent among firms that reported using it. Figure 6 supports this result, revealing that wholesale and supplier credit dominates financing sources at 63 per cent. Informal channels, such as friends and family account for 27.6 per cent, while bank loans remain marginal (5.7%).

Table 4: Business financing overview

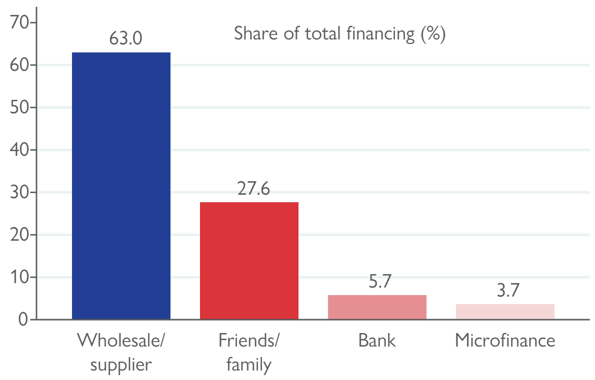
	Mean	Sd	Min	Max	N
Business assets					
Cash assets	18 381.18	25 117.97	0.00	98 800.00	518
Inventory value	7 641.76	17 108.90	0.00	98 800.00	518
Accounts receivable	5 914.76	13 948.36	0.00	76 000.00	518
Financing sources (%)					
Debt financing (%)	6.58	18.58	0.00	100.00	518
Equity: self- financing (%)	39.64	41.55	0.00	100.00	518
Equity: investment form others (%)	3.72	13.39	0.00	100.0	518
Other financing (%)	0.43	4.51	0.00	70.00	518
Loan characteristics (for debt financing)					
Total loan amount	9 799.65	26 521.27	0.00	190 000.00	78
Loan duration (months)	12 826.22	113 227.05	0.00	1.00e+06	78

Note: The loan characteristics are restricted to the those who selected debt financing only.

The Figures related to debt financing should be interpreted with two clarifications in mind. The 6.58 per cent represents the mean percentage of debt financing across all surveyed businesses, calculated as the mean ratio of nominal debt to total nominal financing reported by each firm (including self-financing, family financing, debt and other sources). However, only 78 firms – approximately 15 per cent of the 518 businesses surveyed – reported having any debt financing at all. Figure 6 presents the breakdown of financing sources specifically among these debt-financing businesses. Therefore, the Figure reflects patterns among firms that reported any use of debt, not the full sample.

It should also be *noted* that the sum of financing sources does not add exactly to 100 per cent. Respondents were not explicitly required to allocate their financing across all categories to sum to their total financing amount, which introduces minor inconsistencies.

Figure 6. Main sources of project financing



Note: This Figure presents the breakdown of financing sources among the subset of firms that reported any use of debt financing (n=78, approximately 15% of the full sample). The mean share of debt financing reported across the full sample is 6.58 per cent , calculated as the average ratio of nominal debt to total nominal financing across all firms. Due to survey design, financing categories were not required to sum exactly to 100 per cent, leading to minor inconsistencies in totals.

Table 5 provides insights into business management practices, showing that 76 per cent of firms maintain written budgets and 92 per cent compare supplier quality. *Note* that these are self-reported measures and these business management practices are measured at the extensive margin, but how good the firm owners are performing at these practices is not measured with this set of questions.

Table 5: Business management practices (USD)

	Mean	Sd	Min	Max	N
Has marketing strategy	0.89	0.32	0.00	1.00	518
Seeks customer feedback	0.88	0.33	0.00	1.00	518
Compares supplier quality	0.92	0.28	0.00	1.00	518
Maintains business records	0.82	0.38	0.00	1.00	518
Has written budget	0.76	0.43	0.00	1.00	518

Tables 6a and 6b explore loan determinants. Firms maintaining a written budget and demonstrating higher cash assets are more likely to secure loans, while those with higher debt aversion or informal practices struggle. This result reinforces the importance of managerial and financial discipline in accessing external credit, although other factors could be contributing to the variation.

Table 6a. Correlates to loan borrowers (regression)

	(1) Debt financing (%)	(2) Total loan amount
Total employees	-0.05	74.36
	(0.12)	(714.17)
Hours per week	-0.02	-170.68
	(0.05)	(102.30)
Female employees (%)	0.01	19.99
	(0.02)	(45.73)
Higher education (university/diploma)	-2.18	-314.51
	(1.53)	(4 021.84)
Tax registration	-0.06	-1 617.11
	(1.75)	(5 216.46)
Ministry registration	-3.23	-3 064.29
	(2.25)	(10 529.47)
Cash assets	-0.00*	0.42*
	(0.00)	(0.23)
Inventory value	0.00	0.29
	(0.00)	(0.19)
Has marketing strategy	-4.95	2 137.31
	(3.37)	(4 575.83)
Seeks customer feedback	-0.17	-2 548.03
	(2.75)	(3 792.89)
Compares supplier quality	5.65*	801.30
	(2.92)	(6 514.07)
Maintains business records	-0.46	-1 017.29
	(2.75)	(2 936.39)
Has written budget	-8.83***	3 653.79
	(2.65)	(3 614.79)

	(1) Debt financing (%)	(2) Total loan amount
Total business expenditure	-0.00	0.90***
	(0.00)	(0.33)
Total household expenditure	-0.00	0.13
	(0.00)	(0.18)
Constant	15.97***	-887.32
	(5.01)	(8 531.47)
R-squared	0.084	0.692
Observations	515	78
Robust standard errors in parentheses.		

Note: *** p<0.01, ** P<0.05, * P<0.1

Table 6b. Correlates to loan borrowers

Variable	Debt financing %	Total loan amount	Has bank account
Male	0.03	0.20*	-0.15***
Female	-0.03	-0.20*	0.15***
Age as of 2 025	0.11**	0.03	-0.09**
Host	-0.07	-0.11	0.16***
Idp	-0.03	-0.03	0.02
Returnee	0.08*	0.12	-0.16***
Governorate: Duhok	-0.02	0.30***	0.18***
Governorate: diyala	0.08*	-0.08	-0.05
Governorate: erbil	0.29***	-0.22*	0.01
Governorate: kirkuk	-0.15***	-0.03	-0.11**
Governorate: ninewa	0.18***	0.14	-0.05
Governorate: salah al-din	-0.15***	-0.08	-0.26***
Governorate: sulaymaniyah	-0.09**	0.04	0.36***
Total employees	-0.05	0.25**	0.03
Hours per week	-0.02	-0.05	-0.07
Female employees (%)	0.01	-0.12	0.15***
Higher education (university/diploma)	-0.10**	-0.06	0.24***
Tax registration	-0.04	0.15	0.16***
Ministry registration	-0.06	-0.05	0.09**
Cash assets	-0.10**	0.53***	0.04
Inventory value	0.06	0.64***	0.10**
Has marketing strategy	-0.10**	0.14	0.13***
Seeks customer feedback	-0.04	0.13	0.08*
Compares supplier quality	0.02	0.09	0.06
Maintains business records	-0.08*	0.18	0.13***
Has written budget	-0.24***	0.17	0.09**

Variable	Debt financing %	Total loan amount	Has bank account
Total business expenditure	-0.04	0.75***	0.03
Total household expenditure	-0.07	0.01	-0.02

Note: *** p<0.01, ** P<0.05, * P<0.1

EMPLOYMENT CHARACTERISTICS

Figure 7a and table 7 highlight a sex imbalance in SME employment, with males comprising 53.8 per cent of workers compared to 46.2 per cent for females. Figure 7b provides further insights, showing that 38.4 per cent of employees are female full-time workers, while male full-time employees dominate at 49.7 per cent. Female part-time employment remains low at 7.2 per cent, reflecting limited workforce flexibility.

Figure 7a. Employment composition by sex

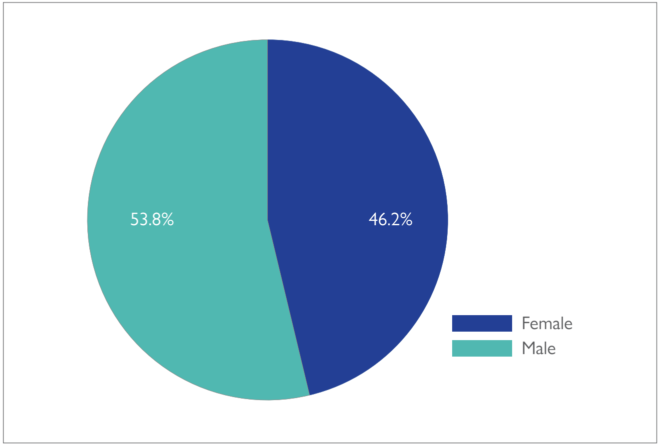
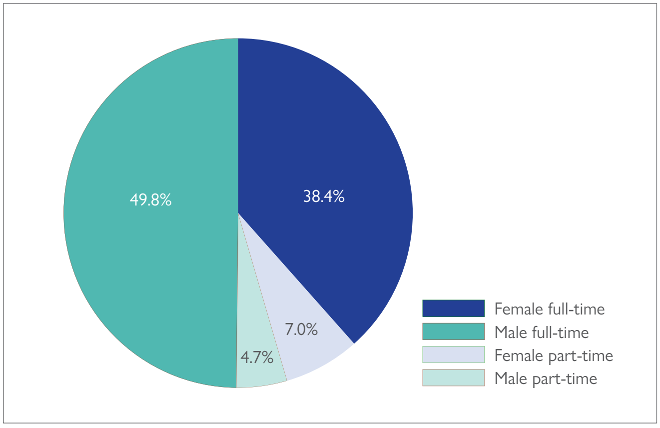


Figure 7b. Employment composition by gender and type



Note: The slight discrepancy between the total share of male employees reported in Figure 7a (53.8%) and the sum of male full-time and part-time employees in Figure 7b (54.4%) is due to three observations missing data on employment type (full-time or part-time). This missing information results in a 0.6 per cent difference, as the total shares in Figure 7b are calculated only among respondents who answered the employment type question.

Figure 8 below shows that female-owned businesses employ approximately four female employees and one male employee. Male-owned businesses employ around eight male employees and one female employee. This suggests a strong gender-based hiring pattern, where female owners predominantly hire female employees, while male owners overwhelmingly hire male employees.

Figure 8. Gender of employees by sex of owner

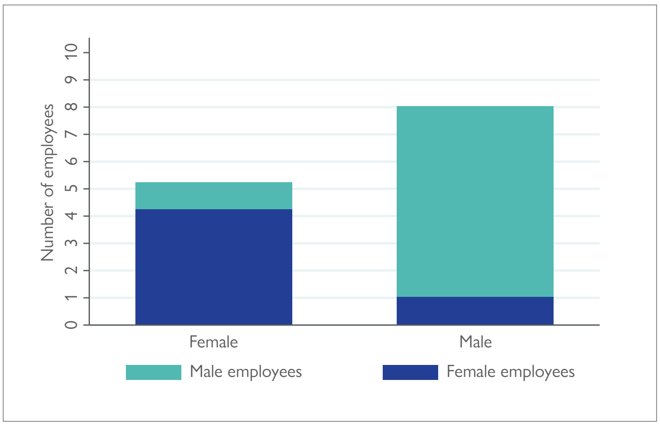


Figure 9 highlights family contributions to SME labour. Non-family members make up 81.6 per cent of employees, but family workers, particularly unpaid female workers (3.3%), play a significant role. Table 4 expands on these dynamics, revealing the reliance on unpaid family labour as a cost-saving mechanism, which often limits firms' professionalization. For instance, Akcigit et al. (2 021) estimate that inefficiencies in managerial delegation account for 11 per cent of the income per capita gap between the United States and India.

Figure 9. Family vs. non-family employment composition

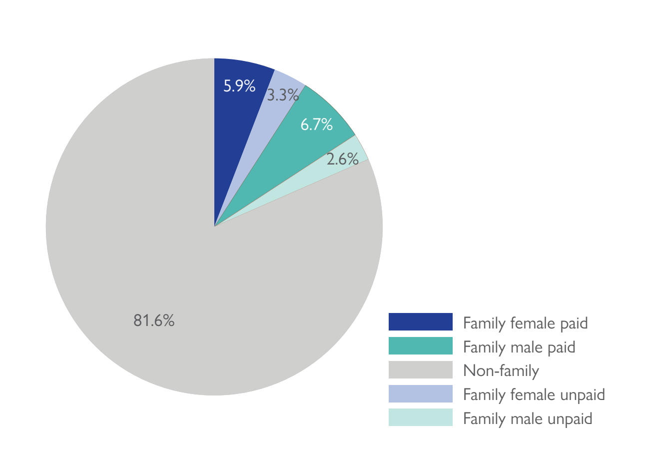
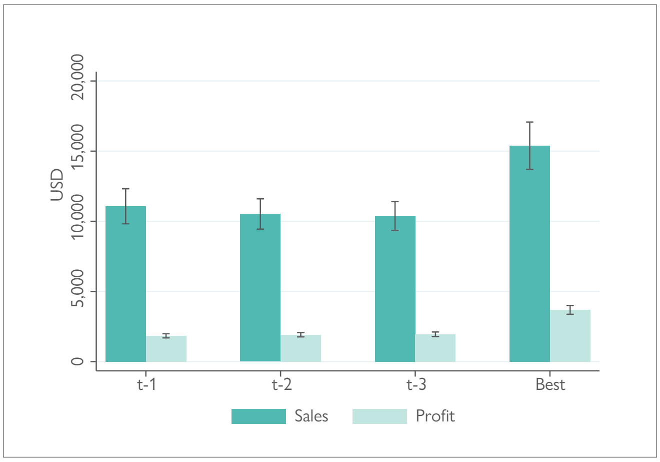


Figure 10. Sales and profits trends over time



TRENDS IN SALES AND PROFITABILITY

Figure 10 tracks sales and profit trends over time. While sales steadily improve from t-1 to t-3, profits do not fluctuate much. Table 3 confirms this result, showing average monthly profits of USD 1,950, far below peak sales levels (USD 15,391 in the best month). These trends highlight inefficiencies in cost management.

Table 8 identifies key correlates to profitability. Firms with higher inventory value, ministry registration and written budgets exhibit greater profitability. However, firms employing a higher percentage of female workers face challenges, likely due to structural barriers and societal norms impacting workforce productivity.

Table 7a. Correlates to business profits (regression)

	(1) Profits (t-1)	(2) Profits (t-2)	(3) Profits (t-3)
Total employees	18.13	26.21	5.35
	(18.65)	(19.95)	(21.66)
Hours per week	-2.03	-1.55	-2.71
	(3.29)	(3.29)	(3.25)
Female employees (%)	-3.04**	-3.32**	-2.08
	(1.43)	(1.43)	(1.35)
Higher education (university/diploma)	111.19	140.31	184.44
	(152.07)	(147.10)	(145.21)
Tax registration	329.71*	279.39	170.82
	(171.90)	(169.85)	(158.06)
Ministry registration	360.06	979.16***	514.05
	(391.13)	(350.23)	(328.10)
Cash assets	0.00	0.00	0.01*
	(0.00)	(0.00)	(0.00)
Inventory value	0.01**	0.01**	0.01**
	(0.01)	(0.01)	(0.01)
Has marketing strategy	-267.35	-191.43	-235.90
	(274.16)	(237.69)	(248.35)
Seeks customer feedback	-360.43*	-218.80	-318.48
	(200.21)	(186.31)	(214.81)
Compares supplier quality	284.33	203.62	198.13

	(1) Profits (t-1)	(2) Profits (t-2)	(3) Profits (t-3)
	(199.01)	(193.83)	(181.81)
Maintains business records	200.41	199.89	171.11
	(147.20)	(140.43)	(134.33)
Has written budget	471.31***	340.95**	326.97**
	(162.03)	(145.51)	(137.35)
Total business expenditure	0.05***	0.04***	0.04***
	(0.01)	(0.01)	(0.01)
Total household expenditure	-0.00	0.01	-0.00
	(0.01)	(0.01)	(0.01)
Constant	1 072.96***	919.49***	1 162.03***
	(382.38)	(352.60)	(330.04)
R-squared	0.366	0.387	0.327
Observations	515	515	515
Robust standard errors in parentheses.			

Note: *** p<0.01, ** P<0.05, * P<0.1

Table 7b. Correlates to business profits

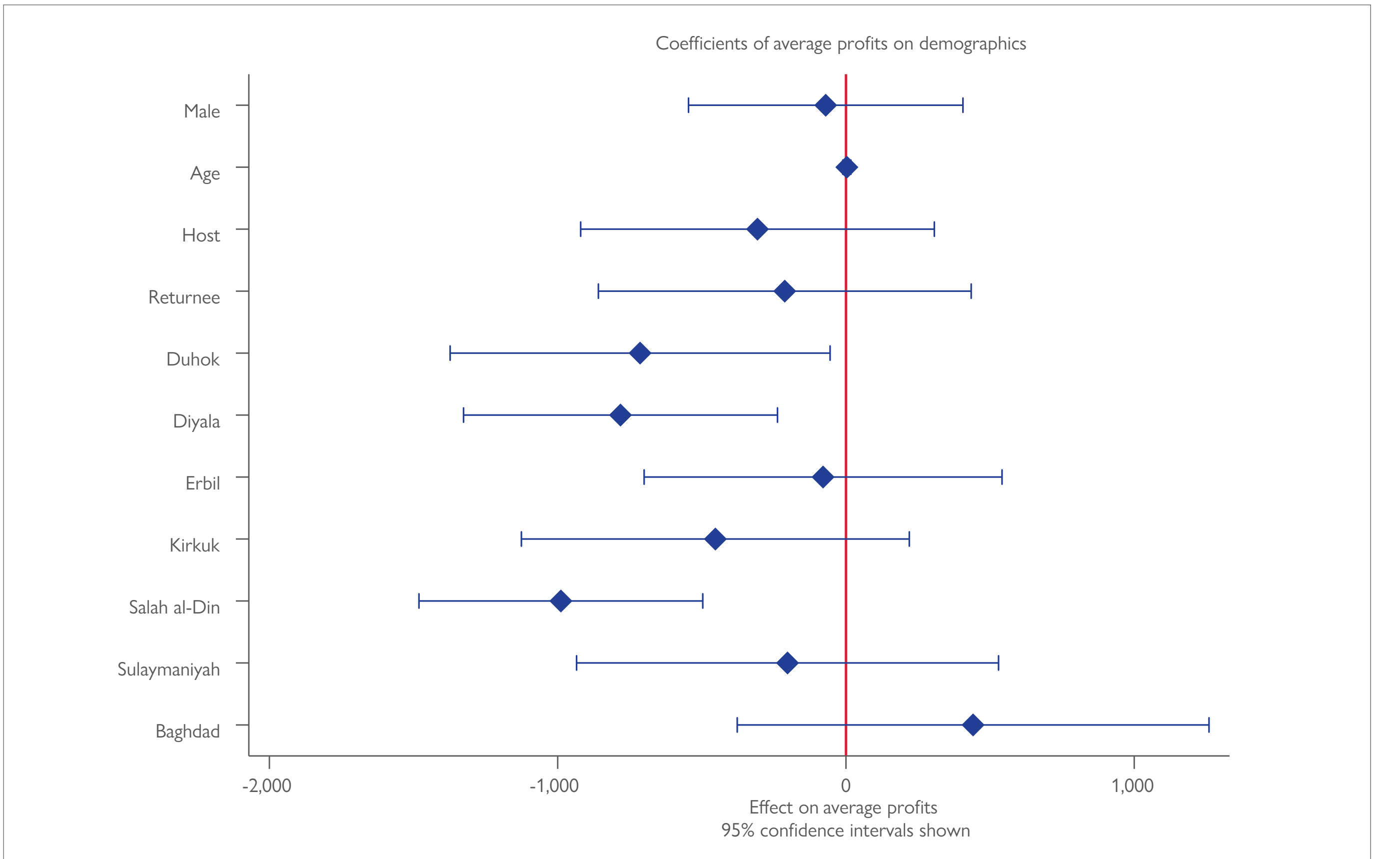
Variable	Profits t-1	Profits t-2	Profits t-3
Male	0.23***	0.24***	0.25***
Female	-0.23***	-0.24***	-0.25***
Age as of 2 025	0.12***	0.12***	0.13***
Host	0.03	0.06	0.03
Idp	0.00	0.00	-0.00
Returnee	-0.03	-0.06	-0.03
Governorate: Duhok	-0.05	-0.04	-0.04
Governorate: Diyala	-0.10**	-0.06	-0.07*
Governorate: Erbil	-0.06	-0.07	-0.06
Governorate: Kirkuk	0.10**	0.10**	0.10**
Governorate: Ninewa	0.14***	0.14***	0.12***
Governorate: Salah al-Din	-0.17***	-0.17***	-0.17***
Governorate: Sulaymaniyah	0.04	0.01	-0.02
Total employees	0.41***	0.44***	0.36***
Hours per week	0.08*	0.08*	0.06
Female employees (%)	-0.23***	-0.25***	-0.22***
Higher education (university/diploma)	0.04	0.06	0.06
Tax registration	0.23***	0.24***	0.19***
Ministry registration	0.08*	0.15***	0.09**
Cash assets	0.27***	0.30***	0.31***
Inventory value	0.38***	0.38***	0.35***
Has marketing strategy	0.01	0.02	0.01
Seeks customer feedback	-0.01	0.01	-0.01

Variable	Profits t-1	Profits t-2	Profits t-3
Compares supplier quality	0.10**	0.10**	0.09**
Maintains business records	0.13***	0.14***	0.13***
Has written budget	0.12***	0.12***	0.11**
Total business expenditure	0.56***	0.56***	0.52***
Total household expenditure	0.12***	0.18***	0.12***

Note: *** p<0.01, ** P<0.05, * P<0.1

Figure 11 shows a coefficient plot for average profits with demographic factors. Being male shows a slightly positive association with profits, though the confidence interval crosses zero, suggesting this relationship is not statistically significant. Age demonstrates a neutral association with profits, with the coefficient very close to zero. Most governorates display negative associations with profits compared to the reference governorate (Ninewa), with Salah al-Din showing the strongest negative association. Baghdad stands out with a positive coefficient, though with a wide confidence interval. Host community members and returnees show small positive coefficients relative to IDPs (the reference group), though their confidence intervals include zero, suggesting no statistically significant association between displacement status and profitability when controlling for other factors.

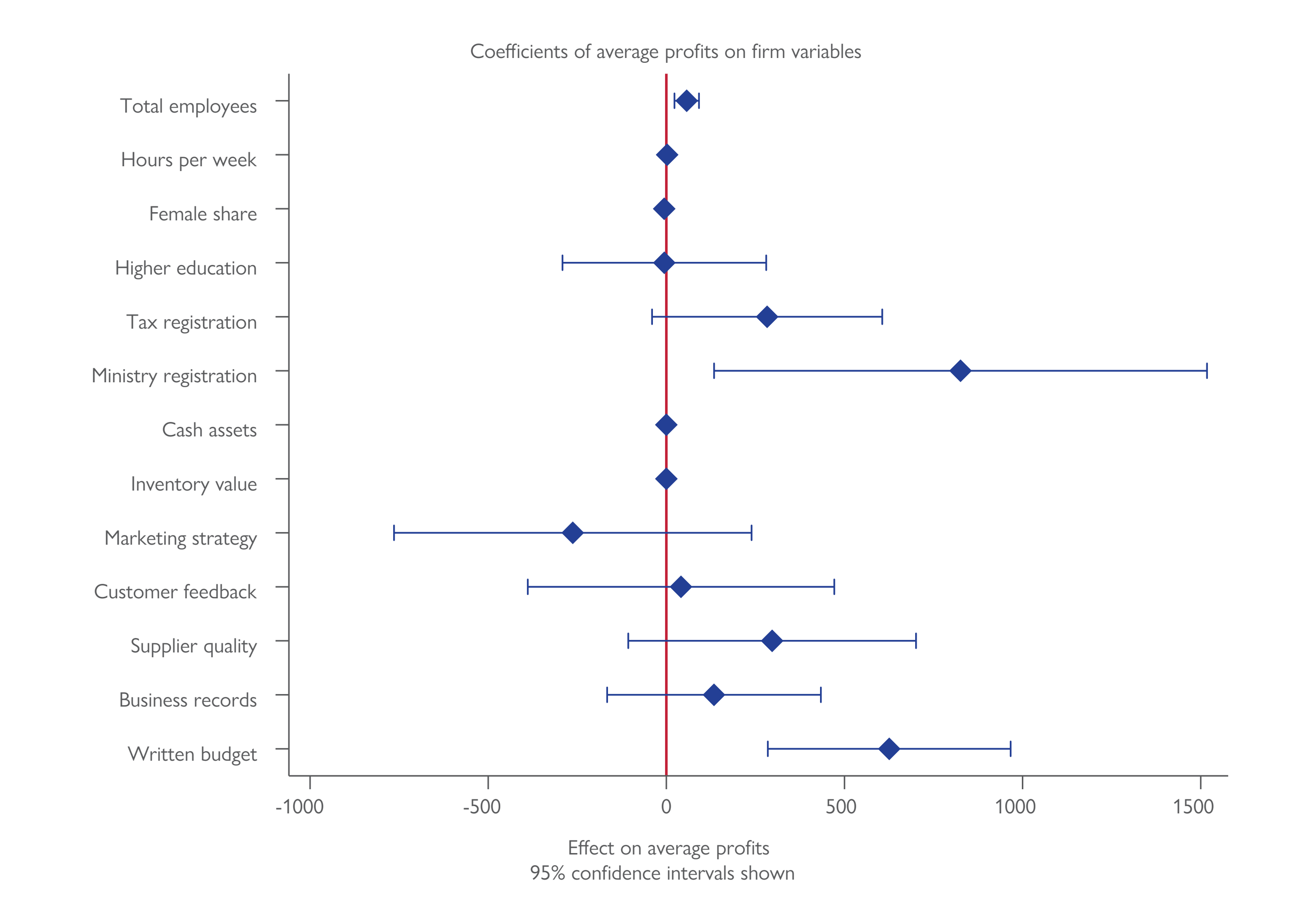
Figure 11. Demographic correlates with profits



Note: IDP is the reference group (Iraqi vs. none) for the migration status; Female is the reference for sex; Ninewa is the reference for the governorates.

Figure 12 shows a coefficient plot for average profits with firm variables. Ministry Registration demonstrates the strongest positive association on profits, with a large coefficient and confidence interval entirely above zero, suggesting that formal registration substantially enhances profitability. Written Budget and Tax Registration also show significant positive effects on profitability, reinforcing the importance of financial management and formalization. Similarly, comparing supplier quality appears beneficial for profits. Business Records maintenance shows a modest positive effect. In contrast to previous findings, Marketing Strategy now shows a negative coefficient, though the confidence interval crosses zero, indicating an inconclusive effect. Total Employees shows a small but statistically significant positive effect on profits. Female Share, Hours per Week, Higher Education, Cash Assets and Inventory Value all show minimal effects with confidence intervals centred near zero, suggesting these factors have limited direct impact on profitability when controlling for other variables.

Figure 12. Firm correlates with profits



DEMOGRAPHIC CORRELATES WITH FINANCIAL ACCESS

Figure 13a examines demographic determinants of bank account ownership. The results reveal significant regional disparities, with Sulaymaniyah and Duhok showing the strongest positive correlations with bank account ownership (confidence intervals entirely above zero), while Salah al-Din exhibits a notable negative correlation (confidence interval entirely below zero). Contrary to our previous analysis, gender disparities show that female business owners are more likely to hold bank accounts than male owners, with females showing a positive correlation and males showing a negative correlation. Host community members demonstrate a positive correlation with account ownership, while returnees show a negative correlation, suggesting that displacement status influences access to formal banking services.

Figure 14a explores demographic correlates with debt financing. The analysis reveals that businesses in Erbil and Ninewa are significantly more likely to use debt financing, with both governorates showing positive correlations with confidence intervals entirely above zero. Age shows a slight positive correlation with debt financing, suggesting that older business owners may be somewhat more likely to access credit. Migration status variables (Host, IDP and Returnee) show minimal correlation with debt financing, indicating that displacement status may not be a primary determinant of access to debt when controlling for other factors.

Figure 15a examines demographic correlates with total loan amounts. The results show that male business owners receive significantly larger loans than female owners, with males showing a positive correlation and females showing a negative correlation with loan amounts.

Duhok stands out with a strong positive correlation with larger loan amounts, while Erbil shows a negative correlation. Returnees show a slight positive correlation with loan size, though with a confidence interval that approaches zero. These findings highlight persistent gender disparities in loan access and amount, as well as regional variations that may reflect differences in financial institution presence and lending practices across governorates.

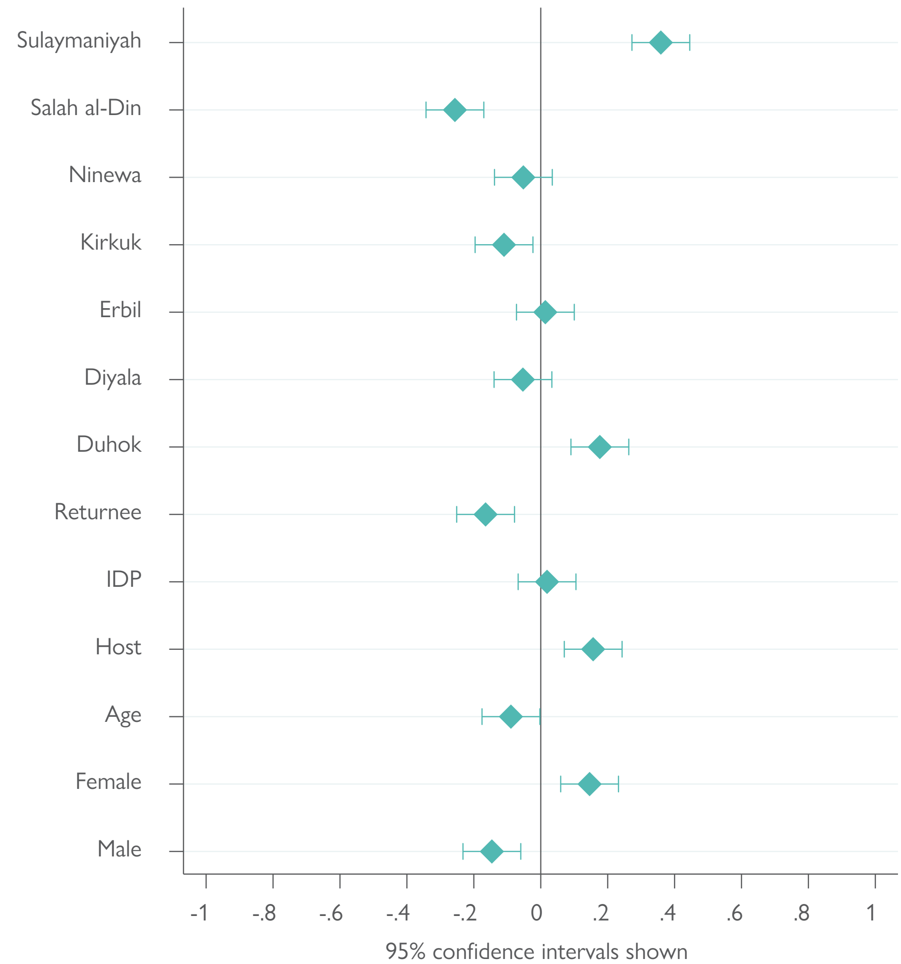
FIRM-LEVEL CORRELATES WITH FINANCIAL ACCESS

Figure 13b focuses on how firm characteristics correlate with bank account ownership. The results clearly show that higher education, tax registration and a higher share of female employees are strongly associated with bank account ownership, with confidence intervals entirely above zero. Business practices such as maintaining records, having a marketing strategy and ministry registration also show modest positive correlations. Notably, hours worked per week shows a slightly negative correlation, possibly indicating that more informal or labour-intensive businesses are less likely to engage with formal banking. These findings suggest that formalization and education are key drivers of financial inclusion through bank account ownership.

Figure 14b shows firm-level correlates with debt financing. Interestingly, maintaining a written budget demonstrates a strong negative correlation with debt financing, with the confidence interval entirely below zero. This suggests that firms with stronger financial planning may rely less on debt, potentially due to better cash flow management. Inventory value shows a slight positive correlation with debt financing, while most other business characteristics show minimal correlations. This indicates that the relationship between business practices and debt financing is complex, with firms that have stronger internal financial management potentially less reliant on external debt.

Figure 15b illustrates firm-level correlates with total loan amounts. Business expenses, inventory value and cash assets all show strong positive correlations with loan amount, with confidence intervals clearly above zero. This suggests that lenders favour businesses with higher operational scale and tangible assets when determining loan amounts. Total employees and tax registration also show positive correlations, reinforcing the importance of formalization and business size in accessing larger loans. Interestingly, ministry registration shows a slightly negative correlation, indicating that this form of formalization may be less valued by lenders compared to tax registration. These findings highlight how business scale and asset indicators serve as key determinants of loan size for SMEs in Iraq.

Figure 13a. Demographic correlates with having a bank account



Note: Figures 13 to 15 present simple pairwise correlations between demographic groups and having a bank account. All groups are included separately without using a reference group. Confidence intervals reflect sampling uncertainty.

Figure 13b. Firm correlates with having a bank account

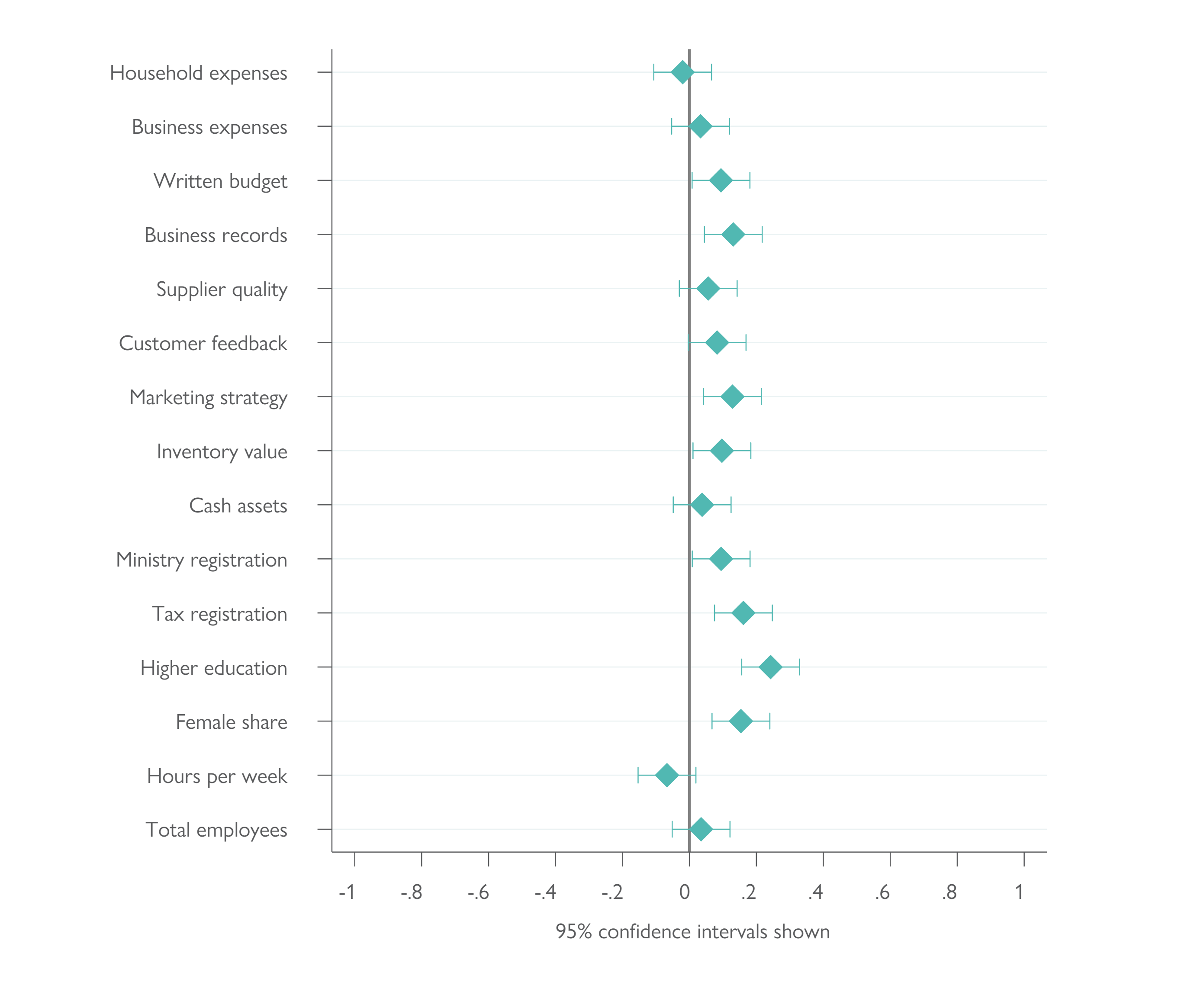


Figure 14a. Demographic correlates with debt financing

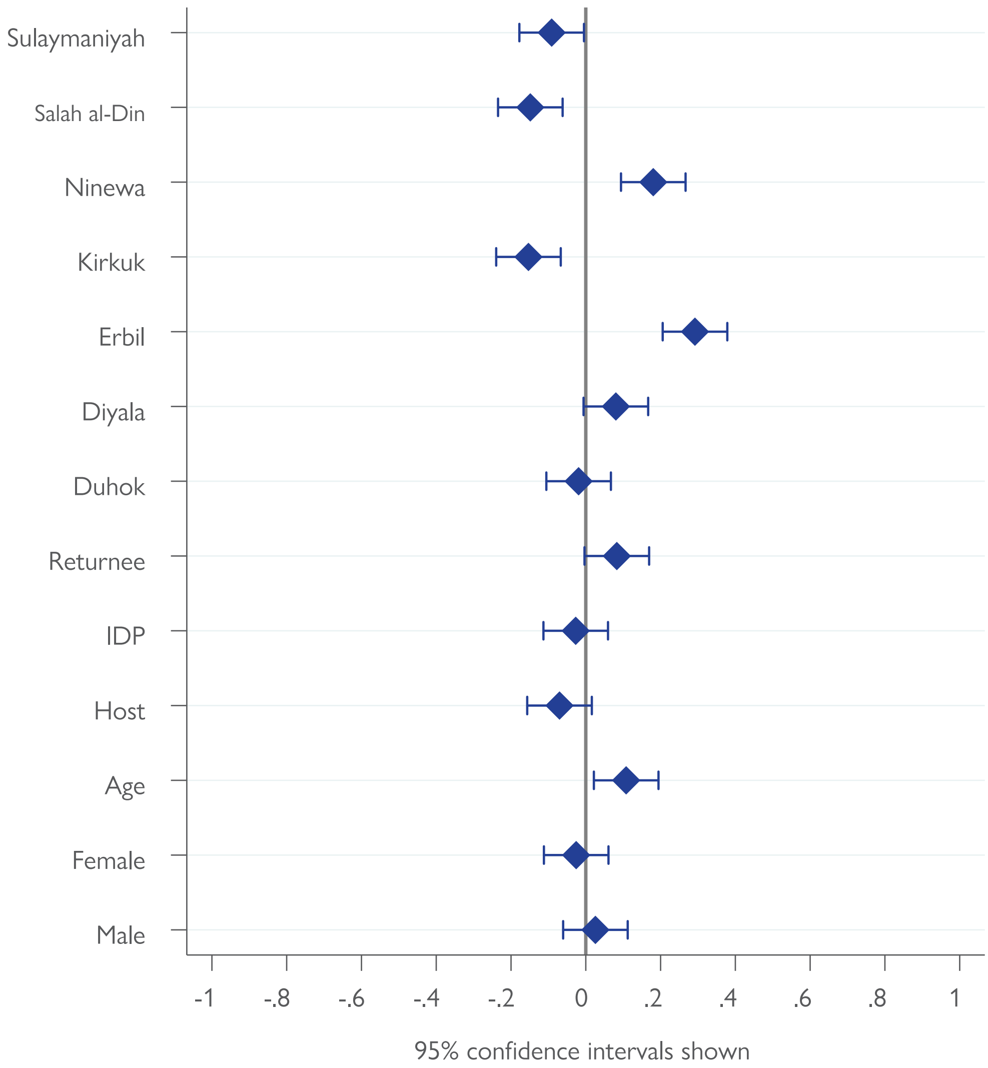


Figure 14b. Firm correlates with debt financing

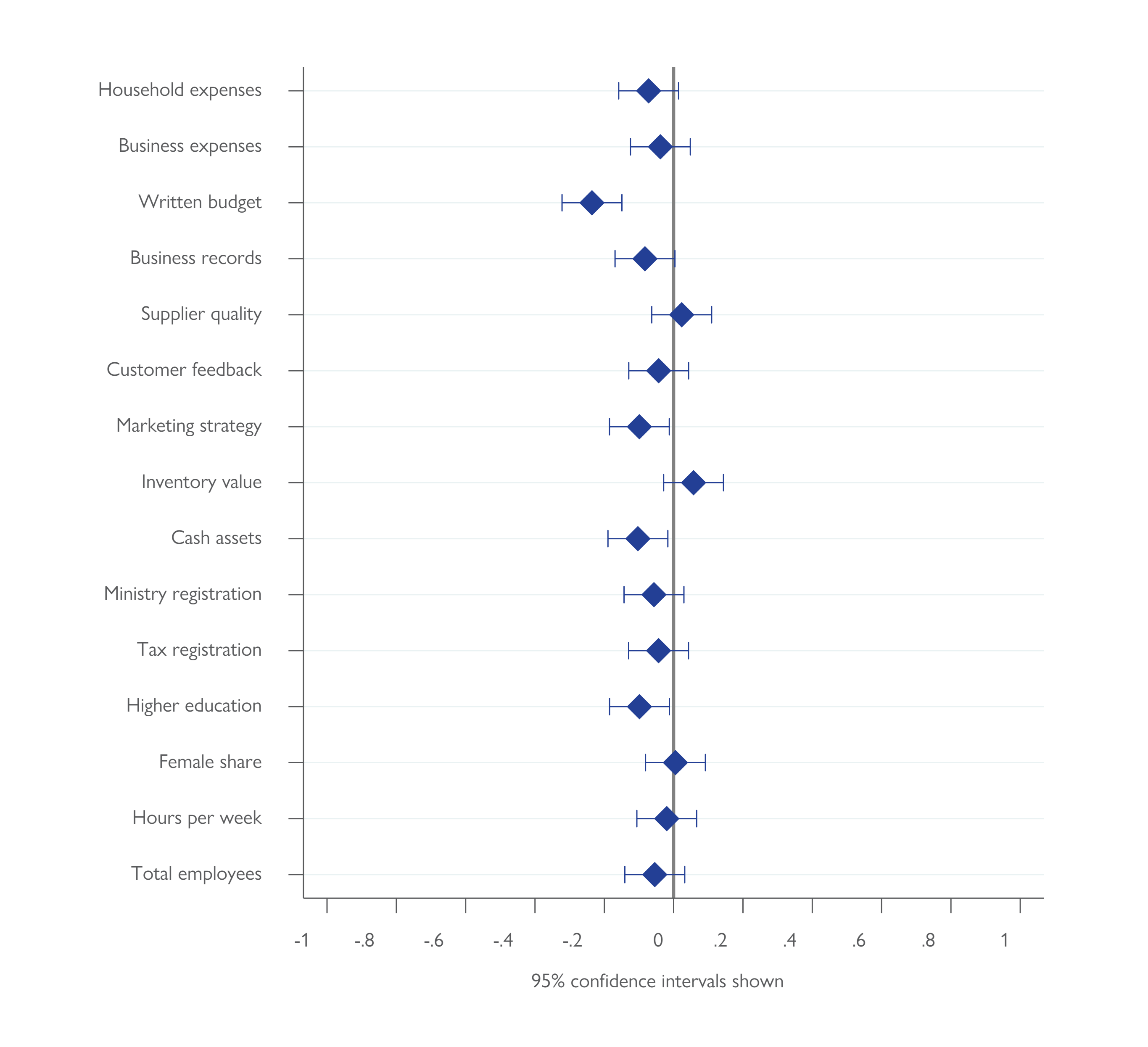


Figure 15a. Demographic correlates with total loan amount

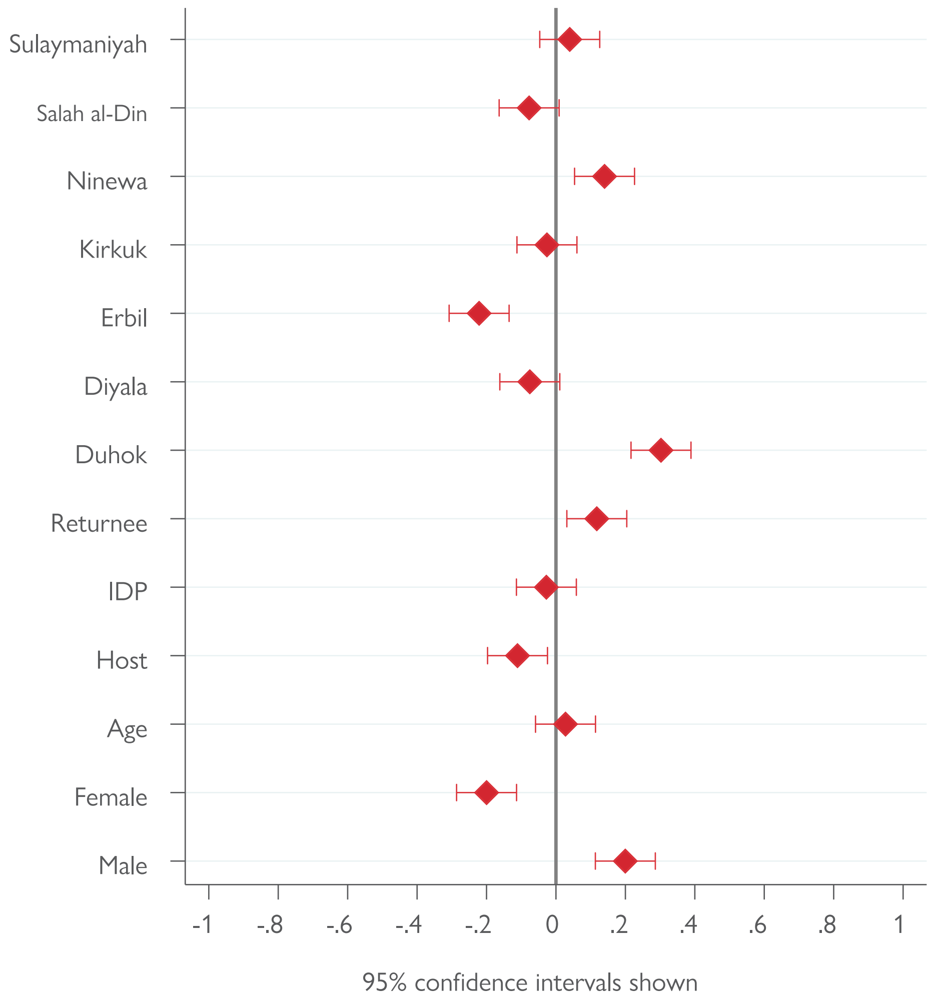
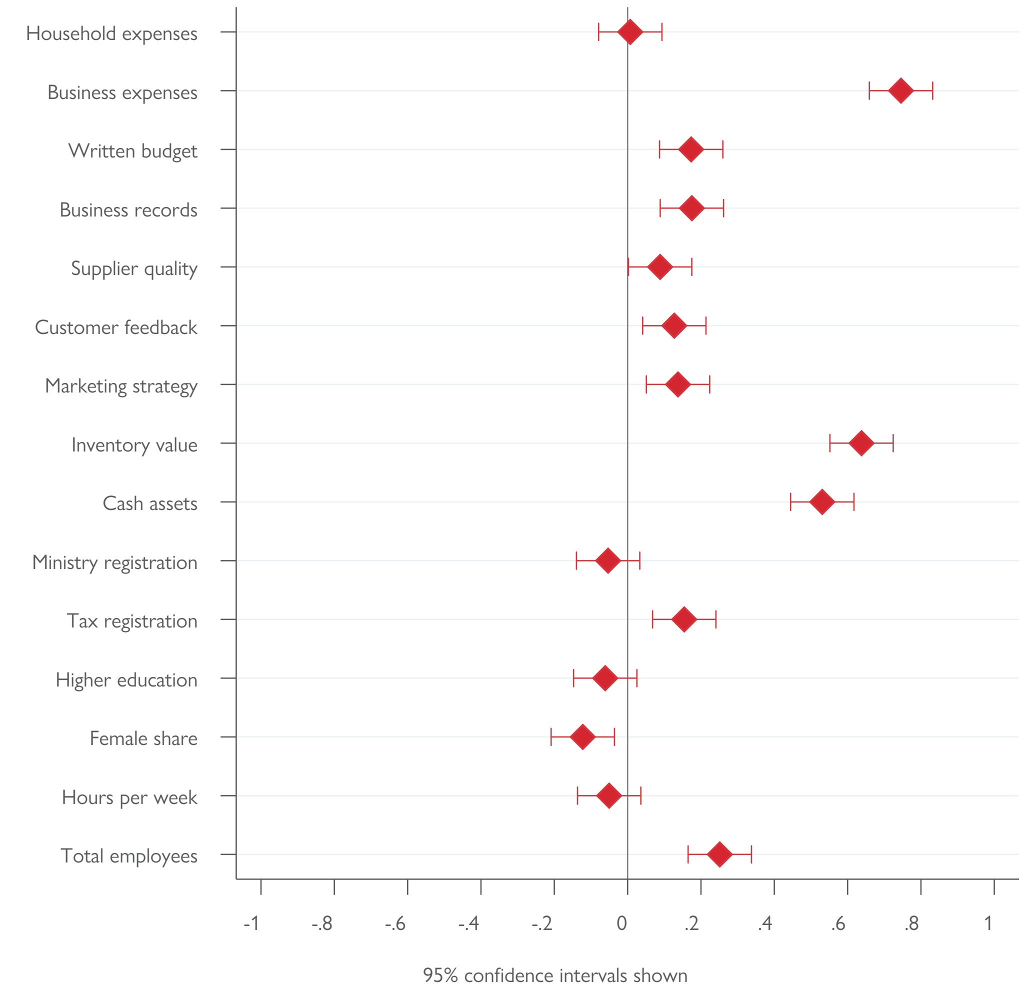


Figure 15b. Firm correlates with having a total loan amount



TRUST AND CONFIDENCE IN FINANCIAL INSTITUTIONS

Figure 16 and 10 illustrate SMEs' low confidence in financial institutions. Public commercial banks score the highest confidence rating (3.1 out of 5), while microfinance institutions and private Islamic banks lag behind at 2.6 and 2.4, respectively. Figure 17 highlights reasons for mistrust, with 24.9 per cent of firms fearing losing savings and 14.5 per cent citing procedural complexity. Transparency issues (11.2%) and other persons' bad experiences (12.2%) further erode confidence, deterring firms from engaging with formal financial systems. Fake Islamic Banks were also mentioned 13.5 per cent of the time as a reason for low confidence in banks. This may be referring to banks that are cleared as Islamic, which participants may suspect are falsely presenting themselves as sharia-compliant for commercial purposes.

Figure 16. Confidence in financial institutions

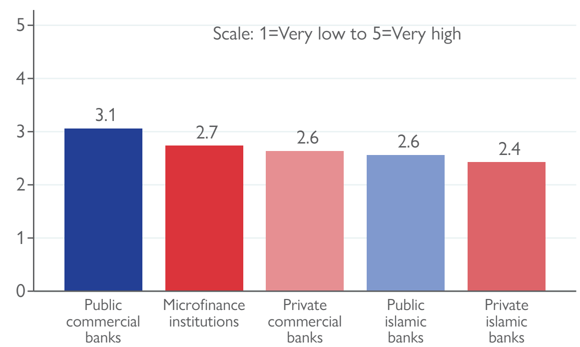
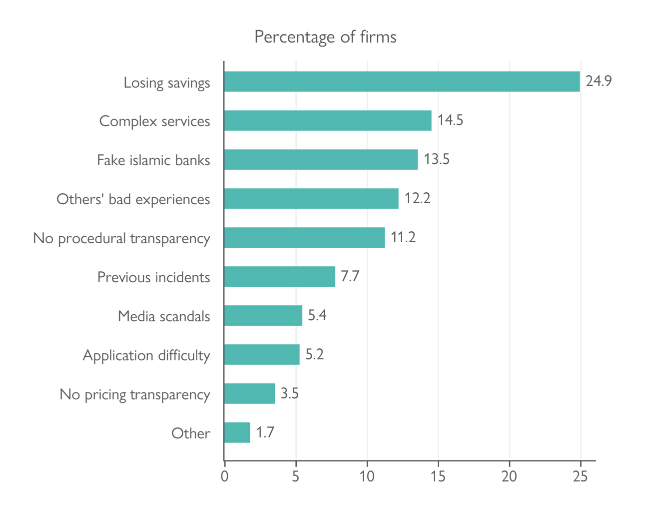


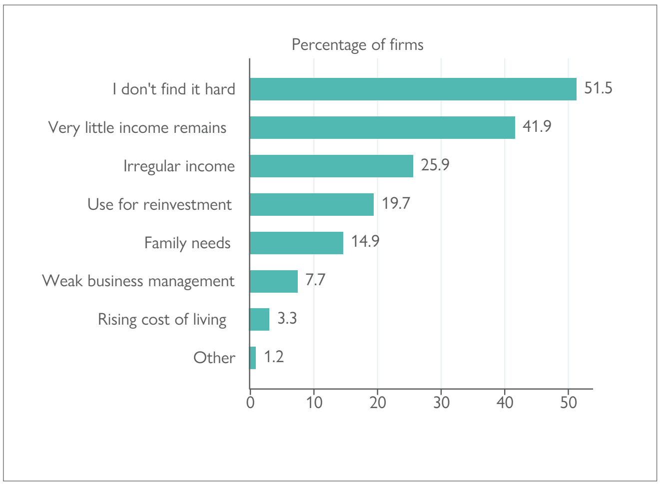
Figure 17. Reasons for low confidence in financial institutions



SAVINGS BEHAVIOUR

Figure 18 reveals the main reasons for saving difficulties. Nearly 42 per cent of firms cite insufficient income, while 25.9 per cent report irregular cash flows as barriers. Despite these challenges, 19.7 per cent of SMEs prioritize reinvestment, reflecting entrepreneurial foresight. However, competing family needs (14.9%) constrain their ability to save, emphasizing the interconnectedness of household and business finances.

Figure 18. Main reasons for saving difficulties



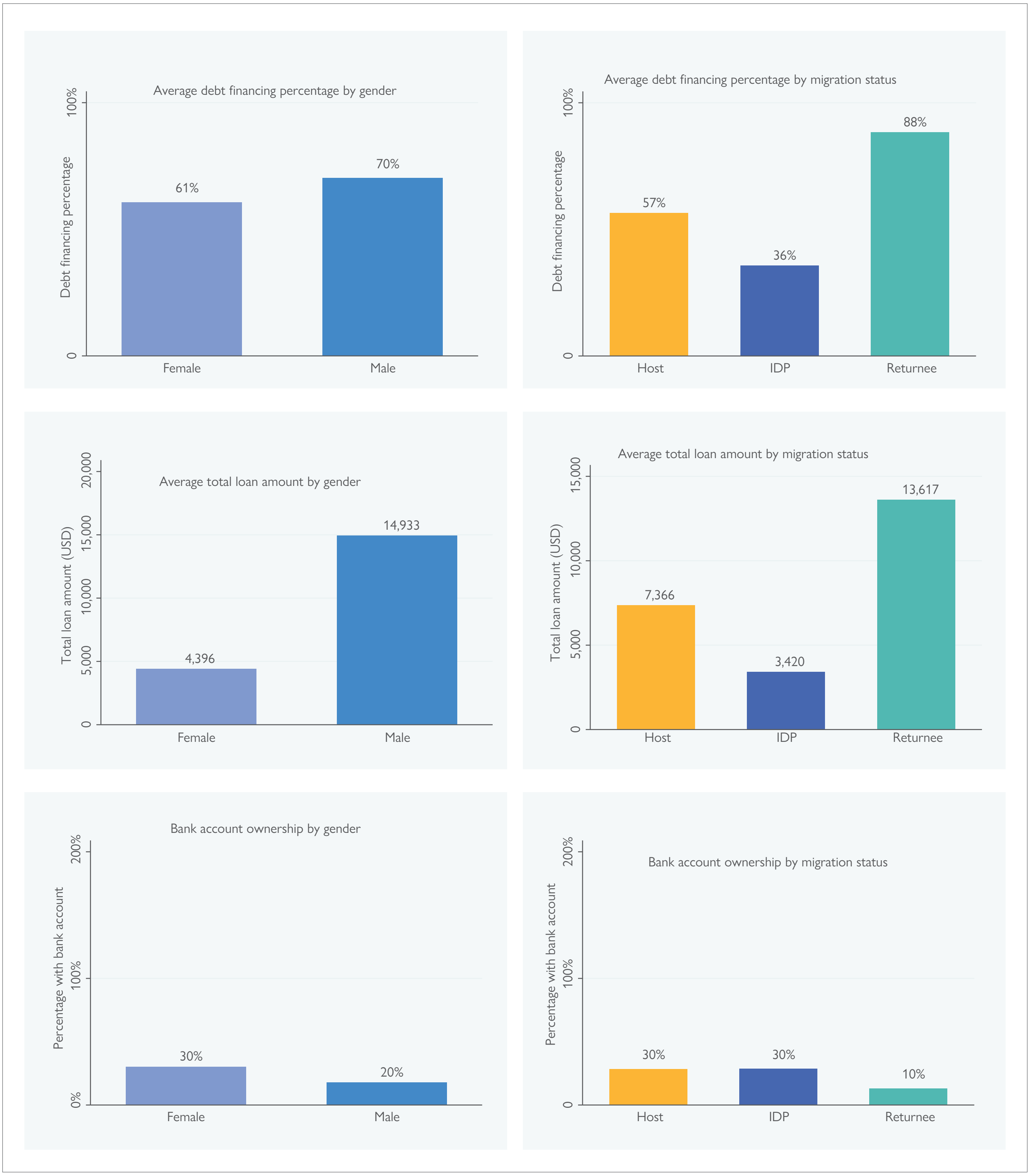
SUBGROUP ANALYSIS BY GENDER AND MIGRATION STATUS

ACCESS TO BANK ACCOUNT AND LOANS

Figure 19 shows that bank account ownership remains notably low across all demographics, highlighting significant barriers to financial inclusion. The Figures show that only 30 per cent of women and 20 per cent of men own a bank account, underscoring a gender gap in financial access. Disaggregating by migration status, internally displaced persons IDPs and host community members exhibit the highest levels of bank account ownership at 30 per cent, while returnees show significantly lower access at just 10 per cent. These disparities suggest systemic constraints that limit access to formal financial services, particularly for displaced populations and women, making it crucial to promote inclusive banking policies. Simplifying account registration procedures, increasing financial literacy programmes and expanding alternative financial services such as mobile banking could help address these challenges and improve financial access for marginalized groups.

Loan access follows a similarly uneven pattern across both migration status and gender. Returnees receive the highest average loan amount (approximately USD 13,617), followed by host community members (USD 7,366), while IDPs receive significantly lower loan amounts (USD 3,420). In terms of gender, men receive significantly larger loans, averaging USD 14,933 compared to just USD 4,396 for women, reinforcing the financial constraints women face in expanding businesses. Debt financing as a percentage of firm capital follows a similar trend: returnees rely the most on debt financing (8.9%), followed by host community members (5.7%) and IDPs (3.6%). The limited access to loans and debt financing among IDPs and women suggests deeper structural barriers, such as collateral requirements, informal lending preferences and trust deficits in financial institutions. Expanding financial access for these groups through tailored lending programmes, lower collateral requirements and dedicated SME financing initiatives could help reduce financial exclusion and foster economic participation, particularly for displaced populations and female entrepreneurs.

Figure 19. Access to borrowing indicators by sex and migration status

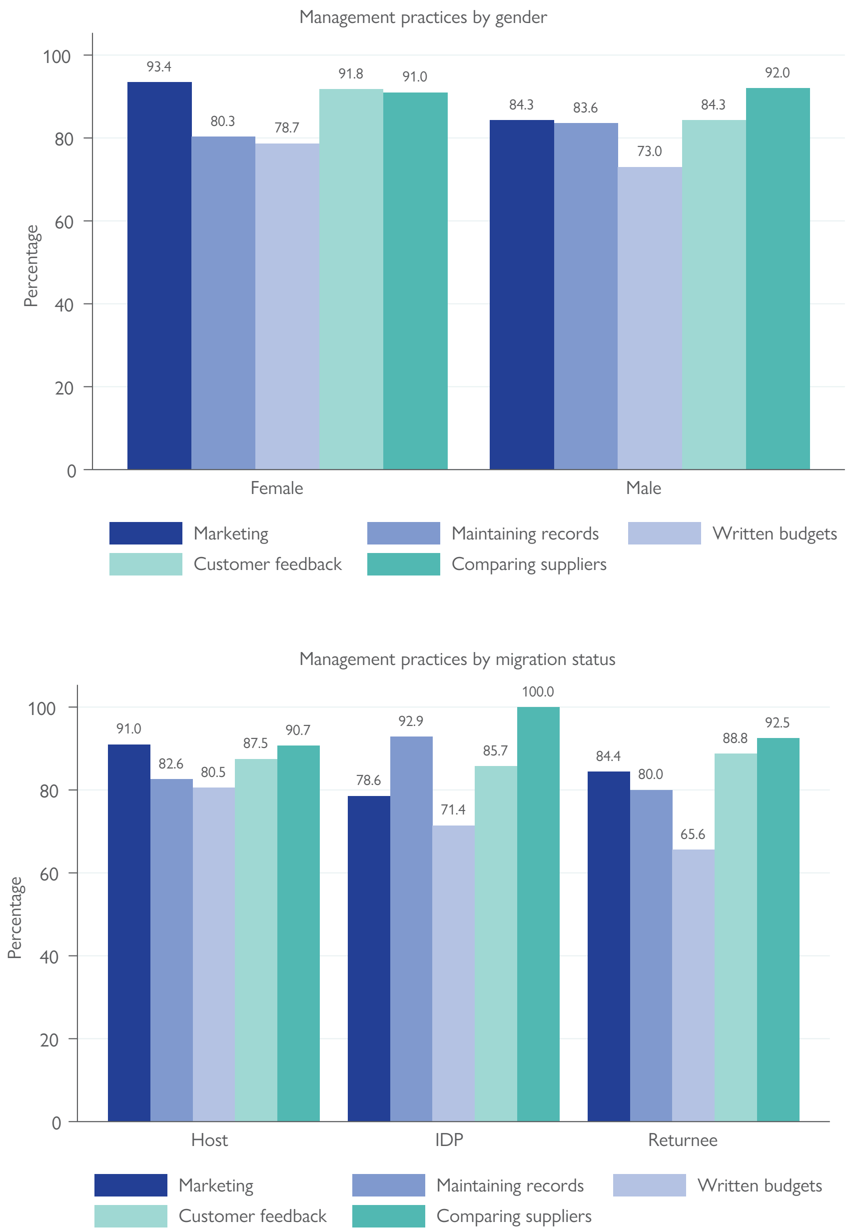


SELF-REPORTED MANAGEMENT PRACTICES BY GENDER AND MIGRATION STATUS

Figure 20 shows that business owners across all migration statuses report high levels of engagement in marketing, customer feedback and supplier comparisons. Hosts, IDPs and returnees exhibit similar levels of adherence to these practices, with marketing and customer feedback exceeding 90 per cent for most groups. However, notable differences exist in reported record-keeping and budgeting.

Returnees report the lowest rate of maintaining written budgets at 66 per cent, compared to 80.5 per cent among hosts and 71.4 per cent among IDPs. This suggests potential challenges in financial planning and formalization among returnees, which may impact their ability to access formal financing. Meanwhile, IDPs report slightly lower engagement in supplier comparisons (78.6%) and record maintenance (71.4%), highlighting potential capacity gaps in financial documentation.

Figure 20. Trust in financial institutions by sex and migration status



The high self-reported adherence to best practices among all groups may also reflect aspirational responses rather than actual business operations. Thus, while these findings suggest that most business owners recognize the importance of financial management and customer engagement, targeted interventions such as financial literacy training and incentives for record-keeping may still be necessary to ensure these practices are effectively implemented, particularly among returnees and IDPs.

The sex-disaggregated data show that female business owners self-report slightly higher adoption rates of business management practices than male owners. Women report particularly strong engagement in marketing (93.4%), customer feedback (91.0%) and maintaining records (91.8%), suggesting a structured approach to business operations. However, notable differences appear in financial planning: while 80.3 per cent of women report maintaining written budgets, this Figure drops to 73 per cent among men. This suggests that female entrepreneurs may place greater emphasis on financial planning and documentation, which could help them better navigate financial constraints.

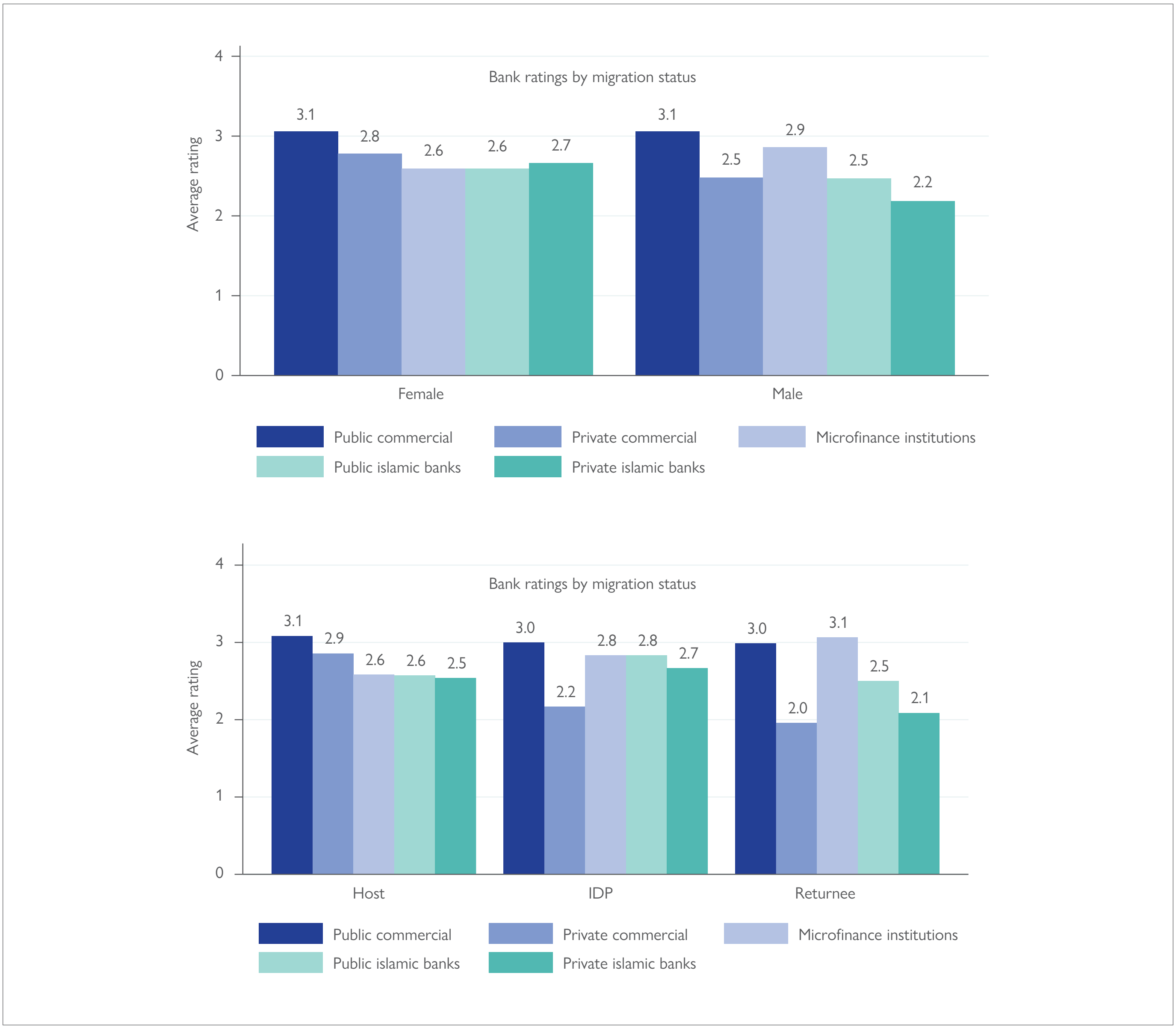
Despite this, men report slightly higher engagement in supplier comparisons (92%) than women (91%). However, the overall differences in most categories are relatively small, suggesting that while gendered approaches to business operations exist, both male and female entrepreneurs demonstrate strong management competencies. Nevertheless, given the disparities in loan access between men and women observed in earlier Figures, these self-reported business management practices may not always translate into improved financial outcomes. Addressing structural barriers such as collateral requirements and lending biases may be necessary to ensure that strong financial planning and record-keeping among female entrepreneurs translate into improved access to credit and business growth opportunities.

Overall, while the data suggest that most entrepreneurs, regardless of migration status or gender, recognize and report adopting key business management practices, self-reported responses should be interpreted with caution. The extent to which these practices are consistently applied in daily business operations remains uncertain. Strengthening financial literacy, incentivizing formalization and improving access to financial resources could help business owners, particularly returnees, IDPs and women, better leverage their management skills to achieve business sustainability and growth.

TRUST IN FINANCIAL SYSTEM

Overall, Figure 21 shows that trust in financial institutions varies significantly by migration status. Among host community members, public commercial banks receive the highest rating (3.08), followed by private commercial banks (2.86), while microfinance institutions receive the lowest trust scores (2.54). A similar trend is observed among IDPs, where public commercial banks have the highest rating (3.00), while microfinance institutions receive the lowest score (2.17). These findings suggest that public commercial banks are generally perceived as the most trustworthy financial institutions among hosts and IDPs, likely due to their long-standing presence and perceived stability, while microfinance institutions may suffer from reputational challenges, potentially linked to concerns over high interest rates or lack of accessibility.

Figure 21. Trust in financial institutions by sex and migration status



Returnees report lower levels of trust across all financial institutions compared to hosts and IDPs. Public commercial banks again receive the highest rating (3.04), but trust in other institutions is notably lower, with microfinance institutions receiving just 1.91 and private Islamic banks rated at only 2.06. This result suggests that returnees face greater skepticism toward financial institutions, potentially due to past financial exclusion or lack of familiarity with banking services. Addressing these trust deficits through outreach programmes, financial literacy initiatives and tailored financial products could be key to improving financial inclusion for returnees.

The sex-disaggregated data show that both male and female respondents report similar levels of trust across financial institutions, with public commercial banks receiving the highest rating (3.06) among both genders. However, men report slightly higher trust in private commercial banks (2.86) compared to women (2.78), while women express marginally greater trust in microfinance institutions (2.59 vs. 2.47 for men). The lowest-rated institutions for both men and women are private Islamic banks, with trust scores of 2.18 among men and 2.59 among women, highlighting a general skepticism toward private Islamic financial services. The differences between male and female respondents are not large. Overall, expanding gender-sensitive financial products and increasing transparency in loan terms could help strengthen trust and improve financial engagement, particularly for returnees who report lower confidence in financial institutions.

CONCLUSION

This report highlights several critical insights from the baseline data analysis on financial constraints faced by SMEs in Iraq, particularly within a post-conflict environment. These findings provide valuable guidance for policymakers aiming to enhance financial inclusion, stimulate economic growth and foster resilience among SMEs.

Access to formal finance remains limited for SMEs, who predominantly rely on self-financing—used by 58% of firms, with an average allocation of 39.6% of their financing mix. Only a small proportion—15% of firms in the sample—reported using any debt financing, and among those, debt accounts for an average of 6.5% of firms' financing structure. This situation underscores significant barriers to formal credit access and highlights the urgent need for tailored financial products that accommodate SMEs' realities.

The analysis also reveals substantial gender disparities in financial access, with women entrepreneurs receiving significantly smaller loans (averaging USD 4,396) compared to men (averaging USD 14,933), despite demonstrating slightly stronger financial management practices. Addressing gender biases in financing is therefore critical for equitable economic participation.

Disparities based on migration status are also evident. Returnees typically access larger loan amounts but exhibit weaker financial management practices, whereas IDPs and host communities experience even more limited access to formal financial services. Targeted interventions tailored to displacement status are necessary to address these specific barriers and ensure equitable financial inclusion. Based on our findings, these interventions should include: specialized financial literacy and business management training for returnee business owners; tailored financial products with lower collateral requirements for IDPs; community-based trust-building initiatives to address lower confidence in financial institutions among returnees; and verification systems for business eligibility that consider skills and vulnerability beyond displacement status. These measures would help prevent competition for aid between host communities and displaced populations while addressing the unique financial constraints each group faces.

Confidence in financial institutions among SMEs is notably low, particularly toward private Islamic banks and microfinance institutions, primarily due to fears of savings loss, procedural complexity and transparency issues. Restoring trust through improved communication, transparency and effective regulatory oversight is essential to increasing engagement with financial institutions.

High levels of informality further constrain SMEs, with a significant proportion (52%, most of which come from host communities) lacking formal registration. This informality limits their ability to access financial services and sustain growth. Streamlining formalization processes and providing targeted incentives could significantly enhance SMEs' operational capacities and access to finance.

Finally, SMEs face notable barriers to savings and investment, largely due to insufficient income and irregular cash flows, exacerbated by family financial responsibilities. Policy efforts should focus on creating flexible savings products, financial literacy programmes and community-based savings associations to bolster SMEs' financial resilience.

These insights highlight critical areas requiring policy intervention. Addressing these challenges through targeted, evidence-based recommendations can significantly contribute to the economic empowerment of SMEs, fostering inclusive and sustainable economic development in post-conflict Iraq.

The next steps include continuing collecting additional baseline survey data from participating firms to deepen our understanding of initial conditions. Subsequently, four waves of follow-up surveys will track the progress and outcomes of firms to assess the impacts of the implemented financial interventions. This ongoing research will provide policymakers and financial institutions with robust, evidence-based recommendations for improving SME support mechanisms and promoting sustained growth and resilience in Iraq's post-conflict economic landscape.

POLICY RECOMMENDATIONS

Our recommendations are based on the baseline data analysis and target specific constraints faced by SMEs in Iraq's post-conflict context. These recommendations aim to address both immediate financing barriers and structural challenges that limit business growth, while supporting inclusive economic development.

1. Enhance access to formal credit through tailored financial products

The baseline data reveal that only 15 per cent of firms have accessed any debt financing, and for these firms, debt accounts for an average of 6.5 per cent of their financing mix. By contrast, 58 per cent of firms rely on self-financing, allocating an average of 39.6 per cent to it. This highlights a critical gap in access to formal credit. To address this:

- Develop SME-specific lending products that account for Iraq's post-conflict realities, including cash-flow-based lending mechanisms that reduce collateral requirements.
- Establish tiered financing schemes that match business growth stages, from microfinance for early-stage ventures to larger capital injections for expansion-ready SMEs.
- Strengthen and promote existing sharia-compliant financial instruments while addressing the low trust and cost barriers that limit their adoption. Our data show that religious concerns about interest-bearing loans remain significant (with 13.5% of respondents expressing concerns about "fake Islamic banks"), suggesting that current sharia-compliant options may face trust deficits, lack of awareness or cost disadvantages compared to conventional financing.

Implementation of these measures should specifically target businesses owned by women and IDPs, who receive significantly smaller loans (women averaging USD 4,396 compared to USD 14,933 for men) despite demonstrating strong financial management practices.

2. Rebuild trust in financial institutions

With confidence in financial institutions scoring only 3.1 out of 5 for public commercial banks and as low as 2.4 for private Islamic banks, addressing trust deficits is essential:

- Improve awareness and implementation of the Central Bank of Iraq's deposit insurance framework as established under Article 63 of Banking Law No. 94 of 2 004. Although this provision mandates the creation of a deposit guarantee system to protect depositors, 24.9 per cent of respondents still cite fear of losing savings as their primary concern regarding financial institutions. This suggests either poor implementation by banks or a significant awareness gap among potential customers. Awareness campaigns and stronger enforcement of existing protections could help address this barrier to financial inclusion.
- Simplify banking procedures and improve transparency to counter the 14.5 per cent of respondents citing procedural complexity.
- Develop authentication systems for Islamic financial institutions to address concerns about "fake Islamic banks" (mentioned by 13.5% of respondents).
- Create educational campaigns that clearly explain banking services, fees and customer rights.

3. Promote business formalization and strengthen financial management

Our analysis shows that 52 per cent of firms lack formal registration and only 32 per cent are tax-registered, while firms with written budgets and formal registration demonstrate higher profitability:

- Create streamlined one-stop registration processes for business and tax formalization.
- Implement graduated formalization incentives tied to access to grants, training and formal credit.
- Develop targeted financial literacy programs focusing on budget creation, record-keeping and inventory management.
- Establish business service centers in underserved regions to support documentation and compliance.

4. Address gender disparities in business financing and employment

Women-owned businesses receive significantly smaller loans despite showing higher adoption rates of business management practices, while female employees represent only 46.2 per cent of the workforce, in our current sample so far:

- Expand the EDF-Women (EDF-W) initiative with increased capital allocations and tailored business support services.
- Establish gender-responsive financing mechanisms with simplified application processes and adjusted collateral requirements.
- Create mentorship networks and skills training specifically designed for female entrepreneurs.
- Introduce incentives for businesses that increase female employment through targeted wage subsidies or tax benefits.

These interventions recognize that female-owned businesses employ significantly more women (4:1 female-to-male ratio compared to 1:8 in male-owned businesses), making them crucial channels for expanding female workforce participation.

5. Develop tailored support for displaced and returnee entrepreneurs

Our analysis shows significant disparities in financial access among different migration statuses, with returnees receiving higher average loans (USD 13,617) but demonstrating lower financial management practices:

- Continue to implement targeted financial literacy and business management training for returnee business owners.
- Create specialized financing products for IDPs who receive significantly lower loan amounts (USD 3,420).
- Establish community-based trust-building initiatives to address lower confidence in financial institutions among returnees.
- Continue to develop verification systems for business eligibility based on skills and vulnerability besides displacement status.

These measures should help prevent competition for aid between host communities and displaced populations while addressing specific financial constraints.

6. Foster savings and investment capacity

Nearly 42 per cent of firms cite insufficient income and 25.9 per cent report irregular cash flows as barriers to saving, limiting their financial resilience:

- Create flexible savings products tailored to irregular business cash flows.
- Establish matched savings programs that incentivize business reinvestment.
- Develop community-based savings and credit associations to provide flexible financial support.
- Implement financial education on balancing business reinvestment and household needs.
- These initiatives should particularly target regions where household financial constraints most severely impact business investment capacity.

7. Support operational efficiency through sustainable business practices

The data reveal inefficiencies in cost management, with profits not increasing proportionally with sales:

- Provide targeted technical assistance in financial planning, cost control and operational optimization.
- Develop sector-specific efficiency benchmarking tools to help businesses identify cost-saving opportunities.

By implementing these integrated recommendations, policymakers can strengthen the SME ecosystem, foster inclusive economic growth and contribute to sustainable recovery in Iraq's post-conflict environment.

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* All hyperlinks were working at the time of writing this report.

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