

BAGHDAD EMERGING MARKETS: OPPORTUNITIES AND CHALLENGES

A Market Assessment of Baghdad City

IOM Iraq – November 2019

Table of Contents

<i>SUMMARY</i>	4
<i>INTRODUCTION</i>	6
Methodology.....	6
Geographical Area Selection and Selection of Participants	6
Limitations	8
<i>BACKGROUND</i>	9
<i>FINDINGS</i>	9
1) The Extent of Damage Suffered by Small and Medium Enterprises	9
2) Market Failures That Can Be Addressed Through Matching Grants or Business Developments	11
2.1) <i>Market Systems and Particular Disruptions</i>	14
3) Opportunities for Employment Creation.....	17
4) Potential for Market Distortion	18
<i>CONCLUSIONS</i>	20
<i>ANNEX 1: RECOMMENDATIONS FROM THE MARKET ASSESSMENT</i>	21
<i>ANNEX 2: MARKET ASSESSMENT PLAN</i>	22
Market Assessment Plan.....	22
<i>ANNEX 3: SURVEYING TOOLS</i>	25

IOM DISCLAIMER

The opinions expressed in the report are those of the authors and do not necessarily reflect the views of the International Organization for Migration (IOM). The designations employed and the presentation of material throughout the report do not imply the expression of any opinion whatsoever on the part of IOM concerning the legal status of any country, territory, city or area, or of its authorities, or concerning its frontiers or boundaries.

IOM is committed to the principle that humane and orderly migration benefits migrants and society. As an intergovernmental organization, IOM acts with its partners in the international community to: assist in meeting the operational challenges of migration; advance understanding of migration issues; encourage social and economic development through migration; and uphold the human dignity and well-being of migrants.

Contact: For more information on the Returns and Recovery Unit (RRU) programme and current activities taking place in Baghdad, please contact: iraqpublicinfo@iom.int

Main Office in Baghdad
UNAMI Compound DIWAN 2
International Zone, Baghdad, Iraq.
Tel: +3908 3105 2600 ext. 5857/5928
E-mail: iraqpublicinfo@iom.int

SUMMARY

Despite the fact that fighting against ISIS did not occur in Baghdad, the governorate was affected by the crisis from 2014 to 2017, which slowed down some businesses. Displacement remains high in Baghdad with more than 55,000 IDPs recorded at present. The Enterprise Development Fund (EDF) rolled out by IOM in many governorates of Iraq prioritizes businesses that can potentially create job opportunities and contribute to community stabilization. The market assessments are conducted in order to understand the following:

- The extent of damage suffered by small and medium enterprises impacted by the conflict between 2014 and 2017;
- Market failures that can be addressed through matching grants or business development support;
- Businesses that would create additional employment opportunities if supported;
- Potentials for market distortion due to the introduction of cash.

KEY FINDINGS

Which small and medium enterprises suffered due to the conflict?

- Seventy-six percent of employers reported that their work was negatively affected by the events from 2014 to 2017 where 18% praised it for the profitable work. No pattern could be identified for any specific sector.
- The remaining, who reported no major changes during 2014 and 2017, included the metal sector (6), general trade (5), technology (1), services (1), food (1), manufacturing (3), and the textile (1) sectors.
- Sectors reported as major employers before the crisis mostly recovered (at least 50 to 75% of the businesses) where those reported as not being affected at all by some key informant interviews (though some others reported these as being affected) included agricultural, construction, food, tailoring and beauty related businesses.

What market failures can be addressed through matching grants or business development support?

- Good demand seems to be present in most of the sectors where the textile and automotive experienced poor demand, though only 1 employer was surveyed. Also, in the construction sector, only 2 were surveyed where 1 experienced good and the other bad demand and therefore conclusions could not be drawn.
- Linear modeling showed positive (but not significant) relationships between self-reported good demand and food processing, prepared food, metal, and the agricultural sectors in Baghdad.
- When asked specifically about the 'fixes' required to strengthen their ability to conduct business, the measures suggested by employers include loans and grants, and other issues related to structural changes, such as electricity supply, policies protecting the local products, quality control of materials, lower taxes, transparent and faster custom procedures, and lower prices of raw materials.

What cash grants could create the need for additional labor?

- On average, employers reported their workforce as 22% comprised of their own relatives. Thirty-seven percent reported not having any relatives among their employees. Overall, hiring of relatives is fairly low in Baghdad in comparison to many other governorates surveyed, which is promising for attitudes, which could be considered open to external hiring.
- When asked what would they do if supported by a grant between USD 5,000 and 25,000 32% of employers mentioned hiring new workers (in an open-ended question) and these belonged to the following sectors: carpentry (7), food, general trade, metal, and manufacturing (6, respectively), and construction (1).
- The sectors currently underdeveloped with potential for growth as reported by key informants include agriculture, construction, and manufacturing, followed by food, and metal.
- Overall, recruitment appears to some extent difficult. A third of employers reported some difficulties in finding qualified employees, which points to some needs in terms of vocational training.

What cash grants could create market distortions?

- Key informants mentioned the sectors that were considered oversaturated, which included: vegetable sellers, green houses, malls, supermarkets and trade in general, restaurants, and mobile maintenance, taxi driving, transportation, and salons.
- Low demand appears limited, which again highlights that most sectors surveyed could be considered eligible for grant matching.
- Investors already support construction in general, quarries, cement, residential complexes, malls, agriculture, education, food, health, the oil sector and handicrafts.

INTRODUCTION

The economy of Baghdad was affected by the crisis from 2014 to 2017 despite the fact that fighting did not occur in the city. The majority of businesses slowed down like in other areas of Iraq. Displacement remains high with more than 55,000 individuals recorded by IOM at present¹. While the war on ISIS ended, at least officially, new challenges await Iraq and specifically the capital, which was engulfed by a series of protests since October 2019 demanding jobs and other major structural changes.

As a complement to individual livelihood programming, IOM is implementing a grant mechanism to aid recovery and reconstruction following the retaking of areas of the country from ISIL and support stabilization. IOM is rolling out the grant mechanism in multiple locations of Iraq. The fund prioritizes businesses that can potentially create job opportunities and contribute to community stabilization. Support to the private sector through grants is an approach that is growing in scope and recognition.

Methodology

In order to inform programming, IOM has undertaken this market assessment, which aims to determine the demand for goods and services within various sectors, the actual comparable competitiveness of businesses, the variant impact of conflict on different sectors, and the challenges businesses are facing. The latter is based on the common assumption that the injection of cash into a market can contribute to a raise in demand and production. The main objective of the research was to capture:

Which small and medium enterprises have suffered from market failures due to the conflict, that, if addressed through matching grants and business development service, could create the need for additional labor, without market distortion?

A series of research questions were designed, segmenting the market into three different respondent groups:

Key Informants (KI) were identified in coordination with IOM and partner staff, and included representatives from industrial sectors, the Ministry of Labor and Social Affairs (MoLSA), and the Chamber of Commerce. To assist with this process, interviewers were given interview guides that included an introduction letter, an information sheet, a consent form, and a list of questions.

Employer Survey respondents were identified through community mapping exercises and referrals. To assist with this process, interviewers were given interview guides that included an introduction letter, an information sheet, a consent form and a survey guide.

Focus Group Discussion (FGD) participants included individuals from the construction and food sectors. To assist with this process, interviewers were given focus group discussion guides that included an introduction letter, an information sheet, a consent form and a focus group discussion guide.

Geographical Area Selection and Selection of Participants

Key Informant Interviews (KII) were conducted with participants belonging to different sectors and different governmental departments in Baghdad, including MoLSA (2), the Iraqi Federation of Industries (1), Iraq Company for Financing SME, the Iraq Private Banks League, Federation of Iraq Chambers of Commerce,

¹ IOM, DTM Dataset, August 2019.

Agricultural Department in Al-Soufiya, and with a manager of a private international bank. In total, 9 interviews were conducted. FGDs were also conducted with employers belonging to different sectors, including the food, construction, and manufacturing sector. The exact number of participants is not known.

Sampling guidelines provided targets for the number of employers to survey from each industry in Baghdad. Surveys with employers were conducted in different locations of Baghdad. See the Map below for information on the locations surveyed. In total, 104 employers were surveyed where among these only one was female. The sectors and the respective description of the businesses as provided by employers include the following:

Sectors	Number	Percentage
Automotive	1	1%
Tuning workshop		
Carpentry	17	16%
Carpentry, furniture, wooden doors, carpentry and CNC		
Construction	2	2%
Construction, gypsum factory		
Food	15	14%
Bakery, canning rice and tea, pickles, frozen food, sweets and pastries, pre-made food		
General trade	15	14%
Electronics, house appliances, iron supplier, kids clothing retailer, tools retailer, pumps and generators distributor, iron supplier, agriculture supplier, gifts and toys, bicycles, selling honey and beekeeping material, selling machinery, tools for cars,		
Manufacturing	26	25%
Aluminum kitchen industry, cutting metal and making furniture, ceramics, medical equipment, glasses, kitchens, tanks, shutter doors, metal curtains, irrigation water pipes, sewage pipes, nylon and second ceilings, tiles, packing boxes, plastic, PVC, marble, pavements, truck parts, truck excavators		
Metal	19	18%
Welding and CNC, aluminum factories and workshops, BRC production factory, blacksmith, silencers for generators, CNC metal and decoration, bending and cutting iron and all type of metal furniture		
Services	5	5%
Marketing, IT and internet provider, printing, tailoring, computer maintenance and selling hardware		
Technology	2	2%
Information technology, including hardware		
Textile	1	1%
Clothing factory		
Total	104	100%

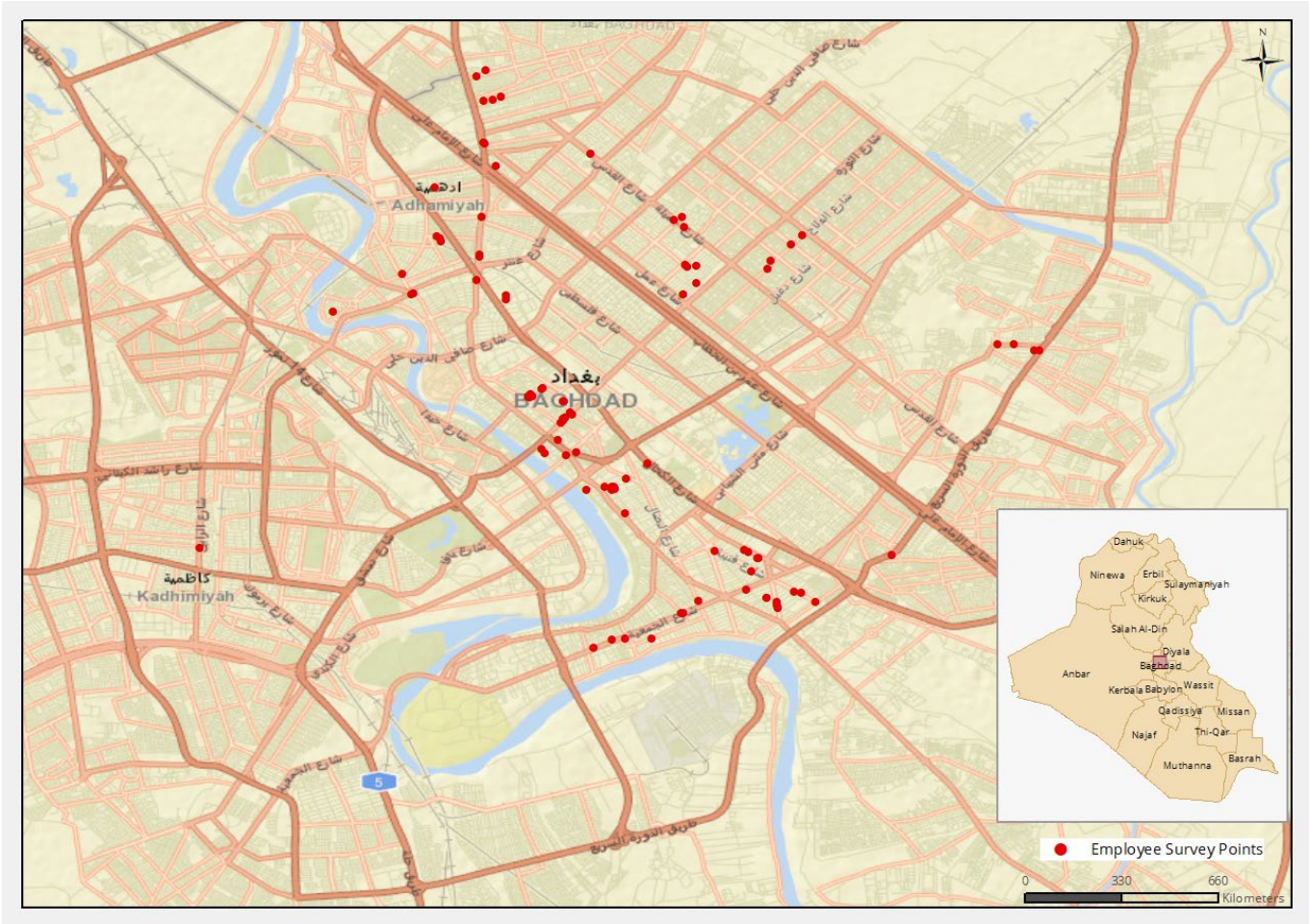


Figure 1: Map of Employers Surveyed in Baghdad

All surveying tools are annexed to this report. Occasionally, manual data entry was used at the time of surveys, but all data from KIIs and Employer Surveys were eventually entered into Online Data Kit tools.

Limitations

Only 1 female employer was surveyed for the present assessment. She did not report any major issues if compared to the male employers, her business was overall performing well also. Though drawing any conclusions based on one respondent is indeed problematic.

BACKGROUND

Baghdad city is the capital of Iraq and includes the districts of Adhamia, Karkh, Karadah, Kadhimia, Al-Mansour, Sadr City, Al-Rashid, Al-Resafa and 9 Nissan. Overall, according to the last estimates (despite these being contested), over 6 million people reside in Baghdad.² Baghdad saw heavy fighting during the 2003 US-led invasion, which further contributed to the deterioration of the city infrastructure already suffering from the UN-imposed sanctions. Acts of looting and crime were rampant during the first months of the American occupation. Baghdad had been one of the cities with a mixed population of Sunni and Shia Muslims, and became one of the major battlegrounds in the sectarian strife that engulfed Iraq between 2006 and 2007.³ As of 2007, Baghdad became a mostly Shiite population city where Shia Arab Iraqis outnumber the Sunni Arabs by 4 to 1.⁴ There are also 200,000 Christian residing in Baghdad.⁵ Displacement in Baghdad remains high as more than 50,000 individuals were recorded as of August 2019, with the highest number residing in Karkh and Adhamia followed by Al-Resafa and Kadhimia.⁶

Baghdad city is Iraq's main economic hub. The city is the center for commerce, banking and the financial sector, and is a crucial location for the petroleum industry. The governorate's eastern Baghdad oil field is Iraq's largest proven reserve of crude oil. Other industries like leather, cement and tobacco are also found in the governorate. Baghdad is well connected to other parts of the country by both road and rail, and is home to the Baghdad International Airport, one of the most important airports in Iraq.⁷

Only 2.8 % of the governorate's population lived under the national poverty line of USD 2.5 a day, compared to 11.5% nationwide based on data from 2015. The unemployment rate of 9.7% was also lower than Iraq's average unemployment rate of 11.3%, but it should be noted that large numbers of urban youth are without a job.⁸ Considering the economic stagnation due to the war fought against ISIS, these likely represent vast underestimates. In fact, the high unemployment rates still persisting today sparked a series of protests in Baghdad (and across Iraq) in October 2019 calling for better job opportunities among other changes.

FINDINGS

1) The Extent of Damage Suffered by Small and Medium Enterprises

Seventy-six percent of employers reported that their work was negatively affected by the events from 2014 to 2017, although 18% praised the period for profitable work (and the remaining provided unclear answers).

² Estimates of total population differ substantially. The CIA World Factbook estimated the 2018 population of Baghdad at 6,643,000. The [Encyclopedia Britannica](#) estimated the 2005 population at 5,904,000; the [2006 Lancet Report](#) states a population of 7,216,050; Mongabay gives a figure of 6,492,200 as of 2002.

³ NCCI, Baghdad Governorate Profile, 2015,

https://www.ncciraq.org/images/infobygov/NCCI_Baghdad_Governorate_Profile.pdf

⁴ Michael Izady, Baghdad Ethnic Composition, 2015, g.png"

http://gulf2000.columbia.edu/images/maps/Baghdad_Ethnic_2015_Ig.png; As of 2015, around half million Sunnis settled in Baghdad, mostly Sunni neighborhoods Manur (Umm Al-Qura in particular) and Saadiya and Alam in Al-Rasheed district but also re-Sunnizing some of the neighborhoods from which they have been expelled in the 2006/7 Civil War. At the same time, over 200,000 Christians have settled in Baghdad after escaping the ISIS terror. The latter slowed down the Shiafication of Baghdad but not its reversal.

⁵ DFAT, Iraq Country Information Report, 2017.

⁶ IOM, DTM Dataset, August 2019.

⁷ NCCI, Baghdad Governorate Profile

⁸ NCCI, Baghdad Governorate Profile

The effect was felt in more or less all sectors also. Those, who reported no major changes during 2014 to 2017 (or even higher profits, as some mentioned starting to trade with the Northern provinces for example), included the metal sector (6), general trade (5), technology (1), services (1), food (1), manufacturing (3), and the textile (1) sectors. Sectors reported as major employers before the crisis mostly recovered (at least 50 to 75% of the businesses) where those reported as not being affected by some KIs (though some others reported these as being affected) include agriculture, construction, food, and tailoring and beauty salons. See Table 1.1 for details.

Table 1.1: Sectors reported by KIs as major employers before the crisis, as barely recovering, as recovering (50 to 75% of businesses) and those, which were not affected by the crisis

Sector	Number of KIs, who reported the specified sector as being a <u>major employer</u> before the crisis	<u>Few</u> businesses (5 to 10%) recovering	<u>Many</u> businesses recovering (50% to 75%) as mentioned by KIs	<u>Not affected</u> as mentioned by KIs
Agriculture	6 (farming, livestock, fisheries, poultry, agricultural processing)	2 (livestock, fisheries, poultry and agricultural processing)	2 (in general, fish, poultry, cattle breeding)	1
Construction	4 (in general, quarrying)	1 (quarries)	1	2
Carpentry	1	NA	1	NA
Food	4	1	1	2
Hospitality	1 (cafes and restaurants)	NA	1 (cafes and restaurants)	NA
General trade	1	NA	1	NA
Manufacturing	2 (mechanical industry,	NA	2 (mechanical industry,	NA
Metal	1 (aluminum, smithery)	NA	1 (aluminum, smithery)	NA
Services	2 (tailoring, beauty salons, transportation)	NA	1 (transportation)	2 (tailoring, beauty salons)

Employers were asked to describe the current status of their business, and only 10% reported their business as not being profitable/losing money (10%), while a majority claimed to be profitable or successful, although not enough to grow further (59%). The construction, chemical, automotive, and food sectors represent the strongest sectors though many others scored well too. The data need to be interpreted with caution as in some cases only 1 or 2 employers were surveyed. Other sectors were more numerous in terms of sampling and overall many reported being profitable (to various degrees). See Table 1.2 for details.

Table 1.2: Businesses mentioned as being to some extent successful but not to grow any further and those mentioned as being successful and expanding based on the survey administered to employers

Sector	Services	Food	Metal	Manufacturing	Carpentry	Trade	Technology	Construction
Profitable/successful,	5 (announc	9 (sweets,	9 (aluminu	18 (doors,	11	8 (toys, house		1

but not enough to grow further (numbers)	ements industry, IT and internet provide, printing, tailoring, computer maintenance)	pickles, frozen food)	m, blacksmith)	kitchen, tanks, curtain, PVC, pipes, packing boxes, tiles, glass, etc.)		appliance s, pumps, generator s, equipmen t and tools, agricultur al supplies, honey)		
Very profitable/successful, it is expanding (numbers)		4 (sweets, ready food, frozen food)	3 (metal, aluminum)			1 (children's clothing)	1	
Number of currently profitable businesses	5	13	14	18	11	9	1	1
Percentage within sector	100%	87%	70%	69%	65%	60%	50%	50%

2) Market Failures That Can Be Addressed Through Matching Grants or Business Developments

More than two thirds of employers (70%) reported various degrees of 'good demand' for their products/services. These are outlined in Table 2.1. The remaining reported various degrees of dissatisfaction with the current demand or not good nor bad in some cases. Good demand seems to be present in most of the sectors where textile and automotive experienced poor demand, though only 1 employer was surveyed, respectively in each sector and therefore is not telling on the sector performance in general. Also in the construction sector, only 2 were surveyed where 1 experienced good and the other bad demand and therefore reliable conclusions could not be drawn.

Table 2.1: Sectors considered having various degrees of good demand for services/products as reported by employers

Sectors	Number of Employers	Percentage Within Good Demand	Percentage Within Sector
Technology Information technology	2	3%	100%
Food Bakery, pickles, sweets, frozen food, ready-made food	12	16%	80%
Carpentry Carpentry factory, CNC, wooden doors	13	18%	76%
Metal Aluminum, blacksmith, CNC metal, smithery, iron and furniture making out of iron, welding, iron	15	21%	75%

Manufacturing Aluminum kitchen, furniture made of metal, glass, tanks, shutter doors, metal curtains, pipes, packing boxes, plastic, PVC	18	25%	69%
General trade Electronics and home appliances, iron trade, agricultural products, toys, honey, machinery, equipment, tools, marble, ceramics, flooring, tiles	9	12%	60%
Services IT and internet provider, printing, computer maintenance and selling hardware	3	4%	60%
Construction Gypsum	1	1%	50%
Total Good Demand/Average Good Demand Within Sector	73	100%	70%

Additionally, a linear modeling of the relationship between self-reported good demand and sectors was performed, which showed positive (but not significant) relationships related to food processing, prepared food, metal, and the agricultural sectors in Baghdad. Linear models used an interaction term to control for being in a specific sector and location. See Table 2.2 for details.

Table 2.2 Good demand as a function of sector and other factors by location

Factor	Good Demand
Age of owner	2.193 (.377)
Number of employees	-.005 (.017)
Salary of employees	.056 (.058)
Age of business	.045* (.027)
Gender of owner	.146* (.085)
Considered expanding previously	.151*** (.033)
Baghdad* Food processing	.061 (.180)
Baghdad* Prepared food	.177 (.255)
Baghdad* Textile	-.575* (.302)
Baghdad* Carpentry	-.068 (.179)
Baghdad* General trade	-.097

	(.190)
Baghdad* Metal	.009
	(.374)
Baghdad* Services	-.250
	(.266)
Baghdad* Construction	-.116
	(.151)
Baghdad *Agriculture	.300
	(.506)
Baghdad *Manufacturing	-.160
	(.326)
<i>Adj. R Sq</i>	.110
<i>N</i>	1213
<i>F Test</i>	2.627

Robust standard errors reported in parentheses. Levels of statistical significance indicated by asterisks: * 90 percent, ** 95 percent, *** 99 percent. Controls added for location, the perceived number of similar businesses, the use of word of mouth as a recruitment mechanism, and interaction terms between sectors and other governorates.

Respondents were asked to identify the single greatest challenge for operating in the area. Mentions included cheaper imported goods (22%), power cuts (10%), collecting owed money from customers (5.7%), and competition (5.7%), though it is unclear whether this referred to similar businesses or to cheaper imported goods. Smaller percentages mentioned challenges related to marketing of their products, traffic jams, high taxes (without specifying), delays in delivery of raw materials, corrupt officials both at municipality level and at customs. Employers were asked about the challenges they experience with suppliers. While the majority reported not experiencing any challenges (62%), most challenges were related to the government delays at borders and check-points. Issues with prices (unspecified but in some cases as being too high) and a lack of money were also mentioned. Quantity and quality of materials were considered good almost by all employers. Challenges with consumers were also explored, with respondents mentioning late payments and delays (35%) and issues closely related to the latter such as trying to bargain on prices and similar, all pointing to liquidity issues as revealed in other governorates.

When asked specifically about the ‘fixes’ required to strengthen their ability to conduct business, the measures suggested by employers include loans/grants, the electricity supply, the availability of capital, policies protecting the local products, quality control of materials, lower taxes, transparent and faster custom procedures, and lower prices of raw materials. The most mentioned are outlined in Table 2.3. When asked specifically about government support for improving the business environment, electricity was mentioned by more than a third of respondents and reduced taxes were mentioned by 16%.

Table 2.3 Measures for improving the business environment as mentioned by employers

Support Required	Number of Employers	Percentage of Employers
Availability of capital	20	19%
Buying new equipment and machines	8	7.6%
Electricity (supply, prices, etc.) (but also other services)	7	6.7%
Price control	5	4.8%

Employers were asked whether they have received any formal or informal job entrepreneurship training where the vast majority mentioned not receiving any (74%). When asked about training requirements, 44% mentioned not needing any training. Twenty-eight percent mentioned requiring some trainings, including management, administration, marketing, and training mostly related to their respective trades. About half

considered expanding their business. The main problems are the lack of capital and the availability of loans.

2.1) Market Systems and Particular Disruptions

This section provides a closer look at 3 sectors and the bottlenecks these have experienced, including the manufacturing, food, and construction sectors.

Manufacturing Sector

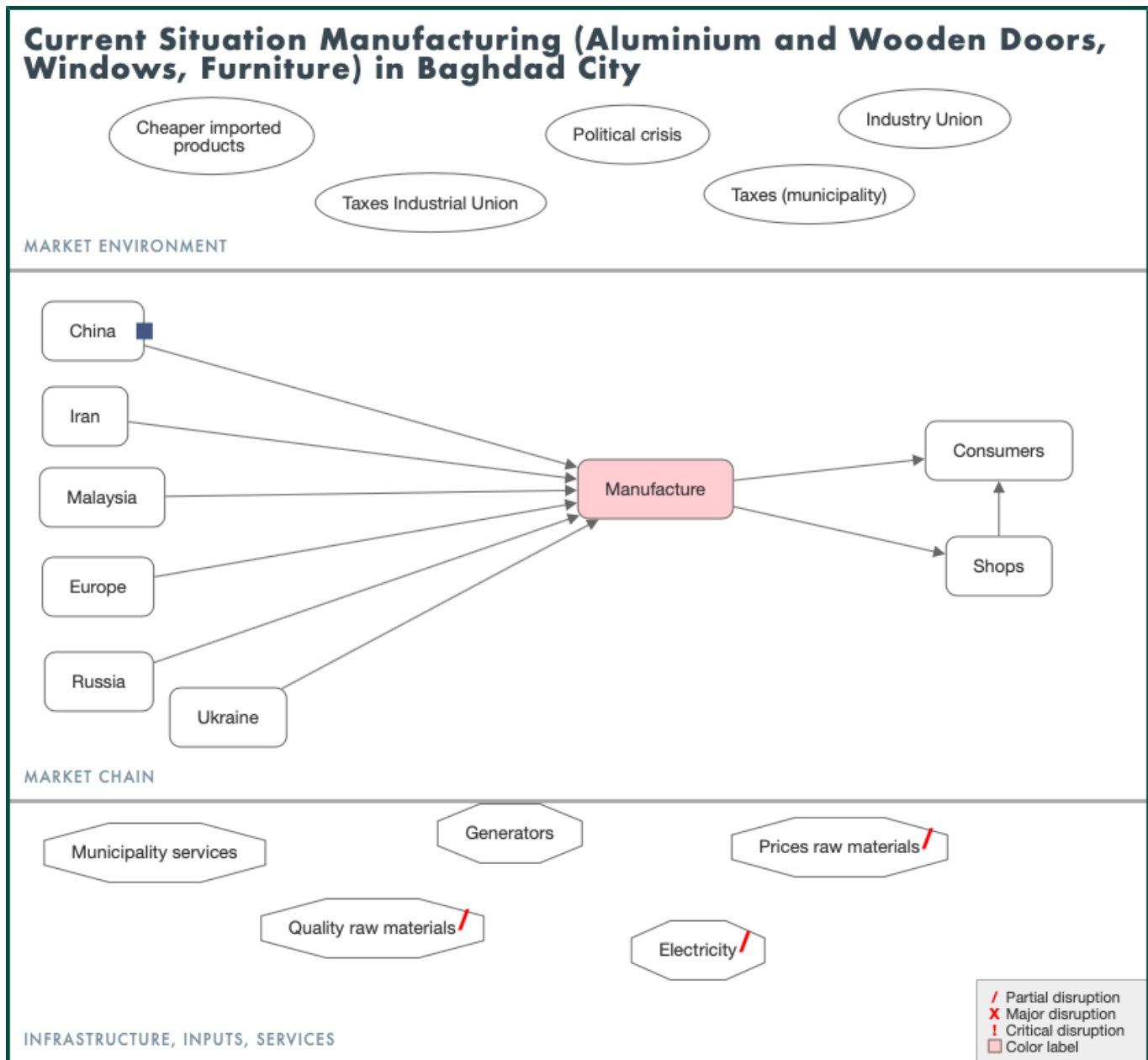


Diagram 1: Current Situation Manufacturing in Baghdad based on FGDs with participants from the sector

The respondents reported experiencing major issues with cheaper imports and the prices of raw materials, which make their products less competitive. The quality of materials is poor due to poor custom regulations enforcement and quality control. Political crises have major effects on the sector as “any political tension

causes consumers to start saving money and postpone what they planned to buy.”⁹ Electricity is limited with high fuel costs for running generators and high costs for the maintenance of generators.

Food Sector

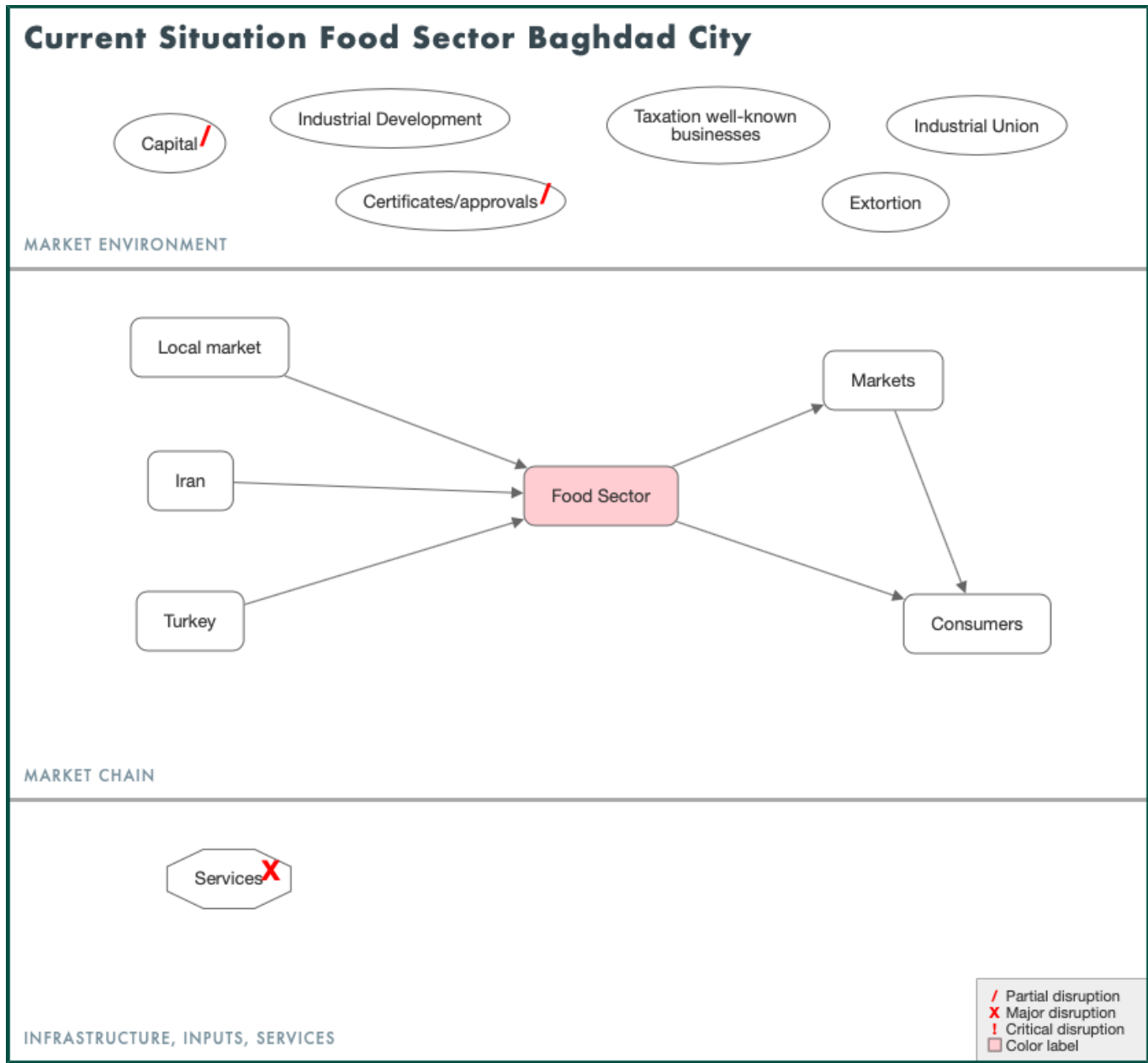


Diagram 2: Current Situation of Food Sector based on FGDs with participants from the sector in Baghdad City

The major limitations in the food sector is represented by approvals and issuance of certificates due to corruption. These lamented not receiving support from the Union of Industries and loans as being given based on ‘connections’, and impositions of higher taxes to well-known businesses in comparison to the less known. Taxes are paid along social security for workers. Respondents also mentioned the general lack of services. Credit is used often, which affects production, FGDs participants reported. Seasonality

⁹ Baghdad, FGD, Manufacturing sector

sometimes affects the food sector and ‘workers are given half of their salary’ during low seasons, FGD participants reported.

Construction

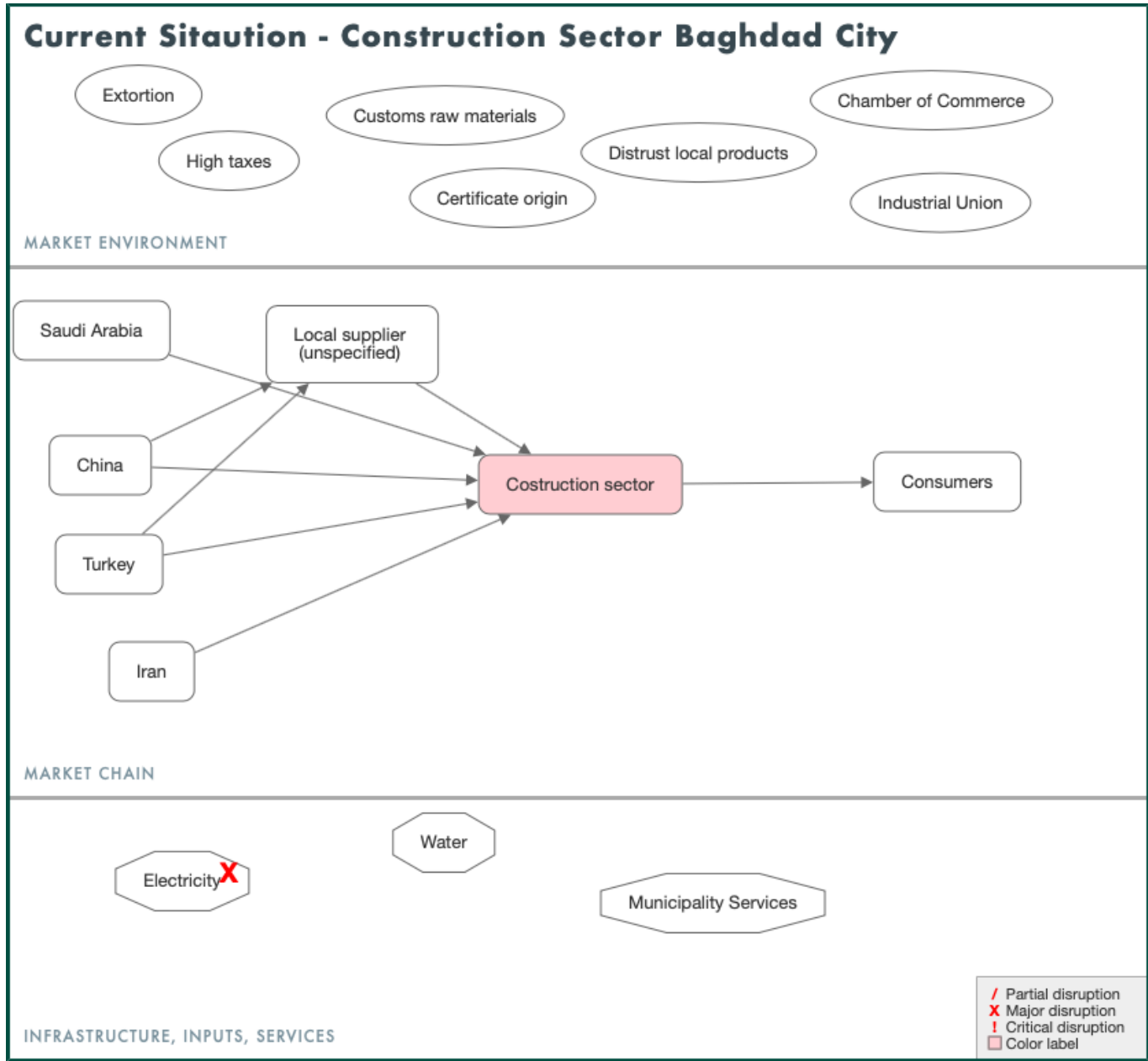


Diagram 3: Current situation construction sector in Baghdad City based on FGDs with respondents from the sector

The main restrictions for enhancing production include high taxes, poor electricity supply, and customs imposed on raw materials. Municipality services, including water and electricity are limited and have deteriorated over the past 5 years according to respondents. Suppliers sometimes get their products from China and falsify the certificates of origin also. The main challenge was represented by the loss of ‘consumer confidence in local products’ FGDs respondents reported. Corruption was reported related to most governmental departments where bribes have increased over the past years.

3) Opportunities for Employment Creation

On average, employers reported 22% of their workforce to be related to them. Thirty-seven percent reported no relatives among their employees. Table 3.1 provides some information on the average percentage of relatives employed in each sector. Overall, hiring of relatives is fairly low in Baghdad in comparison to many other governorates surveyed. Twenty-five percent also hire through formal job advertisements, which is a positive finding in terms of businesses practices not confined to one's relatives. Hiring of vulnerable groups might therefore prove easier in Baghdad in comparison to other governorates.

Table 3.1: Average percentage of relatives employed in each sector

Sector	Average of Percentage Relatives
Metal	31%
Manufacturing	24%
Carpentry	21%
General trade	18%
Services	18%
Food	16%
Construction	15%
Technology	7%
Textile	4%
Automotive	0%
All Sectors Average	22%

When asked what would they do if supported by a grant between USD 5,000 and 25,000 32% of employers mentioned hiring new workers (in an open-ended question) and these belonged to the following sectors: carpentry (7), food, general trade, metal, and manufacturing (6, respectively), and construction (1).

Overall, recruitment appears to some extent difficult. A third of employers reported some difficulties in finding qualified employees and these also complained that these will demand high salaries when skilled, go on to open their own business, and some issues with attitudes, though most did not specify required skills aside from the need to train them on the job. The remaining thought it was easy. Informants also commented on whether employers follow labor laws and MoLSA enforces them where the majority contended that less than 10% of businesses are registered with MoLSA where one commented: *“Most businesses are not able to show proof of registration because of government procedures and taxes, which take a long time; about 70% do not register.”*¹⁰

The sectors currently underdeveloped with potential for growth as reported by KIs are outlined in Table 3.2. Leading is agriculture, construction, and manufacturing, followed by food, and metal. One KI was pessimistic about the potential for any expansion in Iraq: *“No sector has significant potential because the government of Iraq didn't support it and opened the Iraqi borders to import the goods from other countries.”*¹¹

Table 3.2: Sectors with potential for expansion in Baghdad based on KIIs

¹⁰ Baghdad, KII, Manager in a bank

¹¹ Baghdad, KII, Manager in a bank

Sectors	Number of KIs, Who Mentioned the Sector
Agriculture (beekeeping, calf raising, horticulture, agribusiness)	3
Construction (health complexes,	3
Manufacturing (plastic, spare parts, handicrafts)	3
Metal (aluminum)	2
Food	2
Trade (shops)	1
IT	1

4) Potential for Market Distortion

Informants mentioned the sectors that were considered oversaturated, which included: vegetable reselling, green houses, malls, supermarkets and trade in general, restaurants, and mobile maintenance, taxi driving, transportation, salons.

Low demand is limited among employers (except for the construction sector) and therefore it is not reported where Table 1.2 should be consulted for good demand. Low demand was reported in the automotive and textile sectors, although only 2 were surveyed. When KIs mentioned the sectors considered supported by the government, 2 reported that none was. One KI reported that no sector was oversaturated because of the general low demand. Private investors already support construction in general, including the construction of quarries, cement, residential complexes, and malls, and private investment was also noted to be available for agriculture, education, food, health, the oil sector and handicrafts. All the information is captured in Table 4.1.

Table 4.1: Sectors considered as encouraged by the government, supported by private investors, sectors considered oversaturated based on KIIs in Baghdad

Sectors	Mentioned by KIs as Being:		
	Encouraged by the government	Supported by private investors	Oversaturated
<i>None is encouraged</i>	2	NA	1 (little demand because of lack of government support)
Agriculture	6 (farming, in general, wheat and barley, machinery (unclear))	1 (agricultural industries)	1 (vegetables, green houses)
Carpentry	1	NA	NA
Construction	1	8 (in general, quarries, cement, residential complexes, malls)	1(malls)
Education	NA	1	NA
Food	2	2	1
General trade	NA	NA	3 (Supermarkets, general)
Health	NA	1	NA
Hospitality	NA	NA	1 (restaurants)
Oil	NA	1	NA
Manufacturing	2	1 (handicrafts)	NA
Metal	1	NA	NA

Services	NA	NA	4 (mobile maintenance, taxi driving, transportation, salons)
-----------------	----	----	--

CONCLUSIONS

In conclusion, the vast majority of employers were negatively affected by the war on ISIS where about a fifth though it was a profitable moment for their business. No particular sector seems to have been particularly positively or negatively affected though employers from the metal sector and general trade seem to have been disproportionately fortunate, overall.

Good demand seems to be present in most of the sectors where the textile and automotive experienced poor demand, though only 1 employer was surveyed from each, respectively, and therefore is not telling on the sector performance in general. The same applies to construction. Linear regression found positive (but not significant) relationships between food processing, prepared food, metal, and the agricultural sectors in Baghdad. When asked specifically about the 'fixes' required to strengthen their ability to conduct business, the measures suggested by employers include loans/grants and other issues related to structural changes such as electricity supply, policies protecting the local products, quality control of materials, lower taxes, transparent and faster custom procedures, and lower prices of raw materials, among the most mentioned.

Overall, hiring of relatives is fairly low in Baghdad in comparison to many other governorates surveyed, which is promising for attitudes, which could be considered open to external hiring. When asked what would they do if supported by a grant between USD 5,000 and 25,000, hiring of new workers was a priority area too. The sectors currently underdeveloped with potential for growth as reported by KIs include agriculture, construction, and manufacturing, followed by food, and metal.

ANNEX 1: RECOMMENDATIONS FROM THE MARKET ASSESSMENT

1. Agriculture was considered a major employer before the crisis and recovered well today according to key informants, where for some others it was not affected by the crisis at all. The regression model also established a positive (but not significant) relationship between good demand and the agricultural sector. Considering the importance of the sector in Iraq in general, agriculture represents a suitable candidate for funding.
2. While only a small number of employers were surveyed in the construction sector, the latter was a major employer before the crisis and for some informants was not affected by the crisis at all though some mentioned quarrying as barely recovering. Construction is therefore a suitable candidate for funding.
3. Carpentry and manufacturing appear profitable, experience overall good demand, and were major employers in the past according to some informants and therefore make good candidates for grant matching. Plastic, manufacturing of spare parts (without specifying), and handicrafts were mentioned as having potential for expansion. Caution should ne always exercised in terms of the cheaper imports, which can consequently negatively influence the business outcomes.
4. Similar findings apply to the metal sector, which is also partially supported by findings of the regression analysis (though the results are not significant) and therefore suitable for funding.
5. Food was a major employer in the past and according to some key informants was not affected by the crisis. Demand was good - supported also by a positive (but not significant) relationship between good demand and food processing/prepared food - and should be therefore considered a suitable candidate for funding.
6. General trade is oversaturated and already supported by private investment though it experiences fairly good demand (though the regression model established a negative relationship between good demand and the sector). It should not be prioritized as a sector as it was also considered a major employer before the crisis according to only 1 key informant.
7. Hospitality was a major employer in the past and seems to have recovered well, at least according to some where 1 informant considered it oversaturated. The sector could be funded though not prioritised.
8. Services experience good demand, were important in the past and according to key informants were not affected by the crisis. Oversaturation was mentioned in mobile maintenance, taxi driving, transportation, salons and the latter should be therefore considered less suitable for funding.
9. Considering the electricity issues, allow for higher than average budgets for electricity and/or investments in generators in business plans.
10. Considering the damaging impact of cheaper imported goods, consider conducting joint advocacy with other organizations in terms of price control regulations.

ANNEX 2: MARKET ASSESSMENT PLAN

Market Assessment Plan

IOM aims to restore essential economic infrastructure and contribute to job creation in primary and secondary economic sectors that were successful prior to the conflict but suffered loss and damage and need assistance to resume activities. The IOM Business Development Fund will aim to encourage the return and reintegration of Iraqis through, directly, matching grants and business development support to businesses, and indirectly, sustainable job creation.

To provide support to SMEs, it is necessary to understand underlying factors that limit the growth potential and competitiveness of SMEs, and as a result their ability to stimulate job creation and other positive social and economic returns. This involves assessing the current market situation by identifying the constraints, obstacles, or bottlenecks that inhibit growth, and by understanding the outlook and potential of the market (challenges and opportunities). This information will then allow IOM to develop targeted interventions. The general themes are: competitors (local/international), market place (demand, supply, quality information), context (security, cultural, corruption), labor supply (skills), infrastructure (IT, physical), regulatory (laws), financial (taxes, interest rates, access to credit, access to markets).

The question therefore best answered by a market assessment would be:

Which small and medium enterprises have suffered from market failures due to the conflict, that, if addressed through matching grants and business development service, could create the need for additional labor, without market distortion?

This is a multipart question that can be broken into several sub-questions:

Which small and medium enterprises suffered due to the conflict?

What market failures can be addressed through matching grants or business development support? What cash grants could create the need for additional labor?

What could cause market distortion?

The sub-questions, in turn, can be addressed through a combination of surveying tools:

Research Sub- question	Information Needed	Source of data

<p>Which small and medium enterprises suffered due to the conflict?</p>	<p>Direct consequences of conflict for SME owners and workers</p>	<p><i>How have political events affected your business? Describe the current status of your business (FGD, Q4)</i> <i>Did you manage your business differently during 2014–2017, and how did it affect your revenue? (ES, Q3)</i> <i>How would you describe your business performance from before ISIL, during ISIL, and since the end of ISIL’s occupation? (ES, Q4)</i> <i>How will recovery continue to impact your business over the next 12-months? (ES, Q5)</i> <i>Do businesses selling your product or providing your services in this area generally make a small or sizeable profit? (ES, Q8)</i> <i>Prior to the crisis, what sectors were the biggest employers in the city? What happened to these sectors? (KII, Q4)</i></p>
<p>What cash grants could create the need for additional labor?</p>	<p>Evidence of scalability, networking beyond internal networks</p>	<p><i>How many of your employees are related to you? (ES, Q13)</i> <i>How many of your employees are considered skilled/unskilled? How hard or easy is it to find qualified workers? Why? (ES, Q11)</i> <i>In your experience, are labor laws strictly followed by employers and enforced by MoLSA? Could most businesses show proof of registration, company social security numbers, and personal income taxes for employers? (FGD, Q5)</i> <i>What sectors are currently underdeveloped and/or have significant potential for growth? (KII, Q7)</i></p>
<p>What could cause market distortion?</p>	<p>Which SME’s would not have been competitive anyway</p>	<p><i>Are there a lot of businesses like yours? (ES, Q8)</i> <i>What sectors are oversaturated / face too much competition? (KII, Q2)</i></p>

	<p>Which areas are other private sector funders targeting, including public actors such as government programs, that could crowd out investment</p>	<p><i>Into what sectors is private investment flowing (either from local or international investors)? Are these sectors affected by external factors, for e.g. seasonality? (KII, Q5)</i></p> <p><i>What have been the biggest changes in the business environment have you observed over the past six months? (KII, Q10)</i></p> <p><i>What are the priority sectors where the government is encouraging development? (KII, Q8)</i></p> <p><i>What major economic development initiatives are important for business? (KII, Q12)</i></p>
--	---	---

ANNEX 3: SURVEYING TOOLS

Focus Group Questionnaire for Small Business Owners

The Market Chain

1. (If applicable) Where do you get your raw product from?
2. Why did you choose the suppliers you use? (i.e. punctuality, price, honesty)
3. (If applicable) How can raw materials affect your final product quality?
4. (If applicable) What is your main restriction on enhancing production?
5. (If applicable) Are your raw materials sufficient in quantity? Have you ever had a shortage of raw materials and why?
6. Do you certify your suppliers for quality?
7. Have your suppliers changed in the last 5 years and how? Is it easy to change your supplier?
8. Where do your suppliers get their raw product from? Where is it from originally?
9. Who do you sell your product or service to? What challenges do you face dealing with clients?
10. Are you able to respond to and accommodate demand variations, such as seasonality?
11. Do you consumers sell your product onwards? How? The Market Environment
12. What challenges, if any, do you face from regulatory bodies or agencies?
13. Do you pay taxes?
14. Have you experienced extortion or corruption in the last 5 years? From who?
15. How did the political crisis affect your business?
16. Have you benefited from any public services in the last 5 years?
17. Are you a member of any association? Infrastructure Services
18. Do you have to use credit in your business? Do you have any issues with this?
19. What percentage of your budget goes to transportation?
20. What other services do you pay for to run your business? What challenges do you have with these?
21. How did these services change in the last 5 years?
22. How are the cost of these services?
23. Can your firm/company usually meet delivery due dates on time, and if not why no

Key Informant Interview Questions

1. Respondent:
2. Occupation:
3. Organization:
4. Prior to the crisis, what trading and industrial sectors were the biggest employers in the city?
5. What happened to these sectors (that have been listed)?
6. What sectors currently employ the most people in the city?
7. What sectors are oversaturated or face too much competition
8. What sectors are currently underdeveloped and/or have significant potential for growth?
9. What are the priority sectors that the government is encouraging development i
10. Into what sectors is private investment flowing (either from local or international investors)? Are these sectors affected by external factors, for instance seasonality?
11. What about United Nations or International Programmes that you are aware of?
12. What have been the biggest changes in the business environment have you observed over the past six months?

13. In your experience, are labor laws strictly followed by employers and enforced by MoLSA? Could most businesses in this city show proof of registration, company social security numbers, and personal income taxes for employers? If not, what percentage do you think could?

14. Was there anything else you would like to tell us?

Employer Questionnaire

Respondent

Phone number: Gender: Age:

Type of business:

Number of Employees:

Length of time business has been operational:

1. How did you acquire the skills to start your business?

Decided to try an idea as an entrepreneur

Learned from a family member

Attended vocational training

Apprenticeship

Formal certification or course

Other (specify)

2. Are there a lot of businesses like yours?

3. Has this changed in the last 6 months?

The number of similar businesses increased

The number of similar businesses stayed the same

The number of similar businesses decreased

Not applicable

I don't know

4. Did you manage your business differently during 2014–2017, and how did it affect your revenue?

5. How would you describe your business status now? Single Answer

Not profitable, I'm losing money. (business contraction)

Stagnant, barely enough to sustain my own needs

Profitable/ successful, but not enough to grow further

Very profitable/ successful, it is expanding

Other: (specify: -----)

6. How do you expect your business to recover or expand over the next 12-months?

7. Where do you get your product or raw materials from? Is it sufficient in quantity and quality?

What challenges do you face dealing with suppliers?

8. Who do you sell to? How is the demand for your product these days? What challenges do you face dealing with clients?

9. What products or services are in demand by consumers but difficult to find in the local market?

10. For those you have listed, why are they difficult to find?

11. What are the main recruitment mechanisms in your city? Word of mouth, formal job advertisements?

12. Do you sign a written contract with your full-time employees?

13. What is the average monthly salary that you pay full time workers in Iraqi dinars?

14. How many of your employees are related to you?

15. How many of your employees are considered skilled/unskilled? How hard or easy is it to find qualified workers? Why?

16. What is the single greatest operating challenge that you face, and what are the other challenges? For the challenges you have identified, please indicate what kind of changes would improve your ability to do business.

17. What kind of government policies or programmes, or infrastructural improvements, could strengthen your business?

18. What sort of training or skills do you need to run this business? Have you received any sort of formal or informal job or entrepreneurship training?

19. Have you ever considered expanding your business (e.g. opening another location, adding additional products, hiring more employees, etc.)? If you have already, what key factors helped

you to do so (e.g. bank, VSLA, or personal loan; government investment fund; family to staff 2nd location, etc.). If you have considered this but found it difficult, what were your primary barriers to expansion?

20. If you were to receive unrestricted funding of US \$ 5,000 to US \$ 25,000 for business expansion purposes, what would you likely spend this on?