

BAIJI EMERGING MARKETS: OPPORTUNITIES AND CHALLENGES

A Market Assessment of Baiji, Salah Al-Din Governorate

IOM Iraq – November 2019

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SUMMARY

The crisis from 2014 to 2017 had a major effect on Baiji, which experienced destruction and looting at the hands of different parties to the conflict. Almost all civilians were displaced due to the conflict and return has been slow. The oil refinery in Baiji - the major employer in the area - is slowly recovering.

The Economic 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?

- Almost all employers reported that their work stopped entirely during 2014 and 2017 and upon return everything was looted, damaged, or destroyed. Only 2 tailors and a farmer continued to work during the crisis (as they were not displaced).
- Sectors reported as major employers before the crisis include the oil sector; agriculture; construction; general trade, including with food, groceries, clothes, pharmaceuticals, vehicles, and cement; larger restaurants along the highway; industries in general; and PVC.
- While views on recovery were somehow inconsistent among key informants, overall most of the sectors barely recovered.
- Employers were asked to describe the current status of their business and these reported: as not being profitable/losing money (1%), as stagnant and barely enough to sustain their own needs (54%), as profitable/successful but not enough to grow any further (40%), and very profitable/successful and expanding (4.2%). Overall, almost half (45%) reported as being to some extent profitable. Very profitable businesses were reported by employers in agriculture, construction, general trade with electrical equipment for industries, and in trade with pharmaceuticals. Overall, construction and general trade are the most profitable when looking at percentages of success within sector.

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

- More than half of employers (55%) reported various degrees of 'good demand' for their products/services and these include most of the sectors surveyed. A linear modelling of the relationship between self-reported good demand and sectors was performed, which showed positive (but not significant) relationships related to food processing, textile, and carpentry in Baiji.
- Respondents were asked to identify the single greatest challenge for operating in the area. These mentioned electricity (40%) where some also specified the lack of other services such as sewage, waste management, and roads. Another set of problems were related to liquidity issues and customers buying on credit along a lack of capital (18%).

- When asked specifically about the ‘fixes’ required to strengthen their ability to conduct business, the measures suggested by employers include electricity supply along other municipal services (42%), followed by availability of capital (21%) along other issues such as the return of people, easing processes at check-points, paving roads, and veterinary services availability.
- When asked specifically on the government support required, electricity and service provision was the most mentioned among all responses along the return of people and the availability of capital.

What cash grants could create the need for additional labor?

- On average, employers reported having almost 50% of relatives employed among their workforce. Hospitality, food and construction recorded among the lowest percentages with carpentry and services falling on the other end of the spectrum.
- Overall, hiring of relatives is average in Baiji in comparison to findings from other governorates surveyed. Hiring is mostly through word of mouth (reported by more than two thirds of employers) where prospective employees looking for work themselves or referrals were also reported. However, such practices might exclude vulnerable groups from hiring.
- When asked what would they do if supported by a grant between USD 5,000 and 25,000 16% of employers mentioned hiring new workers (in an open-ended question) and these belonged to the following sectors: construction (5), services (4), metal (1), automotive, carpentry, food, and general trade.
- The sectors currently underdeveloped with potential for growth include construction, manufacturing, hospitality (restaurants), and general trade, according to key informants.

What cash grants could create market distortions?

- Key informants mostly reported that no specific sector was over-saturated in Baiji with the exception of block factories, groceries, and cold storage. Support from private investors is also reported as being close to non-existent with the exception of construction and trade.
- While 3 key informants mentioned that no sector was supported by the government, 2 informants mentioned agriculture along construction, education, health, general trade, and industry in general. One important development was the restarting of the industrial zone in Baiji, one respondent commented.
- Weaker demand, which could also point to possible market distortions if funded - was reported by employers in the automotive sector (8%), metal (8%), construction (5.3%), services (5.3%), general trade (4.2%), food (3.1%), agriculture (2.1%), and manufacturing (2.1%). Again, similar to good demand, lower demand is also found in most of the sectors surveyed.

INTRODUCTION

The economy of Baiji was heavily affected by the crisis from 2014 to 2017. The town experienced heavy fighting and almost all of its residents were displaced. Business recovery has been slow along a limited return, especially due to high destruction and high levels of mine contamination.

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 Baiji, including staff from the Mayor's office, staff from the Municipality of Baiji, the Baiji Local Council, (2), the Education Department, the Court, Electricity Department, health, and a pharmacist. In total, 10 KIIs were conducted. FGDs were also conducted with employers belonging to different sectors, including construction, manufacturing, and carpentry.

Sampling guidelines provided targets for the number of employers to survey from each industry in Baiji. In total, 94 employers were surveyed where among these 7 were female. The sectors and the respective description of the businesses as provided by employers include the following:

Sectors and description of activity	Number	Percentage
Agriculture Cow farming, sheep farming	9	10%
Automotive Breaks fixing workshops, car services, car maintenance, mechanic, car electricity	13	14%
Carpentry	3	3%
Construction Blocks factory, construction materials, stone crushing workshop	9	10%
Education Tailoring training center and skills development	1	1%
Food Bakery, butchery, pastries	5	5%
General trade Groceries, cement trade, electrical equipment, paint, pharmaceuticals, stationery, super markets	13	14%
Hospitality Restaurant	2	2%
Manufacturing Fuel injectors, PVC, water tanks	6	6%
Metal Blacksmith, aluminum	16	17%
Services Café, car washing and oil change, cell phones maintenance, tailor	17	18%
Grand Total	94	100%

For details on locations of the survey administered to employers, see Figure 1.

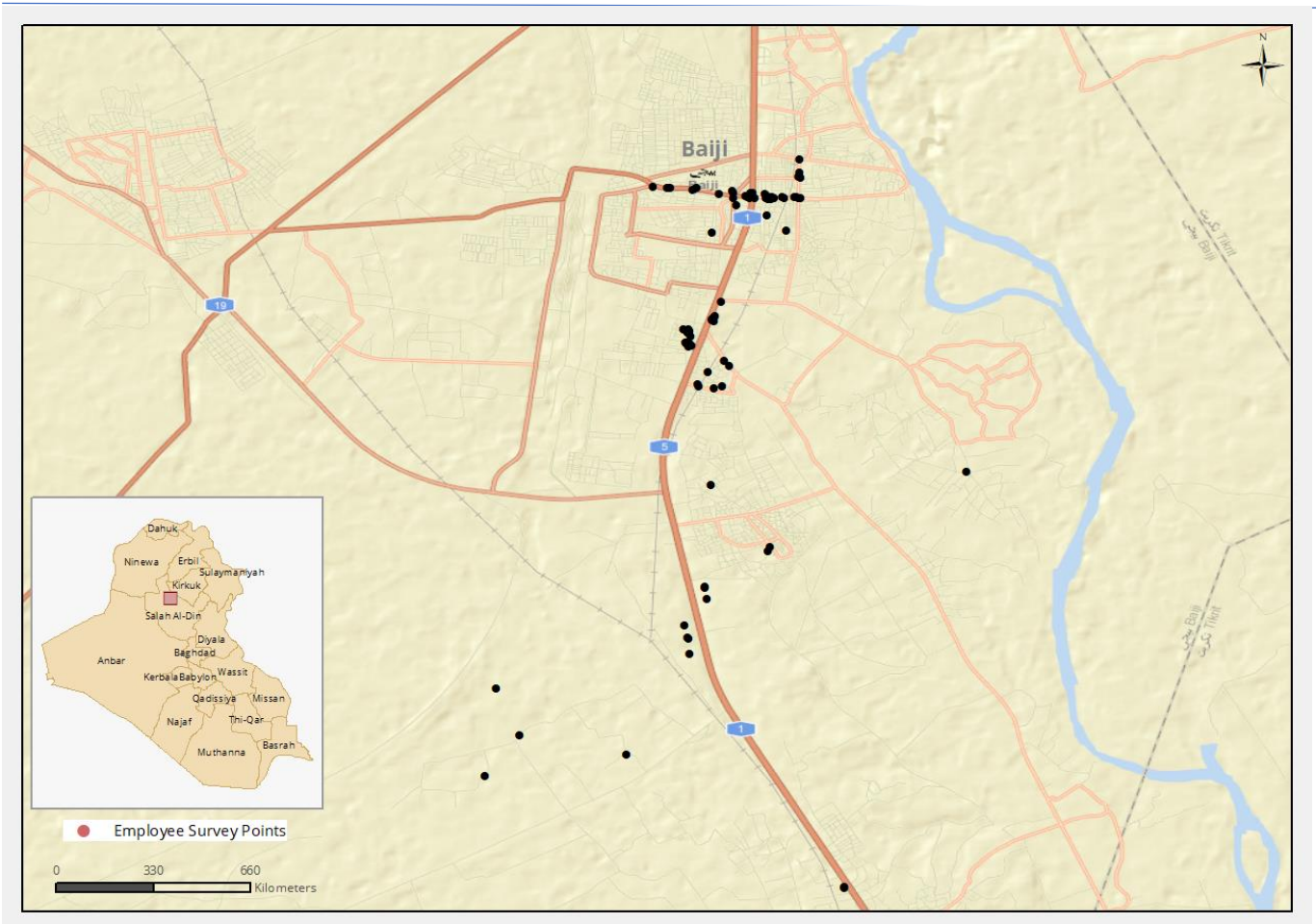


Figure 1: Location of surveys administered to employers in Baiji

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.

BACKGROUND

Baiji is a town located near a major oil field in Salah Al-Din with a pre-crisis population - mostly Sunni Arabs - estimated at 205,000.¹ Historically, Baiji's economy has been largely dependent on the functioning of the oil refinery. Baiji is integral to Iraq's economy because it contains the country's largest oil refinery, as well as ancillary industries, including a fertilizer factory and a power plant. At its peak, the refinery complex employed more than 20% of the district's workforce and supplied more than a third of Iraq's domestic energy needs (petrol, diesel, heating oil, motor oil), worth between 5.5 and 6.5 million USD per month.⁴ In June of 2014, the Islamic State of Iraq and the Levant (ISIL) launched an offensive to seize control of the city and the oil field. The ISIL offensives and the Iraqi Security Forces (ISF) counter-offensives to reclaim control displaced the majority of civilians living in the city and surrounding villages, damaged the refinery and destroyed large parts of the city's infrastructure. Three-hundred explosive hazards were removed since UNMAS operations began in Baiji, with up to 25 IEDs uncovered daily.² More than 2600 individuals were displaced in Baiji, according to IOM data as of August 2019.³

Economic reconstruction in Baiji has been slow. In November 2018, the central market was reportedly functioning near its pre-crisis capacity, a recent report found.⁴ Some business owners in Western Baiji have returned – as of late 2018 - and begun restoring their businesses but many were struggling to recover from the immense damages and had to take out significant loans in order to begin the process of rebuilding.⁵ Many business owners, who formerly owned shops in the city center have built or re-built new, smaller shops for their business needs or sold items out of houses. Sometimes items are sold out of parts of houses they have managed to rebuild because they could not afford to rebuild the heavily damaged or destroyed larger venues they used to own.⁶ As of July 2019, Iraq has completed repairs on the 70,000 barrels/day Salah Al-Din-1 unit, the second such rehabilitated unit at Baiji.⁷ Key to supplying northern provinces and Mosul with oil products, Iraq's oil ministry completed work on the Salah Al-Din-2 unit in 2018. As of summer, only the 170,000 barrels/day (and more modern) Baiji North refinery remained offline (and will remain so for some time the same article reported).⁸

FINDINGS

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

Almost all employers reported that their work stopped entirely during 2014 to 2017 and upon return everything was looted, damaged, or destroyed so all had to 'start from the beginning.' Only 2 tailors and a farmer continued to work during the crisis. One key informant specified that most of the sectors in Baiji were linked to the refinery of Baiji, including blacksmiths, carpentry, PVC manufacturing, generator

¹ András Derzsi-Horváth, Mario Schulz, Hana Nasser, Iraq After ISIL, 2017, <https://www.gppi.net/2017/09/13/iraq-after-isil-baiji>

² Agence France-Presse, Baiji Mines Turn Farms into Killing Fields, 3 September 2019, <https://www.voanews.com/middle-east/iraqs-baiji-mines-turn-farms-killing-fields>

³ IOM, Displacement Tracking Matrix, August 2019.

⁴ András Derzsi-Horváth, Mario Schulz, Hana Nasser, Iraq After ISIL

⁵ Proximity International, The Impact of Cash Transfers on Local Markets in Iraq: Lessons from Rawa and Baiji,

[http://www.cashlearning.org/downloads/user-submitted-](http://www.cashlearning.org/downloads/user-submitted-resources/2019/10/1571898130.The%20Impact%20of%20Cash%20Transfers%20of%20Local%20Markets%20in%20Iraq%20-%20Lessons%20from%20Baiji%20and%20Rawa%20[Digital].pdf)

[resources/2019/10/1571898130.The%20Impact%20of%20Cash%20Transfers%20of%20Local%20Markets%20in%20Iraq%20-%20Lessons%20from%20Baiji%20and%20Rawa%20\[Digital\].pdf](http://www.cashlearning.org/downloads/user-submitted-resources/2019/10/1571898130.The%20Impact%20of%20Cash%20Transfers%20of%20Local%20Markets%20in%20Iraq%20-%20Lessons%20from%20Baiji%20and%20Rawa%20[Digital].pdf)

⁶ Proximity International, The Impact of Cash Transfers on Local Markets in Iraq: Lessons from Rawa and Baiji

⁷ Waylon Fairbanks, Iraq Rehabilitates its Destroyed Baiji Refinery, 26 July 2019, Mees, <https://www.mees.com/2019/7/26/news-in-brief/iraq-rehabilitates-is-destroyed-baiji-refinery/db9969e0-afa6-11e9-b5d7-61d4d8938882>

⁸ Waylon Fairbanks, Iraq Rehabilitates its Destroyed Baiji Refinery

maintenance, trade with vehicles, shovels, trade with cement, and restaurants. These provided most of the work along a power plant. Sectors reported as major employers before the crisis included the oil sector; agriculture; construction; general trade, including shops, markets, food, clothes, pharmaceuticals, groceries, vehicles, cement; larger restaurants along the highway; industries in general, and PVC. Less mentioned sectors included services, the automotive sectors, and carpentry. While views on recovery are somehow inconsistent, overall most of the sectors barely recovered. See Table 1.1 for details.

Table 1.1: Sectors reported by KIs as major employers before the crisis, as barely recovering, and as recovering (50% of businesses)

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%)
Agriculture	4	3 (in general, wheat cultivation)	1 (in general)
Automotive	1 (car maintenance, mechanic)	1 (car maintenance)	/
Carpentry	1	/	1
Construction	4 (in general, brick factories)	2 (in general, bricks)	1 (construction in general)
Chemical	6 (oil refinery mostly, fertilizers, and cleaning products)	5 (oil refinery mostly, and cleaning products)	1 (oil refinery, fertilizers)
General trade	6 (shops, markets, food, clothes, pharmaceuticals, groceries, vehicles, cement)	4 (shops, markets, food, clothes, pharmaceuticals, groceries)	2 (markets, vehicles, cement)
Hospitality	2 (big restaurants)	1 (big restaurants,	1 (big restaurants,
Metal	3 (smithery, aluminum)	2 (smithery, aluminum)	1 (smithery)
Manufacturing	4 (industries, PVC)	2 (industries, PVC)	2 (industries in general, PVC)
Service	1 (generator maintenance)	/	/

Employers were asked to describe the current status of their business. Most described their business as either as stagnant and barely enough to sustain their own needs (54%), or as profitable/successful but not enough to grow further (40%). Overall, 45% reported as being profitable. Very profitable businesses were reported in agriculture, construction, and general trade of electrical equipment for industries and pharmaceuticals. Overall, construction and general trade are the most profitable when looking at percentages of success within the sector. 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 employer survey findings

Sector	Carpen try	Constr uction	Genera l trade	Service s	Hospita lity	Metal	Food	Agricult ure	Autom otive	Manufa cturing
Profitable/successful, but not enough to grow	3	5 (cemen t, bricks, stone)	5 (pharm aceutic als, paintin)	9 (cafeter ia, oil change , car	1 (restau rant)	7 (alumin um, blacks mith)	2 (bakery)	2 (cows, sheep farming)	3 (car service s)	1 (water tanks)

further (numbers)		crushing,	g, stationery, food)	wash, tailoring, tire mending)						
Very profitable/successful, it is expanding (numbers)		1	2 (electrical equipment for industries, pharmaceutical)					1 (cow farming)		
Number of currently profitable businesses	3	6	7	9	1	7	2	3	3	1
Percentage within sector	100%	67%	58%	53%	50%	44%	40%	33%	23%	17%

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

More than half of employers (55%) 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 demand in some cases (these are reported in Section 4). Good demand is present in most of the sectors.

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

Sectors	Number	Percentage Within Good Demand
Services Café, car wash, tailor	11	21%
General trade Pharmaceuticals, food, electrical equipment, super market	8	15%
Agriculture Cow, sheep farms	7	13%
Metal Blacksmith workshops, aluminum	7	13%
Automotive Car services, mechanics different types of vehicles	5	10%
Construction Blocks, stone crushing, construction material factory	4	8%
Carpentry	3	6%
Food Bakery, sweets	3	6%
Manufacturing In general, tanks	2	4%

Education Training in sewing/tailoring and skills development	1	2%
Hospitality Restaurant	1	2%
Grand Total	52	100%

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, textile, and carpentry in Baiji. 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

Factors	Good Demand
Age of business	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)
Baiji *Food processing	.713 (.497)
Baiji *Prepared food	-.467 (.313)
Baiji *Textile	.123 (.302)
Baiji *Carpentry	.146 (.275)
Baiji *General trade	-.107 (.259)
Baiji *Metal	-.021 (.219)
Baiji *Services	-6.031 E-5 (.313)
Baiji *Construction	-.095 (.276)
Baiji *Agriculture	-.225 (.228)

Adj. R Sq	.110
N	1213
F Test	2.627

Notes: 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. Respondents frequently mentioned electricity (40%), with some other also specifying the lack of other services such as sewage, waste management, and roads. Another set of problems were related to liquidity issues and customers buying on credit along a lack of capital (18%). Employers were asked about the challenges they experience with suppliers. The majority also pointed to problems related to cash, an inability to purchase raw materials in instalments, and similar (30%). Quantities and quality of materials were considered inadequate by 16% of employers - the remaining thought they were good - or specified that 'it depends on the needs of the client' and therefore people's ability to purchase higher quality products. Challenges with consumers were also explored where these mentioned liquidity issues such as these being indebted, sometimes not paying, and similar (42%) as found in most of the governorates assessed.

When asked specifically about the 'fixes' required to strengthen their ability to conduct business, the measures suggested by employers include an improved electricity supply along other municipal services (42%), followed by availability of capital (21%) and other issues such as the return of people, easing processes at check-points, paving roads, and veterinary services availability. When asked specifically about government support required, electricity and service provision was the most mentioned among all responses along capital availability. Facilitating the return of people through rehabilitation of houses was also mentioned by a high number of employers.

Employers were asked whether they have received any formal or informal job entrepreneurship training. The vast majority mentioned not receiving any (79%) and the remaining received trainings in the work-place, by family members, and others mentioned the location only. When asked about training requirements, all employers mentioned not requiring any. Almost all employers considered expanding their business. The main challenge reported by the majority of respondents is lack of capital and to a smaller extent the limited return of people.

2.1) Market Systems and Particular Disruptions

This section provides a closer look at 3 sectors and the bottlenecks these have experienced, including manufacturing (PVC and aluminum), concrete blocks, and in carpentry.

Manufacturing (PVC and Aluminum)

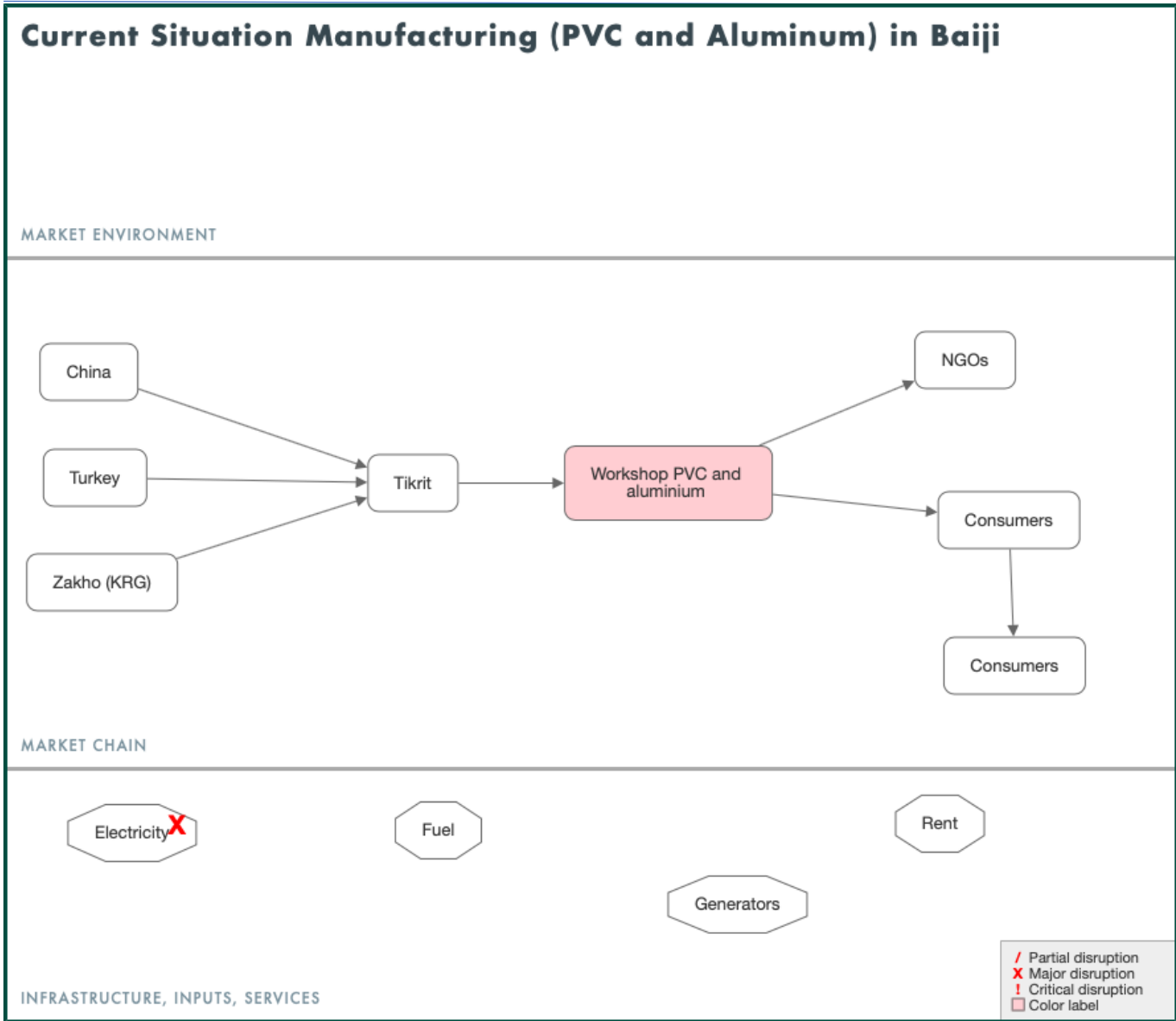


Diagram 1: Current situation in PVC and aluminum manufacturing based on FGD with participants from the sector in Baiji

Major challenges mentioned by the FGD participants are the costs related to running generators as fuel prices were reported as being high. Electricity is not provided and the rent is high. Selling on credit was also reported as affecting aluminum and PVC manufacturing. Nobody reported paying taxes. During the crisis everything in the workshops was destroyed and/or stolen.

Construction (Concrete Blocks)

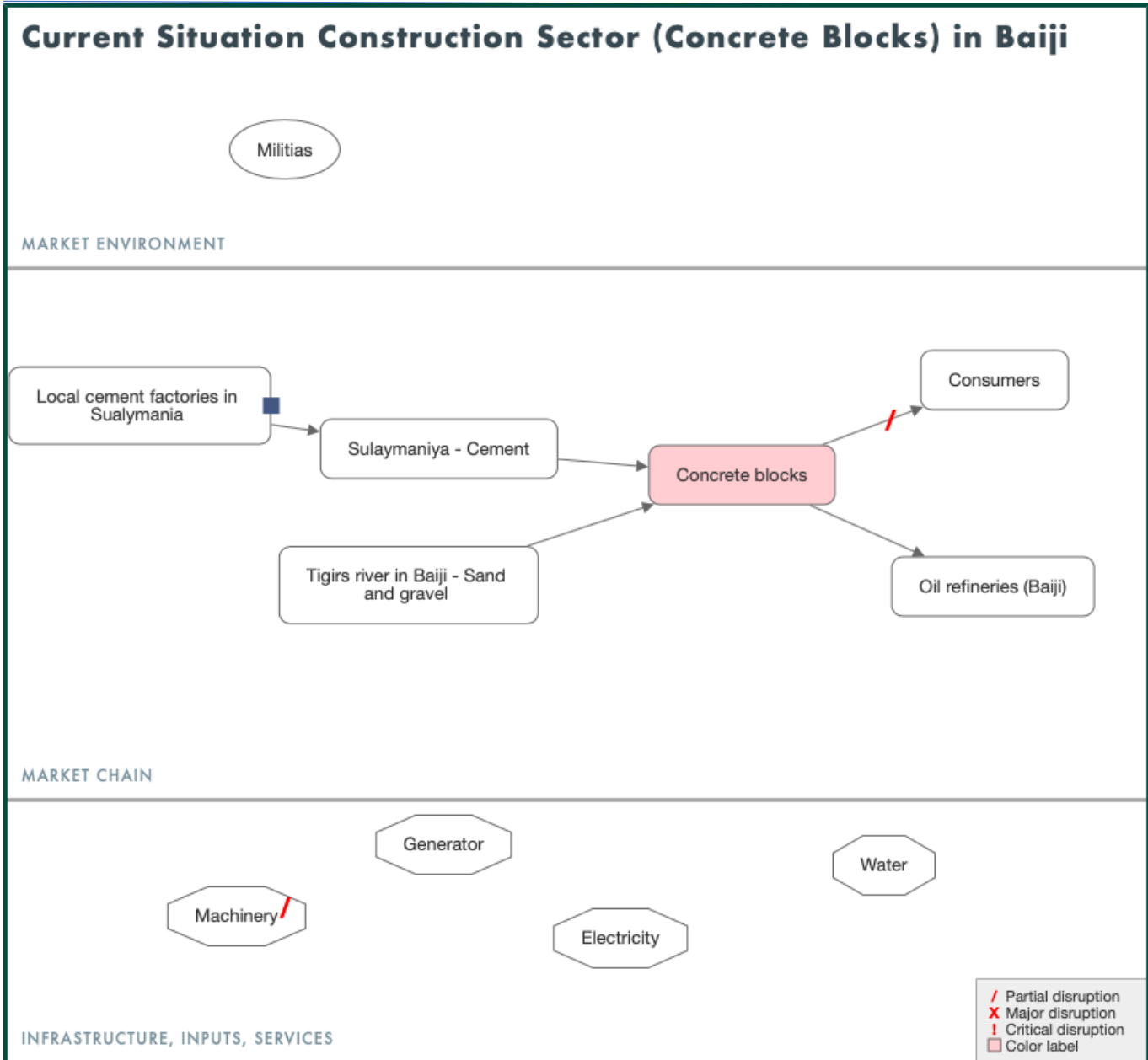


Diagram 2: Current Situation Concrete Blocks Production based on an FGD with participants from the sector operating in Baiji

The crisis had a major impact on the businesses with destruction and looting reported. In order to increase production, purchasing ‘more advanced’ equipment is required. Suppliers are selected based on the possibility of payments in instalments and/or on credit. Challenges with clients include issues with credit. Another challenge was related to some militias present in the area (unspecified), which prompted them to install cameras and surveillance mechanisms.

3) Opportunities for Employment Creation

On average, employers reported that about 50% of their workforce was related to them. Hospitality, food and construction recorded among the lowest percentages in terms of hiring relatives, with carpentry and services falling on the other end of the spectrum. About a third reported not employing any relatives at all and these were present in most of the sectors. Among these, 17 (or 18% of the total number of employers)

had 1 or 2 employees only. Table 3.1 provides some information on the average percentage of relatives employed in each sector. Overall, hiring of relatives is average in Baiji in comparison to other governorates surveyed. Hiring was reported through word of mouth by two thirds of employers. Other hiring practices included referrals from other employers or job seekers directly approaching the employer and inquiring about vacancies. Such practices might be excluding vulnerable groups from easily being hired.

Table 3.1: Average percentage of relatives employed in each sector

Sector	Average Percentage of Relatives
Carpentry	67%
Services	63%
Manufacturing	60%
Education	60%
Agriculture	56%
Metal	52%
Automotive	44%
General trade	42%
Construction	34%
Food	28%
Hospitality	20%
Grand Total	49%

When asked what would they do if supported by a grant between USD 5,000 and 25,000 16% of employers mentioned hiring new workers (in an open-ended question) and these belonged to the following sectors: construction (5), services (4), metal (1), and automotive, carpentry, food, and general trade.

Overall, recruitment appears to some extent difficult. Two thirds of employers reported some difficulties in finding qualified employees and the rest mentioned it was easy. Key informants also commented that employers do not follow labor laws and MoLSA does not enforce them in the majority of cases.

The sectors currently underdeveloped with potential for growth as reported by key informants are outlined in Table 3.2. Leading is construction, manufacturing, restaurants, and general trade. One specified how agriculture has potential for growth “because most of the people are farmers, also Baiji has vast lands for agriculture. The government buys grains of wheat and barley from owners of agricultural lands for a quite good price also.”⁹

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

Sectors	Number of KIIs, Who Mentioned the Sector
Construction	4
General trade	2
Food	1
Hospitality	2 (restaurants)
Manufacturing	2 (PVC, aluminum, industry in general)
Metal	1 (blacksmithing)
Agriculture	1

⁹ Baiji, Interview with KII

4) Potential for Market Distortion

Key informants mostly reported that no specific sector was over-saturated in Baiji with the exception of blocks factories, groceries, and cold storage. Support from private investors is also reported as being close to non-existent with the exception of construction and trade. While 3 informants mentioned that no sector was supported by the government, 2 mentioned agriculture along construction, education, health (where the key informant specified that this was due to the increase of certain diseases), general trade, and industry in general. One important development was the restarting of the industrial zone in Baiji, one respondent commented. See Table 4.1 for details. Weaker demand was reported by employers in the automotive sector (8%), metal (8%), construction (5.3%), services (5.3%), general trade (4.2%), food (3.1%), agriculture (2.1%), and manufacturing (2.1%).

Table 4.1: Sectors considered as encouraged by the government, supported by private investors, and sectors considered oversaturated based on KIs in Baiji

Sectors	Mentioned by KIs as being:		
	Encouraged by the Government	Supported by Private Investors	Oversaturated
<i>None</i>	3	6	7
Agriculture	2	/	/
Construction	1	1	/
Education	1	/	/
General trade	1	2 (in general, shops)	2 (groceries)
Industry in general	1	/	/
Health	1	/	/
Services	/	/	1 (cold storage)

CONCLUSIONS

In conclusion, work during 2014 to 2017 stopped entirely, and almost all business owners were displaced. Sectors reported as major employers before the crisis experienced an overall limited recovery. Overall, almost half reported their business as being profitable, with good demand among more than half of the employers. Major challenges were identified in the limited electricity supply, along a low purchasing power among consumers, and lack of capital.

On average, employers reported that almost 50% of their workforce was related to them, in addition to largely hiring through word of mouth. Such practices, identified also in other governorates, might be excluding vulnerable groups from being hired. Leading sectors with potential for growth and consequently employment creation included agriculture, construction, manufacturing, restaurants, and general trade.

Oversaturation, existing private investments, and low demand could point to potential market distortions if funded. Oversaturation was mentioned only related to block factories, groceries, and cold storages. Support from private investors was also reported as being close to non-existent with the exception of construction and trade. While 3 KIs mentioned that no sector was supported by the government, 2 mentioned agriculture along construction, education, health, general trade, and industry in general. Some low demand was also identified, including in the automotive sector (8%), metal (8%), construction (5.3%), services (5.3%), general trade (4.2%), food (3.1%), agriculture (2.1%), and manufacturing (2.1%).

ANNEX 1: RECOMMENDATIONS FROM THE MARKET ASSESSMENT

1. Agriculture was considered a major employer before the crisis and according to some respondents 50% of businesses recovered where a higher number mentioned that only a small number of agriculture-related businesses recovered. Agriculture was also found among the most profitable businesses and many employers reported good demand. Agriculture therefore represents a suitable candidate for funding.
2. The automotive sector did not report good demand by any employer, only a small number reported having some profit, and was barely discussed by informants. The sector is less suitable for funding.
3. Construction was a major employer before the crisis, is supported by private investment (mentioned by 1 key informant), experiences fairly good demand along being mostly profitable. Construction is therefore a suitable candidate for funding.
4. Carpentry and the metal sector appear profitable, experience overall good demand, and were major employers in the past according to some key informants and therefore make good candidates for grant funding.
5. Food was a major employer in the past and experiences fairly good demand (also supported by the positive relationship with good demand and food processing established by the linear regression model) and was also considered as a sector with potential for growth by 1 key informant. While one employer also reported weaker demand, the sector is suitable for funding.
6. General trade is considered oversaturated (especially groceries) and is already supported by private investment though experiences fairly good demand and 2 informants mentioned there was potential for expansion too. The sector should not be considered a priority.
7. Services and the textile sector (where mostly tailors were surveyed) experienced good demand along being mostly profitable where key informants did not discuss the sector. The regression model also established a positive relationship between services and good demand along the textile sector and good demand. The two sectors are therefore suitable for funding.
8. Considering the electricity issues, allow for higher than average budgets for electricity and/or investments in generators in business plans.

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>
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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?