

BASRA EMERGING MARKETS: OPPORTUNITIES AND CHALLENGES

A Market Assessment of Basra City

IOM Iraq – October 2019

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SUMMARY

While Basra did not suffer directly from the ISIS occupation, the conflict nonetheless heavily affected the governorate in terms of economic stagnation. The ISIS-related crisis only added to the difficulties of the governorate plagued by lack of services, lack of jobs, salinization, and a major shrinking of rural livelihoods. Projections for the governorate include massive rural to urban migration, with a further drain on services along rising unemployment.

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?

- The largest employers in Basra included construction, services such as painting, maintenance of coolers/ACs, installations, logistics; the metal sector; manufacturing; general trade, fertilizers production, and the oil sector. One noted how agriculture did not receive any attention from the government.
- Employers overwhelmingly reported business disruptions where only a few exceptions were identified. These included one employer, who mentioned that his business grew (he imported and supplied cheap gas). Others that did not note disruptions belonged to general traders (in cosmetics and paper), services such as laundry, graphics studio, a barber, photo studio; the metal sector; construction; and the food sector.
- Four key informants mentioned at least 50% of the following businesses as recovering: general trade, construction (3), manufacturing (2), metal, services (2), and oil.
- Overall, a total halt of the industrial sector was reported by 2 key informants related to paper, clothes, fertilizer, and smithery.
- One respondent elucidated that a major factor in the industrial regression was the lack of border control, which caused the influx of cheap imports.

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

- Demand was overall high within the different sectors, somewhat lower in food, hospitality, and manufacturing.
- Demand was higher in carpentry, the metal sector, construction, and the highest in general trade of meat, cosmetics, import of economic gas and various services such as mobile repair, laundry,

repair coolers/heater, and other (though these are very small in terms of number of employees). The latter points to the possibility of cash-based interventions.

- Lack of capital was the major issue reported by employers.

What cash grants could create the need for additional labor?

- Forty-three percent of employers reported they would hire workers if awarded between USD 5,000 and 25,000 (in an open-ended question).
- These belonged to the following sectors: carpentry (14), services (10), metal (8), construction (2), food (2), general trade (1), a restaurant (1), and to manufacturing (a decoration factory).

What cash grants could create market distortions?

- Key informants mentioned the sectors that were considered oversaturated: none (1), construction (2), manufacturing (tools and equipment), carpentry, chemical (oil), general trade (furniture, electrical appliances, groceries), agriculture (tomatoes), services (barber, taxi).
- The sectors currently supported by the government and by private investors include construction, manufacturing (such as pipes and coolers), and agriculture. Carpentry and metal seem to be encouraged by the government but are not supported by private investors. Water is supported by private investors. Hotels, restaurants, trade in general (including furniture), and the oil sector receive private investment. Services were not mentioned as encouraged by the government nor as being supported by private investments.
- Employers mentioned low demand in the metal sector, which was not mentioned by key informants as being oversaturated. Key informants also did not mention saturation in food and hospitality as reported by employers, who experience low demand. General trade and service were mentioned by key informants but no employers reported issues with demand.

INTRODUCTION

While Basra did not suffer directly from the ISIS occupation, the conflict nonetheless heavily affected the governorate in terms of economic stagnation. The ISIS-related crisis only added to the difficulties of the governorate plagued by salinization, lack of services, and a lack of jobs, which resulted in a series of protests erupting in the second half of 2018. Based on IOM Displacement Tracking Matrix (DTM) data from August 2019, 3186 individuals were displaced in Basra district (of the 6700 individuals in Basra governorate) with the highest number of displaced from Ninewa and Salah Al-Din.¹

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 ISIS and areas affected by the crisis. 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 a 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. Employer surveys were collected from various areas of Basra, as can be seen in the map below:

¹ DTM Dataset, 31 August 2019.

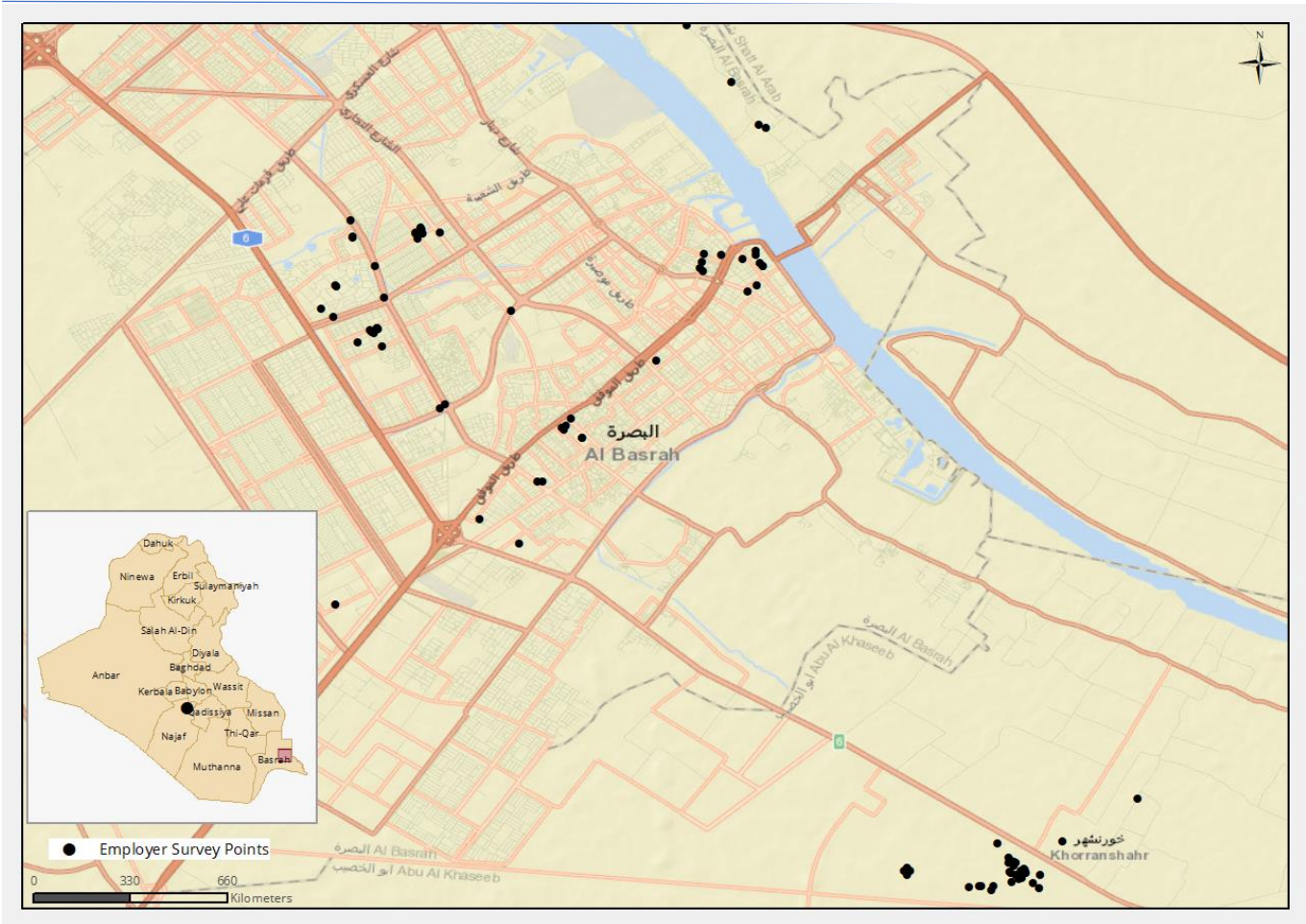


Figure 1 Employers Surveyed in Basra city, Basra Governorate

Focus Group Discussion (FGD) participants included individuals from the metal sector, carpentry, and automotive services. 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 guide.

Geographical Area Selection and Selection of Participants

Key Informant Interviews (KII) were conducted with participants belonging to different sectors and different governmental departments such as the Vocational Training Centre, Chamber of Commerce, Trade Union of Basra, and the Ministry of Agriculture. In total, 11 KIIs were conducted. FGDs were conducted with participants belonging to the metal (7 participants), carpentry (10 participants) and automotive services (8 participants) sectors. All were conducted in Hamdan in Basra.

As the EDF intends to target registered industries, a sample size and breakdown, representative of the market place was used. Sampling guidelines provided targets for the number of employers to survey from each industry. Surveys with employers were conducted different locations of Basra district (mostly in the city) where the vast majority were from the Hamdan Industry Area. In total, 91 employers from Basra district were surveyed. These belong to the following sectors:

Sector	Number Surveyed	Percentage
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Carpentry	20	21,9%
Metal	16	17,5%
Services	15	16,4%
Food	13	14,3%
Manufacturing	10	10,9%
Hospitality	6	6,6%
Construction	5	5,5%
General trade	4	4,5%
Agriculture	2	2,3%
<i>Total</i>	<i>91</i>	<i>100%</i>

Map 1: Survey Locations

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

Limitations

The quantitative findings of this report should be interpreted with caution, given the relatively small sample size and high rate of nonresponse. Gatekeepers for information, including key informants and employers, commonly declined to participate in the survey, despite best attempts to communicate the confidentiality of information and the voluntary nature of all questions. This could be possibly biasing the responses towards a group with a higher rate of trust in institutions in comparison to non-respondents.

Female employers are rare in the conservative South. Only one female employer was captured by the survey. Her responses do not differ from others in terms of challenges or any other issue.

Considering the gap between data collection and data analysis, some of the concerns raised might have changed and some additional might have surfaced. For example, respondents often mention security, which likely refers to the protests in 2018. Wherever available, information is triangulated with secondary sources.

BACKGROUND

Basra's location at the Shatt Al-Arab and its vast oil reserves make it one of the economically most important governorates of the country. The port of Basra and the port of Um Qasr, Iraq's only deep-water ports, are both located in the governorate, which makes it a center for trade, transportation and storage. A number of manufacturing companies are also operating in the governorate. Off the coast of Basra, the strategically important Al-Basra Oil Terminal is the main oil outlet of Iraq. The massive oilfields of Basra produce two thirds of Iraq's oil output. Nonetheless, the once called Venice of the Middle East is today a showcase for the virtual absence of public services characterized by decay since 2003. Basra was also a battleground in both the Iran-Iraq war and the two Gulf Wars, damaging the economic infrastructure and leaving a host of mines and unexploded ordnance littered throughout the governorate, which hampered economic development. The agricultural sector in particular is hindered by these leftover explosives.²

The UN sanctions, imposed after the Iraqi invasion of Kuwait in 1990 and only lifted after the occupation of Iraq in 2003, crippled the Iraqi economy and public infrastructure in general but hit the oil industry especially hard. Due to import restrictions on spare parts and modern equipment imposed by the sanctions, the aging oil installations deteriorated, limiting their production capacity and increasing the risk of accidents. The diversion of resources to the military during the Iran-Iraq war (1980-1988), insecurity and lack of investment after 2003 also contributed to the decay of the oil infrastructure.³ Furthermore, corruption, crime and years of militant violence and sabotage following the 2003 invasion also had a negative influence on the governorate's economic development.⁴ The receding level of the Tigris and Euphrates increased salinization and insufficient waste water treatment capacity hampers agriculture in the governorate. Heavy rains that began in October and continued through April in 2019, which reduced the high salinity levels – one factor that some believe reduced the number of water-borne illnesses in 2019 compared to the crisis in 2018 – but the rain also brought major flooding to Iraq. In the southern provinces, including Basra, thousands of families were forced to flee their homes.⁵

According to a recent livelihoods assessment conducted in Basra, agriculture has been halted in Abu Khaseeb, Basra, Al-Fao and Shatt Al-Arab in the south of Basra, as farmers in these districts lack alternative water sources for irrigation (where it remains limited in Al-Zubair).⁶ The amount of land being used for agriculture was significantly reduced from 7000 acres to 2000 acres. Few people have access to these water sources, and many lack the financial resources to procure agricultural inputs.⁷ Areas of marshlands and fertile terrain will be further reduced, due to continued water shortages and the informal rezoning of agricultural land to residential. According to the UN, an estimated 250 km² of fertile land is lost

² NCCI, Basra, Governorate Profile, n. g., https://www.ncciraq.org/images/infobygov/NCCI_Basra_Governorate_Profile.pdf

³ Ibid.

⁴ Ibid.

⁵ Lizzie Porter, "In Iraq, water woes and corruption gripes signal trouble in key city", <https://www.thenewhumanitarian.org/news-feature/2019/09/09/Iraq-Basra-water-pollution-competition-mismanagement>

⁶ Moi Peter Elia, Livelihoods and Market Assessment Basra, NRC, 2018, <https://reliefweb.int/sites/reliefweb.int/files/resources/Basra%20Livelihoods%20Technical%20Assessment%20FINAL.pdf>

⁷ Moi Peter Elia, Livelihoods and Market Assessment Basra

annually to desertification.⁸ The livestock sector has also suffered, as a lack of animal feed and clean water has resulted in livestock deaths, particularly among buffalo. Communities reported that they can no longer sustain feeding their herds due to the prohibitively high cost of animal feed and clean water processed through reverse osmosis plants.⁹

It is estimated that up to four million Iraqis will be forced to migrate from their homes during the next eight years as a result of the ongoing water crisis where large numbers of farmers and seasonal workers are currently lacking any livelihood opportunities.¹⁰ This has triggered significant population movements from rural to urban areas in the region, as people seek alternative livelihood opportunities. The majority of these people lack appropriate skills to secure formal employment. Women are further adversely affected in securing alternate livelihood options, as they are rarely found to work in local markets, due to cultural constraints.¹¹

FINDINGS

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

While battles against ISIS were not fought in Basra, the consequences were felt in the entire South. FGDs with the private sector highlighted how business dropped, especially after the ISIS crisis where some commented that the production dropped by 50% with an unprecedented stagnation recorded. Some mentioned also challenges related to the disruption of the port (though not much information on the disruptions of the port was available from other sources other than those referring to the protests in the second half of 2018).¹² Surveys with employers also overwhelmingly agreed that business and revenues during 2014 to 2017 dropped dramatically and reported various degrees of disruption, where some cited a 40 to 50% drop and some others mentioned their business coming nearly to a halt. Coping measures mentioned included reducing the number of employees, reducing production, and mentioned the general drop in purchasing power among people. Only a few exceptions were identified – one respondent even mentioned that his business grew (he imported and supplied cheap gas) . Others that did not report a disruption included general traders (in cosmetics and paper), services such as laundry, graphics studio, barber, photo studio (5), the metal sector (2), construction (2), and food (this respondent employed 70 employees, which represents a larger enterprise compared to the ones identified earlier).

KIs from the district of Basra (11 in total) reported some of the biggest employers before the crisis (see Table 1.1 for details). These include construction, services such as painting, services such as maintenance coolers/ACs, installations, logistics; the metal sector; manufacturing; general trade, fertilizers, and oil. One noted how agriculture did not receive any attention from the government and degraded. Four KIs

⁸ Moi Peter Elia, Livelihoods and Market Assessment Basra

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² BBC, Basra protests: Rioters attack Iran consulate, 7 September, 2018, <https://www.bbc.com/news/world-middle-east-45453215>

mentioned at least 50% of the following businesses recovering: general trade, construction (3), manufacturing (2), metal, services (2), and oil. Overall, a total halt of the industrial sector was reported by 2 KIs (paper, clothes, fertilizer, smithery). One KI elucidated, as the major factor in the industrial regression, a lack of border control which caused the influx of cheap imports.

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

Sector	Number of KIs, who reported the specified sector as being a <u>major employer before the crisis</u>	Only <u>few</u> businesses recovering (5 to 10%)	<u>Many</u> businesses recovering (50%)
Construction	3	1	3
Services	3 (painting; maintenance coolers/ACs, maintenance generators, refrigerators electrical installation; logistics)	1 (maintenance generators, coolers/ACs, refrigerators, and electrical installation)	1 (painting; logistics)
Metal	2 (welding, smith industry)	Not mentioned	1 (welding)
Manufacturing	4 (iron, wood, paper, clothes; handicrafts; equipment and tools)	1 (iron, wood)	2 (handicrafts; equipment and tools)
General trade	1	Not mentioned	1
Chemical	2 (oil, fertilizer)	Not mentioned	2 (oil)

Employers were asked to describe the current status of their business. A very small number (3%) classified their business as not being profitable (and as losing money), 45% mentioned their business as being stagnant and barely enough to sustain their own needs, 42% mentioned it was profitable and to some extent successful but not enough to grow any further, and 6% mentioned as being very profitable and as expanding. Table 1.2 reports businesses, which were either profitable but not enough to grow and those, which were profitable and expanding (with description of the sectors in respondents' words reported in the footnotes).

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 responses administered to employers

Sector	General trade	Services	Manufacturing	Construction	Metal	Agriculture	Carpentry	Hospitality
Profitable/successful, but not enough to grow further (numbers)	3	10	6	2	7	1	5	1
Very profitable/successful, it is expanding (numbers)		1		1	1		1	
Percentage currently profitable businesses	3% ¹³	12% ¹⁴	6% ¹⁵	3% ¹⁶	9% ¹⁷	1% ¹⁸	6% ¹⁹	1% ²⁰
Percentage within sector	75%	69%	60%	60%	50%	50%	30%	17%

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

Employers reported mostly getting their raw materials from Basra (79% of respondents) but also from other provinces in Iraq (mentioned by 24% of respondents). Twelve percent also mentioned abroad, including Iran, China, Turkey, Egypt, UAE, and Ukraine. Employer surveys reported mostly sufficient quantity and adequate quality where about 13% raised some concerns and these mostly belonged to the carpentry sector where 1 respondent belonged to hospitality, 1 to food, and 3 to the metal sector. Eight percent reported issues with quality and 9% with quantity. Some respondents also mentioned that these depend on the type of demand so they may vary. Seven FGD participants (referring to the carpentry sector)

¹³ Cotton handkerchiefs, cosmetics, cheap gas import

¹⁴ Barber; CNC engraving workshop; cooling and heating workshop; designer graphics; laundry; mobile accessories and repair; photo studio; tailor

¹⁵ Aluminum casting, making doors, windows factory; decoration factory; fiber glass; heating and cooling factory; plastic pipe industry; PVC factory

¹⁶ Construction in general, hollow blocks and brick making, supplying building material

¹⁷ Aluminum factory; aluminum workshop; blacksmith; metal workshop smithery; smithery CNC; smith and shapeliness industry

¹⁸ Chicken breeding

¹⁹ Carpentry in general, painting furniture

²⁰ Restaurant

mentioned that there was adequate quality where the problem was represented by the 'monopolization of merchants' without specifying further on the matter.

Fifty-four percent of employers reported various degrees of 'good demand' for their products/services where 36% reported good or very good without any addition (such as good but less than before and other specifications). These belong to general trade (cosmetic and cheap gas), metal (5), carpentry (7), services (11), manufacturing (1), food (3), agriculture (1). Table 2.1 provides an overview of the sectors that were reported as having various degrees of good demand. On the other hand, 45% respondents reported various degrees of dissatisfaction or raised some issues related to seasonality; outright low demand was mentioned by 34% respondents (see Table 4.1 for details on low demand).

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

Sectors with various degrees of good demand with descriptions of the business as provided by Employers	Number	Percentage (of total)	Within sector percentage
General trade Chicken selling; cotton handkerchiefs; cosmetics, import and supply of cheap gas	4	4%	100%
Services Barber; cooling and heating workshop; designer graphics; laundry; mobile accessories and repair; photo studio; plumber; tailor	13	16%	93%
Carpentry Carpentry factory (2); carpenter; carpentry furniture workshop; CNC wooden engraving workshop (3); painting furniture (3);	13	13%	65%
Metal Aluminum factory; aluminum workshop (3); art smith factory; blacksmith; metal workshop; smithery; smithery CNC	10	11%	62%
Construction Construction in general; hollow blocks making, supplier of building material	3	3%	60%
Food Ready food making; water factory (2)	3	3%	23%
Manufacturing Decoration factory; doors and window making, iron and CNC	2	2%	20%
Hospitality Restaurant	1	1%	17%
All Sectors	51	55%	/

Respondents were asked to identify the **single greatest challenge for operating in the area**. One third mentioned not having any problems for operating in the area where the remaining raised some issues. Issues related to workers' skills and general conduct were raised by 17% of respondents, more specifically issues such lack of honesty, absenteeism, lack of commitment, and requests for increasing wages. One mentioned lack of experience. Fourteen percent of employers mentioned issues related to infrastructure

including: electricity (mentioned by 14% of respondents), fuel related to the lack of electricity (2.3%), and water (2.3%). Rent was also mentioned as a concern by 5.5% of employers as being high and landlords often trying to raise the rent. Other issues reported were similar businesses operating in the area (5.4%), including one respondent from the construction and one from the food sector mentioning these not being registered and therefore with lower production costs. Other issues mentioned include a lack of border control, which leads to 'cheap imports of bad quality' (3.2%). Additionally, employers mentioned lack of capital for investment (3.2%); a decreased demand (4.3%), custom procedures, small spaces, and some other vague answers such as 'financial issues' which could refer to lack of loans or poor demand.

Additionally, employers were asked about the **challenges they experience with suppliers**. The greatest challenges with suppliers included price instability such 'as sudden price increases' (21%) and various issues related to the suppliers' needs related to cash (11%) such as requirements of advanced payments. Additionally, issues related to customs and border (both at the port and on roads) and taxes (mentioned by 6.5% of employers) were reported along issues of material bad quality (4.3%); transportation (3.2%); late delivery (3.2%); and trust issues such as not delivering the needed materials or 'cheating on weight' (2.1%). Forty-six percent of employers mentioned not having any issue with suppliers. **Challenges with clients** were also explored. These include delayed payments mentioned by 20% of employers and another 20% reported issues closely related to delayed payments such as customers in general lacking cash and requiring to purchase on debt, customers as trying to lower the price and bargaining, and lack of trust (due to debt and lack of cash issues). Forty-six percent of employers mentioned not having any challenges with clients. FGDs additionally confirmed challenges with clients related to the absence of cash and late payments, which all point to a liquidity crisis.

When asked specifically on the **policies and programmes that could strengthen the employers' ability to conduct business**, the measures suggested include support in terms of loans (15%) and improvement of electricity in terms of costs and supply (14%) where water was mentioned by 5% of respondents. Government support of private sector was mentioned in general by 20% of employers. The second set of recommendations are related to protection and stimulation of domestic production. Employers suggested the need for reduced prices of raw materials²¹ (14%) where 11% mentioned the need for halting the import of certain good altogether (such as sweets, furniture, and meat). Some others suggested increased taxes on some imported goods such as doors/windows, plastic pipes, fiber glass, heaters and coolers, and metal (mentioned by 5.4% of employers). A small number (3.2%) mentioned measures for protection of domestic products and price control in general. The same percentage (3.2%) suggested a reduction on taxes for importing equipment/machinery. Some 4.3% mentioned border control in general and 2.1% simplification of border procedures in general. One respondent mentioned quality control of raw materials.

Another set of recommendations revolved around the actual functioning of the government indirectly related to the stimulation of the private sector (mentioned by 6% of employers). These included paying salaries to government employees on time, which 'stimulates the economy and increases the availability of cash'; 'respecting the laws' in general; transparency in awarding government contracts; and the implementation and enforcement of labor laws. A small percentage (3.2%) mentioned security though it is unclear whether it is related to the protests in 2018 only. Smaller percentages also mentioned the availability of land for workshops, fuel prices, rent prices, and giving preference to domestic workers.

Table 2.2 Government policies and programmes for improving the business environment as mentioned by

²¹ These are likely not registered with the Ministry of Industry as larger companies do not pay the above-mentioned taxes.

employers

Support required	Number of Employers	Percentage Employers
Government support private sector and industrial development (in general) (2 mentioned the touristic sector specifically)	20	22%
Loans	14	15%
Electricity (prices, reliability)	12	14%
Raw materials reduced prices/reduced import taxes raw materials	13	14%
Halting the import of certain goods (for example sweets, furniture, meat)	9	10%
Functioning government (paying salaries to government employees on time, which stimulates the economy; respect of laws, transparency government contracts; implement and enforce labor laws)	6	6.5%
Increase taxes on imported goods (referred to doors/windows; plastic pipes; fiber glass; heaters and coolers; metal)	5	5.4%
Water	5	5.4%
Border control	4	4.3%
Fuel (suitable prices)	4	4.3%
Protection domestic products	3	3.2%
Price control	3	3.2%
Prices imported equipment reduction/import taxes equipment	3	3.2%
Security	3	3.2%
Land (for workshops)	3	3.2%
Lower rents/support	2	2.1%
Border procedures simplification	2	2.1%
Raw materials quality	1	1%

Transportation	1	1%
Domestic work-force	1	1%

Employers were asked whether they have **received any formal or informal job entrepreneurship training**. The vast majority (80%) mentioned they did not, although two specified they received it from the family members (though maybe others could have implied that as well). The remaining 20% mentioned receiving some training. Four employers mentioned receiving training through international organizations and 1 from the Federation of Industries, with others specifying other types of training. When asked about training needs, employers reported: management (18%); administration (10%), marketing (10%), work organization (5%), finance (4.3%), and a smaller number mentioned English, software, electronic marketing, and machinery. Fifty-six percent reported not requiring any training.

All employers considered expanding their business. The barriers identified: 79% mentioned a lack of capital; high rents and unsuitable work spaces/locations (5.4%); low demand and market stagnation (4.3%); lack of skilled workers (2.1%); issues related to price regulations (4.3%) and customs (2%); and other issues such as lack of machinery and equipment in general, a general lack of government support, high taxes and similar. What supported expansion among those, who managed to expand, were savings and support from relatives, mentioned by 2 employers.

2.1) Market Systems and Particular Disruptions

This section provides a closer look at 3 sectors and the bottlenecks these have experienced, including the metal, carpentry, and automotive services sectors.

Metal Sector

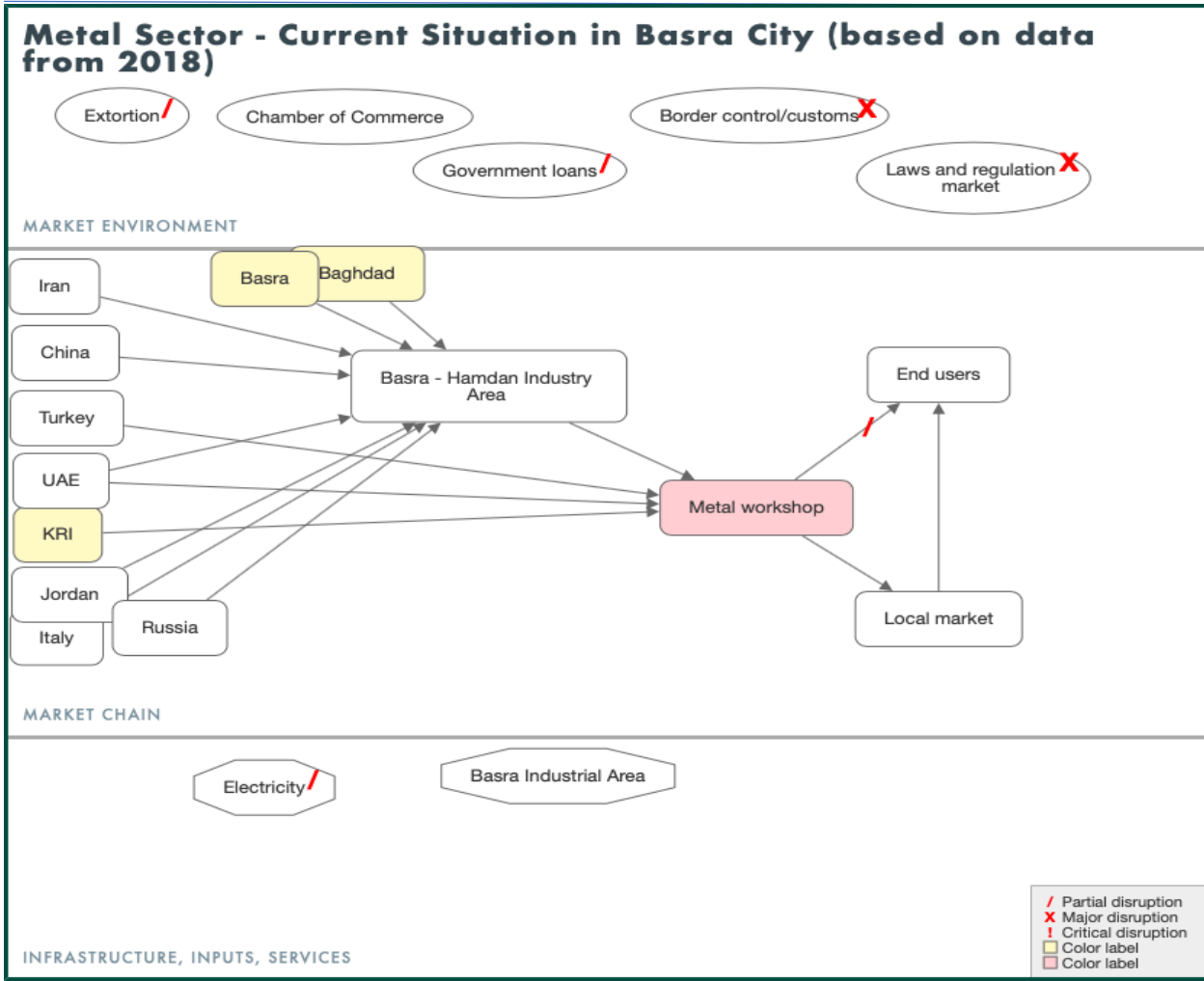


Diagram 1: Market mapping for the metal sector in Basra City based on FGDs with respondents from the metal sector

Six FGD respondents from the metal sector reported sourcing their materials from Hamdan Industry Area in Basra, while one respondent reported from UAE, Turkey, and KRI. In turn, Hamdan sources from Basra, Baghdad, and abroad. The material quantity was reported as good by all except one respondent, and most employers had not changed suppliers in the past years due to trust and competitive prices. Similar responses were found among the surveyed metal sector employers where only one mentioned issues with quality of materials. These lamented the suppliers' requirements for cash and one mentioned sudden change in prices. FGD respondents reported selling to end consumers and local markets. The major issues reported in regards to clients are lack of trust and delays in payments, also confirmed by the Employer survey. Only one FGD respondent reported no challenges and half of surveyed employers from the metal sector.

The ISIS crisis negatively affected the metal sector in Basra as government work stopped, which resulted in general market stagnation. Respondents lamented the lack of state regulation and organizing, monopolization or unfair competition, lack of electricity, and a general decline of the economy. Extortion was also reported for completing documentation in different governmental departments. One respondent reported benefitting from the infrastructure available in Hamdan Industrial City. Three paid taxes and 4 did

not.

Carpentry

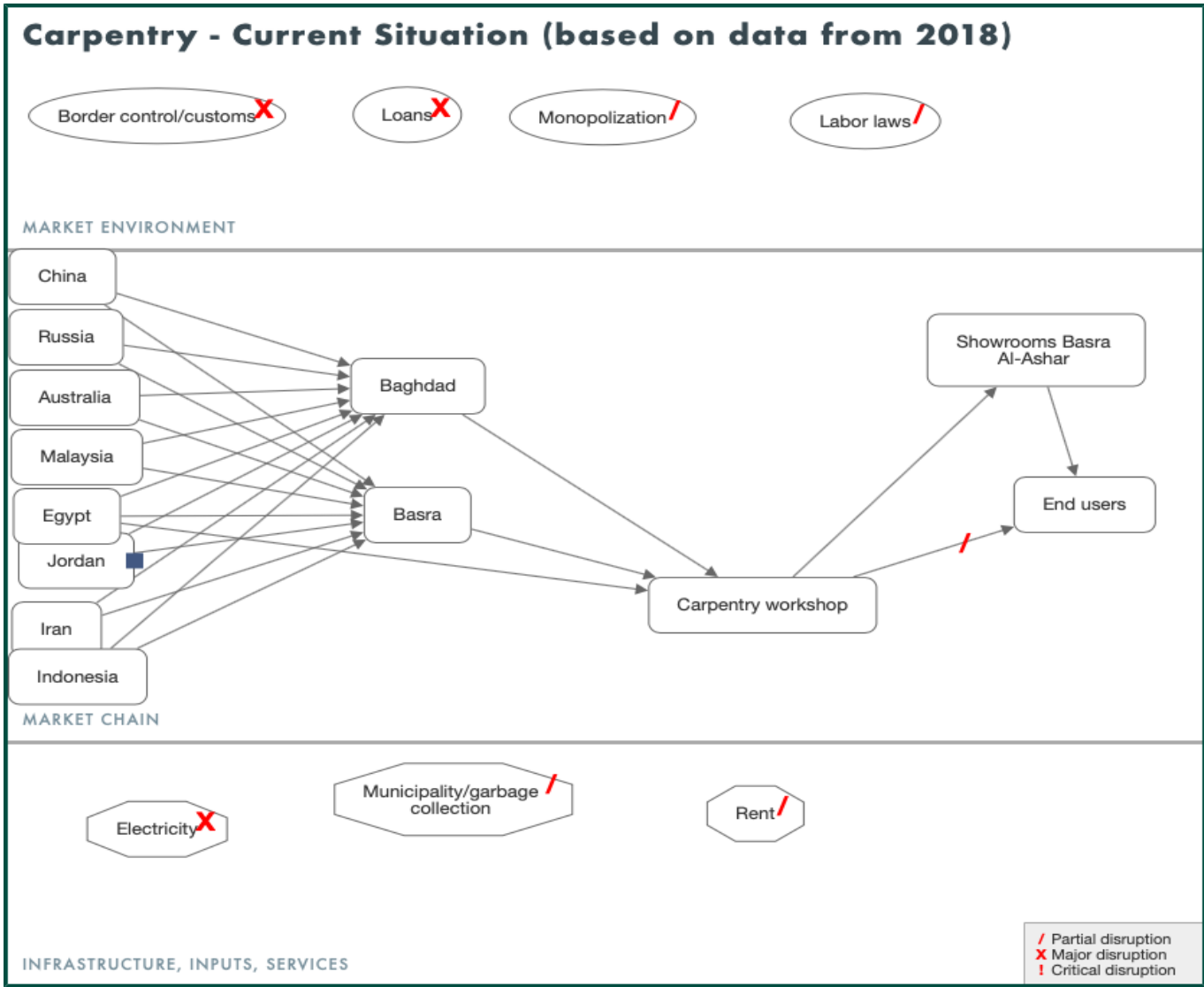


Diagram 2: Market map for the carpentry sector based on FGDs and the Employer Survey

All FGD respondents working in carpentry thought the crisis deeply affected them and production dropped dramatically, for an estimated 50%. Respondents reported sourcing their material from Basra and Baghdad whereas the employer survey reported also sourcing from Egypt. Three lamented that material quantities were not sufficient and 7 FGD respondents mentioned monopolization from the side of merchants. Quantity and quality issues were also reported by employers. In terms of consumers, FGDs did not report any issues, whereas the survey with employers identified late payments and a general lack of cash, reflecting challenges in terms of liquidity identified in other sectors also.

Cheaper imports have a major influence on production, including ‘imports from other governorates’, as reported by survey respondents. Major issues reported about regulatory bodies included lack of garbage collection and major electricity disruptions during summer time. Sudden rent increases were reported as problematic. A lack of implementation of labor laws was reported by the survey respondents where workers

are often trained and suddenly leave the workshops when offered better opportunities.

Services (automotive)

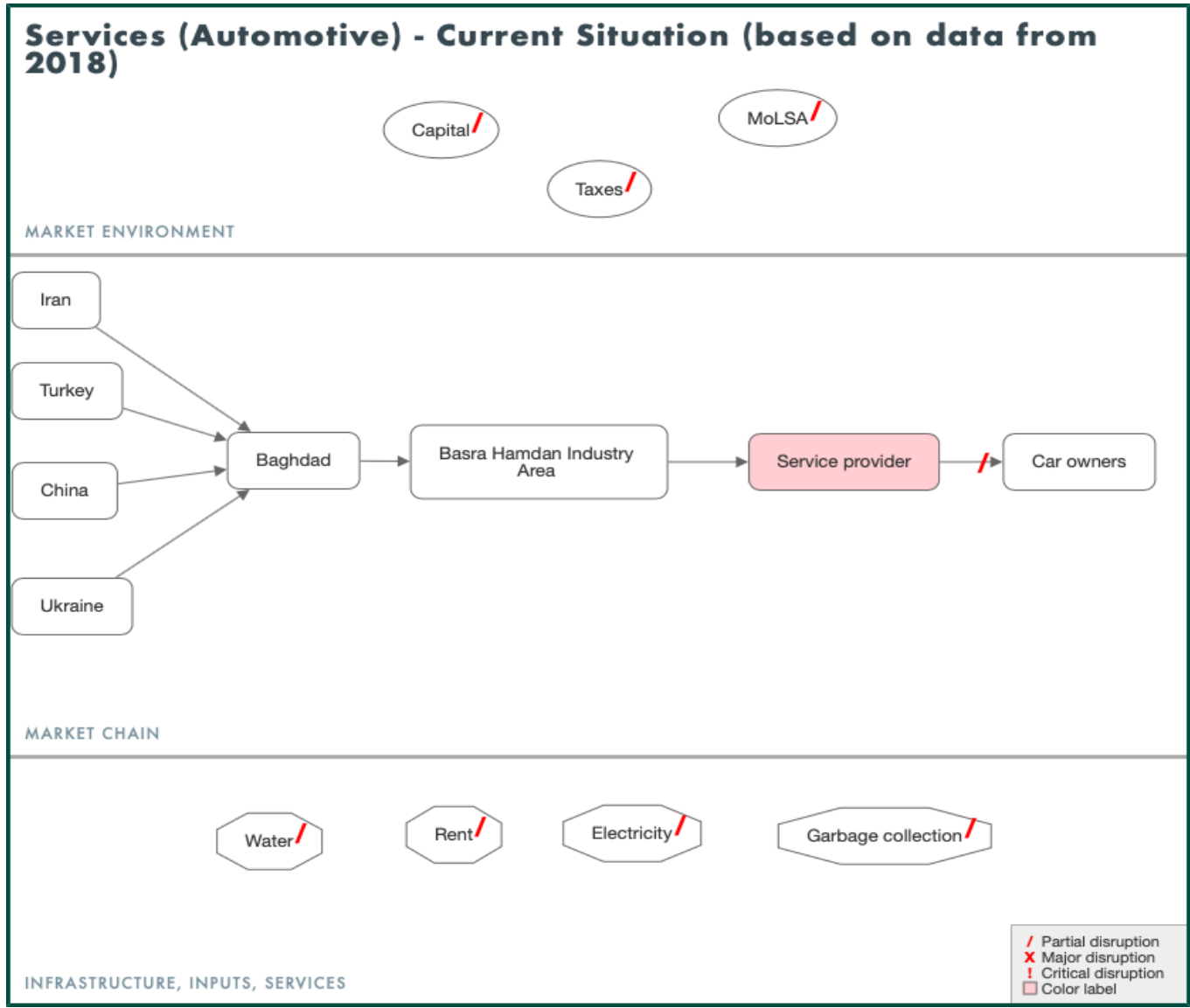


Diagram 3: Automotive services market map based on FGD with automotive services provider

All FGD participants reported major disruptions to their business due to the crisis between 2014 and 2017. FGDs also mentioned disruptions of the port (probably due to the unrest in 2018).²² As major restrictions to expansion, respondents mentioned a lack of capital, high taxes (referring to imports), MoLSA rules (though without specifying), high rents, and electricity fees. Additional challenges include insufficient water quantity, and delays in garbage collection. Though at the same time, FGD participants also reported benefitting from street paving and garbage collection services (although these were currently not functioning properly at the time of data collection). Issues with customers are affected by late payments as already mentioned in other sectors.

²² BBC, Basra protests: Rioters attack Iran consulate, September 7, 2018.

3) Opportunities for Employment Creation

The majority of respondents reported at least one employee related to them. Only 24% of employers do not employ any relatives. On average, employers in Basra employ almost 50% of their workforce through relatives. Table 3.1 provides some information on the average percentage of relatives employed in each sector. Lower percentages of relatives are found in hospitality, food, agriculture (2 employers were surveyed), and manufacturing. General trade, construction, carpentry, and the metal sector seem more prone to hiring relatives. Eighty-four percent of businesses were older than 6 years, reflecting a potential for hiring practices to be based on intergenerational business models, which may favor family-oriented practices, which might preclude hiring of unrelated workers, even more so if these belong to disadvantaged groups. In fact, the vast majority recruit through word of mouth also. Those, who specified additional sources of recruitment mostly mentioned ‘relationships.’

Table 3.1: Percentage of relatives employed in each sector

Sector	Average percentage of relatives employed in each sector
General trade	80,8%
Construction	76,8%
Carpentry	52,6%
Metal	52,4%
Services	38,3%
Manufacturing	37,3%
Agriculture	25,0%
Food	23,2%
Hospitality	22,5%
Average Relatives Employed All Sectors	44,5%

When asked what would they do if supported by a grant between USD 5,000 and 25,000, 43% of employers mentioned they would hire more employees (in an open-ended question), which is a positive finding related to possibilities of job creation. These belonged to the following sectors: carpentry (14 employers), services (10), metal (8), construction (2), food (2), general trade (1), a restaurant (1), and to manufacturing (a decoration factory).

Overall, recruitment is riddled with challenges in Basra, which point to needs related to vocational training. The vast majority of employers (81%) reported various degrees of difficulty in finding a skilled worker where some specified due to issues related to worker’s lack of training/knowledge, lack of commitment (such as leaving after the training), dishonesty, and similar conduct issues. It is therefore unclear for those, who mentioned ‘difficult’ if these implied attitudinal issues, lack of technical knowledge or both. Employers, who referred to difficulties in finding skilled employees belonged to the following sectors: a workshop for manufacturing furniture, a drinking water factory, hotel, restaurant, fresh juice production, plastic pipes industry, fiber glass, and heating and cooling factory. The remaining 19% of employers thought it was easy to find skilled workers, where some specified because they train them on the job and because of the market

stagnation and availability of workforce.

KIs also commented on whether employers follow labor laws and MoLSA enforces it. While answers were fragmented, 7 reported a percentage ranging from 10% to 90%, which precludes any meaningful conclusion. Two KIs thought 40 to 50% of companies were not registered at MoLSA.

The sectors currently underdeveloped with potential for growth as reported by KIs are outlined in Table 4.3. Leading is construction followed by industrial development without specifications and the metal sector expansion.

Table 4.3: Sectors with potential for expansion in Basra based on KIs

Sectors	Number of KIs, Who Mentioned the Sector
<i>None (though it is unclear whether all could expand or whether none could expand was implied)</i>	2
<i>All sectors could expand</i>	1
Construction (complexes, housing, etc.)	3
Industry (not specified)	2
Metal	2
Manufacturing (PVC, gypsum board)	1
Carpentry	1
Food	1
Agriculture (cattle breeding, fish)	1
Services (online store)	1

Only 6 employers surveyed mentioned there were no businesses like theirs, which points to potentially non-saturated sectors. These included: the metal sector (smith CNC), services (laundry and designer graphics); and manufacturing (glass workshop, aluminum casting, doors, and windows factory; heating and cooling factory). Two respondents mentioned being very few businesses like their, more specifically one respondent was involved in economic gas supply and one involved in fiber glass production. Though the latter does not match reports on low demand also.

4) Potential for Market Distortion

KIs mentioned the sectors that were considered oversaturated: none (1), construction (2), manufacturing

(tools and equipment), carpentry, chemical (oil), general trade (furniture, electrical appliances, groceries), agriculture (tomatoes), services (barber, taxi). KIs were also asked on the sectors currently supported by the government or by private investors. All the information is captured in Table 4.1. The same table also reports the employers, who mentioned low demand of their products/services. Employers mentioned low demand in the metal sector, which was not mentioned by KIs as being oversaturated. KIs also did not mention saturation in food and hospitality as reported by employers, who experience low demand. General trade and services were mentioned in the KIIs but no employer reported issues with demand.

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

Sectors	Mentioned by KIs as being:			Employers reporting:	
	Encouraged by the government	Supported by private investors	Oversaturated	Low demand (percentage of total/percentage within sector)	
Construction	Concrete, infrastructure (1)	Infrastructure (1), construction in general (2), malls (1)	Construction in general (1)	2.1% 40%	Blocks factory, hollow blocks and brick making
Carpentry	Carpentry in general (1)	<i>Not mentioned</i>	Furniture (1)	8% 35%	Carpentry, carpentry furniture, furniture workshops, MDF furniture workshop
Metal	Iron (1)	<i>Not mentioned</i>	<i>Not mentioned</i>	6.5% 38%	Smith factories, smith industry, aluminum workshop, smith and shapelines industry
Manufacturing	Plastic (1)	Plastic pipes (2), air cooling (1), manufacturing in general	Tools and equipment (1)	9% 80%	Aluminum casting and making doors and windows factory; fiber glass; floor tiles factory; glass workshop; heating and cooling factory; plastic pipe industry;

					PVC factory; PVC Windows and doors workshop
Agriculture	Agriculture in general, livestock, grain, fodders for livestock (1)	Fish raising, chicken breeding	Tomatoes	1% 50%	Chicken breeding
Food	<i>Not mentioned</i>	Water	<i>Not mentioned</i>	11% 77%	Sweets; juice; ready food
Hospitality	<i>Not mentioned</i>	Hotels, restaurants	<i>Not mentioned</i>	4.3% 67%	Restaurants, hotels
Chemicals	<i>Not mentioned</i>	Oil (4)	Oil (1)	/	NA
General trade	<i>Not mentioned</i>	Trade in general, furniture trade (1)	Electrical appliances, groceries (1)	/	<i>Not mentioned</i>
Services	<i>Not mentioned</i>	<i>Not mentioned</i>	Barber, taxi	/	<i>Not mentioned</i>

Data were additionally triangulated with questions that inquired on the biggest challenges experienced by employers. When asked for the biggest challenge the employers, who reported either a decreased demand or an increased competition include general trade (1 mentioning a cosmetic shop); carpentry (3), construction (1 mentioned a block factory), metal (2 mentioned a smith factory), food (1 ready-made food and 1 sweets), agriculture (1 chicken breeding), manufacturing (1 mentioned a PVC factory). As second biggest challenge those respondents, who again mentioned a decreased demand or increased competition included carpentry (2) and the metal sector (an aluminum workshop).

As biggest changes in the business environment, 7 KIs reported a worsened business environment, including a lack of business where some was likely due to the political situation (likely referring to the instability in late 2018), challenges related to water salinity affecting the palm trees, and because of the import of used items from the European Union. One KI mentioned improvements in terms of protection, through an increase on tariffs on Iranian products and industries in general.

CONCLUSIONS

In conclusion, businesses in Basra were also affected by the crisis from 2014 to 2017 where it seems these have recovered but not to the same degree. Half of the general trade, construction, manufacturing, metal, services, and the oil sector recovered. Though based on the survey with employers, in addition to the sectors mentioned, food and carpentry are also experiencing good demand. Overall, a closure of the industrial sector was reported for paper, clothes, fertilizers, and smithery. Lack of protectionist policies, high taxes on imported raw materials, lax border control, and infrastructural issues such as water, electricity, and high rents create major challenges for businesses in Basra.

Workers are also not easy to find, and skilled workers were reported as hard to find in a workshop for manufacturing furniture, a drinking water factory, a hotel, a restaurant, a fresh juice production business, a plastic pipe business, a fibre glass business owner, and from a heating and cooling factory. Attitudinal issues were reported as a major challenge. A mismatch between jobs and skills is therefore apparent along a general lack of soft skills among workers.

Overall, demand looks positive in the area, with about only 35% of businesses reporting low demand along of their products/services, which points to the possibility of cash-based interventions. Lack of capital seem also a major issue. Potential for growth was identified by KIs in manufacturing such as PVC boards and gypsum boards, food, cattle breeding, fish breeding, industry in general, and one said in all sectors there is potential. Construction, the metal and carpentry sectors were also mentioned by KIs as having potential though these are also prone to hiring relatives.

ANNEX 1: RECOMMENDATIONS FROM THE MARKET ASSESSMENT

1. While there seems to be good demand in the construction sector but also oversaturation, private investment is already present so construction should not be prioritized. In addition, the hiring of relatives is widespread in the construction sector though 2 out of 5 employers mentioned hiring workers if these were awarded a grant between USD 5,000 and 25,000.
2. General trade appears oversaturated and is supported by private investors, according to KIs (especially electrical appliances and groceries) along hiring mostly relatives. Nonetheless, employers experience overall good demand and 1 out of 4 mentioned hiring more workers if these received a grant. Therefore these should not be excluded from funding where trade with electrical appliances should be excluded and groceries likely dealt with caution.
3. Granting to carpentry and the metal sectors may be suitable despite being reported as oversaturated by KIs and prone to hiring relatives. The two sectors also experience fairly good demand. Overall, a high number of employers mentioned their willingness to hire more workers if awarded a grant of USD 5,000 up to 25,000 also, which again qualifies the two sectors as suitable.
4. Manufacturing experiences low demand specifically in an aluminum doors and windows factory; fiber glass; floor tiles factory; glass workshop; a heating and cooling factory; plastic pipe industry; PVC factory; PVC windows and doors workshop, and manufacturing of 'tools' in general as mentioned by one KI along the presence of private investment in the sector. It also seems that the government is supporting the sector, especially related to plastic. Therefore the latter should be excluded from funding also in light of the fact that only 1 out of 10 employers would hire more workers if awarded a grant.
5. Food is rather weak in demand (though water experiences good demand) and it seems that investors are supporting it too, especially water. Though the issue might lie in variety or what is actually offered more than the sector itself, which remains an important and resilient sector as assessments in other governorates have shown. As a positive, the food sector tends to look outside of the family for hiring. Certainly all sweets producers experience low demand and should be therefore excluded from grant matching.
6. Hotels and restaurants experience low demand and receive the attention of private investors already and should be therefore excluded from funding. Considering the tourism (national and foreign) outlook for Basra, hotels do not seem to be appropriate and likely those operating are currently sufficient.
7. Services such as barbers and taxis are also oversaturated based on KIs. However, services overall experience good demand according to employers where low demand was virtually absent: barber; cooling and heating workshop; designer graphics; laundry; mobile accessories and repair; photo studio; plumber; and tailors all reported various degrees of good demand and therefore make good candidates for funding. These also report not hiring relatives though it is also the case that often these businesses consist of the employer and 1 employee. One KI suggested supporting online services, which might be an underdeveloped sector in Basra and worth looking into.
8. Chicken breeding, at least one, reported good demand but it is also a sector supported by private investment already (along tomatoes growing). One KI mentioned fish breeding as a promising sector along cattle.
9. Advocacy in conjunction with other organizations in terms of protectionist policies is required as in

in their absence a variety of sectors struggle due to non-competitive prices.

10. Considering the lack of skills reported by employers, training is required. While the employers' answers were not informative, these require skills related to the carpentry sector, drinking water bottling, services such as hotel, cooking, skills related to the plastic pipes industry, the fiber glass industry, and skills related to heating and cooling factory. Additionally, soft skills are lacking in general and should be included to any technical skills training. This recommendation should be considered also in conjunction with the Labor Market Report for Basra from IOM.
11. Training of employers is also required and should be matched with a training provider as quite a high number mentioned management, marketing, and administration knowledge needs among other requests.
12. Considering the electricity shortages, electricity prices, and the needs for generators, allow for higher than average budgets for electricity or investments in generators in business plans.
13. Considering the high rents and sudden rent increases request lease information and confirm amounts owed, if any, for rent by businesses to their locations along with, possibly, requiring the landlords to not raise rents to EDF grantees.

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></p> <p><i>Did you manage your business differently during 2014–2017, and how did it affect your revenue? (ES, Q3)</i></p> <p><i>How would you describe your business performance from before ISIL, during ISIL, and since the end of ISIL’s occupation? (ES, Q4)</i></p> <p><i>How will recovery continue to impact your business over the next 12-months? (ES, Q5)</i></p> <p><i>Do businesses selling your product or providing your services in this area generally make a small or sizeable profit? (ES, Q8)</i></p> <p><i>Prior to the crisis, what sectors were the biggest employers in the city? What happened to these sectors? (KII, Q4)</i></p>
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<p>What market failures can be addressed through cash grants, or may be better supported through other business development services?</p>	<p>Supply-side and demand- side bottlenecks due to constraints/obstacles</p>	<p><i>What is the single greatest challenge that you face operating in Mosul, what are the other challenges? For the challenges you have identified please indicate what kind of changes would improve your ability to do business. (ES, Q8)</i></p> <p><i>What challenges do you face dealing with clients? (ES, Q7) What challenges do you face dealing with suppliers? (ES, Q6)</i></p> <p><i>What kinds of government policies or programmes, or infrastructural improvements, could strengthen your business? (ES, Q13)</i></p> <p><i>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? (ES, Q14)</i></p> <p><i>Have you ever considered expanding your business (e.g. opening another location, adding additional products/services, 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 growth/expansion? (ES, Q15)</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></p> <p><i>How many of your employees are considered skilled/unskilled? How hard or easy is it to find qualified workers? Why? (ES, Q11)</i></p> <p><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></p> <p><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></p> <p><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?