

DIYALA EMERGING MARKETS: OPPORTUNITIES AND CHALLENGES

A Market Assessment of Diyala Governorate

IOM Iraq – December 2019

Table of Contents

<i>SUMMARY</i>	4
<i>INTRODUCTION</i>	6
Methodology.....	6
Geographical Area Selection and Selection of Participants	6
Limitations	9
<i>BACKGROUND</i>	10
<i>FINDINGS</i>	11
1) The Extent of Damage Suffered by Small and Medium Enterprises	11
2) Market Failures That Can Be Addressed Through Matching Grants or Business Developments	12
2.1) <i>Market Systems and Particular Disruptions</i>	14
3) Opportunities for Employment Creation.....	15
4) Potential for Market Distortion	16
<i>CONCLUSIONS</i>	18
<i>ANNEX 1: RECOMMENDATIONS FROM THE MARKET ASSESSMENT</i>	19
<i>ANNEX 2: MARKET ASSESSMENT PLAN</i>	20
Market Assessment Plan.....	20
<i>ANNEX 3: SURVEYING TOOLS</i>	23

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SUMMARY

While Diyala was negatively affected by the crisis during 2014 to 2017, the governorate was already a hotbed of sectarian conflict and other challenges, which pre-dated the emergence and occupation of the Islamic State of Iraq and Syria (ISIS). Displacement remains high in Diyala with more than 50,000 IDPs recorded at present along with new displacements.

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?

- The majority of employers (55%) reported that their work was not affected by the crisis from 2014 to 2017. Eight employers mentioned completely stopping their activities and these belonged to the metal, carpentry, food, general trade, textile, and manufacturing sectors. Others mentioned lower profits and poorer demand, especially among those operating in displacement.
- Seven key informants reported agriculture as the major employer before the crisis, 1 informant mentioned the private sector in general, and 1 respondent mentioned wholesale, groceries, and clothing. The latter never recovered, although for agriculture 50% of businesses had reportedly recovered.
- Employers were asked to describe the current status of their business. Overall, 57% reported as running profitable businesses and these are found in most of the sectors surveyed.
- The automotive, general trade, carpentry, and the metal sector are among the least successful sectors based on the responses provided by employers.

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

- Sixty-three percent of employers reported various degrees of 'good demand' for their products/services. Good demand is present in most of the sectors where the weakest recorded is in general trade and construction followed by services.
- Additionally, a linear modeling of the relationship between self-reported good demand and sectors was performed, which showed positive (but not significant) relationships with food processing, prepared food, textile, carpentry, metal, and manufacturing in Diyala.
- Forty-five percent of employers discussed issues related to security, check-points, transportation of goods, and road closures as the greatest challenges for operating in their respective areas. Ten percent mentioned electricity, damaged infrastructure, and poor reconstruction. A high number also reported a poor purchasing power among customers along with a stronger competition and/or poorer demand of their products/services (mentioned by 21% of employers).
- Two female respondents explicitly mentioned 'culture' as particularly affecting their ability to conduct business in Diyala.

- When specifically asked about the ‘fixes’ required to strengthen their ability to conduct business, 33% mentioned the availability of grants/loans, 16% mentioned improvements related to security and check-points, 15% mentioned infrastructure improvements including roads and electricity along other less mentioned issues such as an improved purchasing power among people, the return of people from displacement, and building an industrial area.
- The majority of employers considered expanding their business. The main challenge reported by the majority of employers is poor access to capital, which was already highlighted as the major challenge for conducting business in general.

What cash grants could create the need for additional labor?

- On average, employers reported having more than half of relatives employed in their workforce. While such practices might exclude vulnerable groups from hiring, the latter appear to be less prevalent in Diyala in comparison to other areas surveyed for the market assessments.
- When asked what would they do if supported by a grant between USD 5,000 and 25,000, 24% of employers mentioned hiring new workers (in an open-ended question) and these belonged to the following sectors: metal (5.3%), food (5.3%), manufacturing (3.2%), construction (3.2%), services (3.2%), general trade (2.1%), chemical (1%), and textile (1%).
- The sectors currently underdeveloped with potential for growth as reported by key informants included agriculture and the private sector in general (without any additional specifications).

What cash grants could create market distortions?

- Sectors encouraged by the government includes agriculture. Key informants also mentioned the private sector and 1 mentioned services. Support by private investors was reported in agriculture (mentioned by 2 respondents), handicrafts, clothing, grocery, and restaurants.
- Key informants also mentioned as the biggest changes found in the business environment in the past 6 months a growth in agriculture and the private sector, government support of the agricultural sector (mentioned by 2 respondents), and 1 respondent mentioned a contraction of the private sector.
- Additionally, 60% of employers reported a lot of businesses like theirs, which can point to businesses that might not have been competitive anyways. The highest percentage of similar businesses reported by employers included agriculture (though only 1 employer was surveyed), the automotive sector, followed by metal and construction. The lowest percentages of similar businesses were reported in the food, hospitality, and textile sectors followed by manufacturing.

INTRODUCTION

The economy of Diyala was negatively affected by the crisis from 2014 to 2017 with some areas falling under ISIS control. Displacement remains high with more than 50,000 individuals recorded by IOM at present, with new displacements attributed to unemployment, poor access to services, and insecurity.

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 sector. 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 governmental departments in Diyala, including the Chamber of Commerce, the Ministry of Migration and Displacement, the Local Council, MoLSA, the Agriculture Department, the Governor's office and a civil society organization. In total, 8 interviews were conducted. One FGD was also conducted with employers belonging to the construction sector.

Sampling guidelines provided targets for the number of employers to survey from each industry in Diyala. Surveys with employers were conducted in different locations of Diyala, including Khanaqin, Jalawla, and Sadiyah. See the Maps below for information on the locations surveyed. In total, 94 employers were surveyed where among these only two were female. The sectors and the respective description of the businesses as provided by employers include the following:

Sectors	Number	Percentage
Agriculture Chicken and cattle breeding	1	1%
Automotive Mechanic, car electricity workshop, car parts, tire mender	9	10%
Carpentry	3	3%
Chemical Mixing and packing motor oils	1	1%
Construction Cement, gravel and sand lab, construction material	7	7%
Food Pastries, kebabs, chicken products, confectionery, dairy, honey, juices, ice cream, mineral water bottling, sesame oil, sweets	15	16%
General trade Glass and mirrors, grocery, oxygen products, stationery, health equipment, tires and batteries, trade in general	12	12%
Hospitality Different types of restaurants	4	4%
Manufacturing Aluminum and plastic, fiberglass, water tanks, furniture (wood and other materials)	12	13%
Metal Aluminum, metal in general, smith, welding	11	12%
Services Medical laboratory, maintenance air conditioners, decoration, tailor, barber, electrical installations	17	18%
Textile Clothes factory, tailoring factory	3	3%
All	94	100%

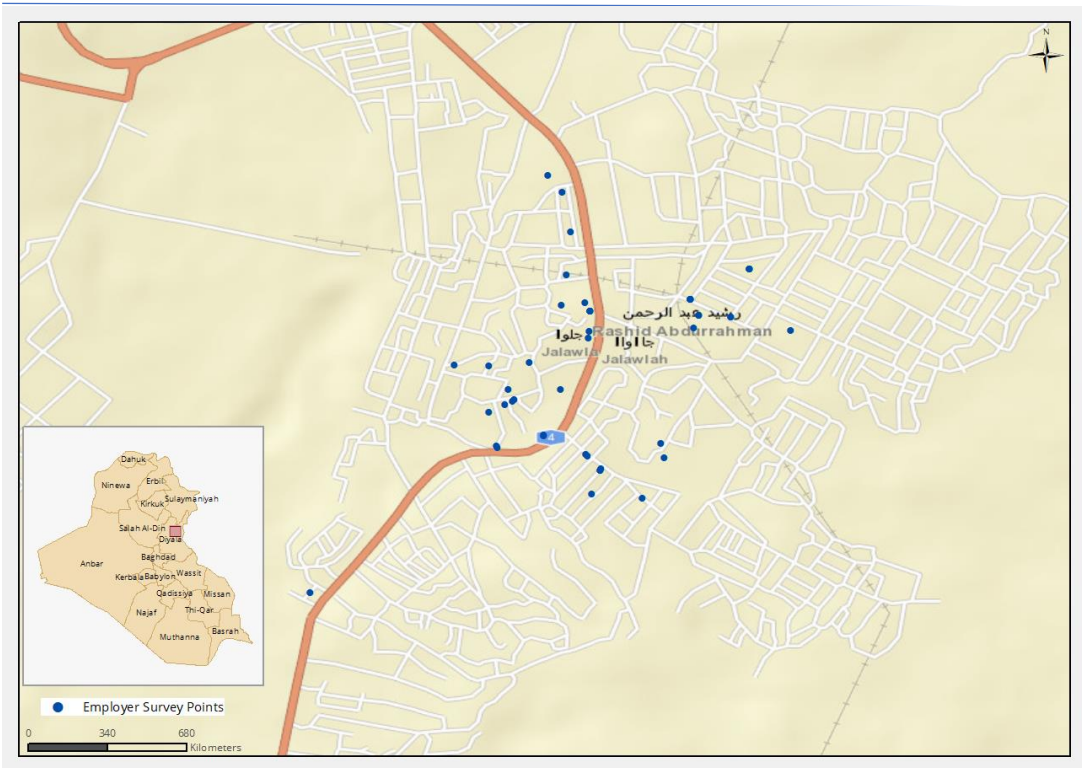


Figure 1 Employers surveyed in Jalawla

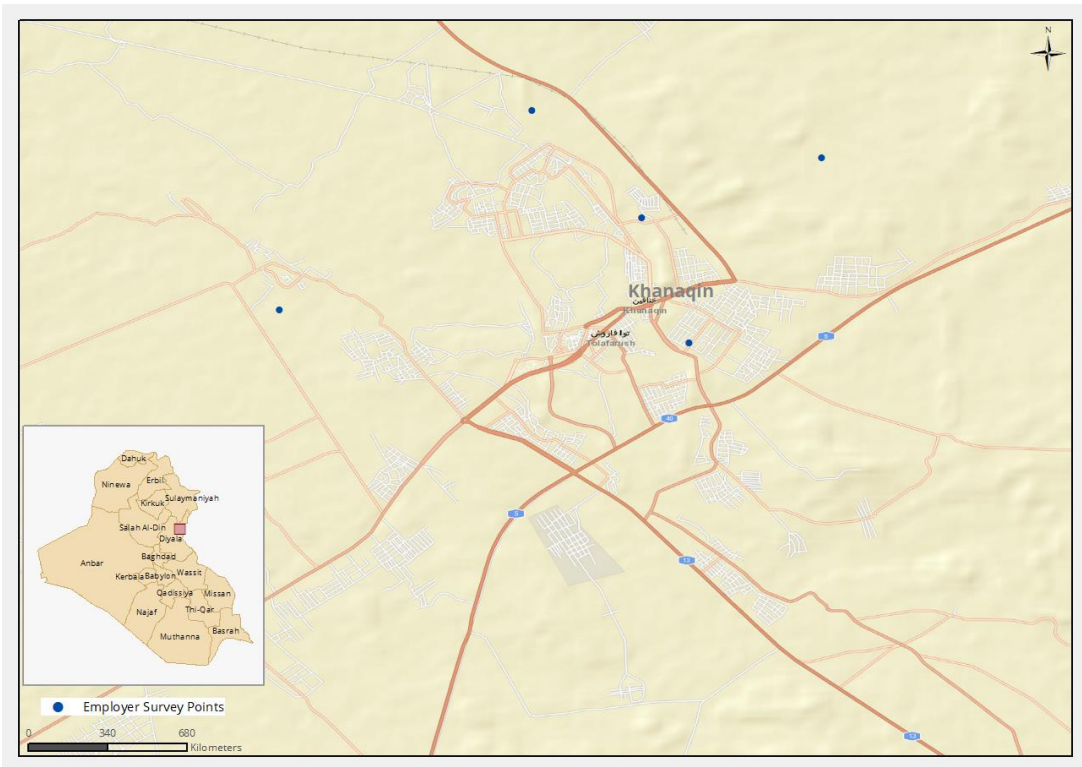


Figure 2 Employers surveyed in Khanaqin

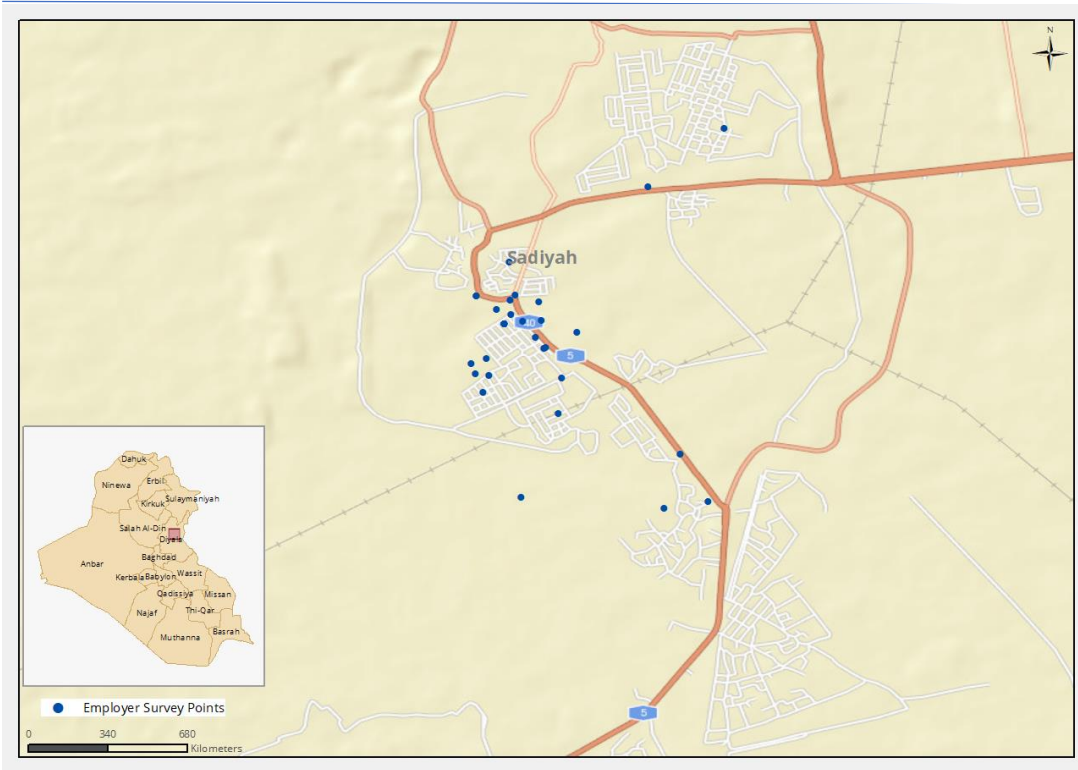


Figure 3 Employers surveyed in Sadiyah

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

Limitations

Only 2 female employers were surveyed for the present assessment and both reported that being a business-woman was particularly difficult in Diyala. However, no additional insights could be derived from the data on the matter. Sectors often lacked specifications in the responses provided by the employers, which allowed for a less granular overview of the specific sub-sector in question.

BACKGROUND

As of January 2016, the governorate of Diyala had an estimated 1,133,627 inhabitants.¹ Diyala counts an ethnically and religiously diverse population comprising of Arabs, Kurds and Turkmen. Religious communities in the governorate include Sunni and Shia Muslims, Christians, Yezidis and Ahl Al-Haqq, a religious group with roots in Shia Islam. Additionally, Failli Kurds, who are predominantly Shia Muslims, live in the south-eastern part of Iraq and western Iran, near the border between the two countries. The governorate of Diyala is divided into seven districts: Kifri, Makmoor, Al-Muqdadiya, Baladrooz, Ba'quba, and Khanaqin.

Agriculture represents one of the main economic activities in Diyala. The governorate is famous for its production of dates and citrus, and livestock and poultry farms were also common in the governorate.² The area of Khanaqin also has an oil-field and an oil refinery. Private sector development was hampered by the poor infrastructure in the governorate. The Ba'ath regime neglected the development of the governorate. The Iran-Iraq War, the 1991 Gulf War, the following UN sanctions regime, the 2003 invasion and the following insurgency and sectarian fighting also took their toll on the governorate's infrastructure. Cheap imports, lack of skilled labour, and capital further stalled Diyala's economic development.³ In the wake of conflict to push the Islamic State out of the governorate, Diyala was left with high percentages of infrastructure and private property damage, with road damage particularly high in Khanaqin and Khalis, and accessible arable and grazing land left only partially accessible, in part due to landmines. Legal and health services were the most difficult to access.⁴

Diyala's history as a hotbed for ethnic and sectarian conflict also led to a large number of displaced persons even before the recent combat with the group ISIS in the governorate. The ISIS onslaught and following military operations forced even more people into displacement. Displacement remains high in Diyala with 22,398 individuals recorded in Ba'quba, 16,608 in Khanaqin, 8,064 in Kifri, 5,748 in Al-Khalis, 896 in Baladrooz, and, 180 in Muqdadiya as of November 2019.⁵ Diyala also counts among the top governorates of return with 227,160 individuals recorded as of November 2019, with the highest numbers reported in Khanaqin, followed by Al-Khalis, and Muqdadiya.⁶ Despite the overall decrease in the numbers of IDPs in Iraq, 34,350 individuals were newly displaced during September and October 2019. Most of them fled from Baghdad and Diyala governorates due to the worsening security situation, provision of services and employment opportunities.⁷

In October 2017, the Kurdish Regional Government's political and military hold over disputed territories, which included also areas of Northern Diyala, was taken over by a mix of military forces and militias backed by the Government of Iraq. Insecurity remains high in the governorate with attacks from insurgents regularly reported. Some authors claim that Diyala remains a fallback location for the Islamic State – a place to hide and recover given its geography and terrain.⁸ Since the harvest began in April 2019, crop fires have raged across Diyala, with varying estimates of the losses. Islamic State has claimed

¹ NCCI, Diyala Profile, January 2016, http://www.ncciraq.org/images/infobygov/NCCI_Diyala_Governorate_Profile.pdf

² Ibid.

³ Ibid.

⁴ Social Inquiry, Conflict Fragility and Social Dynamics in Diyala Governorate: An Assessment of Khalis, Muqdadiya, Kifri and Baladrooz Districts, April 2018,

<https://static1.squarespace.com/static/5bbb4e4c29f2cc31b47ff50f/t/5c515fd5758d4639fb8908c7/1548836894008/Diyala+Peace+Dynamics+Study+-+Final+Version.pdf>

⁵ IOM, DTM Displacement Matrix, November 2019, <http://iraqdtm.iom.int/default.aspx>

⁶ IOM, Displacement Tracking Matrix Round 112 Report, November 2019,

http://iraqdtm.iom.int/Downloads/DTM%202019/October%202019/DTM_112_Report_September_October2019.pdf

⁷ Ibid.

⁸ Michael Knights and Alex Mello, Losing Mosul, Regenerating in Diyala: How

the Islamic State Could Exploit Iraq's Sectarian Tinderbox, CTC Sentinel October 2016, The Washington Institute, <https://www.washingtoninstitute.org/uploads/Documents/opeds/Knights20161025-CTCSentinel.pdf>

responsibility for burning hundreds of hectares of farmland in Diyala among other areas. However, it has been impossible to determine how many fires had been started by the militants, or otherwise untangle the various causes for an increased number of fires in comparison to previous years.⁹

An assessment conducted in Khalis, Muqdadia, Kifri and Baladrooz in early 2018 established that 33% of respondents pointed to unemployment as being one of the biggest security threats their communities face, followed by the reemergence of the Islamic State or similar groups (30% of respondents), structural violence across the community (19%), and restriction of movements (14%).¹⁰ The reemergence of ISIS was especially seen as a concern in Muqdadia district, with more than half of respondents pointing to it as the main security threat to the area.¹¹ The qualitative data from the same study helped to explain that many of the top security threats listed by the respondents (i.e., unemployment, structural violence, restriction of movement, etc.) were the main reasons for the emergence of extremist groups to these districts in the first place. If these issues are not solved at the root, then there is the risk of ISIS, or similar groups, emerging again.¹²

FINDINGS

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

The majority of employers (55%) reported their work as not being affected by the crisis from 2014 to 2017. Eight employers mentioned completely stopping their activities and these belonged to the metal, carpentry, food, general trade, textile, and manufacturing sectors. Some also mentioned continuing to work in displacement and therefore as having smaller profits or as having decreased profits. Seven key informants reported agriculture as the major employer before the crisis, 1 key informant mentioned the private sector in general, and 1 mentioned wholesale, groceries, and fashion. The latter never recovered, whereas for agriculture, key informants mostly reported that 50% of businesses recovered.

Employers were asked to describe the current status of their business. Overall, 57% reported as running profitable businesses and these are found in most of the sectors surveyed. See Table 1.1 for details. The automotive, general trade, carpentry, and the metal sector are among the least successful sectors based on the responses provided by employers.

Table 1.1: 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 responses

Sector	Agriculture	Chemical	Hospitality	Food	Construction	Services	Manufacturing	Metal	Automotive	Carpentry	General trade
Profitable/successful, but not enough to grow further (numbers)	1 (chicken breeding)		4 (restaurants)	7 (dairy, sweets, water, kebab)	5	10 (barber, laboratory, services in general)	4 (water tanks, fiber glass, furniture)	5 (aluminum, smithery)	3 (mechanic, tire mender, spare parts)	1	1

⁹ Ahmed Aboulenein, Maha El Dahan, After years of war and drought, Iraq's bumper crop is burning, Reuters, June 20, 2019, <https://www.reuters.com/article/us-iraq-wheat-fires-insight/after-years-of-war-and-drought-iraqs-bumper-crop-is-burning-idUSKCN1TL08T>

¹⁰ Social Inquiry, Conflict Fragility and Social Dynamics in Diyala Governorate

¹¹ Ibid.

¹² Ibid.

Very profitable/successful, it is expanding (numbers)		1 (mixing and packing motor oils)		4 (water bottling, sweets)		2 (sewing, services in general)	3 (plastic and aluminum, unspecified)				
Number of currently profitable businesses	1 (out of 1)	1	4 (out of 4)	11 (out of 15)	5 (out of 7)	12 (out of 17)	7 (out of 11)	5 (out of 11)	3 (out of 9)	1 (out of 3)	1 (out of 12)
Percentage within sector	100%	100%	100%	73%	71%	70%	63%	45%	33%	33%	8%

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

Sixty-three percent of employers reported various degrees of 'good demand' for their products/services. Good demand is present in most of the sectors where the weakest recorded is in general trade and construction followed by services. Data need to be interpreted with caution as in some sectors a small number of employers was surveyed. These are outlined in Table 2.1. The remaining employers reported various degrees of dissatisfaction with the current demand or not good nor bad demand in some cases.

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

Sector and Description as Provided by Employers	Number	Percentage Good Demand Within Sector
Agriculture Chicken and cattle breeding	1	100%
Chemical Mixing and packing motor oils	1	100%
Hospitality Fish restaurant, pizza restaurant, restaurant	4	100%
Textile Clothes factory, tailoring factory	3	100%
Automotive Mechanic, car parts, tire mender	8	89%
Food Factory for pastries and kebabs, dairy, honey, juices, mineral water bottling, sesame oil	13	87%
Carpentry	2	67%
Manufacturing Aluminum and plastic, water tanks, unspecified manufacturing	7	64%
Metal Aluminum, metal, smithery	7	64%
Services Laboratory, air conditioners maintenance, barber shop, decoration, services in general, tailor	8	47%

Construction Construction in general, construction materials	3	43%
General trade Commercial activity (unspecified), grocery	2	17%
All Sectors	59	100%

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

Table 2.2 Good Demand as a Function of Sector and Other Factors by Location

Factor	Good Demand
Age of owner	2.193 (.377)
Number of employees	-.005 (.017)
Salary of employees	.056 (.058)
Age of business	.045* (.027)
Gender of owner	.146* (.085)
Considered expanding previously	.151*** (.033)
Diyala *Food processing	.299 (.219)
Diyala *Prepared food	.015 (.247)
Diyala *Textile	.211 (.305)
Diyala *Carpentry	.146 (.275)
Diyala *General trade	-.134 (.235)
Diyala *Metal	.172 (.210)
Diyala *Services	-.198 (.220)
Diyala *Construction	-.333 (.236)
Diyala *Manufacturing	.052 (.334)
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. Forty-five percent of employers discussed issues related to security, check-points, transportation of goods, and road closures where one specified ‘some military groups taking things and not paying.’ Ten percent mentioned electricity, damaged infrastructure, and poor reconstruction. A high number also reported a poor purchasing power among customers, in addition to a competition and/or poor demand of their products/services (mentioned by 21% of employers). Two female respondents explicitly mentioned ‘culture’ as particularly affecting their ability to conduct business in Diyala. The quantity and quality of materials were considered adequate by the vast majority of employers.

Challenges with consumers were also explored. Employers mostly mentioned debts related to this, although 19% reported not having any problems with clients. When specifically asked about the ‘fixes’ required to strengthen their ability to conduct business, 33% mentioned the availability of grants/loans, 16% mentioned improvements related to security and check-points, and 15% mentioned infrastructure improvements, including roads and electricity. Other less mentioned issues included improved purchasing power among people, the return of people from displacement, and building an industrial area. Only 23% of employers have received formal or informal job entrepreneurship training. The majority of employers considered expanding their business where almost a fifth never considered expanding (18%). The main challenge reported by the majority of employers is poor access to capital, which corroborates the findings established earlier on the greatest challenges for operating in the area.

2.1) Market Systems and Particular Disruptions

Respondents from the construction sector reported challenges related to their ‘municipality’ without providing additional insights (though these were reported as being inconsistent and as not affecting all the projects), check-points, and extortion at check-points. Delivery on time can be affected by weather and insecurity. Other challenges are related to the location of the market (without further specifications), electricity, and water fees. The quantity of material was reported as not being sufficient and the quality low due to the fact that ‘good quality material is more expensive.’ The main challenges related to clients are late payments. See Diagram 1 for details on the current market situation in the construction sector.

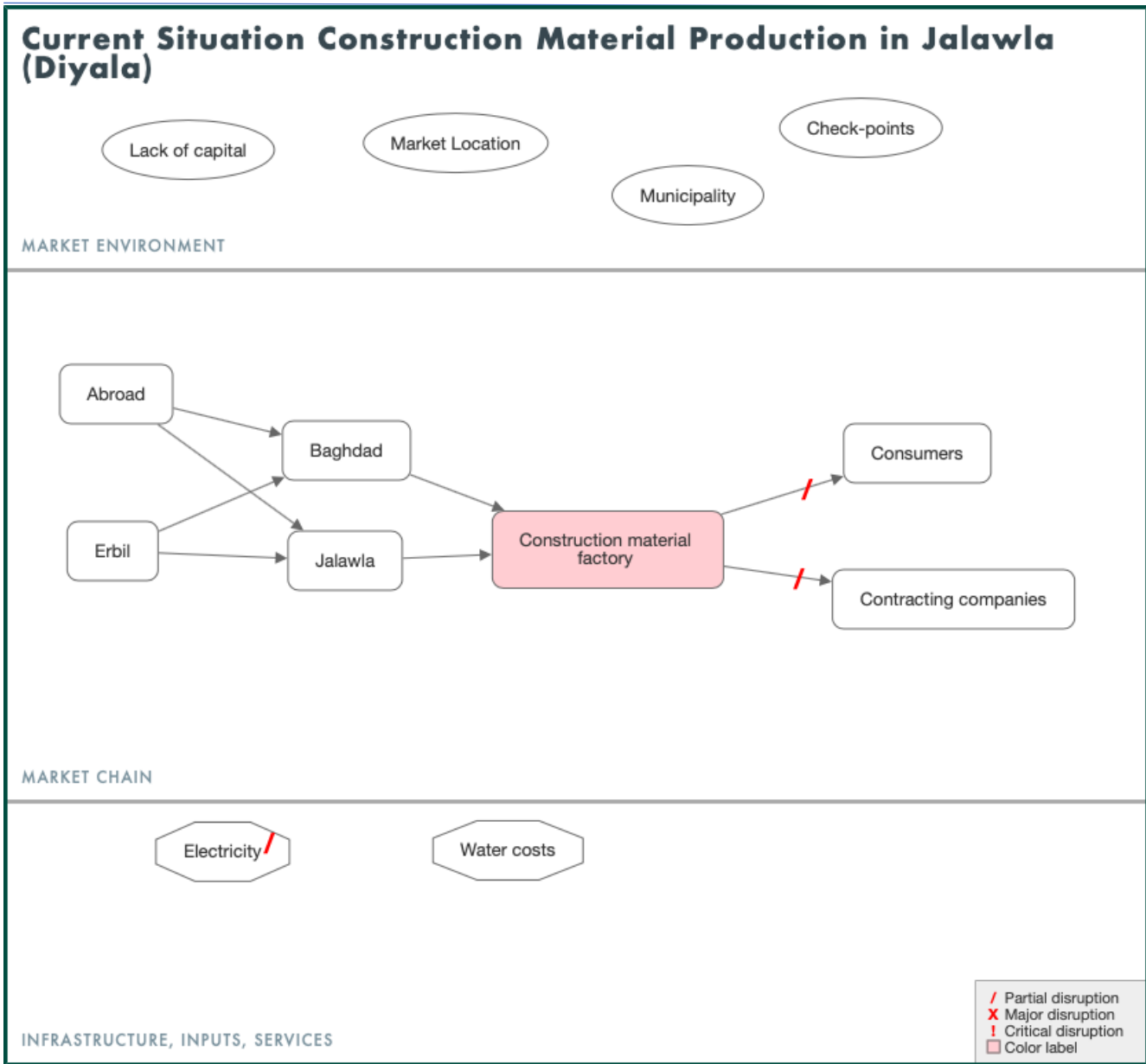


Diagram 1: Current situation in construction material production reported by FGD participants in Jalawla

3) Opportunities for Employment Creation

On average, employers reported that 60% of their workforce was related to them. Having less than 10% of their workforce comprised of relatives was reported by almost a third of employers. While such practices might exclude vulnerable groups from hiring, the latter appear to be less present in Diyala in comparison to other areas surveyed for market assessments. Table 3.1 provides information on the average percentage of relatives employed in each sector. Overall, hiring of relatives is very low in agriculture (though only 1 employer was surveyed), the chemical sector (though only 1 employer was surveyed), hospitality, followed by carpentry and manufacturing. Higher percentage of relatives are found in the automotive, general trade, and manufacturing sectors.

Table 3.1: Average percentage of relatives employed in each sector

Sector	Average Percentage of Relatives Employed
Automotive	89%
Metal	76%
General trade	75%
Food	61%
Services	50%
Textile	48%
Construction	46%
Manufacturing	39%
Carpentry	32%
Chemical	7%
Hospitality	4%
Agriculture	0%
Average All Sectors	56%

When asked what would they do if supported by a grant between USD 5,000 and 25,000, 24% of employers mentioned hiring new workers (in an open-ended question) and these belonged to the following sectors: metal (5.3%), food (5.3%), manufacturing (3.2%), construction (3.2%), services (3.2%), general trade (2.1%), chemical (1%), and textile (1%). Additionally, many may have implied hiring new workers when these mentioned ‘expanding my work,’ opening a branch, opening in a new location, and similar responses.

Overall, recruitment appears difficult. More than half of employers (51%) reported some difficulties in finding qualified employees. Key informants also commented that employers do not follow labor laws and MoLSA does not enforce them. The sectors currently underdeveloped with potential for growth as reported by KIs include agriculture and the private sector (though without any additional comments).

4) Potential for Market Distortion

Key informants mentioned mostly the private sector as being oversaturated (where only 1 mentioned agriculture). Sectors as encouraged by the government include agriculture mostly, with 3 informants also mentioning the private sector and services. Support by private investors was reported in agriculture (reported by 2 KIs), in handicrafts, and in clothing, grocery, and restaurants. Four key informants did not know. All the information is captured in Table 4.1. Key informants also mentioned as the biggest changes found in the business environment in the past 6 months included government support of the agricultural sector (mentioned by 2 informants), growth in agriculture and the private sector, and the contraction of the private sector.

Table 4.1: Sectors considered as encouraged by the government, supported by private investors, 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>	1	/	/
Agriculture	5 (farming)	2	1
Manufacturing		1 (handicrafts)	/

Private sector	3	1 (fashion, grocery, restaurants)	6
Services	1	/	/

Additionally, 60% of employers reported a lot of businesses like theirs, which can point to businesses that might not have been competitive anyways. The highest percentage of similar businesses reported by employers included agriculture (though only 1 employer was surveyed) and the automotive sector, followed by metal and construction. The lowest percentages of similar businesses were reported in the food, hospitality, and textile sectors followed by manufacturing. See table 4.2 for details.

Table 4.2 Number of employers, who reported the presence of many similar businesses and percentage of similar businesses in the same sector

Sectors	Number of Employers, Who Reported Many Similar Businesses	Percentage Similar Businesses Within Sector
Agriculture	1	100%
Automotive	9	100%
Metal	9	82%
Construction	5	71%
Carpentry	2	67%
Services	11	65%
General trade	7	58%
Manufacturing	5	45%
Food	5	33%
Textile	1	33%
Hospitality	1	25%
Grand Total	56	60%

CONCLUSIONS

The majority of employers surprisingly reported their work as not being affected by the crisis from 2014 to 2017. Only eight employers mentioned completely stopping their activities and these belonged to the metal, carpentry, food, general trade, textile, and manufacturing sectors. Agriculture was a major employer in Diyala and will likely remain so in the future. Overall, more than half of employers surveyed reported as running profitable businesses and these are found in most of the sectors surveyed. A similar number also reported various degrees of 'good demand' for their products/services. Good demand is present in most of the sectors too, whereas the weakest recorded is in general trade and construction, followed by services.

Half of the employers surveyed raised issues related to security, check-points, transportation of goods, and road closures as the greatest challenges for operating in their respective areas, followed by poor infrastructure, poor purchasing power among customers, along a stronger competition and/or poorer demand of their products/services. When specifically asked about the 'fixes' required to strengthen their ability to conduct business, the availability of grants/loans was the mostly widely reported solution among employers.

On average, employers reported that more than half of their workforce was related to them. While such practices might exclude vulnerable groups from hiring, the latter appear to be less present in Diyala in comparison to other areas surveyed for the market assessments. Hiring of workers appears the immediate thought among a quarter of respondents when asked about what they would do with a grant.

Additional clues as to which sectors may be promising are found in the support of private investors, which were reported in agriculture, handicrafts, clothing, groceries, and restaurants. More than half of employers reported a lot of businesses like theirs, which can point to businesses that might not have been competitive anyways. Businesses least likely to report many competitors - and therefore with less potential for market distortions – included those working in food, hospitality, and textile sectors followed by manufacturing.

ANNEX 1: RECOMMENDATIONS FROM THE MARKET ASSESSMENT

1. While the employer survey was limited in providing insights into the agricultural sector, the present assessment established that agriculture was a major employer before the crisis and to some extent recovered today according to informants. Despite some reports of possible oversaturation, considering the importance of agriculture in Diyala the latter represents a suitable candidate for funding.
2. Over 70% of businesses in construction reported being to different degrees profitable and good demand was recorded in almost half of the construction employers surveyed, though the linear modelling established a negative (non-significant) relationship with good demand in Diyala. The market map did not report particular challenges, which would exclude the sector from financial support. The sector is therefore suitable for funding, also in light of its potential for employment creation.
3. Food processing and hospitality appear profitable and experience good demand. Also, these have potential for employment creation and similar businesses were reported by only a small number of employers, which makes the two sectors suitable for funding.
4. Similar findings were established for the manufacturing sector, which is also a suitable candidate for funding in light of the fact that experiences good demand and appears profitable along showing potential for employment creation.
5. General trade experiences poor demand, is less profitable, and to some degree is supported by private investors. The sector therefore does not represent a priority.
6. Services are fairly profitable and almost half experience good demand. While the linear regression was negative (though not significant) and more than half reported similar businesses operating in the area, employment creation appears as having potential, which makes it a suitable candidate for funding. As many businesses under the automotive sector could also fall under services, these showed less positive indicators in comparison to services in general where funding is advised with a higher degree of caution.
7. Textile experiences good demand and similar businesses were reported by a small number of employers with potential for employment creation also established by the present assessment, which makes it suitable for funding.
8. Considering the electricity issues, allow for higher than average budgets for electricity and/or investments in generators in business plans.
9. Considering the lack of skills among the work-force, the provision of vocational training should be also considered, including for women.
10. Considering the issues at check-points and the related challenges in movement, consider conducting joint advocacy with other organizations in terms of smoother passage through check-points.

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?