



MOSUL EMERGING MARKETS:  
OPPORTUNITIES AND CHALLENGES



A Market Assessment of Mosul  
IOM Iraq – December 2018

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## SUMMARY

Following more than three years of Islamic State of Iraq and the Levant (ISIL) occupation, Mosul was retaken in June 2017. Since then, more than 800,000 residents have returned to Mosul, where economic and living conditions remain challenging. Both individuals returning and those who remained cite lack of access to employment and livelihoods as key concerns.

In this context, the International Organization for Migration (IOM) has designed a programme to provide grants to small and medium business owners for the purpose of job creation and post-war reconstruction and development, the Enterprise Development Fund (EDF). IOM undertook a pilot market assessment from 12 August to 5 September 2018, followed by a scale-up of the same tools to a larger sample from November to December of 2018. The market assessments aim to determine the possibility of market distortion, price fluctuation and oversupply of goods or services as a result of the grant fund. The results of the market assessment are used to design the selection criteria and weighting for considering applicants for the fund.

The primary objectives of the market assessment were to understand:

- 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, below, are organized by the research objectives in four parts.

### Key findings

[The extent of damage suffered by small and medium enterprises impacted by the conflict between 2014 and 2017:](#)

- Temporary closure of businesses, (reported by 27% of respondents) was the most significant impact of the conflict, most commonly this was due to declining demand (mentioned by 15% of businesses). Infrastructure damage through outright destruction or looting (reported by 6% of respondents) was also cited.
- Regression analysis <sup>1</sup> of sectors that reported closing revealed an insignificant difference between different industries in their likelihood to close down, suggesting indiscriminate infrastructural damages.
- Many employers who stayed and continued operating had to reduce their hours, workers or salaries to keep their business open.
- Business owners who left Mosul tended to have their factories looted and their machines confiscated.

[Market failures that can be addressed through matching grants or business development support:](#)

- Businesses are now facing the dual challenge of trying to restore their businesses affected by ISIL in a markedly altered market place, and having to contend with new players with competitive low prices.
- 8% of employers mentioned the high price of materials as a challenge.
- Only 25% of employers mentioned that it was hard to find qualified workers. Those who found it difficult noted that skilled workers moved to Erbil, or it was difficult to find appropriately skilled workers in certain trades. Specifically, block-making, preparing pre-made food, restaurant work, curtain-making and textile design, aluminum production, carpentry, goldsmithing and marketing were mentioned as specific skills that could be hard to find among the local workforce.

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<sup>1</sup> Using a log-linear model, since some values required a natural log transformation after checking assumptions

- Business owners rated electricity (mentioned by 15% of respondents) and rent costs (mentioned by 13%) at the forefront of preferences for governmental changes or infrastructural improvements. Other desirable changes included lower rent, salaries being paid and more grants becoming available.

#### Businesses that would create additional employment opportunities if supported:

- 36% of businesses, when asked what they would do with cash grants of up to 25,000 United States dollars (USD), mentioned hiring new workers as a priority.
- Employers mentioned a lack of formal advertising for employment and all respondents who were employers agreed that recruitment is primarily done by word of mouth.
- Only 40% of respondents had not directly hired at least one relative to work in their business.

#### Potential for market distortion due to the introduction of cash:

- Food and textiles were significantly less likely to report issues of low demand than other sectors. Similarly, key informants including Government representatives reported that the food, construction, general trade and restaurant industries face oversaturation.
- There is limited competition from other financial services, and respondents felt that no sectors except agriculture were having public spending instruments developed that could compete with cash grants from IOM.
- Public sector investment is critical to stimulate large-scale economic recovery. Results suggest that public actors are not doing enough to encourage investment and development, which has implications for demand for key sectors such as construction.

#### Recommendations:

- I. Avoid providing grants to shopping compounds, grocery stores and clothing retailers, as these are seeing private investment.
- II. Separately assess the ongoing investment in the agriculture sector for an understanding of how IOM may have a competitive advantage in supporting this extremely vulnerable sector.
- III. Grant with caution to construction-related businesses, as they tend to hire more within their families and seem to have less demand at the moment.
- IV. Allow for and encourage granting to Food and Textile industries, as they are significantly less likely to report issues of low demand.
- V. Include debt-sensitive programming that recognizes the need for planning for the repayment of debts, the potential for this to affect vulnerability, and the appropriate adjudication of excessive levels of debt appropriate for the local context.
- VI. Advocate with donors and government partners to consider protectionist policies for local traders.
- VII. Expand to do a full labour market assessment for skills training opportunities.
- VIII. Identify training providers who can offer courses in block-making, preparing pre-made food, restaurant work, curtain-making and textile design, aluminum production, carpentry, goldsmithing and marketing.

## INTRODUCTION

January 2019 will mark a year and a half since the liberation of Mosul from ISIL. The battle for the liberation of the city alone resulted in the displacement of an identified 1,021,476 IDPs from 17 October 2016 to 29 June 2017.<sup>2</sup> As of June 2017, a year after the start of military operations, IOM's Displacement Tracking Matrix (DTM) had identified 201,942 returnees, with a remaining 819,534 IDPs displaced from Mosul to other governorates.<sup>3</sup> The economic reconstruction of the city, including the removal of debris and the repair of bridges, has been hampered by high customs rates and the high costs of basic services, compounding the vulnerability of thousands of stayees and returnees whose livelihoods continue to be compromised. During ISIL's occupation, minorities in Mosul were persecuted and killed, freedom of expression and movement were restricted, and factories and businesses were looted and destroyed, severely affecting socio-economic conditions in the city.

Within this context, IOM seeks to address priority needs expressed by internally displaced persons (IDPs), returnees and stayees. The most pressing returnee self-reported need is access to employment and livelihoods.<sup>4</sup> In general, IDPs and returnees exhibit similar profiles to stayees, with stayees in Mosul also often having experienced short displacement (for example in Al-Jadida, where 44% of stayees reported having previously been displaced, according to IOM community assessments).<sup>5</sup>

In line with national humanitarian and recovery priorities, the IOM Return and Recovery Unit (RRU) aims to address the most pressing needs in high-return areas. 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. IOM intends to roll out the grant mechanism in multiple locations in Iraq in 2019. The fund will prioritize businesses that would 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

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. Based on the common assumption that the injection of cash into a market can contribute to a raise in demand and production,<sup>6</sup> the assessment builds upon the expert work of others in the area, including the Cash Working Group, Action Against Hunger, International Rescue Committee and REACH.

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 labour, without market distortion?*

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

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<sup>2</sup> IOM Mosul Crisis Population Movement Analysis. (Baghdad, Iraq: IOM Iraq, 2017)

<http://iraqdtm.iom.int/Downloads/DTM%20Emergency%20Tracking/Mosul%20Crisis/0-%20Mosul%20Crisis%20Report/DTM%20ET%20Mosul%20Crisis%20Report%20July%202017.pdf>

<sup>3</sup> Ibid

<sup>4</sup> IOM. IOM Rapid Recovery Programme Community Assessment Report, Al-Jadida 3 Part 1. (Baghdad, Iraq: IOM Iraq, 2018)

<https://www.humanitarianresponse.info/en/operations/iraq/assessment/iom-rapid-recovery-programme-community-assessment-report-al-jadida-3-part>

<sup>5</sup> Ibid

<sup>6</sup> REACH Initiative. Joint Rapid Assessment of Markets: West Mosul. (Erbil, Iraq: REACH Initiative, 2017) <https://reliefweb.int/report/iraq/joint-rapid-assessments-markets-west-mosul-august-2017>

Key Informants (KI) were identified in coordination with IOM and partner staff, and included representatives from industrial sectors, the Ministry of Labour and Social Affairs (MoLSA), Mosul Provincial Council, and the Ninewa 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.

Active employers were purposively sampled according to a database that provided a breakdown of the number and types of registered businesses in Ninewa. The number of employers was determined in order to allow for a quantitative study with a confidence level of 95% and a 10% margin of error. Survey respondents were also identified with 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 Participants were identified in collaboration with the Community Resource Centre (CRC) staff and included individuals out of work for reasons other than the conflict, as well as a focus group discussion, each to understand the market system for construction workers, textile workers and metal workers. 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

Surveys were conducted across Mosul. One interview, with a representative of the Chamber of Commerce for Ninewa, was conducted in Erbil. All focus group discussions were conducted at the CRCs run by IOM in Al Jadeed subdistrict, West Mosul, except for one conducted in an industrial area in west Mosul. The remaining interviews were done between the IOM Office in Mosul and in the community where employers were based. For the employer surveys, field visits targeted an even distribution of surveys between east and west Mosul, with 42 surveys conducted in east Mosul and 49 surveys conducted in west Mosul, and 7 in Bashiqa.

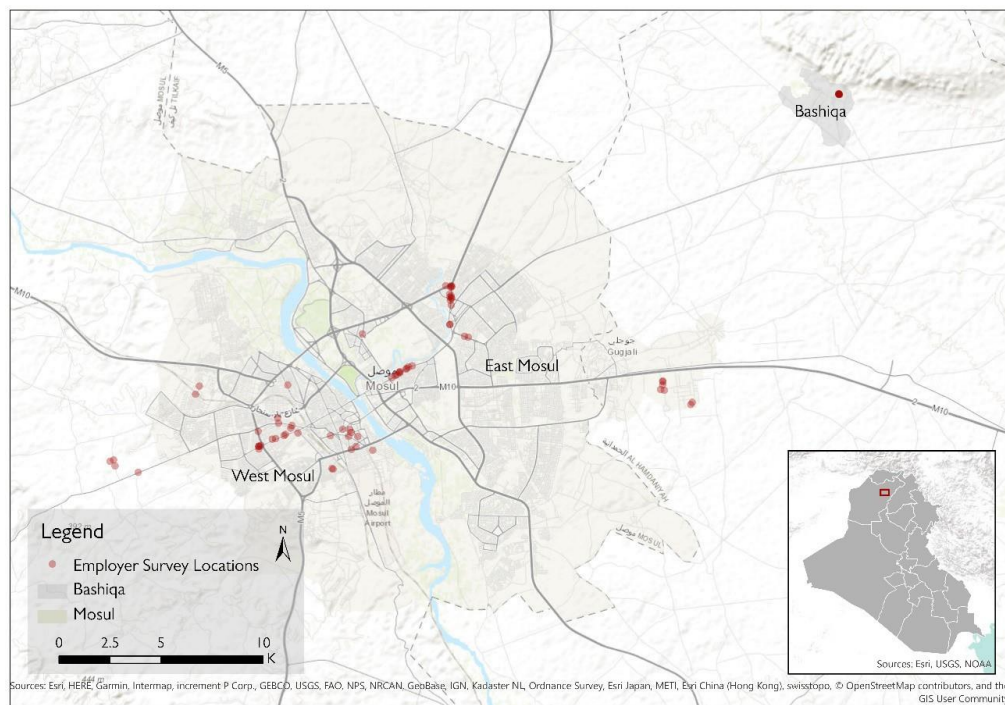


Figure 1. Survey Locations

### Selection of employers to survey

The largest industries in Mosul are the construction sector, followed by food-related businesses, clothing and textiles, metal workers and producers, carpentry and some chemical-related businesses. Below, a breakdown of businesses registered with the Chamber of Industry shows that 45% of registered businesses are in the construction sector.<sup>7</sup>

Industrial Businesses by Sector in Ninewa	% of Registered Businesses
Construction	45%
Food	24%
Clothing and textiles	15%
Metal	9%
Carpentry	6%
Chemical	1%

Table 1. industrial businesses by sector

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.

		Industry			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Carpentry	6	6.6	6.6	6.6
	Construction	32	35.2	35.2	41.8
	Food	21	23.1	23.1	64.8
	Hospitality	1	1.1	1.1	65.9
	Metal	10	11.0	11.0	76.9
	Other	6	6.6	6.6	83.5
	Plastic	2	2.2	2.2	85.7
	Textile	13	14.3	14.3	100.0
	Total	91	100.0	100.0	

Table 2. Subsector of Surveyed Businesses-Mosul

Efforts were also made to include women, which resulted in the identification and interviewing of three female employers. This effort perhaps skews the data in the direction of not being representative, as there are very few female employers known in Mosul, but their contribution and point of view was considered invaluable to the exercise.

<sup>7</sup> Anonymous, The Average Number of the Workers in Industrial Sub-Sectors in Ninewa. (Baghdad, Iraq: IOM Iraq, 2018). [Email]



		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	3	3.3	3.3	3.3
	Male	88	96.7	96.7	100.0
	Total	91	100.0	100.0	

Table 3. Gender of Respondents

Focus group discussions informed market mapping for three industries: construction, textile and metal. These critical industries were chosen through internal discussion and during the pilot research for the assessment. Focus group discussions were organized in coordination with staff from the CRCs, previously surveyed employers and local contacts established through other projects.

Gender	Profile of FGD Participants	Participants
Male	Jobseekers	6
Male	Textile workers	6
Male	Metal workers	7
Male	Construction industry businesses	6

Table 4. Focus Group Discussions

Semi-structured Key informant interviews (KIIs), meanwhile, were conducted with various representatives from organizations involved in industry, governance and the financial sector.

Key Informant Interview Profiles	Number
Ministry of Planning	1
Ministry of Labour and Social Affairs	1
Ninewa Governorate Agricultural Directorate	1
Other Ministry representative	1
Commercial traders	2
Private bank employee	1
Factory owners	4
Mosul Provincial Council member	1
Chamber Of Commerce	1

Table 5. Key Informant Interviews

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, which provide the capacity to analyze and collate findings.

## 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 – at rates of around 80% – to participate in the survey, despite best attempts to communicate the confidentiality of information and the voluntary nature of all questions. This could possibly be biasing the responses towards a group with a higher rate of trust in institutions than non-respondents.

The research was also carried out over a period of several months, from August to December of 2018, which allows for some time-based variation in surveying that may have affected the comparability of the information provided. For example, frustration with taxes at checkpoints in August may have changed to frustrations with institutions that promised to dismantle checkpoints by December, as the Fayida Checkpoint was reportedly dismantled on 4 December 2018. Not having a tight research timeframe can be mitigated by the contextualization of qualitative data and the addition of time-based controls to regressions where applicable.

## BACKGROUND

The market system in Mosul has been hit with two crises; the first was the occupation of the city by ISIL from June 2014 to October 2016 and the second was the battle for the retaking of Mosul from October 2016 to July 2017. Nearly all businesses and key informants surveyed mentioned facing some of the same critical issues in the market environment.

### Destruction, disruption and diversion

The battle, with the destruction of buildings and factories because of airstrikes, compounded existing issues due to ISIL's occupation. Over 750 sites were targeted, sometimes inaccurately, by the United Kingdom's Royal Air Force. The airstrike was followed by a push to take over the city, with around 30,000 ground troops from Iraqi and Kurdish forces, when much of the city's infrastructure, including major local connectors such as public bridges, was damaged by retreating ISIL forces.<sup>8</sup> With 83% of IOM-assessed households in one neighborhood in west Mosul reporting decreased income since 2014,<sup>9</sup> the impact of the conflict on the households was widespread.

Movement restrictions in and out of the city continue to make trading difficult for those who previously had national, and in some cases international, distribution channels. Unreliable access to electricity and water has also been mentioned by respondents. Finally, a diversion effect in public spending can be observed, as the national government has prioritized security and counter-terrorism efforts at the expense of, in some cases, regular government salaries, and in Mosul, investments in public goods.

Additional overarching issues affecting the market environment, in turn, were found through secondary sources and addressed only indirectly during the market assessment, which focused more on the three priority market systems. These issues also represent significant challenge and considerations when planning programming of this nature.

### Prevalence of personal debt

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<sup>8</sup> The Telegraph. Coalition forces killed more civilians than Islamic State, study finds (Jersey, United Kingdom: The Telegraph, 2018)

<sup>9</sup> IOM, Rapid Recovery

Many businesses and individuals rely on social networks for informal and supplier credit. For example, one community assessment in west Mosul noted that 56% of respondents reported being in debt.<sup>10</sup> This may limit the effectiveness of a cash-based intervention, where funds are used to pay accrued debts instead of for project purposes. With high rent prices stressed by some focus group participants, persistent power cuts and an unreliable transportation infrastructure, understanding the tendency of cash windfalls to spill into other critical areas of household spending is a risk that needs to be sufficiently captured.

#### Competition with state-owned enterprises

Reflecting the national trend, the financial system is largely dominated by state-owned banks, which lend mostly to State-Owned Enterprises (SOEs). In fact, textile workers agreed that they preferred not to keep their money in banks as these had been robbed in 2003. SOEs impede the development of private investment interests and crowd out the development of some smaller private businesses.<sup>11</sup> Sectors with high competition from SOEs may feel that there is no financing available for their needs.

#### Youth bulge

According to the World Bank, Iraq has one of the youngest populations in the world, with 60% of the population younger than 25 years. Younger populations with high unemployment create a significant risk for renewed conflict, especially when there are potential financial rewards for engaging in conflict.<sup>12</sup> In an environment where small grievances can be activated, youth unemployment has ramifications including and beyond being a conflict driver.

#### Agricultural pressures

Amnesty International, for example, has highlighted how the damming of water sources by both Turkey and Iraq in agricultural areas has created an environment where desperate agricultural laborers are easy recruits for ISIL,<sup>13</sup> who is regaining ground and territory in rural areas across the region. With arable lands affected by heavy droughts in 2018 (the Ministry of Agriculture has estimated that production is at 50% of what it was in 2017),<sup>14</sup> stresses on the agricultural economy and a lack of programming for agricultural assets sabotaged during the war creates a bleak outlook for agriculture workers, who may also migrate to urban areas in distress migration.

## FINDINGS

### The extent of damage suffered by small and medium enterprises

During ISIL's occupation, the biggest impact on SMEs was the temporary closure of businesses, (reported by 27% of respondents), most commonly due to a drop in demand (mentioned by 15% of businesses). Infrastructure damage through outright destruction or looting was also reported (by 6% of respondents).

Regression analysis<sup>15</sup> of sectors that reported closing revealed an insignificant difference between different industries in their likelihood to close, suggesting indiscriminate damage.

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<sup>10</sup> IOM, Rapid Recovery 1

<sup>11</sup> Bandiera, Luca et al. June 2018. Jobs in Iraq: A Primer on Job Creation in the Short Term. (Washington D.C.: The World Bank, 2018) <http://documents.worldbank.org/curated/en/255111529495871846/0Jobs-in-Iraq-A-Primer-on-Job-Creation-in-the-Short-Term>

<sup>12</sup> Ibid

<sup>13</sup> Amnesty International, Dead Land. (Washington Dc, USA: Amnesty International, 2018)

<sup>14</sup> Ibid

<sup>15</sup> Using a log-linear model, since some values required a natural log transformation after checking assumptions

Respondents who reported poor demand in the current market was significantly associated with having closed temporarily during the conflict, which is intuitively agreeable.

Many Key Informants mentioned damage due to the offensive against ISIL to retake Mosul in 2017, followed by increasing competition between local goods and imports.

KII Opinions: Current State of Previous Largest Employers	
Businesses in general were largely destroyed and machinery was stolen	46%
There is competition with imports	31%
Tertiary sector businesses (construction and services) still need to restart	15%
Agriculture is (one of the only industries) being supported by the government	8%

Table 6. Current State of the Economy

The results of the survey suggest that some smaller businesses were able to adapt their operations, for example transition into resellers, and survive. One reported effect of the crisis – that many people are now resellers – can be taken as evidence of market thinning, where supply chains shrink and there are fewer buyers, sellers and processors in the marketplace. This trend seems to be reversing with the retaking of the city, but impact from such severe economic shocks can be substantial for individuals affected.

Many employers chose to stay, but had to reduce either their hours, workers or salaries to keep their business open. Otherwise, business owners who left tended to have their factories looted and their machines confiscated. Those who did stay were subject to excessive restrictions and requirements, including the heavy taxation of non-Muslims, and enforced utility payments.<sup>16</sup>

## Market failures that can be addressed

### Current challenges

Today, businesses face other challenges. Infrastructure was cited as the major challenge currently not being addressed by government, but significantly impacting businesses. The employer survey asked respondents what the Government of Iraq (GoI) could invest in to help the private sector. Here, responses were consistent with the interagency Rapid Assessment of Markets conducted by REACH in 2017, with electricity (mentioned by 15% of respondents), roads and bridges figuring as infrastructure priorities. Rent was the second most frequently mentioned priority of businesses, mentioned by 13% of respondents. Lack of salaries was highlighted, as government employees continue to wait for salaries that have been

<sup>16</sup> The Guardian, “The bureaucracy of evil: how Islamic State ran a city” (London, United Kingdom: The Guardian, 2018)

delayed sometimes for years. Given the importance of the public sector in Mosul, this delay reduces the availability of cash in Mosul.

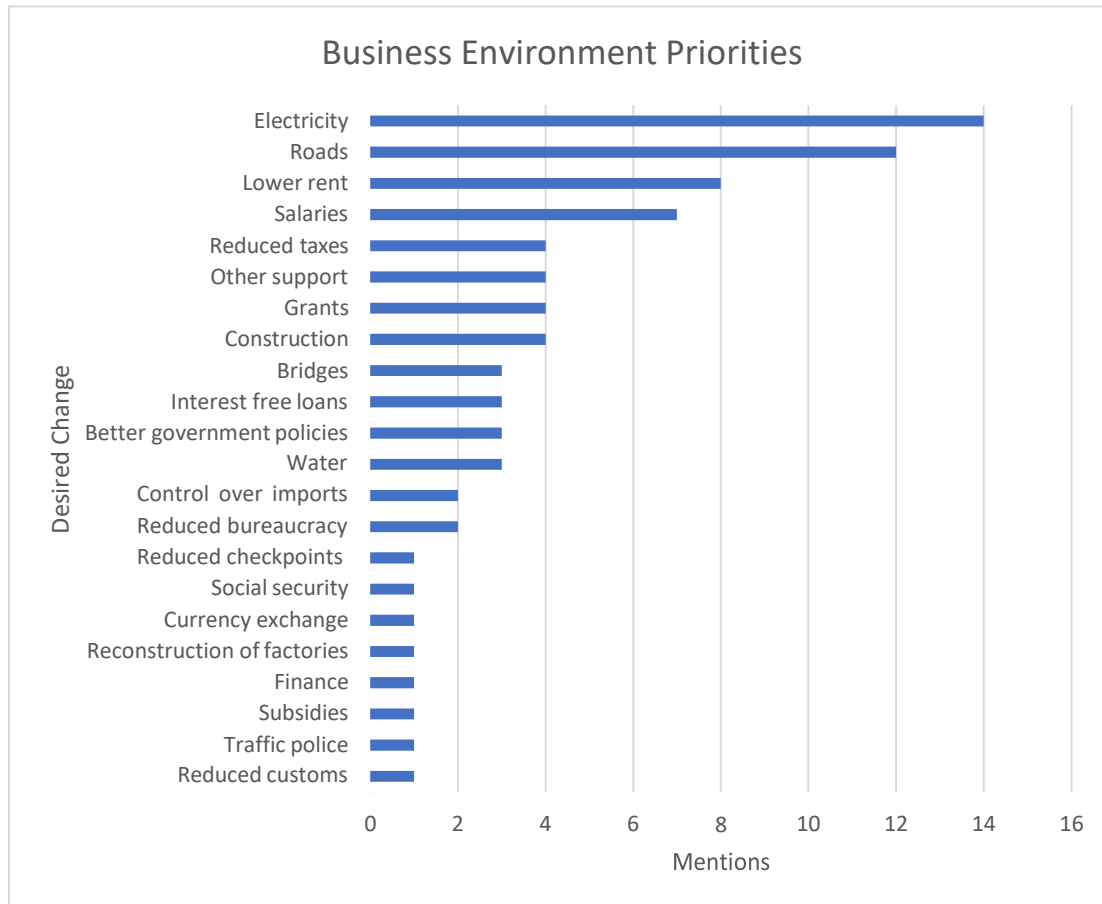


FIGURE 2 BUSINESS ENVIRONMENT PRIORITIES

The impact of ISIL’s occupation continues to be challenging. One employer, for example, mentioned that his manufacturing company used to distribute easily before ISIL rule, but during 2014–2016 stopped completely. Now, although the employer has restarted his operations in Mosul, each time he has tried to take his goods to other governorates he has been turned back at checkpoints by regular security forces.

Only three business owners mentioned low demand as their most pressing challenge, which is a positive indicator for a cash-based intervention.

**Coordination failures**

The lack of control at key border crossing points is seriously affecting SMEs. This issue, which apparently existed prior to ISIL, has been compounded over the past four years as the GoI prioritized internal security over border management. Market places are flooded with cheap imports, primarily from Turkey and Iran, for many items that were previously produced in Mosul, such as processed foods and textiles. As a result, businesses are now facing the dual challenge of trying

to restore their businesses affected by ISIL in a markedly altered market place, and having to contend with new players with competitive low prices. One employer explained how:

*"The market is full of imported products that are well packaged and cheaper, they reason is that [Iraqi businesses] have to import the raw materials (carton boxes, plastic pots and all other materials from abroad), and then produce the products, which adds a lot of cost for the transportation"*

Businesses also mentioned items that could be purchased in Dubai for 1 United States dollar (US \$), whereas manufacturing the same item in Iraq would cost US \$1.50, reinforcing difficulties to compete with goods produced abroad and probably discouraging manufacturing.

Taxes paid for imports was another frequent complaint voiced by employers, especially those who transformed raw materials into finished goods (8% of employers mentioned the high price of materials as a challenge). This high cost of materials also reinforced problems of market power – or the inability of some businesses to capture a share of the market due to high operating costs. Some businesses – those registered with the Ministry of Industry, for example – are not required to pay customs fees on imported materials. This oftentimes reinforced the inability of smaller traders who do pay customs for lack of registration, to compete with larger traders.

A lack of consistency, coordination and quality assurance and control at the border was also frequently cited as frustration related to imported goods. A respondent mentioned coordination problems related to these issues:

*"Prior to 2014 the Chamber of Commerce issued import certificates for all the traders, and there was a department of quality control. Now there is nothing, they just buy however they want. There are many different gates at borders, each does their business their own way."*

Another respondent, a tailor, also pointed out coordination issues, noting that:

*"In terms of price, our prices are approximately like those from China, meaning we can sell. We had a meeting with the ministries in Baghdad, and told them our problems. The Ministry of Industry said they would put rules on imports, but they just promised, and then nothing happened. This meeting was 20 days ago and included the head of CoC, the Col and other experts from the Iraqi Business Union."*

Local transportation challenges were also frequently mentioned. This included, for example, lack of parking for customers (mentioned by 3 businesses); blocked roads, checkpoints and bridges were mentioned as a primary challenge facing business owners.

Additional challenges reported included unreliable access to electricity, lack of capital, the high price of materials, taxes, problems with identification documents and insecurity.

## Market systems and particular disruptions

### Construction sector

Construction is a critical sector in Mosul. However, since the liberation of the city, little progress has been made to restart the industry. AP reported in December 2017 that every acre in Old City of Mosul was weighed down by 3,000 tons of rubble, with around 40,000 homes needing to be rebuilt in the city.<sup>17</sup>

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<sup>17</sup> AP, "Few Ready to Pay for Islamic State to Rebuild after Islamic State Defeat." (NY, USA: AP, 2018)

A number of key informants remarked on hopes that if the construction industry restarted, it would restart other industries. One respondent from the Provincial Council said:

*“Private investment is flowing into restaurants, coffee shops and small shopping malls but this doesn’t even cover 1 percent of the need. There are many obstacles facing investors, such as delays in completing documents and facilitation by the government. If investment in construction businesses is activated, this will activate all the businesses related.”*

Construction workers themselves reported a number of issues, the main one being business liquidity. Many also expressed frustration with the lack of public services, including the loss of subsidies. One focus group participant, for example, mentioned that:

*“Since the 80s, we started our factories, and the government was supposed to pave the roads for the industrial area, but until now, this is not done. Back in 2012, the government supplied construction factories with cement with subsidized prices. And before 2003, there was full support for factories. If the government continued to supply factories with subsidized cement prices, this would enhance and encourage local products. But now we are not benefiting from public services.”*

During the occupation of Mosul, businesses were required to pay fees to ISIL, and business owners who refused could be killed or kidnapped. Today, bribes are being requested by government officials, with participants noting that documentation is usually delayed until they pay a small informal amount.

FGD participants also mentioned an issue with clients wanting to purchase goods on credit, sometimes hampering the ability to repay creditors.

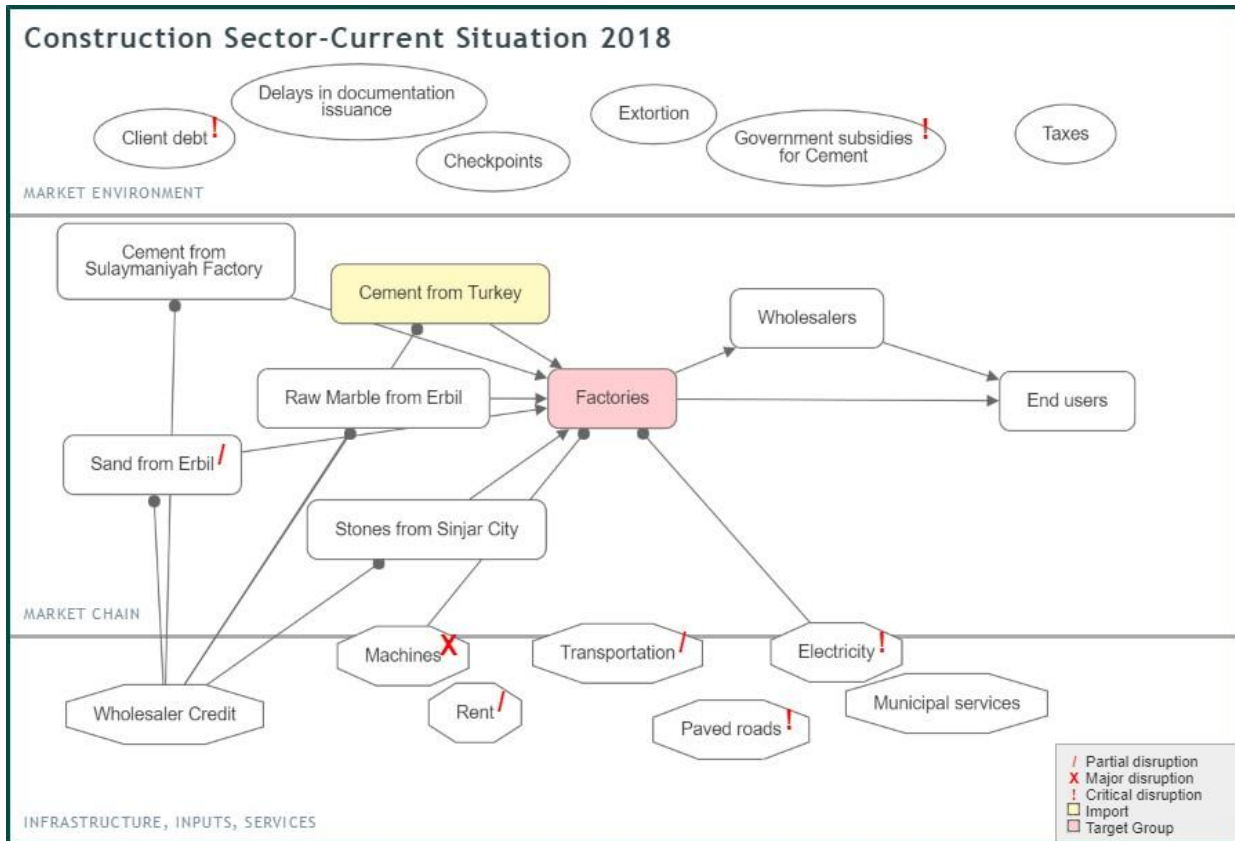


Figure 3. Construction Sector Market Map

Among employers surveyed in the construction industry, 26 out of 28 businesses (93%) in the construction sector reported sufficient quantities and qualities of raw materials. The 2 that reported insufficient materials were remarking specifically on demands in the summertime. Issues of supply included the poor quality of materials (reported by 7% of construction sector businesses) and the requirements from suppliers (presumably since the crisis) to pay for the cost of goods in cash. Some also remarked on the liquidity issues this presents (reported by 10%). One business mentioned challenges with debts (3%) to suppliers. The only product (mentioned by one business) not readily available in the market was foam coverings for buildings, and focus group participants mentioned occasional shortages of sand and cement.

Some construction experience and skill were mentioned as hard to find (mentioned by 21% of construction businesses).

### Textile sector

Before ISIL, there was a government factory that produced cotton in Mosul, supplied with cotton produced in Iraq, but the factory has since been destroyed. Much of the raw material is now supplied from China, Turkey and Dubai. Textile workers participating in the Focus Group Discussion recalled how they used to produce enough to keep an inventory on hand, but now only produce according to demand due to not having as much cash.

Participants also mentioned how they had stopped paying taxes since ISIL's departure and had not resumed paying them since; previously, taxes were regularly paid to the government.

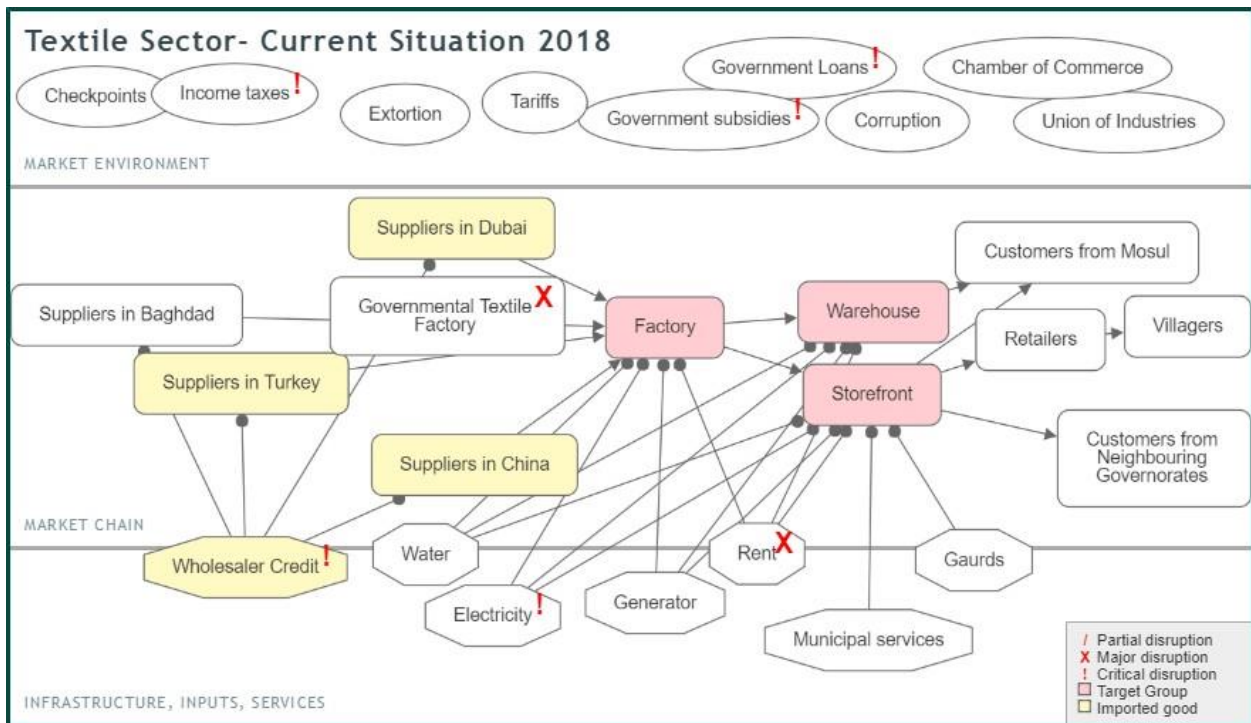


Figure 4 Textile Industry Market Map

Since the departure of ISIL, textile workers have struggled, since opening new branches has been at considerable cost. One focus group discussant mentioned, for instance, that rent prices have risen in some cases by about 300%. Another respondent mentioned how:



"In the West, there are more than 50,000 shops if they were to be activated, then the cost of rent would decrease. But now only the Mosul Al Jadida market is operating. I had to sell my car to open my business again."

Workers expressed a desire to modernize their businesses, purchase new machines and produce new designs, but also their frustration with the current hand-to-mouth nature of the market. They also mentioned the reduction of the use of informal credit, one noting that "In the past, many of my clients were Christians, Yazidis and Shabak. But after ISIL's occupation, I don't know where my loans went." All agreed, however, that they would be happy to rebuild the trust and start lending again in the future.

### Metal sector

Metalworkers expressed that, during ISIL's occupation, workshops were looted and electricity was unreliable. Consumers didn't purchase as many goods as before, and a loss of revenue ensued. Today, while market systems can be considered as recovering, roads that used to allow distribution to other governorates are blocked, suppliers don't sell on credit and electricity is still unreliable.

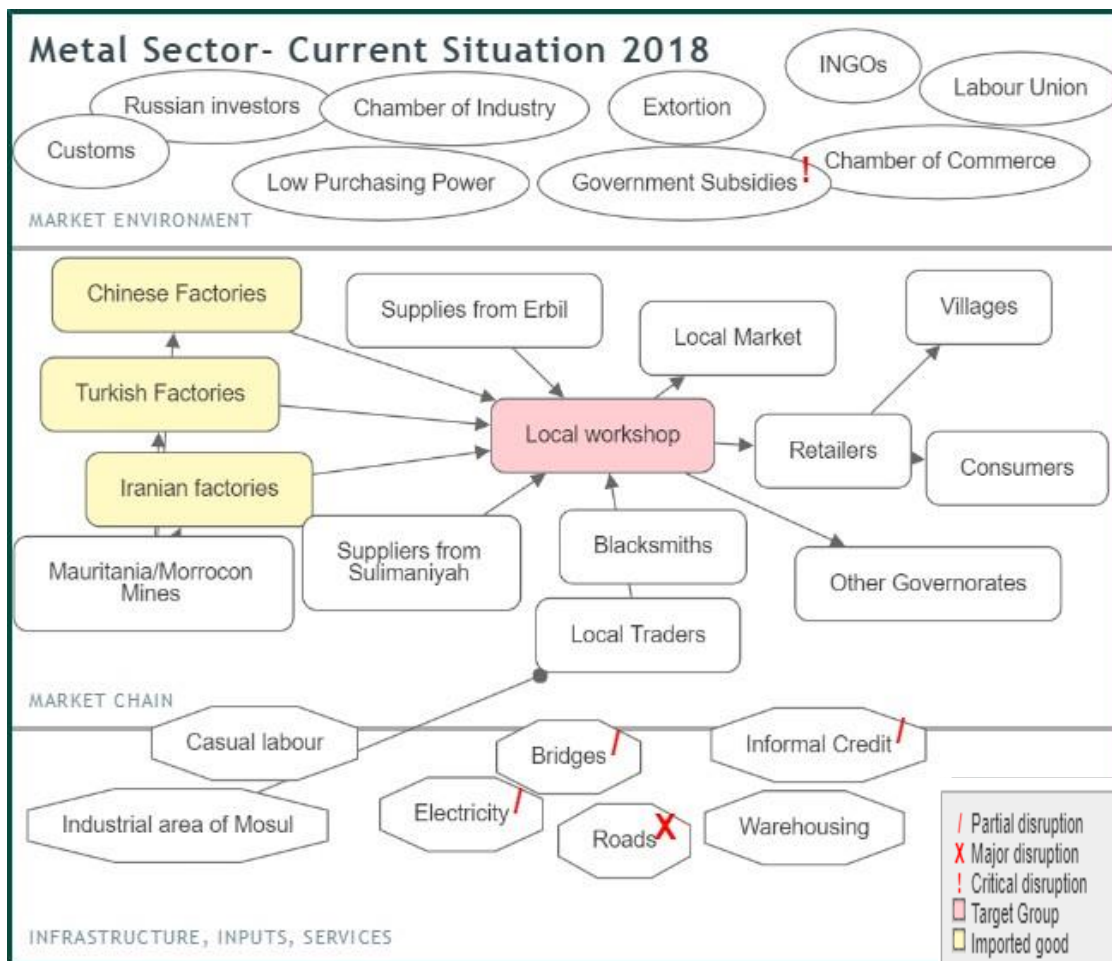


Figure 5. Metal Industry Market Map

## Opportunities for employment creation

The evidence does not suggest that there are challenges in finding skilled laborers. Only 25% of employers mentioned that it was hard to find qualified workers, and reasons ranged from skilled labourers preferring to move to Erbil, to the difficulty of finding workers experienced in certain specialized trades. Block-making, preparing pre-made food, restaurant work, curtain-making and textile design, aluminum production, carpentry, goldsmithing and marketing were mentioned as specific skills that could be hard to find among the local workforce.

Analysis indicates that there is some tendency to look outside of one's networks for employees, however more than half (60%) of the businesses surveyed had hired at least one relative. This has important implications on the likelihood of beneficiaries reaching out to marginalized communities for new workers. Construction, in particular, tended to hire the most relatives of any sector on average.

Sector	Average Number of Related Employees
Carpentry	2.75
Construction	5
Food	2.6
Hospitality	3
Metal	2.25
Plastic	0
Textile	1.5

Table 7. Hiring Practices

If supported with a grant of up to US \$ 25,000, 36% of employers explicitly reported that they would expand in ways that would require new workers, compared to 24% who mentioned new hires in Kirkuk. A number of other types of expansion that would necessarily require more workers were also mentioned.

## Potential for market distortion

IOM also wanted to identify how a grant mechanism can crowd out private investment and financial services, or hurt the credit culture of an area. An oversupply of skills in one area, for example, can affect job openings and pay, and a lenient financial service can create higher contract enforcement costs for other financial actors.

Nearly all (92%) key informants were of the opinion that public actors were not doing enough to encourage investment and development. Yet private investment was noted, but primarily in relation to individuals buying agricultural land to convert to residential land. Private investing is also happening in commercial compounds and shopping areas, and in clothing markets and construction.

During a focus group discussion, a farmer mentioned how his harvests were purchased by the Iraqi Government, and a Key Informant interview mentioned investment of the government in agriculture, but these were the only mentions of public investment. With conflicting reports on how much impact this is having on the agricultural sector (according

to Amnesty International, there is an urgent need to replace livestock and assets, and rural reconstruction has scarcely begun),<sup>18</sup> IOM may want to coordinate with, rather than avoid, investing in agricultural industries.

Mosul Businesses receiving Private Investment	Responses
Commercial shopping compounds	3
Clothing	3
Construction	2
Restaurants	2
Real estate	1
Food	1
Agriculture	1

Table 8. Private Investment

Food processing was most frequently mentioned (62% of respondents) as oversaturated or undersaturated. Construction, general trading and restaurants were also frequently mentioned.

KII Reportedly oversaturated sectors	Responses
Food and groceries	8
Construction	2
Other nonfood items	2
Restaurants	2
Textiles	1
Clothes	1
Livestock	1
Metal	1
Car Mechanics	1

Table 9. Oversaturated Sectors

However, these perceptions of oversaturation conflicted with self-reported issues of low demand from the surveyed businesses. Of businesses surveyed, food and textiles were significantly less likely than other sectors to report issues of low demand. Other sectors did not have statistically significantly higher reported levels of low demand, although a control for whether or not the business closed during the last 5 years was significantly associated with a higher likelihood of self-reporting low demand.

<sup>18</sup> Amnesty International, Dead Land

Dependent Variable: Reported Low Demand	
Constant	72.041
	(53.606)
Food-related businesses	-.373***
	(.118)
Construction-related businesses	-.035
	(.108)
Metalworkers	-.221
	(.168)
Textile workers	-.397**
	(.165)
Adj. R <sup>2</sup>	.399

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 natural log of the number of employees, the age of the business, and the natural log of the age of the business owner

Table 10 Low Income by Sector

### Expanding outside of Mosul: Bashiqa

To assess the potential to expand the EDF to include Bashiqa, a town located in Al Hamdaniya district, an additional seven Employer surveys, including four with food related businesses, were conducted. Bashiqa's markets are traditionally food oriented, and were previously a large producers of olive and sesame oil, soap and a local liquor.

Industrial Businesses Surveyed in Bashiqa	% of Sample
Food	57%
Plastic	28%
Chemical	14%

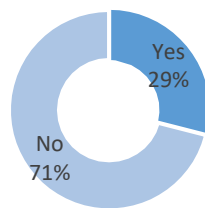
Table 11. Bashiqa Businesses Surveyed

Bashiqa was heavily affected by ISIL's occupation, being a primarily Yazidi town with a mix of Yazidi and Christian residents. Following the invasion of nearby Sinjar by ISIL, Kurdish security forces withdrew from the town in 2014, leaving families

to flee the area with no military protection. In 2017, Peshmerga and US forces retook Bashiqa, but governance of the city has been a fragile balance since it was retaken. The Iraqi government is nominally in charge and responsible for providing municipal services, including electricity, water, trash removal and pensions, but the Kurdish government employs the police and military that patrol Bashiqa.

Of the businesses surveyed, a slight liquidity shortage was noticed. For example, issues with clients most often noted include that clients expect to purchase on credit and occasionally can't repay, or that clients demand cheaper prices. However, cash was only mentioned by two businesses as their largest operating challenge.

Clients Request Below-Market Prices Mentioned



Clients Purchase on Credit Mentioned

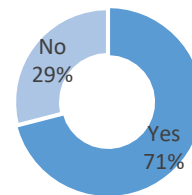


Figure 6. Demand Issues-Bashiqa

Demand was noted as high for all businesses except for one (87%), who mentioned struggling with the customs office. Most businesses (57%) also sourced their raw materials from local areas, including nearby localities such as Zakho and Kirkuk. However, only one business owner mentioned he would hire new workers if he received a grant. All businesses hired relatives, in addition to others. Therefore, if IOM expands its job creation program through enterprise funding to Bashiqa, the level of sustainable job creation enabled by the fund should be measured, versus more micro-enterprise-oriented support that would help small business owners expand without hiring additional personnel.

### Access to Finance

A smaller sample of Mosul based businesses were resurveyed in late 2019 in order to determine the appetite for credit in the city, in addition to business owners in Baghdad and Basra. In Mosul, 82% of 22 surveyed employers did not have a bank account, and no employer had either ever applied for a loan, or received a loan, from a bank or microfinance institution. However, 95% of surveyed businesses also confirmed they had a plan to expand their activities in a way that could benefit from a loan.

In Mosul, the most common amount estimated that would be needed was 20,000 USD, mentioned by 9 businesses, of which a majority (59%) of respondents felt confident about repaying within a period of 3 years. The most commonly requested administrative fee in Mosul, on the other hand, was \$1000, which represents about 5% of a \$20,000, one year loan. Businesses also confirmed that, for most of them, (63%), a loan to execute their expansion plan could increase their monthly revenues by 50%.

## Conclusions

In Mosul, businesses may have opened again, but their business practices, including trust in consumers and the ability to invest in infrastructure, have adapted in ways that perpetuate market fragmentation. With ongoing violent events occurring inside Mosul during the course of this assessment, this is a critical time for the international community and the government of Iraq to contribute to recovery and stabilization.

While business owners wait for government salaries to restart, and the construction sector remains, as many respondents mentioned, largely inactivated, coping mechanisms have included some of the precursors to distress migration. This has included the sale of personal assets, the incurrence of debt, and in many cases, the reduction of either the number of workers, their working hours, or their salaries. Competition with imports requires protection from the government, or at least the reduction of excessive taxes on locally produced goods. Businesses also mentioned spending up to 50% of their budget on basic services, including rent, electricity and water, and being unable to save with the current cash flows. Yet the only investments in infrastructure mentioned were being funded by private investors.

Construction, textile and metalworking businesses were particularly affected by the crisis, as these had expensive machinery that was often looted by ISIL and were easily preyed on for extortionist payments. Food vendors and producers, while not the explicit focus of the market mapping exercises, were reported as an oversaturated sector, yet showed good demand for their products and services. Additional information gathered in Bashiqa, with a high rate of participation from the food sector there, also showed adequate demand by responding businesses.

From a job creation perspective, while jobs was not the forefront of priorities expressed by businesses, certain skills were mentioned as missing, which should be of interest for related programming, including block-making, preparing pre-made food, restaurant work, curtain-making and textile design, aluminum production, carpentry, goldsmithing and marketing. Lack of access to work contributes to individual vulnerabilities. The international community and the GoI have the opportunity to respond sooner than later to some of the grievances of the population in this slack labour market, and would do well to continue to understand the gaps and opportunities for designing demand-driven livelihood programming.

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## ANNEX 1: RECOMMENDATIONS FROM THE MARKET ASSESSMENT

- I. Avoid providing grants to shopping compounds, grocery stores, and clothing retailers as these are seeing private investment.
- II. Separately assess the ongoing investment in the agriculture sector for an understanding of how IOM may have a competitive advantage in supporting this extremely vulnerable sector.
- III. Grant with caution to construction-related businesses as they tend to hire more within their families, and seem to have less demand at the moment.
- IV. Allow for and encourage granting to food and textile industries as they are significantly less likely to report issues of low demand.
- V. Include debt-sensitive programming that recognizes the need for planning for the repayment of debts, the potential for this to affect vulnerability, and the appropriate adjudication of excessive levels of debt appropriate for the local context.
- VI. Advocate with donors and government partners to consider protectionist policies for local traders.
- VII. Expand to do a full labour market assessment for skills training opportunities.
- VIII. Identify training providers who can offer courses in block-making, preparing pre-made food, restaurant work, curtain-making and textile design, aluminum production, carpentry, goldsmithing and marketing

## 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), labour 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 labour, without market distortion?

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

Research Sub-question

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 labour?

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>
<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>Where do you get your raw product from? Is it sufficient in quantity and quality? (FGD, Q1)</i></p> <p><i>Who do you sell your product to? (FGD, Q2)</i></p> <p><i>How much time does it take to sell your product to a buyer? Do you usually have enough stock to meet demand? (FGD, Q3)</i></p> <p><i>Where do you get your product from? Is it sufficient in quantity and quality? (ES, Q10)</i></p> <p><i>Who do you sell to? How is the demand for your product these days? (ES, Q11)</i></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)</i></p> <p><i>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 labour?</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 labour 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

### Handout 2: 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 your 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

#### Handout 4: 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 in?
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 labour 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?

## Handout 4: Employer Questionnaire

Respondent P

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?