

# ACCESS TO FINANCE FOR MSMEs IN IRAQ

March 27<sup>th</sup>, 2023



## BACKGROUND

Micro, Small and Medium Enterprises (MSMEs) face many obstacles in post-conflict Iraq. Financial resources do not flow to MSMEs in the required capacity due to breakdowns in the interface between banks and prospective customers.

From the borrowers' perspective, major problems include collateral requirements and interest rates, while from the banks' perspective MSMEs are costly to serve and present unattractive risk versus return trade-offs.

Creating a link between SME businesses and sources of finance needs a third-party contribution. Developing trust between businesses owners and banks is an extended process which requires encouragement and strong contributions from organizations who are working in the sector. IOM has already started aiding in this process through designing a number of activities to increase access to finance services.



## INCREASING ACCESS TO FINANCE SERVICES

IOM's access to finance strategy currently consists of a parallel approach that includes providing support to SMEs with advisory services while, at the same time, providing capacity-building support to partner financial institutions. The two approaches bridge the gap in providing financial services to MSMEs in Iraq, making SMEs more appealing to financial service providers and vice versa.

The SMEs supported receive assistance in designing commitment-based savings plans, training in marketing and record-keeping using ILO's Improve Your Business

curriculum, banking orientation sessions, referrals to commercial financial services, mentorship services, and training on labor standards and regulations.

In addition to the above, IOM's access to finance strategy includes market analysis, rigorous research, and market mapping in the private sector (meetings and workshops with authorities and stakeholders). The strategy also involves conducting business-to-business (B2B) workshops and supporting local stakeholders that strengthen the financial market.



## ASSESSMENTS AND KEY ACTIVITIES



A telephone survey with **234** EDF-supported SMEs in the IOM database was conducted, covering businesses in **8** Governorates (Basra, Erbil, Sulaymaniyah, Kirkuk, Diyala, Salahaddin, Missan, and Thiqar);



**16** capacity building entities have been contacted and mapped;



**10** banks have been approached and are willing to participate and **2** microfinance institutions have signed partnership with IOM for referrals and institutional transformation support;



**8** banking orientation sessions were conducted for **137** EDF business owners in Erbil, Kirkuk, Sulaymaniyah, Baghdad, Basra, Ninawa, Duhok, and Diyala by the National Bank of Iraq (Five sessions), Ashur International bank (One session), Kurdistan International bank (one session), and the International Development Bank (One Session).

## BANKING SESSION AND REFERRAL PROCESS



## KEY FIGURES FROM CONDUCTED BANKING SESSIONS



## INVESTMENT READINESS RANDOMIZED CONTROLLED TRIAL TREATMENT ACTIVITIES

Under the Investment Readiness - Randomized Controlled Trial the following activities have been planned and conducted:



Demand and Supply issues and challenges that have been observed and could be addressed in the future programming include:

## DEMAND SIDE

- Religious concerns from the business owners about interest rate;
- Not having the required legal documentations;
- Trust issues in the banking system
- Shortage in banking information available;
- Loan guaranty issues;
- Behavioral changes due to security and market instability.

## SUPPLY SIDE

- Limited financial products and high guarantee requirements;
- Unclarity in regulations and requirements;
- Process centralization;
- Not covering all geographical areas;
- Lack of communication and outreach.

## OTHER ISSUES

- Limitation of targeted groups
- Restrictive CBI rules.
- Security and political issues
- Fluctuations in market conditions
- Stigma around using banking products





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