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SMALL BUSINESS OPPORTUNITIES IN THE NORTH OF IRAQ FOR IRAQI WOMEN

***(NINAWA GOVERNATORATE AND ERBIL)
A study report***

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Special thanks for their extraordinary contribution

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MOSUL UNIVERSITY



PREFACE

In the Iraqi Constitution the respect for all human rights and fundamental freedoms is ratified in Chapter Two, from Article 37 to 46. Even though the law begins by foreseeing the respect of the human rights and fundamental freedoms, at local level those rights are not still respected. Moreover, the interim constitution, the Temporary Administrative Law, fails to give adequate protection to women's human rights in at least three critical areas where women in Iraq have historically suffered discrimination: *i)* it offers no explicit guarantee that women will have equal rights to marry; within marriage and at its dissolution; *b)* it does not explicitly guarantee to women the right to inherit on an equal basis with men; *c)* it fails to guarantee to Iraqi women married to non-Iraqi men the right to confer citizenship to their children.

Women are one of the most mistreated categories in Iraqi civil society; they have been struggling for their rights for centuries. Until the 60s no improvements in their constitutional rights were acted. Over the following years women's rights have improved, with better educational opportunities, political involvement, equal job opportunities, health care and developments of laws and regulations to ensure a better quality of life for Iraqi women and girls. The primary underpinning of women's equality is contained in the Iraqi Provisional Constitution drafted in 1970. Women attained the right to vote and run for office in 1980; in 1986 Iraq became one of the first countries to ratify the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW).

Subsequently because of the worsening of the social condition due also to the various wars which have occurred in Iraq since 1980, as well as the economic sanctions imposed on Iraq during the nineties, a deterioration of women's rights began and consequently a general lowering of their quality of life. The sanctions imposed on Iraq had a great impact on women and children's lives: economic constraints pushed women to leave their jobs and return to their traditional role at home, causing an increase in female illiteracy, as many families could not afford the school for their children. Amongst those who could afford it, many had to choose between sending either the girls or the boys to school – deciding in the majority of cases to send the boys.

During these wars, most of the “official” victims were men, but there are **also many “invisible” victims: the Iraqi war widows.** There are approximately three millions in Iraq. These widows have to carry the burden of running the families: they have to search for ways to survive and support their children. In this difficult situation they have seen their rights eroded in all areas of life, without having the power to lift their heads and choose for themselves. Many are driven or coerced into prostitution, forced into early marriages or “temporary marriages” and some of them have joined the insurgency in exchange for money.

Today women represent 56% of the Iraqi population; this data itself could be sufficient to consider the importance of women’s involvement in the social system to build a democracy. The awareness of their potential rights will give women voice in the construction of the new Iraq. Among the Iraqi women workers, a large percentage (about 87%) is not working outside their homes due to the local traditional culture. Gender based violence continues to claim the lives of many women, most of which remains unreported; the majority of Iraqi women face at least one form of domestic violence on a regular basis.

In the North of Iraq women had a much more restricted life than their counterparts in other Iraqi regions. During the past regime they did not have fundamental freedoms such as the rights to an opinion and freedom of expression, peaceful assembly and association, information and communication. However, the difficult situation after the war, particularly in the rural areas where traditions are more conservative, and the death of many men in the war - husbands, fathers and brothers - has kept women deep in poverty and steadily losing their rights.

These women are also victims of greater discrimination as a consequence of cultural devaluation, making them an easy target for sexual and psychological abuse or other types of gender violence. The pressure of gender roles plays itself out in different contexts: family, friends, school, religion, traditions and mass media. Consequently, there is a natural tendency in the women to have lack confidence in themselves. The difficulties faced by women are so great that they don’t even consider their condition a problem. Such situations discourage female participation in community life and in the process of change for future generations.

The overall aim of this Project in Iraq is, with the cooperation of Iraqi partners - Local authorities of Mosul, the Chamber of Commerce of Mosul and with University of Mosul - to reinforce and facilitate the development of a culture of civil society and help to increase the level of cooperation and foster mutual knowledge between Iraqi Civil Society and Iraqi Local Authorities. Moreover, the goal is to help a social inclusion of women in Iraq, to support the female leadership inside the local enterprises (SME) and of the NGOs and, through them, to give an answer adapted to the risks of economic, political and cultural marginalisation of the territory of North Iraq. The project will spread a “gender mainstreaming” as a culture for long-term sustainability.

The stakeholder groups in this action are the Iraqi women. Women’s condition in Iraq is difficult and “contradictory”. If Iraq has one of the best statistics of the Middle East Region in terms of health and education - and the degree of women social mobility is higher than in other countries - by contrast, we highlight the worst Regional rates on gender equality, political representation, leadership and participation in the workforce and economy: Iraqi appears also among the countries which have operated minor changes on discriminatory laws governing personal status and citizenship.

Within Iraq the municipality of Mosul and the Governorate of Ninawa is a delicate and strategic zone. It’s one of the areas most influenced by the dangerous instability of Syria and signed by the poverty. Also Mosul is one of the most important cities of Iraq with Baghdad, Erbil and Basra. Moreover, the local social structure is in predominance formed by population of Sunnites confession. Of course for the recent history of Iraq and for the role of the Sunnite community during the regime of Saddam Hussein, today the risk of economic, political and cultural marginalisation for Mosul’s area is very high.

In these terms, setting this report aims at understanding in detail the local needs and the priorities of the context. The objective will be to design an activity of "training" on the job for members of L.A., NGO and SME with the first objective to transfer to the beneficiaries, in prevalence women, strategic skills. All that means acting in the heart, on the engine of local development and contributing significantly to the development of the democratic process.

Disclaimer

Since the project kick off meeting in Mosul in March 2014 the political conditions in Iraq have changed enormously up to a point that the project had to be reorganized and logistically be moved from Mosul to Erbil. This modified setting has increased the already difficult conditions under which the project was started. As the jihadists of the Islamic State, formerly known as the Islamic State of Iraq and al-Sham (ISIS), occupied Mosul and the Governorate of Ninawa, the project got stuck due to obvious lack of communications with the local researchers from the University of Mosul and to the impossibility for these researchers to access crucial information to complete the study due to safety reasons. As result, the current version of the study has been produced using (whenever necessary) information from all possible official and verified sources (mostly international agencies) and a large effort has been put to merge them and obtain the highest level of internal coherence from all sources used.

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1. INTRODUCTION

This project and this study are dedicated to the people of Ninawa that fled during June 2014, especially to women that in this situation of conflict and occupation where nothing is clear and understandable, have, as always, paid the highest price. Furthermore, women are the social groups which eventually will, as always and as we verified in Lebanon and in other areas of "post-conflict", the weight to restart the daily life and social microeconomics.

The symbol of this resistance of women and their ability to go on demonstrating an exceptional dignity and a deep pride is certainly Mrs. Saba Ramadan Hasan, the representative of Ninawa Region. Since from the beginning, she has been the reference point for the design and management of this project and also the person who defended and represented Ninawa Region, imposing respect and demonstrating a great love for her land and her people.

At the time when this study is published, the situation in the region of Ninawa and in northern Iraq is still uncertain and still occupied by ISIS.

Therefore, the project is being implemented in the city of Erbil and this study is presented at the University of Cihan in Erbil.

Special thanks are directed to the city of Erbil, the University of Cihan and to the NGO WEO (Women Empowerment Organization) represented by Mrs. Suzan Aref, who welcomed the project, assisted competently the management of MEDITER and made possible the continuation of this cooperation.

This project has been strongly supported by the European Union Delegation to Iraq and DG DEVCO –EuropeAid despite the difficulties faced, reiterating several times the necessary attention and the strategic importance of cooperation in this area and in this particular historical moment.

Special thanks are directed to the managers of “Stars Orbit consultant and management development” for the their activity of monitoring.

Special thanks are finally directed of the staff of MEDITER and Management of the European Commission, who have worked and are working to ensure the continuation and success of this project, but to all of them I express my authentic gratitude and my deep recognition for their work.

Just as it is impossible not to mention the partnership of this project, in particular the Iraqi partners, that despite the most extreme difficulties, in their status as refugees, with travelling problems, isolation and complicated life situations, they have assured their participation and ensured the continuation of this project, by giving every time examples of hope and confidence on the despair and despondency.

To all these extraordinary persons I give my most sincere gratitude and my deepest respect.

With an effective synthesis, one Iraqi woman told me once that Iraq is as if someone had dropped one, two, ten atomic bombs, or as if had occurred a series of nuclear reactor incidents, producing a "Chernobyl" effect widespread.

At the moment it is perhaps impossible to recover the puzzle of responsibilities and mistakes, but what is clear is that in Iraq have been committed crimes against humanity, crimes that have especially affected the most defenseless and innocent people, the most disadvantaged and the poorest people. We all know what has happened and what is happening and what atrocities the women have been through and still forced to, while an entire generation of boys and girls has imprinted in their eyes the agony and fear. They will need all our love and efforts for trying to cure those psychological wound. And maybe it will not be enough.

Obviously they will not forget easily and it will take a long ride to bring back hope for life to those young generations of Iraqis.

For all the above, this work is mainly dedicated to the fleeing women and young Iraqis, uprooted from their families, from affections, from houses and from life.

Iraqis civil society was severely harmed. There were destroyed skills and talents, generosity and solidarity. The reconstruction should take in particular account a long process of recovery of human resources injured and wounded, which were traumatized by violence and terror.

Irreparable and unforgivable damages were committed and not only to the people, but also at economic, social and cultural level, irreparably destroying or damaging so often the Assyrian Babylonian historical and cultural heritage that belongs to all mankind.

In this framework and with these premises, the project “Key People - Key knowledge to Iraqi Women”, which had been awarded before all this, as a useful action to help rebuild and react to the previous “post-conflict” situation, enters in its crucial phase of selecting and training mainly young women destined to create Micro businesses and NGO.

KEY- PEOPLE, Key knowledge for Iraqi Women, is a project conceived and led by MEDITER (Resèau euro-mèditerranèen pour la cooperation) in partnership with: Municipality of Mosul, University of Mosul, WEO (Women Empowerment Organization in Erbil), Mosul Chamber of Commerce, Ninawa Governorate – IRAQ, University of Rome "Tor Vergata" CEIS (Centre for economics and international studies).

The project started in January 2014 and it will last 36 months. The activities will be held and affect the north of Iraq and Kurdistan

The main goals of the project are: To reinforce and facilitate the development of a culture of civil society and to help increase the level of cooperation and mutual knowledge between civil society and local authorities in the Northern Area of Iraq, notably the city of Mosul and the Region of Ninawa.

The target group will not be changed, it will be extended only to men and women in Kurdistan and of course we will work on women and men displaced by the Region of Ninawa.

To enhance the cooperation of civil society and local authorities to provide social services according to the idea of subsidiarity.

To reinforce the capacity building of the Iraqi society, through women empowerment.

To help social inclusion of women in Iraq,

To support the female leadership inside the local enterprises (SME) and of the NGOs and, through them, giving an answer adapted to the risks of economic, political and cultural marginalization of the territory of North Iraq.

The present project identifies its reference target in a group of women areas in the north of Iraq (Municipality of Mosul and Governorate of Ninawa) in some cases, they hold educational qualifications; in some others, they don't. The majority of them are unemployed women, or managers of Local authorities and of small family enterprises, producing hand-crafted quality manufactures, which need little capitals, competences and market accessibility to be competitive.

The identified beneficiaries will include both women assisted in micro-enterprises start-up, and operators trained for helping territorial actions, support, start-up and credit access. The project target is to train 100 subjects in prevalence women working in Local Authority or members of local NGO and SME. In particular, the beneficiaries of such intervention will be:

Women working in local government/authorities

Teachers and professors

Micro-entrepreneurs

Women working in local NGOs

Widows and women, without work, with knowledge and practical competences.

In particular, these women will be trained with the approach on the job, and selected through a specific public announcement spread at local bodies and interested District at the offices of NGOs and local SME. It is expected 10.000 people as Final Beneficiaries, prevalently women who will be affected by a gradual process of social inclusion based on transfer of skills, business creation, business consulting, networking, mentoring, microcredit activities, co-management services, survey of needs in the area, creating dialogue with social stakeholders. The goal is to start and develop a continuous process of social inclusion, encouraging the creation of new microenterprises, microcredit and implement processes to enable the start-up of businesses and NGOs.

The thesis of MEDITER, is that a strategic key of sustainable development lies in its capacity to connect local institutions and enterprises, promoting the creation of a local network between Local Authorities and NGOs, encouraging a shared strategic plan at a regional level. This is why the project also aims at strengthening relations and synergies between Local Authorities and other actors, to enhance stability and equal opportunities for economic development and social and cultural growth.

Clearly, to maximize the efficacy and effectiveness of this project it is important to understand which are the sectors/projects that could guarantee the highest level of investment returns, in terms of employment and social inclusion of the frailty groups of the population. Therefore, this report is focused on the analysis of local needs to identify the actors, the territories, the rules and the priorities on which to concentrate all the efforts to guarantee the best social and economic outcome. Furthermore, the objective of this report is to highlight and provide analysis of the constraints faced by small and medium sized enterprises in the north of Iraq and in Erbil.

. The objective is to provide recommendations on how some of these constraints can be overcome through targeted assistance to SMEs.

In what follows the Report is organised in 8 main sections. In the first section we briefly introduce the motivation of the research study and why it is relevant to the whole project. In section 2 we describe the general macroeconomic condition of Iraq, the role of the recent advent of ISIS and its effect of some main macroeconomic indicators. This section highlights the structure of the Iraq economy and some of its contradictions, the peculiarities of the labour market, the gender issue and the related problems with poverty in some regions, with special emphasis on the Mosul area. Section 3 presents the existing problems of doing business in Iraq, with the limits and constraints of doing business in the Mosul region. Section 4 introduces the role that small industrial projects can have on fostering the development and growth of the Iraq economy. Section 5 deepens these concept analyzing the role and evolution of small enterprises the province of Ninawa, highlighting the relative importance of small businesses in Ninawa governorate, the main characteristics and the benefits expected from starting a small business and the possible difficulties. The remaining sections are dedicated to the choice of the economic sectors and specific projects that should present the highest chance of success. Therefore, in section 6 we present and analyze the current situation of small businesses in Iraq and the problems and obstacles facing small businesses. Section 7 identifies the businesses suggested by the Report, illustrating which are the strategies used and the reasons which lead to choosing each project/intervention. Finally, the last section discusses the limitation of this study and presents some conclusions and recommendations in terms of sectors/activities/projects where to direct the attention of the remaining phases of the project.

victor matteucci
President Mediter aisbl Network

2. THE IRAQ ECONOMY

According to a latest study from World Bank (2015), the Republic of Iraq is a country emerging from conflict and facing the challenge of reconstructing core physical infrastructure and delivering public services to 34 million people. Its gross domestic product (GDP) per capita was estimated at US\$ 6,305 in 2012, putting Iraq in the category of middle-income countries. Its economy is dominated by oil: Iraq produces about 3.0 million barrels per day, and crude oil accounts for nearly half of GDP and over 90 percent of total exports. The contribution of non-oil sectors is relatively small both in GDP and in exports, and the role of the private sector in the economy is very limited.

Iraq lies in Asia and is one of the main Arab countries considering its strategic position in the Arab homeland. It has long borders with Iran and Turkey, as shown in figure 1.

Figure 1 – Iraq map



Decades of conflict and sanctions have left the Iraqi economy, institutions, and infrastructure in tatters. While efforts are under way to repair and replace damaged infrastructure and institutions, progress is hampered by politics, lack of security, and the governance environment. There has been progress in reconstructing water supply systems, sewage treatment plants, electricity production, hospitals and health clinics, schools, housing, and transportation systems, but there remains a lot more to be done.

The conflict post-2003 had a particularly severe impact on the economy: the oil export infrastructure was either damaged or vandalized; large factories, especially those connected with the military, were destroyed; and energy production plants, production laboratories, and water supply and sanitation systems were damaged. In addition, the conflict caused a significant exodus, including public sector workers, weakening public sector capacity and institutions.

BOX 1
General facts about IRAQ – 2012 or latest

Population: 33,000,000 million
Area: 438,000 square kilometres
Capital City: Baghdad
Government: Federal, Parliamentary Republic
Currency: Iraqi Dinar
Annual average of National Income: \$100 billion
Iraq's rank in the world regarding national income average: 60
Annual income per capita: \$3,030
Inflation rate: 20%
Country's workforce: 7 million people
Unemployment rate: 20% - 30%
Iraq's annual exports: \$15 billion
Countries importing from Iraq: U.S. (54.7%), Canada (9.8%), Italy (8.8%), Taiwan (4.2%) and Jordan (4.2%)
Remaining debts: \$125 billion, which largely represent Iraq's reparations to Kuwait because of the former regime's invasion to this country. A large portion of these debts has been written off.
Electric power production: 32,600 GWh
Electric power consumption: 33,700 GWh
Oil production: 2,750,000 barrels a day
Oil domestic consumption: 400,000 barrels a day
Exports: oil (83.9%), raw materials (8%), animal products and food stuff (5%)

Public spending, including capital investment, is necessary to repair and rehabilitate the Iraqi economy, but the government has faced challenges to prioritize and implement a capital investment program. As a resource-rich economy, Iraq has considerable resources in the form of oil receipts to finance a capital investment program. At the same time, the country also faces several challenges that arise from this situation in the form of “resource curse,” “Dutch disease,” and heightened tensions over who controls these resources.

A large body of literature on oil-rich economies underscores several salient characteristics of these economies. A central feature is the concept of a “resource curse,” the paradox that countries with an abundance of natural resources like oil tend to have less economic growth and worse development outcomes than countries with fewer natural resources. While this could happen for many different reasons, four factors are especially important:

1. excessive dependence on oil revenues makes these countries highly vulnerable to abrupt changes in international oil prices;
2. a great majority of oil-rich countries fail to diversify their economies because of Dutch disease, a situation where a booming oil export industry causes rapid currency appreciation, which in turn undermines the competitiveness of other sectors, notably agriculture and manufacturing, in the world markets;
3. the oil funds are prone to embezzlement, corruption, and wasteful and inefficient public spending, because of weak institutions and lack of accountability;
4. weak institutions and accountability are in turn rooted in the fact that citizens pay little or no taxes (as oil rents finance most public spending) and less taxation of citizens implies less accountability and less public scrutiny of public spending in general;
5. finally, oil resources can, and often do, provoke conflicts within societies (Collier 2007), as different groups and factions fight for their share, and this could in turn undermine political stability and economic development.

2.1 General macroeconomic conditions

After years of wars, conflicts and economic sanctions, the situation in Iraq is still fragile. Since 2003, Iraq has slowly begun taking steps towards being a democratic country. However, the Iraqi people still suffer from the severe effects of several issues such as the consequences of economic recession, shortage of basic services and lack of sources of income.

The Iraqi economy grew by an estimated 10% in 2012 and was expected to grow at a similar rate in 2013 and 2014, driven primarily by rising oil production and higher oil prices over the forecast period. However, the most recent political events and the sharp decrease in the oil price have imposed to review these forecasts. Furthermore, economic growth will be buttressed by robust increases in government expenditures. Iraq's 2012 capital budget was up nearly 35% over the previous year, and with mounting pressure to provide basic services the government is expected to expend a larger proportion than this allocation.

Iraq's economy is fully dependent on oil revenues as they form about 95% of the gross national income of hard currency. The estimated cost of the first Gulf War, with Iran, was \$100 billion; and Iraq was heavily in debt after the end of that long war. Furthermore, economic factors had a big role behind Iraq's involvement in the second Gulf War, by invading neighbouring Kuwait, only two years following the first Gulf War. The second Gulf War resulted in dire consequences on Iraq's economy as tough economic sanctions were imposed on Iraq by the UN Security Council starting Aug 06, 1990 until Apr 21, 2003 when Saddam's regime was toppled by the U.S.-led Coalition Forces.

During the period of economic sanctions, Iraq relied heavily on the UN-mandated Oil-for-Food Program, which was put into effect in 1996 and participated in mitigating the sufferings of Iraqi people. This program lasted for six sessions, the duration of each session was six months. According to this program, Iraq was allowed to sell a limited amount of its oil in order to buy humanitarian foodstuff and medical supplies as well as materials necessary to partially rebuild the much-needed basic services facilities. Later, it was proved that the program had highly been plagued with

corruption as senior officials at the United Nations were found to have been involved in issues of bribery and fraud. As a result, Iraqi people got little advantage from this program as nothing but very small portions of the revenues of this program reached them.

In 2000, Iraq made a decision to start basing its oil transactions on Euro instead of U.S. Dollar. Before the 2003 invasion, oil production in Iraq was 3/4 of that before the Gulf War II; and 28% of the total oil revenues of Iraq would go to UN officials working in the Oil-for-Food Program and to pay for administrative work related to that program.

In 2003, and after the Coalition Provisional Authority had taken over the civilian administration in Iraq, the U.S.-run authority made a number of decisions towards encouraging and supporting the private sector in Iraq. These initial measures came through what is called privatization of state facilities especially in the oil sector. Foreign companies were allowed to own interests in Iraq, and 15% taxes were imposed on those companies. However, these economic plans and measures were not welcome by the Iraqi governments, the Governing Council in Iraq, the Iraqi Interim Government and the Iraqi Transitional Government, that succeeded the CPA and thus they stopped applying them. There are currently plans though to resume working with privatization measures mentioned above as of 2016.

One of the main obstacles facing the recovery of Iraq's economy is the huge debts of this country that date back to Gulf War I and Gulf War II. Iraqi officials have frequently sought to appeal to the creditors to write off their debts on Iraq arguing that those debts resulted from the former regime's wrong policies and reckless wars. However, most of those appeals have fallen on deaf ears as very few countries positively responded to them. In a positive development, Paris Club of Official Creditors agreed on Nov 20, 2005 to write off what is estimated 80% of Iraq's foreign debts over a period of three years. This percentage accounts for roughly \$100 billion.

2.2 The advent of ISIS and its effects on macroeconomic and political environment in Iraq.

Iraq grew increasingly unstable in 2013 due to the bloody comeback of radical Islamists in the form of the Islamic State in Iraq and Syria (ISIS), the successor to al-Qaeda in Iraq, which spearheaded a Sunni Arab revolt against Prime Minister Nuri al-Maliki's Shia-dominated coalition government. Maliki, whose party won the largest number of seats in the April 2014 parliamentary elections, alienated Iraq's Sunni Arabs and Kurds with a heavy-handed sectarian agenda. He stepped down in August in favour of Haider al-Abadi. Inadequate infrastructure, weak property rights, bureaucratic red tape, high unemployment, and widespread corruption continue to impede development.

Until the Islamic State (IS) incursion in 2014, the Iraqi state, with its history of authoritarian and intrusive regimes, could be quite efficient at enforcing contracts, albeit through subjective legal processes. Post-ISIS, however, central government control has been weakened, and vested interests and corruption have increased. In such a political environment, property rights are not well protected. Not even are well known the medium term consequences of such political situations.

The countries in the region and the broader international community have been focusing on the dangers the Islamic State advances pose for security and for political and geopolitical stability. If the Iraqi economy were to deteriorate significantly, this would add to political instability and greater insecurity in Iraq and its neighbours.

But there will be economic fallout as well. Before the on-going security turmoil, the business environment, lacking transparency and efficiency, had improved only marginally. The labour market, which had already suffered from state interference and control, has been severely affected by the devastating conflicts.

Iraq might then be best described as having partially evolved from Saddam-era central planning to state-guided capitalism in which government tries to guide the market by supporting particular industries that it expects to become 'winners' or that are important sources of employment. But, if oil continues to dominate the economy, there is a real danger that Iraq's state-

guided capitalism is only a way station to becoming an oligarchic capitalistic state - like most of the other countries in the Arab Middle East - in which the bulk of the power and wealth is held by a small group of individuals and families. Despite wealth from natural resources, such oligarchic capitalistic states tend to have great income inequality, sluggish growth, large informal or underground sectors, and massive corruption.

This view has also been shared by Moshin Khan in an article published on the web page of the Atlantic Council.¹ In that article the author highlights that in order to better understand the potential impact of the Islamic State gains and the continuing fighting, one has to understand that Iraq has a state-dominated economy and oil is the mainstay of the Iraqi economy, which accounts for 93 percent of government fiscal revenues. This makes the Iraq economy highly dependent on production and world market prices.

The oil sector is a highly capital-intensive sector, which employs only about 1 percent of the Iraqi labour force of over 8 million. Therefore, the sector is like an enclave and almost all oil revenues from foreign and domestic sales of oil accrue to the government. Then the government uses oil revenues to subsidize basic goods and services and maintains tight price controls on food and medicine. The non-oil economy is only affected when the government spends these revenues. Therefore, through its control over the oil sector, the government influences virtually all economic activity in the country. The private sector plays only a secondary and minor role.

Aside from oil, state-owned enterprises (SOEs) operate in the agriculture, trading, and manufacturing sectors. Since these SOEs are highly subsidized and supported by large transfers from the government, the private sector is put at a disadvantage and cannot compete and develop. Furthermore, the government has constrained the private sector through myriad and complex regulations covering the starting and operating of businesses, as well as limiting their access to credit.²

Further evidence on the major role of the government in the economy can be found in the labour market. The public sector employs about 40 percent of the labour force, offering greater job security and more generous pay and

¹ The article can be found at <http://www.atlanticcouncil.org/blogs/menasource/isis-and-the-iraq-economy>

² For more discussion on these issues see also next section on “Doing business in Iraq”.

benefits than the private sector. Since alternatives to government employment are limited, the unemployment rate hovers at around 15 percent. It is clear that the government has strongly favoured its Shiite population using public sector employment as a form of patronage. Besides political marginalization, the Sunni population has legitimate economic grievances, which the Islamic State has been able to tap into.

In sum, the structure of the Iraqi economy is largely unchanged from the end of the US occupation in 2004. Iraq today still depends almost exclusively on oil and the state still dominates the economy. The government has not implemented any major economic reforms or developed economic institutions over the past decade to achieve what was envisioned, a picture virtually unchanged from the economy of Saddam Hussein days. The current civil war perspectives with the Islamic State will severely affect the economy through disruptions of the oil sector. This may lead to a large loss of output with serious consequences for the local population.

2.3 The structure of the Iraq economy and its contradictions

There are various industries in Iraq which make good quality products despite the out-dated factories and machines and abnormal conditions the country has gone through over the last several decades. Examples of these industries are construction materials, petrochemicals, tobacco and leather.

However, Iraq's economy is based upon a contradiction. It has huge natural wealth with its petroleum reserves that are being developed, and provides most of the country's revenues. At the same time that industry hardly provides any jobs. That is a classic dilemma posed by the oil curse. The oil or natural resource curse – also known as the paradox of plenty – concerns developing countries whose economies are dominated by the production and export of a single natural resource. Such countries tend to have worse economic and political outcomes than countries with more diversified economies. Iraq is seriously vulnerable to the oil curse. Not only is it the most oil-dependent country among the Middle East and North Africa (MENA) countries, Iraq is the most natural resource dependent country in the world.

As already mentioned before, one aspect of the oil curse is the Dutch disease where a large value of exports leads to an appreciation of a country's currency. In Iraq, the dinar has appreciated about 20% since December 2005, which reduced the competitiveness of the country's non-oil exports and contributed to a flooding of the Iraqi economy with cheap imports.

2.3.1. Oil industry

Oil production and exports account for roughly two-thirds of the country's GDP and it accounts for about 99% of exports, and 90% of government revenues. Oil industry is the leading industry in Iraq on which the country's economy is almost fully dependent for national income. Iraq could become a big power in the field of producing oil, a power that can have a major influence in international markets.

As such, Iraq is extremely reliant on oil, and its economy is characterized as an oil economy in the first place, but unlike other gulf countries, oil is not the only natural resource in Iraq. Furthermore, Iraq was one of the founding countries of OPEC, and it began producing oil since 1925. Oil production in Iraq began in Baba Gerger field near Kirkuk, and then other fields around the country began producing as well. Oil sector was nationalized in 1972.

Before the nationalization, foreign oil companies followed a punitive strategy by limiting production and reducing Iraq's share in international markets, especially after Jul 14, 1958 revolution, and promulgating a law known as direct investment law in 1961. Total oil revenues of the country were estimated \$25 billion in 2000 despite the economic sanctions imposed on Iraq between 1990 and 2003. Before the U.S.-led invasion of Iraq, and in particular in 2000, oil production was nearly 2,000,000 barrels a day and the refining capacity was 500,000 barrels through 12 oil refineries throughout the country. Iraq has more oil refineries than any other Arab country.

In 1989, total oil revenues reached \$14.5 billion, which accounted for 99% of the total revenues of the country. According to a statistics figure in 1990, Iraq's exports were estimated \$10,535,000,000, 99.5% of which came from oil and other sources of energy. About 28% of these exports went to the United States. In 1996, oil exports were estimated \$269 million, which accounted for only third of Iraq's total exports, which reached \$950 million.

In 2001, oil exports reached up to \$15,140,000,000 and the total exports of the country were \$15,940,000,000.

Today confirmed estimates of Iraq's oil reserves are 112 billion barrels making this country the second largest in the world after Saudi Arabia in oil reserves. Currently its production infrastructures allow producing 2,750,000 barrels of oil a day, 2,500,000 of which are exported to other countries, and 400,000 barrels are industrially refined, whereas 70,000 barrels are used to generate electric power for local consumption.

Furthermore, Iraq's potential oil reserves are estimated 150 billion barrels making it again the second largest in the world after Saudi Arabia. Some experts expect Iraq's oil reserves to exceed that of gulf countries upon the completion of excavation works searching for oil in Iraqi territory, which hasn't been fully excavated yet. Once these excavations will be completed forecasts are of another possible 200 trillion barrels of oil reserves in Iraq that can be extracted. Iraq is also estimated to possess 3,100,000,000 cubic meters of natural gas reserves.

Because of the several wars and the economic sanctions Iraq has gone through, there has been lack of using modern technology, used in other places in the world, in extracting oil. An example of such technology is the geological search using 3D seismic sensors, and this technique will replace out-dated techniques used in Iraq since the 1980s such as water injection. That will increase amounts of oil extracted from already discovered fields, and it could help in extracting a maximum of 360 billion barrels of oil in Iraq. Such amount can make oil production continue in Iraq for three and a half more centuries with the current daily capacity.

Iraq possesses enormous amounts of oil. Out of its 76 discovered oil fields, only 15 have been exploited, according to an analyst in the oil sector. Even exploited oil fields still need huge investments and repairs in order to resume production in their full capacity. Iraq might need 18 months to 3 years in order to get back to the 3,500,000-barrel-a-day level of production it used to have in 1990.

The majority of Iraq's oil reserves are concentrated in the South, and particularly in Basrah Governorate. In Basrah, there are 15 oil fields, out of which 10 produce oil and the other five are pending development measures to start working. These oil fields contain reserves that are estimated 65

billion barrels, which account for 59% of the total oil reserves in Iraq. Furthermore, oil reserves in Basrah, Maisan and Theqar together are estimated 80 billion barrels, which account for 71% of the country's total reserves. In the North of Iraq, and in particular in Kirkuk, oil reserves are estimated 13 billion barrels, which account for 12% of the country's total oil reserves.

2.3.2. Agriculture

Agriculture used to be an important part of Iraq's economy until recent times due to its big water wealth. Most important agricultural products were grains, dates, vegetables and fruit. Agricultural lands are mainly found in the Tigris and Euphrates basin. However, the drought that struck the country because of climate change has led to a major decline in agricultural sector output at the present time.

Historically, 50% - 60% of fertile land in Iraq has not been exploited. The rest of the land is mostly located in Kurdistan Region, which has not contributed to supporting the national economy due to the former regime policies. Furthermore, random agricultural policies back in the 1980s discouraged local production despite the availability of fertile land and water.

During the period the UN Oil-for-Food Program was in effect 1997-2003, agricultural production declined as food stuff was provided through the program. Furthermore, military actions in 2003 caused great damage to the agricultural sector in Iraq. For example, grain production in Iraq in 2003 went down to %22 of that in 2002. Although growth began to continue in 2004, expert expectations indicate that Iraq will continue importing agricultural products in the near future. As a result, calls have been increasing for more investment in agricultural machines and available crops.

In 2004, main agricultural crops were wheat, barley, corn, rice, vegetables, dates, cotton and animal products.

Financially, capital of the agricultural cooperative bank is roughly \$10 million, with low-interest, low-mortgage loans especially in fields such as

machines, poultry projects, sustaining farms, milk-producing cows and dairy products.

Obstacles facing agricultural development still exist today and include shortage of workforce, inefficient management, bad maintenance, salty land and migration into urban areas.

Employing foreign workers and the growing numbers of women entering the labour market has assisted in compensating for workforce shortage in the industrial and agricultural sectors which resulted from the abnormal conditions, wars and economic sanctions, Iraq has gone through since 1991. In East of al-Madain town neighbouring Baghdad, hundreds of small farmers have cooperated to establish al-Madain Green Cooperative for agricultural development. This cooperative provides its members with supplies such as drip irrigation tools, greenhouses as well as loans.

2.3.3. Fishing and forestry

There is misuse of workforce all over Iraq. Shifting cultivation, forest fires and bad grazing that strips large areas of natural forests, which are mainly found in North-Eastern highlands, are still very common. Most trees in that area are not suitable for cutting wood from them. In 2002, wood that was cut from trees reached 112,000 cubic meters, which was used as a source of energy.

Although there are several rivers in Iraq, the fishing industry has remained relatively small, and it is mainly common in the Arab Gulf. In 2001, output of fishing was 22,800 tons of fish.

2.3.4. Mining

Aside from oil and gas, although once very prosperous, since the seventies the mining industry has been limited to extracting small quantities of phosphate, from Ukashat field, and salt and sulphur, near Mosul. Moreover, there are natural resources that have not been exploited yet, such as uranium and red mercury. In the recent decades it was highly affected by the abnormal conditions Iraq went through the Gulf War I, the 1990-2003 economic sanctions and, finally, the war in 2003.

2.4 Population: the current situation and the forecasts

There was three-fold increase in Iraq's population between 1970 and 2012 as it went up from 10 million to 33 million people. Currently, about 71% of Iraq's population live in urban areas, more than half of which live in semi-random conditions.

In the long-term, Iraq must deal with a severe demographic challenge. Unlike Iran, its neighbour to the east, which is experiencing a demographic collapse, Iraq still is a young country with a high fertility rate. By 2030, Iraq's population is expected to reach up to 50 million, and this will further complicate, for example, the current housing problem and make it more difficult for people to get convenient housing. More important, even after adjusting for the low labour force participation rate of women in Iraq, the number of new job seekers is expected to grow by at least 250,000 this year and even more in the future. And this is in a country where the combined unemployment and underemployment rate among the young is already an estimated 80%! The experience of other low-income countries is clear: a rising number of permanently unemployed young men is politically destabilizing.

Therefore, Iraq must create enough jobs to not only absorb this annual increase but also shrink the pool of current unemployed and underemployed. It is unlikely that increased public sector employment will be sufficient. Public sector entities are already severely over-manned. In addition, in the absence of a sharply higher oil export earnings, the public sector will be hard pressed to achieve its current infrastructure investment goals much less substantially increase government employment.

In developing countries, most jobs are created by new small private businesses engaged in services and light manufacturing. Of the three institutional requirements for such job creation – favourable regulatory environment, available small business finance, and widespread literacy – Iraq only has the third. In addition to regulatory hostility, the banking system is moribund while microfinance still reaches relatively few Iraqi businesses.

2.5 The labour market

In March 2014 the United Nations released a new set of official unemployment statistics for Iraq. The national rate was at 11.3%. Just over half the country's eighteen provinces had a lower jobless rate than that. A bigger problem was that less than half the population was involved in the work force. This was especially true for women who are still handicapped by cultural and religious mores that have kept the vast majority of them at home. Another issue is that services are the largest job type meaning that Iraq is not producing much. With such a large and young population Iraq needs to develop its economy more, so that it can find meaningful employment for all.

The rate of people who have a full-time job in the public sector is about 60%. In 2011, the government provided 45% of the total job opportunities for that year; whereas the private sector contributed with the remaining percentage.

The major problem with the official unemployment rate is that there are plenty of others that claim the actual figures are much higher. Not only that there is massive underemployment. The government for example is the largest employer yet many workers are hired as family and political supporters in patronage networks and are never meant to really work. They show up for their jobs and do very little and often serve only a few hours a day. That is even more reason why economic reform is desperately needed in Iraq to find futures for the ever growing populace. The industrial and agricultural sectors of most provinces are squandering away, while ineffective and lackadaisical planning is not helping. Instead both Baghdad and Erbil are set not only on building rentier states, but increasing their dependence upon oil. That's the reason why both the central and regional governments' main solution to the unemployment dilemma is to simply hire more government workers rather than diversify and deal with the root problems of the country's economy.

According to the U.N. most of Iraq's 18 provinces were doing quite well when it came to joblessness. What is interesting about these numbers was that there were no regional trends. Kurdistan for example had two of the best governorates in Irbil and Dohuk with single figure unemployment numbers, but then Sulaymaniya was the fourth worst. Likewise the south

had Karbala and Wasit at 9% each, but then Maysan and Dhi Qar with two of the highest numbers.

One major cause for provinces to do so badly was the high unemployment rate for women. Only three provinces had jobless numbers for females below the national level. Those were Kirkuk, 3.4%, Salahaddin, 7.4%, and Wasit 9.9%. The other 13 were in double digits.

As could be expected Iraqi men found it much easier to find work. 11 governorates had male unemployment below the national rate. Kirkuk was at 2.3%, Irbil at 4.1%, Karbala had 6.1% and Ninewa 6.2%. Those at the other end were Diyala 11.9%, Qadisiyah 12.3%, Salahaddin 13.5%, Muthanna 14.3%, Maysan 15.3%, Dhi Qar 18.7%, Anbar 18.8%. Diyala, Salahaddin and Anbar not only saw major fighting, but displacement and disruption of their local economies, which could account for their high joblessness. The south is underdeveloped, especially for provinces with little to no oil or religious sites like Qadisiyah and Muthanna. Petroleum is not labour intensive however meaning if a governorate doesn't have other industries there is little work, which accounts for Maysan being towards the bottom.

Iraq has one of the youngest and fastest growing populations in the Middle East and North Africa. That offers both opportunities and problems for the country. Finding jobs for the young in an oil dependent country is very difficult, and Iraq is failing in this effort. Kirkuk was the only province that was doing well at 6.0%. All the others were in double digits, with Ninewa that was at 12.0%. These figures are another reason why some governorates are struggling.

Iraq lacks a diversified economy. The vast majority of its money comes from the oil sector that only employs 1% of the population, although accounts for 65% of the gross domestic product. That means that country can't produce enough jobs annually to keep up with the population growth. As a result these statistics will likely get worse with time unless a real move is made at economic reform. Unfortunately, there is little political will to do so though since the ruling elite benefit from the current system since it makes them independent of the public.

Another sign of the lack of a healthy economy is the fact that less than half the population participates in the labour force, meaning people that are

either working or looking for a job. Anbar does the best at 48.0%, but the fact that it has the second highest jobless level means that many of those people are searching for work. At the bottom is Dohuk at 37.6%. That is the least developed of the three provinces in Kurdistan.

Even the best province only had one fifth of their women at work or searching for employment, and again that was in an area with horrible job prospects. The turn towards conservatism following the 2003 invasion, and widespread violence were two major reasons why women have such low numbers. This decline has been going on for decades however beginning with the demobilization following the Iran-Iraq War. Before that the Baath Party had actively sought to bring women into the work force first as part of its modernization program, and then to fill the openings left by men joining the army. Afterward however as men left the armed forces the government started talking about women returning to the home.

The final mark of Iraq's problems was shown by the domination of services as the main form of work. The country has become more oil dependent with the passage of time. That was partly due to the closing of many industries and state owned enterprises by the United States and the opening of the borders to trade following the 2003 invasion, which allowed cheap imports in and put a lot of Iraqi businesses out of work. Now economic policy is focused upon increasing the role of energy even more. Those are all major reasons why service jobs are so prominent.

Agriculture could be an industry that would offer growth, unemployment, and needed products for domestic consumption, but it has been in decline since 2003. While 13 provinces still had sizeable farming sectors, for most of them they were a very small fraction of the work available. Those were Irbil, 5.9%, Dohuk, 7%, Sulaymaniya, 7%, Diyala, 10%, Ninewa, 13.8%, Dhi Qar, 14%, Kirkuk, 15.1%, Najaf, 18%, Qadisiyah, 18%, Maysan, 20%, Babil, 24.5%, Salahaddin, 30.9%, and Wasit, 31.4%.

Unemployment rate among 15-24 year-old youth of the population went down from 30% in 2008 to 22.8% in 2011.

2.5.1 Youth and female unemployment

According to World Bank (2014) youth labour force participation in Iraq is low and stagnant.³ Only 40 percent of Iraqis between the ages of 15 and 24, who are not in school, are employed or looking for work. This means that 6 out of every 10 young Iraqis who are not in school are neither working nor actively seeking work. However, labour force participation rates vary significantly by the level of education of the youth. It ranges from 25 percent for illiterate individuals to 66 percent for those with tertiary education.

Conversely to the participation rate, the employment rate does not vary much by education. This implies much higher unemployment rates among the highest educated youth. In 2012, unemployment rises to almost 25 percent among youth with tertiary education in comparison to about 5 percent for illiterate.

Between 2007 and 2012, the youth have moved out mainly from Agriculture, Public Administration and Commerce to Construction, Manufacturing and Financial, Insurance and professional services. As a result of this sectorial shift among the youth, the education levels within each sector have remained largely unchanged, with the most educated youth are still being employed in services and the less educated are absorbed mainly by Construction. However, average education levels within the public administration and mining sectors has increased, with more young workers having relatively high education.

2.5.2 Female Participation in the labour force

Only 15 percent of adult Iraqi women of working age participate in the labour force; well below the already low rates of female labour force participation in the Middle East and North Africa region of around 25 percent. The share of women aged 25 to 64 who are either employed or actively seeking work has remained stagnant between 2007 and 2012. Participation varies sharply by education. Among adult women with intermediate or lower education, labour force participation rates are below 10 percent. With secondary education, these rates more than double to 24 percent, and increase six-fold with secondary and tertiary education. Well educated Iraqi women are therefore at least six times as likely to work or to be looking for work compared to the vast majority of Iraqi women.

³ The World Bank, “The unfulfilled promise of oil and growth”, Ch. 6, 2014.

This pattern is almost entirely reflected in employment rates for adult women. Almost all of labour force participation comprises of employment, with negligible rates of unemployment at each level of education. Less than 10 percent of women with intermediate education or less are employed, but almost 60 percent of women with higher secondary or tertiary education work. However, there has been an 8 percentage point decline in employment among the most highly educated women between 2007 and 2012. Consequently, the most educated women also have the highest rates of unemployment of around 5 to 6 percent.

Overall, 70 percent of employed women work in salaried employment. Among the few less educated women who work, the majority are self-employed. Almost two-thirds of employed women work in the public sector, varying from around a fifth of women with primary education or less to almost all employed women with secondary or higher education.

Between 2007 and 2012, adult women have moved primarily from the public administration, health and education services sector, which still employs 40 percent of women, to mostly public sector jobs in financial, insurance and professional services, and private sector jobs in commerce and retail. In addition, there was a small decrease in employment in agriculture. Almost all women who work in agriculture have low levels of education; in contrast, almost 90 percent of women employed in the public administration sector have secondary and higher education. As a result of shift in women's employment towards financial services and commerce, the share of highly educated women in the former has come down, whereas the share of highly educated women in commerce has increased.

2.6 Gender issues and gender entrepreneurship restrictions

Women and women's rights in Iraq have been – and continue to be – affected by the country's recent wars and the current internal conflict. Between 1960 and 1980, Iraqi women had gained access to education, health care and employment, and their political and economic participation was significantly advanced. But women suffered considerably during the 1980-1988 Iran-Iraq war, with many becoming widows and having to support their families, although at the same time, the shortage of men enabled women to enter fields of education and employment that had previously been closed to them. UN sanctions imposed after the first Gulf

War (1991) caused further hardship for the Iraqi people, and since the 2003 war, women's position and security in society has markedly deteriorated. As of 2009, though, this appears to be improving and, according to Freedom House (2010), there has been an increase in the number of women visible in public life as a result.⁴

Women representation on high level in the public sector and in the government is very low. Women participation in politics does not meet ambitions. In 2010, rate of parliament seats filled by women was 27%. Rate of women working or looking for a job is only 18%. They only get 7% of job opportunities in non-agricultural sectors.

Several factors affect women's role in rebuilding Iraq. These factors include violence acts, social and traditional perceptions, lack of security and the poor role of state facilities. Rate of women working for wages in non-agricultural sectors went up from 12.1% in 2008 to 14.7% in 2011.

According to OECD (2014), in terms of right to perform commercial and business activities, under the 1970 Agrarian Reform Law, women in Iraq were granted the right to exercise economic independence and own and cultivate land.⁵ Under the 2005 Constitution (Article 23) and the Civil Code, women and men have the same rights to own, access, and manage non-land assets. On marriage, a woman has the right to retain to ownership and control of her own property, including land. Land and property ownership appear to be governed exclusively by civil law. No data are available on women's land and property ownership, although is quite widespread knowledge that only few women are able to exercise their property and land rights in the current social and political situation.

Women also have the right to enter into financial contracts and access financial services, including bank loans and other forms of credit, and do not need their husband's permission to do so. Under the regulations of the Agricultural Bank, women are able to access credit on the same basis as men.

⁴ Freedom House (2010) Freedom in the World Country Reports: Iraq, online edition, <http://www.freedomhouse.org/template.cfm?page=22&year=2010&country=7843>

⁵ Information obtained from <http://genderindex.org/sites/default/files/datasheets/IQ.pdf>.

No information was found regarding whether or not women experience discrimination in accessing credit. However, UNDP notes that women routinely need permission from husbands or male relatives to engage in activities outside the home, including economic activities, while Ahmed states that social perceptions reinforce the idea that men are better at business.⁶ Together, this would indicate that women face de facto restrictions on accessing credit. According to the World Bank, 13% of men and 8% of women had a bank account in 2011. In the same year, 8% of adults had taken out a loan with a financial institution (defined as a bank, credit union, microfinance institution, or another financial institution such as a cooperative); these data were not disaggregated by gender.

The government does not appear to run any micro-credit programs for women, although some organizations do offer seed grants to women would-be entrepreneurs. Research by UNDP found that lack of familiarity, preference for borrowing from friends and family, and the need to secure permission from husbands or brothers or fathers meant that many women were reluctant to make use of micro-credit services. According to the Microfinance Information Exchange, in 2012, women accounted for 15.74% of recipients of micro-credit in Iraq.

2.6.1 – The harsh life imposed by ISIS

The takeover of the city of Mosul by ISIS in June 2014 has represented a major problem for women and girls. According to the UN Office for the Coordination of Humanitarian Affairs, the ensuing wave of violence followed to the ISIS attack has displaced approximately 1.8 million people internally. Refugee and internally displaced women and girls who are fleeing the conflict in Iraq face heightened risks of sexual and gender-based violence in the cramped and unsafe confines of refugee camps, where life is extremely harsh. Across Iraq, families with small children and babies in arm walk for hours on end under the scorching heat, searching for a safe haven from the extremist violence of ISIS militants. Carrying what few belongings they can that might aid their survival, they abandon their lives for a future in which the only certainty is their displacement.

⁶ UNDP (2012) ‘Women’s Economic Empowerment: Integrating Women into the Iraqi Economy’, UNDP Iraq, Baghdad

Young girls' education has been disrupted as families take shelter in their former schools, and women have been impacted by the loss of economic opportunities, unable to go back to their jobs or find others while they are displaced.

In the absence of fathers and brothers who have left their families to fight ISIS, many women have taken on the responsibilities of their husbands and the care of other family members. Lack of financial resources has pushed many women to accept or to live in uncomfortable situations. An example is represented by the possibility of early marriage among girls, which could be used to alleviate economic hardship. This is why economic empowerment initiatives are crucial for women, she says.

While displaced women are most concerned about meeting their immediate needs – food, water and shelter – social services are needed to address their long-term recovery. While a number of UN agencies, international organizations and local NGOs are on the ground working to alleviate the situation, Iraq has no crisis management system to meet the needs immediately of the refugees, especially given the influx of refugees from Syria.

According to Iraqi lawyer and activist for women's Ms. Suaad Allami, "women must be supported in their efforts to connect formal and informal justice systems," calling on the Security Council and Member States to recommit to the full implementation of the women, peace and security agenda. "All human beings have the right to be safe and live a life of dignity."

2.7 Education and eradication of illiteracy

One out of five from ages between 10-49 years old in Iraq is illiterate. Rate of illiteracy among women in Iraq is 24.0%, while it is only 11.0% among men. Illiteracy is more evident in rural areas than in urban areas, as it reaches 25.0% in rural areas, compared with 14.0% in urban areas. Furthermore, the gap between men and women is very large in rural areas.

Old curriculums, old-fashioned teaching methods and weak infrastructures have all contributed in the deteriorating educational process in all school grades. The overall rate of children attending elementary school in Iraq

went down from 91.0% in 1990 to 76.3% in 2000. Since then Iraq has made progress with regard to rate of children attending elementary school, with the rate going up to 85% in 2007 and 89.1% in 2011. The rate was even lower in rural areas, and in particular among girls, where it went down to 70%.

2.8 Health care

Public health sector has been facing important and complicated challenges despite the improvements that have recently occurred in this sector. Good primary health care services have been provided to a larger share of the population, although many citizens still have to go long distances to reach health care centres: on average Iraqi families need an average of 20-minute time to reach the closest health care centre.

Mortality rate among children under 12 months of age has gone down from 50% in 1999 to 35% in 2006 for each 1000 successful birth cases. During the same period birth rate done under the supervision of qualified medical staff has notably gone up from 50% to 89%.

2.9 Water and sewage

Providing water for purposes of agriculture and industry and house consumption has been a major problem in Iraq. The dams erected in neighbouring countries, where Iraq's main rivers, and its main source of water, come from, have negatively affected quantity and quality of water available in Iraq. Furthermore, pollution, climate change and lack of water conservation by citizens have also contributed to the problem.

The Tigris and Euphrates are considered the main source of water supply in Iraq. The two rivers are expected to fully dry by 2040 if the current situation does not change for the better. Quantity of water available for a single person in Iraq decreased from 5,900 cubic meters in 1977 to 2,500 cubic meters in 2009, though the fact remains that water quantities available in Iraq are larger than those in neighbouring countries with the exception of Turkey.

Improved sources of water have been made available to 70.6% of the population in 2011. However, 18% of Iraqi families gets water from unsafe sources and 70% of families gets water from the national water supply grid as the main source. About 92% of pure water is used for purposes of irrigation and producing food.

About 30% of families live in houses that are connected to the public sewage grid. Other families either would resort to using tankers for this purpose, and their rate is 40%, or they would use covered pipes for the disposal of sewage, and the latter represent 25%.

2.10 Environment

Environment in Iraq has been subject to great damage as a result of the government wrong policies regarding population and managing resources. As a result, the country has been plagued with a series of environmental problems including drought, desertification and increased saltiness of soil.

Between 2007 and 2009, it had been reported that 39% of territory in Iraq lacked fertile land needed for growing agricultural crops. Years of conflict and violence acts have caused chemical pollution in the environment and countless number of unexploded ammunition have endangered roughly 1.5 million Iraqi civilians and have directly affected their life. Bodies of water known as marshes that are located in south of Iraq are regarded as the biggest wet lands in south west Asia. They are also known as some of the most spectacular environmental systems in the world. Rate of areas of Iraq marshes that have been made dry is 90%. Forest cover in Iraq is estimated 4% of the total area.

2.11 Poverty and social indicators

Iraq experienced steady and strong GDP growth, averaging a rate of 7% per year over the 2007 to 2012 period but only modest poverty reduction; implying a negative but weak relationship between economic growth and poverty reduction. For economic growth to have a positive impact on poverty, it needs to generate employment and income for those who need it the most. Recent economic growth was driven mainly by growth in mining or oil, which represents half of the total GDP, the bulk of government

revenues, and almost all export revenues. However, it employs a tiny share of the labour force (1%) and has a low output- elasticity of employment (-0.2). Across other sectors, in general, employment generation has remained low despite output growth.

About 7 million Iraqis, around 23% of the total population, live in poverty as they spend less than ID 80,000 a month, or ID 2,600 a day.

Table X.X - Poverty and Social Indicators, 2000, 2005, and Latest Data

	2000	2005	Latest data ^a
Poverty			
Poverty headcount ratio at \$1.25 a day (PPP) (% of population) ^b	...	...	<2
Poverty headcount ratio at \$2 a day (PPP) (% of population) ^b	...	...	8
Poverty headcount ratio at national poverty line (% of population)	...	...	19.8
Poverty headcount ratio at rural poverty line (% of rural population)	...	...	30.6
Poverty headcount ratio at urban poverty line (% of urban population)	...	...	14.8
Employment/Unemployment			
Employment in agriculture (% of total employment)	...	29.7	23.4
Employment in industry (% of total employment)	...	17.7	18.2
Employment in services (% of total employment)	...	52.5	58.3
Unemployment, total (% of total labor force)	...	18	17.5
Internally displaced persons (number, high estimate)	700,000	1,300,000	2,764,000
Education			
Primary completion rate, total (% of relevant age group)	55.6	78.6	66.3
School enrollment, primary (% gross)	95.4	102.1	107.5
School enrollment, primary (% net)	87.4	90.9	91.8
School enrollment, secondary (% gross)	37.5	47.7	53.1
School enrollment, secondary (% net)	32.3	40.4	44.5
Health			
Life expectancy at birth, total (years)	70.7	68.5	68
Births attended by skilled health staff (% of total)	72.1	88.5	79.7
Mortality rate, under-5 (per 1,000)	42.8	40.7	31
Maternal mortality ratio (modeled estimate, per 100,000 live births)	84	82	63
Immunization, diphtheria (% of children ages 12–23 months)	78	65	69
Improved sanitation facilities (% of population with access)	69	71	73
Improved sanitation facilities, rural (% of rural population with access)	54	61	79.8
Improved sanitation facilities, urban (% of urban population with access)	76	76	86
Improved water source (% of population with access)	80	80	79
Improved water source, rural (% of rural population with access)	49	53	66.9
Improved water source, urban (% of urban population with access)	95	93	94

Source: World Bank, World Development Indicators (WDI), 2013.

Note: PPP = public-private partnership.

a. Latest data refer to the following years: health (2011); education (2007); poverty (2012); and employment/unemployment (2008).

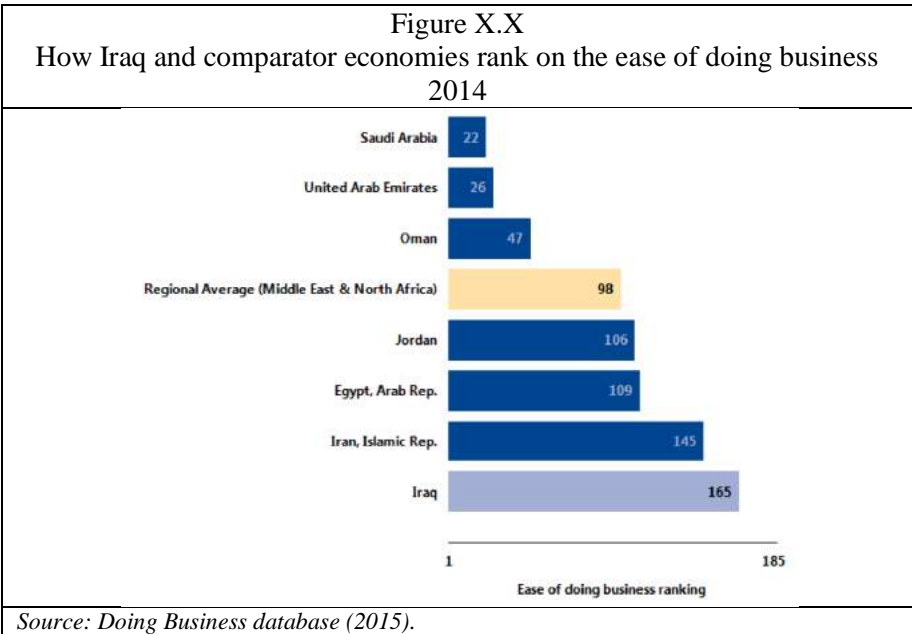
b. Preliminary results of the 2012 Household Survey.

3 - DOING BUSINESS IN IRAQ

3.1 Limits and constraints of doing business in Iraq

Iraq’s legal and regulatory regime discourages the free flow of foreign trade and investment. The uncertain security environment also impedes international commerce. Inadequate supervision, political uncertainty, and a lack of security have severely undermined the financial system. Banks suffer from a lack of liquidity. The state has used banks to finance deficit spending and has required loans to state-owned enterprises.

For decades Iraq lived under a command economy under Saddam. Although he did carry out some economic reforms in his later years, the idea that the state should be in control still predominates within the bureaucracy and with many of the country’s leaders today. That’s the reason why all the talk of economic reform in the country since 2003 has gone largely nowhere. In fact, the ministries have attempted to increase the government’s hold on sectors of the economy by creating monopolies with its state-run businesses. Until that changes Iraq will remain towards the bottom of rankings like this one by the World Bank.

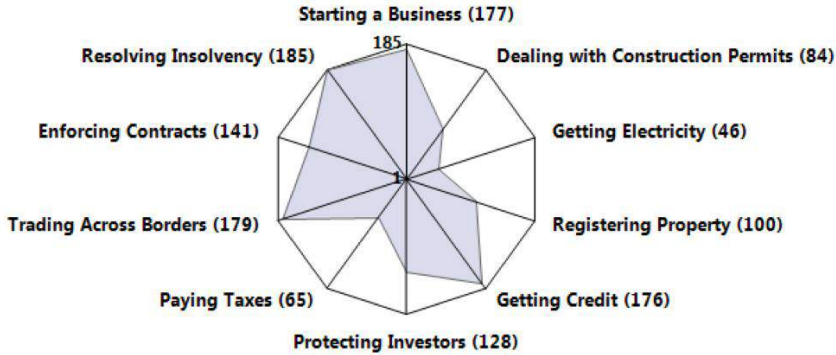


Each year the World Bank releases its Doing Business (DB) report, which ranks countries from around the world on how easy or hard it is for a small to medium sized company to begin operating. It looks at eleven areas such as starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and labour market regulations. The 2015 addition included 189 countries. Iraq has been towards the bottom of these rankings for quite some time given its cumbersome government regulations. In the latest report Iraq even did worse than it did the previous year.

According to DB report, Iraq's transition from a centrally-run economy to a more market-oriented one has been slow and uneven. The World Bank's 2013 Ease of Doing Business survey ranked Iraq 165th of 185 economies evaluated. From 2014 to 2015 Iraq went from 146 to 156. Although there has been an improvement, this ranking puts the country near the very bottom of the Middle East and North Africa.

The nations that did the best were the United Arab Emirates at 22 out of 189 countries, followed by Saudi Arabia at 49, Qatar at 50, Bahrain at 53, Tunisia at 60, Oman at 66, Morocco at 71, and Kuwait at 86. The remainders were in the bottom half and included Lebanon at 104, Egypt at 112, Jordan at 117, Iran at 130, Yemen at 137, the West Bank and Gaza at 143, Algeria at 154, Iraq at 156, Syria at 175, and Libya at 188. The region therefore had a range of scores from many that were doing quite well with their private sector and then those that were hindering it due to its bureaucracy and red tape. Iraq has regularly been at the wrong end of that spectrum due to its history of state-run economic policy, and its lack of reforms to promote business after 2003.

Figure X.X
How Iraq ranks on Doing Business topics - 2014



Source: *Doing Business database (2015)*.

On a few of the eleven factors that the World Bank included in its rankings Iraq did very well putting it towards the top of countries in the report. The issues that Iraq did the best on were filing for construction permits, getting electricity, and paying taxes. Getting construction permits takes eight steps, and approximately 119 days. That put it towards the very top of all countries in the world at 9 out of 189. In the region only the United Arab Emirates at 4 did better, with Saudi Arabia at 21, Oman at 49, Jordan at 126, Egypt at 142, and Iran at 172. Electricity is another crucial factor to run a business and Iraq ranked 36 in that category. It takes four steps and around 77 days to be connected to the national grid. Again, in the region that was quite good with only the UAE at 4 and Saudi Arabia at 22 better. What the report didn't seem to include was the reliability of that power supply as Iraq is notorious for blackouts and the need for private generators to make up for the shortages. Finally when it came to paying taxes Iraq ranked 52. That actually put in middle of the region with the UAE, 1, Saudi Arabia, 3, Oman, 10, and Jordan, 45, doing better, while Iran, 124, and Egypt, 149 did worse. That showed that the business environment in Iraq was not onerous on all fronts. Unfortunately there were far more barriers to get a company up and running.

On the seven remaining factors in the World Banks' survey Iraq was towards the very bottom. On registering property it was 109, on enforcing contracts it was 141, for starting a business it was 142, on protecting minority investors it was 146, on trading across borders it as 178, getting credit it was 180, and finally on resolving insolvency it had the worst ranking of 189. On starting a business Iraq actually did worse from 2010-2014. It takes ten steps to register a business and 29 days. The costs for doing so actually increased since 2010 with the price for filing a name certificate and hiring a lawyer to draft the articles of association all going up. The price for importing and exporting products was also very costly. To export it takes ten documents, 80 days and a total cost of \$3,550, and to import it is 82 days and \$3,650. That is a huge amount of time and money and why Iraq was eleven from the bottom in that category. Overall, these factors explain why Iraq's private sector is dwarfed by the public one. It takes far too long and too much money, not to mention payoffs to government officials, which was not included in the World Bank paper to open a business in Iraq. That doesn't mean that people don't try all the time, but the process is so laborious it hinders a thriving economy.

3.2 Limits and constraints of doing business in the Mosul region

The current economic situation and the possibility of doing business in Mosul have been strongly affected by events that followed the ISIS attack to the Mosul region in June 2014. Despite the ISIS provides food rations and a form of rent control to try and appease residents, several harsh measures have been implemented against some minority groups of the population. These harsh measures may be an attempt by ISIS to rid themselves of residents that may be more difficult for them to govern – in a sense, selecting their own population to rule. However, as electricity and fuel shortages continue and the economy stagnates without government salaries, the Mosul merchant and mid-class will likely become increasingly frustrated with daily life.

So far by distributing food aid and providing basic economic subsidies, ISIS in Mosul has not demonstrated that it is capable of sustaining a local economy beyond the short term. Further, the level of Shari'a law under which Mosul's populace is willing to live remains unclear.

3.2.1 Market governance

Market governance is becoming quite hectic in the Mosul area. Recently Abu Bakr al-Baghdadi, the leader of IS, decreed the minting of gold, silver and copper coins for the militants' own currency - the Islamic dinar - to "change the tyrannical monetary system" modelled on Western economies. However, trade in most militant-held cities continues to be in Iraqi dinars and US dollars. In addition, the strict social laws imposed by the group have been very bad for business, although, paradoxically, foreign fighters were bringing with them lots of hard currency, partly resolving the currency shortfall. According to foreigners observers the militants are developing an unsustainable economy.

3.2.2 Infrastructure availability: water, energy, transportation and telecommunications

Despite the lack of official data, it is estimated that tens of thousands of civilians in the Mosul region are facing problems accessing clean water, fuel and electricity and transportation because of deteriorating conditions under the rule of their Islamic State occupiers. The economic conditions in ISIL-held territory, including Mosul, have deteriorated since ISIL's offensive in June.

There is no sustainable electric power supply in Iraq, and the national grid can only provide 10 hours a day of electric power to families even during periods when there is no high demand on power. Average of electric power supply that families in Iraq get in their houses is 16 hours a day. That includes power coming from the national grid plus the power families buy from private generators.

Within the Mosul area these conditions worsened. In fact, it is widespread opinion that at the moment electricity provision has declined, fuel and food prices have spiked, clean water is in short supply, and trade and local commerce have been disrupted. Furthermore, many government workers have also been unable to collect their salaries, and ISIL routinely taxes and extorts funds from households and businesses.

Finally, militants shut down mobile phone service in Mosul, claiming that residents were tipping off US-led airstrikes to their whereabouts. Mobile phone signals have not been restored, causing the city to come to a virtual standstill. Workshops, factories and markets are closed and bitterness is growing among business owners. Most money-transfer operations are done by mobile calls and the use of internet presents problems given that it is very slow and sometimes it does not work at all, which causes big delays in business activities.

3.2.3 Trade and commerce

The cost of living has soared and the family is barely able to make ends meet, even after putting the kids to work (school attendance has declined sharply). Many families are not able to pay for cooking gas, kerosene and food and the situation in Mosul is close to become miserable.

Prices of most staples have more than doubled as coalition airstrikes and ground operations make it difficult for products to move in and out of militant strongholds, leading to shortages, price-gouging and the creation of black markets. It is estimated that this population need 150,000 barrels (of crude) a day just to meet the demands for transportation, bakeries, power generation. In some regions near Mosul the start of winter has led to serious shortages of gasoline and kerosene. The official price for a litre of petrol in government-controlled areas of Iraq is 450 dinars (40 cents) - but in Mosul, it sells for four times that. Two hundred-litter barrels of kerosene are now sold in Mosul for 250,000 dinars (\$220), versus the official price of 30,000 dinars. In the western Iraqi city of Fallujah, under militant control for almost a year, residents have started cutting trees for firewood because kerosene is in such short supply. The city is surrounded by government troops and near-daily shelling often make parts of town too dangerous to visit. A cylinder of cooking gas goes from 140,000 dinars (\$115). Food and fuel prices have risen sharply as a result - a 50-kilo sack of rice costs 75,000 dinars (\$65), up from 10,000 (\$9) few months ago.

That has put many staples out of reach. A number of factors are driving the shortages and price hikes. The militants have imposed a tax on vehicles entering their territory, leading to a decline in business. Deliveries are also subject to militant theft, and coalition airstrikes and military operations make many roads impassable. As a result, the trip from the Turkish border to Mosul took four hours prior to the militant takeover. Now, a delivery truck can spend as much as a week traveling the same road, and will pay a tax of as much as \$300 for entry into Mosul.

3.2.4 Corruption

According to Transparency International, Iraq has the most corrupt government in the Middle East, described as a hybrid between authoritarian rule and flawed democracy. By the time ISIS began its land grab in Iraq, the military - which had funds poured into it by the US following the 2003 invasion - had shrunk in numbers after years of corruption and absenteeism.

It is common knowledge that the ISIL offensive in Iraq was successful because of the demoralizing impact of corruption in the Iraqi government (especially the armed forces). The troops and police, most of them Shia, felt abandoned and mistreated by their own government because often not paid or provided with essential supplies because of corruption.

The Prime Minister's first words upon succeeding to his new office in September 2014 signalled hope on the anti-corruption front: his administration would focus on "efficiency and integrity, to salvage the country from security, political and economic problems." The main problem is the corruption and mismanagement of the Iraqi government. This is an old problem.

Part of this problem comes from the skilled Iraqis who tend to flee the country because of the corruption and high crime rate. On the contrary, not enough educated Iraqis, who occupy most of the management jobs, are willing or able to address the damage done by rampant corruption. Too many people are willing to gut an essential logistical or maintenance task in order to steal some money meant to get important things (like national defence) done. This is especially true in the government bureaucracies, and that includes the military. Some Iraqis understand how this works and want it changed, but the officials in power are more interested in stealing. There's a popular realization that the corruption is a key problem but so far there have not been enough senior government leaders willing to risk assassination and personal financial loss to move decisively against the problem.

This corruption has a direct impact on the growing of Islamic terrorist violence because the stealing cripples the security forces by leaving the soldiers and police unpaid and unsupplied. This is especially true in the Mosul area.

4. SMALL INDUSTRIAL PROJECTS IN IRAQ

4.1 Introduction to small businesses in Iraq

Despite the growing role played by large industrial enterprises following the modern scientific and technological revolution which resulted in the development of production means and industrial management and organization styles, despite all that, these large enterprises have not been able to eliminate the effective role of small businesses.

Small businesses have been playing a big role in achieving economic development, and in particular industrial development through many of successful development stories in developed and developing countries such as Japan, Italy and South Asian countries such as Taiwan and South Korea.

In Iraq and most Arab countries, governments have taken on the responsibility in building a foundation of large industrial businesses within private and public ownership facilities. Over the last three decades of development, industrial strategies based on large, big-budget enterprises have prevailed. These strategies have achieved high levels of industrial growth and avoided the single structure of national economy regarding exports.

This has negatively affected the role that could be played by small businesses in industrial development as part of economic development requirements. Some countries have paid attention to the importance of the role of small businesses, that have become marginalized, through the progress made by some development experiences that valued small businesses. This attention to small businesses came as a result of the understanding that most development strategies of small businesses were not suitable with their financial capabilities on one hand, and with human capabilities and expertise on the other. This has led most economists in developing countries to call for paying more attention to small businesses.

Before getting into the details of defining and explaining the concept of small business, it is very important to refer to the crucial fact that there is no accurate, agreed upon definition for a small business. Disagreements on this definition are caused by the multiple criteria adopted in looking at these businesses. The reason for the multiple criteria comes from the

increasing interest of researchers in the field of economy, industrial management and sociology who have political and social background. Furthermore, there is no agreed upon definition of small businesses between developed and developing countries, and there is even no set definition in developed countries. For example, some small businesses in developed countries are regarded medium and large businesses in developing countries.

It is important to shed light on some of the definitions adopted within international standards in order to come up with a more realistic definition. Through field trips and studying the many research papers on these businesses, it has become evident that a large fraction of small businesses are very small in nature, with the owner being the manager and the producer at the same time. That is why there has been disagreement among researchers on the definition of the term small business, which creates confusion.

The different definitions and meanings of small businesses vary according to the level of economic development in different countries, and the relative scarcity of production elements in each country. There is also an important aspect of the concept of small businesses that is related to the element of time. Such element can cause a continuous change in the components of these businesses; for example, what is regarded as a small business at a certain point in time can be named something else at another time later.

These businesses usually do not stay without change over time. On the contrary, they can grow with regard to number of workers, factory and equipment size, production average and sales volume.

Some researchers observe that the stages small businesses have gone through in developed countries happen similarly elsewhere. These businesses in developing countries might be a “stage phenomenon” behind the existence of which a group of stage factors such as small size of the market, primitive techniques used, main reliance on using special skills, weak local basic structure, lack of organizational skills and lack of financial resources. If industrial or economic development is realized, all the factors mentioned above will disappear causing small businesses to vanish and large businesses will appear and increase in numbers.

Small businesses can be defined as projects that adopt small-scale production using small capital and employing a limited number of workers. Small business can also be defined as an investment entity with clear technical features. It aims to achieve a fixed goal limited to creating a production line over a certain period of time, either by creating new production capacity or raising the current production capacity or both.

Due to the fact that industrial business is an investment decision, it must be subject to financial, economic and social analysis as long as this business aims to create an added value directly or indirectly using material and human resources that are needed for achieving this goal. This business must also be subject to economic efficiency requirements, and must have a clear goal within environmentally-modified scientific studies in the national calculations added to the social and economic dimensions. The reason is that small business is something like a cell inside the national economic structure that might affect and get affected by other sectors.

In what follows the definition we use is the one adopted by the Government of Iraq and widely used also in the USAID-TIJARA Provincial Economic Growth Program. The definition is based on the number of employees for size classification. 1-2 employees is micro, 3-9 is small, and 10-30 is medium. Companies having more than 30 employees are regarded as large. In our definition, "employees" include the business owner as well as family members that are working for the enterprise, be they paid or unpaid. Business premise location is not factored in to the definition, neither is registration.

4.2 Importance of small businesses in Iraq

Small businesses occupy an important position in the manufacturing sector; and the role these businesses play in the process of economic development differs across countries, over time, according to development levels reached in each country, to the existing economic and social features and, finally, according to governments' stance regarding these businesses.

The relatively deteriorating importance of small industrial projects in developed countries has been a common trend historically due to economic development and rising income levels.

Importance of small business projects, which contribute in mitigating the unemployment problem and instability, started to appear after unemployment rate in developing countries had greatly increased. Here the importance of small industrial projects has surfaced since such projects outperform big businesses in providing additional job opportunities.

In developed countries, small businesses sector basically consists of modern small projects and a few small craft businesses whose products are of high technical value. Whereas in less developed countries, small businesses sector basically includes small traditional factories, which could be operating in houses, or could be craft workshops.

From here we can say that importance of small businesses mainly relies on the role they could play during the different stages of industrial development and which relies in return on the availability of workforce and capital, and in the first stages of industrial development when workforce is available whereas there is relative scarcity in capital.

Small businesses in Iraq can highly contribute in speeding industrial development. Importance of small businesses can be explained through the following:

1. These businesses do not require large initial investments.
2. They are capable of employing large numbers of workers where labour force represents about 30% of the population as is the case in the majority of developing countries.
3. They contribute in raising small individual savings and directing them towards investment, and they can also be income source activities and achieve an additional good value.
4. They underline the importance of time, innovation and invention since work in these businesses becomes more than just killing the time. Furthermore, they enable their owners to realize the importance of economic purpose of the project and create opportunities to take the initiative regarding commercial trading and marketing, since the owners will become source of information and ideas which often lead to success.
5. They are characterized by their flexibility regarding location due to their small size and their limited need to location services such as roads, electrical power and water supply. These characteristics make a lot of advantages for the small businesses such as better distribution of

workers and income, as well as economies of scale, internal and external, which come as a result of the choice of location. The reason is that shortage of expertise in developing countries does not pose any obstacles to small businesses as is the case in large enterprises. Furthermore, small businesses don't require high levels of training for people who operate them.

6. They are regarded as businesses that somehow "feed" other businesses, and they play a vital role in widening local production base. This is done by providing hard currency for the country through cutting imports of goods that these businesses can produce. Finally, since these businesses are flexible and away from routine, they can adapt to the changes happening quickly in the market.

4.3 The role of small businesses in development

In light of what has been presented, an important question is raised here: Do the advantages of small industrial projects play a vital role that is parallel to what is really needed in achieving economic sustainable development in Iraq?

Answer to this question can be seen in the results realized from these projects in developed countries experiences and developing countries where these projects have made great successes.

These businesses have become a symbol of (1) industrialization, and (2) technological development, and (3) economic development. Numbers of these economic projects in the world has significantly increased. They assimilate (50-60%) from the total workforce, and they contribute with (70%) of job opportunities in the European Union. In South Asia and the Pacific, these projects constitute more than (95%) of the total number of projects and employ (35-85%) of the total workforce.

In India, these projects employ around (50%) of the total industrial labour, and in Italy (81%), and in Peru (35%) of the total workforce in the industrial sector. These small projects contribute with more than (70%) of the world output of goods and services, and these small projects are considered the linking element of all economic activities in the country.

Even big companies rely on small businesses in meeting a great deal of their needs.

A lot can be learned from the experiences in this domain of countries with similar circumstances to those in Iraq and picking what fits the reality in Iraq in general and in Ninawa particularly.

In India, preliminary estimates show that size of the Indian market will exceed that of the Chinese market in the three coming decades to become the largest economic market in the world. India has become some kind of “workshop” for generating skills and technical and administrative human expertise.

The cost of in-job training for the single labourer in India is only (15%) of the cost recorded in the U.S. and Japan, and for the same quality. Growth rate in the Indian economy is between (4.8%) and (7.5%), and this rate basically relies on industrial sector and exports. Small businesses can be regarded “the pampered child” of the Indian government. With the current global developments, prevalence of competition principle, economic efficiency and free market mechanisms, it cannot cut support to these small businesses.

On the other hand, these small businesses can have a very important social dimension in dealing with poverty in areas where this poverty is prevalent. This role can reduce the differences between rural and urban areas, and it can also limit migration from the countryside to the city.

Small businesses also play an important role in raising human capital as well as providing decent, low-cost opportunities of in-job training. Studies have shown that small businesses tend to use large numbers of workers compared with large enterprises and this goes in line with the relative availability of workforce and the relative scarcity of capital and hard currency in Iraq, like other developing countries.

4.4 Reference study of International Monetary Fund

The IMF has conducted a study on nine important businesses working in different industries such as leather, shoe, cotton, textiles industries, etc. to specify the extent of their use of workers when using simple technology and

then comparing that with businesses using modern technology with bigger capital. The study has shown that for each unit of capital, 20-101 job opportunities can be provided, according to the type of industry, in small businesses vs. one job opportunity if modern technology with big capital was used.

The study has also shown that modern industrial sector's ability to assimilate the frequent increase in the workforce is weaker than that of small businesses in developing countries. Rate of labourers working in the private sector in developing countries count for (17-43%) of the total workforce employed in manufacturing.

The issue of developing small businesses remains plagued with contradictions resulted from the desire to develop these businesses through modernizing the techniques used by them and the effect of the possible change resulting from that on their ability to assimilate increased numbers of labourers.

There is no escaping from the fact that modernizing the techniques used by these businesses can affect their ability to assimilate large numbers of workforce, which is one of their main qualities. However, developing small businesses technically and transforming them into bigger or more up-to-date businesses is a matter only expected to be achieved in the long term.

Over this long term period, small businesses remain relatively more capable of assimilating bigger numbers of labourers, and all of that should be taken into account in the economic policy in Iraq.

4.5 Boosting production efficiency and increasing economic surplus

The common perspective used to be that big businesses were more able to boost economic efficiency and increasing economic surplus of work, which is based on labourer's productivity and their wages. This equals labourers' productivity calculated by added value after their wages are deducted.

Despite the high productivity of labour in these businesses compared with small businesses and because of the economies of scale they enjoy, and the feasibility of applying modern methods in management and organizing work, and the feasibility of benefiting from institutional sources of funding and all the other advantages that are the result of the large size and which contribute to boost production efficiency and ensure big economic surplus, despite all of that, this common perspective overlooks a number of things that need to be considered:

Ignoring the relationship between the capital invested in labour and the economic surplus it achieves depending on different sizes of projects, and then the economic surplus achieved for the community as a whole by investing a certain amount of capital given the fact that the economic surplus achieved by labourers increases as the size of the activity gets bigger.

If the relationship whose details mentioned above is taken into consideration, it will be clear that small businesses are better able to increase economic surplus.

Studies in this field have shown that cost of in-job training in small businesses is lower than that in large businesses, and that the added value of the capital unit invested in small businesses is higher than that in big businesses. Furthermore, the wage rate in small businesses is lower than that in large businesses.

Studies have also shown that small businesses enjoy some elements of success that enable them to thrive in some domains especially those that fit small production and in which economies of scale and scope have no importance, or activities serving big market, or businesses mainly relying on manual skills of workers, or those that resort to expand geographically for reasons related to location of raw materials, etc.

A study on the relationship between production efficiency and size of the activity has shown that the decline in production size in a business in several industries to lower than average does not result in increase in the cost of unit produced since that will be compensated for through the economies realized in marketing and transportation expenses. Examples of such industries are manual textiles, oils industry and shoe making.

Economies of scale phenomenon, found in big businesses as a result of the large size of production units, which contribute in boosting production efficiency have become plagued by some restrictions and obstacles for the following reasons:

1. Declining average of operating in the production capacity in large plants, which has led to the loss of some of the advantages that would otherwise be realized by large economies of scale.
2. A production method that operates in the form of batches or small orders has spread and has led to the production of small quantities of consumer goods that meet the consumer's taste. All of that mentioned here is adequate for small businesses.
3. Factories built at the present time get out-dated on a faster average than what was expected in the past. As a result, it has become more adequate to start smaller-size businesses with lower investment cost each of which specializes in making a few types of products. This will reduce the losses that would otherwise occur in large enterprises due to fast technological development. Some large industrial businesses have reconsidered the size of their production units in order to boost production efficiency.

5. SMALL INDUSTRIAL PROJECTS IN PROVINCE OF NINAWA: HISTORICAL OVERVIEW

5.1 The relative importance of Ninawa Governorate

The geographic location has made it a point of contact among human civilizations, and a passage for commercial convoys, and a centre of commercial transactions among continents, because of its position on the silk road. All that has made Ninawa become a centre for a number of industries such as textiles, construction materials and food stuff. So it is not surprising that civilization concentrations started in this governorate, and the examples supporting that include Tel Hassuna site, 30 kilometres south of Mosul, the Assyrians civilization and their rich legacy, which contributed to the prosperity of civilizations and culture of peoples of the world.

Furthermore, Ninawa abounds with material and human elements and wealth making it capable of taking on its unique position and playing an important role in civilizational interaction. It has been famous for agricultural activities both depending on rain and irrigation. Mosul Island is regarded as an important basket of bread.

With regard to industry, Ninawa has been characterized by its traditional craft and professional industry. Now many families' names have been taken from the professions done by them such coppersmiths, carvers, leather, etc.

Social structure of Ninawa is very diverse and its majority- Arabs have always lived in coexistence and harmony with other religious and ethnic components of the area. This has made Ninawa a civilizational model that carries an authentic understanding of Islam that gives honesty and peace.

5.2 Structural and material developments of small industrial projects in Ninawa

Analysing historical description of industrial projects allows us to monitor structural and material developments and changes that happened to these industries in general, and to small businesses in particular. This would

require knowledge of the demography of Ninawa and its industrial activity historically.

5.2.1 Demography of Ninawa

Mosul is one of the most important cities in Iraq. It is one of the most famous Arab cities. It is like the crown of Iraq. This city is rich with historical sites, famous for its legacy and traditions, and was a hub of industry, trade and agriculture in northern Iraq in the past as its residents were very skilled in these fields. The city was famous on the world level. It was the hometown of scientists, writers, poets, artists, novelists who enriched the Islamic Arab civilization with their invaluable output over centuries of time. Islamic and Arab civilization owes so much to this elite of scientists, thinkers, etc. who lived in Mosul, city of prophets.

One of the writers who described Mosul mentioned the following: Ninawa was the third capital city of the past Assyrians Empire. It was mentioned in prophets' books that Ninawa succeeded other important cities that belong to pre-historic times and the beginnings of creation. The current location of Ninawa is said to have been inhabited more than 7000 year ago. Ninawa became the capital city of the Assyrian in the 11th century B.C., and in the 7th century B.C., during the rule of Sinhareeb, it gained a great status in history and was famous all over the world. One of the examples of that is the great statue of Sinhareeb which is found in the British Museum.

Mosul city was conquered in the year of 637 during the rule of Umer Ibn Alkhattab. Following that, the city began expanding gradually and it began gaining an upper status and later played an important role after the Islamic expansion during all the caliphs who ruled the Islamic territory. It was famous then for its industrial, commercial and agricultural activities.

Mosul got its name from the idea that it connected al-Sham area with Khurasan in Persia, and it connected the Tigris and the Euphrates. Yaqut al-Humawi described Mosul as: gate to Iraq, key to Khurasan, and that it was one of the greatest places to live in the world. It is worth noting that Mosul had also other names, some of which belong to the era before Islam and some belong to the time after it was conquered by Muslims.

In conclusion, Mosul is a city that was the destination for many rulers, leaders and scientists over different times in history. They loved it and lived

in it for its nice weather and its kind people and gave it several different names. Some of the names were determined according to the city's geographic nature and its weather, etc. so there have been several various names. If a city gets multiple names, that is like evidence for its position in history, its high status for leaders and historians and its strategic location.

Furthermore, Mosul has been an important centre of attraction to scientists and authors from many places on earth. If we were to list the names of those and their news and memories, we would need volumes.

Demography aspects of Ninawa governorate can be stated as follows:

- A. Ninawa governorate lies in north of Iraq. Its capital city is Mosul, which is 402 kilometres north of Baghdad, is the second largest city in Iraq.
- B. Population of Ninawa governorate in 2014 is 3,524,347, half of which live in the city of Mosul.
- C. Ninawa has deep-rooted history that dates back to the fifth millennium B.C. It was an agricultural area that was first inhabited by the first humans, then came the Assyrians and lived in large areas of it and made it the capital city for their empire from the eleventh century until the seventh century B.C. The Assyrian in Ninawa left a legacy of great civilization for humanity evident by the historical sites later discovered in the area. After the rise of Christianity, the Assyrians converted to this religion, and Ninawa become home to Christian monks and theology schools, and attracted many researchers and scholars. Many saints were born in Ninawa such as Mar Issac Ninoyomar Mikhaeel and others.
- D. Area of Ninawa governorate 32,308 square kilometres, and it is bordering Syria from the west
- E. Ninawa enjoys excellent weather compared with other Iraqi governorates, and because its autumn season is similar to its spring, it has been called "Um al-Rabeain". Its weather differs according to terrain, and its temperature ranges between (5-) and (8+) in the winter and between (40+) and (50+) in the summer.
- F. The Tigris flows through the governorate in a curved path from north to south dividing it into two equal parts, east part and west part. Terrain of Ninawa can be classified into three types: mountainous area, hills and plains.
- G. Agriculture in Ninawa is one that mainly relies on rain. Because the governorate enjoys large areas of fertile land, a great portion of this land has been dedicated for growing wheat and barely, and also other crops such as cotton, rice, corn, sunflower seeds, vegetables, legumes, oil seeds and

animal fodders. Upon setting up irrigation projects, farmlands began getting bigger. It is worth noting that Ninawa is the number one governorate in Iraq in producing grains.

- H. One of the most prominent milestones of Ninawa is Prophet Juna Mosque in the centre of Mosul City. There is also al-Khuthur Mosque who back in old history had accompanied prophet Musa. Other milestones include Prophet Jerjees Mosque and the Grand Mosque in which the tower known as al-Hadnaa Minaret is erected with a height of 52 meters, and it was built in 568 A.D. There is also Prophet Sheet tomb Mosque. Ruins of Hatra ancient city lie in south of Ninawa, and the governorate is also home to Bashtabya, one of the ancient historical sites that had been built during the era of Sultan Badreddin Lulu. Besides, there is al-Namrud historical site in the west part of the governorate, the ancient Assyrian Library as well as lots of Islamic historical sites.
- I. Ninawa governorate is famous for its diverse population, of which Arabs form the majority in Mosul city, and in Baaj and Hatra. There is a considerable number of Christians scattered in Ninawa Plain areas east of the Tigris River such as Qaraqush, Seryani Christians, and Tel Keif, Caldan Christians. Ezidis are also an important part of Ninawa population, and they mainly live in Sinjar and Shekhan and the surrounding villages. Tel Afar, in the west, has a mainly Turkmen population and Akra, north of Ninawa is populated by Kurds.

5.3 The reality of the situation of small businesses in Ninawa governorate.

Small and medium businesses are one of the important sectors for their distinct features such as their ability to achieve economic development, and providing job opportunities for the unemployed, not requiring big investments as well as their ability to cope with changing demand on goods compared with large businesses. Most important sectors in which small and medium businesses are operating in Ninawa are:

1. Manufacturing industries

a. Food industries

- Meat packing
- Fruit and vegetables packing
- Dairy products
- Grain products

- Animal fodder products
- Pastries products
- Candy products
- Wheat products such as spaghetti
- Refreshment non-alcoholic products
- Natural honey making

b. Textiles industry

- Textile fibres spun
- Ready non-clothing textile products
- Carpet industry

c. Clothes industry

- Clothes making with the exception of fur
- Fur making and painting

d. Leather products industry

- Leather tannery
- Bags and suitcase products making
- Shoe making

e. Wood products industry

- Wood cutting and carpentry
- Various wood products making

f. Paper industry

- Paper products making
- Printing

g. Non-metal mining industries

- Glass products making
- Non-heated Ceramic products making
- Non-heated pottery making
- White cement making
- Stone cutting and decorating

h. Metal industries

- Casting iron and steel
- Casting non-iron metals

i. Metal advanced products making

- Construction metal products making
- Metal tanker making
- Metal equipment and cutting devices making
- Other metal products making

j. Machines industries

- Engines and turbines making
- Agricultural machines making

k. Furniture industry and other miscellaneous industries

- Furniture making
- Jewellery making
- Toys making

2. Agriculture

- Growing vegetables
- Growing fruit
- Marketing vegetables and fruit

Although modern industrial businesses in Mosul are old in nature and date back to the 1940s, the real expansion in these industries started in the 1970s. They continued to grow until their number reached 1200 industrial small businesses in nine industrial categories after these categories were initially five. The reason is that some of them had been split into more than one, according to the Industries Union in Iraq. These industrial categories include:

- 1. Food industries**
- 2. Textiles industries**
- 3. Strategic industries**
- 4. Construction industries**
- 5. Wood industries**
- 6. Paper industries**
- 7. Chemical industries**
- 8. Plastic industries**
- 9. Services industries**

International categorization merges extraction and construction industries under the category of mining industries. There were 91 medium and large businesses in Ninawa in 1960s, and their number increased to become 289 in the 1970s and 705 in the 1980s, according to the Central Body of Statistics figures in 2000. We can see that the 1980s were like the golden age of private sector businesses in Ninawa.

The 1990s and the beginning of the 21st century witnessed the shrinking of small industrial businesses, especially in the private sector. While these businesses employed more than 3000 workers in the 1980s, that number went down to 750 in the 1990s due to the complete closure of some businesses and the cancelling of production lines in others for technical and economic reasons. Furthermore, the decrease in the production capacity of many businesses led owners to lay off great numbers of workers. Through reviewing the reality of small industrial businesses in Ninawa, it was found that some difficulties and problems had gotten worse after 2003 due to the lack of legislation framework. Industrial sector shrank after that period and it is still shrinking at the present time.

Table 5.1 shows the rate of closure in small businesses in Ninawa. As we can see, there are several industrial businesses that are closed, and the most affected sector is the extraction, textiles, metal and food industries. Number of operating businesses is 631, out of which 583 have been closed. Although the percentage of operating businesses to the total number is %52, these businesses operate with %20 less than their full capacity. According to the latest figures of the Central Body of Statistics, value of fully produced goods in Ninawa was ID 124,412,199 out of the total value of goods produced in Iraq which was ID 785,966,796. This makes the percentage of goods produced in Ninawa 15.8% of the total of goods produced in Iraq.

Table 5.1
Rate of closure in small businesses in Ninawa classified nine categories

	Category	Operating businesses	Closed businesses	Total	Percentage of closed businesses to the total
1.	Food industries	171	100	271	37
2.	Extraction industries	15	94	109	86
3.	Construction industries	230	15	245	6
4.	Textiles industries	22	217	239	91
5.	Metal industries	62	61	123	50
6.	Chemical industries	64	16	80	20
7.	Wood industries	20	68	88	23
8.	Paper industries				
9.	Services industries	47	12	59	20

Source: Industries Union in Iraq

Regarding not fully produced goods, value of goods made in Ninawa was ID 457,650 whereas the total value of goods made in Iraq was ID 624,869, making the percentage of Ninawa goods 73.2% to the total. With regard to other products, the value of those made in Ninawa was ID 219,850 whereas the value of the total goods made in Iraq was ID 443,362, making the percentage of Ninawa products 49.6% to the total.

According to a small businesses report, value of total production in Ninawa governorate was ID 127,911,624 out of a total production in Iraq whose value was ID 815,977,845 making the percentage of production in Ninawa 15.7% to the total. Production requirements in Ninawa were ID 91,170,133 out of a total of ID 513,071,572 in Iraq, making the percentage of Ninawa contribution 17.8% to the total. Number of small businesses in Ninawa was 2,490 out of a total of 17,599 small businesses in Iraq so the percentage of small businesses in Ninawa to the total in Iraq was 14.2%.

Number of workers employed by these businesses in Ninawa was 11,660 out of a total of 64,338 workers in Iraq with a percentage of 18.8%. Value of workers' wages in Ninawa was ID 8,318,583 whereas the total value of workers' wages in Iraq was ID 67,704,143 making the percentage of wages in Ninawa %12.3 to the total in Iraq. House-based and very small craft businesses were not included in these statistics figures.

Data have shown that Ninawa governorate has come on top of the list of Iraqi governorates in terms of number of small industrial businesses with a total of 2490. Number of workers working in these small businesses has been up to 3184 workers. Kurdistan Region's governorates have been excluded from this statistics figure of the Central Body of Statistics in Iraq.

Table 5.2
Production of Ninawa of fully and partially produced goods in relation to the total in Iraq

Activity	Value of Production of Ninawa In million IDs	Value of Total production in Iraq In million IDs	Percentage
Fully produced goods	124412199	785966796	15.8
Not fully produced goods	457650	624869	37.2
Other products	219850	443362	49.6
Total	127911624	815977845	15.7

Source: Central Body of Statistics, small businesses report

Further indications of small industrial businesses in Ninawa governorate comes the data shown in tables 5.4 and 5.5.

Table 5.3
Number of small businesses, workers and their wages

Year	Number of businesses	Number of workers			Wages (ID 1000)
		With wages	Without wages	total	
2011	3,529	8,024	4,548	12,572	29,004,180
2012	3,575	7,838	4,635	12,473	30,924,974

Source: Data from Central Institute of Statistics / Ministry of Planning

Table 5.4
Value of products and supplies in small businesses

Product type	2011	2012
Fully produced goods	286,902,191	250,320,763
Waste products	639,043	883,150
Non-goods production	5,864,417	3,364,890
Other	0	151,580
Total production	293,405,651	254,720,383
Production supplies	193,342,050	161,097,323

Source: Data from Central Institute of Statistics/ Ministry of Planning

Table 5.5
Classification of people (aged 15+) in Ninawa regarding marital status

Marital status	Total in Iraq			Ninawa		
	Males	Females	Total	Males	Females	Total
Single	37.7	26.8	32.2	36.1	26.6	31.4
Married	61.3	62.2	62	62.9	63.4	63.2
Widowed	0.7	9.3	5	0.6	9.1	4.8
Divorced	0.2	1.4	0.8	0.4	0.9	0.7

Source: Date of Central Body of Statistics/ Ministry of Planning

Table 5.6
Estimates of poverty, unemployment and Accommodation percentage in
Ninawa Governorate in year 2014

Town	Estimated population	Percentage of poverty line	Estimated population living below poverty line	Economic activity of people aged 15+	Unemployment rate among people aged 15+	Illiteracy rate among people aged 10+	Rate of families owning a house
Mosul	1,810,867	32.9	595,775	43.1	20.5	20.2	55.6
Hamdaniya	196,991	24.5	48,263	39.8	4.9	17.5	89.8
Tel Keif	196,627	32.3	63,511	37.3	5.3	26.9	81.9
Semel	71,390	6.3	4,498	41.5	9.5	28.9	67.6
Sinjar	308,315	37.2	114,693	31.2	2.7	33.1	96.8
Tel Afar	479,705	50.9	244,170	33.9	12.7	38.3	90.7
Shekhan	41,279	3.7	1,527	42.9	6.9	31.2	79.6
Hatra	55,567	38.5	21,393	32.9	24.7	40.5	90.1
Baaj	168,805	61.1	103,140	30.4	4.0	37.9	93.5
Makhmur	194,801	12.7	24,740	46.6	1.8	34.5	94.4
Total in Ninawa	3,524,347	34.50	1,221,709	39.8	14.6	26.2	71.9
Iraq	0	18.9	0	42.9	11.9	20.5	70.8

Note: Poverty line was measured as ID 105,000 monthly. So individuals earning less than this amount were considered living under poverty line.

Source: Data of Central Body of Statistics/Ministry of Planning

5.4 Relative importance of small businesses in Ninawa governorate

It has been shown above the extent of the importance of small businesses in Ninawa governorate. Activating their role can contribute to the following:

- a. Growth in the domestic product in the governorate
- b. Improving income level of its people.
- c. Absorption of unemployment, in particular among youth and graduates.

These objectives can be achieved in accordance with the modern trends towards market economy, and encouraging competition, and boosting production efficiency in the governorate.

5.5 Constituents of small industrial businesses in Ninawa

Regarding these constituents, and how compatible they are with environmental regulations especially in a number of water projects and **water compounds**, the quantity of water produced according to environmental regulations and the estimated quantity needed in the governorate, and the importance of water resources as a basic condition in industry, it is crucial to show the estimated quantity of water needed in the governorate.

The latest environmental surveys have indicated that number of water projects is 36 whereas number of water compounds is 71. Water projects have provided 36,727 cubic meters per hour of potable water, and water compounds have provided 4,505 cubic meters per hour.

In the countryside, potable water provided was 15,921 cubic meters per hour according to the environmental survey report in Iraq. Estimated quantity of potable water needed in Ninawa governorate is estimated 44,165 cubic meters per hour. All these are promising indications to promote small industrial businesses in Ninawa governorate.

Overcoming financial, security, marketing and administrative difficulties can let small businesses take their normal role in achieving high levels of gross domestic product and sustainable development. This can be done through promoting long-term, interest free loans in accordance with customs and traditions of Ninawa governorate, and also adopting tax relief and encouraging private savings in order to be directed towards investments in these businesses. That will positively improve the living standards of owners of small businesses and workers working in them.

With that we can say that small businesses are still receiving huge attention from researchers, organizations and countries because of the importance of

these businesses as pillars of national economy and vital means to solve many economic and social problems on the international and regional level. In Iraq, there has been a notable increase, though still not enough, in the number of small businesses in order to activate the economic and social sector and working to meet the needs of local consumers. However, the nature of circumstances and challenges, and problems that faced these businesses has cast an economic burden on them and led many of these businesses to bankruptcy and closure. Despite all that, there is still a considerable number of these businesses that withstood the challenges and coped with the difficulties in order to stay in the business and continue.

5.6 Characteristics of small businesses in Ninawa

Small businesses have been known as independent businesses in ownership and management, and having a limited market, and as businesses usually run by families. Management of small businesses tends to be informal with the owners working with relatives and friends for achieving success, and instructions are often verbal with no need for strict documentation.

Central Body of Statistics in Iraq states that small businesses are facilities with less than ten workers working in each of them, and that the value of machines and equipment in these businesses is worth less than ID 100,000.

The methodical definition of small businesses is the result of a number of criteria that differ from a country to another according to economic, demographic and social bases. Examples of these bases include number of workers, value of assets, sales volume, size of the target market, and size of the business profits.

In fact, the reality of the situation in Iraq has proved the unreliability of these bases; some small businesses can be envisioned as big for their competitors whereas they are small regarding numbers of workers, assets and sales, for a business in another sector. They can also be small regarding number of workers, but big regarding size of assets and sales, and the opposite is true. Furthermore, value of assets, sales volume and size of profits must be reviewed in order to face cases of inflation and changes in the value of currency.

This difference has made the possibility of preparing statistics figures about small businesses and analysing them something not easy to do, despite that fact that some of these businesses fall under what is called family firms.

World statistics figures have emphasized the importance of small businesses in countries around the world. For instance, small businesses account for %97 of the total businesses in the United States, and they contribute with %34 of the gross domestic product, as well as their contribution in providing job opportunities. In Britain, about %96 of businesses are of the size of less than £2 million, and about %93 of all businesses employ less than 10 employees. Furthermore, %70 of all companies employs less than 100 employees and the majority of these are family firms.

A number of small businesses in Britain achieve an income average of less than half a million pounds, and employ 15 workers. These make a specific product or service responding slowly to market trends, but they tend to seek customer satisfaction or adopt a framework to go beyond market trends.

Japan's experience in this domain is a unique one and close to the reality of the situation in Iraq. The destruction Japan suffered in the World War II was so massive, similar to the case in Iraq, that the annual domestic product of this country in 1945 went down to only %10 of that in 1936. That means that %90 of the country's production capacities were damaged by the war, and in particular in the industrial compounds of large companies which was known as "Zabiatsu". This led to unemployment, shortage of housing units in residential complexes, which resulted in the migration of technicians and engineers to villages in order to start new small workshops for making clothes, food and small items.

Workers' wages were mostly in the form of meals. A new phase of small workshops appeared which operated in limited industrial compounds that formed the core of Japanese industrial recovery we hear about at the present time. The Japanese are now proud that there is no house in the world without the phrase "Made in Japan" in it.

Practical experiences are many in this domain. For instance, Henry Ford was a mechanic in a small workshop and made his first car there; Doglass started building planes in a room he rented behind a barber shop for \$1000;

Sizer would sell watches in his leisure time and he originally was a station manager in a small town.

Small businesses are considered the linking element of all economic activities in any country, in particular in economies which contain a lot of mass production. Even large companies, like car companies, rely on thousands of independent small businesses. For instance, most producers of assembly parts of cars in the United States employ less than 50 workers, and out of 112,000 body shops, 66% employ 4 workers or less, and out of 135,000 service stations, 60% employ 3 or less workers.

Table 5.7
Contributions of small businesses in providing job opportunities in a number of countries

No.	Country	Rate of contribution
1.	United States	58
2.	Canada	33
3.	Japan	55.7
4.	Ghana	85
5.	India	78
6.	Indonesia	88
7.	Philippine	74
8.	Nigeria	74
9.	Tanzania	63
10.	North Korea	35

Source: UNCTAD. "The Foreign Direct Investment by Small & Medium Size Industries". Geneva, 1998

General features of small businesses can be stated as follows:

1. More flexibility than large businesses in facing recession cases resulted from short of demand in the market. They are able to cope with industries that fluctuate according to customer taste, such as women clothes.
2. Autonomous management with a personal approach in dealing with workers who are usually few. Some refer to the numbers of workers as ranging from 250 to 1500, and another says that the number does not exceed 500. In Britain, for a business to be small, number of workers should not be less than 50 in a week. In Egypt, a business is considered

small if there are less than 100 workers in it and without using machines.

3. The personal nature is prevalent in small businesses, and so job opportunities in these businesses could become available for women, young men and those who migrate from the countryside to the city who are not yet qualified to get a job in large businesses.
4. A small business usually has a local nature in the area in which it is operating, and this characteristic facilitates getting detailed knowledge of consumers and the market and establishing a strong relationship with the community. This implies that small businesses have the ability to expand geographically which helps in minimizing regional differences and achieving balanced spatial development and serving specific markets that do not attract large businesses.
5. Relatively small size of the business within the field of industry to which it belongs.
6. Small businesses' reliance on internal resources, which are often limited, for funding to a great extent. Capital in small businesses consists of two types: capital in the form of fixed assets such as land, buildings, machines, furniture and supplies, and current assets which are cash reserves, and all the assets that can easily and quickly be turned into cash.
7. Limited responsibility of the small business towards the government (taxes, instructions), which means the possibility of getting away from that.
8. Keeping up with competition and innovation.
9. Providing goods and services to low-income social groups which look for goods with relatively cheap prices without sacrificing the quality.

The small businesses subject has gained a lot of attention by universities which started giving classes related to running these businesses. Universities have also started organizing seminars, conferences and research projects about small businesses in different occasions. Some countries have even opened facilities whose tasks include educating small businesses owners and providing them with everything they need to develop their business culture and to find suitable work circumstances for promoting it. These facilities were later called "business incubators".

Entrepreneurship is one of the main characteristics of small businesses. It means innovating a new product or a new style in work or creativity. In the field of business, entrepreneurship means anticipation in applying a new

style in management, or anticipation in creating a certain activity, or innovating a new product that can be easily marketed. Entrepreneurship skills are not born, but rather they are acquired through creative thinking a person can learn from the environment they grow up in, such as family, democratic and school atmosphere.

Besides, the experience that a person can learn in a specific domain pushes them to be creative and to work hard to set the ideas for establishing a project. Then this project or business grows and develops to become a big company as a result to the person's ability of thinking and having a prospect vision for it.

5.7 Privileges expected from starting a small business and possible difficulties

There are multiple opinions in this regard. Privileges can be stated as follows:

1. Taking full control of the direction of performance.
2. Enjoying the right of self-determination as the owner is their own boss.
3. Being independent and not following authority of others.
4. Enjoying self-satisfaction as a normal result of the success made with someone's own efforts.
5. Using personal energy for the purpose of personal interests, and not for other interests.
6. Getting support from large industrial companies through outsourcing activities to provide supplies and needed components for them.

Difficulties can be stated as follows:

1. Taking a risk by investing the capital a person owns or has got as a loan.
2. Working for long hours.
3. Having the responsibility to deal with the result of work, whether it is a success or failure, as well as having the responsibility of taking care of workers in the business.
4. Having the responsibility of performing many tasks such as purchases, production, accounting, paying taxes, marketing and human resources.

5. Unavailability of security or comfort a person would otherwise enjoy if they were mere employees in the business.

Many countries have provided unlimited support to small businesses. In the European Union, the European Commission has recommended using a new definition for businesses in member countries of the union. This was based on the European Council's decision to apply an integrated program for the benefit of small and medium businesses and the craft industry business in 1994. A business would be considered small if it employed less than 50 workers, and medium if workers working in it were less than 250.

Russia has been interested in developing its small businesses within the limits in which ownership of the federal government and its agencies do not exceed %25 of the allowed capital.

In South Korea, small businesses have gained a special status as they are the described as the leading force of economic development and social stability. Businesses that require many people working in them have still been classified as small businesses. Those businesses investing big capital, have been regarded as large businesses no matter how small their workforce is.

In Japan, a government report issued in 1994 pointed out that companies employing less than 300 workers permanently with a capital of no more than 100 million Yen, were classified as small businesses. There is also another category of businesses in Japan called tiny businesses whose number of workers does not exceed 20.

What characterizes small businesses in developing countries is the low cost of creating job opportunities. For instance, in the Philippines and Columbia, cost of creating a job opportunity in small businesses is only %15 to %25 of that in large companies.

6. FIELD MEASURING AND ANALYZING RESULTS

6.1 Reality of small businesses in Iraq

The first industrial and trade statistics measure was done in 1954, and referred to the existence of 22,186 small businesses each employing less than 20 workers, and a big portion of them were from the “tiny” size employing less than 5 workers. The second statistics measure was done in 1960 and focused on large companies only, those employing more than 20 workers.

The third statistics measure was in 1962 and included small businesses with less than 10 workers whose rate was %95 of the total number of businesses, and workers working in them accounted for %36 of the total number of workers, whereas the added value of these businesses was %18 of the total.

In the fourth statistics measure which was done in 1980, small businesses accounted for 96% of the total Iraqi businesses and employed 30% of the total number of workers, with an added value of 24% of the total.

Most data about these businesses are taken from statistics figures of the Central Body of Statistics in Iraq. They indicated that most small businesses were concentrated geographically in the capital city Baghdad whose share of them was 14,391 businesses in 1990 with a rate of 35% of the total in Iraq, as explained in chart (5.5). Number of small businesses in Iraq in the same year was 40,569 employing up to 106,473 workers.

A statistic measure done by the Central Body of Statistics in 2000 indicated a clear drop in the numbers shown above, as explained in chart (5.7), then their rise again. In general, the chart shows the limited nature of small businesses in Iraq and the small numbers of workers working in them compared with the population of Iraq and its many resources. The economic sanctions that were imposed on the country from 1990-2003 might have had the biggest effect on that.

These businesses have contributed to the achievement of added value to the domestic product in accordance with current prices and taking into account important indications such as the huge drop in the purchasing power of

Iraqi Dinar since 1991. For this reason, there is clear fluctuation in the contribution of this sector to the national product, according to the available statistics figures, as shown in chart (6.1).

Reality of small businesses in Iraq indicates that most of these businesses are old, and therefore they are most likely going through a stage of maturity waiting for market opportunities that could save them from going through a stage of shrinking. Such opportunities are less likely to occur in the current situation or not event over the next few years. The reality of small businesses might get better, or worse, if privatization is applied, or in case large foreign investments flow into the country.

On the other side, a number of small businesses are still in the phase of gaining experience and quick growth. However, internal market circumstances that can pose the biggest threat to these businesses, and lack of opportunities to enter foreign markets, and lack of government support have all made matters more complicated. All of that has led to the early entrance of these businesses into a stage of recession.

Table 6.1⁽¹⁾
Distribution of small businesses in Iraq's governorates

No.	Governorate	1990		2000		Development	
		number	%	number	%	number	%
1.	Ninawa	4591	11	8149	10	3558	77
2.	Salahuddin	1182	3	3079	4	1897	160
3.	Ta'amim	2035	5	3198	4	1163	57
4.	Diyala	2004	5	5257	7	3253	162
5.	Baghdad	14391	35	21048	27	6657	46
6.	Anbar	1341	3	4482	6	1341	234
7.	Babel	2050	5	2529	6	2479	121
8.	Karbala	1234	3	3360	4	2126	172
9.	Najaf	2319	6	5224	7	2905	125
10.	Qadisiya	1573	4	2217	3	644	41
11.	Muthanna	731	2	1262	2	531	37
12.	Thiqr	1489	4	3683	5	2194	147
13.	Wasset	1329	3	2883	4	1554	117
14.	Maisan	835	2	2734	3	1899	227
15.	Basrah	3465	8	6062	8	2597	74

Kurdistan Region's governorates are not included here because of the war circumstances (1)

Table 6.2
Workers in small businesses (1990-2000)

No.	Year	Labourers in small businesses	Labourers in Industrial sector	Percentage
1.	1990	106000	271000	39.1
2.	1991	85000	216000	39.0
3.	1992	56000	187000	39.4
4.	1993	78000	206000	37.9
5.	1994	69000	186000	37.1
6.	1995	73000	204000	35.8
7.	1996	73000	204000	37.7
8.	1997	71000	184000	38.6
9.	1998	56000	166000	33.7
10.	1999	62000	174000	35.6
11.	2000	164000	287000	57.5

Table 6.3
Classification of Iraqi companies/businesses according to size (1990-2000)

No.	Year	Small	Medium	Large	Total	Percentage of small to total
1	1990	40569	341	792	41702	97.3
2	1991	40389	221	574	41193	98.1
3	1992	25899	217	648	26764	96.8
4	1993	31769	182	603	32554	97.6
5	1994	26423	193	504	27120	97.4
6	1995	30948	125	630	31641	97.8
7	1996	31440	125	630	32195	97.7
8	1997	31040	139	528	31707	97.9
9	1998	25136	163	571	25870	97.2
10	1999	29467	171	567	30205	97.6
11	2000	77167	156	639	77962	99.0

Table 6.4
Added value of small businesses in Iraq (1990-2000)
(in million Iraqi Dinars)

No.	Year	Output value	Production supplies excluding wages	Added value	
				Current prices	Fixed prices
1.	1990	1423	859	564	564
2.	1991	1802	970	832	487
3.	1992	3025	1824	1201	294
4.	1993	12850	6890	5960	1385
5.	1994	48785	27654	21131	1733
6.	1995	162447	93091	69356	1776
7.	1996	114492	61007	53485	3141
8.	1997	129558	60478	69080	1879
9.	1998	113724	54068	59656	1094
10.	1999	145357	72347	73010	694
11.	2000	482236	226464	255772	1536

6.2. Specifying the problems and obstacles facing small businesses

It is crucial to focus with a specific number of financial, managerial, organizational and environmental problems facing small businesses in Iraq and Ninawa governorate at the present time. That should be done through an *ad hoc* survey prepared particularly for this purpose. Data related to those problems have been collected and analysed using a number of statistical means through offering theoretical and practical solutions.

Through the survey, it has been shown that 66% of the problems under analysis are undermining the performance of small businesses in Iraq in general and in Ninawa in particular. Those problems have resulted as

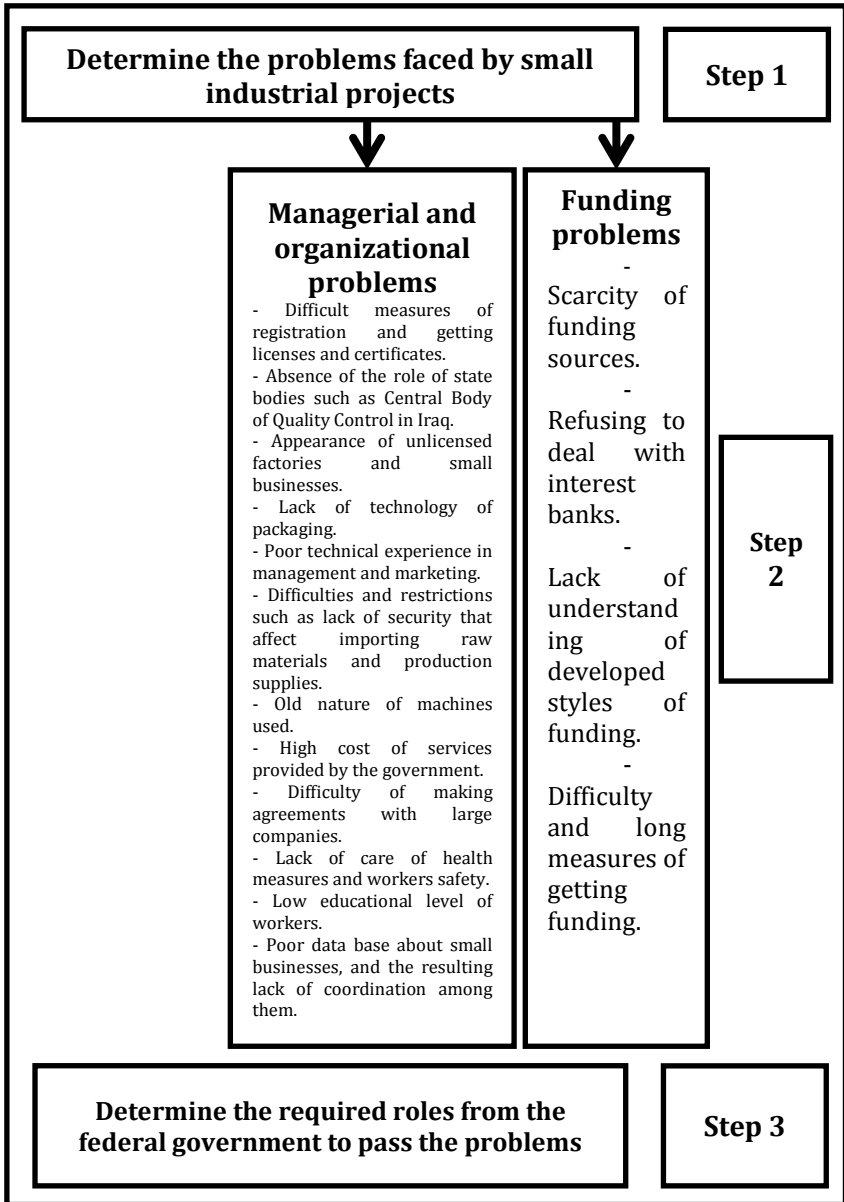
consequences of the war and the deteriorating security situation. It has been noticed that a number of factors had no big effect, such as scarcity of funding resources, and difficulty of registration procedures and getting licenses. There has been clear matching between the variables representing the challenges facing small businesses in Iraq, and similar studies done in other countries.

Polling study that was done through the survey has shown a number of various problems facing small businesses in Iraq, which have been classified as follows (see also figure 3):

1. Funding problems, represented by the following factors:
 - Scarcity of funding sources.
 - Refusing to deal with interest banks.
 - Lack of understanding of developed styles of funding.
 - Difficulty and long measures of getting funding.

2. Managerial and organizational problems, represented by the following factors:
 - Difficult measures of registration and getting licenses and certificates.
 - Absence of the role of state bodies such as Central Body of Quality Control in Iraq.
 - Appearance of unlicensed factories and small businesses.
 - Lack of technology of packaging.
 - Poor technical experience in management and marketing.
 - Difficulties and restrictions such as lack of security that affect importing raw materials and production supplies.
 - Old nature of machines used.
 - High cost of services provided by the government.
 - Difficulty of making agreements with large companies.
 - Lack of care of health measures and workers safety.
 - Low educational level of workers.
 - Poor data base about small businesses, and the resulting lack of coordination among them.

Figure (3)
Small Projects Obstacles & problems



6.3. Presenting and analysing the results

6.3.1 Regarding funding problems

This pivot included four problems represented by questions (1-4). Average answers of the individuals surveyed ranged from “agree” to “not sure”. Most answers were centred on “totally agree” regarding variables second and fourth (Chart 10).

1. Refusing to deal with interest bank regarding getting loans, with a ratio (4.3).
2. Difficult measures of getting funding with a ratio (4.7).

Regarding variables first and third, which are scarcity of funding sources and lack of understanding of developed styles of funding, there was no focus on these by individuals surveyed as challenges to their small businesses and companies. The ratios were (3.11) and (2.8) respectively.

6.3.2 Regarding managerial and organizational problems

This pivot included 12 problems described by the form questions (5-16). Average answers of the individuals surveyed ranged between “agree” and “not sure” and most answers were close to “totally agree” regarding the following variables: (chart 11)

1. Absence of the role of state bodies, such as Central Body of Quality Control (4.30).
2. Appearance of unlicensed small factories and businesses (4.30).
3. Difficulties and restrictions such as lack of security that affect importing raw materials and production supplies (4.21).
4. Old nature of machines used (4.23).
5. Difficulty of making agreements with large companies (4.29).
6. Low educational level of workers (4.29).
7. Poor data base about small businesses, and the resulting lack of coordination among them (4.32).

Regarding the following variables, the results were as follows:

1. Difficult measures of registration, getting licenses and certificates (3.06).

2. Lack of technology of packaging (2.95).
3. Poor technical expertise in management and marketing (2.90).
4. High cost of services provided by the government (2.95).
5. Lack of care of health measures and work safety (2.86).

We can notice the relative weakness of the individuals opinions surveyed about the effects of these variables as problems undermining the work of small businesses.

7. SMALL BUSINESSES SUGGESTED IN NINAWA GOVERNORATE: STRATEGIES AND MOTIVES OF CHOICE

7.1 Strategy of choosing suggested businesses

Professions common in the northern area of Iraq are different from those common in the middle and south of the country. Furthermore, professions are different from a country to another according to the environment. Professions include smithy, carpentry, gold making and other popular professions in which popular simple tools and machines are used. Such professions are often learned by practice, rather than by study, and if we track the development of these professions in Iraq, we can see how diverse they are. The reason behind that is related to the country's varied weather and geographical nature and availability of various raw materials as well as the country's diverse population and its varied density from an area to another.

In the south of Iraq where palm trees and reed and papyrus, in the marshes area, are common, making baskets, pads, dishes, boats out of these plants is widespread, as well as wool industries. In the middle of Iraq, most common industries are wool products such as pads and carpets, and there are also copper and pottery professions. In the northern area of Iraq, which is famous for its mountains and forests and stone quarries, stone and woodcraft professions are common as well as other professions such as fine pottery, carpets and pads. Iraq is also famous for a unique popular artisan profession: enamel-inlaid silver which is famous among the Mandaean religious minority in the south of the country.

The introduction of modern machines, after the industrial revolution, which began producing new products, has led to the shrinking and vanishing of traditional professions. All standards and criteria that were common have been replaced with a new style that is strange for the feelings and consciousness of the people and the spirits of their former generations represented by traditional professions. As a result, some of those traditional professions came to a halt, whereas the production of others deteriorated. We hope that these professions will continue as they carry a great deal of the nation's legacy, customs and traditions.

7.2 Popular professions in Ninawa

7.2.1 Gold and silver making

It is known that Arabs were the first to discover the science of chemistry; name of the Arab chemist Khaled Ibn Muaawya was mentioned in historical records as the first to conduct chemical experiments. This is one of the most ancient professions practiced by our ancestors and it was one of the distinct popular professions in our country.

It was also mentioned by many travellers who visited Iraq such as the Portuguese (Texira) in 1604, who had said: "In Baghdad I found Muslim skilled people who specialized in this profession as well as a big number of Mandaean. They worked in a big market set for this profession". So this profession had big popularity in Iraq.

Like other professions, this one has gone through stages of development due to its long age, and this development had an effect on its styles and spread in various Iraqi cities which reflects competition and specialization. So it is very rare to find a city in Iraq with no existence of this profession since the goldsmith keeps producing in a non-stop process to meet the increasing demand on gold and silver products. Most famous places for this profession are Baghdad, Kadhimiya, Emara and Mosul. We can say that as a result of interaction between foreign tourists and goldsmiths in Iraq, new styles in this profession were adopted such as the decorative figures depicting different animals, plants or historical sites such as Lion of Babylon, Minaret of Samarra.

Styles like lacy gold making have also been used and others like using blue and black enamel and decorating gold with silver. Examples of jewellery include earrings, rings, bracelets, knives and forks. In the southern area of Iraq, a rural style has been common in making jewellery like necklaces and bracelets.

7.2.2 Textiles industry

It is hard to know when this profession was first started in Iraq, but it is certainly very ancient as it was known in the time before Christ. There are also disagreements among historians regarding its birthplace. One of the

opinions refers to people of Little Asia and the Chinese as the first to have started working in this profession, and others say that kings of ancient Egyptians also used it. Anyway, it can be said that the Sumerians and Babylonians had known this profession from some of the artifacts discovered in their ruins which contain paintings and some manuscripts belonging to these peoples.

It is also believed that Cleopatra wrapped her body with a Babylonian carpet when she met Julius Caesar. A Babylonian-made carpet was found in a tomb belonging to the founder of the Persian Empire. It is clear from what has been mentioned above that the fertile land of Iraq which was productive in many ways must have had a specialized group in this profession to furnish religious and mundane facilities with carpets and other similar products.

Name of Baghdad was mentioned by many travellers and discoverers who visited it, wandered in its lanes and enjoyed watching many of the manual weaving tools spread there.

This profession is not limited pads, carpets and covers, as it also includes making various types of clothes. Some places have been famous more than others due to the better quality and harder work. Al-Samawa city comes on top of the list of those places as it produces many textile supplies. It has also been leading in producing wool carpets with dark-colour decorations such as red and purple which are made in spectacular geometrical designs. Al-Hai town in Wasset governorate has been famous with its beautiful designs that include animal figures and geometrical designs.

There is also al-Medhatiya town that is famous in this profession. In the northern area of Iraq, Zakho in Duhok governorate has been known for making a special type of textile covers called "mariz" as well as making clothes especially Kurdish outfits. In Ninawa, the town of al-Hamdaniya has been known for making a distinct type of carpets called "jebn" which is a kind of unwoven wool.

7.2.3 Plant fiber profession

This profession was known in Iraq before pottery. Traces of fiber baskets on clay pots were found in Ur southern town which dates back to 3000 B.C.

Ancient historians who wrote about Iraq, such as Herodotus, also mentioned the existence of a small, circular boat in the rivers of ancient Iraq. Palm trees were the main raw material for this profession, and they were described by the historian Strabo as “the source of all the Babylonians’ need except grains”. Many peoples in the world such as the Romans and the Greek have practiced this profession. This profession is the number one in our country because of the great numbers of palm trees grown, and it includes four types of work styles:

- a. Rolls: raw materials include fresh tree sprigs and stems of some types of plants.
- b. Girth: raw materials include sprigs of willow, bamboo and reed.

From the raw materials mentioned above many products are made, such as covers, manual fans, baskets, chambers for storing grains, means of water transportation, beds, chairs, etc.

In the northern area of Iraq, because of the non-existence of those raw materials due to the geographical and weather nature, raw materials such as wheat and barely stems have been used to make baskets, bags, decoration tools, and these products are accurately and finely made.

7.2.4 Pottery profession

The beginnings of pottery making date back to the Stone Age thousands of years before Christ and some of the very first types made can be seen in the Iraqi Museum. Humans first knew this profession when they started farming which pushed them to settle in certain places after they would spend their entire life moving from a place to another. First, clay pots were used in storing grains and burying the dead, and then overtime improvements were made in this profession, so it began taking several forms with artistic touches. Several products appeared with different colours and paintings, such as kettles, dishes and vases.

Tuz Khurmato, which is located on the middle of the road between Baghdad and Kirkuk, has a special reputation in this profession though its products are all used for purposes of ornament rather than daily use as was the case in the beginning. Various types with unusual design are made in this town. Jars made in this town are characterized by having two or three decorated layers that come in the form of familiar or extinct animals such as elephants,

lions, winged bulls, birds and fish. And for unknown reasons, even by makers, the shapes can be hybrid, for example consisting of a body of animal with wings or with a human head, etc. In Duhok governorate, Emadiya has been famous for making a type of jars with very thin walls, and also the area of Diyana in Erbil governorate. There are areas such as Hilla, Baghdad and Hit, where pots are made in a simple way and in simple shapes.

7.2.5 Wood industries

This is an old profession that began to exist when humans felt the necessary need for settlement. The new life required building houses so the importance of wood appeared in making house roofs and doors, etc. Humans learned this profession through practical training on it which would start in the childhood time by learning from the older in carpentry shops, and then the skill would get better as the individual grows up until they master it.

One of the best pieces of evidence of the skills and ability of ancient carpenters, was a discovery made in al-Warkaa town south of Iraq which was a wooden bed inlaid with jewellery that dates back to 2500 B.C., and also the wheel of the king Urnasha (2520-2490 B.C.) which was made and fixed with nails. These are strong evidence of how skilled our ancestors were in this profession.

Wood industries can be classified according to their shape into categories such as work tools in village or town, house needs, harvesting tools.

7.2.6 Iron profession

This is a basic profession that exists in some villages and rural areas and includes making sickles, axes, cutting tools like knives and swords, horse-riding supplies and hunting tools.

The town of Suq al-Shiyukh, in Thiqr governorate, Najaf, Abu al-Khaseeb in Basrah governorate, and areas around Baghdad are known for this profession.

7.2.7 Leather industries

This profession was mentioned by the Dutch traveller Nijholt who visited Baghdad more than a century ago. He said that there had been shops in Baghdad whose owners would practise the profession of making belts, shoes, sword sheaths and horse-riding supplies. These kinds of profession have vanished at the present time due to the introduction of modern machines.

7.2.8 Copper profession

Products made of copper tend to have a red colour whereas those made of brass, which is a mix of copper and zinc, are usually yellow. Archaeological excavations indicate that this profession existed since the Babylonian and Assyrian era as copper tableware have been discovered belonging to that time. The profession also flourished in the 13th century in Mosul as raw materials were available in the Khabur area, and because of the support from the Zinki family that ruled Mosul at that time.

If you wander in the markets of Baghdad and Karbala, you will see the art of this profession represented by the copper and bronze cookware filling the place. Art of decorating tableware, vases and kettles with copper, silver or both also flourished in Iraq.

7.2.9 Tile industry

This is one of the old Iraqi industries, and it flourished during the Abbasi Caliphate and was also spread in areas of Iran and North of Africa. It has kept its characteristics and traditions in Karbala and Kadhimiya until the present time.

This industry uses “virgin”, or unfarmed, soil which is purified and washed several times. Then it is made like paste and sand, glass powder, and gravel are added to it to make it more coherent. After that, it is cast by pouring it into shaped containers as desired. Following that, it is treated with high temperature for 12 hours. Then it is painted with a colour layer. After the paint is dry, the material is treated with high temperature again for 10 hours.

Painting it with decoration follows that and finally it is heated one more time for 4 hours to get its final figure. There are multiple types of paintings used on tiles; for example, the Andalusia type with leaves and curved sprigs, and there is the Turkish type with corresponding decorative units, and the Indian type in the form of curves connected by knots.

There are other small industries such as stone products that include things like tea and coffee kettles and their extras, in a village called Sakiniya near Sinjar. Basrah is famous for producing a distinct type of boats used in the marshes area. Karbala is known for painting on wood and using the resulted paintings in decorating cloths, etc.

7.3 Proposed Projects

In light of what has been presented and discussed in the previous sections, a number of suitable projects can be proposed. Here below is the list:

1. Memorabilia tourist heritage.
2. Local Sweets (sajacat / Man al samaa).
3. Manual heritage wall carpets.
4. Tahinia factory (sesame paste).
5. Peltry and Mosul cloak.
6. Ba'shiqa olive oil soap.
7. Medical dry herbs.
8. Tel Afar Bulgur.
9. Aljazeera animal fat.
10. Manual heritage clothes (Nineveh Plain).
11. Natural honey (Individual apiary).

7.4 General Motives and reasons behind proposing the aforementioned projects

A work team has specified several motives and reasons adopted in choosing the proposed projects, which can be stated as follows:

1. If opened, the proposed projects would produce goods that are related to the local identity in order to maintain identity of areas and towns where the proposed projects would operate.
2. Availability of basic supplies and convenient locations locally for opening the proposed projects.
3. Availability of raw materials required to operate the proposed projects at the local market.
4. Availability of skilled and specialized workers especially among women, as well as men to operate the proposed projects.
5. Some of the proposed projects products are already made in local markets, but with primitive styles making these products of low quality. Besides, these products do not meet local needs. In return, there is a possibility to increase the production of these projects already running and restore them with more developed techniques in order to improve the quality of their products. As a result, they will produce better products and with more quantities that can meet local and regional demand.
6. It is recommended that size of the proposed project take into consideration the limits of budget set for those projects, and in accordance with Iraqi rules and regulations.
7. The proposed project aims to provide job opportunities as one of the top goals of opening those projects.
8. Possibility of implementing the proposed projects in a timely manner, no more than four months, once budget is available.
9. Increasing demand on products that can be produced by the proposed projects in Iraq and a number of neighbouring countries.
10. The proposed projects can help in keeping what is left of Ninawa governorate legacy and restoring what has vanished, and maintaining its traditional identity.
11. Possibility of monitoring the activity of the proposed projects by certain government bodies in Ninawa to make sure these projects achieve the ultimate goals.

7.5 Reasons behind the choice of the single projects

7.5.1 Memorabilia tourist heritage

1. Total lack of producing of any type of tourist memorabilia in local markets.
2. The strong need to document milestones of Ninawa and publish them locally and internationally through different types of these memorabilia.
3. Availability of skilled workers, especially women, to produce such products.

7.5.2 Manual heritage wall carpets

1. Availability of skilled workers, men and women, in Ninawa to produce this type of carpets.
2. Availability of suitable conditions for this type of industry which used to exist and then vanished.
3. Availability of raw materials such as yarn, wool and other technical supplies in the governorate.

7.5.3 Local Sweets (sajacat / Man al samaa)

1. Limited availability of this type of industry and the need to expand it for the purpose of exporting its products.
2. There are families in Ninawa that are skilled in making the products of this type of industry in their houses.
3. Availability of raw materials locally.
4. It is one of the types of industry whose products have high demand in the market especially during religious occasions.

7.5.4 Tahinia factory (sesame paste)

1. Raw material, sesame, is available as it is grown in Iraq.
2. Availability of skilled workers for this industry in areas of Ninawa governorate.

7.5.5 Pelt coats and Mosul cloak

1. This industry is related to the identity of Ninawa more than other parts of Iraq.
2. Women contribute effectively in making these products.
3. Increasing demand on these products locally among young men as well as the elderly.

7.5.6 Ba'ashiqā olive oil soap

1. This product is produced in Ba'ashiqā, north of Mosul, more than any other place in Iraq. It is linked to its identity.
2. Raw material used in making this product is olive oil which is widely produced in Ba'ashiqā, and in some other places in Ninawa.

7.5.7 Medical dry herbs

1. Ninawa governorate and the northern area of Iraq in general are famous for growing medical herbs.
2. High demand on this product in Ninawa and in Iraq in general.

7.5.8 Tel Afar burgle

1. Burgle industry and its other products are widespread in several areas of Ninawa.
2. Ninawa is known among all Iraq's governorates in that its people consume a lot of burgle and even make other dishes out of it such as the famous Mosul Kubba, especially in Mosul city.

7.5.9 Al-Jazira area animal fat

1. Availability of stock especially goats and sheep which produce this kind of fat, in Ninawa in great numbers.
2. Use of this product in several food stuff industries and making popular sweets such as Mosul baklava.
3. The big role played by women in performing the processes of this type of industry.

7.5.10 Manual heritage clothes in Ninawa Plain

1. Variety of styles and collections of popular and heritage clothes known in Ninawa Plain.
2. Availability of skilled women workforce who can produce such clothes.
3. Increasing demand on these products by Iraqi expats living in countries around the world.

7.5.11 Natural honey (single apiary)

1. Availability of farmlands in Ninawa groves suitable for breeding bees that produce honey.
2. Use of natural honey as a raw material in producing natural medicines.
3. Availability of farmers skilled in breeding honey bees in Ninawa governorate.

8. CONCLUSIONS AND RECOMMENDATIONS

The main aim of this Report has been to identify a certain number of sectors/projects where to concentrate the efforts of the “KEY- PEOPLE Key knowledge for Iraqi Women” initiative. As largely described before, these sector/projects have been identified based on the endowments, in terms of human and physical capital, available in the region of Mosul. Despite we believe this was the main goal assigned to this Report, we are also aware that by simply providing these evidence to those who will follow up with the line of intervention of this initiative may not represent a sufficient condition (although it is a necessary condition) for the success of the initiative and to hope to ignite new era of development and economic growth in the region.

We strongly believe that the success of this initiative may not rely only on the availability of human and physical capital resources. It is well known that there is a deep history, for Iraq in general and Mosul City in particular, in the economic and industrial domain, especially in the craft industry, a lot of which either grew as small businesses or was started by families whose last names later became official titles for these businesses. However, as in all development processes, institutions play an important role in shaping the potential of available resources. The history of economic development is full of examples in which regions and countries with plenty of resources but poor institutions have dramatically failed in achieving their goal of improving the welfare of the local population through economic growth.

It is for this reason that in this last section we want to stress that the success of the identified projects will depend also on the existence of some external institutional factors as well as on the removal of several obstacles outside the control of the entrepreneur.

8.1 What are the limits for the development of a business enterprises

Most important results of the study can be stated as follows:

1. Availability of the requirements of starting small extinct or still operating businesses after overcoming obstacles and restrictions that would otherwise prevent individuals (men and women) from getting into the domain of small businesses in the governorate.
2. The deteriorating security situation has negatively affected small businesses and highly caused their numbers to dwindle in Iraq in general and in Ninawa in particular.
3. There has been instability in small businesses situation with the lack of trained and qualified workers. Besides, the existence of these businesses has been limited to certain places, and there has been lack of strong relationship between them and large enterprises.
4. Lack of organization and unavailability of information, statistical data and adequate means of communication to develop these businesses in the governorate of Ninawa.
5. Scarcity of sources of funding, and lack of banking awareness, and lack of understanding of developed patterns of funding and investment on the local level.
6. Limited supply of basic services and their high cost, and the difficulty of executing the procedures of the business activity because of the tough government bureaucracy.
7. Incapacity of the marketing role especially with regard to advertising and methods of packaging small businesses products.

8.2 Suggestions and recommendations to help develop small businesses in the governorate of Ninawa.

In order to overcome obstacles and difficulties to turn small businesses back into medium-large size industrial firms and empower the role of the community to foster these activities in Ninawa Governorate, some suggestions and recommendations can be adopted. These suggestions and recommendations are directed to different stakeholders, including the central government of Iraq, the local government of Ninawa, the Chamber of Commerce, the Industries

Union in Iraq and the several civil society organizations currently working in the Ninawa region.

Here below are the main recommendations that are worth mentioning:

1. Emphasize that small businesses are a fruitful domain to attract new ideas and give way to creativity, and they are also an effective way to fight unemployment. Individual abilities can achieve innovation in these businesses and contribute towards their development since such abilities can be more qualified and flexible in dealing with the market and attracting consumers.
2. Reduce bureaucracy by facilitating official procedures/permits and the required paperwork for starting small businesses, in particular those procedures related to obtain funding and to allocate convenient locations for them, and supporting their products through tax relief.
3. Create information centres in the Chambers of Commerce, Chambers of Industry, civil society organizations and universities that can provide consulting services and other sorts of assistance to owners of small businesses in order to develop and promote their businesses.
4. It is crucial that managers of small businesses analyse and study their activities in cooperation with other elements of society such as universities, industry unions, chambers of commerce, etc. in order to learn how to overcome obstacles and how to easily market their products.
5. Create a “small businesses body” to support these businesses and help them succeed. This body would belong to the Ministry of Industry and would be technically connected with chambers of commerce and chambers of industry in order to get support and succeed.
6. Increasing discussion sessions and conferences and conducting various studies including feasibility studies for the purpose of developing small businesses and ensuring their success.
7. Taking care of rural and traditional businesses and supporting them in order to protect their products and help them to be more competitive in the market.
8. Providing social security and health care services for workers in these businesses; and restoring cooperatives in order to help facilitate these businesses activities and strengthen them, and assist these businesses in getting basic amenities, raw materials and technical requisites.
9. Raising environmental awareness so that these businesses be more environmental friendly, and enhancing their role in the community in order to draw attention to their products and attract customers to buy them.
10. It is highly recommended that universities and vocational institutes, with fields of study such as administration, engineering and technical studies, conduct specialized studies in the domain of small businesses through scientific research papers, theses, dissertations, etc. written by graduate students and academic staff.

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Erbil Region – Report Annex

***SMALL BUSINESS OPPORTUNITIES IN THE
NORTH OF IRAQ FOR IRAQI WOMEN
(NINAWA GOVERNATORATE AND ERBIL)
A study report***

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PREFACE

This report has been written following the indications that came out of the Second Workshop held in Erbil in September 2014. Its aim is to justify why the consortium has decided to move the operations from Mosul to Erbil following the insurgency of the ISIS (Islamic State in Iraq and Syria) group, which began in June 2014. The violence and atrocities associated with each of these two events caused tens of thousands to flee their homes and many chose the relative safety of Kurdistan Region of Iraq (KRI), as “refugees” from the Syrian conflict and as “internally displaced persons (IDPs)” from the ISIS crisis.

Based on these facts, the Consortium and the observers from the European Commission jointly decided to move all operations in the safer context of Kurdistan, and in particular in the region of Erbil, with the target group of the intervention being now the refugees and the IDPs from the ISIS crisis. In particular, given the specific situation, the objectives have been slightly changed: contrary to the original plan of dealing only with women, in this new setting the target group will comprise 40% males and 60% females.

The remaining part of this Report addresses the pros and cons of working in an area like Erbil.

INTRODUCTION

The Kurdistan Region of the Republic of Iraq (KRI) is a constitutionally recognized semi-autonomous region in northern Iraq with a population of 5.1 million (2012 estimate). Its government (the KRG), based in Erbil, has the right—under the Iraqi Constitution of 2005—to exercise legislative, executive and judicial powers according to the Iraq constitution, except in what is listed as exclusive powers of the federal authorities under that constitution.

Iraqi Kurdistan has been growing rapidly since US-led forces ousted Iraqi President Saddam Hussein in 2003. In recent years, a hard earned record for security and stability had gained the Kurdistan region a reputation as a booming business centre, comparing the growth of Erbil, the Kurdish region's capital, to Dubai's meteoric expansion.

This growth was mainly led by the oil industry, which dominates the economy of the region and funded massive investment in infrastructure. Foreign investment in Kurdistan really started with energy and construction. Many large oil firms decided to move from southern Iraq to the Kurdistan region, which shows that there is a lot of potential there. In the wake of the oil industry's expansion, small and medium sized foreign investors also flooded to Kurdistan, attracted by the relative security and social cohesion. Indeed, the lack of sectarian tension within the Kurdish region has represented a contributing factor to the increased investment in the region since 2003.

The current economic situation in the regions sees glittering high-rises over Erbil's department stores, shopping malls and forecourts full of fleets of white or orange tan cars. This very visible expansion of wealth and prosperity contributed to the ubiquitous newspaper hype, but the massive growth was undeniably real. The region is now home to around 3,000 foreign businesses, more than two

thirds of which are Turkish and a substantial number of the others are Iranian. This is changing as more Middle Eastern and Western firms move into the market, filling in Kurdistan's gap in domestic light industry or consumer good production.

However, this marvellous situation has been recently challenged by the events of the summer 2014, which introduced a new phase of turbulence. The onslaught of Islamic State of Iraq and Syria (ISIS) militants, who have taken control of large swathes of the country and carved a bloody path towards Erbil and Baghdad, was a stark reminder to all that Kurdistan is not immune to trouble in the neighbourhood. But like the glittering hyperbole surrounding the rise of Erbil, the doom and gloom painted since the rise of ISIS may also be overstated. The situation is far from stable, but investors, analysts and business people focusing on the area say it won't push them out, and it certainly won't derail Kurdish development.

This is due to the following factors. First, the crisis in KRI is still unfolding and continues to be affected by the events in Syria and the rest of Iraq, but is not a post-conflict neither a post-disaster condition. Second, the duration and magnitude of the crisis is uncertain and hence the real impact of the shock depends and will continue to depend on conditions in Syria and Iraq. Third, there has been no significant material damage to KRI's infrastructure, human and physical capital stocks, and its housing. As such, the impact of shocks has affected flow measures of economic activity such as GDP growth rate, income, local and foreign direct investments as well as the provision and access to public goods and services to the population.

According to World Bank analysts, the KRG is facing a multifaceted and complex crisis compounding concurrent and mutually aggravating security, political, economic, and social risks. The ISIS crisis has significantly

undermined the population's wellbeing and the authorities' ability to respond to the humanitarian crisis since the summer of 2014. A key priority of the KRG has thus been to bolster internal and external security, diverting an increasing share of public finance towards defence and security spending. In addition to the impact of the Syrian and ISIS crises, a third shock took place: the Central Government in Baghdad failed to pass a budget in 2014 and did not make the agreed fiscal transfers to KRG contracting the region's fiscal space.

In what follow this report will highlight the peculiarities of the Kurdish economy from the roaring decade with high economic growth rates and political stability that followed the end of the war in 2004, until the return of the social and political instability caused by the ISIS attack in June 2014.

1. MACRO-ECONOMIC AND FISCAL IMPACT OF THE CONFLICT

1.1 Pre-Crisis Macroeconomic Situation

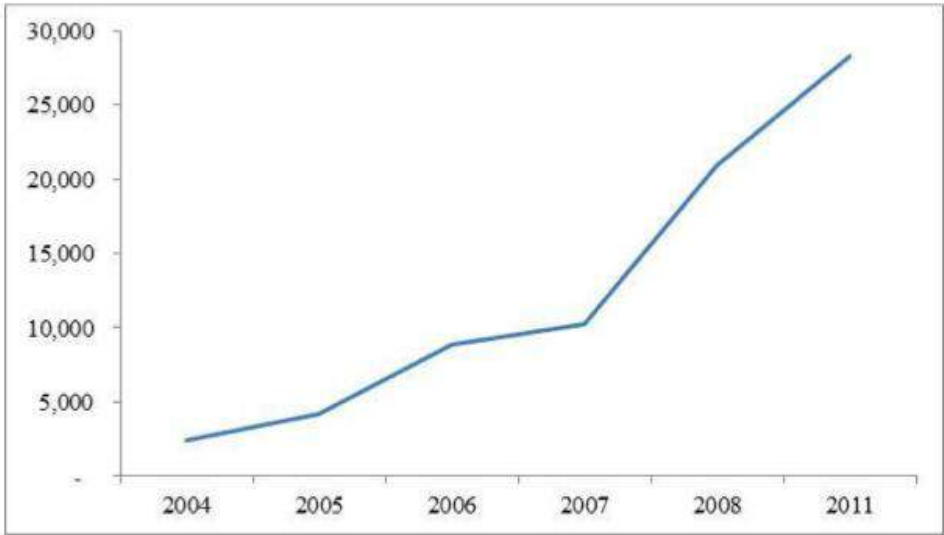
According to a market assessment report prepared by USAID in Erbil in 2010 on business constraints and opportunities at firm level the main economic sectors represented in the region were wholesale and retail trade (28.4%), manufacturing (18.0%), and professional services (16.6%). The majority (63%) of respondents in the survey conducted worked in one of these three sectors. Other sectors identified included hotels/restaurants/tourism (10.8%), construction (7.7%), agribusiness (7.4%), electricity/gas/oil (5.3%), transportation and storage (2.7%) and communications (1.1). The average number of years since they commenced their business enterprises was 8.7.

Despite the economy was growing at a fast pace (see Fig. 1), the general picture that emerged from that report was of small developing businesses struggling in a difficult emerging economy based primarily on trade, moderately on services, and minimally on agriculture. Most worked in very small scale, often family-owned or operated, businesses, employing less than 10 people. Supervisors, administrators and managers were seldom employed. Use of banks and other professional services was very low. Education levels were low, and the majority used unskilled labourers. Most were owner/operators of these small businesses, working in isolation and, sometimes, strong competition from other local business people.

Since then the economic situation in KRI has changed enormously. According to the World Bank, the relatively stable security environment has allowed economic progress in the KRI before 2014. After achieving a semi-autonomous status in 2005, KRI's economy expanded every year and its real economic

growth rate was about 8 percent in 2013 driven primarily by oil production. Contrary to the pre-2010 period, in the past few years, construction sector has been an important source of growth followed by agriculture and services. Large public spending, and especially a large capital spending, has supported these relatively high economic growth rates. Figure 1 shows that nominal GDP increased from ID 20,954 billion in 2008 to ID 28,320 billion in 2011. Per capita nominal GDP was US\$4,452 for KRG in 2011 recording an increase by 12.1 percent between 2008 and 2011.

Figure 1 - KRI: GDP at Current Prices, 2004-2011 (ID billion)



Source: KRSO.

Oil sector is the main source of economic growth. Market sources estimated oil production in the KRI at 250 kb/d in 2013. According to the International Energy Agency (IEA), oil production in KRI will increase to 500-800 kb/d (thousand barrels per day) by 2020, and to 750 kb/d-1.2 mb/d by 2035. There are 47 international oil companies operating in the KRI from 17 countries. The

international oil companies have committed to invest approximately US\$10 billion worth of investment in the energy sector.

With both domestic and international attention being paid to Kurdistan's capital, the region found itself economically reborn. Catering for all of the unprecedented visitors, Hilton has recently announced that it will build a 300-room hotel, featuring a spa, boardrooms and both indoor and outdoor pools. The Turkish Divan Hotel, having opened in May 2012, has rooms varying in price from \$500 to \$15,000 a night, indicating the level of international business it expects to come into the region. With its 8% economic growth in 2011, Erbil's land prices have increased. In June 2012, the city discussed spending \$172 million a year to resolve a residential shortage by building 5,000 residential units a year. The Ministry of Housing and Reconstruction has already started to award contracts. Apart from the incessant housing and commercial building development, foreign car companies such as Porsche and Mercedes have managed to profit from the increasing disposable income in the area. Erbil even has its own stock exchange. It is no surprise that it is often credited as the "Other Iraq" or the "New Dubai".

1.2 The strained public finance problem

According to a recent joint report of the World Bank and the KRG Ministry of Planning the current KRG budgetary resources are under serious financial sustainability problems. The KRG believes it is not receiving its fair share of the budget and Baghdad suspended payment in February 2014 over the move by the KRG to exploit and export its own oil supplies. This suspension of payments prevented salaries being given to many government employees across Kurdistan — not a reassuring sign for ratings agencies or investors. According to the Iraq Budget Law, the KRG is to receive 17 percent from the central budget minus the sovereign expenses. These resources represent about 80 percent of its annual budget revenues (about 50 percent of its GDP), supplemented by oil exports,

taxes and fees collected locally. In March 2013, Iraq's cabinet approved a budget of 138 trillion Iraqi dinars (US\$118.6 billion) based on a world oil price of US\$90 per barrel and expected oil exports of 2.9 million barrels per day, allocating some US\$650 million to central government payments to companies working in KRI in addition to the 17 percent share the KRG receives from the national budget. However, the KRG had originally requested an additional budget allocation of around US\$3.5 billion, which it claimed included the outstanding payments of all oil and gas exports between 2010 and 2013.

KRG's budget deficits have averaged around 1-2 percent of estimated GDP, and have been mostly financed by domestic borrowing though some of the operations of the Ministry of Natural Resources involve quasi-fiscal activities. Hence, the actual public sector spending is higher than the budget data show. While the 2014 financial report of the ministry is not available yet, 2013 financial report shows that projects worth around US\$3.2 billion were funded by the ministry corresponding to about 1.6 percent of GDP. Combined with the capital spending figure as reported below, estimated total public sector spending of KRG was about 4-5 percent of regional GDP in 2013.

External and domestic borrowing by the Ministry of Natural Resources avoided a total collapse of the economy, but this raises concerns about the sustainability of public finances. The Ministry borrowed about US\$3 billion and exported oil valued at US\$1.3 billion, accounting for roughly 41 percent of its budgetary oil revenue entitlement or 12 percent of GDP, and spent these resources domestically which supported growth. As a result, the real fiscal deficit jumped by about 12 percent of GDP from almost zero external debt position over the course of one year. The build-up of debt, though external debt stock is still low, at such a rapid pace warrants the attention of the authorities.

An improving security environment and foreign investment are helping to spur economic activity, particularly in the energy, construction, and retail sectors. Broader economic development, long-term fiscal health, and sustained improvements in the overall standard of living still depend on the central government passing major policy reforms. Iraq's largely state-run economy is dominated by the oil sector, which provides more than 90% of government revenue and 80% of foreign exchange earnings.

1.3 The ISIS crisis impact

As already discussed in the introduction, the ISIS crisis has created huge problems to the KRG, reducing the population's wellbeing. The local authorities have not been able to promptly respond to these shocks and the central government of Iraq has deteriorated even more the precarious social and political conditions by failing to pass the budget in 2014 and by not completing the agreed fiscal transfers to KRG contracting the region's fiscal space.

Therefore, there has been a combination of factors that are adversely affecting the domestic economic activity since 2014. First, and foremost, KRG's share from the federal budget of about US\$12 billion a year (US\$1 billion per month) has been withheld mainly because of the political gridlock in Baghdad which resulted in the failure to approve a budget for 2014. Ministry of Finance reports that only US\$1.1 billion were received in 2014. Second, the arrivals of Iraqi IDPs, in addition to the already existing refugees from Syria, have brought further pressures on the KRG. Third, ISIS related issues seem to have affected domestic economic activity and international trade and investment. As these events more or less occurred at the same time it is not entirely possible to assess their impacts separately on the economy and the population. There are direct and indirect costs. In the sections below, available data and anecdotal evidence are reviewed, and by developing a model, simulations about the impact IDPs and refugees on fiscal balances and welfare levels are presented.

The scale and speed of the displacement crisis into KRI took the government by surprise. The UN and other humanitarian agencies have made tremendous efforts to address the immense need of the displaced. The KRG, the private sector and local residents were also quick to mobilize both financial and in-kind donations for those in need. However, multiple competing emergencies requiring international assistance in combination with the shortage of local funds due to the lack of fiscal transfers from Baghdad is threatening the future delivery of even basic services. In addition, the capacity of both the international humanitarian community and the KRG is being stretched to the limit, which would also hamper the future response to the crisis should the financing constraints be softened.

The overriding need to address the immediate humanitarian emergency has left little time or capacity to prepare for the medium term and mitigate any long-term development impact. The impact of the current displacement crisis goes beyond the financial cost of covering the urgent needs of the refugees and displaced. A significant population increase over such a short period of time will not only cause unsustainable strain on existing services and infrastructure, but can cause long term distortions, for example in the labor and housing market, and might impact the social fabric and cohesion of the population. In order to minimize longer-term adverse impact, it is important that the price of hosting such a large vulnerable population does not disproportionately fall on the citizens of the KRI.

Refugees that have settled outside the camp are finding it hard to find the necessary resources to cover their basic needs. According to a September 2014 comparative analysis of camp and non-camp refugee populations completed by UNHCR, 95 percent of refugees in camps reported being able to afford the cost of meeting their basic needs, as opposed to 70 percent outside camps. Part of this disparity may be attributed to the large number of IDPs that now reside in many of the same host communities as Syrian refugees (particularly in Dohuk

governorate), placing strains on these host and the pre-existing population of Syrian refugees living on the local economy.

Some of the residents of Erbil, however, complain about the pressure Iraqi refugees have put on their city. The arrival of a large number of refugees in the past months has impacted the economic situation in the city, leading to hikes in prices and rents. With no end to Iraq's crisis in sight, it is likely that many more displaced Iraqis will find their way to Iraqi Kurdistan and its capital, circumstances permitting. However, the success of the authorities' attempts to cope with the influx is much less certain, as are their plans to revise the once-booming tourist industry.

1.4 The economic consequences of the crisis

The main effect of the crisis has been a slowdown of economic growth relative to the previous trend. With public and private expenditure disbursements being almost 60 percent down, aggregate demand continue to be restrained, with negative impact on growth. Official projections from World Bank show that economy's growth rate was about 3 percent in 2014 compared to a previous baseline of 8 percent growth. GDP growth rate of 3 percent mainly reflects private sector activities during the first half of the year and financial support of the Ministry of Natural Resources to the government.

Due to the on-going security and budget crises, in 2014 the performance of governmental contracts was negatively affected. Compensation for late payments is expected to cost an additional US\$209.6 million in 2015 budget. There is a welfare impact for the host community as a result of IDP inflows. The simulated impact of IDP arrival on monetary well-being of KRI residents is projected to be about US\$910 million in 2014. Furthermore, welfare costs for KRI citizens as a consequence of the increase in trade costs are crudely

estimated to be an annualized amount of US\$561 million. The impact on the public spending has been high for public and private sectors, and households.

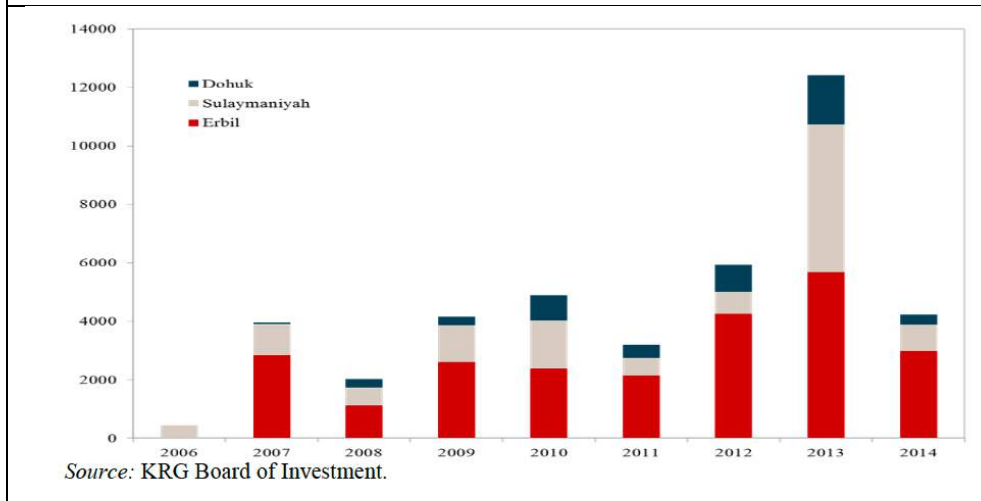
These effects are estimated to last in the medium to longer term, as the refugee and IDP crises are likely to bring a more profound challenge to the economy. The threat of widening conflict and the climate of uncertainty could further inhibit trade and investment. The security deterioration might affect more severely investors that were considering entering the KRI/Iraq market. For example, half a dozen new international five-star hotels were set to start operations in Erbil in the next two to three years. With the current situation these investments are likely to be postponed as a result of ISIS crisis. In the case of a prolonged conflict, it is likely that refugee and IDP inflows will further increase, and the displaced will need income generating opportunities. Opportunities will have to be created, largely in the private sector. Having lost most of their assets and having used most of their savings for their immediate needs, the displaced will need access to finance to start as entrepreneurs.

Finally, the tourism industry has also been affected. Before the events in Mosul, tourism flows in the region had increased by 8 percent over last year. During the early months of 2014, Erbil had a record number of over a million tourists. More recently, the Ministry of Tourism has estimated that tourism in the region has declined by 60 percent following the recent events in Mosul. Also the proportion of tourists from within Iraq had also fallen dramatically.

2. LIMITS AND OPPORTUNITIES OF DOING BUSINESS IN THE ERBIL REGION

The result of the KRG's efforts to gather investment from across the nation and beyond its borders, according to a report by Middle East business News and Data (MEED) is fruitful. During the first half of 2012, Kurdistan drew in \$3.4 billion worth of foreign investment, compared to \$3 billion in 2011 and \$4.8 billion in 2010. Since its touted Investment Law was passed in 2006, the region has attracted 21\$ billion in foreign and domestic private sector investment, 12.5\$ of which has gone to Erbil. The primary foreign investors in the region are Turkey and Iran, followed by the US, Lebanon, UK, UAE, Jordan, Kuwait, Italy and Germany, contributing to 17% of all investments.

Fig. 2 - Licensed Investment Projects, November 2006 till September 7, 2014 (project capital in US\$ millions)



More recent data from the KRG Board of Investment show that KRG licensed investment projects between November 2006 and September 7, 2014 amount to

an estimated US\$ 41.2 billion in capital, including local investment, foreign direct investment, and joint ventures. These reported capital investments are projections at the time of licensing. Project progress is monitored by the Board of Investment on a regular basis. However, no detailed data on actual investments is available. 2013 registered peak investments of US\$12.4 billion including a few exceptionally large investments: US\$1.2 billion for a power plant by an Iraqi investor; another US\$1 billion for a power plant by an Iraqi investor; US\$2 billion for Arbet industrial city by an Iraq-Iran joint venture; and US\$2.4 billion for Eemar Downtown by an United Arab Emirates (UAE) investor. During the first 9 months of 2014, projects with investment capital of US\$4.2 billion were licensed. The number of investments registered is likely to go down for the remaining months of the year as a result of the crises, and is thus likely to remain below US\$5.6 billion.

Kurdistan plays a particularly important role in trade between Turkey and Iraq, accounting for 75% of the \$12 billion trade in 2011; its contribution is expected to increase following the opening of a second border crossing. Local businesses and individuals made up 79% of investment, with the remaining 5% belonging to joint venture companies. Of the 10,500 registered companies in Kurdistan, 11% are international. Kurdistan is evidently proving to the rest of Iraq and the world that it is an economically viable region that continues to grow and prosper.

In fact, investors are looking for something different. The attractiveness of Kurdistan comes from the fact that it is a virgin area, while places like Dubai are full of investors. To a degree, the current Kurdistan's instability has driven investors away, leaving fewer competitors. Furthermore, if the situation were as stable as the Gulf, huge multinationals would have squeezed out small and midsized firms.

The logistics of legally registering a company in the Kurdish region are simple: without the need for a local partner, entrepreneurs can set up businesses within three weeks and easily liquidate or sell them. Most importantly, the repatriation of profit is straightforward. And with soaring advertising and marketing costs in places like Dubai, investors are keen to set up shop where “everyone is lined up outside waiting for you to open”.

2.1 Market governance

Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (Law 4 of 2006) and the Kurdistan Board of Investment, which is designed to provide incentives to help economic development in areas under the authority of the KRG. Arguably, the primary reason for Erbil’s success is this 2006 Investment Law. This law provides for: *i*) equal treatment of foreign and local investors, *ii*) the ability for investors to own all the capital of their projects and to repatriate profits in full; *iii*) furthermore, projects that meet certain criteria will receive the benefit of free or cheap land. The most enticing stipulations are likely those that give investors a 10-year tax break and the freedom for foreign companies to not have to partner with local firms or have local shareholders operating in the region. This is complemented by a 2009 Iraqi law, which allows foreigners to own land in Iraq.

Inflation has remained under control since 2006 as security improved. However, Iraqi leaders remain hard pressed to translate macroeconomic gains into an improved standard of living for the Iraqi populace. Unemployment remains a problem throughout the country despite a bloated public sector. Encouraging private enterprise through deregulation would make it easier for Iraqi citizens and foreign investors to start new businesses. Rooting out corruption and implementing reforms - such as restructuring banks and developing the private sector - would be important steps in this direction.

2.2 Infrastructure availability: water, energy, transportation and telecommunications

One of the biggest issues that companies face when establishing business in Erbil is ironically being affected by the same problems they are trying to fix. Services like water and electricity, although better than they used to be, are lacking. The Erbil municipality is only able to provide around 17 hours of electricity per day, while country-dwelling residents in Kurdistan may not have access to power at all. This will pose added costs and delays to any attempts at improving infrastructure.

Further fuelling expenses is the lack of local expertise, which has partially slowed growth, forcing the Kurdish government to lure foreign players with a whole range of business-friendly regulations. This would indicate that the KRG is reliant upon foreign investment to fuel and sustain its development initiatives. Conversely, the majority of Erbil's investors are Iraqi, and the work culture is something that any company needs to adapt to. In spite of these inherent flaws in Kurdistan's current setup, continued investment and growth is expected.

The Kurdish language, culture, and history aside, the most crucial and current difference between Kurdistan and the rest of Iraq is its relative safety. In spite of the bombings, Lufthansa and Austrian Airlines conduct four flights a week to Erbil, and certain countries, such as the UK, have specifically mentioned that traveling to Kurdistan does not pose the same risks as traveling to the rest of Iraq. Airlines in the UAE have been flying to Erbil for some time.

Iraq will need to make significant upgrades to its oil processing, pipeline, and export infrastructure to enable these deals to reach their economic potential. The Iraqi Kurdistan Region's (IKR) autonomous Kurdistan Regional Government

(KRG) passed its own oil law in 2007, and has directly signed about 50 contracts to develop IKR energy reserves. The federal government has disputed the legal authority of the KRG to conclude most of these contracts, some of which are also in areas with unresolved administrative boundaries in dispute between the federal and regional government.

None of the investors had ever held the idealized, sparkling image of Erbil or anywhere in Kurdistan becoming the next Dubai. This version of the region, it seems, only ever existed in the pages of the press. Likewise, the established, long term foreign businesses were never under the illusion that the situation on the ground was certain, knowing full well that the exuberance of these articles didn't accurately reflect the business environment they were dealing with.

A major challenge for the KRG is to develop the private sector and build a flexible skilled workforce to service it. The energy sector needs to develop, as well as the tourism, agriculture and light industry sectors. The big question for Kurdistan is policy makers can afford that. The first major challenge to achieve this goal is that the public sector dominates the market as almost everyone officially or unofficially works for the KRG. This creates issues in the labour supply and causes flexibility issues for employers. Therefore, a major challenge for the KRG is to develop the private sector and build a flexible skilled workforce to service it — also a major requirement for large scale Western investment. Secondly, as there is almost no domestic production and even agriculture is no longer supporting domestic need, virtually everything is imported and paid for with oil money. While leaders of the region do recognize this, there are other huge stumbling blocks to resolving the issue — such as the ongoing budget dispute with the central government.

2.3 Corruption

Iraq is making slow progress enacting laws and developing the institutions needed to implement economic policy, and political reforms are still needed to assuage investors' concerns regarding the uncertain business climate, which may have been harmed by the November 2012 standoff between Baghdad and Erbil and the removal of the Central Bank Governor in October 2012. The government of Iraq is eager to attract additional foreign direct investment, but it faces a number of obstacles including a tenuous political system and concerns about security and societal stability. Rampant corruption, outdated infrastructure, insufficient essential services, skilled labor shortages, and antiquated commercial laws stifle investment and continue to constrain growth of private, nonoil sectors. Iraq is considering a package of laws to establish a modern legal framework for the oil sector and a mechanism to equitably divide oil revenues within the nation, although these reforms are still under contentious and sporadic negotiation.

2.4 Investment and Private Sector Activities

The private sector in KRI is relatively small and under-developed. The private sector grew, but from a low base, while the financial sector remained largely underdeveloped. Starting from a low base, registration of private sector firms has increased significantly in KRI, especially in Erbil Governorate. The number of registered firms in KRI has grown from 7,440 in 2008 to 13,216 in 2011 and to 20,994 in July 2014. Most of these firms are local firms; out of the 20,994 registered firms, only 2,822 are foreign firms. The private sector is concentrated in Erbil Governorate; 63 percent of the local firms and 74 percent of the foreign firms are registered in Erbil Governorate.

Despite the problems occurred since June 2014, KRI is still seen by large firms as the secure gateway to the 30 million inhabitants market of the rest of Iraq. The main reason for KRI being a preferred location for investments is its strategic location within Iraq, its better security and political stability situation, and its friendlier business climate compared to Iraq (Table 1). While overall, KRI outperforms Iraq in terms of business climate, its performance is mixed: it performs better on taxes, market opportunities, foreign direct investment policy and macroeconomic environment. Particularly KRG’s Investment Law (2006), offering tax and customs exemptions, is considered very attractive. For instance, it provides for exemption from all non-custom taxes and duties for 10 years starting from the date of providing services by the project, or the date of actual production. However, it performs poorer than Iraq on the labor market, financing conditions and infrastructure.

Table 1 - Comparison of KRI vs. Iraq in terms of social and political stability

Ranking (Absolute Number)	KRI	Iraq
Global Peace Index	115th (2.25)	160th (3.38)
Security and Political Stability Index	83rd (41.0)	177th (86.5)
Political Environment Index	55th (4.98)	83rd (2.21)
Business Environment Index	57th (5.70)	72nd (5.04)

Sources: Institute for Economics and Peace; and The Economist Business Intelligence Unit.

3. CONCLUSIONS

Despite strenuous efforts to establish itself as the Arab world's next big tourism and business hub, the capital of Iraqi Kurdistan today faces pressing financial problems and political and social instability, jeopardizing its once-auspicious future. Thanks to economic sanctions imposed by Baghdad and an overwhelming influx of refugees fleeing radical Islamist attacks in northern and western parts of Iraq, Erbil's Authorities are scrambling to preserve the city's image as the destination for Arab entrepreneurs and holidaymakers alike.

The Mosul takeover, Iraq's second-largest city, by fighters from the Islamic State of Iraq and Syria (ISIS), has further damaged the region's economic prospects, as business transactions with the rest of Iraq have been halted. To overcome these difficulties, while it is a priority to provide necessary relief to deal with economic and social issues caused by the crisis, it is also important for the government to develop longer-term strategies to address structural development issues. As refugees and IDPs are likely to remain in the KRI for an extended period of time, they will be seeking employment opportunities. The recent crisis has highlighted the strong dependence and vulnerability of the KRG on transfers from the central Iraqi government and insufficient direct contribution of other sectors to KRI's economy.

One of the main drivers of sustained economic growth in the future has to come from the development of a diversified economy driven by the private sector: a dynamic private sector would provide job opportunities to the KRI population, as well as to the several refugees and IDPs and are flowing now in Erbil Region.