



Interview

Amar Shubar: **Co-founder and Partner,** **Management Partners**

Amar Shubar, a co-founder and partner at Management Partners for over a decade, with experience that spans across Europe, the Middle East, and Iraq, shares with Business LANDSCAPE his insights regarding the investment scene in Iraq today and the role played by the Iraqi Angel Investors Network.

He emphasizes the importance of digital transformation for the economy and the startup scene, and walks us through the phases of the investment timeline, the criteria, and sectors that appeal to most investors.

Would you provide us with a brief introduction about yourself and your work?

I am a partner with Management Partners, which is a management consulting firm working across the Middle East, with a key focus on Iraq. We have been active in Iraq since 2010 and have been conducting management consulting projects for many entities such as the Iraqi government, key stakeholders from the public sector, NGOs like the World Bank and the International Finance Corporation (IFC), as well as international companies who are looking for market entries and interested in operating in Iraq. We also advise Iraqi private sector investors and family businesses that are active in Iraq and looking to expand their business activities.

In 2018, we started looking into the startup scene and the development of the digital economy. We are engaged in some of the discussions where either institutional investors or family businesses are looking into investing in regional startups operating in the country or vice versa. We developed an interest to help startups to engage which we feel is an important element to the diversification of Iraq's economy which in return would empower the Iraqi startup scene and drive forward the digital economy and transformation of the country.

Moreover, we have been assisting startups in developing their businesses, identifying potential partners, and conducting investments from our side in startups that we believe require support and have a potential for success. We worked in part with the Iraqi Angel Investors Network and conducted at least two major investments into Iraqi startups over the last 6 months. On a personal level, besides being a partner and co-founder at Management Partners. I am originally an Iraqi, I left Iraq in 1981 and came to Germany with my parents at the beginning of the Gulf War.

I grew up in Germany and went to school and university there. Then I started working with McKinsey & Company in Germany and across

Europe. With the opening of McKinsey in Dubai in 2000, I started doing more and more projects in the Middle East. By 2006-2007 all my projects were based in the Middle East.

At the end of 2009, I decided with some colleagues to set up Management Partners, our strategy was focused on helping the Middle East region in terms of their transformational and strategy needs especially after the Arab Spring and the first financial crisis. Furthermore, we have a key focus on Iraq, where there is a significant need for reforms and transformation.

Given the Iraqi origins of our founding team, we have a deep passion for the country and the desire to make a real difference for Iraq. We are one of the few consultancy companies with a local office presence since 2010, which allowed us to create deep insights into the Iraqi market and business culture and enables us to support our clients to make a sustainable impact.

What encouraged you to join the Iraqi Angel Investors Network (IAIN)?

I have attended the pitch of the network in earlier events and personally found that idea very intriguing as it is always good to have fellow investors where you could exchange ideas, discuss business opportunities, coordinate in terms of investments, and get access to investment opportunities that are far better prepared and prequalified.

Our main business is not centered around doing angel investment but we are interested in investment potentials. I appreciate the collectivity of the network, model, support, and the opportunities that come along.

It is critical if you are an angel investor to have fellow investors with you in order to obtain different perspectives and have multiple people who believe in the idea and that investment. You will also be able to provide additional funding when it is required for the second or third round of investment, in addition to spreading the risk between the investors.

What role do you think IAIN is playing in the entrepreneurial scene today?

Overall in the entrepreneurial scene, the startups' support and capital support are very limited so I believe they are playing a vital role. There are few initiatives and some funding that is more privately organized and less open than IAIN.

IAIN managed to bring a number of high-profile Iraqi Angel investors together to create that space, where investment ideas can be exchanged and they were able to structure several deals over the last couple of months. It is important work in the right direction to support the creation of the digital economy ecosystem in Iraq, which relies on Iraq-based funding and funders.

I think the regional interest is increasing but most of the investment is coming into the startup scene from Iraqis living in Iraq. I hope that the success that the network has achieved, encourages more regional and international investors to come to Iraq as they see that there are real and lucrative opportunities.

You stated that you deal with many family businesses in Iraq, which is a very interesting point that startups and the youth need to understand.

What is the current state of family businesses in Iraq? Are they still playing a big role in the private sector as they used to be? How do you evaluate their interest in the startups and the new business models emerging around the globe? And when do you think these models would be introduced to the Iraqi market?

Indeed, family businesses still play a vital role in the Iraqi private sector. As most of the major private sector activities are run as a family business, even when considering major regional businesses, many of them are operating as family businesses and conglomerates.

As for family businesses' interest in the digital economy, I would say that more mature family businesses are interested in this scene. Digital transformation is happening around the world and it has been penetrating every aspect of the business.

Depending on the maturity level of the family business they will approach this differently and depending on the size of the startup they might be interested only in more established series funding investment versus others who might be interested in entering at the angel investment stage.

Besides financing, Iraqi family businesses can also be strategic partners for startups, by leveraging their assets in the bricks-and-mortar world and providing access to distribution, branch network, and their existing client base. Startups on the other hand can help family businesses in their digital transformation to improve efficiencies and customer convenience.



What does the startup ecosystem need to do to encourage family businesses to invest in the startup scene?

First, they need to prepare their business case very well. So there is still work to do in terms of how mature the idea is, and how well prepared in order to have a convincing pitch.

Also when approaching those family businesses, the startup needs to consider not only the financial point of view, but also the strategic value they could bring to the existing business of the family conglomerate.

Understanding the business lines of the family business and the potential synergies an investment into the startup could bring, are crucial to strike a deal.

We usually see that approach happening more often in other markets but not as much in Iraq. There are concerns of startups, that the established business might imitate their idea or influence their business decisions and activity, but it is a risk the startup needs to take if it aims to expand quickly and have better access to existing strategic assets.

What are the hurdles and challenges that investors face in Iraq today?

There are several obstacles and challenges, a key one is related to the assessment of investment opportunities as reliable market data are limited. Another key challenge is the high business risk profile of Iraq, given the country's volatility.

I would say it is already difficult for Iraq-based investors who have an understanding of the Iraqi market, thus, it is even more challenging for foreign investors who are used to have much better access to market data and analysis when they enter into a certain market.

Those are the challenges in terms of the due diligence part and making the investment decision.

Then you have a larger set of challenges when it comes to the legal structure and the business setup.

The company registration process in Iraq is not favorable for having a flexible shareholders mechanism like in other jurisdictions as e.g. in the GCC countries. When looking at what Abu Dhabi did with their Abu Dhabi Global Market (ADGM) and other company setup structures around the region, they make it easier for startups to include investors, issue shares, raise funding, with a faster and smoother legal process than the one we have currently in Iraq.

In addition, foreign ownership in local Iraqi companies has been limited and has been made quite difficult to register, which makes it very challenging for an Iraqi startup to have international investors and distribute company shares.

With all these strenuous structures and regulations, startups tend to create hybrid mechanisms where the actual shareholding entity is outside of Iraq which holds the Iraqi entity, but this is not optimal and has many complications. I think it would be better if Iraq develops its company laws to enable holding company structures and an easier registration of shareholders like in other countries in the region.

Another aspect is that there is no real startup endorsement and support like that found in other countries such as financial support, guarantees, exemption of taxations, etc.

Those are elements that support startups to open their businesses and encourage investors to put their money into them. A lot of similar facilitations are taking place across the region but Iraq is lagging far behind.

When investors are looking to invest in a startup in Iraq and a setup in the GCC for example, they would have to weigh the pros and cons between the two. If one comes with heavy support and funding from the government, it would make the investment contribution more impactful.

All those elements are the key issues that hamper the investment process in Iraq.

These obstacles result in that startups in Iraq are traded with a lower valuation than their peers in the region. That means that Iraqi founders need to have a better business case and might have to give more of their shares in order to get the required investment.

Do you think the current Iraqi legal framework does not keep up with the modern requirements of startups? Does this, in return, limit the investment opportunities? Are there any stakeholders or key players who could contribute to developing the legal framework to be more supportive of the ecosystem for investors and startups alike?

Indeed, I think many key stakeholders should start contributing to this, including the National Investment Commission. The National Investment Commission currently does not have any focus on digital startups, its strategy is geared more towards industrial and brick and mortar types of national and direct foreign investments. I think they underestimate the overall economic impact of the digital economy.

There should be more focus to attract foreign digital companies into Iraq to help build and expand the local digital economy and the connectivity with the region. Regional successful digital companies and startups with interesting business models should be actively targeted to bring them to Iraq.

Let's look at the example of Careem, which had one of its most successful country launches in Iraq and helped to create a large interest for other regional digital companies and startups to tap into the Iraqi market.

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The importance of attracting such players is not only related to the investment they would bring into the country but even more importantly the capability of building local talents and fueling the digital ecosystem.

Startups are creating other startups. From many startup events, we see that many founders of startups in Iraq have previously worked at Zain Cash, Careem, or other established digital companies where they developed the required skill and knowledge to create their own firm.

Another key player, who could help remove some of the current bureaucratic obstacles, is the Company Registration Directorate.

It is an executing entity, therefore, it relies on the existing legislation, but there are several areas, where they could internally take a more proactive approach to enable easier registration processes and to issue new types of business activity license, which reflect the new business models adopted in the digital economy.

From a policy perspective, the involvement and leadership of the Prime Ministry Officer, Council of Ministers Secretariat, Ministry of Trade, Ministry of Telecommunications, and other key government entities is going to be key to drive policy and economic reforms to promote, incentivize and accelerate the development of the digital economy in Iraq.

The current focus of the Council of Ministers Secretariat and the Ministry of Telecommunication is e-Governance with a public sector digital transformation view. There is little focus on the private sector development and building the right legislative and business environment for the digital economy.

The required reforms for the development of the digital economy in Iraq need to cover legislative and administrative/procedural changes as well the development of funding and investment incentive mechanisms focusing on the startup and digital economy ecosystem.

Important aspects of the reforms need to remove current taxation uncertainty and monopolistic license situations.

We know from other countries, that telecommunication companies are key contributors to the digital economy and development of digital services. Iraq currently imposes a 20% sales tax on telecom services and telecom service providers need to pay in addition a revenue share as part of their license agreement.

While these conditions might be bearable for classical higher-margin telecom services, they are not feasible for digital services, which are more open for the competition via over-the-top players and thus are under higher margin pressure. Therefore, a clear tax regulation and guidance need to be provided by the government that the sales tax and revenue share requirements of telecom providers only apply to their classical telecom services and not to their new digital service offering to unlock their investment potential into the digital economy of Iraq.

Another key reform aspect needs to be the removal of unjustified economic monopolistic rights of state-owned companies like for example parcel and mail delivery or the provision of backbone internet capacity and international gateways.

Is it essential for a startup to be registered as a company in order to obtain an investment opportunity?

Yes, it is. As an investor, I am concerned about the legal framework foundation, I am usually searching for a startup that has a corporate structure and is legally registered with the necessary approvals to run business in Iraq. Therefore, it is a prerequisite that any startup we invest in is registered with a proper license to do the targeted business activities in Iraq.

Are there certain sectors that are more attractive for investors than others?

Most investors are currently interested in the area of delivery, such as last-mile delivery/e-commerce fulfillment, and food delivery. There is a huge demand in that field, and several regional players coming in for cross borders delivery and e-commerce.

We also have mobility and ride-hailing, Careem is a big player with substantial funding in the region, but there is still room for other startups to come in and there is a great need to improve the mobility and transportation in Iraq given the insufficient and unorganized public transportation system.

Another attractive sector is e-commerce, as the entire world is going in that direction. In the case of Iraq, there is significant e-commerce activity but most of it is unorganized and taking place through Facebook pages and other social media platforms but not through proper e-commerce shops. There are some positive exceptions and few e-commerce startups like Orisdi, Miswag, Tamata, and Shopini, who follow the international e-commerce platform business models.

Those e-commerce platforms like Miswag and Orisdi, have seen exponential transaction and revenue growth over the last 2 years, but they rely heavily on investment injection to fuel their growth in client base and supplier network.

Fintech is another important sector. Fintech companies like Asia Hawala, Zain Cash, and other payment solutions providers have already entered the market. The access to this sector is more limited, as only institutional investors and larger setups are able to fulfill the license and capital requirements set by the Central Bank. Yet, there is a less regulated grey zone where companies provide prepaid cards to enable electronic payment for certain services through voucher systems.

Startups in other sectors such as e-health and e-education are also emerging, but regionally and internationally the success of these business models still needs to be proven.

Do investors prefer to pursue opportunities in their sector of expertise?

Yes, indeed, everyone feels much better to invest in the area of work where they understand the market dynamics and can provide insights/directions and opportunities to the startup and not just funding.

What criteria are you looking for in a startup and the founder/s when considering a potential investment?

We look at the startup's team, their background, history, skills set, and qualifications. Especially for newly founded startups that do not have financial assets or a financial track record.

I think that amounts to 50% of the evaluation in terms of the capability, commitment, and how much skin they have in the game.

At the end of the day, we provide funding that will be executed by the founder/management team. Assessing people is a major part of this equation. If the group is not fully committed to their idea, we would not be encouraged as investors to put money in.

Second is believing in the business case and the business plan that they have, which means how well and realistic are the business plan

assumptions, if the market opportunities are reasonable, and the growth they try to capture is feasible with the investment.

To be frank, no business plan works out the way it is planned, that is a part of the game. But if there is not at least a solid business plan that works in an ideal world then it would not make it in the real world where things are usually messier.

It is not because one has a great business plan that they are set for success, but if one does not have a sound plan then they are definitely set for failure.

The third criteria include the track record of the company itself, which is an important element, if it exists – i.e. how well the company performed in terms of customer acquisition, revenue growth, and expenditures.

Based on that we conduct an analysis to evaluate, if this track record could be continued and accelerated and thus if the set targets and related investment requirements seem to be realistic.

Would you walk us through the investment phases in a startup? When you are first approached by a startup until they obtain the investment opportunity.

The timeline from the discussion to investment varies, it takes from 6 weeks to over 6 months, it all depends on the negotiation and the maturity of the startup.

The first phase includes a pitch document from the startup where they present what they have and what they want to obtain, hence, we decide if we are interested in this opportunity and believe in the team and their targeted business model.

Once we decide that we are interested in this startup, we start with the due diligence process. That includes understanding their business plan, the team set up, their capabilities, and their strategy compared to their competitors.

We also look at similar investments in similar businesses and their outcomes, market comparables, and industry benchmark.

The third stage includes the negotiations, there will be a discussion about the valuation of the startup where we might have different perspectives than the startup team itself, how much the startup requires, and how much we are able to invest.

We prefer to invest in an opportunity with other committed co-investors, to ensure that there is enough funding power and risk diversification. We, therefore, coordinate our investment with other investors in a financing round. In these situations, we have to agree on one joint valuation across the table.

This collaborative approach might prolong the alignment and investment decision process, but it is key for making a positive investment decision and startups should proactively try to connect with potential investors and drive the alignment process.

As mentioned the overall decision timeline can vary from one to the other opportunity, but as a general rule, the more realistic the startup comes with its valuation, the easier the alignment process is. If they are very far off, it will take a longer time and might not conclude into something feasible.

Once the alignment process is done, the rest is formalities, in terms of signing the term sheet, shareholders agree on the investment payment terms and schedule.

What is an interesting finding of Iraq that you have noticed?

Iraq has a young, talented, and intelligent population, but unfortunately, they have been robbed of proper education. There is no actual investment into educating the young population and equipping them with the proper skills to reach their potential.

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To be more effective in the business scene one needs a combination of intellect, technical skillset, and practical business experience.

This cannot be realized through the private sector alone. Iraq has to invest in its youth, help them to learn on the job, and guide them. I believe this investment would lead to the biggest rewards for the country.

Attracting international companies and international startups into Iraq does not mean favoring international companies over Iraqi companies, but those companies come with a mature business model where Iraqis can learn from. One could see this with Careem and other businesses, where people start working for them for a couple of years to acquire sufficient skills and experience to create their own startups.

There is a big potential in Iraq in terms of the youth and their eagerness to work. Properly harnessing this power is crucial for us as Iraqis and an important factor for foreign firms, who wants to enter and invest in Iraq.