

BUSINESS

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LANDSCAPE



**BANKING AND
FINANCE EDITION**

THE ELEPHANT IN THE ROOM:

INVESTIGATING THE ABSENCE OF INTERNATIONAL SERVICES, ROOT CAUSES, AND MISSED OPPORTUNITIES

Abdal Ghany Al-Hassani

**Access to Finance in Iraq:
An Analytical Study**

KAPITA's Research Team

**Iraqi Entrepreneurs
Journey V.2 New Trends
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**Measure it to
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**An Overview
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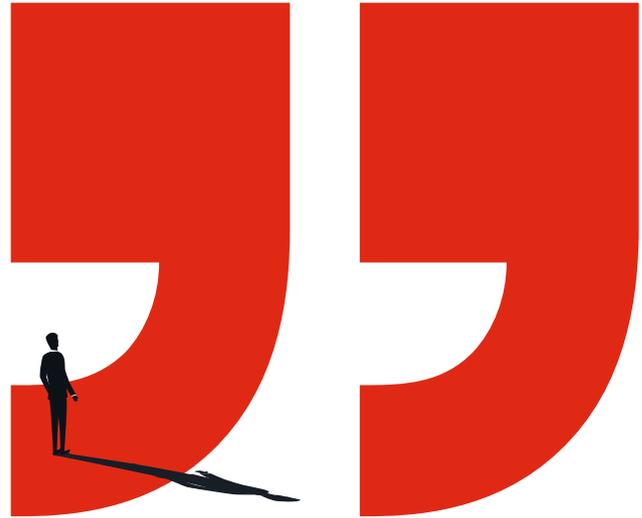


The Neglected Building Blocks of Iraq's Economy

Iraq has gone through a long determinantal period of sanctions that have caused the economy to deteriorate and be isolated from the international markets; it has also led Iraq to miss on the revolution that was sparked by the internet in the 90s and its positive impact on all different sectors and industries, but particularly in the banking sector and financial infrastructure. Emerging out of this age, Iraq has started to recover and reconnect with the global financial system, and numerous changes have been introduced to the banking sector and financial services. (Read more on page 33, *Relieved from Economic Sanctions: Iraq's New Status in the Global Financial System* by Abdulaziz Al Attar).

This period has also resulted in a severe lack of services in the country, such as financial technology, international e-commerce, freelancing, and content creation platforms, which is mainly caused by the financial payment issues that are the remnant of the sanctions coupled with the lack of risk appetite for investors and international corporations to operate in Iraq, in addition to the absence of adequate regulations that can create a friendly environment for those services to operate. Consequently, this led to many missing opportunities for Iraqis. (Read more on page 7, *The Elephant in the Room: Investigating the Absence of International Services, Root Causes, and Missed Opportunities* by Safwa Salim, Issa Mohammed and Rawaz Rauf).

The banking sector and the financial infrastructure are discs in the spinal cord of any economy, and they enable its growth and foster

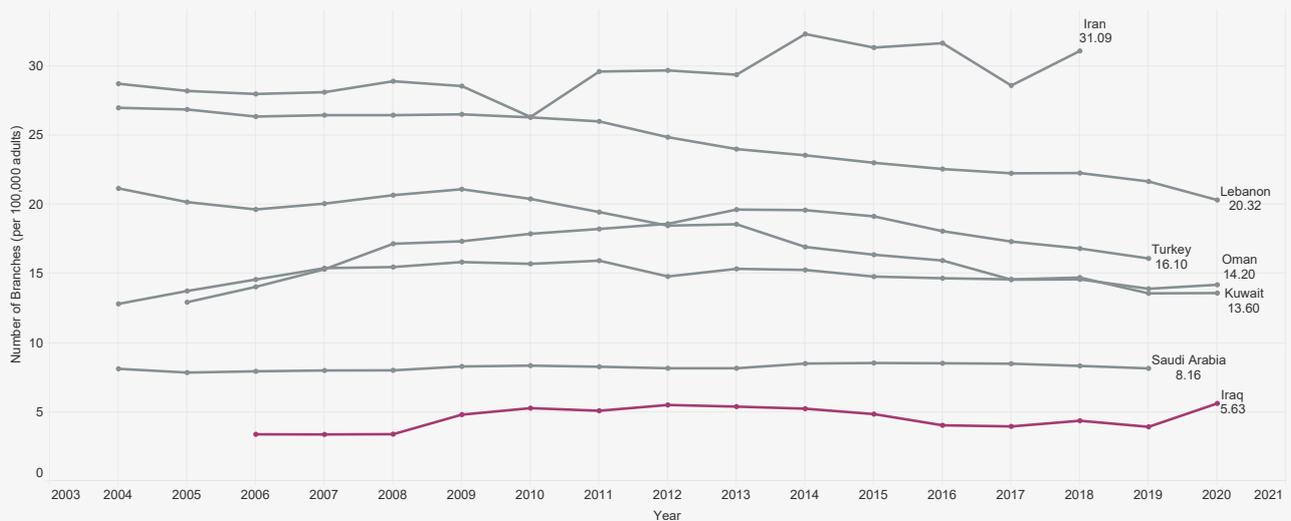


its prosperity. The banking sector plays a crucial role in the mobility of assets and the supply of credits for businesses to scale. Regardless of the developments in the sector in Iraq in the last few years and the surge in digital payment services, the Iraqi economy is still cash-based and underbanked, with only less than 23% of the adult population having bank accounts and only 5.63 commercial bank branches per 100,000 adults, the lowest rates in the region compared to our neighboring countries. (Read more on page 38, *Banking Sector and Financial Infrastructure Overview* by KAPITA's Research Team).

The low penetration and availability of bank branches and ATMs, combined with the lack of public trust in the banking sector and the marginal credit provided to the private sector, has hindered access to finance in Iraq for individuals and access to loans finance for small and medium-sized enterprises (SMEs) and small growing businesses (SGB). However, few loan financing opportunities have surfaced in an attempt to spur business growth such as Tamwil initiative by the Central Bank of Iraq and the launch of the Orange Corners Innovation Fund, yet ecosystem stakeholders should push to improve the access to finance in Iraq. (Read more on page 12, *Access to Finance in Iraq: An Analytical Study* by Abdal Ghany Al-Hassani).

Subsequently, the struggle surrounding access to finance in Iraq has been evident in the Iraqi startup scene; in KAPITA's latest research,

Commercial Bank Branches per 100,000 people



Source: World Bank, 2022. Copyrights: KAPITA Business Hub, 2022.

funding has been ranked as the most challenging aspect for scaling, with self-funding being the main funding source for entrepreneurs. (Read more on page 48, Iraqi Entrepreneurs Journey V.2 New Trends and Insights by KAPITA's Research Team).

That could also be attributed to the venture capital ecosystem experiencing many challenges ranging from the restrictions for foreign ownerships, underdeveloped commercial law provisions, and lack of judicial ruling stability, leaving the ecosystem with a few funding options and forcing investors to navigate complex solutions structures to mitigate those challenges. (Read more on page 28, Venture Capital Ecosystem in Iraq: Identifying the Gaps and Overcoming the Reluctance of the Laws and Regulations by Serge Airut).

On the other side of the funding table, SMEs and startups have not prioritized the proper accounting and bookkeeping and have not realized the significance of formal documentation in leading their operations. Those aspects are necessary in order to sustain the businesses and also facilitate the process when the business seeks access to finance. (Read more on page 20, Measure it to Manage it: The Role of Proper Accounting in the Success of SMEs in Iraq by Dr. Yass Alkafaji).

Regardless of all the aforementioned challenges, Iraq has been experiencing many positive changes on the ground; Iraqi startups raised double the amount of investment in 2022 compared to the past 3 years, the private sector is growing, and many regional players have entered the scene. In addition to the fact that lawmakers are trying to implement reformation to mitigate the barriers in the ecosystem. This change can be further accelerated by the collective efforts of entrepreneurs, investors, financial institutions, ecosystem players, and stakeholders. (Read more on page 25, The Iraqi Private Sector We Need: Call to Action by Ali Al Suhail).

Building a robust Iraqi economy requires laying a strong and stable foundation that can only be established through a sustainable private sector and entrepreneurial scene that has the fertile ground to operate from banking and financial infrastructure, laws and regulations, capital market and stock exchange, and access to finance.

Safwa Salim, Executive Editor
Business LANDSCAPE Magazine



Safwa Salim, Issa Mohammed, and Rawaz Rauf

The Elephant in the Room: Investigating the Absence of International Services, Root Causes, and Missed Opportunities

In this jointly developed article, Rawaz Rauf sheds the light on the missing financial services and the impact on the Iraqi market, while KAPITA's research team further investigates the issue searching for the root cause of the problem.

Rawaz Rauf

Partenr, Euphrates Ventures

Iraq suffers from a lack of many services due to financial payment issues. A few options are available in the market, yet those services are not up to international standards and are mostly only functional within Iraq. These setbacks are affecting the online payments for Iraqis. It could be observed that many international corporations are not accepting payments from Iraq for a variety of reasons. However, no matter what the reason that might be listed, the fact that Iraq has a weak financial system in regards to the digitalization of currency and the reliance on cash for day-to-day purchases, would seem to be the prevalent reason. Many sources of income that the young generation of Iraqi citizens are being denied are closely tied with this problem.

There are many examples of services that are unavailable to the Iraqi market:

- Freelancing websites like Upwork and Fiverr, both do not list Iraq. Furthermore, Fiverr denies access to any Iraqi IP. Freelancer, although it allows Iraqi users to register, it does not offer any payout methods to Iraq. While Deel, a platform for remote hiring, does not support Iraq because it considers it an extreme-risk region for its operations. Firstbase HQ, which allows users with a US-based company to sell products globally, does not allow users to sell to Iraq due to fear of remnant sanctions. This results in denying many freelancers access to means of income and also reduces their exposure to international companies.
- Google Developers and Google Cloud do not list Iraq, preventing Iraqi developers from using Google's tools. Google Cloud Startup, which offers up to 100,000\$ credit each year, lists Iraq as ineligible to get the grant. Google AdSense, on the other hand, requires a pin to be delivered by mail to your Iraqi address, which is inaccessible

due to the fact that Iraq lacks an accurate addressing system and mailing services. Google maps will not allow you to list your business unless they verify it by a postcard sent to you by mail, which, as mentioned, is not an option in Iraq.

- On the fintech side, PayPal, the global fintech giant, does not allow Iraqi users to receive and send money, and it extends to the point that if one uses an Iraq-based IP for a foreign account, the account will be blocked.

Gumroad, a platform that sells digital content which only accepts payments through PayPal, does not support Iraq because PayPal does not support Iraq. Xoom, an electronic funds transfer or remittance provider, does not support Iraq. Wise, an online money transferring platform, does not support Iraq, up to the point that its homepage displays a message that says, "We'll be right back."

- Shopify is an e-commerce platform, where any business or brand can sell their products and process their payments. However, it did not support any payment gateway from Iraq, making it effectively useless until very recently. KAPITA's research team has investigated this matter and reached out to Shopify in mid-May 2022, when no payments gateways in Iraq has been supported at that time.

Later, in mid-June, Shopify has expanded its operations to Iraq and started accepting payment gateways available in Iraq. We have confirmed this again with Shopify support team.

Instagram Shopping, a tool that allows sellers to list their products on Instagram, is not available in Iraq, limiting access to micro-businesses. Especially considering that many Iraqi small businesses, especially e-commerce, are still run on social media platforms such as Facebook and Instagram.

- TikTok is becoming one of the most sought-after platforms for content creators, yet, TikTok's Creator Fund does not support Iraq. Even though the audience in Iraq is one of the highest in the region, it is worth noting that the fund is currently limited to just a few countries; the UK, Germany, Italy, France, and Spain. In addition, it does not allow Iraqis to run ads on the platform and requires registering an account in another country to have a marketing campaign on the platform.

Likewise, Snapchat, which has 12.8 million users from Iraq, the 9th country with the most Snapchat users worldwide, does not allow Iraqi businesses to advertise on its platform.

This presents a missed opportunity, especially considering the large audience on those platforms in addition to the youthfulness of the Iraqi population that is likely to be savvy social media users.

- Meta's Brand Collabs Manager is a tool that connects content creators, on Facebook and Instagram, with brands to advertise their products; this option, however, is not available in Iraq. On another note, it is not available in the whole MENA region as well, so Iraq is not alone in that.

- Airbnb, a service that allows people to list their property to host people in return for revenue, would not allow Iraqis to host their properties. Unless they have an active bank account in another country as they do not deal with the banks in Iraq.

- Almost all of Apple's services, including Apple One, iTunes Store, Apple TV+, Apple Books and Audio, Apple News and News +, and Apple Fitness+ are all unavailable to users from Iraq.

All these international companies have different profiles and offer various services, each limiting access from Iraq in a different way, but payments seem to be a very common reason amongst them.

Investigating the Roots of the Issue

KAPITA's Research Team wanted to dive deep into this issue to dissect the reasons behind those problems. We came to an understanding that this issue is having a negative impact on the introduction of Iraq into the global market.

It is causing Iraq to be isolated from many opportunities. In our effort to understand the issue, we have spoken to financial experts, researched the issue thoroughly, and also contacted the aforementioned companies to get answers to our questions. Therefore, we are presenting the reader with a breakdown of the categories of the most common reasons preventing those services from operating in Iraq.

We have narrowed down the reasons into four major points; inadequate laws and regulations, the risk appetite, the remnant stains of sanctions, and ranking low on the expansion list of services.

We are going to break down each of these points and explain why they are hindering Iraq from being a part of the global market and how a push and an actual effort to modernize Iraq in that aspect is becoming an ever-increasing necessity. Hence, financial institutions could thrive within a whole system that is up to date with the rest of the world.

Inadequate Laws and Regulations

The lack of technology integration within the financial and governmental general infrastructure presents a challenge. However, regardless of all other reasons that hinder this process, the lack of technology within the financial structure and awareness about its importance is aggressively present in Iraq.

Iraq is lagging in terms of technology. Although a considerable portion of the population is young and tech-savvy, there are not many ICT developers in government and financial institutions.

Today, the majority of transactions in Iraq are made in cash or cheques. Moreover, most governmental processes are made offline through the rigid bureaucracy.

The modes of communications within government entities are still made in official letters that are delivered sealed in hand, while most of the world transitioned to using emails decades ago.

The laws in Iraq regarding payment processing services are quite vague, and difficult for international companies to expand into the Iraqi market. According to the Electronic Payment Services System Regulation (3/2014), payment processing services could not be performed without a permit from the Central Bank of Iraq.

To obtain the permit, the company providing those services must comply with some rules. They should provide a copy of a company incorporation certificate and a company founding contract, and minutes of the appointment of the managing director certified by the Companies Registration Department. These bureaucratic steps are not appealing to international companies.

Another part of the law that deters international companies is related to the headquarters of the company, as the same law requires to present the building title deed or a rental contract, which has to be inside of Iraq. International companies have their headquarters either in their country of origin or regional hubs. Moreover, Iraq has no economic incentive to be a regional hub due to the strict bureaucracy. These aforementioned reasons deter the inception of international companies within Iraq.

The Risk Appetite

Due to the political unrest in Iraq, with insurgency, wars, and demonstrations, Iraq has been viewed as a risk for many international businesses. One of the companies that we have spoken to has told us that they viewed Iraq as a high-risk country and were advised by their legal team not to operate there for the time being.

This is an established view, as the opportunities Iraq presents, being a potential market of 41 million people, do not outweigh the risk involved in operating there.

We could not forgo the fact that Iraq has only recently witnessed a degree of stability. Places in Iraq, like Mosul, have been under the occupation of ISIS until late 2017, this was followed by the protests and social unrest in 2019. Though, to people who are familiar with the Iraqi ecosystem, one could not consider Iraq as one big market but many different markets under one umbrella.

Yet, many international companies, due to the lack of business information from Iraq, view Iraq with one lens. The Business LANDSCAPE has been told by an investment expert in International Banking that a certain company wanted to operate in Basra in 2014, but pulled out of the market when ISIS invaded western and northern Iraq.

This is an example of how international companies misleadingly view Iraq as one big market, and the potential risk in certain areas of the country is being perceived as enough reasoning for investors and companies not to tap into the Iraqi market's value.

The Remnant Stains of Sanctions

Though many people, especially in Iraq, view the international sanctions that were placed on Iraq as a result of the invasion of Kuwait as a thing of the past, however, this is not the case of some international businesses. When we contacted those companies, they claimed that Iraq is listed as one of the countries on the U.S Department of Treasury's sanctions list. Claiming that as a result, "there are restrictions by the US to prevent conducting business with citizens of that country." However, upon further inspection, we have found that Iraq is not listed in the US sanctions, as the latest update, dated to September 13, 2010, of the Department

of Treasury's Office of Foreign Assets Control (OFAC); An Overview of the Iraq Stabilization and Insurgency Sanctions Regulations list clearly states that "there currently are no broad-based sanctions in place against Iraq." Nevertheless, 104 individuals and 37 entities within Iraq are listed on the Specially Designated Nationals and Blocked Persons. Ideally, this should not be considered an issue for international businesses, yet, again, we see that the insignificant knowledge of the Iraqi business scene will not allow for businesses to know what is the actuality of Iraq as much as the perceived image.

Ranking Low on the Expansion List of Services

The most common answer when asking international companies about their lack of presence in Iraq is that they have not expanded their operations to Iraq. Most of these companies gave an apologetic answer while stating that they are hopeful of entering the Iraqi market at some point in the near future.

We can deduce that their reasoning might be intertwined with the aforementioned reasons as well as the fact that Iraq is a market yet unknown by potential. International companies know very scarcely about business in Iraq. This fact is, as much as there are opportunities in Iraq, the country is still unappealing to international companies. Although, we still hope that there is a light at the end of the tunnel, even if there are several steps to be taken.

What Is Next?

Several steps have to be taken to help open Iraq to international companies. The effort has to be made by all stakeholders in the Iraqi business ecosystem. It is more of a trickle-down process.

The first stakeholder that needs to take the initiative forward is the government. The laws and regulations are all outdated and rigid. The government must loosen those laws and regulations in order to help the country into a more smooth transition into a healthy private sector.

The government must also, with the help of the international community, make businesses understand that Iraq is no longer a sanctioned country. The government must hold sessions that inform businesses of the recent positive developments that are happening in Iraq. This is a duty that should be undertaken by the Ministry of Foreign Affairs with coordination with the embassies present in Iraq. Info sessions, publications, and success stories should entice businesses to view the value of operating in Iraq.

As much as risk is a factor that cannot be overlooked in Iraq, the fact that Iraq is made of several markets, those markets offer opportunities that cannot be undermined. A market that has a consumer base of over 41 million people and a labor force participation rate of 42% as of 2021 should be an appetizing factor.



Abdal Ghany Al-Hassani

Country Manager, GroFin Iraq

Access to Finance in Iraq: An Analytical Study

Access to finance is the ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other services. Access to finance plays an important role in economic growth, boosting the employment rate, increasing market competition, and reducing poverty.

A Brief History of the Iraqi Banking Sector

Historically, the first bank that started operations in Iraq was the Ottoman Bank in 1890. In 1912, the East Bank established its first branch in Baghdad, followed by the Iranian Bank in 1918. Those were the only banks that operated in Iraq until 1935, when the government of Iraq established the Agricultural Bank. Then in 1941, the Alrafidain Bank opened as the first retail bank in Iraq. In 1964 the Iraqi government nationalized the banks; this step ended the existence of private and international banks in Iraq.

In 1988, a new bank was established by the Iraqi government called Al-Rasheed Bank.

While the first private bank was allowed in 1999. Currently, there are seven state-owned banks, 53 private banks, 12 representative offices of foreign banks, and 2 offices of foreign Islamic Banks. Also, there are 16 companies that provide mobile payment methods, issue debit cards and provide IT infrastructure for online payments.

As shown in table 1, the total number of bank branches remains low: there are 904 branches all over Iraq, which means that each branch serves more than 25,000 adults.

Citizen Distrust in Banks

In 1990, Iraq faced an international sanction issued by the United Nations Security Council. As a result, many countries banned financial and trade relations with Iraq. This heavily affected the Iraqi economy, and the Iraqi people started withdrawing their money from banks.

The Central Bank of Iraq then instructed banks to refuse money withdrawal to avoid bankruptcy. This created a distrust amongst the Iraqi people of the whole banking system, especially towards private banks, that lingers to the present day, with only 22% of the Iraqi population having bank accounts.

Before 1990, the value of the Iraqi dinar (IQD) was 3 USD. Due to international sanctions, it has declined rapidly. In 2003, the IQD was worth 0.0002 USD. Today, 1,470 IQD is worth one dollar.



Corruption, alongside uncertainty in the banking system, security and political instability, have affected the banks' reputation, especially the private banks, and led the Iraqis to distrust the banks, both private and state-owned, while Transparency International ranked Iraq 157th in its corruption index.

E-banking methods available in Iraq are very limited. This has created a major problem within the sector. Although steps have been taken in recent years to fill this gap, the situation is still underdeveloped.

In an attempt to enhance e-banking in Iraq, the Central Bank of Iraq (CBI) has issued many legislative initiatives and action plans to enable the banks to start providing e-services such as debit cards and mobile payments.

In 2016, the Central Bank launched the National Switch to connect all the banks together and integrate the bank's systems into one central network.

The CBI's efforts to improve the situation have also focused on the organizational structure, the IT infrastructure, aspects of risk management, and the nature of banking supervision.

Efforts have also been made to streamline communication between government authorities and the banking establishment.

The number of ATMs is still very low, which means that people have to go through lengthy procedures to withdraw money.

The limited working hours should also be noted: Iraqi banks normally close at 12:00 or 1:00 pm, which constitutes another obstacle for individuals to conduct banking transactions.

However, some banks are starting to offer longer working hours and set up ATMs due to the increasing demand and competition between the banks.

Access to Finance is Measured by Two Dimensions:

1. Availability/Penetration:

This refers to the easiness of accessibility and availability of financial products for new and existing users. A comprehensive financial system must have as many users as possible. Hence, it must penetrate widely among its user base. Where two metrics are usually used to evaluate the availability:

a. Number of bank branches per 100,000 adults:

The total number of bank branches in Iraq, as of December 2020, is 904, with 327 located in Baghdad and 574 in other provinces, which means that each branch serves more than 25,000 adults, this represents a low coverage rate compared to the neighboring countries.

Table1: Bank Branches per 100K Adults in Selected Countries

Country	Number of Bank Branches	Bank Branches per 100K Adults
Iraq	904	4
UAE	1014	8
Jordan	799	14.1
Turkey	10,289	15.4
Iran	23,000	31.1

b. Number of ATMs: ATMs number plays an essential role in banking transactions' easiness and is considered a significant metric to measure the financial service availability.

Table2: Number of ATMs per 100K Adults in Selected Countries

Country	Number of ATMs	Bank of ATMs per 100K Adults
Iraq	1,170	5.35
UAE	4,542	52.49
Jordan	2,094	30.56
Turkey	52,798	82.31
Iran	60,933	88.65

2. Usage rate of financial services:

The usage rate of financial service is a critical aspect that reflects the efficiency of the financial sector. We can use three metrics to measure the usage rate of financial services:

a. Number of accounts: The number of bank accounts provides an incomplete picture of financial services usage because if the bank account is not used, it is not worthy of consideration. However, studies show that the increased number of accounts is a base for future development in terms of financial access.

Table3: Percentage of Bank Accounts to Adult Populations

Country	% of Banks Accounts to Population Ages 15+
Iraq	22.67
UAE	88.21
Jordan	42.49
Turkey	68.59
Iran	93.98

b. Credit to private sector: The domestic credit offered to the private sector is correlated mainly with economic growth; it is also an indicator of financial access and inclusion.

The graph below shows the rate of domestic credit to the private sector as a percentage of GDP; in 2018, Iraq had only a rate of 8%, this shallow rate hindering the economic development of the country and suggests that the banks have a more critical role in fulfilling toward the economy.

c. Deposit to GDP rate: Currently, there are more than 40 trillion IQD deposited in banks, which represents 17% of Iraq’s GDP, whereas the average rate worldwide is 65%. This low rate confirms that banks have so far played a limited role in economic development.

Domestic Credit to Private Sector (% of GDP)

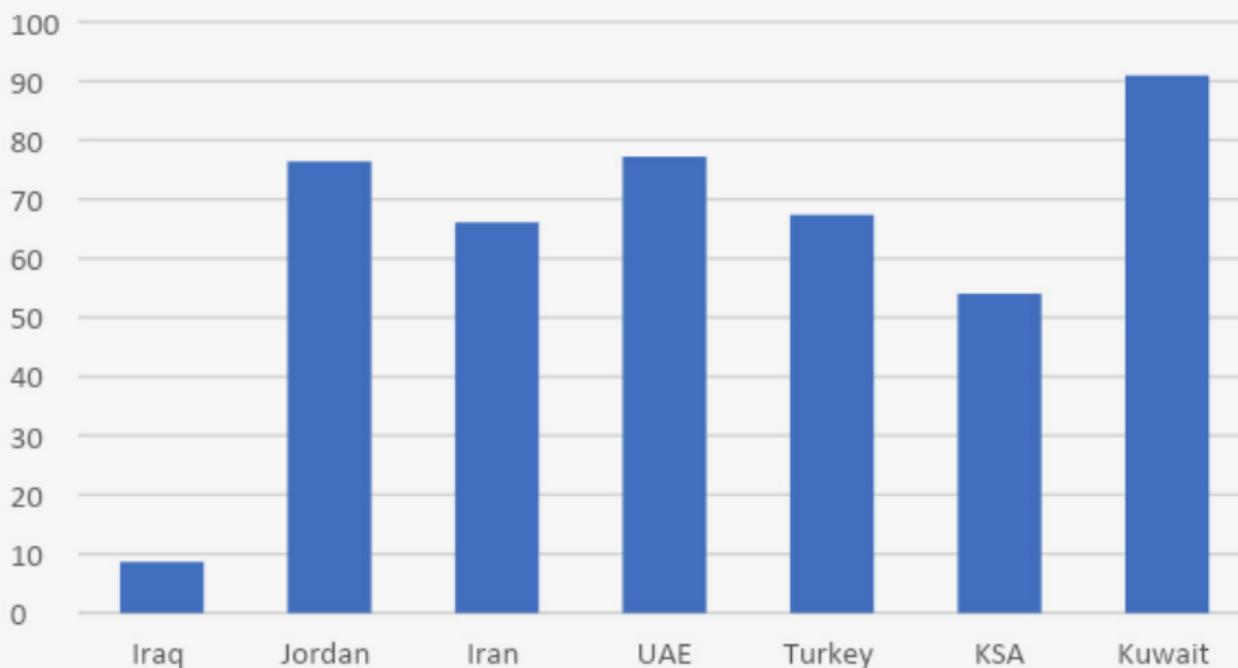


Figure1: Domestic Credit to Private Sector as a Percentage of GDP (2018)

Access to Loans Finance Opportunities for Small and Medium-sized Enterprises (SMEs) and Small Growing Businesses (SGB)

The limited access to finance in Iraq is demonstrated by the lack of availability and penetration of bank branches and ATMs, lack of credit provided to the private sector, and the inadequate banking services, coupled with the mistrust in the banking sector and reliance on cash-based transactions has led the Iraqi consumer to be underbanked.

This has also reflected on Iraqi business owners and their SMEs and SGBs, creating a limited pool of financing products that cater to their needs, which restricted their growth opportunities.

However, a number of initiatives have been launched in the Iraqi ecosystem aiming to foster and support SMEs and SGBs in Iraq and facilitate access to finance.

Some are as follows:



Tamwil

Is an initiative of the Prime Minister's Office and the Central Bank of Iraq (CBI) to finance SMEs and startups by providing and facilitating loans. The initiative also involves the participation of the Agricultural Bank and Industrial Bank and the Iraq Private Banks League.

The total amount of loans allocated is 5 trillion IQD and granted to projects in the agricultural and industrial sector projects, housing projects,

and, more recently, in 2022, renewable energy projects. The renewable energy projects' loans come from Iraq's commitment to the Paris Climate Agreement.

Tamwil aims to create new job opportunities, especially for the youth and fresh graduates, establish and rehabilitate the industrial facilities, and promote local production.

The applicants can access an electronic loan application form on Tamwil's platform that allows them to submit their personal information, the details of the project they wish to finance, and the desired loan amount. Applicants can then print the information and submit it to the bank to which they are directed.

Additionally, applicants can modify their information and track the status of their loan applications via Tamwil's online system.

According to the project, loans are provided with some of the following criteria:

1) The loans are allocated to each governorate according to a credit plan calculated with the rate of 80% as a criterion for population ratios and 20% as a criterion for poverty rate.

2) The loan applicant should be an Iraqi company, association, or an individual aged 22 or above.

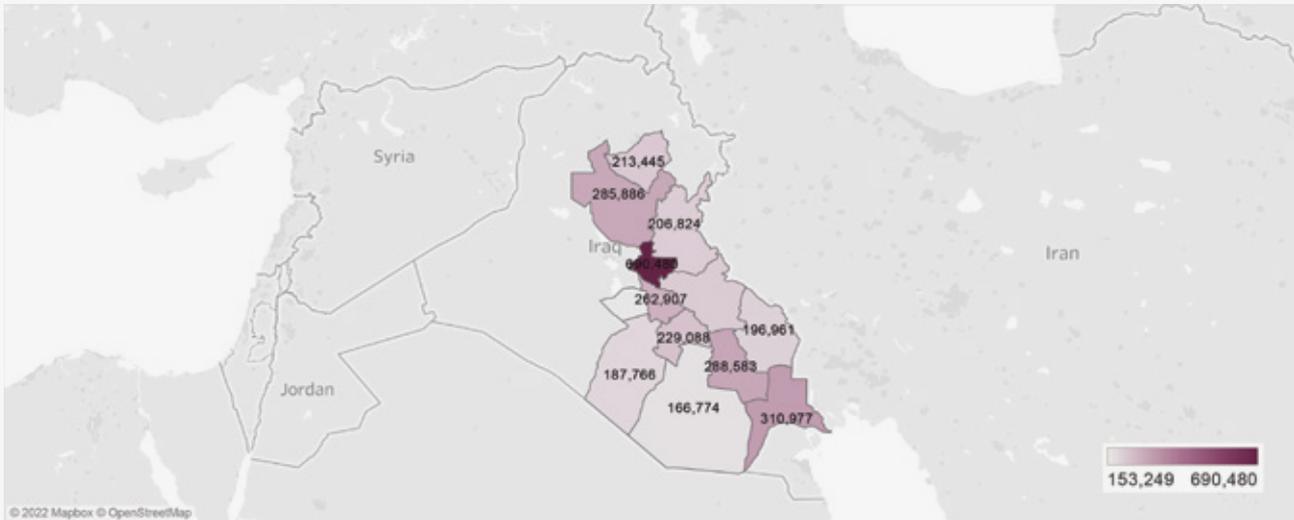
3) The annual interest on loans is 4%.

4) Loans are granted to projects in the agricultural and industrial sectors according to the following classification:

- Small business loans: up to a maximum of 500 million IQD.
- Medium projects loans: up to a maximum of 3 billion IQD.
- Loans for large projects: provided for projects that exceed 3 billion IQD up to a maximum of 20 billion IQD.
- Loans for strategic projects that exceed 20 billion IQD.

6) The term of the loan is five years, except for the grace period of one year, starting from the day of disbursing the first payment to the loan applicant.

Allocated Amount of Tamwil Loans per Governorate (Million IQD)



Note 1: Ninewa and Anbar have been allocated shares of the loans but have not been announced.

Note 2: An additional 5% of the total allocated amount of loans has been dedicated to Basra governorate.

Source: Tamwil, 2016.



The Nomou Iraq Fund (NIF)

Is a Grofin-managed program that has been assisting entrepreneurs, startups, and SMEs in Iraq for over nine years by providing them with expert advice, continuous guidance, and funding to expand their businesses. The GroFin Iraq investment team establishes long-term personal relationships with each entrepreneur, designing a suitable deal structure and loan repayment period and offering ongoing business support based on the specific requirements of each project.

Established businesses that have been operating for 2-3 years and have an annual turnover of 1.5 times the loan amount are offered medium-term loan capitals between US\$100k and US\$2m for a loan duration of 3-8 years.

These loans are provided to businesses that operate in education, healthcare, agri-processing, manufacturing, or key services (Energy/Waste/Water/Recycling). Other businesses and startups may be endorsed on an individual basis if they have a beneficial social and economic impact, such as providing jobs, sustaining livelihoods, empowering women, and fostering environmental sustainability.

Northern Iraq Investments (NII)

Is another relief program administered by Grofin. The program provides financial and technical support to SMEs operating in Nineveh province or in northern Iraqi regions affected by ISIS.

NII also provides assistance to startups backed by an entrepreneur with substantial experience, a proven track record, and a strong financial commitment to the enterprise.

Loans are provided in a manner similar to that offered by NIF. Additionally, the NII COVID-19 SME Support Program provides existing businesses in northern Iraq with short-term business loans between US\$10k and US\$100k to assist them in overcoming the residual effects of the COVID-19 pandemic and preserving employment and livelihoods. The COVID-19 program offers loan terms ranging from 12 to 36 months, with the first six months being interest-free and the remainder accruing interest at a rate of 8% on reducing balancing (amortization).



Orange Corners Innovation Fund (OCIF)

Is a subsidy program to Orange Corners that aims to improve access to finance for startups and entrepreneurs and foster innovation in the Middle East and Africa. OCIF has been launched in Baghdad as an addition to Orange Corners

Baghdad that is implemented by KAPITA Business Hub in partnership with the National Bank of Iraq. It is a 1 million euro fund supporting the businesses in Orange Corners Baghdad.

The fund consists of two tracks; the first includes providing a monthly allowance for entrepreneurs of 320 euros and a voucher for business services valued at 2,400 euros offered to entrepreneurs with certain criteria in addition to financial literacy training sessions.

The second track includes a 27.5 thousand euro divided into two equal parts; one part is provided as a grant while the other is a loan with zero interest rate offered to the entrepreneurs who graduated from Orange Corners Baghdad and were able to successfully meet the selection criteria for the loan. The loan payback plan is determined according to the startup's cash flow, providing entrepreneurs with a flexible plan that caters to their needs and business model. The second track also includes pitch training and a business implementation plan.



CHF Vitas Iraq

Is a nonprofit microfinance institution that was established in 2003 with headquarters in Babylon and has a network of 14 branches across Iraq. CHF Vistas has been facilitating access to finance for micro and small businesses to enable them to grow their businesses and increase their profits. They have also worked on rehabilitation and restoration of housing for many homeowners. CHF Vistas Iraq has created 20,715 job opportunities, disbursed 412,292 loans, and restored 34,699 homes. It also served 89,046 women and 189,479 youth.

The business loans offered to business that has been established for at least a year, the loans do not require the business to be registered. The loans are divided into micro business loans ranging from \$100\$ to \$19,999 with a term of 12 to 24 months and small business loans ranging from \$20,000 to \$35,000 with a term of 18 to 36 months.

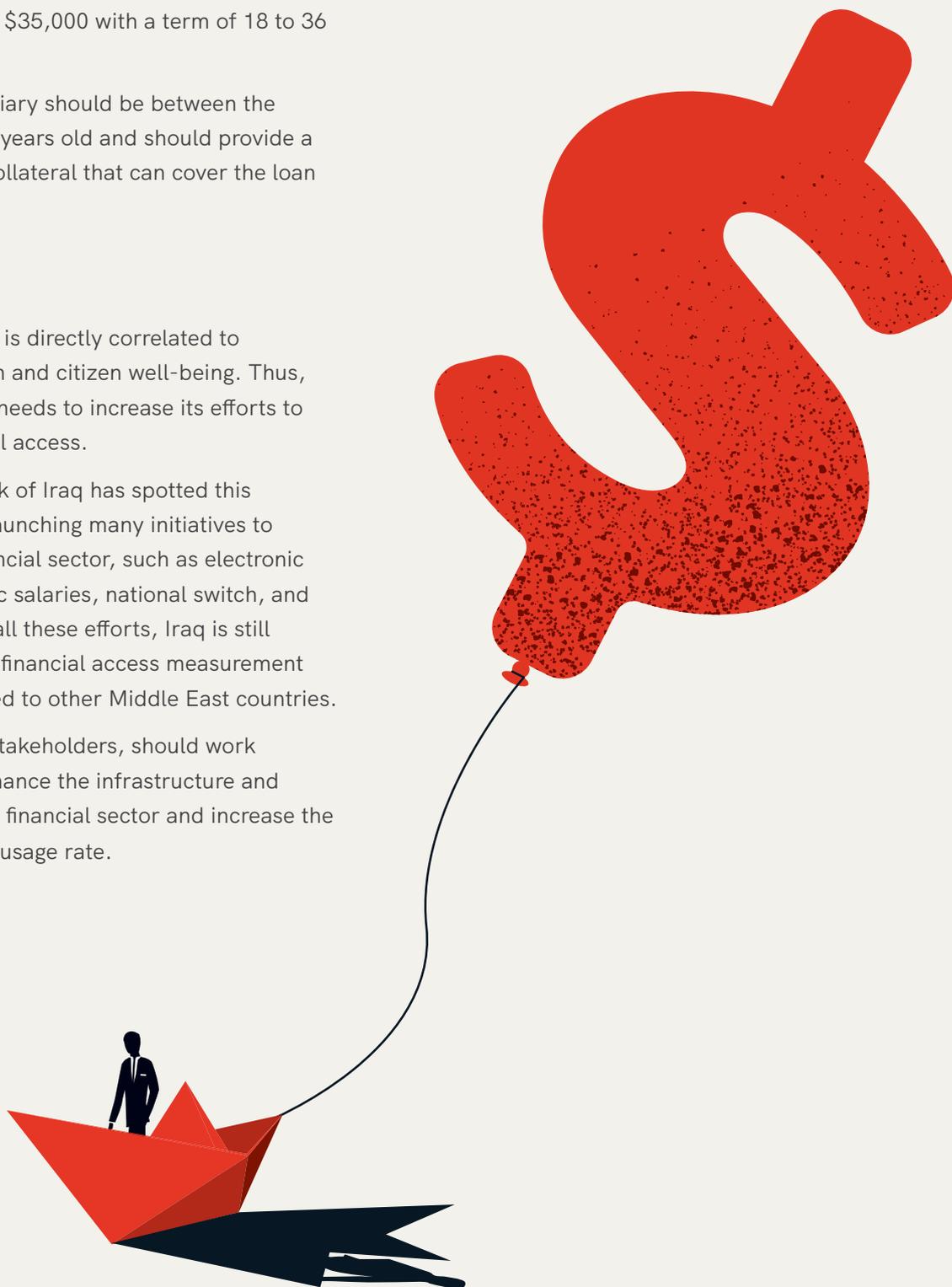
The loan beneficiary should be between the ages of 18 to 65 years old and should provide a guarantor and collateral that can cover the loan repayment.

Conclusion

Financial access is directly correlated to economic growth and citizen well-being. Thus, the government needs to increase its efforts to increase financial access.

The Central Bank of Iraq has spotted this importance by launching many initiatives to develop the financial sector, such as electronic transfer of public salaries, national switch, and others. Despite all these efforts, Iraq is still behind in all the financial access measurement metrics compared to other Middle East countries.

CBI, and other stakeholders, should work in parallel to enhance the infrastructure and legislation of the financial sector and increase the penetration and usage rate.



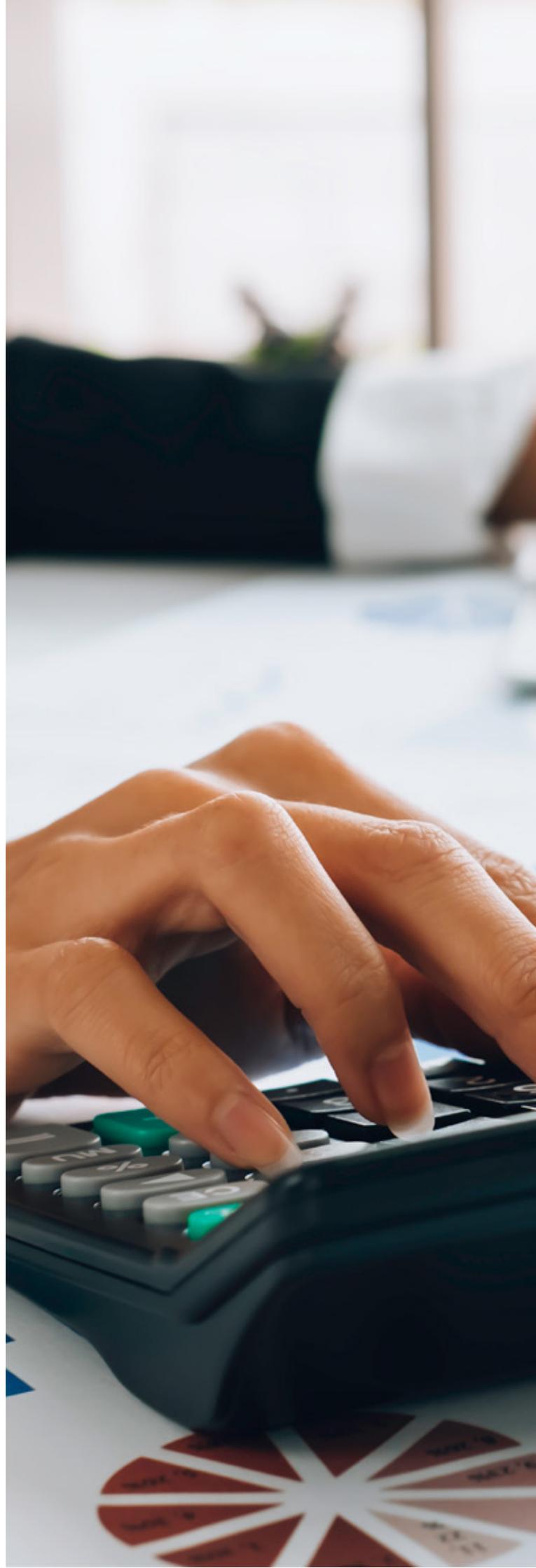
Dr. Yass Alkafaji, CPA (USA)

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Measure it to Manage it: The Role of Proper Accounting in the Success of SMEs in Iraq

Studies have shown that one of the significant reasons for startups and small and medium-sized enterprises (SMEs) to fail is due to poor record-keeping; according to The Guardian - Nigeria's 2016 article "Research Hinges 70% of SMEs Failure on Poor Bookkeeping." Typically, the last thing on the mind of the entrepreneur of a startup or an SME is to maintain proper accounting records. These owners/managers are predominantly embroiled with implementing their business ideas, with little energy going into developing a proper accounting system.

They frequently have expenses and invoices sitting in a box, in a corner in the office, and sometimes they try to run it on excel, which usually does not work. Because of the disorganization, they start running into operational troubles due to cash flows. The problem is exacerbated when they need loans or additional funds from angel investors, as they can not provide the necessary reports expected from investors and lenders.





These businesses think that they can deal with accounting later when it becomes a necessity, which might be too little too late as the business might be on its projection of falling. It is like putting off going to the dentist until one is in pain, which might be too late to save the tooth.

In the USA, where I have advised many SMEs, business owners select three service providers prior to forming the business: a good lawyer, a good banker, and a good accountant.

A good lawyer to guide them through the best legal business format and help draft the formation documents; a good banker to secure adequate loans and manage cash flows; a good accountant who can help set up a proper accounting system to capture data and provide financial reports to help the owner/manager make proper daily managerial decisions.

The management Guru, Dr. Peter Drucker, famously said, "if you can not measure it, you can not manage it." The proper accounting system will measure the economic activities of the business and provide the required reports to help the owner/manager manage their business.

This is a formula for success. A lack of a good accounting system at the earliest stages may contribute to the failure of the business as the owner/manager will not have measurable data to report how well the business is doing in terms of profit or loss, how much the business owns and owes to others, and a clear idea about the business cash inflows and outflows.

So why Iraqi business owners/managers do not assign a high value to keep proper accounting records? It is worth noting that there is no research conducted to provide empirical evidence about the aptitude of Iraqi business owners/managers toward keeping and using proper accounting reports. Therefore, I will briefly discuss some of the reasons based on anecdotal evidence and my personal observations.

First, owners/managers think they know their business without documenting it in a formal accounting system. Rather, the information is in their head or on the back of an envelope. After all, they know how much cash the business has generated, how much is used up, and how much is left in hand. Although knowing cash flows is essential to any business as cash is king, a proper accounting system will provide additional information.

The provided information should include how well the business is doing through the statement of profit or loss, how much the business owns, owes to others, and the claims of the owners through the balance sheet, and of course, information about the sources and uses of cash flows through the statement of cash flows.

These collectively are called financial statements. Although the financial statements tell a lot about a business, further analysis by experts can tell even more of the story of the business.

A trained professional accountant can analyze these statements and will be able to provide insight into the strength and weaknesses of a business, such as gross profit, selling and administrative expenses, net profit or loss, break even, overhead, fixed cost and variable cost, level of liquidity, level of leveraging, return on investment, and so on and so forth.

Of course, such analysis will not be possible without keeping a proper set of books that are updated continuously, on a periodic basis; daily, weekly, or monthly. In addition, a trained professional accountant can design and install an appropriate internal control system, especially when there are employees, such as segregation of duties and protecting assets such as cash, equipment, and inventories.

Second, the negative influence of the arcane Iraqi uniform accounting system. This system was introduced in the eighties to align with Iraq's governmental accounting system and the tax

authority. However, this system is not useful for the owners/managers to manage their businesses. Despite the many attempts by the International Monetary Fund (IMF) and the World Bank to replace this system with International Financial Reporting Standards (IFRS), Iraqi government and businesses have not adopted IFRS.

Part of the issue is that Iraqi professional accountants are not trained on IFRS and, thus, shy away from it. IFRS is the way forward to reform Iraq's accounting practice and profession, empower SMEs, and attract foreign investors as they demand accounting information in accordance with IFRS. More than 160 countries and jurisdictions have adopted IFRS. If IFRS is good enough for 160 countries, it must be good enough for Iraq to adopt it urgently.

Third, many SMEs purposely avoid keeping proper books certified by professional accountants to avoid the axe of the tax assessor. As a result, many business owners/managers would hide their actual revenues or show a manufactured income. This certainly is not just illegal, but it would create a culture of corruption that implicates the business community and professional accountants alike. Many owners/managers will seek accountants who can help them short the tax assessor.

The tax authority is also to be blamed, as the perception of the business community is that tax rules and regulations are not well understood, arbitrary, inequitable, and unfair. In addition, there is no due process to challenge the tax assessment, or it might take years to resolve.

Also, the perception is that tax agents are aggressive, do not understand the owners' businesses and some are simply outright corrupt.

What to do?

Many business owners/managers do not know where and how to acquire or initiate a sound accounting system. The first step is to find a professional accountant who understands and deals with startups and SMEs.

This service provider will help advise and guide the SMEs in setting up charts of accounts, and migrating data from the source document, such as excel or other accounting software.

This external accountant can act as an outsourced CFO for the business. Second, digitize the accounting system in its entirety. This can be rather inexpensive as countless off-the-shelf cloud-based accounting software can be easily installed and maintained.

The advantage of the cloud-based system over the desktop system is that the cloud-based system is more secure as data is updated and saved instantly on secured servers and can be accessed from any device anywhere in the world which provides greater flexibility in reaching the data from a desktop, a laptop or a smartphone.

Also, more than one user can access the software simultaneously with a different authorization level. Many of these software programs can handle:

- Invoicing.
- Bank and credit card reconciliations.
- Accounts payable.
- Accounts receivable.
- Financial statements preparations.
- Fixed assets.
- Inventories.
- Investments.
- Bank loans.
- Revenues and expenses.

Summary and Conclusions

It is not a priority for startups and SMEs to maintain a proper accounting system as the owners/managers think that accounting can wait until the business is up and running and successful. Experience has shown that this can be a fatal mistake for many of these businesses as if they were driving with no headlights on a foggy road.

For these businesses to improve their chances of success, they need to engage in the strategy of management by measurement. Using accurate, timely, and relevant information will enhance the ability of the owner/manager to steer their business to profitability and get more funding from investors and banks. Iraqi startups and SMEs need to invest in a simple and adequate digital accounting system that is maintained by an in-house accountant and advised by a professional external accountant.

However, Iraq has a few trained professional accountants that can advise startups and SMEs on how to produce information that is accurate, timely, and relevant following IFRS standards.

Iraq's professional education is rooted in the uniform accounting system, which is not designed to provide information for managerial decision-making purposes. Therefore, there is plenty of room for professional accountants to help startups and SMEs.

At LEDGERS accounting and auditing, our philosophy is to empower the owner/manager in taking charge of their businesses through assurances, advisory, training, and external support. We assist in digitizing the accounting function, providing support to the company's internal accountant(s), and interpreting the financial reports to help the owner/manager manage their business effectively and efficiently.

If the company is at a medium-size, we will assist in designing and installing a digitized internal control system over the operations of the business to provide efficiency and effectiveness of the operations, produce accurate and timely financial statements and ensure compliance with laws and regulations including, but not limited to, tax and labor laws.



Ali Al Suhail, CFA, CAIA

Managing Director, Investment,
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The Iraqi Private Sector We Need: Call to Action

In 2019, I visited Iraq after 13 years of being away. The purpose of my trip was to attend two events: a startup battle at the Station and a tech-focused conference by Iraq Britain Business Council (IBBC). At that time, Iraqi startups were just emerging, and only a handful of startups were investment-ready.

Since then, the world has turned. Iraqi startups raised \$19 million in the first three months of 2022, which is more than double the \$9 million raised in the three years prior. The growth is not restricted to the startup ecosystem; the whole Iraqi private sector is rapidly growing.

The International Monetary Fund (IMF) forecasts Iraq's Growth Domestic Product (GDP) to grow by 9.5% in 2022, the fastest across the Middle East and Central Asia. The recent MSelect Iraq Employment Outlook Survey indicates that 75% of companies surveyed are looking to increase their workforce, and none of them are looking to lay off employees.

The numbers are substantial, but the changes on the grounds are even more remarkable. The entrepreneurial spirit is taking over the country. More events, collaborations, and programs are being launched, all in the name of supporting the private sector and entrepreneurship.

At KAPITA, we have launched the Orange Corner Innovation Fund (OCIF), a 1 million euro fund dedicated to supporting our Orange Corner

Baghdad incubator. The program will include mentorship, guidance, and financial support in the form of investments in startups. We also had the Iraqi Startup Days at Dubai 2020 Expo organized by Rabee Securities, which highlighted some of the leading Iraqi startups and KAPITA. The Kurdistan government has passed a new law to simplify the business registration process, a new area that is often emphasized by investors and entrepreneurs as a crucial barrier to raising investments.

These developments are not going unnoticed. Iraq had 5 million foreign visitors in 2021, and we are witnessing an increasing appetite to invest in the Iraqi market. However, for most foreign investors, the Iraqi consumer is the key attraction rather than Iraqi businesses. Many of my colleagues in the investment community have highlighted some of the critical challenges facing Iraqi entrepreneurs regarding the regulatory and banking infrastructure. In my previous write-ups, I have provided suggestions on how the Iraqi government can step in and help support the private sector broadly and the entrepreneurial ecosystem specifically. In this article, I would like to take a look at a few other areas that Iraqi entrepreneurs, ecosystem players, and investors can focus on to help make Iraq more investment ready.

For Entrepreneurs: Focus on the Problem

The Iraqi private sector contribution to the whole economy is still very low. While the government income from taxes is only 1% of GDP compared to the MENA average of 12%. Another dominant feature of the sector is that it is dominated by small companies; 60% of small and medium enterprises (SMEs) have 20 employees or less according to the World Bank.

The factors related to legal and access to finance have contributed to this phenomenon and have created a business culture where entrepreneurs try to build multiple businesses at the same time to manage the market volatility.

Building businesses that generate significant returns for investors requires scale. Focus has been highlighted by many thought leaders as a key to achieving scale and growing a business. Iraqi entrepreneurs need to adopt this into their thinking.

Unfortunately, we see many entrepreneurs that, once the initial traction of their business starts to falter, shift their focus to solving other problems or creating new businesses that address needs outside of their initial business value proposition. This often takes away from the business resources and, more importantly, imposes a time burden on the key people in the business. In turn, this creates major challenges from a governance perspective for investors.

Iraqi entrepreneurs need to breathe and live the problem they are trying to solve. If traction starts to falter, the answer is not to solve a new problem but a decision point on whether to pivot or double down on the solution you are offering.

For early stage startups, experimentation is essential, but this should be viewed in terms of finding a product market fit for your business, not tapping into every problem you have a chance of solving.

For Early Stage Investors: Invest to Build

We have seen an uptake in interest from investors looking to become early stage investors in Iraq. Takween has recently completed an angel investors academy, and our own Iraqi Angel Investors Network (IAIN) has seen increased traction from new investors. In recent months, we have seen Iraqi corporates investing directly in startups. Recently, we have witnessed Iraqi corporates moving on to invest in Iraqi startups. These activities are very positive and essential for building a robust entrepreneurial ecosystem.

Iraq needs to showcase the potential of its private sector. There is no better way than to exhibit success stories with Iraqi startups.

This requires a focus on helping businesses grow by establishing strong governance and supporting the strategic initiatives of the business.

This goes beyond having targets for the investors to meet but creating reporting and accountability mechanisms as well as providing entrepreneurs with guidance and mentorship to help them scale their business.

Early stage investors in Iraq and private investors, in general, need to understand that achieving the potential of the businesses can only come with a mentality of building a business alongside the entrepreneur rather than waiting for the capital to generate returns on its own.

For Financial Institutions: Open Up

A significant barrier in the Iraqi private sector and economy is the banking infrastructure. The Central Bank of Iraq estimated that 99.8% of Iraq's \$122 billion personal consumption expenditures were made in cash in 2019.

Our recent look into the e-commerce sector indicates that there has been a significant uptake in digital payments since then. Despite that, Iraq remains a predominantly cash economy.

Focus on improving the user experience when it comes to banking in general and online payments, in particular, is critical to building a digital economy in Iraq. The user experience for a startup setting a digital payment gateway or a user paying online still ranks far below that of our regional counterparts.

In terms of getting credit, Iraq ranks 186 according to the World Bank doing business 2020 survey out of the 190 countries surveyed. For many Iraqi SMEs, getting any form of credit from banks is not an option. Local banks need to play a more active role in channeling capital toward Iraqi businesses.

For Ecosystem Players: Channel Your Efforts

We are seeing more programs and organizations looking to support entrepreneurial activities. The Station has expanded its services to multiple Iraqi cities, 51Labs announced a partnership with the American University of Kurdistan, and the Founder Institute opened up its accelerator program for Iraqi entrepreneurs.

The accumulation of those programs means a stronger pipeline of investors and startups. However, constraints remain largely tied up to the regulatory infrastructure and attracting foreign capital investments. We do believe that a more collaborative approach would benefit all players and can create pressing change for the dominant challenge facing entrepreneurs. Coordination of efforts can take the form of informal discussions and highlighting some of the wider challenges to the public and the decision-makers.

For Everyone Else: Invest in Iraq's Human Capital

The ultimate goal of making Iraqi business, and Iraq in general, more investable is to shape both Iraqi businesses and human capital to be more competitive. According to the Human Capital

Index, Iraq falls far behind its counterparts in the region, scoring 0.41 out of 1 compared to 0.49 in Egypt, 0.52 in Lebanon, 0.55 in Jordan, 0.56 in Kuwait, 0.58 in Saudi Arabia, and 0.67 in the UAE. The existing Iraqi education system is failing to prepare the Iraqi youth with the necessary skills to compete in the modern business world. We need to focus more on providing our youth with digital skills.

We have seen incredible Iraqi business leaders coming out of working for regional and the leading local startups in Iraq. Initiatives such as Baghdad Business School are essential to provide youthful Iraqis with exposure to the modern work environment. However, there is more to be done from investors, companies, and all ecosystem players to offer training and career development programs to develop talent across Iraq. Companies need to undertake a more serious approach toward career development for their employees, and Iraqi graduates need to consider on-job training and learning opportunities as vital decision points when considering job prospects. Early stage investing is highly dependent on the people rather than the business and this is true for the wider private sector. Iraqi youth deserve the opportunity to showcase that they are competitive on a regional level.



Serge Airut

Partner, Airut Law Offices
Baghdad, Iraq

Venture Capital Ecosystem in Iraq: Identifying the Gaps and Overcoming the Reluctance of the Laws and Regulations

With the fourth largest population among Arab countries with over 41 million people, Iraq is a market that is difficult to neglect. Nevertheless, over the past thirty years, with the sanctions, wars, security, and social and political unrest, Iraq has unfortunately missed on the economic growth that neighboring countries with smaller populations and lesser resources have been able to benefit from. The startups and venture capital ecosystem has been facing a similar destiny as well.

Over the past three years, the venture capital ecosystem in Iraq has been more and more active. Accelerators and incubators are shaping up. They are organizing mentorship programs and other activities to support the development of startups in Iraq. However, venture capital funding has remained minimal in comparison to other countries in the MENA region.

There are numerous challenges that have kept venture capitalists from investing in Iraq. As a result, most of the investments taking place in the Iraqi startup scene have been coming from local angel investors.

The Challenges

The Iraqi lawmakers have neglected the importance of foreign direct investments in small and medium enterprises (SMEs) and have failed to develop an ecosystem that attracts new business ventures.

VC funds, along with startups, face numerous challenges in Iraq. While some of those challenges relate to the political instability of the country, many others are more associated with the legal system, laws, and regulations.

- **Foreign Ownership Restrictions**

Companies and foreign investments have been evolving in Iraq under the rules and regulations set out by Companies Law No. 21 of 1997 as amended in 2004. Other than the foreign ownership restriction that has been introduced in 2017, the Iraqi Companies Law has witnessed limited updates and has failed to address foreign direct investments requirements and venture capital needs.

It is unfortunate that the Iraqi lawmakers have decided to introduce provisions in 2017 limiting foreign ownership in Iraqi companies to forty-nine percent (49%) while other Arab countries have been relaxing similar restrictive measures and promoting full foreign ownership to encourage foreign direct investments.

- **Underdeveloped Commercial Law Provisions**

It is a common market practice in most countries that whenever a startup wishes to raise funds through various rounds, it opts for a joint-stock company structure with multiple classes of shares. While the Iraqi Companies Law has introduced several types of companies, including limited liability companies and private joint-stock companies, the practice has shown over the years that the incorporation of a private joint-stock company in Iraq is rather complex and requires a lengthy and costly process that startups cannot afford. Therefore, the most commonly used structure in Iraq has been the limited liability company.



Joint-stock company structures have been used over the past years in Iraq by companies aiming to get listed on the stock exchange or required by the applicable laws. For example, telecom operators were operating for years under a limited liability structure until they were compelled to convert into joint-stock companies. In addition, companies in Iraq cannot have various classes of shares with different benefits and privileges.

As part of the development of a more favorable ecosystem, Iraqi lawmakers should introduce a simplified private joint-stock company structure similar to the one that has been introduced in France a few years ago, which has become the most popular company structure in France.

Such a simplified structure would ease proceedings as well as the governance of private joint-stock companies. In addition, lawmakers should introduce the possibility of having various classes of shares with voting or non-voting rights, prioritizing the distribution of dividends or liquidation.

- **Lack of Judicial Ruling Stability**

In addition to the aforementioned, there is a lot of judicial ruling instability in Iraq when it comes to the enforcement of convertible notes as well as the enforcement of shareholders' agreements and other partnerships' arrangements.

The Solution

In light of the previously mentioned obstacles, there are several structures that allow to mitigate those challenges and facilitate foreign venture capital investments in Iraq. We hereinafter take the opportunity to develop what we believe to be the most efficient structure from a cost, time, and investor-friendly perspective.

- First and foremost, investors should incorporate a special purpose vehicle outside Iraq to permit having a joint-stock company with multiple classes of shares with voting and non-voting rights in a jurisdiction with flexible and stable legislation.
- The selection of the jurisdiction is by itself a challenge and should be based on several criteria. Such criteria include mainly the speed of execution, the regulatory requirements, and the cost of implementation.
- Any special purpose vehicle that aims to invest in Iraq will have to be regulated in its jurisdiction of incorporation. It is essential to highlight that the size of the fund constitutes an important factor in the selection of the jurisdiction since several regulated jurisdictions can be very costly (e.g., the Cayman Islands). In addition, the regulator will have to closely assess the identity of limited partners and the portfolio companies, their bookkeeping, tax declarations, and audited financial statements.
- For investments to be undertaken in Iraq, it is recommended to establish the special purpose vehicle in the Abu Dhabi Global Market (ADGM). ADGM has, over the past years, proven to be a reliable platform with a reputable regulator while remaining cost and time-efficient. In addition, the applicable laws and regulations in the ADGM remain inspired by English laws. With an ADGM special purpose vehicle in place, Middle Eastern limited partners should not face any compliance issues so long as they are reputable.

In addition, they can implement a general partner with a limited partner structure alongside a limited partnership agreement governing the relationship of the investors. This ADGM special purpose vehicle would then acquire minority participation in portfolio companies in Iraq.

- The previous solution partially addresses the challenges highlighted hereinabove. However, many challenges remain unresolved with the portfolio company being still based in Iraq. Therefore, any venture capital should bind its capital injection to the establishment by the portfolio company of a legal entity outside Iraq. Such a legal entity would have the same shareholding structure as the Iraqi portfolio company.

Gradually the Iraqi entity will have to transfer its intangible assets to the newly incorporated foreign entity and capitalize on any newly developed intellectual property in the newly formed legal entity. This way, the Iraqi entity will steadily become a service provider to the foreign entity that will become the owner of any goodwill, intellectual property, and any other assets. Hence, the investment of any venture capital firm will become subject to a jurisdiction that is more stable and has efficient enforcement mechanisms.

- The choice of the jurisdiction where the Iraqi portfolio company should relocate is also challenging and will vary depending on numerous parameters. Nevertheless, the most important parameter will remain the growth plan of the portfolio company and the target territories where it aims to develop its operations and the investors it seeks to solicit.

While various structures can be put in place to circumvent the challenges and incentivize venture capital investment in Iraq, the key remains to find attractive opportunities led by founders who have the capabilities to take their startup to the next level.



**Education and Technology: The New Normal
Business Meetup, KAPITA, June 2022**



Abdulaziz Al Attar

Expert in International Banking

Relieved from Economic Sanctions: Iraq's New Status in the Global Financial System

It has been 32 years since Iraq first faced extensive economic sanctions from international authorities as a result of the Gulf War. The impact on the Iraqi dinar was catastrophic, sending the currency into a free fall, the local economy was crippled and international trade almost came to a halt. Iraq was facing an economic crisis and the former Government scrambled to identify temporary solutions to stop the economic hemorrhage in the country.

Fast forward to 2022, significant progress has been achieved in lifting the economic sanctions previously imposed on Iraq; once again, the country is open for international business, trade, commerce, and is a member of the international financial system.

Banking

Given the increasing political stability in the country, many foreign banks have been enticed to establish a physical presence in Iraq. For example, as per the latest Central Bank of Iraq (CBI) data, there are 74 banks operating in Iraq, of which 14 are foreign banks. Consequently, financial institutions have been increasingly bullish on the Iraqi market, establishing branches in both Northern Iraq (Erbil) and Central Iraq (Baghdad).

The easing of economic sanctions has enabled such reputable financial institutions to establish their branch network in the country and provide a full suite of banking products. This has contributed to the development of human capital in the country and created incremental jobs within the financial services domain.

Asides from banks physically operating in Iraq, an increasing number of international banks are willing to offer their banking services from abroad to corporations operating within the country. Under the previous extensive economic sanctions, this was not a possibility as it was almost impossible to facilitate financial services in Iraq.

Banking services have increased with more correspondent banks willing to clear cross-border transactions for payments originating from Iraq, making it easier to trade with foreign counterparts. The easing of economic sanctions has also led to transactions being cleared in a quicker manner with less frictional costs arising, making it cheaper to transact overseas. Unfortunately, it is not all a positive picture; Iraq borders a number of high-risk jurisdictions, from an economic sanctions perspective, that remain under an extensive economic sanctions regime. What does this mean for Iraq? Banks operating in the country will seek to ensure that they are not providing cross-border payments in the United States Dollar (USD) for sanctioned entities, individuals, or corporations.

In order to safeguard the financial system, an adequate control environment is required, and enhanced due diligence is applied to payment systems and the SWIFT network to ensure full compliance with economic sanctions imposed by the European Union (EU), the Office of Foreign Asset Control (OFAC), the United Nations (UN) and Office of Financial Sanctions Implementation (OFSI).

A number of individuals living in Iraq remain on global sanctions lists for various reasons and primarily due to their affiliation with terrorist organizations, e.g., ISIS.

The pertinent individuals need to remain outside the global financial system, and the first line of defense responsibility lies with banks operating in Iraq and correspondent banks providing USD clearing services for banks based in the country.

Banks operating within Iraq have taken several measures in recent years to ensure compliance with local regulations mandated by the Central Bank of Iraq (CBI) and international authorities that impose economic sanctions on Iraq. As a result, the control environment within the banking industry has improved, and there is an increasing awareness of how to comply with international economic sanctions. In addition, human capital has developed and international banks have launched a number of training programs targeting Iraqi talent working within the local banking industry to build further capacity.

Foreign Direct Investment

Iraq has always been an attractive destination for Foreign Direct Investment (FDI), given the extensive oil reserves in the country and rich trade history dating back to the Babylonian era. However, the Gulf War put a prompt halt on FDI and international hedge funds and sovereign wealth funds lost their investment appetite in Iraq since 1990. Given the revival of the economy, the easing of international economic sanctions and the growing political stability, FDI has once again resumed. Major funds from Asian and Western economies such as the United States of America and the United Kingdom have recommenced their investments within Iraq, with the view of rebuilding the country.

Chinese and South Korean corporations have also resumed their financing projects, primarily supported by international export/import banks. Seeing the Export-Import Bank of Korea (KEXIM) and United Kingdom Export Finance (UKEF) resume supporting project financing in Iraq, provides great comfort to investors sitting on the sidelines and contemplating committing their equity to projects within the country.

Digitalization of Financial Services

There has never been a better time to digitalize financial services in the country and create the first unicorn FinTech in Iraq. With a growing youth population and relatively a high mobile phone usage rate, the Iraqi population is ready for an effective Payment Services Provider (PSP) to cater to the needs of the entire population.

The lifting of economic sanctions has made it easier to undertake domestic payments, i.e., due to the enhanced availability of technology in the country and the increasing supply of mobile phones and tablets. Enabling Iraqi people to quickly initiate and receive payments both domestically and from abroad has also become a real possibility in the new economic era.

Newer financial services concepts such as Decentralized Finance (DeFi), trading of Non-Fungible Tokens (NFTs), open banking, and blockchain are all readily available to be offered within the local economy. It is promising to see younger Iraqis having access to crypto-exchanges globally and being able to invest in cryptocurrencies and assets without the restrictions of extensive economic sanctions.

The availability of such financial services will drive further economic possibilities in the country and put the next Iraqi generation on the international platform.

Young Iraqis can now contribute to the growing blockchain ecosystem and undertake mining in Iraq, creating new blocks within the blockchain. Aspiring artists are able to express their emotions and create art in the form of Non-Fungible Tokens (NFTs), with a view of offering their artwork to the world through international NFT marketplaces.

Economic Sanctions – A Blessing in Disguise

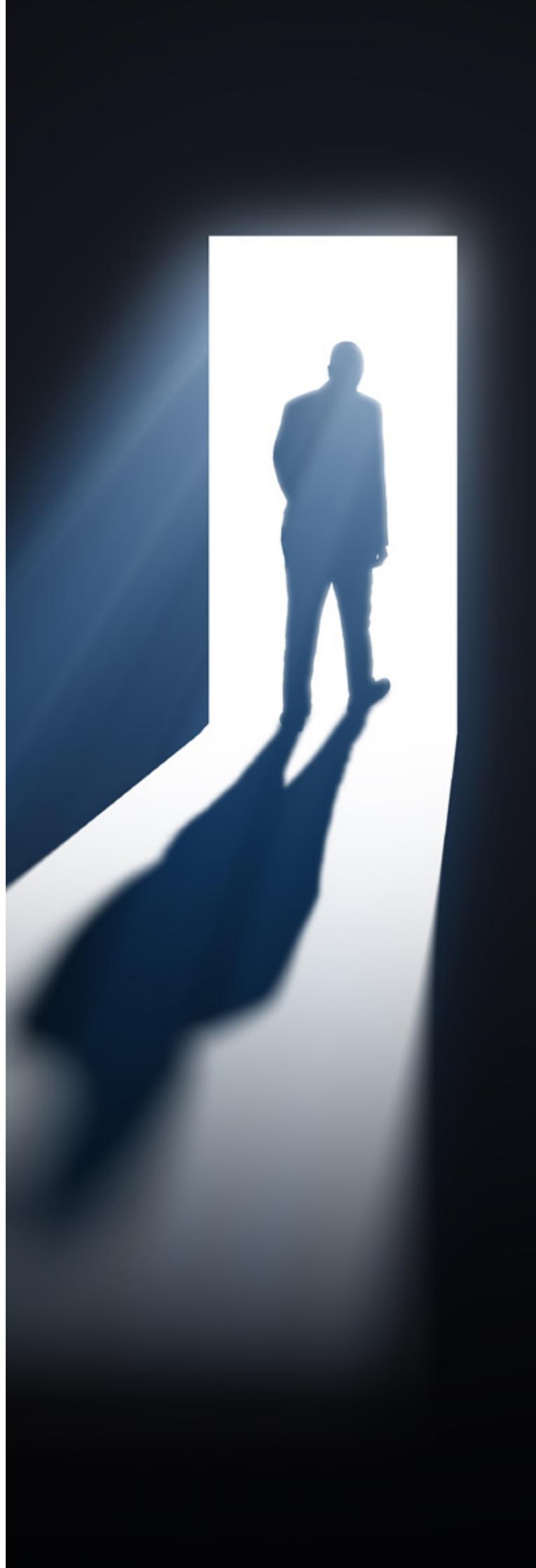
Extensive economic sanctions were a blessing in disguise for Iraqi youth born in the 1980s, 1990s, and 2000s, as they taught this generation resilience and patience and equipped them with a mindset to overcome adversity to achieve prosperity.

They taught this generation to embrace hardship and become increasingly independent and reliant on their own local Iraqi economy. In addition, they gave birth to entrepreneurs that needed to create new ideas to survive and feed their families. All of these factors combined will help Iraqi talent achieve a sustainable competitive advantage when launching their entrepreneurial ventures when compared to youth born in other developed countries.

Conclusion

Iraq has once again opened its doors for international trade, business, and commerce. Banking services and platforms have become increasingly available and many international banks have established a physical branch presence in the country. The list of banks willing to offer banking services within Iraq from overseas is becoming more comprehensive and foreign direct investment is back on the rise from global funds operating in the East and West.

Iraq remains perfectly positioned for the current economic era of financial services digitization and is back on the international platform with full access to crypto-currencies and exchanges. There is a growing opportunity to create a unicorn FinTech within the country and the increasing availability of human capital within financial services will be a key enabling factor. One can conclude that the extensive economic sanctions imposed in Iraq since 1990 were a blessing in disguise for the new Iraqi generation that has developed a robust mindset to achieve prosperity and give birth to new entrepreneurial ideas within Iraq.





Aysegul Ozge Ozgur

SVP, Head of Research, Rabee Securities

The Iraqi Stock Exchange: Latest Trends and Performance

The Iraqi Stock Exchange (ISX) was established on 18 April 2004 and began trading with 59 companies. Among the milestones of the ISX are its opening to foreign investors in August 2007, the writing of the New Capital Market Law in 2008 which is still not passed, holding the first electronic trading session (NASDAQ /OMX) on 19 April 2009, and the increase of the trading sessions from three to five per week on the first of November 2009.

Today, 103 companies trade on the ISX, 40 of which trade on the non-regular market, with average daily trading volumes around \$2.8 million per day, on a 12 months average. In the first four months of 2022, Iraq Stock Exchange's (ISX) trading volume surged by 82%, compared to the same period of the previous year, to IQD265.3 billion. The banking sector had the highest share in trading volume with 72.8%, it witnessed a large volume of cross transactions.

It was followed by the telecom sector with a 15.0% share. While the industry sector had only a 6.2% share, the agriculture sector had a 2.9% share, and the hotels and tourism had a 2.1% share. The remaining sectors had a 1.0% share in total trading volume.

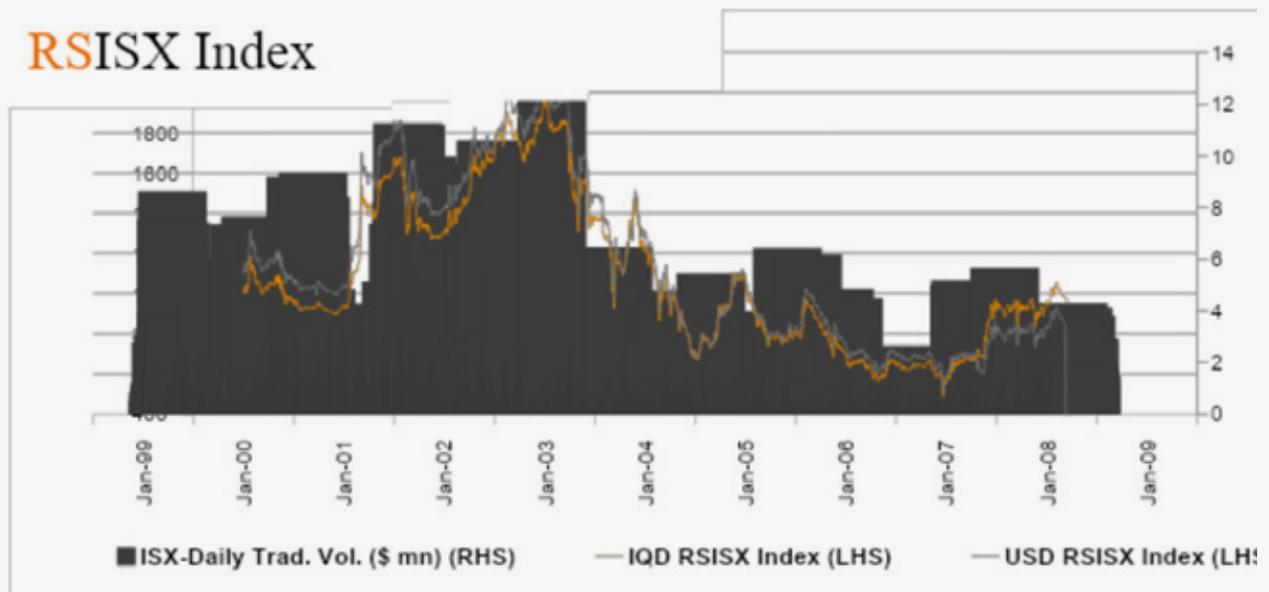
Rabee Securities ISX Index (RSISX Index), which is a benchmark index in the market, increased by 8.2% this year to date, at the end of April 2022.

Thirty five companies' share prices went up in the first four months of 2022 by the end of April, with Ishtar Hotels (<HISH>) increasing by 110%, followed by Al-Hilal Industries (<IHIL>) +79%. Twenty three companies' share prices dropped in the first four months of 2022, with Gulf Insurance and Reinsurance (<NGIR>) declining 60%, followed by Sumer Commercial Bank (<BSUC>) decreasing by 26%.

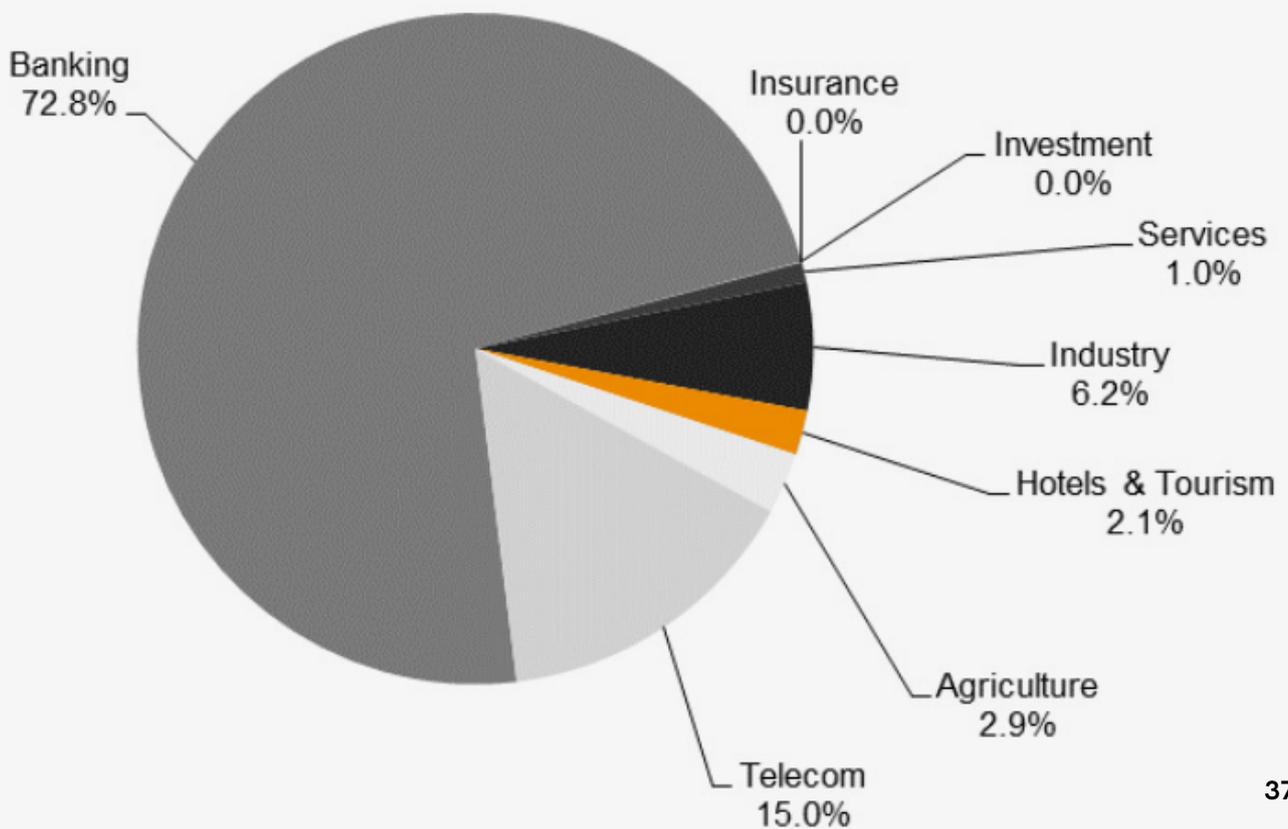
ISX Mcap is IQD16.3 trillion (\$11.0 billion) divided into; banking sector (45.0%), telecom sector (42.4%), industry sector (7.2%), hotels & tourism sector (2.6%), agriculture sector (1.6%), services sector (1.0%), insurance sector (0.2%) and investment sector (0.02%).

ISX companies have traditionally high cash dividend distribution. Four companies decided to distribute profits during the first four months of 2022; Baghdad Soft Drinks Co (<IBSD> yield: 5.3%), Trust International Islamic Bank (<BTRU> yield: 2.9%), Baghdad Hotel (<HBAG> yield: 3.2%) and Iraqi for Seed Production (<AISP> yield: 5.2%).

RSISX Index



Breakdown of ISX Trading Volume by Sectors in the First 4 Months of 2022





Report Summary
KAPITA's Research Team

An Overview of the Iraqi Banking Sector and Financial Infrastructure

Introduction

Following the conclusion of the War on Iraq, the Banking Law was enacted on September 19, 2003. The law conforms Iraq's banking regulatory structure to international standards and strives to foster confidence in the banking system by forming a safe, sound, competitive, and accessible banking sector. The Central Bank of Iraq Law, enacted on March 6, 2004, established the Central Bank of Iraq (CBI) in its current form as Iraq's autonomous Central Bank. Currently, Iraq's economy remains primarily cash-based. According to the World Bank, only 23% of adults in Iraq own a bank account, a figure that lags behind neighboring economies.

The country has a total of 74 banking institutions. However, they have contributed to only 1.94% of

the national GDP in 2021. These banks have 904 branches spread out across the country, yet, the bulk of those branches are concentrated in the economic centers of Baghdad and Basra, with 37.1% and 9.3%, respectively.

Furthermore, according to the World Bank, the number of commercial bank branches per 100,000 adults was 5.63 in 2020, a figure that is significantly smaller compared to figures from neighboring countries; for example, this number equates to 16.1 in Turkey, 31.1 in Iran, and 13.6 in Kuwait.

Iraqi Public Budget Expenditure

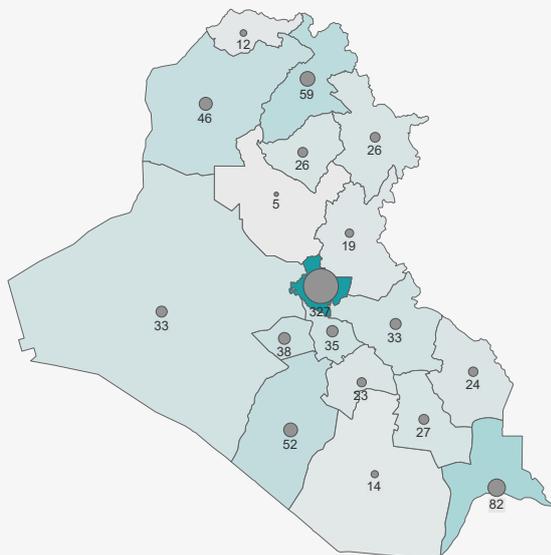
The Iraqi public budget for 2021 was approved on the 8th of April of the same year. The budget exhibits 129 trillion IQD (88 billion USD) in expenses and a record deficit of 28 trillion IQD (19 billion USD). 87.3% of the proposed budget income is derived from oil revenues.

When reviewing the 2021 public budget's expenditures, certain numbers stand out. First, the Council of Ministers received the largest allocation among the major governmental institutions, accounting for 6.334% of the entire budget (35,220 billion IQD).

Second, the public budget allocations appear to be unbalanced across the Iraqi ministries. For example, the Ministry of Finance and the Ministry of Interior receive significantly higher allocations compared to the remainder, with a designated 28.71% and 13.52% of the total budget, respectively. Meanwhile, the ministries that are indispensable to the people's vitality and quality of life appear to be neglected; the Ministries of Agriculture, Transportation, and Water Resources were allocated 0.16%, 0.21%, and 0.37% of the total budget, respectively, all of which are sectors in dire need of attention from the government.

With regard to governorates, Baghdad received the largest share of spending, reaching 19,258 billion IQD (3.463% of the total budget). It is unfortunate to witness that the governorates that have suffered the most as a result of the conflict and violence caused by the Islamic State have not been given enough consideration; Nineveh and Sala Al-Din, the governorates that incurred the most damage, received only 0.275% and 0.155%, respectively, of the total budget, the least amount amongst all others.

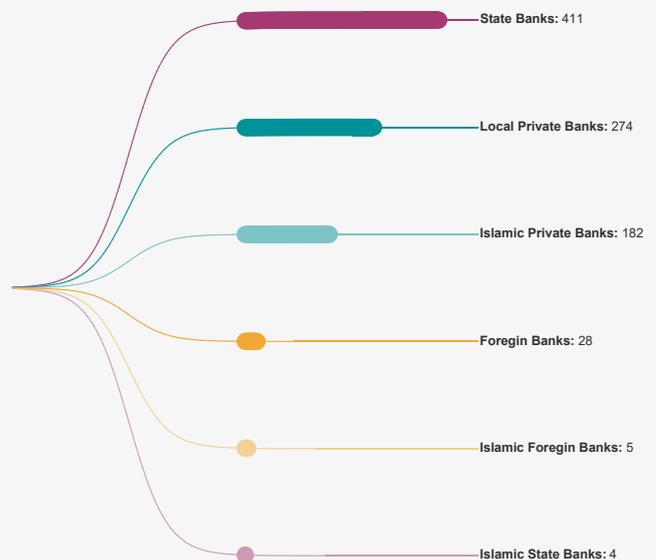
Number of Bank Branches by Governorate



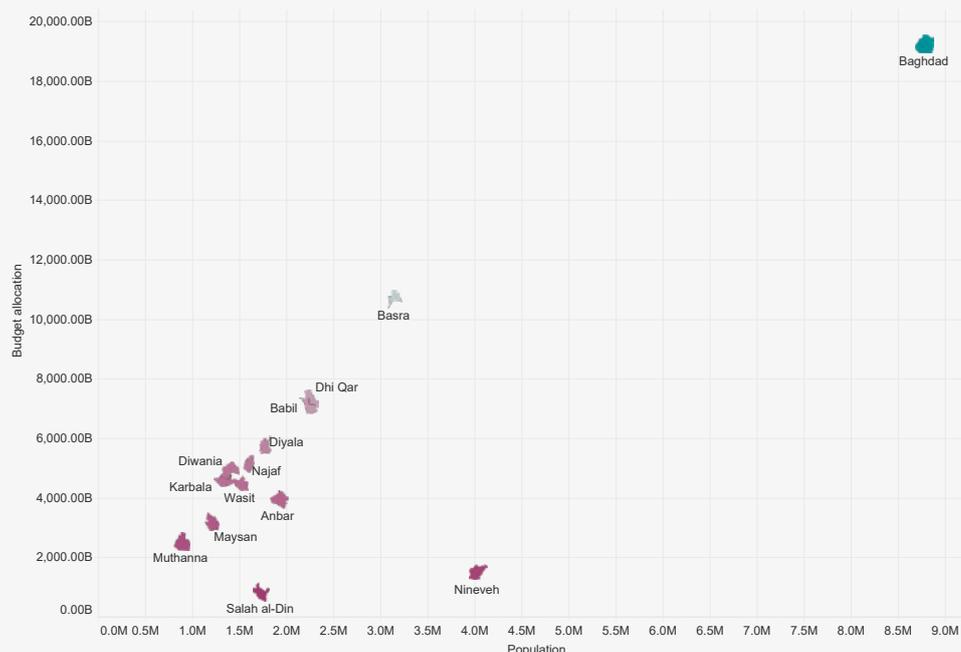
© 2022 Mapbox © OpenStreetMap

Source: Annual Statistical Bulletin, Central Bank of Iraq 2021.
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Number of Bank Branches by Type of Bank



Budget Allocation by Governorate for 2021



Source: Annual Statistical Bulletin, Central Bank of Iraq 2021. Copyrights: Kapita Business Hub, 2022

State-Owned and Privately-Owned Banks

State-Owned Banks (SOBs) are the banks under the governance of the Iraqi Ministry of Finance and the CBI. SOBs have the public sector as holders of their deposits and extenders of credit. Furthermore, they also deal with the private sector's loans and deposits. SOBs own 78.6% of the banking sector's assets, control 84% of cash credit extended, and have 87% of the total deposits. This could be because of their extensive branch network throughout the country (as they currently constitute 45.5% of total bank branches in the country) and the fact that they are government-guaranteed. However, they constitute only 9% of the total number of banks in the country.

The majority of banks in Iraq are privately owned, accounting for 90.5% (67 out of 74 banks) of the total number of banks. Private Sector-Owned Banks (PSOBs) make up the vast majority of the banking sector's capital, accounting for 75.4%,

due to their larger number and adherence to the Central Bank's directive of having a minimum capital of 250 billion IQD. However, as previously stated, these banks are heavily overshadowed by SOBs, accounting for only 13% of total deposits, 16% of extended cash credit, and 21.4% of the banking sector's assets.

Electronic Banking and Payment in Iraq

Following 2003, the CBI set out to revitalize Iraq's banking sector to keep up with global banking trends. The CBI implemented the Cash Automated Clearing House and Real-Time Gross Settlement System in 2006. In 2014, retail payment regulations were introduced, and the CBI implemented the Iraq Retail Payment System Infrastructure in 2016.

The CBI authorized mobile wallets like ZainCash and AsiaHawala in 2016, which proved useful during COVID-19 as they were the vehicle for government grants, as well as boosting online shopping and e-commerce platforms.

The number of issued electronic cards has grown since 2017. Prepaid cards, in particular, have grown exponentially in popularity, with over 9.7 million cards issued by the end of 2021.

This seeming preference is due to the ease of their use and the simplicity with which they can be obtained without the requirement to create a bank account.

Yet, banking solutions are lagging behind the ever-growing quantity of electronic cards. ATMs and POS terminals are not expanding at a rate that facilitates the convenience associated with electronic payment options. Rather than that, it creates an imbalance and necessitates the cardholder to withdraw cash to enable daily transactions.

Digital Payment Systems

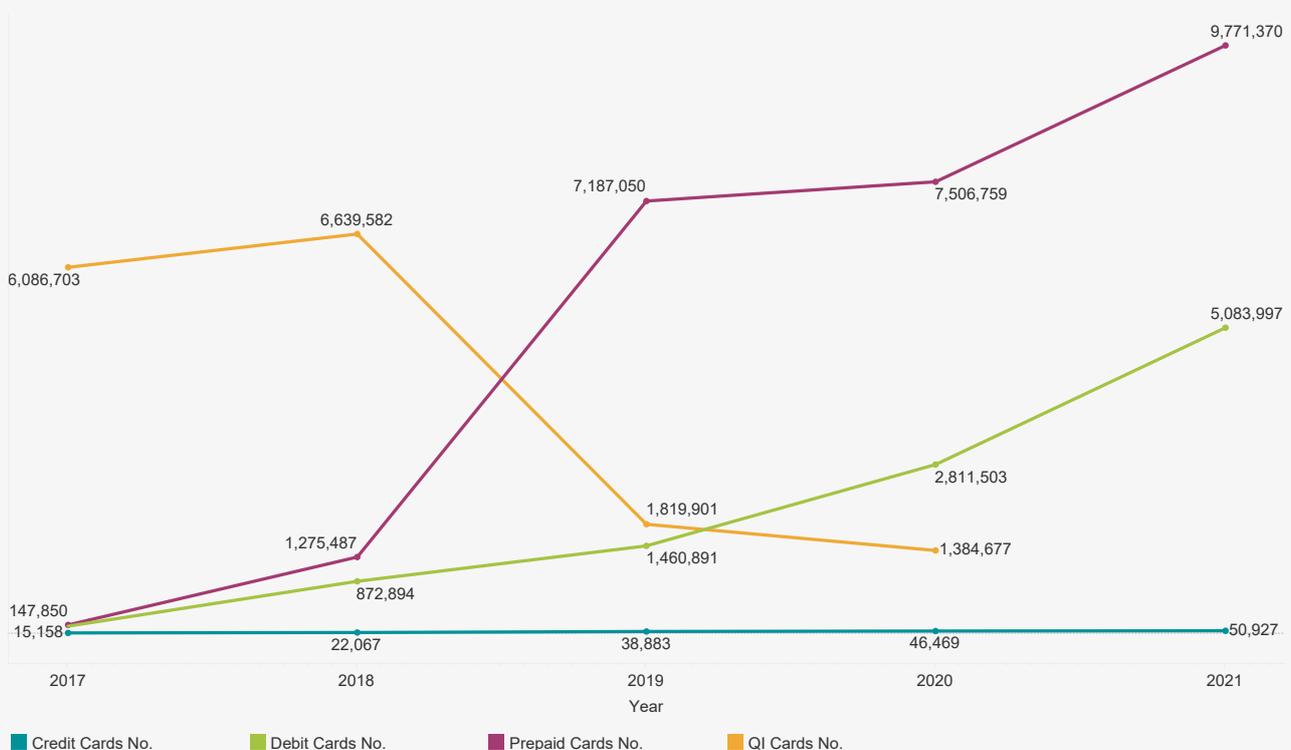


AsiaHawala

AsiaHawala is a multifaceted payment service provider that was established by Asiacell Telecommunications toward the end of 2015. It offers several services, including money transfers, transactions, bill payments, salary disbursement, and online shopping payments.

It features a variety of wallets to meet the needs of its various customers. AsiaHawala has had over 527.9 thousand transactions valued at 164.8 billion IQD in 2021.

Electronic Card Numbers



Source: Annual Statistical Bulletin, Central Bank of Iraq 2021. Copyrights: Kapita Business Hub, 2022

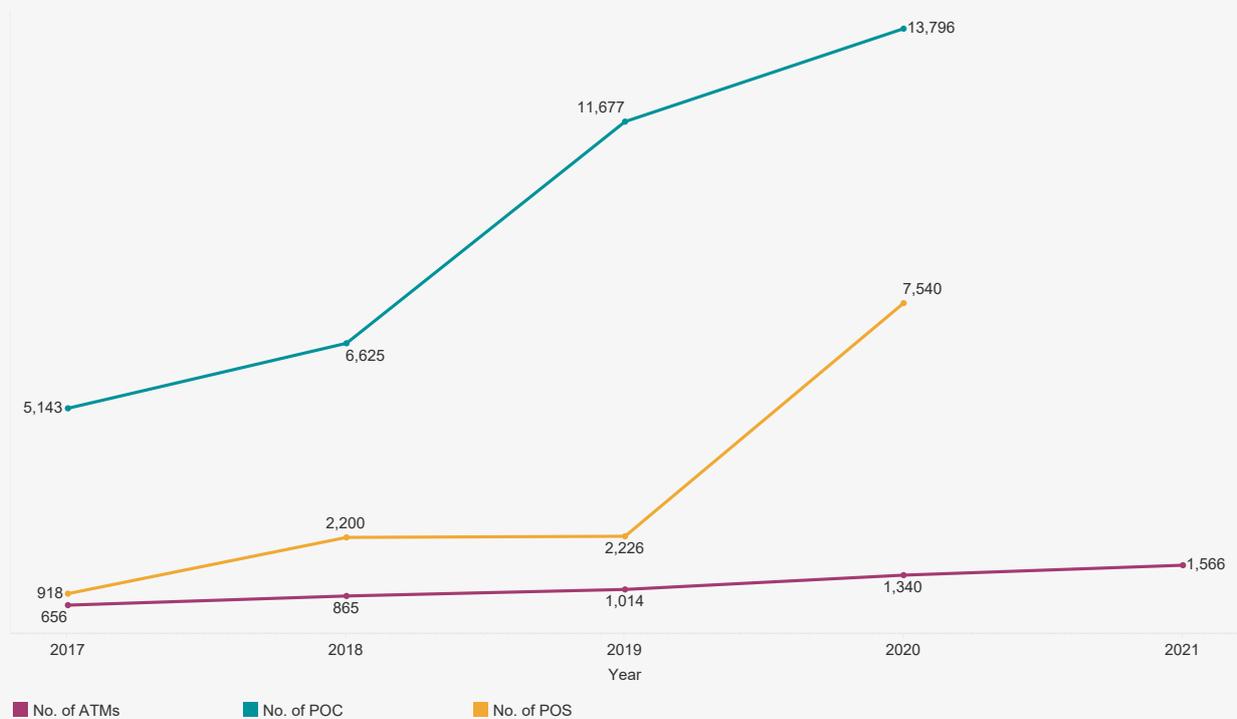


ZainCash

ZainCash is Iraq's leading mobile payment operator, founded in 2015, with over 3 million transactions valued at 719 billion IQD in 2021. The wallet allows the user to link their bank accounts and attach Visa and Master cards for easier top-ups. ZainCash also provides the option of issuing a wallet MasterCard and a virtual reloadable Visa Card. It also supports money transfers, mobile phone recharges, and payment of government bills. Recently, ZainCash has added the option of using QR codes to pay merchants and cash out from agents, as well as their new virtual renewable Visa card that can be obtained through their application.

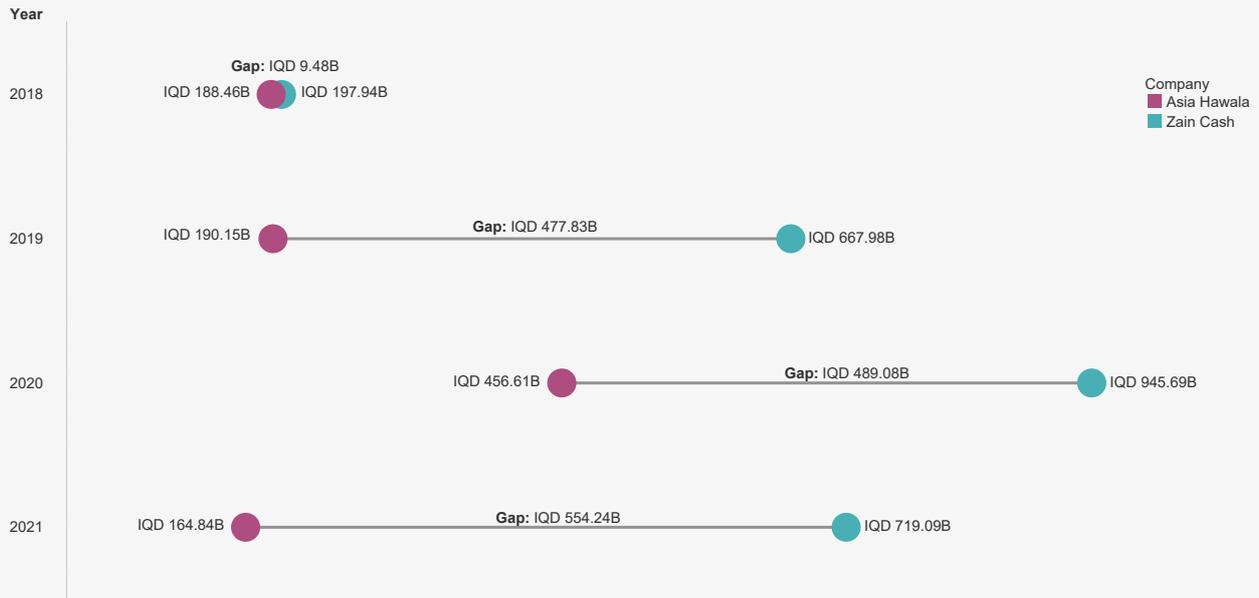


Banking Solutions



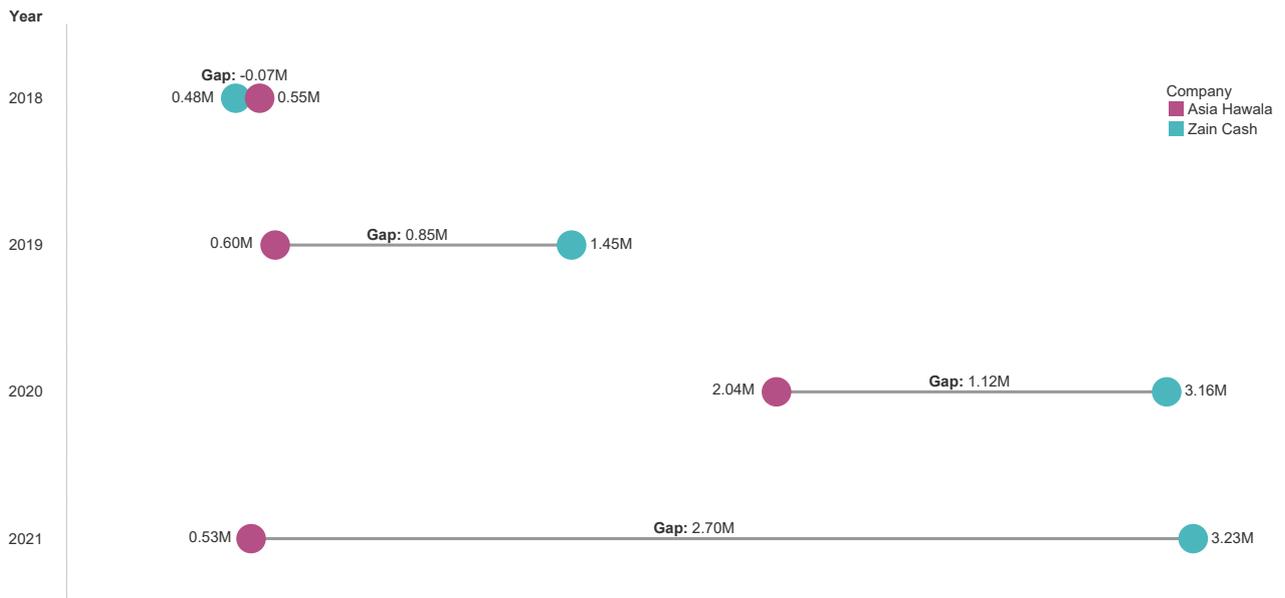
Source: Annual Statistical Bulletin, Central Bank of Iraq 2021. Copyrights: Kapita Business Hub, 2022

Transactions Value of Electronic Mobile Payment



Source: Annual Statistical Bulletin, Central Bank of Iraq 2021. Copyrights: Kapita Business Hub, 2022

Number of Transactions of Electronic Mobile Payment



Source: Annual Statistical Bulletin, Central Bank of Iraq 2021. Copyrights: Kapita Business Hub, 2022

Qi-Card



QiCard was founded in 2007 as a joint venture between Iraqi Electronic Payment Systems and Al-Rafidain Bank. QiCard has been distributing biometric identity cards to citizens and delivering electronic banking services in Iraq for over a decade. Prepaid cards issued by the corporation are among the most extensively used in the country, as they are one of the primary methods to receive pension payments from the government.

APS



Arab Payment Services is a privately held Iraqi company specializing in electronic payment and banking services. It is the first corporation in Iraq to have a local division and database dedicated to ensuring the confidentiality of data and information. APS has a diverse product portfolio. Among these services are the issuance of MasterCards, the provision of POS equipment, and an e-payment gateway.

Blue Pay



Blue, also known as Ishtar Gate, is a private shareholding company registered in Iraq in 2020. It is licensed to provide comprehensive services to enable Iraqi banks to implement all electronic payment projects, both technically and commercially.

NassPay



NassPay, founded in 2015 in Erbil, is a provider of online and offline payment solutions. The company offers merchant clients dependable and

secure payment solutions that enable them to extend their customer base across the country. It provides alternative financial options to Iraq's predominantly unbanked population, such as their multi-purpose MasterCard.

Switch



Iraq Electronic Gate for Financial Services Company (SWITCH) was established in 2016. SWITCH is registered in Iraq as a national company and is licensed by the Central Bank of Iraq (CBI), Mastercard International, Visa International, and MoneyGram. Their services include issuing cards, ATM and POS acquisition and management, and money transfers, among others.

NEO



Founded in 2018 and headquartered in Baghdad, NEO is part of INC, an Iraqi company registered in Iraq and holds a license to practice business in electronic payments from the CBI. The company provides virtual and physical prepaid VISA cards linked to their digital mobile application.

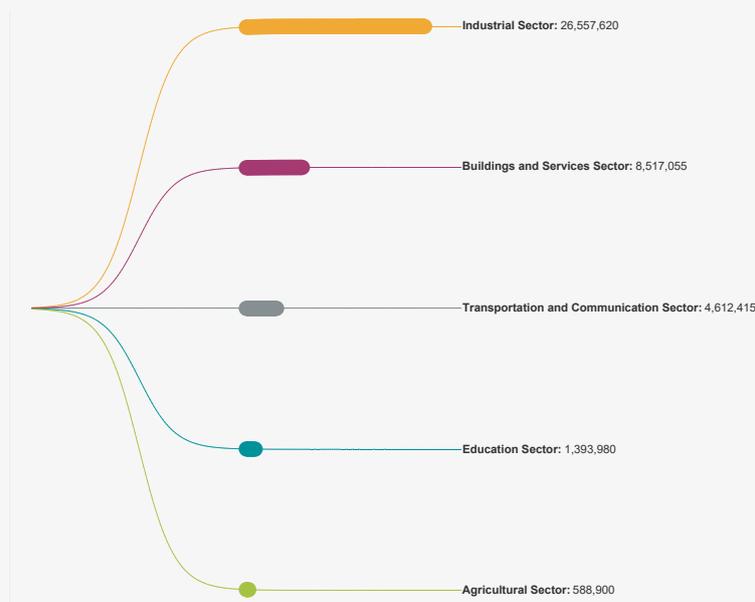
FastPay



Fast Pay is an E-payment service provider that was established in Erbil in 2017. Through their mobile application, Fast Pay provides payment solutions for both personal and business usage. The service allows customers to deposit and withdraw money by visiting any of Fast Pay's stores or agents. Other services include online shopping, internet recharge, and receiving money directly through their mobile wallet.

Investment Budget Expenditures by Sector

(Milion IQD) in 2021



Source: Annual Statistical Bulletin, Central Bank of Iraq, 2021

Copyrights: KAPITA Business Hub, 2022

Investment

In 2021, CBI allocated around 42 trillion IQD towards the development of industrial, transportation, and a range of other sectors in an effort to tackle stagnation and encourage existing small projects.

However, it is also worth noting that the education and agricultural sectors received the least amount of the investment budget in comparison to other sectors, with approximately 1.394 trillion and 589 billion IQD, respectively.

With state-owned banks taking the lead in the sectoral investment scene, 2021 saw an increase of 11.4% in investment budgets from the previous year, which suffered financial ramifications brought forth by the COVID-19 epidemic.

Additionally, private shared and local banks' investments skyrocketed in 2021, exhibiting an increase of around 183% and 77%, respectively, when compared to 2020. Private foreign banks investment, however, displayed a steep decline in 2021 of about 60% when compared to the previous year.

Major Issues

• Insufficient Electronic Payment Infrastructure

The increasing implementation and issuance of electronic payment, especially with the salary domiciliation initiative, is creating a tremendous imbalance. Since issued cards are seldom used in daily life owing to a lack of acceptability, there is pressure on salary withdrawals in cash, preventing the payroll cycle from continuing electronically.

This is due to an insufficient number of automated teller machines (ATMs) and points of sale (POS); their numbers are not increasing at a rate sufficient to accommodate the shift to electronic payment.

• Dependence on Cash

Cash's dominance in Iraq's economy hinders the growth of the banking system, as it is the primary store of value in the country. It is also the biggest instrument of economic exchange. The importance of cash is tied to the stability of the economy due to its usefulness during crises and the need to withdraw it to support spending.

Cash has this importance because of the state's reliance on oil revenue. The CBI manufactures new dinars by trading US dollar oil income. These Iraqi dinars are used to pay wages, pensions, products, services, and infrastructure. This issue continues to highlight the constrained role of the banking sector, especially in the formation of commercial bank money and as a means of economic exchange.

- **The Lack of Public Trust**

Iraqi people do not trust their banking institutions nor view them as a secure place to shelter their finances. There are many reasons for this, one of which is their lackluster profiles and limited services do not help them draw in entrepreneurs and businesses.

Furthermore, high-interest rates, enormous collateral, demanding guarantee requirements, and low market penetration are also halting the sector's growth. Furthermore, due to the calamities that Iraqis have witnessed, the Iraqi individual has conceptualized that keeping their

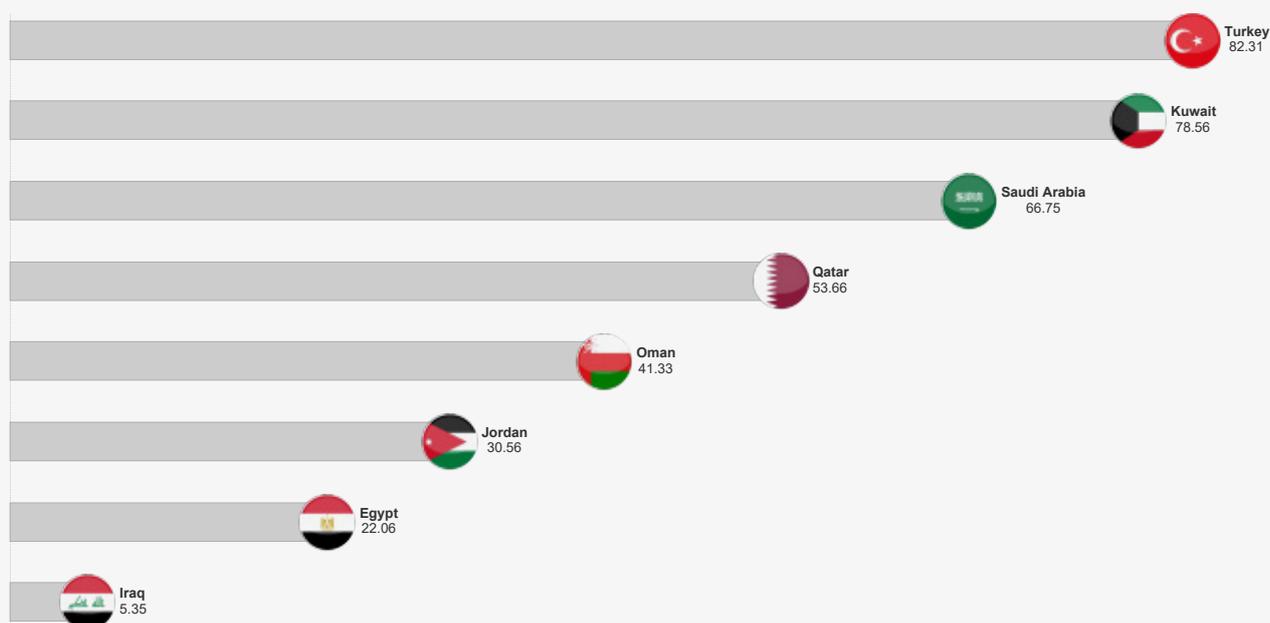
money in cash hidden safely in their homes is a guarantee of its security and availability in a time of crisis and need.

- **Religious Concerns and Islamic Banks**

In a largely Muslim nation such as Iraq, many prefer to avoid entrusting their assets to conventional commercial banks due to their religious reservations. Hence, Islamic banks began to develop progressively.

However, numerous challenges impede the functioning of Islamic banks in Iraq, including insufficient expertise, the absence of an Islamic financial market, inadequate legal protection, and the subjection of Islamic banks to the CBI in terms of the proportion of legal reserves, which hinder funds for investment, reduce project attraction, lower profitability, and favor commercial banks over Islamic banks in terms of competitiveness.

ATMs per 100,000 Adults in the MENA Region



Source: World Bank, 2020. Copyrights: Kapita Business Hub, 2022



Recommendations

- Increasing the reach and number of bank branches across Iraq to enhance accessibility and promote financial inclusion.
- Requiring banks and electronic payment service providers to acquire integrated and modern electronic systems and automate all operations.
- Gain the public's trust in the Iraqi banking sector through cultivating a culture of customer reliance and diversifying services to fulfill all demands.
- Increasing the rate at which POS and ATM systems are implemented to keep up with electronic payment adoption.
- The legislation of specialized laws for the operation of Islamic banks and finance in order to unify their functions in accordance with Islamic Sharia law.
- Because of the widespread use and availability of smart phones, the implementation of QR code payment in Iraq could result in rapid adoption of the method, which has been recently introduced by ZainCash.

Research Summary
KAPITA's Research Team

Iraqi Entrepreneurs Journey V.2 New Trends and Insights

The Iraqi entrepreneurial landscape has been evolving over the last two years, withstanding, and sometimes overcoming, national and international challenges. The COVID-19 pandemic has affected global economies at large, including Iraq. While the increase in the exchange rate of the United States Dollar (USD) to the Iraqi Dinar (IQD) has affected the national economy.

These incidents casted a shadow over the entrepreneurial journey in Iraq, yet, there are always opportunities that could be captured amidst the uncertainty.

This research is an updated, quantitative assessment of the Iraqi Entrepreneurs Journey: An In-Depth Analysis that was published by KAPITA in July, 2020, which was the backbone to understanding the problems, solutions, opportunities, and challenges that entrepreneurs face in the Iraqi business ecosystem.

Two years later, we are providing an updated, yet in itself a new version to complement the previous findings with current insights.



To understand the characteristics of the Iraqi entrepreneurial world and provide the stakeholders, investors, researchers, and casual onlookers a detailed and straightforward picture of the advances within that world.

Characteristics of Entrepreneurs

Age, Gender, and Number of Founders

The majority of founders were individual founders amounting to 60% of the respondents, the rest were between 2-3 founders and a minority of 3-5 founders. When it came to gender, women were underrepresented with only 24.5% of founders.

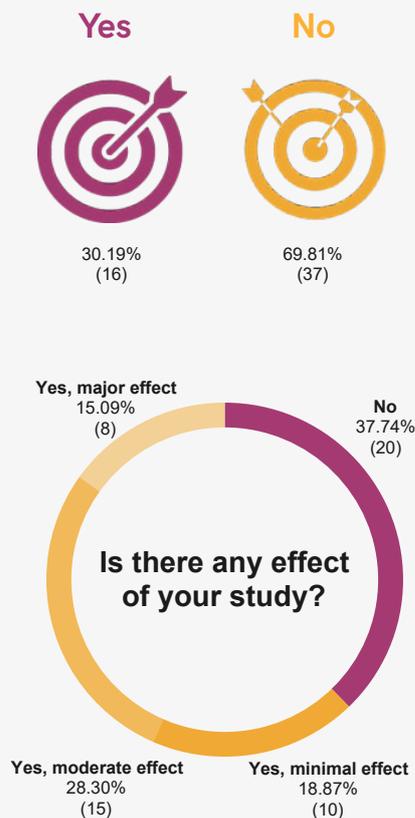
This might be due to several reasons, including social constraints, lack of technical and financial resources, and lack of available online data that could be vital to their understanding of the market, amongst other issues.

Academic Background and Its Impact on the Startup

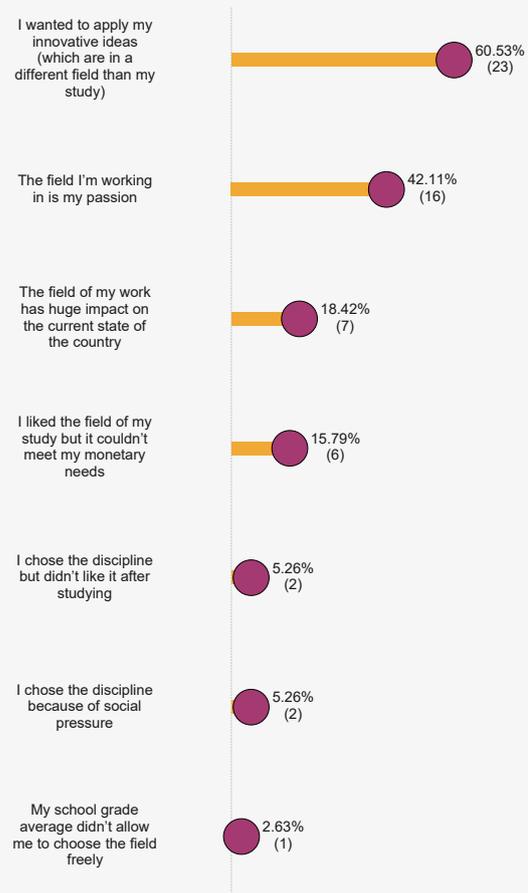
The current findings indicated that the vast majority of founders were working in a field unrelated to their studying field. The majority of respondents who answered that their field of study was not the same field that they found their startup in, claimed that “[they] wanted to apply [their] innovative ideas (which are in a different field than [their] study)” as the reason for them to start their business in a different field.

Most respondents said that their academic study did not affect their startup (37.74%) while the rest answered that it had a moderate (28.3%), minimal (18.87%), and major effect (15.09%) on their startups, respectively. This can also denote an issue in regards to entrepreneurial education within the educational system.

Is the startup in the same field of study?



Reasons for Choosing Fields Other than Studied Field



Sources of Knowledge

The versatility of sources of knowledge leads to the development of skills and mindset that help in understanding the market, the customer, and the product much better than being limited to a single source.

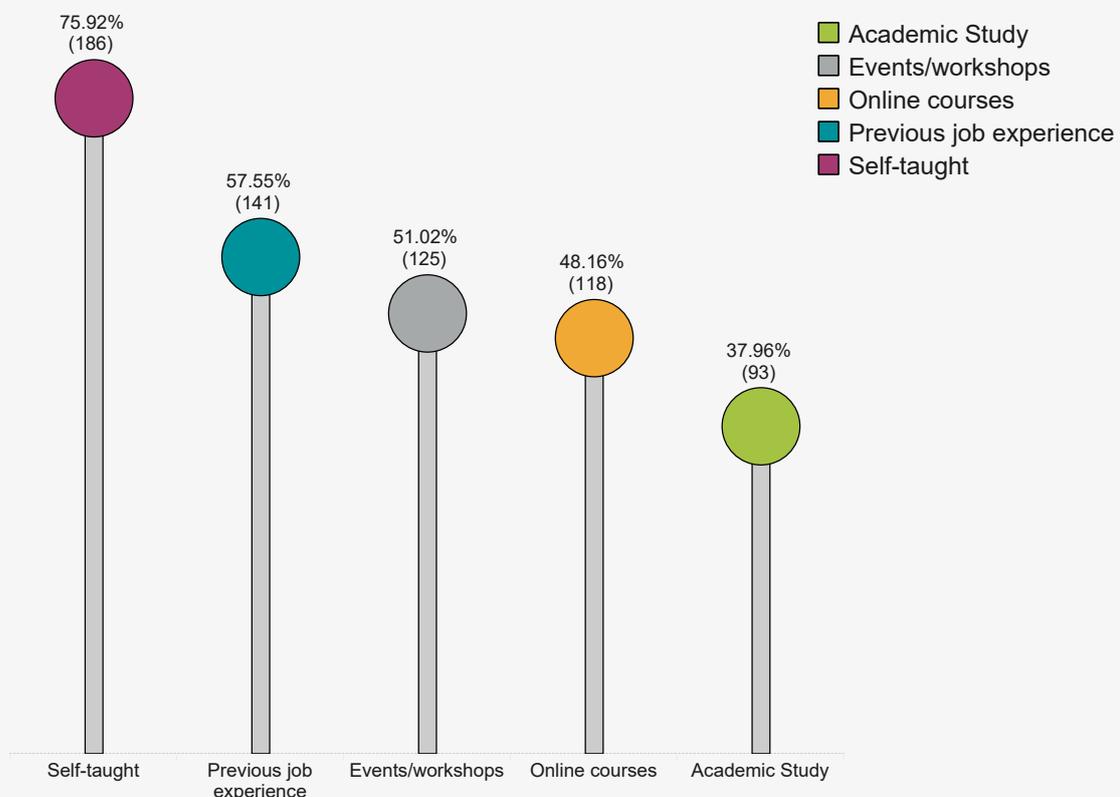
Academic education is expected to be a pillar in developing the skills to launch a startup. However, the current findings indicated that academic study was ranked fifth as a source of knowledge. While self-teaching was ranked first and previous job experience as second in level of importance to respondents, followed by events/workshops in third and online courses fourth.

Dedication to Startup

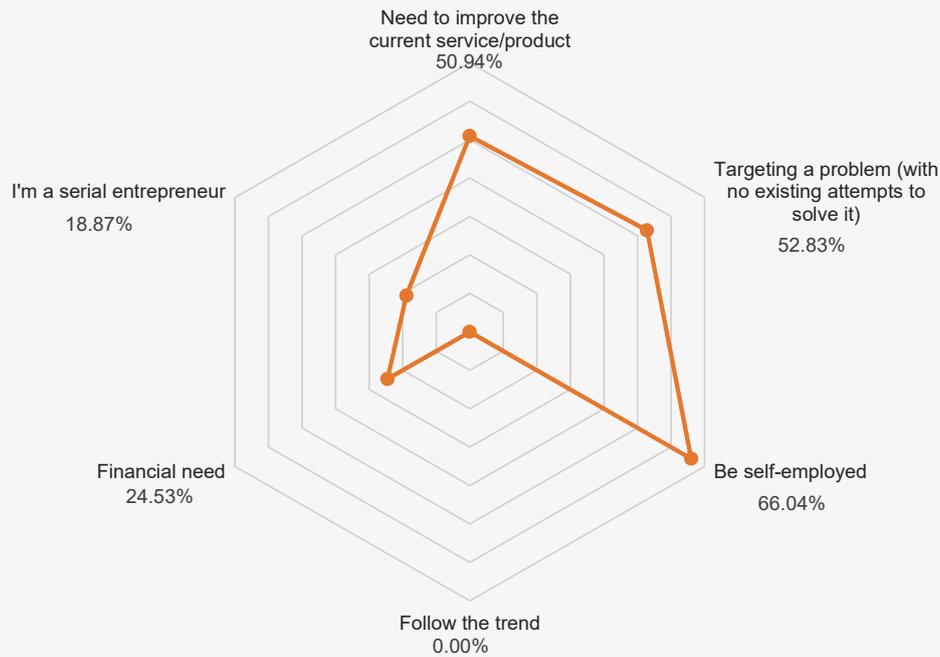
Around 62% of the respondents stated that they have another job other than their startups. This is an international phenomenon within the context of entrepreneurship known as hybrid entrepreneurship. This term could be defined as the process of initiating a business while simultaneously remaining employed for wages.

Hybrid entrepreneurship allows individuals to start a business on a smaller scale which enables individuals to learn more about their venture and reduce risk. However, on the negative side of hybrid entrepreneurship, it undermines the scalability and growth of the business and also the pace of which the business is expanding.

Ranked Sources of Knowledge to Launch a Startup



Motives to Launch a Startup



Entrepreneurship

Motives to Launch Startups

The survey found that the majority of founders chose to be self-employed as their main motive to launch their startup. Targeting a problem (with no existing attempts to solve it) was the second most chosen motive, and the need to improve the current service/product was the third most chosen motive.

Types of Startups

In the previous research, retail startups formed the majority followed by e-commerce and management software startups. The scene has since changed, in the current research e-commerce startups took the lead while management software startups took the 4th place and retail startups took the 7th place.

These differences can be attributed to several factors including: increased interest in e-commerce in Iraq, retail startups are more established now, and sampling differences

between the previous and current research, as the current research is more inclusive than the previous one.

On the same token, agriculture-related startups are on the rise which indicate an increasing interest in a very important sector in Iraq.

Channels and Ownership

Having both online and offline channels still dominated the scene of startups, with 49.06% having both. But the gap with online-only startups has been reduced as more startups (than the previous research) reported an online-only channel, with 47.17% of the respondents reported having an online-only presence. This could be attributed to the young nature of the current startups and could be a potential response to the COVID-19 pandemic. While current findings indicate a rise in single-owned startups in comparison to previous research.

Developing Ideas and Testing Methods

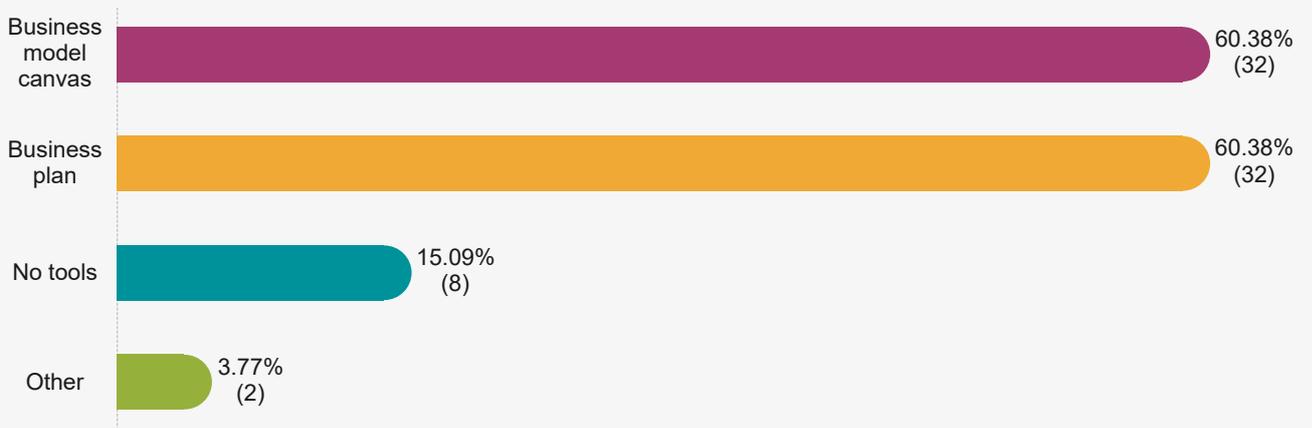
The current findings are hopeful as the majority of entrepreneurs used one tool or another to develop their ideas, and almost 90% of them run a testing phase to a variable extent.

While in the previous research around 39.02% did not use any tools, 29.27% used Business model canvas, 26.83% used a business plan.

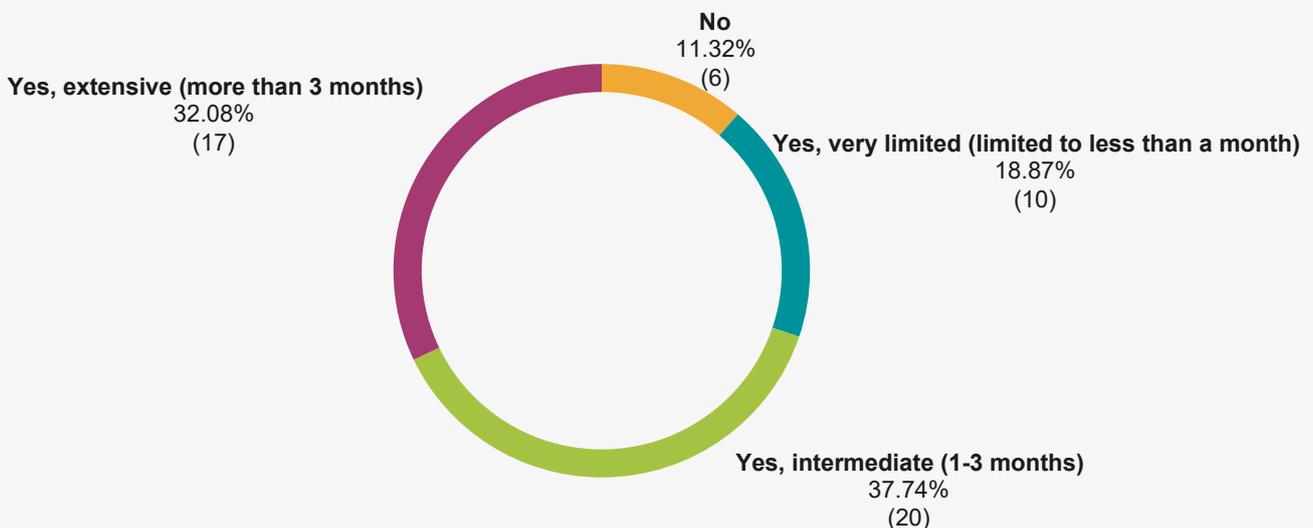
This might be due to the increasing number of support organizations since 2020, which helped business to follow a more comprehensive planning phase.

There has been an introduction of 3 pre-incubation programs, 10 incubators, 5 accelerators, and 2 competitions. In addition to that, investments became more accessible and normalized with 6 companies/organizations being part of the ecosystem, pre and after 2020.

Used Tools to Develop Ideas



Was there a testing phase?



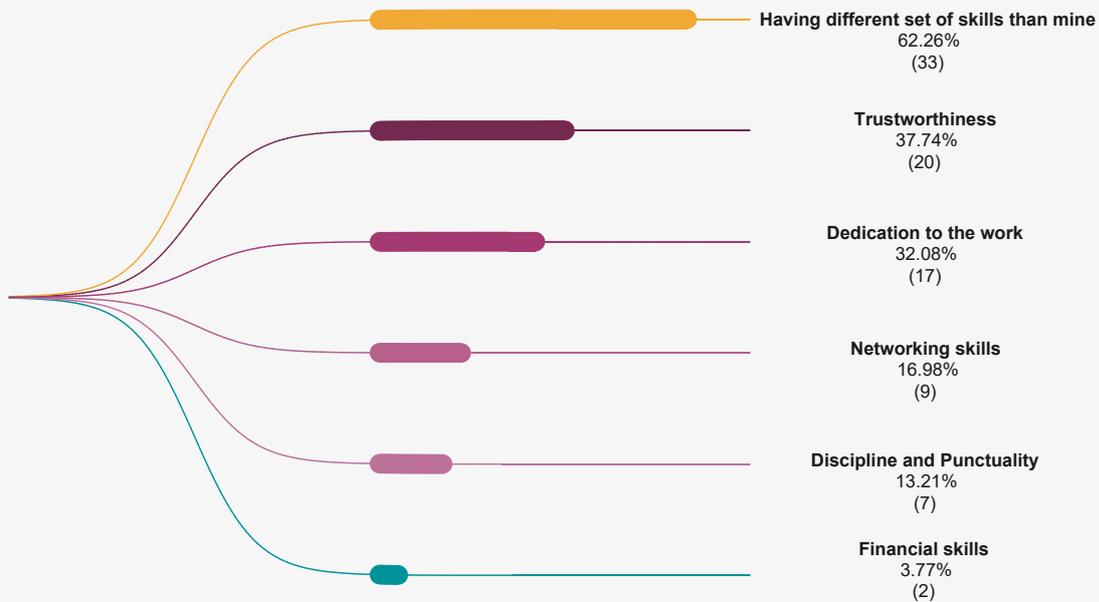
Teamwork

Working with Teams and Basis of Selection

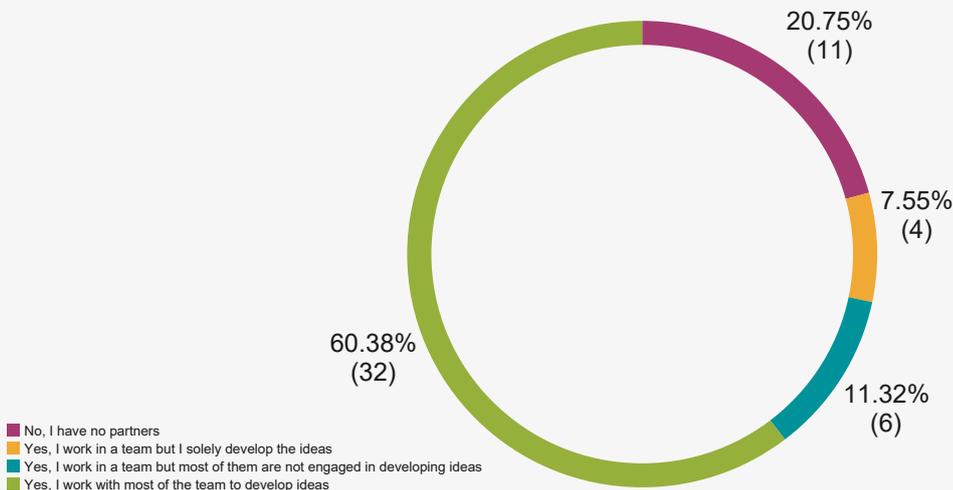
Building a team is one of the most important aspects of building a successful business that is able to thrive and be sustainable. A team will be the one responsible for most of the day to day operations of the startup.

There are many aspects to selecting the team, most of the international trends tend to view having trustworthy team members as a major aspect for hiring. Our surveyed founders have chosen trustworthiness as their second most important basis of selecting team members, only preceded by having different skills than the founders.

Basis of Selection Team Members



Do you work with a team to develop the ideas?



Building Teams

Around 73% of the surveyed founders choose relationships as their main hiring channel. This is an indication that the Iraqi market is mainly based on networks.

It emphasizes their importance and also denotes the cultural aspects that come into play when building a team. As mentioned previously, the importance of trustworthiness ties neatly with professional networking.

Hiring Channels



Relationships
73.08% (38)



Social Media
50.00% (26)

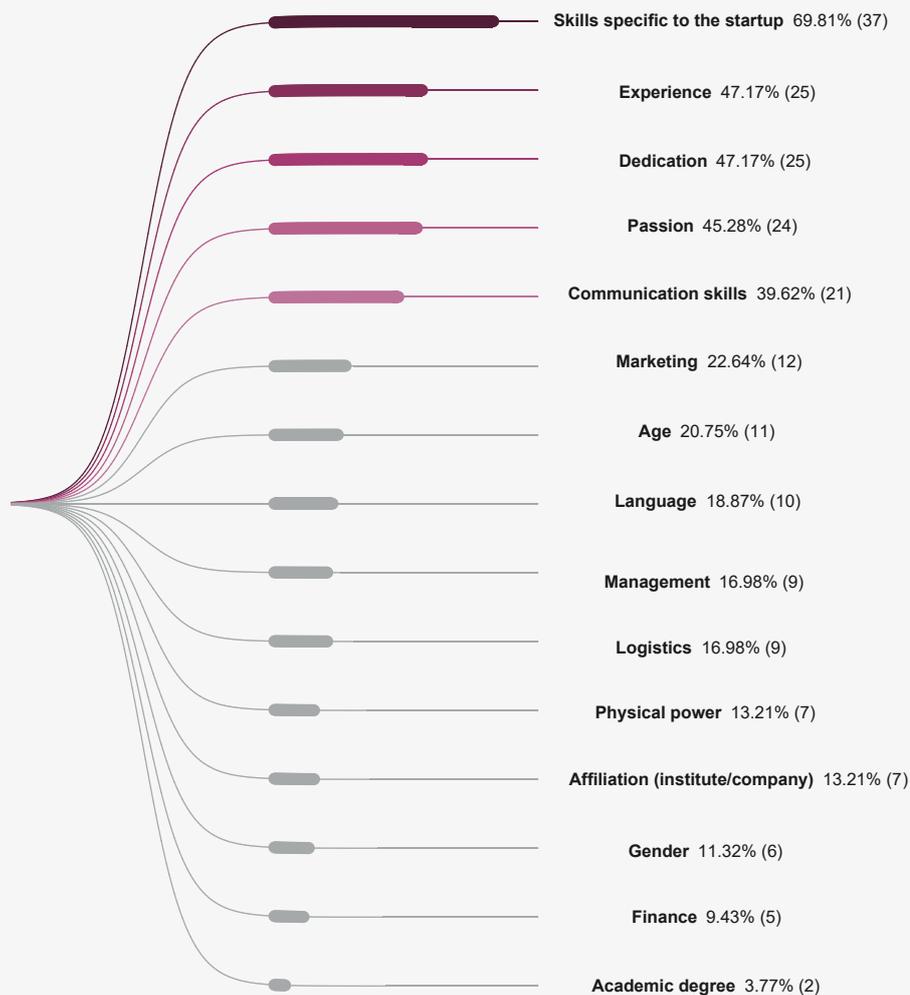


Web Search
23.08% (12)



Hiring Companies
5.77% (3)

Desired Skills/Traits to Join the Team



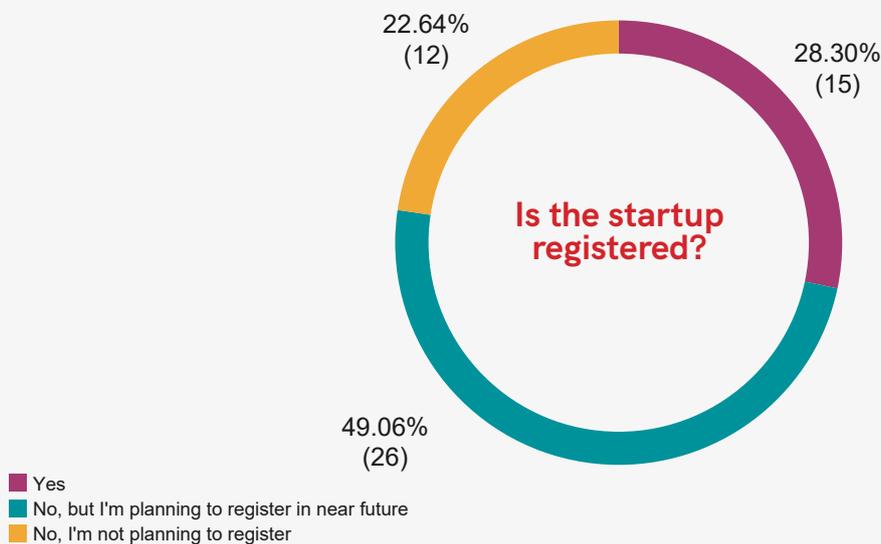
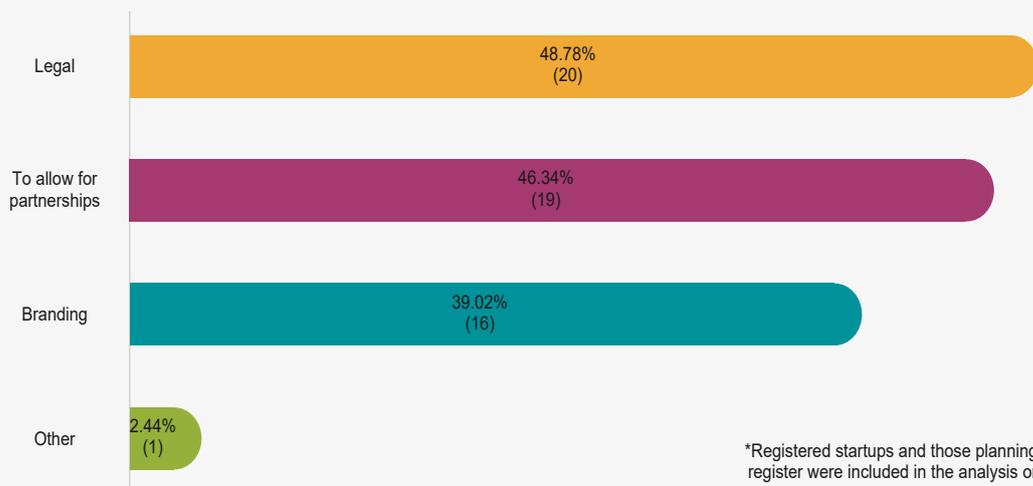
Registration

Current State, Reasons to Register, and Challenges

Registration is a procedure that any company has to go through in order to operate legally within Iraq. It is legally defined as “the process by which a company gets listed in the Registrar of Companies - Chamber of Commerce in order to finalize the establishment process, which grants it a separate legal entity. This enables companies to freely practice all economic activities as well as subjecting it to all the country’s laws in force.”

There are many benefits to registering a company, including, but not limited to, preventing intellectual theft of the brand name, partnerships with companies and banks, obtaining a license to establish a company’s headquarters, and having more credibility to acquire customers. However, only 28.30% of respondents have registered their startups. When identifying the challenges of registration, around 58.5% of respondents attributed the challenges to the long process, 52% to the cost, and 41.5% to the taxes. It is noteworthy that respondents were allowed to state multiple challenges.

Reasons to Register



Customers and Market

Business Models

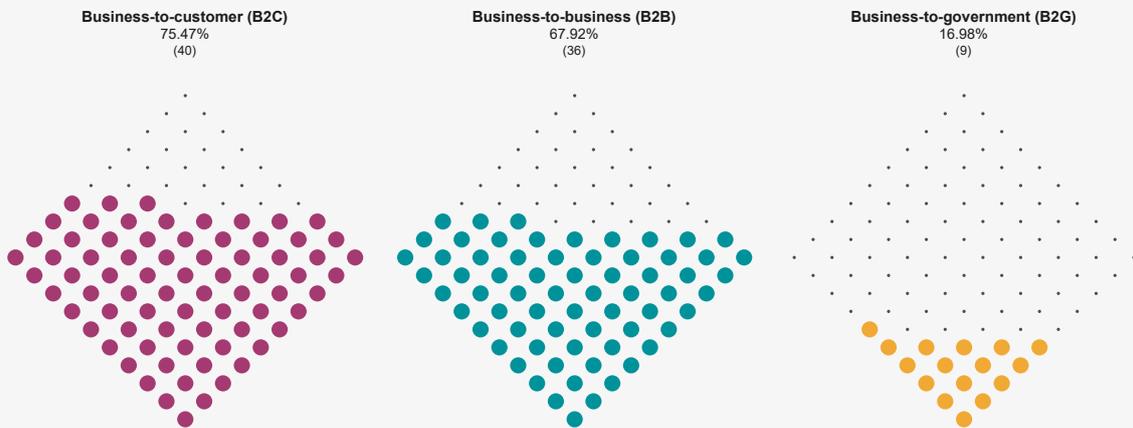
The survey findings indicate that the focus of business is mostly on customers (75.47%) followed by other businesses (67.92%), then the government (16.98%).

Customer Acquisition Plan

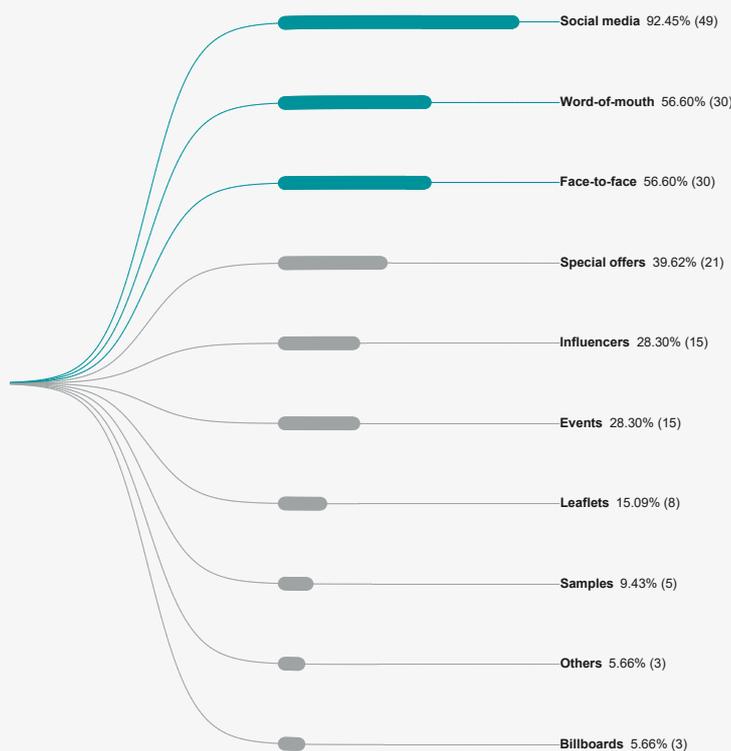
Social media ranked first followed by word-of-mouth then equal for the third place were direct connection (face-to-face) and influencers.

Interestingly, influencers dropped to fifth in the current findings. While the other three remained exactly in the same position as the best methods of customer acquisition. Worth noting that word-of-mouth and face-to-face were ranked equally by respondents.

Business Models



Customer Acquisition Plan

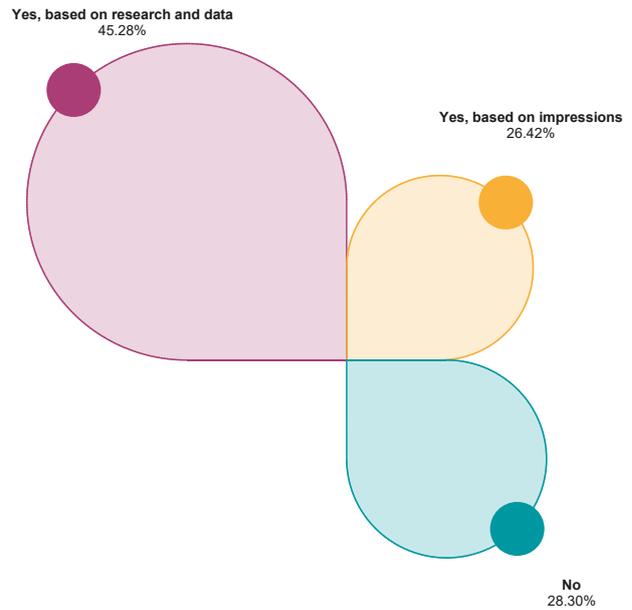


Goals and Customer Traction

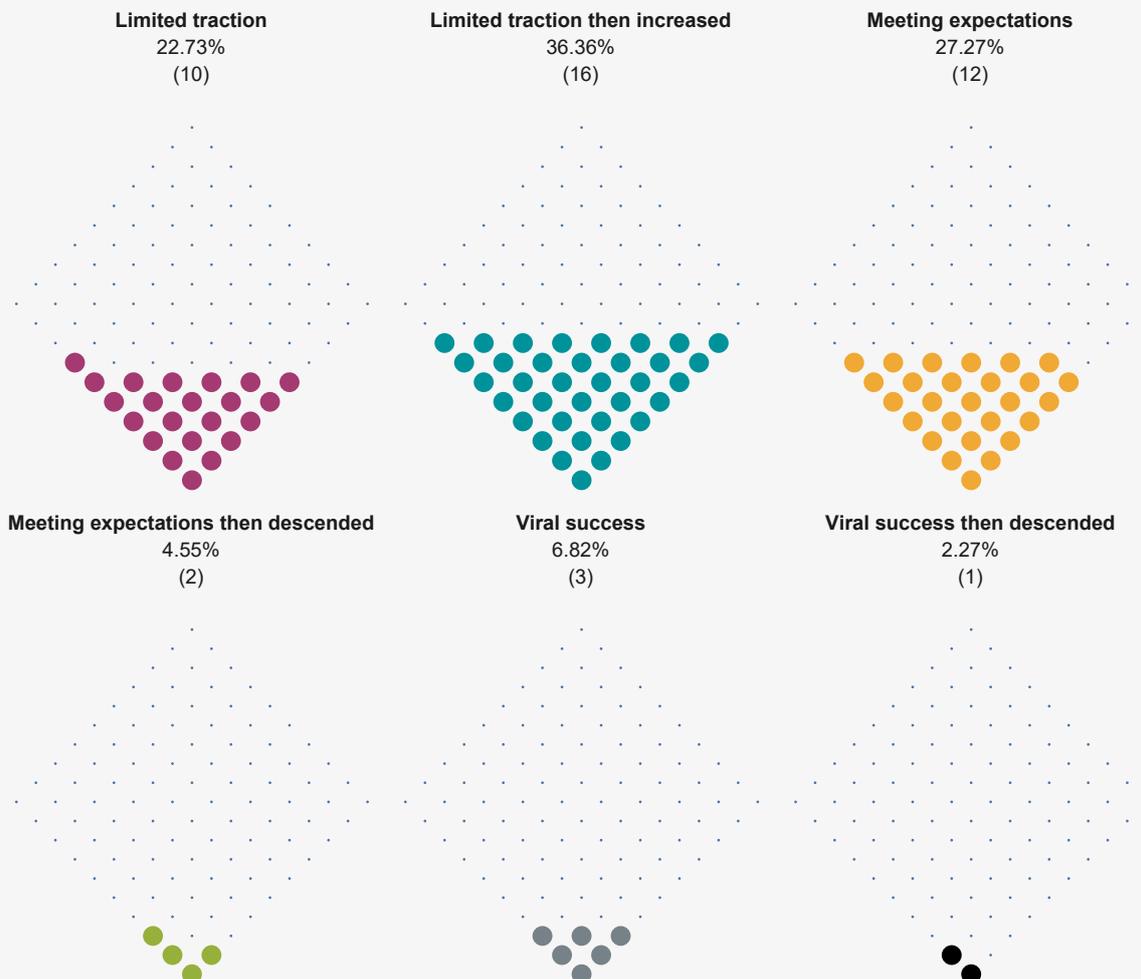
Our findings indicate that the majority of the surveyed startups get limited traction that increases over time; the majority of surveyed respondents also claimed that they had set traction goals based on research and data.

Combining goals based on research and data and having the patience to wait for traction to increase appears to be the most successful way to gain traction.

Did you set goals on number of customers you'll reach in a specific period of time?



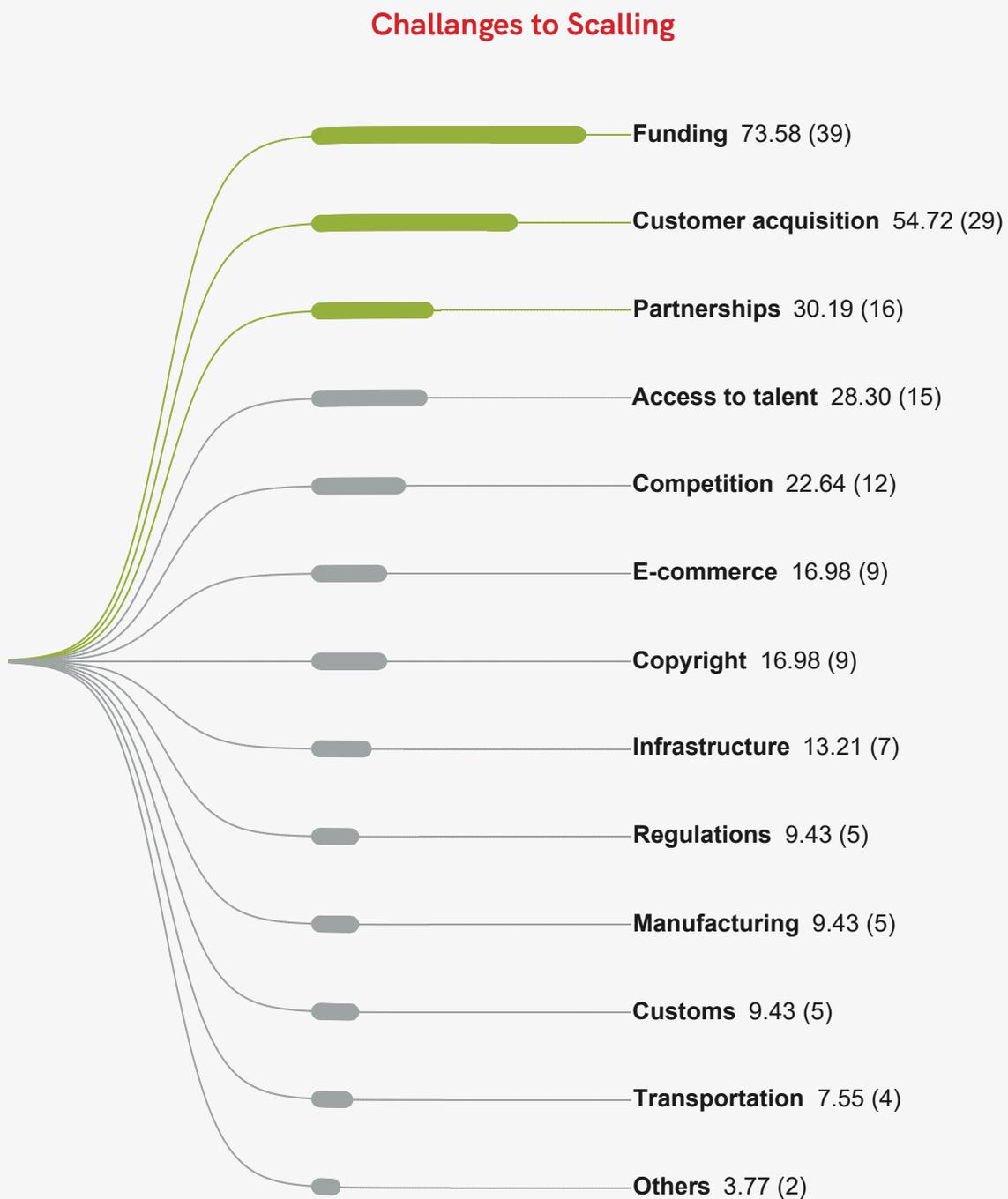
Traction the Startup is Making



Challenges to Scaling

Scaling refers to the process of increasing revenues at a more rapid rate than costs. It allows a company to grow larger at a rapid rate because a relatively small investment is able to yield outsized returns, which can be reinvested to scale the business even further.

The weak financial infrastructure in Iraq has pushed funding to be the major issue to scaling. The findings indicate that funding was the most prevalent challenge to scaling, followed by customer acquisition, and partnerships.



Competition

State of Competition

Competition is a healthy way to improve startups. The more the competition is, the better the services and products are. The current findings indicate that the current level of competition in Iraq is suitable to create variability but not too high to drive startups out of business with few competitors and handful of competitors being ranked as the highest, respectively, by the respondents.

Position in Competition

Our respondents were asked if there was competition before or after they started their startups, 41.51% answered that there was before, while 37.74% answered after and 20.75%

answered that competition came along around their launch time.

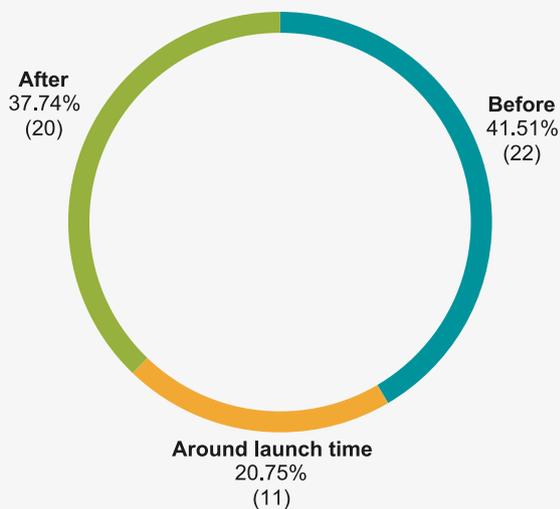
About 45% of the same founders claimed that their position in competition was equal to their competitors, 28.30% claimed that they lagged behind competition, and 26.42% claimed to be ahead of most competition.

Competitive Advantages

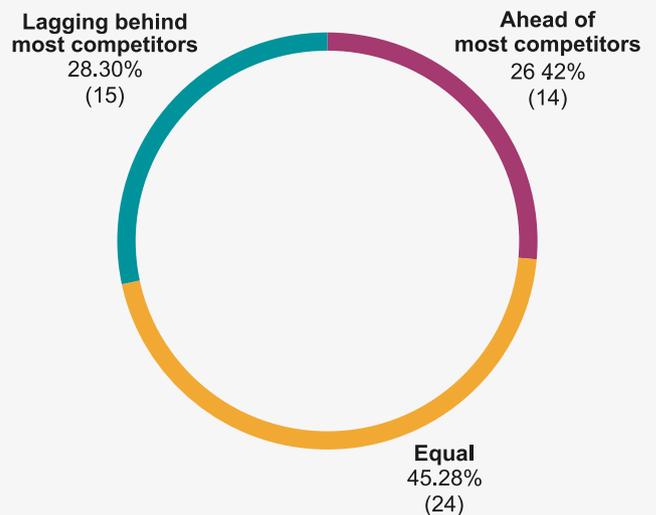
Most entrepreneurs reported that the quality of service/products (73.58%), innovative ideas/features (66.04%), and customer care (49.06%) as their competitive advantages most commonly reported by entrepreneurs.

These advantages show a customer-centric approach taken by entrepreneurs to differentiate their startups from competitors.

Did the competition exist before or after the startup?



Position in Competition



How did you determine your position in competition?



Based on impression
35.85%
(19)



Based on market research
32.08%
(17)



Based on data
32.08%
(17)

Funding

Sources of Funding

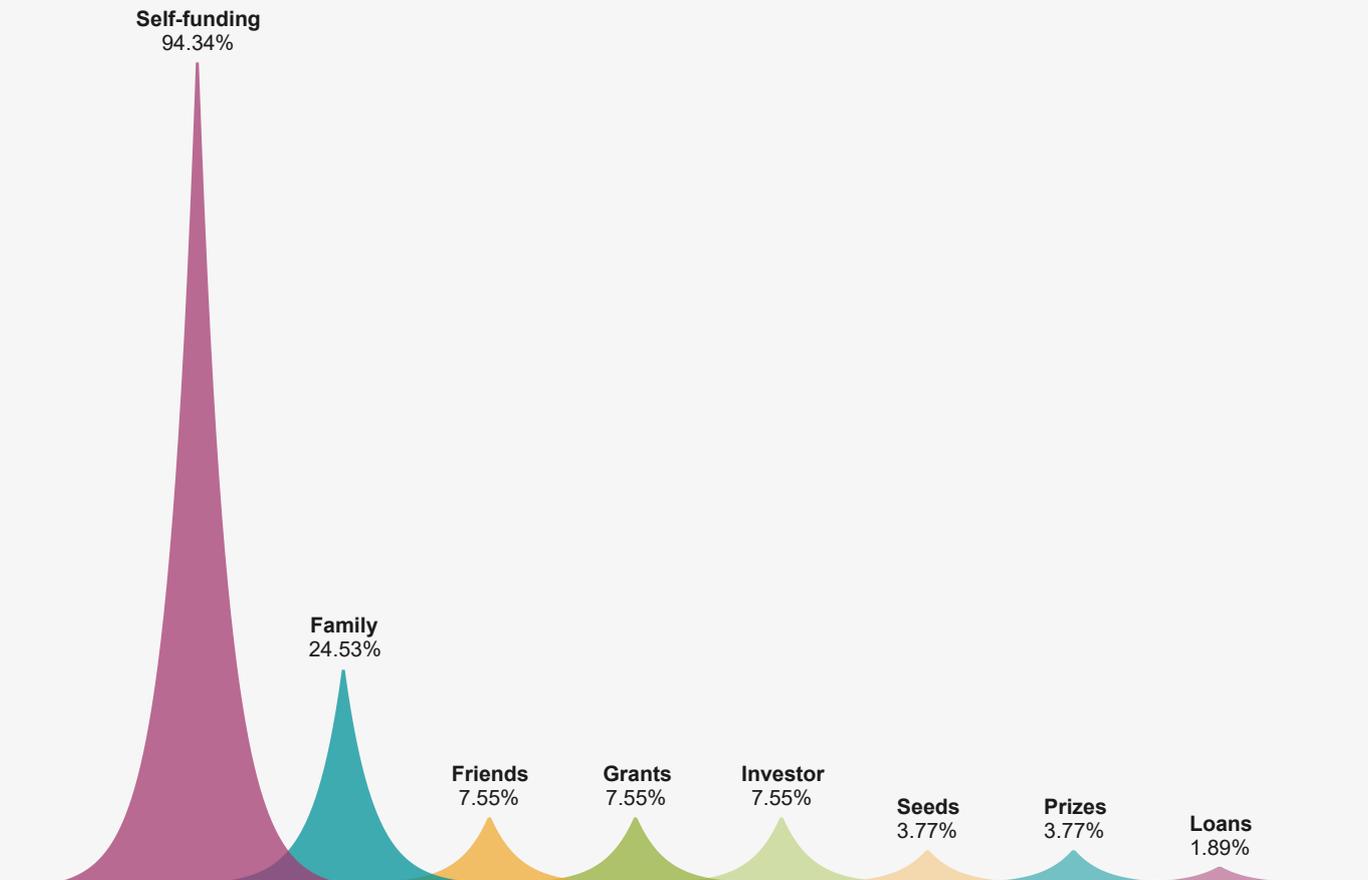
Self-funding is the most prevalent source of funding for our respondents. This is an indication of the actual lack of investment opportunities and seed capital funding in Iraq. The seed capital is usually provided by angel investors, to combat that lack, KAPITA launched the Iraqi Angels Investors Network (IAIN).

IAIN is Iraq's first angel group which comprises of cluster of distinguished Iraqi businessmen and entrepreneurs with the mission of providing support to the entrepreneurship ecosystem to revitalize the country's private sector.

Seeking Funds

The majority of respondents are not seeking funding but planning to seek in the future which reflect on the immaturity of the funding infrastructure of the country, and the need of more improvement so it would be more appealing to the founders. While those who are actively seeking funds ranked second.

Sources of Funding



Conclusion and Recommendations

- Female founders are very underrepresented in the Iraqi ecosystem and must be encouraged to enter the Iraqi market and become major players in the scene.
- There must be a push towards business-oriented learning institutions. As most of the entrepreneurs are founding startups in fields other than their studies and are indicating little to no benefit from their studies.
- A structural change in the Iraq education system is needed for a long term solution and establishing business support programs or institute to bridge the gap most entrepreneurs now have in their skillset.
- Support programs for current employees in the private or public sector who want to pursue an entrepreneurial path is hugely needed as many of current entrepreneurs, for financial reasons, are also employed, thus, they lack focus on their startups.
- Hybrid entrepreneurship, having a business and a job, could be very helpful for founders in the early stages of their business.
- It is a better option to have an online stores as it is more attractive option for the ease of accessibility.
- Founders must focus on selecting their team correctly and develop ideas with them, so they could better adapt and shift the business into an aligned direction.
- Since the business-to-customer market seems to be the most crowded, business should focus business-to-business and business-to-government markets which appear to have more opportunities.
- There must be more incentivizing initiatives that target SMEs and more regulations that are specific to them in regards to bank loans.
- More people should be encouraged to enter the market, claim more market share, and establish a much-needed balance that should benefit the consumer and better the quality of services and products.

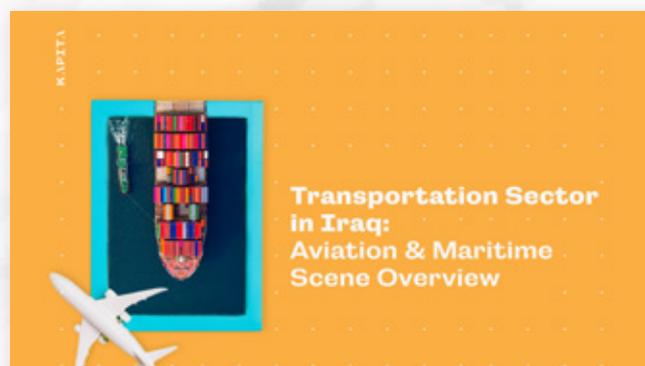
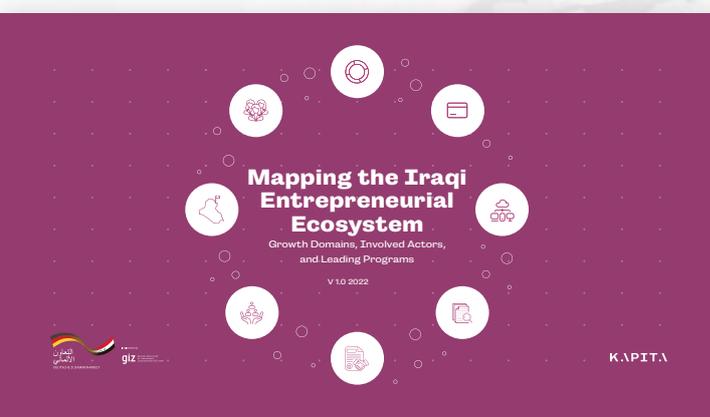
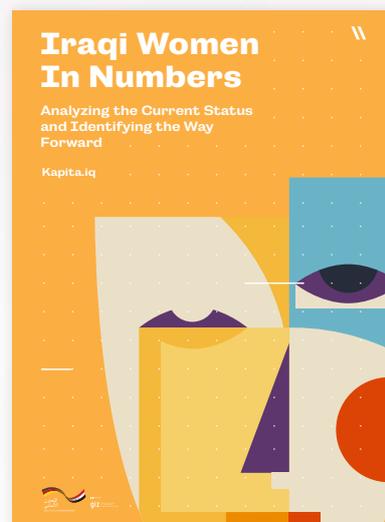


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Interview

Shwan Ibrahim Taha

Chairman of Rabee Securities

Shwan Ibrahim Taha is the Chairman of Rabee Securities, a securities brokerage company founded in Iraq in 1995 that offers a broad spectrum of financial services. Mr. Taha has three decades of experience working and managing investments in the MENA region and emerging markets. He is also an angel investor and has been a part of the Iraqi Angel Investors Network since its launch. He has also invested in many success stories in the Iraqi entrepreneurial landscape, including the rising e-commerce platform, Miswag, and the food delivery application, Alsaree3.

In this interview, Mr. Taha reflects on the current state of the capital markets in Iraq, the out-of-touch regulations, and the complicated bureaucracy that is standing between us and the potential development of the economy. He emphasizes the essential role of the stock exchange in building a thriving open economy. And he admirably speaks of the Iraqi startups and entrepreneurs who are navigating the arduous challenges of the ecosystem.

We would like to know the story of Shwan Ibrahim Taha.

Born and raised in Baghdad to doctor parents, I attended Baghdad College High School. After graduating in 1985, I spent one year in the College of Medicine, University of Baghdad. Then, I left the country and went to the United States to Case Western Reserve University, where I studied Biomedical Clinical Engineering and Hospital Management. After I graduated as a biomedical engineer, I was supposed to come back and work in Iraq. However, the Gulf War started as I was graduating. It was a difficult time. So my father decided I should stay in the US, as hard as that was for him.

I had to continue studying because I did not have any work papers. Biomedical engineering was not close to my heart: I was more interested in economics, business, and entrepreneurship. So I did an MBA and started a few companies in the US at the beginning of the 90s.

In the beginning of the 90s, I was publishing a newsletter on the internet about investments. At that time, not too many people knew what the internet was. Fortunately, it caught the eyes of one very big fund manager, Dr. Mark Mobius, the guru of emerging markets investments. One thing led to another, and I was hired to open and run their Dubai office in 1996.

When you look at things today, you cannot imagine how they were 26 years ago. Obviously, Dubai was not the Dubai of today, nor the Middle East, or the Gulf, was today's Gulf. While I was the portfolio manager, I started investing in the MENA region-my markets ranged from Morocco to Oman. After Dubai, they asked me to open another office in Istanbul in 1999. So I opened a research office in Istanbul, and eventually became responsible for all investments in Turkey, Pakistan, Greece, and the MENA region. I did that until 2006, when I joined another fund management group, Soros. I became part of a two-man team managing a hedge fund for Soros.

I did that for two years, at which point I decided that I wanted to come back and do things in Iraq.

How did the Rabee Securities come to light?

I bought Rabee Securities in 1999. Iraq had one of the oldest stock markets in the region: it started sometime in the early 90s and was known as the Baghdad Stock Exchange.

Whenever there is chaos in emerging markets, you should actually go and invest in that market. For me, the most chaotic and most ignored stock market in the world was in Iraq: we were under sanctions and international investors could not invest.

So I decided to invest in the Iraq Stock Exchange. At the time, my partner today, Nasherwan, was a stockbroker in a small firm. We decided to buy a license and started investing in the capital market.

However in 2009, when I came back, I thought that Iraq had seen it all. Now, we would thrive and become an open economy. To become an open economy in today's world, just like every other country after years of conflicts and struggles, you need a thriving capital market. The capital markets start with the banking sector and the stock exchange. For the country to grow, we have to start integrating our economy into the global economy. That integration would be through the financial system and financial markets.

There was some development taking place in Iraq from 2003 to 2009. A few very quick, good things happened-and there were indicators that things would move forward in these fields. So I came back with the team and my partner. We started modeling Rabee Securities after firms abroad and regional firms that were successful: that could attract investments into the market, and conduct investment banking services such as initial public offerings (IPOs), mergers and acquisitions, asset sales, asset acquisitions, etc.

Things started moving very rapidly. Between 2009 and 2014, we saw a movement and a development in the stock market and capital markets. One of the main things that distinguished us was our research on the main companies. However, since then, things have been going backward.

What motivated you at the time to go back to your home country and get involved in the capital market?

We were under very severe sanctions in 1999, and nobody could go in or out of Iraq and do any trading with Iraq. The banking system was completely blocked.

People do not understand what the severe sanctions between 1990 and 2003 did to us Iraqis-whether we were inside the country or abroad.

However, we must always compare things historically. What was happening to Iraq in the 90s happened to other countries in other periods of history. We must look at how they came out of it. Often, we can observe that because of these very tough experiences, things worked out for them much better afterward.

My motivation for buying Rabee Securities was mainly for investing. I saw that change could happen in the future, which would make the firm a pioneer in Iraq. Also, buying assets in a place like Iraq back then was very affordable compared to elsewhere. So it was a way for me to invest in the Iraq Stock Exchange and see what would happen. By 2009, I thought that the country was ready for further development, and wanted to take part in it.

I thought that I should bring my expertise back into Iraq instead of working in other markets. Why invest in Vietnam, Egypt, or Nigeria, while I have my own country? Also, there were not-and still, there are not-too many experts in what we do. So this was an incentive to come back too.

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The capital markets start with the banking sector and the stock exchange. For the country to grow, we have to start integrating our economy into the global economy.

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Not many people are aware that Iraq has a Stock Exchange. What is it like operating in the Iraqi Stock Exchange? What are the most pressing challenges?

It is not only the average person, even a few government officials are unaware that we have a stock exchange. Many politicians do not even have any knowledge of what capital markets, the stock exchange, or the banking system is in today's world. This is a tremendous problem.

Our main issue in Iraq is the bureaucracy. This goes back to the sanctions of the 1990s, up to 2003. The 1990s was not just another normal decade in the world's history globally. It was very important in driving the growth of global financial systems. In the beginning of the 90s, very few people had access to the internet. By 2003, when Iraq was invaded, I was trading through my Blackberry. That development happened extremely rapidly-and Iraq missed out.

Not only did we miss out on the technology but also on developing the people and the educational system to cope with all the change. Today, we are lagging behind. We still depend on bureaucrats who-the best of them-were taught in the 70s. They still believe that the people work for the government, not the other way around, which makes it very difficult to change anything.

For example, we do not only work in Iraq but all over the world. It would take us exactly half an hour to establish a joint-stock company in Delaware, with a bank account and everything, even as an Iraqi. The cost would be around \$500. In Iraq, to establish a joint-stock company-even with our experience in this field, knowledge of the system and the procedures, and our excellent lawyers-it would take us no less than 10 months. Today, countries are racing to make their legal and financial systems transparent to promote the growth of private investments and entrepreneurship.

Because young people are growing up, things are moving very fast. If countries cannot adapt, they will lose businesses. They will lose young human capital, and consequently, lose initiative. In Iraq, we are doing the exact opposite by making laws and procedures more arduous and complicated. Basically, we are telling the entrepreneur "do not start your company," or "go somewhere else," which is happening.

Entrepreneurs in Iraq today are searching for other jurisdictions where they can operate from. We are coping with a lot of difficulty in Iraq, and there is no tangible support from the government and its bureaucracy for private business, investment, private investment, or foreign investment. Currently, we are trying to do things in Iraq in spite of the exhausting laws and regulations. What we have to do in mass is to continue innovating and bringing new ideas to the Iraqi market.

I am proud of all the startups that we have: they are succeeding in spite of the government and its bureaucracy, not because of it. No one is a match to the entrepreneurs we have in Iraq and the Iraqi entrepreneurs abroad. Because they work and succeed under such dire circumstances, they have to be 100 times better than entrepreneurs somewhere else in Dubai, Saudi Arabia, Jordan, Lebanon, Egypt, Iran, or Turkey.

They need to be extremely skilled just to succeed modestly in Iraq. That's why they end up being 100 times better at doing business. So imagine what would happen if the government is supportive of private business, and the bureaucracy allows room for the private sector. It is a boiling pressure cooker: we have all this energy. Suppose somebody had the knowledge to open this pressure cooker.

Imagine all the talents and the companies that we desperately need, that would come out of the cooker.

What importance does the capital market play in developing the private sector?

The idea of a company started on the banks of Mesopotamia. Today, capital markets provide fuel and capital for entrepreneurs to grow. When we have active capital markets, like in the US or UAE, the average person will be able to take a stake in a public company and invest in its future. It allows us to put our resources together, collectively. We are a very wealthy country.

Having a sound capital market would enable us to put our resources together: building the country and allowing companies and people to actually take leverage to grow. People still do not understand that none of the companies we know could have grown the way they did in the West if they were not a part of capital markets. Development does not occur when governments inject money into the economy and burn money paying people. The role of the government should be as a regulator, not as an investor.

Do you think Iraqi startups have what it takes to join the Iraqi Stock Exchange later? Is this a logical step for them to take?

With the current laws and regulations, that is very difficult. Our aim with the stock market is to have these companies join the Iraqi Stock Exchange. For instance, if you shop on Miswag, and I tell you that this company is on the stock market,

then you can go to your smartphone, type in a few letters, transfer money, and buy shares in Miswag-and consequently invest in your future. Many young people around the world today invest at a very early age. Thus, when they grow older, they have a nice pension. They do not need the government to take care of that anymore. In Iraq, everybody seeks employment in the public sector in order to get pensions at the end of the day. But the reality is, when this generation grows to be eligible for pensions, there will be no money to pay for that if our economy stays heavily reliant on oil revenues and remains negligent of the private sector.

“

The only reason I invest today is not the idea. Ideas are a dime a dozen. The problem is execution and boots on the ground. If I see the entrepreneur on the ground, waking up every day and sweating over his company, one who has good judgment and understands the market, I will invest in them.

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Among your investment portfolio are rising startups like Miswag and Al-Saree3. Why those in particular?

I like our Iraqi startups because I know what they suffered and endured to get to where they are today. Somebody coming from abroad has no idea how to operate in Iraq. The only reason I invest today is not the idea. Ideas are a dime a dozen. The problem is execution and boots on the ground. If I see the entrepreneur on the ground, waking up every day and sweating over his company, one who has good judgment and

understands the market, I will invest in them. Some foreign and regional companies expand their operations to Iraq, not because they have the knowledge but because they operate in markets where they have access to capital. If they did not have access to capital in those markets, they would never move their capital into Iraq.

Whereby an Iraqi entrepreneur has no access to capital, stock markets, and foreign investors because of the law that limits foreign investment into Iraqi companies. However, even with the limited resources and challenging circumstances, they keep navigating their way through the ecosystem.

How was the Startup Week at the Expo hosted by Rabee Securities? Why have you taken this initiative to support the Iraqi ecosystem?

We had the opportunity to represent the Iraqi ecosystem at the Dubai Expo. We wanted to organize a Startup week and host our Iraqi startups in order to showcase their potential and give them a platform to tell their stories. This is just one small initiative, and we need a lot more than that. Frankly, we need change inside more than we need the promotion abroad. For example, if the law that prevents foreign investors from owning more than 49% of the company does not change, then many of our startups will move overseas to operate in easier jurisdictions. If we do not make it easier for companies, then entrepreneurs will set up their companies abroad. My current concern is not promoting those 30 startup companies, but rather how we hold their hands and support them to grow.

Do you believe that we can move away from the traditional investment usually made by family businesses in typical businesses toward more startups?

We are trying to intervene. However, it's important to remember that most of the wealth in Iraq today was made after 2003. We are still

first-generation businessmen and entrepreneurs. If you go to first-generation businessmen and say: "I need X amount of money because I have this idea," the first thing they would say is that they can do it themselves. They do not have the mentality to invest as the minority in somebody else's company. They want to own 100% of the company. This happened everywhere, even in a place like Turkey, for instance. Turkey's transformation into a market economy started at the beginning of the 80s and a lot of the wealth was built then by the families.

At the beginning of this openness, if one of those families opened any typical company, say an olive oil press, all of the other families' businesses would follow. So today, Iraq is at that stage whereby they are all trying to imitate each other. Rich Iraqi businessmen do not think about becoming a minority investor in somebody else's company, especially inside Iraq. They do not think that this is a good company, check the stock price, and buy a few shares like they should. They do not trust this system.

“

If anyone believed in their good idea, they would have quit their job, worked day and night, and put all their resources into their business. It is really the entrepreneurs, not the sector or the idea.

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You have been investing in multiple businesses for a long time. What sectors do you prefer to invest in? And what advice do you have for entrepreneurs?

I am very sector agnostic, I will be happy to listen to any startup pitch. The main thing that I look for is the entrepreneur. The entrepreneurs have to be a certain type—they have to be very well versed in what they want to do.

Real entrepreneurs put everything into their business as if their life depends on it. I do not like to see an entrepreneur who comes and says: "I have a day job, I spend seven hours at night or on the weekend doing some coding, and now I have this idea, and I need money."

That does not work. If anyone believed in their good idea, they would have quit their job, worked day and night, and put all their resources into their business. It is really the entrepreneurs, not the sector or the idea. My advice is simple. Number one, work. It is not a lottery, you cannot buy a ticket and hope to win: you need to work. Number two, listen. You cannot, as an entrepreneur, know everything. You need people around you to help you, and in order to allow them to do that you need to listen. That means you have to be humble, listen to advice, and follow it.

Finally, be modest. We see many entrepreneurs lose the narrative and let things get to their heads. They do not have anything established and think that their company will be worth \$20 million. As an entrepreneur, your first priority is to grow your company. Some do not have a company yet, and they say: "I would not give up 40% of my company today. I will regret it later when it is millions of dollars." While in reality, they have nothing established, so it is worth zero.

This just demonstrates a lack of experience, lack of knowledge, and lack of mentors. I believe entrepreneurs should be hungrier to save their company rather than keeping an extra 5-10% of the company when offered an investment.



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Interview

Hussain Qaragholi **Founder and Managing Partner, Phoenix** **Finance Partners Ltd.**

Hussain Qaragholi is the Founder and Managing Partner of Phoenix Finance Partners, Ltd., a UK-based finance advisory and fintech investment firm.

Hussain has a long career in corporate finance, debt capital markets, and corporate banking. His clients include the International Finance Corporation (IFC), to which he is Senior Advisor on Infrastructure, Manufacturing, Agriculture and Services for the Middle East, Central Asia, and Turkey. He is also an investor and executive board member of FinTech companies in blockchain

distributive technologies, payments, and peer-to-peer finance in Europe, the Middle East, and Africa.

Mr. Qaragholi played a significant role in reconstructing Iraq's pre-2003 debt; in this interview, he talks in detail about this process and how crucial it was for Iraq to reconnect with the international capital markets. Moreover, he reflects on the change in the Iraqi financial infrastructure and capital market in the last two decades, the opportunities in financial technology, the main challenges, and how to make Iraq more investable.

We would love to start with a brief introduction about you.

I was born in Baghdad, and I grew up at the time before the wars and sanctions. We emigrated to the United States in 1980. Any observer of Iraq's history knows that, unfortunately, the period between 1991 and 2003 probably caused the most damage to Iraq and its social fabric.

I come originally from a political family; my paternal grandfather, Abdulmajeed Mahmoud Al-Qaragholi, went back to Iraq after graduating from the University of California Berkeley and Cornell University and was one of the first General Managers of the Iraqi Agricultural Bank in the 1940s. He then moved into politics, first as a member of the Parliament, and then held several ministerial positions as Minister of Economy and Finance, Minister of Oil, and Minister of Youth. My maternal grandfather, Ali Ihsan Nashat Al-Naqshabandi, was a retired Royal Guards officer and became a successful businessman. My grandfathers were an early inspiration to me for public service as well as entrepreneurship.

My father was a graduate of Hikma University in Baghdad. As a Civil Engineer, he developed various water and infrastructure projects throughout the country. When I was a young boy, he used to take me along with him on his work trips and show me with pride his infrastructure projects. Those trips gave me an appreciation of the development of Iraq in the 1970s and fond memories of a hard-working and ethical society.

Fast forward, I grew up in the United States, and went to high school and college there. I completed two master's degrees in Contemporary Arab Studies and Business Administration at Georgetown University. I then got my first banking job in New York with Merrill Lynch. In 2003, after the change of regime happened in Iraq, I decided to go back and help to financially reconstruct the country where I was born instead of staying in New York and carrying on my finance career.

Can you tell us more about your role in reconstructing Iraq's debt and how essential it was for Iraq?

In 2003 I was hired by Citibank as their first Iraq Desk Officer. On the finance side, the first order of business for the international community was to re-integrate Iraq with the international capital markets and trade. The Coalition Provisional Authority (CPA) at the time set out to remove the draconian financial moratorium and sanctions imposed on the country after 1991.

All the letters of credit from Rafidain and Rasheed banks in the 1980s were defaulted because oil prices started crashing in the late 1980s, and Iraq could not service those letters of credit anymore. Moreover, after the invasion of Kuwait, the international community imposed a financial moratorium on the country. Hence, Iraq emerged from the wars and sanctions with over \$220 billion in debt by 2003.

That would not have been sustainable for any country, especially with the GDP of Iraq at the time; the debt to GDP ratio would have been multiples, which had made Iraq financially bankrupt.

Iraq's sovereign debt fell into three categories: government to government debt of OECD countries (which they call Paris Club debt); debt to non-Paris Club governments; and commercial debt to private creditors.

We were hired at Citibank, jointly with JP Morgan, to restructure the commercial debt, which equated to \$22 billion and was composed mainly of defaulted letters of credit (LCs). A number of these defaulted LCs were sold by the original holders in the international market and were bought by vulture funds. Vulture funds specialize in buying defaulted paper, like letters of credit, from traders, and then they would try to get their money back by suing the borrower in international courts. In this case, it was Iraq.

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Iraq's debt restructuring took three years of my life to execute. I was one of the core team members on that deal. I am honored to have been a part of this because we wiped out %80 of that debt from future generations of Iraqis.

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Due to these defaulted LCs, Iraq's two largest banks at the time, Rafidain and Rasheed, could not operate as export-import banks for Iraq because of creditor attachment risk from the vulture funds. And that was the reason for the CPA to establish the Trade Bank of Iraq, which was meant to replace Rafidain and Rasheed as the new trade bank.

Iraq's debt restructuring took three years of my life to execute. I was one of the core team members on that deal. I am honored to have been a part of this because we wiped out 80% of that debt from future generations of Iraqis. That remaining 20% is being repaid over a 28-year period (until 2028). That deal won the prestigious "International Financing Review" Deal of the Year award. I look back at that as one of the most under-told and underappreciated achievements that the international financial community accomplished in initially helping Iraq to reintegrate into the world.

These defaulted LCs were held by European industrial companies, Japanese trading companies, Korean construction companies, as well as small to medium-sized traders selling goods to Iraq. Iraq repaid those in two forms: for the small traders; Iraq paid them in cash.

For the big companies, they were given a bond. Big companies are not natural holders of these bonds, and so they ended up being sold and traded in the capital markets. They are called the Iraq 2028 5.8% coupon bond because the last payment due is in 2028, and the interest rate on them is 5.8%. Those bonds were the first that Iraq had issued in the international markets and became the benchmark through which Iraq's sovereign debt would be priced.

Prior to that, if Iraq wanted to borrow from the international markets, there was no benchmark, and so Iraq's cost of borrowing was anybody's guess. Those bonds are traded in major financial markets such as New York and London, so at any given moment, one can go on a Bloomberg or Reuters screen to check Iraq's debt prices and what it would cost for the government to borrow. This is how Iraq, on the sovereign level, got back into the capital markets. For any subsequent borrowing, Iraq now had a publicly-available debt price market reference point.

Subsequent to that, while I was at Deutsche Bank, I co-led the team that advised Iraq through other borrowings, including two other capital market issuances in 2017. I also executed a number of structured trade export finance deals for the electricity and energy sector. Iraq now has three international bonds: the \$2.7 billion Iraq 2028s bond issued in 2006, the \$1 billion 2.14% Iraq USAID 2022s, and the \$1 billion 6.75% Iraq 2023s. International investor appetite for Iraq credit was very strong, with the Iraq 2023s being 7x over-subscribed at the time of issuance. These bonds offer a real-time view on investors' appetite for Iraq credit and how factors such as reliance on oil revenues, government institutional strength, and political stability affect it.

As part of the capital markets issuances, I also worked with our joint-lead bank partners to get Iraq its first sovereign credit rating by the international credit agencies Standard & Poors and Fitch.

In addition to creating a benchmark for Iraq in the international capital markets, the bonds and the credit ratings had the added benefit of instilling discipline for the Ministry of Finance and the Central Bank of Iraq—through the publishing of required quarterly and annual financial reports to international investors.

I must give credit here to the Government of Iraq for its management of these complex international finance transactions despite the challenges that Iraq had and continues to face. While the Ministry of Finance was the lead sponsor, the working group included other stakeholders from the Central Bank of Iraq and other ministries. They were truly outstanding accomplishments.

Can we know more about your role with the IFC, and what is their current work focus in Iraq?

I am an advisor to the IFC on infrastructure, manufacturing, agriculture, and services (MAS), including healthcare and real estate; our team focuses on the Middle East, Central Asia, and Turkey. The IFC's mandate is to support the private sector, and as part of the World Bank Group, they engage in markets where they would make a difference by supporting international investments into the country. Therefore, for countries that are deemed to be high risk, emerging from wars and social strife, such as Iraq, the mandate is to help bring investments into the private sector.

In the Middle East, Iraq is one of the most important countries for the IFC, and they are engaged on several fronts. For example, the IFC supported the Basrah Gas Company (BGC), which is a joint venture between the Iraq South Gas Company and Shell and Mitsubishi. BGC captures flared gas from the southern fields in Iraq, processes that gas, feeds a part of it into the electricity sector in Iraq, and sells the other part internationally at a profit. It is one of the most successful Iraqi public-private partnership

companies. The IFC led a consortium bank that provided financing for the Basrah Gas Company. They successfully structured a \$360 million loan facility. This was the first project finance loan secured by the refined product of BGC as well as a corporate guarantee. It demonstrated that Iraqi companies could borrow without having the guarantee of the Ministry of Finance or the Federal Government as an explicit guarantor for this borrowing.

The IFC is interested in supporting Environmental, Social, and Governance (ESG) projects. They are currently supporting the shift towards renewable energy globally. Iraq has tremendous potential in solar and wind, and potentially hydrogen renewable energy projects. The IFC is looking to identify credible and reputable companies that it could partner with to finance their projects in infrastructure and MAS sectors and bring alongside them international and regional investors. In addition, the IFC is working to bring private-sector investment and expertise to the state-owned entities (SOE) that are currently causing a significant drain on the Iraqi budget.

How does this reformation of state-owned companies or reconstruction of these models reflect on the well-being of our economy?

Reforming the SOE sector could have a material positive impact on the economy. The SOEs currently employ about 600,000 people. They are producing low-quality goods and products, and exhausting scarce government resources by paying salaries and providing subsidies for fuel and other raw materials. They may also have a negative impact on the private sector companies since many of them benefit from contracts with the government to be the sole provider of goods and services to government entities. Hence, many of those companies are draining public finances and resources and stifling employment in the private sector. In addition, studies have shown that SOEs tend to be more polluting to the environment compared to the private sector

companies that are more advanced in adopting cleaner technologies. SOEs can be categorized into three types: first, companies that are potentially profitable and, with private sector engagement could be privatized to further grow. Second, companies that are not profitable but potentially could become profitable if reformed and restructured (i.e. by bringing in private-sector management while keeping the government ownership). Third, the companies that are not profitable and non-reformable and likely need to be abolished.

One of the main issues for the Iraqi government to consider is the impact on the employment of SOE reform. Public-sector employees in the SOEs will need to be provided vocational training, rehabilitated, and reintroduced into the workforce. The government needs to decide on whether to continue subsidizing companies that contribute very little to the economy. The cost savings from closing unprofitable and unreformable SOEs could be invested into rehabilitating the educational system in Iraq to match the hundreds of thousands of college graduates annually to the needs of the private sector businesses. The country currently has high rates of low-skilled and unskilled labor and low rates of highly skilled employees with the necessary language skills the private sector needs.

Therefore, the government needs to make a strategic decision regarding the SOE sector in order to help the Iraqi economy. Being an oil-dependent state, every time the oil prices crash, it puts pressure on the government to reform and restructure. When the oil price rises, everybody in the government relaxes as if the problem has gone away. However, the fact is that the problem persists and is aggravated and becomes bigger each year, given the ongoing increase in public sector employment. Many people in the government know this, but there appears to be no political will to execute the necessary reforms.

You have been closely involved with the financial infrastructure and capital markets in Iraq since 2003. How has this changed over the past two decades? What are the main challenges? And how can we move forward?

I believe access to credit is critical for the Iraqi middle-class to re-emerge and for the economy to thrive. Currently, credit does not exist in Iraq—neither bank lending nor private equity—on any significant scale. Only a handful of state-owned and private sector banks provide credit to small and medium enterprises. And they require hefty real estate collateral with only 30% loan to value. The interest rates are quite high—in the low double digits annually for short-term loans. Unfortunately, this fact has not really changed since 2003. Having said that, the Central Bank of Iraq has taken some important steps. They established a fund for industrial projects that is being managed by the Industrial Bank. They also provided loans for SMEs. Iraq has modern banking regulations compared to the rest of the region. The Central Bank initially increased the paid-in capital required to get a banking license. The regulatory bank capital required is one of the highest in the region, which is up to \$220 million.

However, the problem remains that most Iraqi banks do not practice proper credit underwriting based on the cash flow analysis of the borrower. Also, given the high-interest rates the government of Iraq pays for borrowing in local currency treasury bills, the private sector banks are happy not to lend to the private sector because they can always just lend to the government, and they are taking pure Iraqi government risk.

I believe this is where financial technology (FinTech) can play a role in providing credit to SMEs. We have seen this elsewhere in many developing markets that have the same lack of credit challenges. These fintech companies—whether nano and microfinance companies employing artificial intelligence and machine

learning for credit underwriting or peer-to-peer finance, which is democratizing lending—have bypassed and leapfrogged the traditional types of bank lending. The other part that can play a major role is the capital markets. The Iraqi Stock Exchange (ISX) has existed for decades. There is still hope that the ISX, along with the regulator, the Iraqi Securities Commission (ISC), would adopt the necessary legislation to facilitate credit to Iraqi companies listed on the ISX. An established Iraqi company should be able to borrow by issuing corporate bonds as well as shares in order to finance its growth. There were efforts to get international investors to invest in the equity of ISX-listed companies. We were all hopeful that the initial public offerings (IPO) of Asiacell, Zain, and others would spur more international investors. There are a handful of international funds that invest in the ISX. However, the volumes and liquidity remain small.

A number of steps need to be taken in order for international portfolio investors to enter Iraq in real volumes. For example, the Iraqi government-owned custodian, the Iraqi Depository Corporation (IDC), had a monopoly for years and refused to open the space for credible and approved private sector custodians. This may have changed recently, but Iraq probably lost at least a decade in attracting capital from international funds. Also, the failure to adopt legislation allowing the issuance of global depository receipts (GDRs) for Iraqi company shares also contributed to the ISX not realizing its true potential to attract foreign investment. The entrepreneurs and visionaries who are trying to bring about these changes are constantly battling an antiquated and non-transparent system.

A robust capital market is critical for the country's development. The regulatory oversight environment of the ISX and the ISC needs to be continuously updated to develop innovative ways to attract international and regional capital to invest in Iraqi companies. I understand that some forward-thinking Iraqi brokerage firms are actively trying to bring about this needed change.

One of the big attractions for foreign investors used to be the foreign direct investment law, FDI law number 17 (2003), which allowed 100% foreign investment in most sectors except for oil and gas, and real estate. However, the Iraqi parliament, unfortunately, passed legislation limiting foreign ownership to 49%. While the intention of this law may have been good—to protect the Iraqi business person—I believe this was an uninformed decision. The reason is simple: Iraq is not yet Dubai of the 1990s. Iraq still has tremendous challenges in terms of; how foreign investors view the security in the country; the lack of transparency in the system; the unfriendly legal environment and tax regime; the difficulty in setting up a business, and; the lack of availability of credit—to name a few. Therefore, adding another layer of complexity by limiting a foreign investor to owning only 49% of a business is not helpful. I believe that those who pushed for this legislation may not appreciate that Iraq is competing with other neighboring countries for foreign investors. The Middle East region has other competitive investment markets compared to Iraq, such as Saudi Arabia, the UAE, Egypt, and Turkey.

Also, experienced foreign investors would likely have chosen an Iraqi partner who can help them navigate the local landscape. Therefore, I believe putting a cap on foreign ownership was both unproductive and unnecessary.

Still, there are solutions that can be adopted to make Iraq more investable, such as setting up free trade zones. In the UAE, for example, the Dubai International Financial Center (DIFC), Jebel Ali Free Trade Zone (JAFZA), and Abu Dhabi Global Markets (ADGM) are good examples. The free zone is regulated under international best standards, including investment and labor laws. Another solution may be to consider exempting ISX-listed companies from the FDI minority restrictions. This would incentivize more Iraqi companies to list on the ISX as well as foreign investors to invest in those companies.

From your experience in the FinTech sector. How do you evaluate the FinTech opportunities in Iraq?

I have been in traditional corporate and investment banking for two decades and pivoted towards FinTech in the last five years. I serve on the board of two FinTech companies, one in the United Kingdom and one in Germany. I consider myself a reformed investment banker. I believe one of the most exciting opportunities in the Iraqi economy is in the FinTech sector. Iraq has all the ingredients for FinTech to emerge, grow, and thrive. It has a population of over 40 million people, primarily young and technology savvy, with one of the highest internet and mobile phone penetrations in the region. There is a lack of traditional credit, as discussed. This is a fertile environment for FinTech. We are only scratching the surface of FinTech, but we can already see the impact. It started in mobility apps with Careem, where Iraq became one of the largest and fastest-growing markets for ride-hailing apps; Careem later integrated online payments as well as loans to its drivers. We are now also witnessing e-commerce and even social commerce platforms with the likes of Lezzoo, Orisdi, Miswag, and Fedshi. As well as buy now and pay later lending platforms such as ZoodPay.

There still needs to be some regulatory adjustments for FinTech to start growing materially, and a shift in the culture is needed as Iraqis still prefer cash, since there is a lack of trust in the banking system. Electronic payments in Iraq have unfortunately suffered a setback given the recent legal challenges around some payment providers. Also, initial electronic wallet and payments licenses were provided to cellular providers who launched them using a closed as opposed to an open loop system, which unfortunately limited their uses. It is similar to a bank issuing a debit card that their customers can only use to withdraw cash at the same bank's cash machines. These are challenges and opportunities for which Iraqi fintech entrepreneurs need to find solutions.

What motivated you to join the Iraqi Angel Investors Network, and what is your perspective on the investment scene in Iraq? And how can we make Iraq more investable?

I am interested in the startup scene in Iraq and the ambitious entrepreneurs who are leading the change in the ecosystem, and I want to be a part of that exciting movement. I have attended startup pitches since I joined the Iraqi Angel Investors Network. The experience so far has been tremendously enlightening. The Iraqi startup scene could benefit from more hand-holding in helping these startups through incubators, accelerators, and entrepreneurial support organizations. Many Iraqi entrepreneurs have excellent ideas but have not thought through what it means to deploy them into "go to market" business plans and convert them into investment opportunities. We need more support from the international community to provide entrepreneurs with resources, such as KAPITA's Business Hub.

We also need more seed capital, venture capital, and private equity funds, as well as lending platforms. A handful have been established already. However, the opportunities in the market far outnumber the availability of capital.

I believe the new young and entrepreneurial generation is the only hope for the country. I am inspired by the excitement of a young Iraqi entrepreneur telling her or his story on a particular challenge they see in the market and the solution they have devised for it. I compare that creative positive energy against that of an obstructionist centrally-planning bureaucrat who has been sitting behind his or her desk for 40 years and who holds an archaic if hostile attitude towards the private sector.

I believe that technology can fundamentally change Iraq and the world at large for the better. And I want to play a small part in creating that new world.

national

bank of iraq

Interview

The National Bank of Iraq

The National Bank of Iraq (NBI) was established in Iraq in 1995. It is a private sector, publicly traded bank that offers extensive banking services to businesses, small and medium enterprises, and individuals. The Capital Bank of Jordan has acquired the majority of shares of the bank in 2005, which led to the growth of the NBI and allowed it access to a large network and to different markets that strengthened its position and enhanced its services.

In this interview, we learn more about the Iraqi banking sector, its challenges and opportunities, its pillar role in the growth of our economy, and the NBI's digital transformation plan and active participation in the entrepreneurial scene. We also learn more details about the launch of the Orange Corners Innovation Fund by the Kingdom of the Netherlands and KAPITA Business Hub and the NBI's strategic partnership.

Can we start with a brief introduction about the NBI?

The National Bank of Iraq (NBI) was established 27 years ago in the Iraqi market. In 2005, the Capital Bank of Jordan bought a controlling interest and merged the management rules, and became a joint force that worked closely together. Over the past 25 years, we have been servicing the Iraqi market from the north to the south. We have established ourselves as the number one private bank in terms of our asset base, customer deposit growth rate, and profitability growth rate in the last four years. We have an aggressive growth plan for the next three years as Iraq is a key strategic market for the Group and one of the essential focal points that we concentrate on. We started implementing a massive digital transformation process for the bank. For example, we are implementing a new core banking system and different applications. We started a digital onboarding process for account opening, which is one of the first in Iraq, if not the first. Moreover, we have recently got the approval to expand the National Bank of Iraq into Saudi Arabia, and we are opening our first branch in Riyadh this year.

Can we know more about your digital transformation plan? And how are you trying to tackle the challenge of operating in a cash-based economy?

Since it is a cash-based economy, people are used to trading and dealing with cash. That stems from many factors and a lot of history that the Iraqi banking sector went through. We believe that the digital transformation for a bank is to make the process seamless for the customers and make the operations in the bank easier to conduct. With that, there needs to be a drive from the banking sector and the governing bodies, such as the Central Bank of Iraq, as enabling that infrastructure requires new regulations. The Central Bank of Iraq has been very accommodating and working very closely with a lot of the banks; they are trying to put a lot

of initiatives in place; it just takes a bit of time for the transformation to take place. Iraq may still be behind different markets, but it is growing and moving towards a proper infrastructure.

Our digital plan utilizes the approach of working on a two-fold strategy; the first is enhancing our own capabilities. We are working with international suppliers, and vendors specialized in the financial sector. For example, our core banking system will be upgraded to one of the top core banking systems in use by banks across the world. In addition, our digital onboarding platform enables opening an account through a business registered WhatsApp; that does not require going to the bank until the very last step after completing all the documentation, paperwork, and biometric verification. This will be resolved by the implementation of eKYC and e-signature very soon.

Second, we have structured strategic partnerships with entities working on e-payment solutions and e-wallet solutions. We have signed an agreement with Switch, ZainCash, and AsiaHawala, whereby we integrate the customer's account with a wallet of one of the aforementioned companies, then the customer will have access to their network of agents, which is a combined workforce of around 15,000, as well as ATMs, so the customer does not need to look for a bank branch. We also run periodic campaigns to eliminate the fees for using ATMs of other banks. Our digital strategy is customer-centric, creating a hassle-free banking experience

How do you evaluate the change in the banking sector, and what drove this progress?

The exposure to banking services made people realize that those services make daily transactions smoother and simpler. The situation is similar to anything new that is introduced; there is some reluctance in the beginning due to the fear factor, as people are not sure how it works or how it will help them. A few years ago, it was hard to find POS machines, but now they are penetrating the market, and people started

realizing that diverting from cash can facilitate their daily transactions. Iraq has a healthy youth segment; over 50% of Iraqis are under 30, and the youth adapt quickly to the digital transformation. We have observed this in the startup scene, their usage of online platforms, and their adoption of e-commerce. These patterns show us that there is a change in the mindset.

What is the main challenge of the Iraqi banking sector in Iraq? How can we overcome it? And who are the stakeholders?

The main challenge is the lack of trust in the banks. To address this, we need to keep working on developing financial literacy education programs in collaboration with the Central Bank and other private banks. In addition, all stakeholders should work together and push to build trust with the Iraqi community. Therefore, we are consistently working on initiatives to increase society's confidence in the banking sector as we believe it is the key factor in improving this sector and its services.

There is also a big responsibility on the banks themselves. Each bank needs to enhance and improve its infrastructure, accessibility, and touch points with the customers at the branch level, ATMs, and card levels. Even through marketing, we need to establish the message that the customer can trust us and the world has moved forward, and we want to help Iraq move forward as well. The message should not be blatant, but it definitely should be there.

How does the banking sector play a role in attracting foreign investment and international companies to the country?

The banking sector is a reflection of the economy. Hence, what the banks put out, reflects their performance and service to the customers, whether they are corporations, SMEs, or people. It is very difficult to attract international investors and try to get them to operate in a cash-based

economy because it is not the most comforting predicament for international companies. The one barrier to entry is if that sector is not well established yet. Once we have clear rules and regulations and reduce red tape and bureaucracy, investors will be more open to taking risks. We must show international investors that this new market has opportunities and is growing.

However, we are witnessing more and more companies venturing into Iraq recently due to the fact that the Central Bank is making great strides by striking deals with well-known entities like the World Bank, International Finance Corporation, International Monetary Fund, and others. This positive attribute gives confidence that there's a healthy institution in place that regulates the banking sector.

Furthermore, many banks are upgrading and modernizing their services and starting to offer more solutions as the system pivots away from being cash-based. Yet, it will take its time; there has been some turbulence, even in recent times. Nevertheless, thankfully, the country has passed that and is moving forward. The country only needs to maintain the momentum achieved through a collaborative effort by the public and private sector. The government also has a role to play through the Central Bank's rules and regulations. Then it falls back on the private banks to go ahead and keep investing in themselves by offering more services and solutions to their local and international customer base.

How is the NBI trying to facilitate access to finance for SMEs, and what are the main obstacles?

The NBI strongly believes in supporting the growth of the Iraqi private sector and SMEs to strengthen our economy. For SMEs in any sector, the business has to adapt to the needs of the market and how the market works. For the past two or three decades, the Iraqi market has been based on the principle of a cash-based economy.

The SME sector is a very fluctuating sector that was plagued with different types of turmoil that affected their business lines. This has made these businesses less attractive in the traditional sense. Many of them needed a bit of restructuring to make them bankable as they were still running their operations on a cash-based system without proper inventory management.

The Iraqi Central Bank undertook an important initiative to offer a special SME loan at a discounted rate, and this initiative is a great way to pass those issues. It provided them with the needed support and made sure that they got access to funding and finance. We are very proud that the NBI was the leading bank that utilized the Central Bank's initiative.

We onboarded many SMEs and provided a lot of financing for them. Our SMEs customers are always inquiring about online banking applications and what solutions can be done for them to utilize. They realized that banking solutions are benefiting their businesses, helping them grow and open up to new markets. It is all part of the evolution we can observe in the market.

What role is the NBI playing in supporting the entrepreneurial scene?

The NBI is extremely interested in the growth of the entrepreneurial ecosystem. We are trying our best to facilitate and make it as easy as possible for startups and entrepreneurs to access financing opportunities. We help them open bank accounts in simpler ways than more established companies. We have been implementing different financing, and lending programs for them to be able to obtain capital and fund their ideas.

However, the emerging startup scene, even on an international level, is considered a relatively new phenomenon. Banks have recently started taking an interest in the scene but have found it somewhat challenging to create banking products for startups since their business models are

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different from what banks traditionally deal with in the case of SMEs and corporate companies.

Startups are often cloud-based solutions, tech solutions, gateways, or a bridge between service providers and customers, not necessarily manufacturing tangible products.

In the case of Iraq, we are happy to see that there is an improvement in the available funding options for startups. There are funds like the Euphrates Ventures and the Iraqi Angels Investors Network, and even regional funds investing in Iraqi startups, hence, the growth in the scene. As a bank, we started exploring the scene by talking with different accelerators and startup programs to support them, whether through grants or sponsorships. For example, with KAPITA, we have started the Orange Corners Innovation Fund (OCIF), which is a unique model whereby we are the custodian of this fund, and we are onboarding these customers. Thus, making them bankable when they start to receive those funds to grow their businesses.

Moreover, we are planning to launch more products and investment solutions that will target and cater to entrepreneurs and startups.

What motivated the NBI to take part in the Orange Corner Innovation Fund? And how does this benefit the Iraqi ecosystem?

Our motivation to strategically take part in this Memorandum of Understanding has been driven by our strong belief in the startup scene in Iraq. It is an opportunistic ecosystem and there is huge room for growth and improvement. We saw this as a chance to become an active participant in its growth and supporter of its prosperity. There is potential for Iraqi entrepreneurs, and we want to be in a position to assist them in capitalizing on this potential.

We wanted to get involved from the early stages to help entrepreneurs structure their business in a way that will make them down the line more attractive for receiving funds and investments. We hope that we and KAPITA could help entrepreneurs shape businesses and startups to attract more grants and raise seed funding. Consequently, they will grow faster and strengthen our ecosystem and help our economy flourish. When we plant the right seed, we will eventually grow the right product or outcome, and that is the whole purpose of why we got involved with this opportunity.



What can be done to improve access to finance for the entrepreneurial scene in Iraq and what is the responsibility of the entrepreneurs to make their businesses more investable?

The startup scene in Iraq is still in the very early stage of its evolution and is relatively new compared to the region and the rest of the world. The nature of the market involves many challenges, obstacles, red tapes, and risks.

When people think of startups, they want to jump the gun and obtain higher financing, especially when they hear about these big valuations and buyouts, which makes them start to have these aspirations of becoming a unicorn company. Entrepreneurs need to manage, mitigate and understand that they must go through the pain points first as they do not operate as a traditional business.

There are certain things that entrepreneurs can benefit from doing, for example, proper bookkeeping, revenue tracking, and implementing inventory management systems. It also boils down to education; we need more cohorts, incubators, and accelerators that teach basic skills to startup founders so they can manage and grow their businesses, and we need to run different modules like continuous tutorials and financial education programs catered toward the startups and the entrepreneurial mindset.

This requires everyone in the ecosystem to work hand in hand, from banks to incubators, accelerators, angel networks, and funds, to develop the scene and make sure that entrepreneurs get the right tools and acquire the proper skills.

The market is about to evolve tremendously in the next few years. This is why we are trying our best to create products and facilitate things for entrepreneurs because we understand that it is not easy for them to navigate this scene.

It is our job as the bank to provide the services that will help them remove the obstacles standing in the way of turning their ideas into actual companies and products to nourish the market with their talents.

What is the relation of the NBI to the Capital Bank of Jordan, and how does this reflect on NBI's growth opportunities in Iraq?

The NBI is a standalone Iraqi bank that belongs to the Capital Bank Group, where the Capital Bank of Jordan owns approximately 64% of the shares of NBI and offers the full management and Group's support to the entity.

The opportunity gained from this setup is that NBI belongs to a larger banking conglomerate with operations in Jordan, Iraq, Saudi Arabia, and the UAE, through our Group's network. The National Bank of Iraq and our investment banking arm, Capital Investments, also operate in Jordan, Iraq, and the UAE. That is how the relationship works.

The Iraqi market is much bigger than the Jordanian market, so the NBI functions in a little bit of a different way. However, it is a symbiotic relationship based on the concept of both benefiting from one another. Those benefits include being present in more than one market with exposure to more than one economy, which in turn helps us gain more growth and profitability.

It can also help to scale and hedge our risks by working in different markets. In addition, it helps our customers and facilitates their transactions since many Jordanians and Iraqis in business work together, while many Iraqis are based in Jordan and vice versa.

The Capital Bank of Jordan serves Iraqi businessmen in Jordan with access to Iraq through NBI, whereas the NBI can benefit Iraqi businessmen who are dealing with international companies through the corresponding banks that we deal with via our network as a Group.

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That is the core of being one entity; it is that relationship that benefits everyone across the board. We have a strong growth pattern where we can scale in an easier manner and leverage on different opportunities quicker, and establish trust and credibility with our customers.

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We are widening our exposure to the Saudi market, and we are offering opportunities to Saudi customers that want to do business in Iraq and Iraqi customers that want to do business in Saudi Arabia.

Our investment arm offers our customers an opportunity to invest in various products, ranging from asset management to brokerage, stock trading, Forex, and others.

That is the core of being one entity; it is that relationship that benefits everyone across the board. We have a strong growth pattern where we can scale in an easier manner and leverage on different opportunities quicker, and establish trust and credibility with our customers.

Operating in all these markets means that every central bank and regulatory authority has given their approval, which is a sign of strength that shows that we are able to abide and work in those different markets. This relationship is also the core of our customer-centric strategy, so we can better serve our customer base, whether they are corporations, SMEs, or individuals.

In the near future, with the program we have under development, even the entrepreneurs and startups will benefit and access different markets when they reach a growth point that makes them ready to explore and scale beyond the Iraqi market. Same goes for Jordanian startups that are seeking an opportunity to enter the Iraqi market because of its potential; they are able to scale through the NBI. We could even connect them with startups in Iraq for them to consider collaborative opportunities. This is the essence of this relationship between Capital Bank of Jordan and NBI.

How is the process of establishing your entity in Iraq, and is the market now more tolerant of foreign banks expansion?

The process has gotten better because we understand the markets better. In our case, we had a very pleasant experience. The regulatory authorities were always accommodating and worked very closely with us.

We have been able to introduce new ideas without resistance and hesitation, much to the pleasant surprise of everyone. Now, again, setting up in any market, you have to abide by the regulations and the challenges of that market, and each market comes with its own challenges. However, nothing is a deterrent.

On the contrary, if anything, we are seeing more and more interest from regional banks exploring the Iraqi market, whether through joining with other Iraqi banks or establishing their own branches here.

So that on its own is an indication that the market presents an opportunity, and that the facilitation of doing business is definitely improving.

BUSINESS LANDSCAPE

Business LANDSCAPE is a quarterly published magazine that sheds light on the Iraqi private sector, its challenges, developments, and investments, and on the entrepreneurial scene. It serves as a platform for the Iraqi business ecosystem.