
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.

