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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.

