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Iraq Insights Trends (NEW!): *Economic Diversification, Unemployment, Access to Finance and Microfinance, Corruption, Transparency. Visit www.ideas-sYnergy.net*

IRAQ INSIGHTS aims to consolidate and build intellectual capital on private sector development in Iraq. We aim to empower stakeholders to address issues of access and structural reforms on a diverse range of topics impacting inclusive economic development. Each month, Iraq Insights will provide its readers with views and statistics, informed by what our readers want to know. To give your feedback, please write to us at info@ideas-sYnergy.net

Ideas sYnergy creates value by accumulating and disseminating knowledge, providing strategic support to development initiatives, and introducing innovative ideas for scaling-up private sector growth in Iraq

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Tagged: Iraq as a 'Middle Income Fragile State'

Iraq is in the new category of countries that mixes modest affluence with miserable government.

Although the group of growing lower-middle income countries may be semi-prosperous when measured by income per person, they contain a large and rising share of very poor people. In Iraq, the GDP Per Capita income is US\$ 3,506 (2010) while approximately 23% of its population lives in poverty. The 2011 World Development Report (WDR) 'Conflict, Security and Development' showed that violence plays a greater role than once thought in keeping countries poor: weak governments are at least as big a predictor of violence as poverty itself. Iraqis are facing a very hard time tying their new-found democracy to any tangible improvements in their lives. Rather, they see service deliveries deteriorating (a dairy operator in Babil claims to be operating at 30% capacity compared to 90% in 2003), and corruption irresolvable.

Countries in the OECD list of fragile states categorized as lower-middle income			
	Brookings List	Carleton University List	World Bank List
Angola	Y	Y	Y
Cameroon	N	N	Y
Congo-Brazzaville	Y	N	Y
Cote d'Ivoire	Y	Y	Y
Djibouti	N	Y	Y
Iraq	Y	Y	N
Kiribati	N	N	Y
Nigeria	Y	Y	N
Pakistan	N	Y	Y
Papua New Guinea	N	N	Y
Sao Tome and Principe	N	N	Y
Solomon Islands	N	N	Y
Sudan	Y	Y	Y
Timor-Leste	N	Y	Y
Tongo	N	N	Y
West Bank & Gaza	N	Y	N
Yemen	N	Y	Y

Sources: Brookings; Carleton CIPP; OECD; World Bank; The Economist

Recent light shed on the dodgy power generation deals in Iraq reveal Iraq's contracts with two bogus foreign contractors: a non-existent Canadian Company, and an bankrupt German Company; needless to say huge sums of money were transacted between private hands for such an outcome. Iraq ranks 175th out of 178 countries in Transparency International's Corruption Index. Early this year, the Parliamentary Integrity Commission revealed that the most corrupt ministries were Ministry of Health, Ministry of Trade, Ministry of Defense, Ministry of Youth & Sports, and the Secretariat of Baghdad. Follow-up actions (Iraq has three offices that are tasked with stopping corruption. Those are the inspector generals, the Board of Supreme Audit, and the Commission on Public Integrity) have been dismal and usually blocked.

Of the total bilateral Overseas Development Assistance (ODA) of US\$ 34,513.9 million disbursed in 2008-2009 by OECD DAC members, Iraq claimed 54.4% (US\$ 18,776.7 million). USA topped the contribution with 41.96% of Iraq ODA, followed by Japan and Germany. Of the total US\$ 494.5 million contributed to Iraq Trust Fund, Japan follows at 26.42% after the European Commission.

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A divergent or additional view is that Iraq is indeed emerging as a place that private equity investors cannot afford to miss; the NGP Iraq20 Index, which tracks the 20 largest companies by market capitalization on the nascent Iraqi Stock Exchange, is up 35% in 2011. Farouk Soussa, Citigroup's chief economist for the Middle East, said in September last year: "We calculate that by the end of the decade, the increase in oil production could quadruple GDP per capita and leave Iraq with financial reserves in excess of US\$ 350 billion, putting it on par with Saudi Arabia, Kuwait and the UAE today. Iraq, currently borrowing from the IMF to make ends meet, could become one of the world's main exporters of capital."

Breakdown of Iraq bound ODA by country (%) for 2008-09		Iraq Trust Fund Contributors (% of total)	
USA	41.96	Australia	3.26
Japan	15.86	Canada	5.40
Germany	15.62	European Commission	36.35
Italy	7.03	Finland	0.53
UK	5.63	Iceland	0.20
Austria	5.57	India	1.01
France	2.76	Japan	26.42
Australia	2.63	Korea	1.82
Canada	1.31	Kuwait	1.01
Belgium	0.84	Netherlands	1.25
Switzerland	0.79	Norway	1.36
		Qatar	0.51
		Spain	4.05
		Sweden	1.17
		Turkey	0.20
		UK	14.46
		USA	1.01

Source: OECD, latest data available

Source: Iraq Trust Fund, 2011

Poverty, Microfinance and Women

Women - that is the focus of U.S. Government in the Middle East and in Iraq since the Arab Spring. Rightly so, because the role of women in sustainable and holistic economic development is instrumental as is 'her' role in saving resources for education and health needs of 'her' family. The Iraqi microfinance industry, with 12 microfinance institutions (MFIs) across Iraq's 18 governorates aims provides microloans to poor and unbanked Iraqis, targeting the 23% population segment living below the poverty line. Women borrowers make up 19% of the Iraqi microfinance industry portfolio of US\$ 114.09 million (April 2011). Globally, the targeting of women by microfinance institutions is a strategy that helps guarantee effective institutional development and growth. Loan recovery rates are usually much higher when lending to women.



Source: Iraqi Microfinance Network

Early this year, The Central Statistics body (COSIT) announced their plans to reduce the percentage of poverty in the country from 23% to 16% by the year 2014. Three of the country's 18 governorates have the highest poverty rates: Muthanna in the south, Babil in the center and Salahadin in the north.

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Profile of Rural Small Scale Farmers in Kirkuk: Results from Surveying 200 Farmers

Gender	Males			Females		
	200			0		
Age Group	20-25	26-30	31-35	36-40	41-45	46-50
	2	20	63	45	53	31
Family Size	1 to 3		4 to 6		7 to 10	
	7		97		96	
Type of Agriculture	Livestock			Farming		
	143			54		
Income Generated	US\$ 500 and less		US\$ 501-1000		US\$1001-1500	
	148		39		8	

Banks Present in Area	Yes	No	
	117	67	
Applied for a Bank Loan	Yes	No	
	137	42	
Received a Bank Loan	Yes	No	
	20	117	
Challenges Faced with Banks	Long Processing Time	High Collateral Requirements	Corruption
	124	4	20

84% of the surveyed farmers report 'long processing time' as a challenge faced with accessing bank financing.

Farmers Need Financing?	Yes	No	
	153	18	
Loan Size Requirement	Up to US\$ 3,000	<US\$ 3000	
	200	0	
Ability to Provide Guarantee on Loan	Yes	No	
	147	6	
Repayments Preferred (Frequency)	Monthly	Quarterly	Yearly
	16	101	57

100% of the surveyed farmers report a loan size requirement of up to US\$ 3,000, attributed to a high percentage of farmers engaged in livestock farming rather than agriculture farming that normally requires higher level of investment.

Focus: Iraq's Agricultural Sector

Investment in Iraq's agricultural sector has lagged behind at 0.6% of total foreign commercial activity (US\$ 244 million) in 2010. With two-thirds of agricultural land (11 million hectares or 25% of Iraq's total surface area) owned/controlled by the Ministry of Agriculture, the government maintains a tight grip on the supply of agricultural inputs, relying on an often corrupt and inefficient supply chain and limiting the freedom of Iraqi farmers to choose what they grow on state-owned lands.

In March 2011, the Ministry of Agriculture announced the total amount spent on the agricultural initiative since 2008 is US\$45 million. This year, US\$ 402.2 million has been allocated from the federal budget to develop Iraq's agricultural sector.

Iraq Insights will publish further information about investment opportunities and challenges in Iraq's agriculture sector in December 2011.

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Relative Stability in Iraq Despite Unrest, Report 2011 Public Opinion Research

Despite economic challenges and civil unrest, the creation of a new government leaves Iraq with a relatively stable overall mood. Beneath the surface, there is an important and positive shift, as existential concerns over security give way to more normal material worries, such as those concerning jobs, basic services, and corruption. Although there is not the kind of broadbased demand for regime change that marked the “Arab Spring” countries, there is growing frustration among key groups, such as the Sunnis and younger and poorer Iraqis, and a strong call for a more responsive government.

The Tehran-Baghdad-Damascus axis: Why has Iraq opted to align with Syria and Iran in backing Assad? By the United States Institute of Peace

President Nouri Malaki recently donated US\$ 10 billion to Syria’s Assad to tide over rough times. While there is nothing that Syria can do for Iraq, economically, with its role limited to a trading partner, the primer by Juan Cole states that this seems to be an alliance over sectarianism and regional politics.

Ideas sYnergy Ideating

Think Tanks in Iraq

Ideas sYnergy notes that Iraq needs local Think Tanks/Policy Institutes that represent objectivity and independence from political and economic motivations. Relevant and effective Think Tanks are critical for improving public access to data in order to facilitate effective and meaningful policy dialogue in Iraq. While there are a gamut of Research Institutes in Iraq, Ideas sYnergy stresses that Think Tanks must undertake evidence-based policy-relevant research seamlessly combined with comprehensive communication its outcomes and advocacy of preferred policy alternatives.

Ideas sYnergy is currently undertaking consultations on evolving its flagship publication Iraq Insights towards filling that gap in Iraq.

Micro, Small, Medium Enterprise Venture Capital Financing

Ideas sYnergy delivers technical assistance and trainings to MSMEs in Iraq, focused on agricultural ventures and ventures with Iraq’s youth. Through a range of strategic partners in Iraq and abroad, Ideas sYnergy facilitates world-class and innovative training tools locally. Ideas sYnergy is also working towards studying the legal and market landscape for establishing an MSME Musharaka Venture Capital Fund with a consortium of Iraq-based advisory companies.

Socializing Hydrocarbons: Corporate Social Responsibility through Iraq’s Civil Society

Ideas sYnergy believes that civil society are critical partners in an evolving private sector, towards ensuring inclusive economic development, working hand-in-hand in the private sector, and sometimes in difficult partnerships, to ensure access to opportunities for minorities and for those living below the national poverty line. Most oil & gas companies in Iraq are aware that CSR related investments in local communities not only creates an excellent brand image, but is also favorable to their continued financial success and firm-specific competitive advantage. However, without a strong role of civil society in fostering accountability and driving meaningful initiatives beneficial to local communities and disadvantaged groups, the potential of CSR investment will fall short of meaningful impact as well as be limited to lip-service.

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****Message from Iraq Insights' Editorial Committee****

The August Issue of Iraq Insights *Risks in Iraq: Perceptions and Real* reported that Rabee Securities charges a commission ranging from 2-4%. This statement could not be verified with Rabee Securities and therefore Iraq Insights extends our apology for misleading or misrepresenting information.

****Download Previous Issues of Iraq Insights by visiting www.ideas-sYnergy.net****

June 2011 Birds Eye View: Iraq's Performance, Volume 1

- ❖ *Sowing the Oil: Positive Trends in Economic Diversification*
- ❖ *2011 better or worse?*
- ❖ *Access to Finance: Are Banks Bankable to Scale-up Intermediation?*
- ❖ *Transparency, Corruption & Media Freedom: A Deteriorating Trend*
- ❖ *Foreign Commercial Activity in Iraq: 2010 Year in Review by Dunia Frontier Consultants*
- ❖ *Ideas sYnergy @ Iraq Business News: Supporting Entrepreneurship - The Challenge of Translating Donor Mandates to Action*

July 2011 Private Sector in Iraq: Creating Jobs and Enhancing Sustainable Development (*amended*), Volume 2

- ❖ *Status of Iraq's Unemployment & Underemployment: An Overview of the Public and Private Sector in Iraq*
- ❖ *Are Iraqis' Fears of Private Sector Jobs Justified?*
- ❖ *Reading Beyond the Rank: Examining the Measurements of World Bank Doing Business in Iraq 2011 Report*
- ❖ *Micro, Small and Medium Enterprises: Hurdles to their potential to lead private sector development and employment generation*

August 2011 Risks in Iraq: Perceptions and Real (*amended*), Volume 3

- ❖ *Translating Risks to Bigger Risks*
- ❖ *Beyond Oil & Gas Investments: Who is Investing in Iraqi Banks and Mobile Network Operators?*
- ❖ *Business and Religious Tourism in Iraq: Window of Opportunity Closing for Hoteliers?*
- ❖ *Iraqi Stock Exchange: A Macro Bet Strategy*

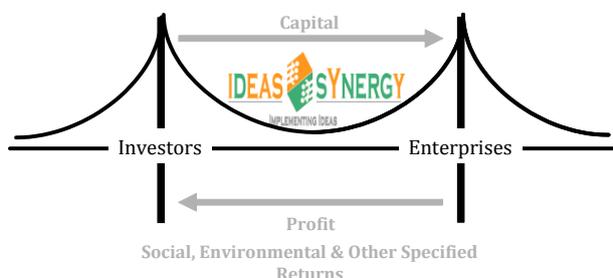
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Ideas sYnergy, established in February 2011, is the first local Iraqi company with foreign-local ownership. Our services reinforce each other and strengthen our understanding of business solutions for private sector development in Iraq.

Financial & Business Advisory

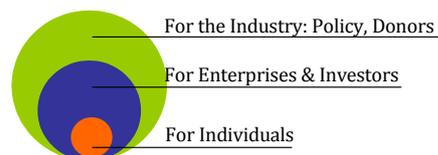
For Companies: Streamline operating processes in Iraq, improve local management, and increase overall performance across diverse metrics.



- Our Iraq-wide network and large team facilitate a **greater investment scope**
- We bring a **unique combination** of financial acumen and operational experience to bear
- We maintain a **persistent focus** on an investment's potential across a range of criteria: financial, social, environmental and otherwise

Knowledge Advisory

Shaping private sector development through leading publications, customized market research and the conceptualization of workshops/events for promoting dialogue.



- Our research and writing is **infused with our extensive experience** as entrepreneurs and professionals
- We are able to provide insights across sectors and geographies by **leveraging our networks and multi-national team**
- Our knowledge output is focused on the ways in which users can build upon our information to **forge connections and shape outcomes**

Flagship Project: MSME Musharaka Venture Fund

Pioneering Venture Capital Islamic Finance Musharaka Fund for Iraq's Social Enterprises.

The Fund seeks to demonstrate venture capital investments in Iraq that are Shari'a compliant, and generate social and commercial returns:

- **Identify** entrepreneurial initiatives targeting low-income and disadvantaged socio-economic groups in rural and urban Iraq.
- **Educate** entrepreneurs about venture capital
- **Provide** initial risk capital.
- **Unleash** entrepreneurial energy focused on bottom quartile to create sustainable and scalable businesses by providing support in **operations, strategy and networking.**

Flagship Project: Career Days

Approximately 28% of Iraq's youth are unemployed, with most of the 450,000 new entrants into the labor force unable to secure jobs. On the other hand, companies coming to Iraq face the challenge of finding ambitious and promising students for their offices in Iraq.

- **Connecting** young graduates and Iraqi professionals to the private sector in order to enable young people to discover and develop their potential, and to provide leadership for a positive impact on society.
- **Career Advisors work closely together with students** in preparing them to potential employers. Workshops include resume building, interviewing etiquette, and mock-interview training.

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