

October 2011

Volume 5

October 2011, Iraq's Trading Patterns: Changing Allegiances

- ❖ *Iraq's Leading Export and Import Partners: Trends*
- ❖ *KRG Replacing UAE as Export Terminal to Iran?*
- ❖ *Third Party Trades: Supply Chain Inefficiencies Demonstrated through Iraq's Tea Import*
- ❖ *Shaku Maku: A Brief Glance at Young Iraqi Professionals' Communication Tool Choices*
- ❖ *A Roadblock in Transformation of NGO-MFI to Non-Banking Financial Institution: What Next?*

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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Iraq's Leading Export and Import Partners: Trends

Hydrocarbons make up approximately 98% of Iraq's export; however it is worth noting the marginal positive trend in non-hydrocarbons export, notably with Sri Lanka and Sweden comparing 2008 to 2010. From a myopic point of view, Iraq is in fact a net exporter, with total imports at approximately 50% of total exports. However, with a modicum of 2% exports from the non-hydrocarbons industry, Iraq's

economic base is unarguably vulnerable with over 90% of its commodities imported. For example, Iraq approved a ban on imports of vegetables; however the ban, which began on May 1, 2009, would only be in effect anytime there is sufficient domestic supply. For now, the supply of vegetables is abundantly supplied by neighboring countries and sometimes from those across the Atlantic.

In terms of Iraq's export partners, influx of Turkish goods has risen from 18.8% as a percentage of total inwards trade to 29.4% in 2010, compared with a decrease for United States, from 10.2% in 2008 to 8.0% in 2010. China's vein of influence and subsequent near-ubiquitousness in Iraq seems likely, with a steep rise to 17.5% as an import partner. With a 10-basis point dip in Iraqi hydrocarbon export to the United States, Far East countries Japan and China have increased their procurement of Iraqi oil, from 2.2% and 2.3% in 2008 to 7.9% and 14.5% in 2010 respectively.

Although data on world's trade with Iran is understandably missing, it is widely reported that Iran is second after Turkey in terms of trading volume with Iraq, estimated at US\$ 4.5 billion for first half of 2011. Kurdistan Region has around 1,200 foreign companies investing in the Region, and more than half of these are Turkish. The Region also has approximate number of 200 registered Iranian companies. According to a KRG official, the volume of trade between Iran and Iraq's semi-autonomous Kurdistan Regional Government (KRG) is expected to stand at over USD 5 billion in 2011 (discussed further in next article).

KRG Replacing UAE as Export Terminal to Iran?

The Iranian Business Council says hundreds of Iranian companies have closed their operations in Dubai in recent months and more are expected to have closed shop given recent development surrounding Iran's plan to assassinate Saudi Arabia's ambassador (son of recently expired Crown Prince and a noted ally to the U.S.) to the United States. Economists are expecting year-end statistics to reflect an estimated 10-20% dip in total Iran-Dubai trade. According to Adal Mirza with the Middle East Economic Digest, aggressive U.S. efforts to keep Gulf banks from financing Iranian trade are having an effect.

Import	As a % of 2008 Import	As a % of 2010 Import	Export	As a % of 2008 Export	As a % of 2010 Export
Turkey	18.9%	29.4%	USA	38.0%	29.1%
USA	10.2%	8.0%	India	15.6%	No Data
UAE	14.5%	No Data	Italy	9.5%	9.5%
Syria	12.3%	No Data	Korea	7.0%	No Data
China	6.1%	17.5%	France	3.5%	3.1%
Jordan	6.2%	5.5%	Spain	3.0%	1.9%
Germany	2.1%	6.0%	China	2.3%	14.5%
Korea	1.8%	6.0%	Brazil	2.0%	0.0%
Italy	1.5%	2.9%	Japan	2.5%	10.2%
France	1.2%	3.0%	Netherlands	2.2%	7.9%
			Morocco	0.8%	3.9%

Source: International Trade Center; Note: Iraq Insights has utilized 'leading' loosely and cautions readers against treating them as ranks. Additionally, Iraq Insights is not able to confirm data for trade between Iraq and Iran except for indicative approximations referenced in the text. It is largely assumed that Iran is also one of Iraq's leading import partners, competing with Turkey and Syria in the Region.

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While Iran has been forging renewed trade relationship with Turkey and Malaysia for example, Kurdistan Region of Iraq is emerging as an export terminal for Iran, touted to replace UAE. The implications of such a development are multifarious: pernicious as well as beneficial (recall the economic impact/benefits enjoyed by Syria and Saudi Arabia as export hubs for Iraq during the Iraq sanction period). While the KRG Officials downplay the level of Iranian ties, and have in recent months set up inquest on 'shady' Iranian companies and transactions in Kurdistan, the mood is generally that of comradeship, with economic interests superseding conflicts over treatment of Iranian Kurds.

According to recent approximations, trade volume between Iran and Iraq is approximately US\$7 billion annually, out of which the share of the Kurdistan Region alone is 65%, putting it at US\$4.5 billion. There are close to 200 registered Iranian companies in KRG, a steep rise since 2008. The Islamic Republic of Iran has two ambassadors in Iraq, which makes it the only country where the Islamic Republic has opened two embassies. These are significant indicators of the strength of the ties between Iran and the Kurdistan Region of Iraq.

Third Party Trades: Supply Chain Inefficiencies Demonstrated through Iraq's Tea Import

It is common knowledge that UAE as the transshipment hub in the Middle East specializes in consolidating cargoes from smaller ports and batching those bound for the same destination on large vessels, and thus shipping them more cheaply. However, transshipment hubs also offer unfair advantages to those who benefit from lack of market linkages and information symmetry in countries such as Iraq, and often traders based in transshipment hubs thrive through third-party trade arrangements. Iraq Insights caught on an interesting trend, demonstrated here through the tea import to Iraq. UAE (not a tea-growing country) based tea traders directly exported 48.4% of all Iraq bound tea in 2008 (2010 data not available), which represents 37.8% of total tea that UAE imported from Sri Lanka that year. Simultaneously, Sri Lanka exported only 37.7% of total tea bound for Iraq in 2008, albeit rising (refer to the Table), which Iraq Insights estimates is mainly government procured for food rations (note: the tea quality itself is beset with allegations of adulteration which the Iraqi and Sri Lankan governments have resolved to address through the recently conceptualized Iraq-Sri Lanka Tea Trade Center in Baghdad)

Currently, there are over 10-12 different tea brands in the Iraqi market, with almost all tea imported through third-party purchases made in the Gulf. Iraq's stake in the supply chain is largely limited to end-consumers, where Iraqi domestic traders purchase tea at Jamilah and Shorjah wholesale markets in Baghdad for further supply in Iraq's 18 governorates. Third-party trades are unnecessary additional cost for Iraq who can, for example, procure tea directly from tea producing countries and those shipments can continue to pass through UAE without transacting with UAE traders. Such inefficiencies are largely a confluence of many factors including missing business linkages, underdeveloped bilateral trading centers, and lack of information flow.

Iraq Tea Trading Partners	2008	2009	2010
Sri Lanka to Iraq	40,617	37,017	51,304
India to Iraq	7,777	27,139	No Data
UAE to Iraq	52,082	No Data	No Data
Iraq Total Tea Import	107,604	74,813	57,665
Sri Lanka to UAE	137,464	No Data	No Data

Source: International Trade Center

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Shaku Maku: A Brief Glance at Young Iraqi Professionals' Communication Tool Choices

Since 2000, Iraq's internet subscribers have grown from 12,500 to 325,000, albeit reflecting a dismal penetration rate of 1.10%, lowest among regional counterparts. In 2008, when Iraq's State Company for Internet Services (SCIS) had reported 250,000 subscribers, an adviser to the Ministry of Communications estimated the 'actual' number at 12 million due to the reselling of service by private entrepreneurs. According to the media research firm Intermedia's Survey of 2010, 21% of adults use the internet to gather news. According to Facebook statistics Socialbakers.com, there are 1.05 million Facebook users in Iraq, with 72% users registered as males. Over 70% of users fall within the 18-34 age range.

According to Mike Labriolo of TigresNet (DijlaNet), low internet-subscription is due to a number of factors, including high cost of bandwidth, poor infrastructure, and few options to choose from. Impediments to market development include the lack of international backhaul and regulatory uncertainty (a key issue is the delayed implementation of Initial Public Offerings (IPOs) by the mobile operators, a license requirement that was supposed to be implemented by 31st August 2011). Should 3G licenses be awarded the mobile operators would be in a prime position to make inroads into the broadband market, given the reach of their networks, existing brand recognition and product distribution channels as well as established pool of customers (over 80% market penetration).

In 2009, the US State Department organized a field trip for Silicon Valley executives, including representatives from Twitter, WordPress, YouTube, Google and AT&T towards formulating ideas on how to build Iraq's information infrastructure from scratch, and to communicate that internet will be increasingly vital for Iraq's participation in the larger world. Few months after the symposium held by the Qatar Telecommunications Company - Qtel Group - (30% owner of Iraq's Asia Cell) in Qatar to strategize with partners Qtel's lead in smartphone solutions, Asia Cell became the first Iraq-based mobile operator to launch BlackBerry services.

Facebook Users: 1.05 million	
13-15	5%
16-17	7%
18-24	40%
25-34	32%
35-44	11%
45-54	4%
55-64	1%
Over 65	1%
Male	73%
Female	27%

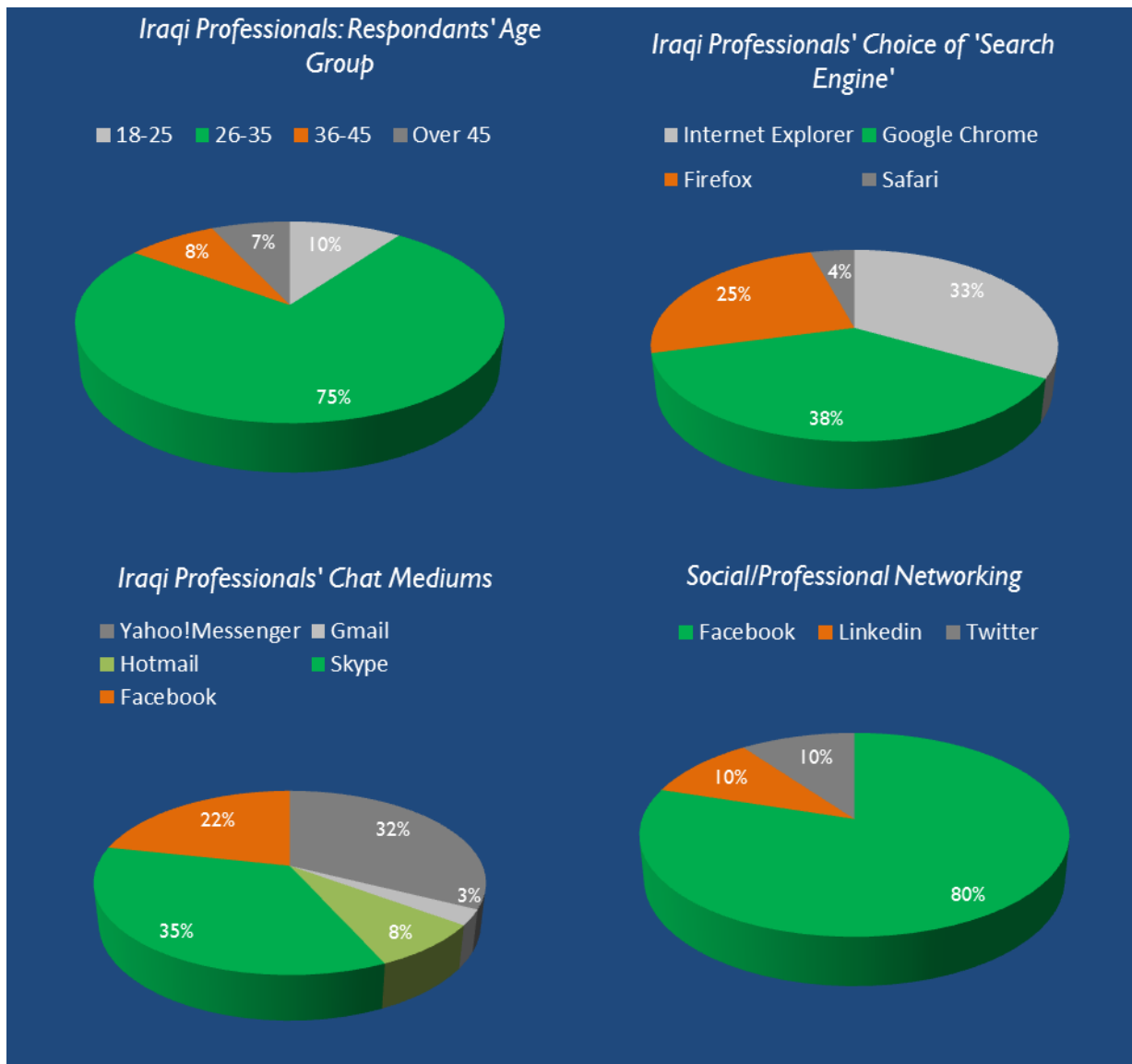
Source: Socialbakers.com

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Results from Ideas sYnergy's recent survey offers an indicative glance at variety of online tools used by Iraqi professionals.



Source: Iraq Insights Survey, 159 Respondents: Iraqi Professionals based in Iraq

A Roadblock in Transformation of NGO-MFI to Non-Banking Financial Institution

The Central Bank of Iraq recently rejected CHF Iraq's (one of the 12 NGO-MFIs in the country) application to 'transform' from an NGO-microfinance institution (MFI) to a Non-Bank Financial Institution. The implication of such a decision is serious because the basis for rejection stems from the Iraqi Government's NGO Directorate's resistance to transfer NGO funds to a for-profit company. As 'clear' as the concerns of the NGO Directorate may be, there are many factors at play, and subsequently numerous solutions to mitigate the very real fears.

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For our readers, transformation is the transfer of whole or part of NGO assets, liabilities and clients/beneficiaries by an 'ownerless' NGO to a for-profit company: a new legal entity with owners who exercise rights proportional to their ownership interest. NGO MFIs have two primary objectives for transformation: (i) to provide clients with a range of financial services beyond credit, including savings and transfer services, and/or (ii) to increase access to capital, whether through commercial borrowings (which remain inaccessible for many NGO MFIs today), deposits, raising equity, or all three. Transformation has propelled the global microfinance industry towards effective supervision, leading way for sound governance and financial management through a series of regulatory checks and balances.

According to the World Bank Consultative Group to Assist the Poor (CGAP), NGO MFIs' transformation to NBFIs can be triggered by legislative changes, namely in Georgia and Bosnia, where the change prohibits NGOs from engaging in lending activities even if for the poor. In other cases, such as in India, new legislation or regulations provide new institutional options for engaging in microfinance activities. Several NGO MFIs have transformed into regulated financial institutions in an effort to gain legitimacy in the eyes of investors, commercial lenders, and other financial institutions and policy makers.

Iraqi laws absolutely prohibit an NGO from owning a for-profit entity. If the NGO dissolves, then as in many countries, its assets must be either distributed to another nonprofit (often, it must be another nonprofit that engages in similar activities) or turned over to the state. Within this premise, the transformation of an Iraqi NGO to an NBFIs is complicated. Iraq Insights believes that the NGO Directorate's concerns vis-à-vis transferring 'community assets' to private individuals/institutional social investors may be resolved by allowing and perhaps requiring NGOs to retain at least 51 percent interest in the transformed institution (similar to the case of Bosnia). While this may limit the rate of growth through prohibitory constraints on equity capital (particularly keeping in mind the lack of serious interest from in-country debt providers to lend on-lending wholesale funds to MFIs despite over 100% Operational and Financial Self Sufficiency and near 0% default rates of the latter), another option may be for the NGO-MFIs to transfer their clients to the newly formed partner NBFIs, while retaining its accrued assets and utilizing them towards strengthening their borrowing micro entrepreneurs' technical capacity to grow their businesses/market initiatives.

Iraq Insights will hold a consultative series of short-discussions with global experts and Iraqi stakeholders, the results of which will be published in November, 2011. Please see here for trends on the Iraqi microfinance industry's outreach: <http://www.ideas-synergy.net/iraq-insights/trends/>

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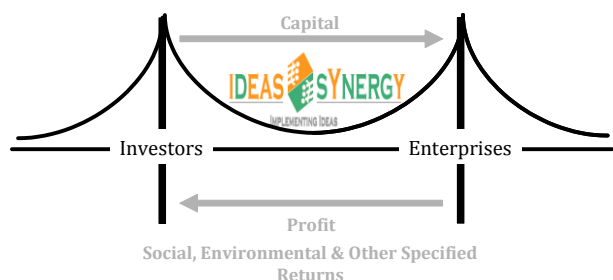


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Ideas sYnergy, established in February 2011, is the first local Iraqi company with foreign-local ownership. Our services reinforce each other and strengthen our understanding of business solutions for private sector development in Iraq.

Financial & Business Advisory

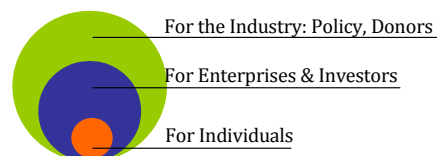
For Companies: Streamline operating processes in Iraq, improve local management, and increase overall performance across diverse metrics.



- 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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