



ENTERPRISE DEVELOPMENT OPPORTUNITIES
AND CHALLENGES IN MOSUL

A PILOT MARKET ASSESSMENT OF MOSUL

IOM Iraq – September 2018

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Summary

From October 2016 until July 2017, a joint offensive with Iraqi Security Forces to reclaim the City of Mosul from the Islamic State of Iraq and the Levant (ISIL) precipitated large scale migration and displacement outside of the city. Operations to regain control of harder-to-access and denser areas led to widespread and severe damage to the physical infrastructure of parts of the city, especially west Mosul. Even prior to the offensive, three years of ISIL governance in Mosul had led to the full or partial closure of a number of small-scale industries as ISIL forces enforced systems of taxation, limited transportation routes and their accessibility for traders, and in some instances, confiscated local production and materials.

In order to assess the potential to create jobs through direct financial support to small and medium enterprises, IOM undertook a pilot market assessment from 12 August to 5 September. The purpose of the pilot assessment was to inform programming for a grant mechanism to fund the development of conflict-affected enterprises for the purposes of job creation. The pilot had the secondary objective to assess, specifically, whether the tools developed by IOM and its field staff are suitable to conduct a full market assessment, and whether such assessment should be qualitative or quantitative.

A series of tools were developed and tested; the results are analysed in this report for further development and recommendations. The pilot used a qualitative approach, and is designed to build into an Open Data Kit mobile data collection system whereby customized tools for each respondent group can be rolled out in the collection of mixed qualitative and quantitative data.

Data collection was carried out by members of the Enterprise Development Fund team and the Returns and Recovery Unit. Between 12 August to 5 September, staff conducted five key informant interviews and 24 employer surveys. In addition, one focus group of five participants was conducted in a community space.

The primary objectives of the pilot market assessment were to understand:

1. The extent of damage suffered by small and medium enterprises impacted by the conflict between 2014 and 2017;
2. Market failures that can be addressed through matching grants or business development support;
3. Businesses that would create additional employment opportunities if supported;
4. Potentials for market distortion due to the introduction of cash.

Key findings, below, are organized by the research objectives in four parts.

Key findings

The extent of damage suffered by small and medium enterprises impacted by the conflict between 2014 and 2017

- Respondents reported that the inability to work during ISIL occupation due to a lack of demand from the market was the biggest challenge faced in the previous four years. About 75% of surveyed employers had paused or stopped their business between 2014 and 2017 for reasons ranging from a drop in demand, lack of electricity, migration, lack of connections, confiscation of property by ISIL and inability to export.
- Those who had not stopped work still suffered economic losses due to taxation, a drop in demand and access problems, leading at least one respondent to take on debt.
- An incentive to stay open was fear of looting if business doors were closed.

Market failures that can be addressed through matching grants or business development support

- A total of 80% of key informants and 16% of employers complained about border issues affecting their work – but for different reasons – including both the high taxes on imported raw materials and the competition in the market with cheap imports.
- Most (71%) of employers were confident in their ability to find skilled labor, reporting that high rates of unemployment and interruptions to business for others made finding skilled workers easy.
- About three-quarters (75%) of employers surveyed reported no problems with the supply of raw materials to meet demand, with only 13.5% reporting high prices as a business limitation and only 8% reporting liquidity issues.
- Transportation issues, including blocked roads, checkpoints and bridges were mentioned as a primary challenge facing business owners (by 58% of employers surveyed).
- After transportation, the major challenges reported included unreliable access to electricity (25%), lack of capital (reported by 16% of respondents), the high price of materials (reported by 8% of respondents), taxes (4%), problems with identification documents (4%), and insecurity (4%). Only one business owner (4%) mentioned low demand as the most pressing challenge, which is a positive indicator for a cash-based intervention.

Businesses that would create additional employment opportunities if supported

- Employers mentioned a lack of formal advertising for employment and all respondents agreed that recruitment is primarily done by word of mouth.
- Only 37% of respondents had not directly hired at least one relative to work in their business already.
- About 66% of businesses, when asked what they would do with cash grants of up to 25 ,000 United States dollars, mentioned hiring new workers as a priority.

Potentials for market distortion due to the introduction of cash

- Some aluminum and PVC manufacturers (12.5% of respondents) reported low demand for their products as a challenge, in addition to a restaurant owner (4%) and one air cooler manufacturer (4%).
- Market demand challenges vary; 33% of businesses reported problematic clients who want to purchase goods with credit, with only 20% of businesses self-reporting low demand as a problem.
- Government spokespersons and key informants reported that the construction, food processing and the textile and livestock industries face oversaturation.
- There is limited competition from other financial services, and respondents felt that no sectors were having public spending instruments developed that could compete with cash grants from IOM.
- Public sector investment is critical to stimulate large-scale economic recovery. Results suggest that public actors are not doing enough to encourage investment and development, which has implications for demand for key sectors such as construction.

Introduction

This report is a pilot market assessment of the private sector in Mosul, undertaken approximately a year after the Prime Minister of Iraq declared the city retaken from ISIL. The battle for the liberation of the city alone resulted in the displacement of an identified 1,021,476 IDPs from 17 October 2016 to 29 June 2017.¹ As of June 2017, a year after the start of military operations, IOM's Displacement Tracking Matrix had identified 201,942 returnees, with a remaining 819,534 IDPs displaced from Mosul to other governorates.²

Within this context, IOM seeks to address priority needs expressed by internally displaced persons (IDPs) and returnees. The most pressing returnee self-reported need has been access to employment and livelihoods.³ In general, IDPs and returnees exhibit similar profiles to stayees, with stayees in Mosul also often having experienced short displacement (for example in Al-Jadida, where 44% of stayees reported having previously been displaced, according to IOM community assessments).⁴ As a direct response to these Location Assessment Results, and in coordination with ongoing livelihood programming, IOM is designing a grant mechanism to aid recovery and reconstruction following the liberation of Mosul from ISIL. IOM intends to roll out the grant mechanism in multiple locations in Iraq in 2019. The fund will prioritize businesses that would create job opportunities and contribute to community stabilization.

The pilot market assessment was developed and tested by IOM's Returns and Recovery Unit (RRU) in order to plan for a full market assessment to be conducted in multiple locations. Specifically, the assessment aims to determine the demand for goods and services within various sectors, the actual comparable competitiveness of businesses, the variant impact of conflict on different sectors, and knowing the actual challenges businesses are facing. Operating from the common assumption that the injection of cash into a market can contribute to a raise in demand and production,⁵ the assessment builds upon the expert work of others in the area, including the Cash Working Group, Action Against Hunger, International Rescue Committee and REACH.

This report provides a detailed summary of findings, structured along the main research sub-questions, with secondary information filling information gaps not covered by the research. The main research question that the pilot sought to answer was:

Which small and medium enterprises have suffered from market failures due to the conflict, that, if addressed through matching grants and business development service, could create the need for additional labour, without market distortion?

¹ IOM Mosul Crisis Population Movement Analysis. (Baghdad, Iraq: IOM Iraq, 2017) <http://iraqdtm.iom.int/Downloads/DTM%20Emergency%20Tracking/Mosul%20Crisis/0-%20Mosul%20Crisis%20Report/DTM%20ET%20Mosul%20Crisis%20Report%20July%202017.pdf>

² Ibid

³ IOM. IOM Rapid Recovery Programme Community Assessment Report, Al-Jadida 3 Part 1. (Baghdad, Iraq: IOM Iraq, 2018) <https://www.humanitarianresponse.info/en/operations/iraq/assessment/iom-rapid-recovery-programme-community-assessment-report-al-jadida-3-part>

⁴ Ibid

⁵ REACH Initiative. Joint Rapid Assessment of Markets: West Mosul. (Erbil, Iraq: REACH Initiative, 2017) <https://reliefweb.int/report/iraq/joint-rapid-assessments-markets-west-mosul-august-2017>

Methodology overview

A series of research questions were designed, segmenting the market into three different respondent groups:

- **Key Informants (KI)** were identified in coordination with IOM and partner staff, and included representatives from industrial sectors as well as the Chamber of Commerce. To assist with this process, interviewers were given interview guides that included an introduction letter, an information sheet, a consent form, and an list of questions.
- **Active employers** were purposively sampled according to desk research that indicated that conflict-vulnerable sectors generally include the transportation, finance, manufacturing and construction industries. Survey respondents were also identified with community mapping exercises and referrals. To assist with this process, interviewers were given interview guides that included an introduction letter, an information sheet, a consent form and a survey guide.
- **Inactive traders** were identified by the Community Revitalization Centre staff and included those out of work for additional reasons apart from the conflict. To assist with this process, interviewers were given focus group discussion guides that included an introduction letter, an information sheet, a consent form and a focus group discussion guide. However, it was noted that participants in the focus group may have expected opportunities from participating in the focus group. In addition, the information collected from inactive traders could also be collected from active employers, and in more detail with one-on-one surveying.

Recommendation 1: Revise focus group discussion guides to target a more defined group and identify market systems under the Emergency Market Mapping Analysis (EMMA) framework.

Geographical area selection

Surveying was conducted in various locations in Mosul. One interview, with a representative of the Chamber of Commerce for Ninewa, was conducted in Erbil. A focus group discussion was conducted at the Community Resources Centre run by IOM in Al Jadeed subdistrict, west Mosul. The remaining interviews were done between the IOM Office in Mosul and in the community where employers were based. For the employer surveys, field visits targeted west Mosul, but with seven surveys conducted in east Mosul. Higher levels of damage were observed in West Mosul from the community mapping,

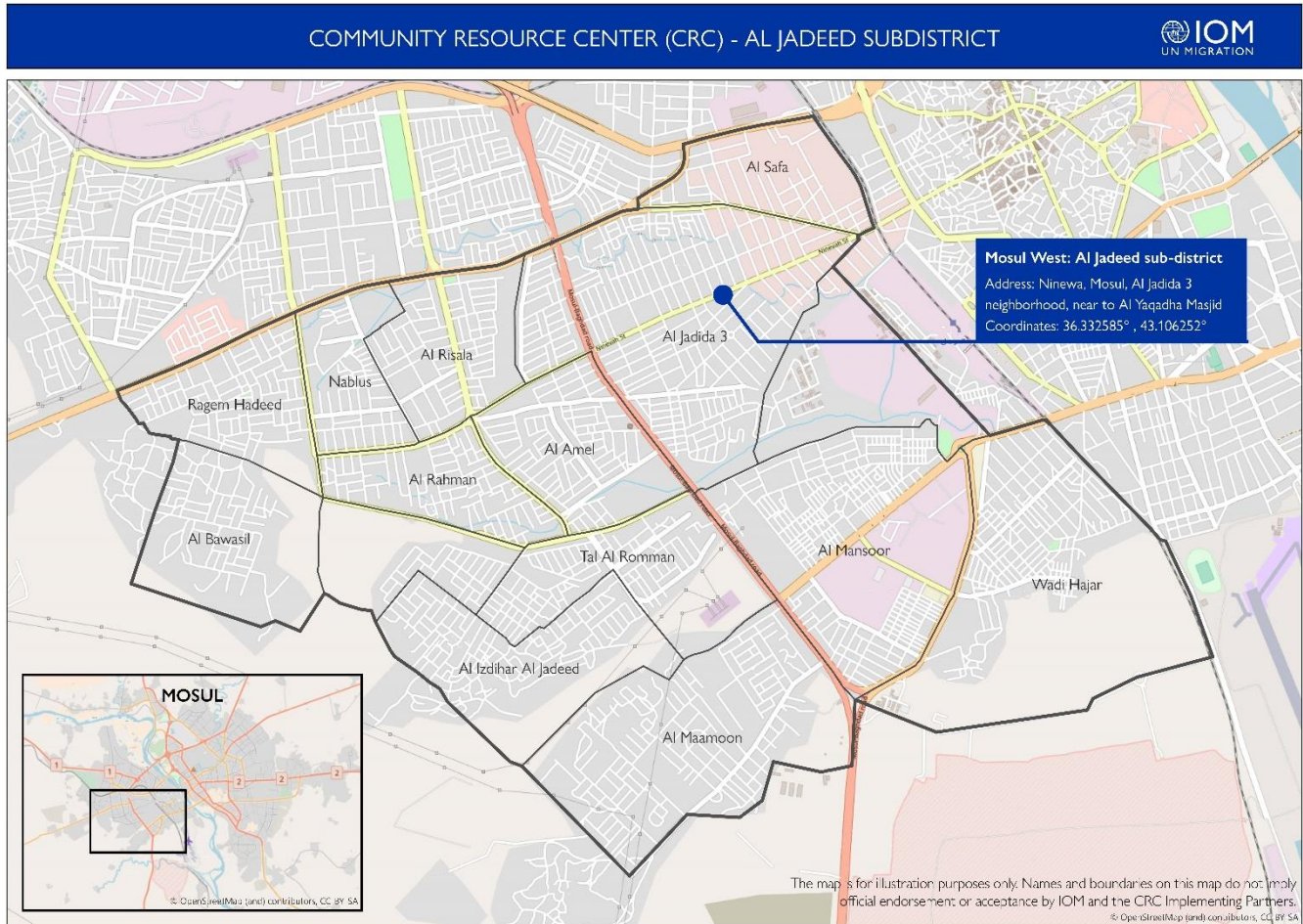


Figure 1 Community Resource Centre, West Mosul

which has been backed up by desk research and is consistent with the intensity of the offensive in Mosul from October 2016 to July 2017.

Recommendation 2: Focus selection of beneficiaries in west Mosul for higher impact.

In Ninewa, one of the largest industries is the construction sector, followed by food-related businesses, clothing and textiles, metal workers and producers, carpentry and some chemical-related businesses. Below, a breakdown of businesses registered with the Chamber of Industry shows that 45% of registered businesses are in the construction sector.⁶

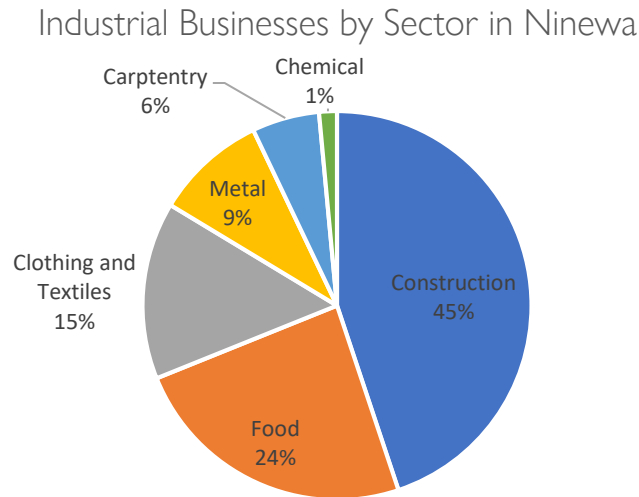


Figure 2 Industrial Businesses by Sector

The majority of businesses surveyed were businesses working in the food, metal and textiles sectors. Other businesses surveyed included carpenters, restaurant owners and a glass manufacturer. Below, a breakdown of the subsectors of respondents shows a majority of respondents with a background in a metal-related trade.

| Employer Survey: Subsector of Business | % of Respondents |
|--|------------------|
| Carpentry | 17% |
| Manufacturing metal appliances | 12.50% |
| Aluminum and PVC factory | 12.50% |
| Textile | 8% |
| Blacksmith | 8% |
| Restaurant | 8% |
| Pastry and sweets | 4% |
| Tahini factory | 4% |
| Air cooler manufacturer | 4% |
| Aluminum factory | 4% |
| Mechanical and spare parts for engines | 4% |
| Mattress manufacturer | 4% |
| Mini-shopping compound | 4% |
| Glass manufacturer | 4% |

Table 1 Subsector of surveyed businesses

Recommendation 3: When scaling up, seek more respondents in the construction sector for a more representative sample of industrial businesses in Ninewa.

⁶ Anonymous, The Average Number of the Workers in Industrial Sub-Sectors in Ninewa. (Baghdad, Iraq: IOM Iraq, 2018). [Email]

Overview

The market system in Mosul has been hit with two crises; the first was the occupation of the city by ISIL from June 2014 to October 2016 and the second was the battle for the retaking of Mosul from October 2016 to July 2017.

Destruction, disruption and diversion

The battle, with the destruction of buildings and factories through airstrikes, compounded existing issues. Over 750 sites were targeted, sometimes inaccurately, by the United Kingdom's Royal Air Force. The airstrike was followed by a push to take over the city with around 30,000 ground troops from Iraqi and Kurdish forces, and much of the city's infrastructure, including major local connectors such as public bridges, was damaged by retreating ISIL forces.⁷

With 83% of IOM-assessed community members in one neighborhood in west Mosul reporting decreased income since 2014,⁸ the impact of the conflict on the gross domestic product per capita was widespread. Movement restrictions in and out of the city continue to make trading difficult for those who previously had national, and in some cases international, distribution channels. Unreliable access to electricity and water has also been mentioned by respondents. Finally, a diversion effect in public spending can be observed, as the national government has prioritized security and counter-terrorism efforts at the expense of, in some cases, regular government salaries, and in Mosul, investments in public goods.

Any analysis of market systems in Mosul in 2018 would be remiss in not mentioning some additional overarching issues, which were not the subject of the specific research but can be found in secondary resources.

Prevalence of personal debt

Many businesses and individuals rely on social networks for informal and supplier credit. For example, one community assessment in West Mosul noted that 56% of respondents reported being in debt.⁹ This may limit the effectiveness of a cash-based intervention, where funds are used to pay accrued debts instead of for project purposes.

Competition with state owned enterprises

In addition, the financial system is largely dominated by state-owned banks, which lend mostly to State Owned Enterprises (SOEs). SOEs impede the development of private investment interests and crowd out the development of some smaller private businesses.¹⁰ Sectors with high competition from SOEs may feel that there is no financing available for their needs.

Youth bulge

According to the World Bank, Iraq has one of the youngest populations in the world, with 60% of the population younger than 25 years. Younger populations with high unemployment create a significant risk for renewed conflict, especially when there are potential financial rewards for engaging in conflict.¹¹

⁷ The Telegraph. Coalition forces killed more civilians than Islamic State, study finds (Jersey, United Kingdom: The Telegraph, 2018)

⁸ IOM, Rapid Recovery

⁹ IOM, Rapid Recovery 1

¹⁰ Bandiera, Luca et al. June 2018. Jobs in Iraq: A Primer on Job Creation in the Short Term. (Washington D.C.: The World Bank, 2018)
<http://documents.worldbank.org/curated/en/255111529495871846/!jobs-in-iraq-a-primer-on-job-creation-in-the-short-term>

¹¹ Ibid

Limitations

The sample size was not large enough for statistical inferencing. In addition, all data collectors working on this, with the exception of the Programme Coordinator, who participated in four interviews, were male. Online Data Kit forms were not yet tested in the field so the data analysis for the pilot was limited to being done manually.

Additionally, the sensitive nature of conflict dynamics in Mosul meant that it was too delicate to directly ask the background or religious affiliation of respondents. Given the objective of the project to promote community stabilization and the reported marginalization of minorities in Mosul before, during and after ISIL rule, the fund is necessarily oriented towards conflict-sensitive beneficiary selection. However, this assessment was unable to engage with these topics and has had to exclude sensitive questions related to inter-community stabilization.

Recommendation 3: Expand the survey size to a minimum of 100 respondents per location for the full Enterprise Development Fund

Recommendation 4: Ensure that female staff are involved in surveying to increase the likelihood of the inclusion of women in the sample.

Recommendation 5: Roll out the implementation of mobile data collection tools to automate the data analysis for the full assessment

Findings

The extent of damage suffered by small and medium enterprises

During ISIL's occupation, the biggest impact on SMEs was a drop in demand (self-reported by 33% of businesses). Infrastructure damage, displacement and harassment also negatively affected SMEs. One respondent mentioned that he was being threatened by armed groups even prior to ISIL, which suggests existing security issues even before 2014 in Mosul. Many Key Informants also mentioned damage due to the offensive against ISIL to liberate Mosul in 2017.

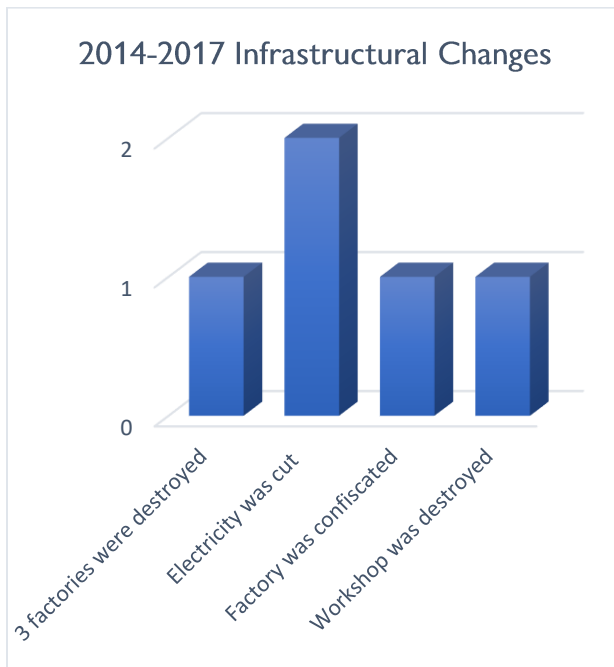


Figure 3 Infrastructural changes

| Other impact apart from infrastructure | % of Respondents |
|---|------------------|
| Drop in demand that made the business close temporarily | 33% |
| Sold the production for less/less than its cost but stayed open | 12.5% |
| Insecurity caused closure temporarily | 8% |
| Displaced to Erbil | 8% |
| Suffered from low demand but kept open | 8% |
| Subdivided operations to keep a low profile | 4% |
| Couldn't import raw materials and closed | 4% |

Table 2 Other impact

Coping mechanisms

The results of the survey suggest that some smaller businesses were able to adapt their operations (for example, transition into resellers) and survive. One reported effect of the crisis (that many people are now resellers) can be taken as evidence of market thinning, where supply chains shrink and there are fewer buyers and sellers in the marketplace.

| All opinions: current state of previous largest employers | |
|--|-----|
| Industries that have survived include small-scale operations and many people are now resellers | 20% |
| Only 2-3 of factories have restarted | 40% |
| 85-90% of factories have restarted | 40% |

Table 3 Current state of previously large employers

This trend seems to be reversing with the retaking of the city, but impact from such severe economic shocks can be irreversible for individuals affected.

Market failures that can be addressed

Current challenges

Today, businesses face other challenges. Infrastructure was cited as the major challenge not currently being addressed by government, but significantly impacting businesses. The employer survey asked respondents what the Government could invest in to help the private sector. Here, responses were consistent with the interagency Rapid Assessment of Markets conducted by REACH in 2017, with electricity, roads and bridges figuring as infrastructural priorities, and salaries, grants and reduced taxes expressed as financial concerns.

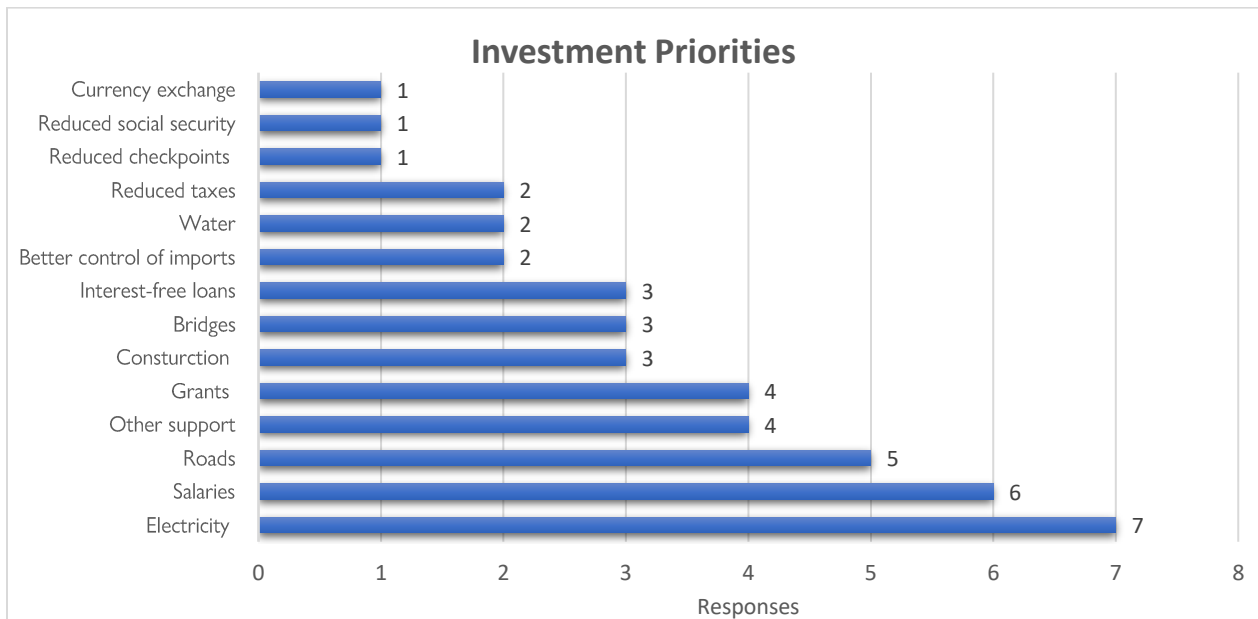


Figure 4 Investment Priorities

Continuing issues from the rule of ISIL were also mentioned. One employer, for example, mentioned that his manufacturing company used to distribute easily before ISIL rule, but during 2014–2016 stopped completely. Now, although he has restarted his operations in Mosul, each time he has tried to take his goods to other governorates he has been turned back at checkpoints by regular security forces.

Coordination failures

The lack of control at key border crossing points is seriously affecting SMEs. This issue, which apparently existed prior to ISIL, has been compounded over the past four years when border management was less of a priority for the Government of Iraq. Market places are flooded with cheap imports, primarily from Turkey and Iran, for many items which were previously produced in Mosul, such as processed foods and textiles. As a result, businesses are now facing the dual challenge of trying to restore their businesses affected by ISIL in a markedly altered market place, and having to contend with new players with competitive low prices. One employer explained how:

“The market is full of imported product as they are well packaged and cheaper, they reason is that [Iraqi businesses] have to import the raw materials (carton boxes, plastic pots and all other materials from outside of the country), and then produce the products, which adds a lot of cost for the transportation”

Businesses also mentioned items that could be purchased in Dubai for USD1, whereas manufacturing the same item in Iraq would cost USD1.50, reinforcing difficulties in competing with foreign-made goods and probably discouraging manufacturing.

Taxes paid for imports was another frequent complaint voiced by employers, especially those who transformed raw materials into finished goods (13.5% of employers mentioned the high price of materials as a challenge). This high cost of materials also contributed to problems of market power. Some businesses – those registered with the Ministry of Industry, for example – are not required to pay customs fees on imported materials. This oftentimes reinforced the inability of smaller traders who do pay customs for lack of registration, to compete with larger traders.

In addition to the high cost of raw materials and the low cost of competing products, a lack of consistency, coordination and quality assurance and control at the border was also frequently cited as frustration related to imported goods. A respondent mentioned coordination problems related to these issues:

“Prior to 2014 the Chamber of Commerce issued import certificates for all the traders, and there was a department of quality control – now there is nothing, they just buy however they want. There are many different gates at borders, each does their business their own way.”

Another respondent, a tailor, also pointed out coordination issues, noting that:

“In terms of price, ours are approximately like prices of items from China, meaning we can sell. We had a meeting with the ministries in Baghdad, and told them our problems. The Ministry of Industry said they would put rules on imports, but they just promised, and then nothing happened. This meeting was 20 days ago and included the head of CoC, the Col and other experts from the Iraqi Business Union.”

Recommendation 6: Advocate, through the IOM Migration Management Unit, for coordinated awareness raising about border controls for items, especially those causing economic losses locally

While transportation issues, including blocked roads, checkpoints and bridges were mentioned as a primary challenge facing business owners by 58% of businesses surveyed, additional challenges reported included unreliable access to electricity (25%), lack of capital, (reported by 16% of respondents), the high price of materials, (reported by 8% of respondents), taxes (4%), problems with identification documents (4%), and insecurity (4%). Only one business owner (4%) mentioned low demand as their most pressing challenge, which is a positive indicator for a cash-based intervention.

| Biggest challenge currently facing employers | Number of responses |
|--|---------------------|
| Blocked roads and checkpoints | 10 |
| Electricity | 6 |
| Lack of bridges | 4 |
| Lack of capital | 4 |
| High price of raw materials | 2 |
| High rent | 2 |
| Taxes | 1 |
| Identity management | 1 |
| Low demand | 1 |
| Insecurity | 1 |

Table 4 Biggest Operating Challenge

Below, market systems mapping for the metalwork industry, a typical type of workshop found in west Mosul, shows changes in the market systems during 2014–2017 and today. Metalworkers expressed that, during ISIL occupation, workshops were looted and stolen from, and electricity was unreliable. Consumers didn’t purchase goods as before, and a loss of revenue ensued. Today, while market systems can be considered as recovering, roads that used to allow distribution to other governorates are blocked, suppliers don’t sell on credit and electricity is still unreliable.

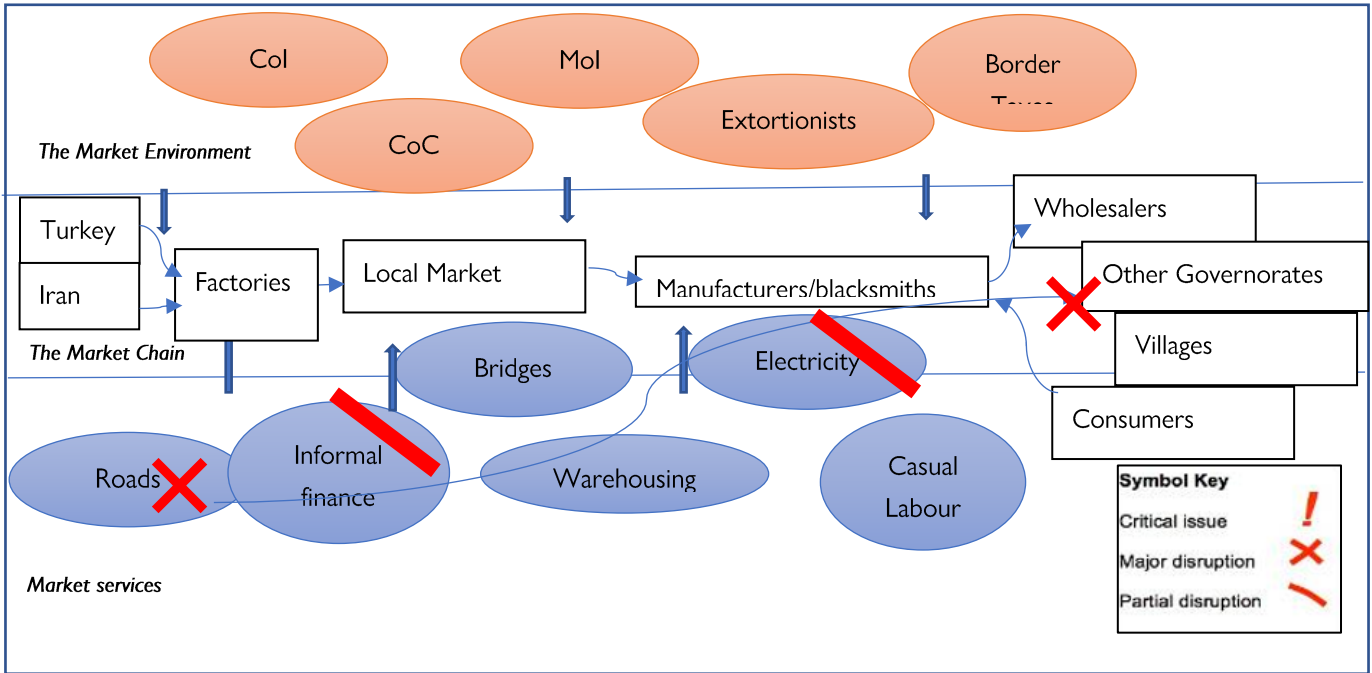


Figure 5 Market System Map: Metal Plates Current

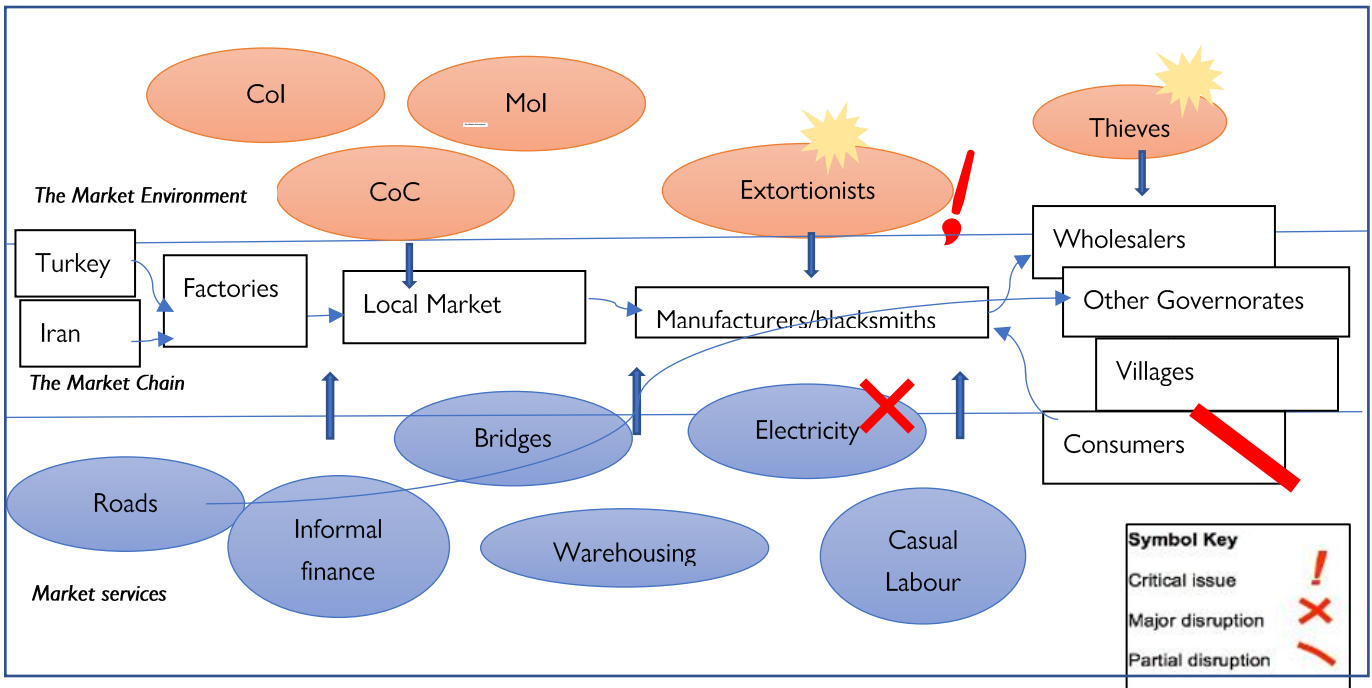


Figure 6 Market System Map: Metal Plates During 2014-2017

Opportunities for employment creation

The evidence does not suggest that there are challenges in finding skilled laborers: 71% of businesses reported that it was easy to find skilled workers. However, textile design, aluminum production, carpentry and marketing were mentioned as specific skills that could be hard to find among the local workforce.

As mentioned in the limitations, the diversity of respondents was not assessed with the survey as this was considered a sensitive issue. However, some analysis of the tendency to look outside of one's networks for employees was possible, revealing that 62% of businesses surveyed had already hired at least one relative. This has important implications for the likelihood that beneficiaries will reach out to marginalized communities for new workers, and may require proactive programming to ensure diversity, equity and inclusion in hiring practices.

Recommendation 7: Ensure equality in the outreach designed to share the call for Expressions of Interest in order to avoid strengthening existing inequities

| Diversity, equity and inclusion in hiring | | Type of business |
|---|-----|--|
| Businesses that hadn't hired any relatives | 38% | Manufacturing, blacksmith, carpenter |
| Businesses that have 1 or 2 relatives currently working for them | 29% | Textiles, manufacturing, restaurants, carpenters, food retailers |
| Businesses that have more than 2 relatives currently working for them | 33% | Manufacturing, food processing, carpentry, tailoring |

Table 5 Hiring Practices

If supported with a grant of up to USD 25,000, 66% reported that they would expand in ways that would require new workers. They may have been affected by the nature of being interviewed by a humanitarian organization whose intention is to promote employment, however, and should be interpreted with caution.

| Employer Expansion Preferences | |
|--|-----|
| Expansion that would require additional workers | 66% |
| USD 25,000 is insufficient for our needs | 8% |
| Shop and location expansion | 8% |
| Machinery investment | 4% |
| Raw materials | 4% |
| I would pay my existing workers' salaries and expand | 4% |

Table 6 Expansion preferences

Recommendation 8: Limit grant modalities to include tranches, rather than purely supporting capital intensive investments, to increase the likelihood of labour intensive investments

Potentials for market distortion

Finally, it is important to consider how a grant mechanism can crowd out private investment and financial services or hurt the credit culture of an area. An oversupply of skills in one area, for example, can affect job openings and pay, and a lenient financial service can create higher contract enforcement costs for other financial actors.

All (100%) of key informants were of the opinion that public actors were not doing enough to encourage investment and development, and that no sectors were having instruments developed that could compete with cash grants from IOM. However, during the focus group discussion, one participant, a farmer, mentioned how his harvests were purchased by the Iraqi Government, indicating an agricultural subsidy that IOM should not try to substitute.

The pilot assessment also sought to understand what businesses could be considered oversaturated and undersaturated. Of these, food processing and construction were most repeatedly listed.

| KII Reportedly oversaturated sectors | Responses |
|--------------------------------------|-----------|
| Food items | 4 |
| Construction | 2 |
| Livestock | 1 |
| Textiles | 1 |
| Other nonfood items | 1 |

Table 7 Oversaturated sectors

| Employer reported demand and demand issues | Responses | Type of Business |
|--|-----------|---|
| There is good demand for my products | 4 | metal, textile, textile, food, plastics |
| Demand is medium | 2 | textile, carpentry |
| There is not enough demand | 5 | metal, construction, restaurant |
| My clients buy on debt and sometimes can't repay | 8 | Metal, carpentry |

Table 8 Self-reported demand issues

Low demand was also reported by employers in the metal, construction and restaurant industries, but a much more prevalent concern was that clients who would borrow on debt and fall behind in the payment of installments.

Recommendation 9: Limit grants to businesses in oversaturated sectors that may face demand issues later.

Recommendation 10: Avoid granting to the agricultural sector

Recommendation 11: Coordinate with government stakeholders to build longer-term investment plans as opposed to one-off cash injections

Recommendation 12: Restrict beneficiaries from selling to clients on credit

Conclusions

The overall objective of the pilot assessment, which was to determine “Which small and medium enterprises have suffered from market failures due to the conflict, that, if addressed through matching grants and business development service, could create the need for additional labour, without market distortion?” necessarily required a different set of research questions than a market assessment done in an emergency setting for cash-transfer programming or intended to capture food security outcomes. The pilot therefore tested a number of new tools which indicated that nearly all enterprises suffered from market failures, but particularly those that work with imported goods for their raw supplies and are not registered, due to high taxes and inconsistent border coordination.

Addressing these issues with matching grants and business development services will be more likely to create additional labour if the cash is used in labour-intensive investments. Since enterprises tend to recruit with partiality for their known networks, IOM should also mainstream diversity and equity in hiring practices.

And finally, the lack of public and private investment in businesses currently means that there is no clear type of investment IOM should avoid for fear of crowding out the development of local investment. Opportunities to build a credit culture through the graduation of beneficiaries to lending products is a possibility, but was not high in the expressed priorities of respondents. Rather, IOM may want to think towards the long-term creation of a diverse market with more complex supply chains, and more buyers and sellers, and to avoid contributing to the creation of natural monopolies.

Pilot tools could be better refined to capture existing monopolies, the length and complexity of supply chains now as compared to pre-ISIL, and possible push-pull programming opportunities for building inclusive market systems. The results – and indeed the tools – are certainly limited in their macro-economic generalizability and quantitative precision. However, for the purposes of a pilot, the tools indicated that qualitative approaches could be worthwhile in such a context. As such, a dual qualitative/quantitative approach can be kept when scaling up the pilot to a full assessment, in order to not lose some of the contextual details and information shared in the current format.

Annex 1: Recommendations from the pilot market assessment

Recommendation 1: Revise focus group discussion guides to target a more defined group and identify market systems under the EMMA framework.

Recommendation 2: Focus selection of beneficiaries in Mosul in west Mosul for higher impact.

Recommendation 3: When scaling up, seek more respondents in the construction sector for a more representative sample of industrial businesses in Ninewa.

Recommendation 4: Expand the survey size to a minimum of 100 respondents per location for the full Enterprise Development Fund

Recommendation 5: Ensure that female staff are involved in surveying to increase the likelihood of the inclusion of women in the sample.

Recommendation 6: Roll out the implementation of mobile data collection tools to automate the data analysis for the full assessment.

Recommendation 7: Advocate, through the IOM Migration Management Unit, for coordinated awareness raising about border controls for items, especially those causing economic losses locally.

Recommendation 8: Ensure equality in the outreach designed to share the call for Expressions of Interest in order to avoid strengthening existing inequities.

Recommendation 9: Limit grant modalities to include tranches, rather than purely supporting capital intensive investments, to increase the likelihood of labour intensive investments.

Recommendation 10: Limit grants to businesses in oversaturated sectors who may face demand issues later.

Recommendation 11: Avoid granting to the agricultural sector.

Recommendation 12: Coordinate with government stakeholders to build longer-term investment plans as opposed to one-off cash injections.

Recommendation 13: Restrict beneficiaries from selling to clients on credit.

Annex 2: Market Assessment Plan

IOM aims to restore essential economic infrastructure and contribute to job creation in primary and secondary economic sectors that were successful prior to the conflict but suffered loss and damage and need assistance to resume activities. The IOM Business Development Fund will aim to encourage the return and reintegration of Iraqis through, directly, matching grants and business development support to businesses, and indirectly, sustainable job creation.

To provide support to small and medium enterprises (SMEs), it is necessary to understand underlying factors that limit the growth potential and competitiveness of SMEs, and as a result their ability to stimulate job creation and other positive social and economic returns. This involves assessing the current market situation by identifying the constraints, obstacles or bottlenecks that inhibit growth, and understanding the outlook and potential of the market (challenges and opportunities). This information will then allow IOM to develop targeted interventions. The general themes are: competitors (local/international), market place (demand, supply, quality information), context (security, cultural, corruption), labour supply (skills), infrastructure (IT, physical), regulatory (laws), financial (taxes, interest rates, access to credit, access to markets).

The question therefore best answered by a market assessment would be:

1. Which small and medium enterprises have suffered from market failures due to the conflict, that, if addressed through matching grants and business development service, could create the need for additional labour, without market distortion?

This is a multipart question that can be broken into several sub-questions:

Research sub-question

- A. Which small and medium enterprises suffered due to the conflict?
- B. What market failures can be addressed through matching grants or business development support?
- C. What cash grants could create the need for additional labour?
- D. What could cause market distortion?

The sub-questions, in turn, can be addressed through a combination of surveying tools:

| Research sub-question | Information needed | Source of data |
|--|---|---|
| <p>E. Which small and medium enterprises suffered due to the conflict?</p> | <p>Direct consequences of conflict for SME owners and workers</p> | <p><i>How have political events affected your business? Describe the current status of your business (FGD, Q4)</i></p> <p><i>Did you manage your business differently during 2014-2017, and how did it affect your revenue? (ES, Q3)</i></p> <p><i>How would you describe your business performance from before ISIS, during ISIS, since liberation? (ES, Q4)</i></p> <p><i>How will recovery continue to impact your business over the next 12-months. (ES, Q5)</i></p> <p><i>Do businesses selling your product or providing your services in this area generally make a small or sizeable profit? (ES, Q8)</i></p> <p><i>Prior to the crisis, what sectors were the biggest employers in the city? What happened to these sectors? (KII, Q4)</i></p> |
| <p>E. What market failures can be addressed through cash grants, or may be better supported through other business development services?</p> | <p>Supply-side and demand-side bottlenecks due to constraints/obstacles</p> | <p><i>Where do you get your raw product from? Is it sufficient in quantity and quality? (FGD, Q1)</i></p> <p><i>Who do you sell your product to? (FGD, Q2)</i></p> <p><i>How much time does it take to sell your product to a buyer- do you usually have enough stock to meet demand? (FGD, Q3)</i></p> <p><i>Where do you get your product from? Is it sufficient in quantity and quality? (ES, Q10)</i></p> <p><i>Who do you sell to? How is the demand for your product these days? (ES, Q11)</i></p> <p><i>What is the single greatest challenge that you face operating in Mosul, what are the other challenges? For the challenges you have identified please indicate what kind of changes would improve your ability to do business. (ES, Q8)</i></p> <p><i>What challenges do you face dealing with clients? (ES, Q7)</i></p> <p><i>What challenges do you face dealing with suppliers? (ES, Q6)</i></p> <p><i>What kinds of government policies or programs, or infrastructural improvements, could strengthen your business? (ES, Q13)</i></p> |

| | | |
|---|--|--|
| | | <p><i>What sort of training or skills do you need to run this business? Have you received any sort of formal or informal job or entrepreneurship training? (ES, Q14)</i></p> <p><i>Have you ever considered expanding your business (e.g. opening another location, adding more products/services, hiring more employees, etc.)? If you have already, what key factors helped you to do so (e.g. bank, VSLA, or personal loan; government investment fund; family to staff 2nd location, etc.). If you have considered this but found it difficult, what were your primary barriers to growth/expansion? (ES, Q15)</i></p> |
| F. What cash grants could create the need for additional labour? | Evidence of scalability, networking beyond internal networks | <p><i>How many of your employees are related to you? (ES, Q13)</i></p> <p><i>How many of your employees are considered skilled/unskilled? How hard or easy is it to find qualified workers? Why? (ES, Q11)</i></p> <p><i>In your experience, are labour laws strictly followed by employers and enforced by MoLSA? Could most businesses show proof of registration, company social security numbers, and personal income taxes for employers? (FGD, Q5)</i></p> <p><i>What sectors are currently underdeveloped and/or have significant potential for growth? (KII, Q7)</i></p> |
| G. What could cause market distortion? | Which SME's would not have been competitive anyway | <p><i>Are there a lot of businesses like yours? (ES, Q8)</i></p> <p><i>What sectors are oversaturated / face too much competition? (KII, Q2)</i></p> |
| | Which areas are other private sector funders targeting, including public actors such as government programs, that could crowd out investment | <p><i>Into what sectors is private investment flowing (either from local or international investors)? Are these sectors affected by external factors, for e.g. seasonality? (KII, Q5)</i></p> <p><i>What have been the biggest changes in the business environment have you observed over the past six months? (KII, Q10)</i></p> <p><i>What are the priority sectors that the government is encouraging development in? (KII, Q8)</i></p> <p><i>What major economic development initiatives are important for business? (KII, Q12)</i></p> |

Annex 3: Surveying Tools

Focus group questionnaire for small business owners

The market chain

1. Where do you get your raw product from? Is it sufficient in quantity and quality? Has this changed in the last 5 years and how?

2. Who do you sell your product to? What challenges do you face dealing with clients?

The market environment

3. What challenges, if any, do you face from regulatory bodies or agencies?

4. Have you experienced extortion or corruption in the last 5 years? From who?

Infrastructure services

5. Do you have to use credit in your business? Do you have any issues with this?

6. What services do you pay for to run your business? What challenges do you have with these?

Key informant interview questions

1. Respondent:

2. Occupation:

3. Organization:

4. Prior to the crisis, what trading and industrial sectors were the biggest employers in the city?

5. What happened to these sectors (*that have been listed*)?

6. What sectors currently employ the most people in the city?

7. What sectors are oversaturated or face too much competition?

8. What sectors are currently underdeveloped and/or have significant potential for growth?

9. What are the priority sectors that the government is encouraging development in?

10. Into what sectors is private investment flowing (either from local or international investors)? Are these sectors affected by external factors, for e.g. seasonality?

11. Was there anything else you would like to tell us?

Employer Questionnaire

Respondent:

Phone number:

Gender:

Age:

Type of business:

Number of employees:

Length of time business has been operational:

1. How did you decide to start your business?
2. Are there a lot of businesses like yours?
3. Did you manage your business differently during 2014–2017, and how did it affect your revenue?
4. How do you expect your business to recover or expand over the next 12 months?
5. Where do you get your product or raw materials from? Is it sufficient in quantity and quality? What challenges do you face dealing with suppliers?
6. Who do you sell to? How is the demand for your product these days? What challenges do you face dealing with clients?
7. What are the main recruitment mechanisms in Mosul? Word of mouth, formal job advertisements?
8. How many of your employees are related to you?
9. How many of your employees are considered skilled/unskilled? How hard or easy is it to find qualified workers? Why?
10. What is the single greatest challenge that you face operating in Mosul, what are the other challenges? For the challenges you have identified, please indicate what kind of changes would improve your ability to do business.
11. What kinds of government policies or programs, or infrastructural improvements, could strengthen your business?
12. What sort of training or skills do you need to run this business? Have you received any sort of formal or informal job or entrepreneurship training?
13. Have you ever considered expanding your business (e.g. opening another location, adding additional products, hiring more employees, etc.)? If you have already, what key factors helped you to do so (e.g. bank, VSLA, or personal loan; government investment fund; family to staff second location, etc.). If you have considered this but found it difficult, what were your primary barriers to expansion?
14. If you were to receive unrestricted funding of USD 5,000 to USD 25,000 for business expansion purposes, what would you likely spend this.