



**DR. HEISE
CONSULTING GMBH
LUZERN/SCHWEIZ**

LUCERNE ■ KIEV ■ TEHRAN ■ HAMBURG ■ WIESBADEN

Business Opportunities – IRAQ

Prepared by: Babak Cheraghchi Bashi Astaneh

Located in the Middle East, Iraq has recently been the centre of attention in the world news. Despite the existence of various business opportunities in this country, it has often been neglected by the leading companies due to the unstable economic and political situation as well as various threats which made the country unsecure for investment.

Figure 1 shows the ethnic group and religions in Iraq at a glance. We will discuss them in details later in this article.

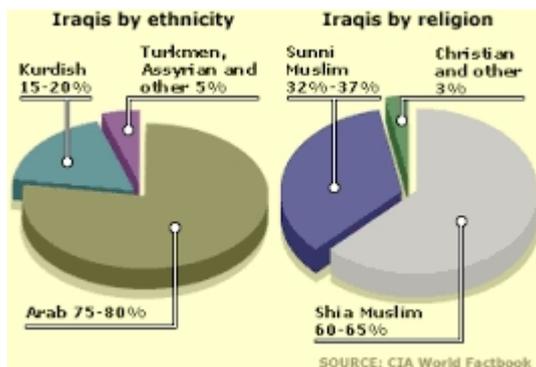


Figure 1: Ethnic Group and Religions in Iraq

Iraq consists of 18 provinces. The total population is around 38.5 million. It is divided into two major regions: Iraqi Kurdistan (which is sometimes referred to as Northern Iraq) and the Southern region.



Figure 2: provinces in Iraq

Since these two regions are totally different from each other, they are usually treated as two different countries. Therefore it would be a good idea to be analysed separately.

Iraqi Kurdistan

Located in the northern Iraq, it consists of three provinces: Erbil (also Arbil in Arabic and Hawler in Kurdish), Sulaymaniyah (also Sulaymani in Kurdish), and Dohuk (also Dahuk in Arabic). The centres of these provinces are the cities with the same names and Erbil is the capital of the region. This region has its own government which is referred to as Kurdistan Regional Government (KRG). KRG is centred in Erbil and they have their own parliament and ministers. Companies operating in Kurdistan are supposed to obey Kurdistan rules and get various operational permits from KRG. Even to register a company and a brand in the region, it must be authorised by KRG. According to the KRG policy, to register a company in Kurdistan, it is much easier to register it as a JV with a Kurdish partner (the majority of the share percentage should be owned by the Kurdish partner). This registration will be smoother in terms of paper work and needs less security check. If you want to register a branch of a foreign company, it definitely takes longer (sometimes up to 6 months) and needs additional approvals and security checks. To obtain residence permits for foreign employees, the process is easier in case of registering a JV company.

Security issues

Kurdistan is a rather safe area. There have been very few bombing incidents in the region for the past couple of years. However, there are regular check points while traveling inside or between the cities. Foreigners are strongly recommended to carry their IDs (residence permits) all the time while travelling. There might be some unexpected checks as well inside the malls or in the streets. Police registration is obligatory for foreigners from all nations. Police should know where a foreigner lives and works. This also includes people from the southern region. In general security is not a major concern for the companies and expats in Kurdistan.

Ethnic groups

The majority of the people in Kurdistan are Kurds coming from different tribes including Surani (Erbil and Sulaymaniyah), Badini (Dohuk and the cities around). There is a small number of Arabs in the region who were either born in Kurdistan or migrated from the southern region years ago. A very small percentage includes Turkmens.

Religion

About 95% of the people in Kurdistan are Muslim Sunni. The rest 5% are Christians (who are mostly Arabs) or Izadi.

Weather

Kurdistan has very hot summers and mild winters. In summer the temperature reaches to around 50 degrees Celsius and it is dry and not humid. In winter it mostly rains and rarely snows. The minimum temperature in winter is around 10 degrees Celsius. Winters are often wet in Kurdistan.

Business related issues

In terms of business, this region is highly price oriented. Quality is not that much of a concern therefore high quality brands have a tough job to do. However, the world leading and famous brands might be considered as the first choice in the market despite the high price mostly by high class families.

Modern trade and hyper markets are just welcomed by either high class Kurds or Arab citizens. Generally speaking hyper markets are not considered trustworthy in the region.

Kurdish people never trust banks. That is why despite the high variety of the banks, they do not have many customers. The reason is the various chaotic situations during history of the region when banks did not respond or were not able to pay the people's money back or got bankrupt. Therefore, the majority of the people keep their money at home.

Using credit/debit cards is very rare. The majority of the shops are not equipped with card machines and there are few ATMs in the cities. You can find ATMs next to the banks or in the shopping malls and shops with card machines in shopping malls only. So most of the business is done by cash only.

A great percentage of the people work for government entities and their salary is paid by the central government in Baghdad. Unfortunately, for the past several months, their salaries have not been paid regularly causing this issue to affect the business. This makes the sales forecast complicated. That is why there are good and bad months for the companies in terms of sales figures despite an accurate prediction.

The Kurdish people are very patriotic and love their region. They are also very sensitive towards their language. So in the government entities all the documents and verbal conversation should be in Kurdish although most of them understand Arabic. English is not widely spoken and the majority of people in the government and society do not speak English.

Since Iraq and Turkey share a border and there's a very good relationship between KRG and Turkish government, Turkish companies have the majority of market share in the market especially within FMCG. It is difficult to beat Turkish brands in the market. In general, the presence of products from neighbouring countries is considerable. Turkish brands in Erbil and Dohuk, Iranian brands in Sulaymaniyah, and GCC (Gulf Countries Council) brands and Jordanians are imported from the southern region of Iraq. Turkish brands are supported very much by the locals. However, they have a strong belief in the European and American products as well.

The figure below shows the evolution percentage of the various industry sectors in terms of investment attraction in Kurdistan:

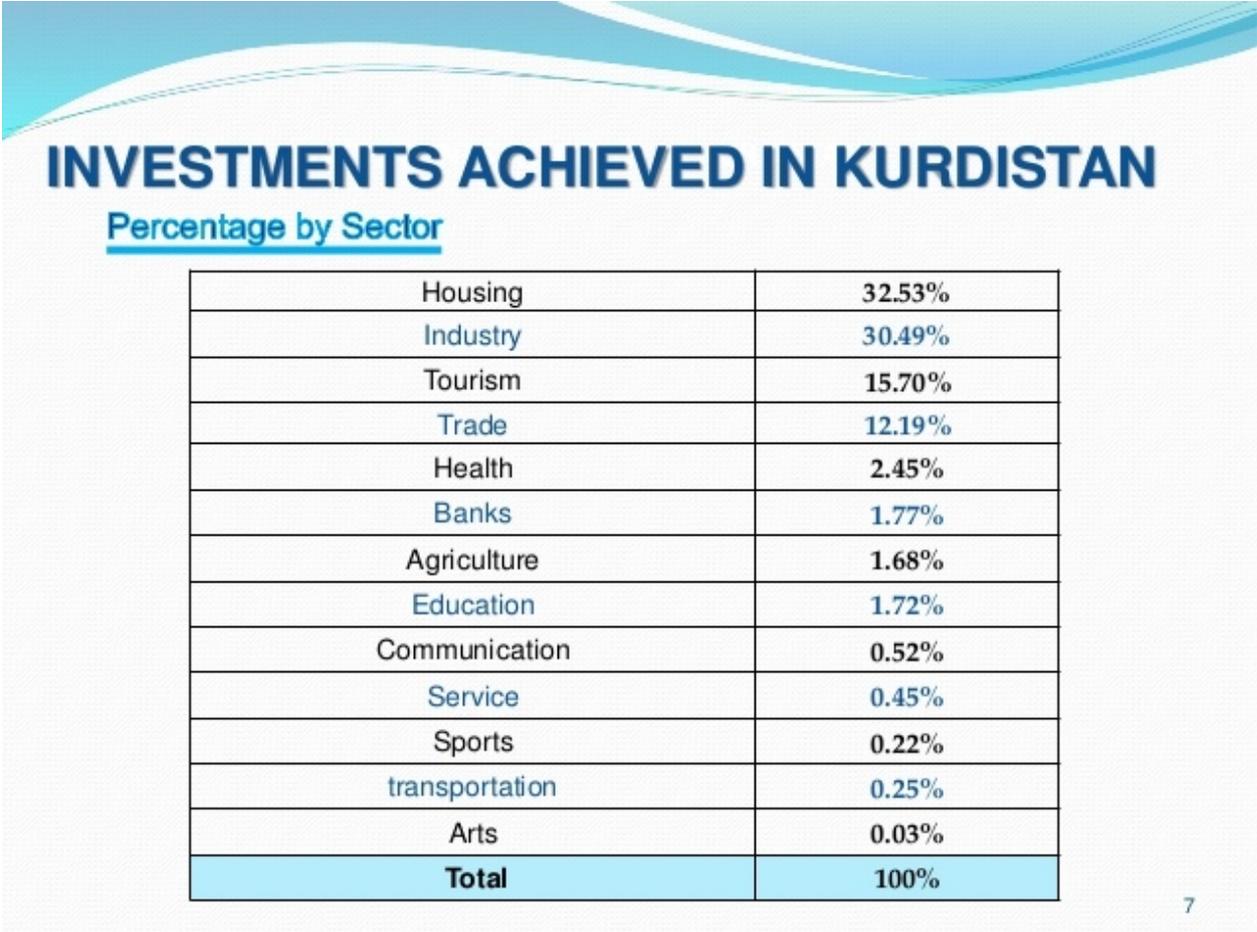


Figure 3: Industry attraction percentage

Southern Region

It is the major part of Iraq consisting of 15 provinces under control of the central government of Iraq. The capital is Baghdad. This area has a population of almost 30 million people. Companies willing to operate in this region do not have a difficult job in terms of registering the brand and company. The regulations are not as strict as the ones in Kurdistan. However, it is still a good idea to form a JV due to some social and economic facilities that the Iraqi partner can have. There is no security check to register a company in this region so the process is much easier.

Security issues

It is the major concern in this region. Kurdistan is much safer to live and work comparing to the southern region. The suicide bombing incidents has made the life a nightmare for the locals. It is a good idea to avoid being in public places such as bazar, crowded restaurants, city centre, etc. during the day. Since most of the bombing events take place during the day, it is rather safe to go to the public places at night. Almost no bombing incident has happened in the evening. Not all the cities have security issues and some of them are really safe. Those are the cities in which the majority of Shia people live such as Najaf, Basra. Although Baghdad is the centre of business and that is where most of the foreign companies are based, it is not a safe place at all and most of the bombing incidents happen in Baghdad even a couple of times a day. Another issue that many foreigners or even locals might find it bothering is the number of check points in a city. It might take you only three minutes to get to the next check point after leaving one. Obviously this will be worth during a special military situation. Many foreigners find the check points very annoying since they ask the passengers to leave the car and they do a general search and check on the car and passengers. So this might be of a concern especially while traveling between the cities. All passengers should carry their IDs (residence permits) while traveling inside or outside the cities. In general security is a big concern for companies and expats in the southern region.

Ethnic Group

The majority of the people in southern region are Arabs coming from different tribes and families. There are very few Arabs from other Arabian countries in the region including Syria, Lebanon, etc.

Religion

About 95% of the people in this region are Muslims and 5% are from other religions including Christianity. Around 65% of the Muslims are Shia mostly based in provinces such as Najaf, Karbala and 35% are Sunni.

Weather

Weather in the southern region is very hot during summer (reaching 55 degrees Celsius sometimes) and very mild in winter (minimum temperature is 15 degrees Celsius). There are sometimes heavy rains during autumn and winter. Sand storm in summer is also a major concern.

Business related issues

This region is also very price oriented. Although many famous and leading brands are visible in the market, price is still a very important factor to have a growing business. Quality is not that much important to the majority of people.

There is almost no modern trade or hyper market in this region. This sector is not welcomed by the people and somehow they do not believe in it. They prefer to go to bazaar or small shops and supermarkets to shop.

Banks have a better situation in this region than in Kurdistan. A great percentage of people prefer to keep their money in the banks.

Credit/debit cards are not used widely. There are few shops accepting cards due to not having the facility. Most of the business is done in cash. However, you can find ATMs on the streets and next to the banks.

The official language is Arabic and English is not spoken. The majority of people do not know English. It is necessary for the foreigners to have a translator with them.

A great deal of imported products come from Jordan due to the easy customs process for Jordanian goods. Also you can find products from Lebanon, KSA and UAE in the market. These countries have the maximum market share in the imported sector. In terms of technology and modern industry, they mostly rely on American and Japanese products.