

## Entrepreneurship Opportunities And Challenges In The Kurdistan Region Of Iraq (KRI)

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### Abstract

*This paper intends to examine the opportunities and challenges of entrepreneurship in the Kurdistan Region of Iraq (KRI). It listed out the opportunities for promoting entrepreneurship in the region such as leasing of land for startups on subsidy, financing for public infrastructure, exemption of customs duties on imported raw materials, allowing 100% foreign ownership for the new establishments, allowing transfer of investment, and exemption from corporate taxes. It also identified the few challenges for the entrepreneurial activities in the region such as lengthy and costly process to start the business, inconsistent and outdated regulatory policies, lack of protection for intellectual property (IP), limited access to the capital, lack of entrepreneurial mindset, skill gap for employability, and the corruption as well as terrorism in the region. However, it is felt that the direct support to the aspiring entrepreneurs would probably promote the startups in the region without imposing some of the legal and regulatory restrictions. Finally, it is recommended to start the incubators as well as labs for the development of entrepreneurship in the region for not only improve the business activities but also for the generation of employment in the private sector across the KRI.*

**Key terms:** *employability, entrepreneurial activities, entrepreneurial mindset, entrepreneurs, entrepreneurship, skill gap.*

### I. Introduction

The federal region of Kurdistan in northern Iraq has 61% of the working-age population (15-64yrs) and the region has 66% of the active male workforce and the female workforce is 14% (KRSO, 2019). The Kurdistan Region of Iraq (KRI) has 80% of the youth working-age population (15-24yrs) in urban areas and 86% are from rural areas. Among the youth working population in the region, 21% are working in the public sector under Kurdistan Regional Government (KRG) and 57% are working in the private sector. However, the unemployment rate in the region has increased from 7.1% in 2014 to 14% in 2018. According to the sources, until 2018, a total of 119 big establishments (public sector 12) are operating in the region and 421 medium establishments (public sector 36), 10387 small establishments (formal sector), 2300 foreign companies, and 15000 domestic private enterprises are functional in the region (Shatz et al., 2018).

According to the Institute of Regional and International Studies at the American University of Iraq, the Kurdistan region rely disproportionately on employment in the public sector enterprises which hinder the growth of the private sector as well as a major barrier for the region to emerge as a stronger economy in the middle east (Bartnick, 2017). It is also identified that there are shortcomings in the structural models of the ecosystems for the startups in the region which include a lengthy and costly

process to start the businesses, limited capital access, inconsistent and outdated regulatory policies, missing entrepreneurial mindset, lack of creativity and collaboration, a skills gap for employability, and the dominant indicative barriers for regional development such as corruption and terrorism.

In this context, this paper discusses not only the above-mentioned challenges for entrepreneurship in the Kurdistan region of Iraq but also the remedial measures as provisions of opportunities for streamlining the procedures to clutch the new opportunities for business incorporation in the region. The provisions for promoting entrepreneurship are such as land plots for subsidized lease, public infrastructure to the project finance, exemptions from customs duties for imported raw materials, allowing 100% foreign investment, exemptions from corporate taxes, transfer of ownership to another national or foreign investor, and the provision of investment without the local partner. However, the composition of trade and investment in the region is initially reviewed in the following section to realize the importance of sectoral growth opportunities for new enterprises in the region.

## II. Trade and investments in Kurdistan.

The majority of imports of the Kurdistan region are from neighboring countries such as Iran, Turkey, Arab Emirates, East Asia, and European Countries as shown in table 1. Overall, nearly 58% of the total imports of Iraq are for the Kurdistan Region. The major share of imports of the Kurdistan region is minerals, chemicals, and industrial products. Entrepreneurs in this region should focus on these sectors to reduce the dependency on imports.

Table 1: Imports of Iraq as % to KRI total, 2018 (value in \$1000).

<i>Imported items</i>	<i>Iraq</i>	<i>KRI (% in Iraq)</i>	<i>% to KRI total</i>
Live Animals, Animal Products	2,800,261	1,604,704 (57.30)	5.62
Vegetable Products, Prepared Foodstuffs, Beverages, Alcoholic drinks, Vinegar, Tobacco, and Animal or Vegetable Fats	8,546,784	4,846,240 (56.70)	16.97
Mineral, Chemical, and industry Products, main Metal, Building material, Plastics and articles thereof	16,298,841	9,039,149 (55.45)	31.66
Textiles, Clothes, Footwear, Headgear, and Umbrellas	831,678	519,265 (62.43)	1.81
Wood and Articles thereof, Charcoal, Cork, Pulp of Wood or of other Fibrous Cellulosic	5,506,053	4,072,288 (73.96)	14.26
Machinery, Mechanical & Electrical Appliances, Transportation means, photography tools, Medical Tools, Controlling and Measuring Tools, Gun & Ammunition, Work of Arts, Antiques and Perfumes	15,374,960	8,463,099 (55.04)	29.68
Total	49,358,578	28,544,746 (57.83)	100.00

*Source: Kurdistan Region Statistics Office, 2019.*

The sectoral gross domestic product (GDP) of Iraq as shown in table 2 indicates that there is an increase in the GDP of the agriculture sector and oil, manufacturing, and trade sectors. However, there is a decrease in the GDP of mining, finance and insurance, and the services sector. Besides, there is a stable growth rate in GDP recorded in electricity, building and construction, and transport and communication sectors.

Table 2: Iraq's sectoral GDP growth rates (%): 2015-18.

<i>Sector</i>	<i>The base year 2015</i>	<i>2018</i>	<i>2022 (E*)</i>	<i>Indicator</i>
Agriculture	2	2.1	2.2	Increase
Oil	55.4	56.1	57.3	Increase
Mining	0.2	0.2	0.1	Decrease
Manufacturing	0.8	0.9	1.1	Increase
Electricity & Water	1.2	1.1	1.1	Stable
Building & Construction	7.6	7.5	7.5	Stable
Transport & Communications	7.8	7.8	7.9	Stable
Trade	8.2	8.4	8.9	Increase
Finance & Insurance	6.4	5.7	4.8	Decrease
Services	10.7	10.1	9.2	Decrease

*\*E is expected GDP growth rate.*

*Source: National Development Plan (NDP): 2018-2022. Ministry of Planning, Republic of Iraq, 2018.*

As shown in Table 3, the investment pattern in KRI since 2006, the year in which the investment law of KRG is established, indicates that the housing and industry sectors together attracted more than 60% of the investment. More than 25% of investments attracted by the tourism and trade sectors. Health, banking, agriculture, and education sectors are attracted to a small portion of investments. Services, sports, transportation, and arts are the least attractive sectors.

Table 3: Sectoral response to \$41bn capital investments in 10yrs (2006-15).

(KRG investment law established in 2006)

<i>Sectoral Trend</i>		<i>Investment Trend</i>
<i>Sector</i>	<i>%</i>	
Housing	32.53%	Projects licensed: 721 Land allocated: 52,436 Dunams (equal to about 900 square meters). Domestic investment: 77% Foreign investment: 14% (Major share: Kuwait 9.2%, Lebanon 4.53%, Turkey 4.19%, Iran 2.7%) Joint Ventures: 9% Total Investment: \$41bn
Industry	30.49%	
Tourism	15.70%	
Trade	12.19%	
Health	2.45%	
Banking	1.77%	
Agriculture	1.68%	
Education	1.72%	
Communication	0.52%	

Services	0.45%	
Sports	0.22%	
Transportation	0.25%	
Arts	0.03%	
Total	100%	

*Source: Kurdistan Board of Investment (BOI): Data summated from its three branches in Erbil, Slemani, and Duhok.*

### **III. Opportunities for entrepreneurship in Kurdistan**

Ahmad and Seymour (2008) define entrepreneurship as the process that identified the opportunities in the economy. They stated that entrepreneurs make the decisions bravely and deal with the conditions of the business which are uncertain in the future. It is also mentioned that the success or the failure of the entrepreneurs depends on the basis of their correctness in the anticipation of such uncertain future events. Otherwise, Tasie (2017) also mentioned that entrepreneurship is of finding opportunities by correlating the situations of gaining profits and to the behavioral response of entrepreneurs by way of decisions in uncertain conditions of the business for a possible chance of obtaining the profit. This would mean that the firms should be opened in the economy for bringing transition from a socialist economy to the market economy where everyone participates for the growth and development of the economy with equal opportunities. Much before to this, Begley (2001) opined that the entrepreneurship is crucial for such transition of economies not only to maintain the markets but to solve the problems during an economic crisis.

In this context, the aspiring entrepreneurs in the Kurdistan region of Iraq are well known to the fact that despite the threat of Islamic State in the Middle East, political conflicts between the United States and Iran which subdue the territorial conspiracies in Iraq, and the protests against the government in Iraq, the region of Kurdistan remained safer than its' neighboring countries. This kind of atmosphere of security is certainly a great deal of advantage to attract the international investors who look for more development of the regional economy by building the infrastructure and enterprises to grab the opportunities especially in tourism, agriculture, and natural resources as discussed in section II of this paper erstwhile.

Also keeping in view that the Kurdistan region has great expertise in scientific advancements and have potential human resources, the regional government is flexible in the formulation of policies and economic structure to transform the economy to develop the entrepreneurship in the region. The government is also promoting education for entrepreneurship by establishing the centers for consultancy and the development of technology in the region. Presently it is executing the policies to further develop the knowledge economy.

In addition, the regional government is also providing major incentives to the investors as follows:

1. Provision of land plots for subsidized lease.

2. Provision of public infrastructure (e.g. water, electricity, sewage, public roads) to the project finance.
3. Exemption from customs duties for imported raw materials (5 years); additional different customs duty exemptions.
4. 100% Foreign Ownership is allowed.
5. Transfer of investment to another foreign or national investor.
6. Exemption from corporate taxes (10 years).
7. Possibility to invest in Kurdistan with or without local partners and to employ foreign labor; however, it is mandatory to register the company.

Moreover, these incentives targeted the following policy implications in the region.

1. To open up the ways for sustainability support for the development and the diversification of the economy in the region beyond the oil and gas sectors.
2. To create the business climate which is more conducive to promote the investment in the region.
3. To remove the obstacles from legal and regulatory authorities to open ways to attract more investments from local and foreign investors.

#### **IV. Challenges of entrepreneurship in Kurdistan**

Dovbiy et al., (2017) mentioned that the impact of entrepreneurship on the societies is vast which is ranging from the creation of employment, expansion of world markets, effective resource utilization, investment encouragements for development of new technologies, and more wealth creation in the society. However, from the beginning of the 1980s, governments across the world are changing policies for the encouragement of entrepreneurship and to facilitate businesses to rely on governments to manage their businesses (Nkechi et al., 2012).

In the Kurdistan region of Iraq, there is a readiness of the government for the development of entrepreneurship to play a major role in the international markets to challenge the sustainability, competitiveness, and generation of employment as discussed in the beginning introductory part of this paper. In addition, the regional government in Kurdistan in coordination with the government of Iraq is always supporting the activities for capacity building in the region which comprises mainly of conducting training programs at all education levels on skill development which is an approach of market-based economies in the world. But, the development of entrepreneurship requires not only identifying the opportunities but the readiness to get rid of the barriers for creating appropriate situations for improving the productivity in the economy in order to produce more goods and services (Mohammadali & Abdulkhaliq, 2019).

In this context, the following challenges are facing by the entrepreneurs in the region to improve their entrepreneurial activities and to improve productivity in the region.

1. *The lengthy and costly process to start the business:* It takes months to get the permissions. In the best of the circumstances, the process of getting permission to start a business is one month and it costs more than 3mn Iraq Dinars (IQD) or \$2500.

2. *Inconsistent and outdated regulatory policies*: The regulatory policies of the regional government are not supporting the new business models like e-commerce and electronic payments. Because the region is under-banked and it is extremely difficult to make the online transactions in both Kurdistan as well as in Iraq.
3. *Lack of creativity and collaboration*: The region has no meaningful protection for intellectual property (IP) which discourages the collaboration and creativity for innovations. This leads to imitation and opens the ways for outright theft of technologies.
4. *Limited capital access*: Due to the frequent financial crisis in the region because of fluctuations in the oil prices, very little amount of seed capital is available for entrepreneurs in the region. Moreover, there is no legal infrastructure to support bank credit or private investment for seed capital. Also, there is a lower level performance of Tamwil loan program of the government which is to offer competitive loans to business enterprises at a maximum of 4.5% rate of interest.
5. *Missing entrepreneurial mindset*: There is no creation of special economic zones (SEZs) for the promotion of small and medium enterprises (SMEs). Also, there are no subsidies for industrial infrastructure facilities. However, these drawbacks would significantly impact the entrepreneurial ecosystem.
6. *Skill gap for employability*: There is no collaboration between the industries and educational institutions in the region. Also, there are no adequate research and development (R&D) facilities in the region.
7. *Corruption and terrorism*: Frequent wars in the region cause cancerous effects in the economy such as corruption and terrorism. This results in the poor-governance and re-production of the mindset of risk-averse which encourages the youth to pursue job opportunities in the public sector.

## **V. Conclusion**

The present situation for entrepreneurship in the Kurdistan region is favorable to the entrepreneurs with numerous challenges to face because of uncertainty in the regulations to promote modern business plans. Even the startups in the region also facing these significant uncertainties. Overall, this paper has identified the opportunities for entrepreneurship such as the creation of SMEs for streamlining the startup business processes, bringing reforms with targeted legislation for the future growth of e-commerce and internet banking, giving incentives to the mobile banking and internet banking services, updating the legislation for protecting intellectual properties, favorable and transparent legal enforcement for the encouragement of the private investments, and organizing the training for the startup incubators.

Despite, few challenges for the entrepreneurship in the region are identified such as the costly and tedious process for business incorporation, inconsistent and outdated policies for business regulation in the region, low-level penetration of online and e-banking, lack of protection for intellectual properties, lower accessibility to capital, and low-level motivation among the youth for entrepreneurship.

Therefore, the most pertinent factor for supporting entrepreneurship in the region is to directly support the aspiring entrepreneurs to promote the startups without imposing some of the legal and regulatory restrictions (Muramalla & Al-Hazza, 2019). Finally, it is recommended that the incubators and labs for entrepreneurship development with minimum infrastructure and mentorship are necessary for the growth and development of businesses in the region which helps to generate employment in the private sector across the KRI.

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