



International
Labour
Organization

PROSPECTS



► **Advancing livelihoods
through financial
inclusion in Iraq**

July 2023

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Table of Contents

Executive Summary	9
1. Background and Methodology	13
2. Country Context: Iraq and the KRI	16
3. The financial sector	24
3.1 SME finance	29
3.2 Microfinance	32
3.3 Informal Finance	34
4. The Target Population	39
4.1 Socio-Demographic Characteristics	42
4.2 Displacement phases and migration paths	44
4.3 Legal Status, Requirements and Customer Due Diligence	48
4.4 Labour-market participation	55
4.5 Socio-economic Situation	61
4.6 Access to collateral – property and asset ownership	67
4.7 Savings practices	70
5. Conclusions and Recommendations	73
5.1 The scope of demand for formal financial services in the market.....	73
5.2 Recommendations for the financial inclusion of FDPs and host communities in northern Iraq ..	79
References	82

List of Tables

Table 1: Tentative scope of demand (see details in section 4)	11
Table 2: Economic indicators of Iraq	16
Table 3: Examples (end-2019) of electronic (card-based) and mobile (phone-based) transfer options ...	28
Table 4: Financial inclusion data, Iraq (Findex 2017)	35
Table 5: Overview of Iraqi IDP populations, December 2021	40
Table 6: Overview of FBR and refugee populations in Iraq (Dec. 2019)	41
Table 7: Tentative comparisons among sub-segments of the target population (in KRI/Dohuk, where available)	42
Table 8: Tentative comparisons among sub-segments of the target population (in KRI/Dohuk, where available)	43
Table 9: Refugees by legal document status, May 2020	53
Table 10: Initial impact of COVID-19 on employment in Iraq, June 2020 (sample survey, n=3,047)	58
Table 11: Tentative comparisons among sub-segments of target population (in KRI/Dohuk, where available).....	59
Table 12: Impact of COVID-19 restrictions on earnings of vulnerable non-displaced HHs in KRI/North (n= 1,129)	61
Table 13: Income, expenses and debt among sub-segments, 2021.....	66
Table 14: Housing, land and property (HLP) assets of displaced sub-segments, 2021	68
Table 15: Tentative comparisons among sub-segments of target population (in KRI, where available) ..	73
Table 16: Tentative scope of demand for formal finance	78

List of Boxes

Box 1: The Public Distribution System in Iraq	18
Box 2: Agricultural produce markets	20
Box 3: The CBI One Trillion Dinar Initiative	24
Box 4: Cihan Bank: An ILO PROSPECTS partner	26
Box 5: The Support of Small Income-Generating Project Law	30
Box 6: Camp-based cash in, cash out businesses need finance	56
Box 7: A returnee's view on farming prospects	57
Box 8: Reference data for earnings in Iraq	61
Box 9: Accessing finance for business	71

List of Figures

Figure 1:	ILO PROSPECTS intervention area	21
Figure 2:	The SME Financial Inclusion Index for the MENA region	29
Figure 3:	Functions of the ICF-SME	31
Figure 4:	Finance inclusion factors in Iraq, January 2019.....	35
Figure 5:	IDPs registered by ‘wave’ over time	44
Figure 6:	Distribution of returnees in Nineveh by condition of location, December 2021.....	45
Figure 7:	Stability of Syrian refugee population	46
Figure 8:	Intent of Syrian refugees in Iraq to return.....	47
Figure 9:	Percentage of households missing at least one key ID or civil document, August 2021..	50
Figure 10:	% households owning (red) or interested in opening (blue) an MSME, May 2017 (n=312).	60
Figure 11:	Income and expenses of refugee households in Iraq, 2020	63
Figure 12:	Average reported monthly household income and debt among Syrian refugees, 2021 (IQD 000s)	64
Figure 13:	Reasons for borrowing by wealth group (Nineveh and Anbar), 2021 (n=242).....	65
Figure 14:	Purpose of microfinance loans accessed by HHs in Nineveh, 2017 (n=312)	67
Figure 15:	Collateral types required by 17 microfinance providers in the KRI, 2018.....	68
Figure 16:	Tentative market segmentation by demand for formal finance.....	78

Abbreviations and Acronyms

ATM	Automated teller machine
BDS	Business development services
CBI	Central Bank of Iraq
CDD	Customer due diligence
FBR	Foreign-born resident
FDP	Forcibly displaced person
FSP	Financial service provider
GDP	Gross Domestic Product
HH	Household
ICBG	Iraqi Company for Bank Guarantees
ICF-SME	Iraqi Company for Financing Small and Medium-sized Enterprises
ID	Identity
IDP	Internally displaced person
IFC	International Finance Corporation
ILO	International Labour Organization
I/NGOs	International/non-governmental organizations
ISIL Da'esh	Islamic State of Iraq and the Levant, also referred to by its Arabic-language acronym
IQD	Iraqi dinar (US\$1 = IQD 1,475 as at March 2022)
KRG	Kurdistan Regional Government
KRI	Kurdistan Region of Iraq
MENA	Middle East and North Africa
MFI	Microfinance institution
Mol	Ministry of Interior
MoLSA	Ministry of Labour and Social Affairs
MoMD	Ministry of Migration and Displacement
MoTI	Ministry of Trade and Industry
MPCA	Multi-purpose cash assistance
MSE	Micro and small enterprise
MSME	Micro, small and medium-sized enterprise
NFS	Non-financial services
OPEC+	Organization of the Petroleum Exporting Countries + 10 of the world's major non-OPEC oil-exporting nations
PDS	Public distribution system
RoSCA	Rotating Savings and Credit Association
SIM	Subscriber Identification Module software on mobile phones
SME	Small and medium-sized enterprise
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WFP	World Food Programme

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The Study on “Advancing Livelihoods through Financial Inclusion in Iraq” was developed by the ILO under the framework of the “Partnership for improving prospects for forcibly displaced persons and host communities” (PROSPECTS), which is funded by the Government of the Netherlands. The partnership brings together the International Labour Organization (ILO), the International Finance Corporation (IFC), the UN Refugee Agency (UNHCR), the UN Children’s Fund (UNICEF) and the World Bank to devise approaches for inclusive job creation, education and protection in the context of forced displacement across eight countries in East and North Africa and the Arab States.

The study was initially conducted in late 2019 and updated late 2022 by Lene Hansen, under the supervision of ILO’s team comprising of: Yousra Hamed, Financial inclusion, Technical Specialist in Geneva, and Fadia Jradi, Financial Inclusion Technical Officer in the PROSPECTS Programme Iraq and the overall guidance of Shaza Jondi, Regional Chief Technical Advisor of PROSPECTS Lebanon, Jordan and Iraq. The study benefited from reviews provided by ILO team members, Ines Bentchikou, Meredith Byrne and Nathalie Both.

▶ Executive Summary





▶ Executive Summary

The International Labour Organization (ILO), International Finance Corporation (IFC), United Nations High Commissioner for Refugees (UNHCR), United Nations Children’s Fund (UNICEF) and the World Bank are implementing a programme with the support of the Government of the Netherlands entitled “Partnership for improving prospects for forcibly displaced persons and host communities” – better known as PROSPECTS. PROSPECTS aims to devise collaborative and innovative approaches to decent job creation, education and protection in contexts characterized by forced displacement across eight countries, including Iraq.

Within the PROSPECTS Partnership in Iraq the ILO focuses on supporting thousands of forcibly displaced persons, including refugees and host-community members, in accessing more and better livelihoods and decent job opportunities. It is doing so through an integrated approach, which includes implementing labour-intensive infrastructure projects; supporting market-driven skills training; promoting financial inclusion and entrepreneurship; and improving public employment services.

The ILO is collaborating with different partners to enhance the functioning of the private sector while addressing the barriers to decent self-employment for forcibly displaced persons. In particular, the ILO PROSPECTS initiative “Advancing livelihoods through financial inclusion” aims to facilitate access to affordable loans through domestic financial service providers (FSPs) for vulnerable, entrepreneurial households in Iraq to re-start or grow their businesses. In this context, this report aims to provide insights on the market and demand-side levers that may impact the success of expanding financial services specifically to forcibly displaced persons (FDPs) in the Dohuk and Nineveh Governorates of Iraq.

In the context of both the Federal Republic of Iraq and the Kurdistan Region of Iraq (KRI), which, in recent years, have witnessed war, insurgencies, economic crises and large-scale population displacement, the double shock of the COVID-19 pandemic and the global oil-price drop of 2020 hit the economy hard. The 23-per-cent devaluation of the Iraqi dinar (IQD) in late 2020 triggered a rise in inflation and further exacerbated the hardship induced by the preventative lockdowns and travel bans implemented to contain the spread of COVID-19. The consecutive economic shocks have depressed both the formal and informal labour and enterprise markets, resulting in more limited levels of economic investment, jobs, livelihoods and services provision, as well as issues related to governance in conflict-affected areas.

The socio-economic profiles of households located outside of camps in the KRI are relatively similar and were stable for the majority until the pandemic struck. Five years after the defeat of the Islamic

State of Iraq and the Levant (ISIL), the majority of the internally displaced persons (IDPs) who wished and had the means to return to their areas of origin appear to have done so. Accordingly, among the sub-segments that are currently in protracted displacement, the inclination to move or return is very low. Nationality, ethnicity and displacement status are weak indicators of financial demand, behaviour, or the likely success of some customers of FSPs and not others. Rather, access to decent livelihoods, and the resulting income levels, determine the ability of households to progress towards financial health. As many jobs are precarious and the income generated from work is not sufficient to cover basic needs, the total current debt burden at household level across all sub-segments appears endemic and unsustainably high.

Nearly all borrowing is informal and free of collateral and interest, and funds are provided directly and within community-based savings and loan groups by family members, friends, or local merchants. Informal borrowing and lending are relationship-dependent, and access is contingent on pre-existing social, kinship and business ties. Informal finance appears to be readily available, reflecting the dominance of cash circulating outside of the formal financial sector. Conversely, the continuous reliance on debt and lending to even out income across all relative wealth groups suggests a risk of chronic over-indebtedness in households and small businesses. In addition, about one third of the sub-segments save, but most savings are exclusively kept at home in cash, gold, or foreign currency, or are invested in home improvements or business ventures.

There are few regulatory barriers to formal financial inclusion, as the majority of sub-segments have personal identity documentation for customer due diligence (CDD) purposes, and around half have formal documentation of home ownership, which could be used as collateral. Nonetheless, formal FSP finance is neither used nor in high demand, and grants and borrowing from informal sources are preferred. The banking sector is perceived with significant mistrust, and as expensive and undesirable, by lower-income households and small businesses. This could be explained by historical access to aid, bank illiquidity and looting of deposits, as well as – given the lack of customer-facing public marketing by FSPs – limited awareness of formal credit products (including existing Shariya-compliant products) and their terms and services.

The need for financial resources for business creation or re-start, consumption and asset purchases is high across all sub-segments. However, the current extensive supply of interest- and collateral-free forms of informal credit challenges the development of formal financial services. In addition to providing conventional personal and business loans for informal micro, small and medium-sized enterprises (MSMEs) and the agriculture sector, FSPs must innovate and redesign traditional products to suit a demand for continuous and affordable small-value loans that are issued quickly and with minimal procedures – for example, by making the most of recent advances in digital financial services. Also, if FSPs are to build a trusting relationship with their customers, they need to communicate to the market about their adapted products and the benefits and relevance of these to low-income households.

To extend their reach to FDPs, formal FSPs need to carefully segment and appraise prospective customers based on eligibility criteria, including economic participation, net income and total household debt. Accordingly, repayment capacity among FDPs correlates positively to return and protracted displacement, and legal residency outside of camps, especially in geographic locations where general development efforts have resulted in better income opportunities. Human capital (for example, education, experience, skills), social capital (for example, community networks and *wasta* [connections/who you know]) and financial capital (for example, savings, assets, manageable debt) also play a part. Adjusting for these factors, this report estimates the scope of (mainly latent)

demand for formal finance to comprise a **total market of 207,455 households** across all sub-segments in Dohuk and Nineveh that might demand and benefit from access to formal finance (see **Table 1**). This would be sufficient to warrant the effort of additional local market research, marketing and adjustments to existing products and procedures necessary to enable formal FSPs to serve these new market segments.

Table 1: Tentative scope of demand (see details in section 4)

	Hosts	IDPs			Refugees/Foreign-born residents (FBR)		Total/Average
	Non-displaced	Returnees	Self-settled	Encamped	Self-settled	Encamped	
% of total household (HH) population							
Dohuk (Total 280k)	72%	0.05%	10%	9%	3%	6%	100%
Nineveh (Total 622k)	44%	47%	6%	3%	0.02%	0%	100%
% HHs intending to stay	95%	90%	75%	95%	95%	95%	90%
% HHs w/ legal ID/residency	94%	92%	92%	90%	85%	93%	91%
% HHs economically active (male)	70%	89%	77%	53%	90%	73%	75%
Dohuk				75%			75%
Nineveh				41%			41%
% HHs earning > US\$340/mth	64%	42%	35%	24%	60%	30%	42%
Deduct for debt/no interest	30%	20%	20%	15%	30%	25%	23%
Adjusted estimated demand - %	34%	22%	15%	9%	30%	10%	20%
Adj. est. demand - no. of HHs	134,130	55,760	9,555	3,600			207,455
Dohuk	66,777	172	4,335	2,300	2,890	1,520	77,994
Nineveh	67,355	55,588	5,220	1,300	2,890	1,520	129,443

A small share of small and medium-sized enterprises (SMEs), including informal lenders, may be interested in additional credit, and in replacing or restructuring their informal credit with formal financing products, if they were better informed about the terms and conditions of such products. Accordingly, MSME owners who cannot access sufficient credit informally, either because their social network is disrupted, or because they need more credit than informal lenders are willing to provide, might also be interested. Given that the vast majority of private businesses are small and informal, agency banking partnerships between banks and microfinance institutions (MFIs) are also likely to generate mutually beneficial financial offers to the MSME and consumer markets. In turn, this could advance financial inclusion and contribute to increased integration in Iraq's fragmented financial sector.

To enhance access to and use of formal finance by the target sub-segments, this report provides a set of recommendations to support the financial inclusion of FDPs in Iraq:

- Ensure the initiative is fully inclusive in other geographic areas with potential demand.
- Seek policy clarity and disseminate information on access to private entrepreneurship.
- Encourage FSPs to innovate in terms of products and to market their services.
- Discuss, with the Central Bank of Iraq (CBI), the promotion of financial inclusion through clearer customer due diligence (CDD) guidance.
- Advocate for greater coordination and integration in the financial sector.
- Support the establishment of private sector development/business development services (BDS) ecosystems in the target areas.

▶ 1

Background and Methodology





▶ 1. Background and Methodology

The ILO, IFC, UNHCR, UNICEF and the World Bank are implementing a programme with the support of the Government of the Netherlands entitled “Partnership for improving prospects for forcibly displaced persons and host communities” – better known as PROSPECTS. PROSPECTS aims to devise collaborative and innovative approaches to decent job creation, education and protection in contexts characterized by forced displacement across eight countries, including Iraq.

Within the PROSPECTS Partnership in Iraq the ILO focuses on supporting thousands of forcibly displaced persons, including refugees and host-community members, in accessing more and better livelihoods and decent job opportunities. It is doing so through an integrated approach, which includes implementing labour-intensive infrastructure projects; supporting market-driven skills training; promoting financial inclusion and entrepreneurship; and improving public employment services.

The ILO is addressing barriers to decent self-employment for forcibly displaced persons through its “Advancing livelihoods through financial inclusion” initiative, which aims to facilitate access to affordable loans via domestic financial service providers (FSPs) for vulnerable, entrepreneurial households in Iraq, so that they can re-start or grow their businesses. In this context, this study aims to provide insights on the market and demand-side levers that may impact the success of expanding financial services specifically to forcibly displaced persons (FDPs) in the Dohuk and Nineveh Governorates of Iraq.

This report is based on information that was compiled from secondary data, analyzed and then verified through a set of key informant interviews conducted with relevant stakeholders in Erbil and Dohuk, including UN agencies, humanitarian and development I/NGOs and one FSP. Focus group discussions were also conducted with self-settled and encamped refugees, returnees and Iraqi IDPs in Dohuk Governorate. Unfortunately, no meetings were held with potential FSP participants in the ILO PROSPECTS initiative, so the motivations, capacities and possible constraints on the supply side were not assessed for this report. Consequently, this report does not include a detailed review of the supply and capacity of banks and other FSPs to serve the FDP market segment. In light of the market changes brought about by the COVID-19 pandemic, as well as the supply and regulatory developments impacting the financial system in Iraq, this report’s findings and recommendations were updated throughout 2021 and 2022. However, as the updates were based on a review of secondary literature and a few stakeholder interviews, not all the changes that occurred may have been captured.

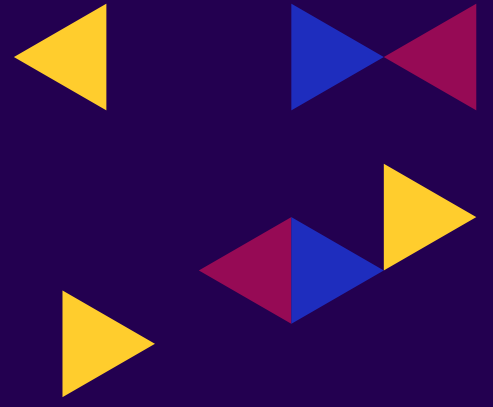
This report compiles and presents data and statistics from a large body of research from many different sources. While sources have been documented, not all of the research referenced was conducted within the same time frame, nor were comparable or even representative samples used, so the results differ. In addition, up-to-date and credible baseline data is scarce in Iraq. Overall, demographic and socio-economic data on the national population is incomplete and outdated; little comprehensive labour-market data existed before the ILO conducted its Iraq Labour Force Survey¹ in 2021 (see section 4.4), while the large informal private sector is largely undocumented. As a result, the country-level projections and estimates by sources of global data like the United Nations Department of Economic and Social Affairs (UNDESA) are either not available, outdated, or lack sufficient granularity regarding the two target governorates of ILO PROSPECTS in Iraq. Much of the research that exists on displaced populations is objective-led, sample-based and highly compartmentalized, primarily by nationality, but also overly focused on the vulnerabilities of the poorest population segments. While new research is becoming available, few reliable data sources exist by which to analyse the diverse, interacting and overlapping private business markets in Iraq and Kurdistan. In terms of trends and general characteristics, the data in this report provides a reasonably accurate depiction of the potential target market for inclusive finance. That being said, significant uncertainty remains around some of the detailed data points provided, so the absolute figures and percentages presented should be used with caution.

This report seeks to provide an overview of the target market and enabling environment for the financial services industry with a view to guiding the structure and implementation of the ILO PROSPECTS pilot initiative. **Section 2** presents an overview of the macro-level country context of Iraq. **Section 3** presents the legislation, policies, regulations and key characteristics of the financial sector. **Section 4** provides an analysis of the target market, including an initial segmentation of the IDP, returnee, refugee and host sub-segments, their socio-demographic profiles, livelihoods and economic opportunities, as well as their demand for financial services. **Section 5** sums up the findings in a presentation of the market size and the scope of the demand for expanded financial services in ILO PROSPECTS focus areas. It also provides a set of recommendations on the implementation of strategic efforts to facilitate the financial inclusion of forcibly displaced people and host communities in Iraq.

▶ 2

Country Context: Iraq and the KRI





▶ 2. Country Context: Iraq and the KRI

Given their high dependence on oil, the Federal Republic of Iraq and the Kurdistan Region of Iraq (KRI) have been in political, social and economic transition for more than 15 years. Iraq has endured armed conflict since the US-led invasion in 2003, after which there were regular incidents of violence until 2011, followed by the occupation of large swathes of land by ISIL (Da'esh) from 2014 to 2017, leading to widespread population displacement.

The May 2018 parliamentary elections were the first elections to be held in the country after Mosul was retaken by Iraqi national forces. A coalition of parties (Sadrist Movement) led by Shiite cleric Muqtada al-Sadr won a surprise victory, but the turnout was low (45 per cent). Widespread public protests (known as the *Tishreen* [October] movement) against corruption, lack of public services, unemployment, political sectarianism and the party-proportional election law led to the prime minister's resignation in November 2019. As of August 2022, when the parliament was stormed by protestors, political leaders have been unable to form a new government until early 2023.²

The double shock of the COVID-19 pandemic and the global oil-price drop in 2020 caused Iraqi GDP to contract by 16 per cent (see Table 2). In late 2020, the Government announced a 23-per cent devaluation of the Iraqi dinar (IQD), to make up for a shortfall in liquidity. The resultant hikes in prices of imported food and capital goods further dampened domestic demand and exacerbated the hardship induced by lockdowns, border closures and travel bans implemented to contain the spread of COVID-19.³ Nonetheless, since mid-2021, global demand has boosted oil prices; the 14 members of the Organization of the Petroleum Exporting Countries (OPEC) and the non-OPEC countries that export crude oil (OPEC+) eased oil production limits to the benefit of Iraq, and COVID-19 restrictions were gradually lifted, leading to gradual economic recovery, especially in services.

Table 2: Economic indicators of Iraq⁴

	Iraq overall	KRI
Population	40.2 m (2020)	6.2 m (2019)
Population density	92.6 persons/km ²	129 persons/km ²
Gross National Income per capita	US\$4,680 (2020)	US\$5,400 (2011 est.)
GDP, US\$	166.8 billion (2020)	23.5 billion (2012)
Structure of GDP (%)	2020:	2010 (est.):
Agriculture	5.9%	6.8%
Industry/construction	41.0%	22%
Services/trade	54.3%	55.8%

	Iraq overall	KRI
Inflation rate	7.2% (Sept. 2021)	-2.8% (2017)
Urban population (%)	70.8% (2021)	81% (2016)
Poverty (% population below national poverty line)	31% (2020)	12% (2015 est.)
Life expectancy	70.6 (2019)	75 (2019)
Labour market participation	39.5% (2021)	38% (2019)
Literacy (% of pop aged 15+)	85.6% (2017)	73% (2011)

Sources:

World Bank, IndexMundi, International Monetary Fund, KRI Investment Board, Iraq - Country Profile - 2020 (indexmundi.com)
ILO, Iraq Labour Force Survey 2021, https://www.ilo.org/beirut/publications/WCMS_850359/lang--en/index.htm

Government stimulus packages were put in place to increase social transfers and credit to businesses, net foreign direct investment rebounded, and the fiscal deficit turned into a surplus by June 2021. However, intensifying climate-change shocks, including droughts in 2020 and 2021, have led to water shortages, impacting the agricultural and industrial sectors.⁵ In addition, the economic recovery is being held back by limited public spending on capital infrastructure, resulting in deteriorating public-service delivery.

With its Iraq Vision 2030⁶ plan, the **Government endorsed the 2018–2022 National Development Plan, which lists poverty alleviation as a priority, alongside promotion of the social, economic and political integration of displaced persons and returnees in liberated areas.** In particular, the Plan also aims to:

- Achieve economic reforms in Iraq’s financial, monetary, banking and commercial sectors;
- Enhance the role of the private sector by strengthening disclosure, monitoring and governance systems in the Iraqi banking sector, and
- Enhance financial inclusion in Iraq.⁷

More specific socio-economic priorities are outlined in the Reconstruction Framework for 2018–2027, the Private Sector Development Plan 2014–2030 and the Strategy for the Reduction of Poverty in Iraq 2018–2022.⁸ In May 2020, the Emergency Cell for Financial Reform was established, and its White Paper for Economic Reform, elaborating on the reform objectives, was adopted by the Cabinet in October 2020.⁹ In February 2020, the KRI also embarked on a Vision 2030 planning process with support from the UNDP.¹⁰ **In 2019, the Iraqi budget included a 32-per-cent increase in public investments, but the low execution rate has been contributing to delays in reconstruction, especially of war-ravaged Mosul.**

The public sector and social protection schemes in Iraq

The Iraqi public sector is the largest formal sector employer, accounting for nearly 3.3 million jobs in 2021.¹¹ The sector is also the largest employer of women in the country: 62.5 per cent of employed women were working in the public sector compared with 34.2 per cent of employed men.¹² The government payroll expenditure is very high, having swelled to an estimated 24 per cent of GDP in 2020 – one of the highest in the world – contributing to a budget deficit of about 20 per cent of GDP in 2020.¹³ Payments of salaries, pensions and subsidies to public sector employees account for more than 50 per cent of the public budget,¹⁴ which follows a “boom and bust cycle”, depending on oil revenue. Public sector jobs are perceived as safe and secure, and thus are expected to provide a job for life and myriad benefits, including government loans and other privileges.¹⁵

Box 1: The Public Distribution System in Iraq

Under the former regime, every Iraqi had the right to receive food and fuel rations through the Public Distribution System (PDS) established during the 1995 sanctions period by the UN Food for Oil program. One of the largest non-contributory social transfer programmes in the world, the PDS distributes subsidized, imported food to Iraqis earning less than IQD1.5 million/month (US\$1,015) who are not government employees. Severely distortionary, the PDS makes the Ministry of Trade and Industry (MoTI) the main importer of wheat, rice and vegetable oil, which limits private sector engagement in agriculture and sustains an undiversified economy. The PDS is also massively costly for government, at 6.7 per cent of GDP in 2021. The MoTI issues PDS cards to family heads of households, but as the PDS registration is based on locality, displaced ration-card holders first need to re-register in their new location to benefit.

Sources: World Bank and IFC, Kurdistan Region of Iraq – Reforming the Economy for Shared Prosperity and Protecting the Vulnerable, 2016; World Bank, The Kurdistan Region of Iraq – Assessing the Economic and Social Impact of the Syrian Conflict and ISIS, 2015; NRC, DRC and IRC, Paperless People of Post-Conflict Iraq, 2019; and UNDP, The Impact of COVID-19 on Social Protection in Iraq, 2020.

Private sector workers are covered under a separate social security scheme, which provides less generous benefits than that for public sector workers, causing significant distortions in the labour market. In turn, the scheme has very low coverage, with the most recent administrative data indicating that only around 6 per cent of private sector workers are currently contributing or receiving entitlements under the scheme. The scheme also lacks unemployment and maternity benefits, although a new draft social security law – going through parliament at the time of writing – will expand both the scope and legal coverage of the scheme.

The two main non-contributory programmes in Iraq are the Public Distribution System (PDS) and the Social Protection Network (SPN). The PDS distributes subsidized, imported food to almost 96 per cent of the population. The SPN was established under Law No. 11 of 2014 on Social Protection and is implemented only in federal Iraq. This is a poverty targeted programme that covered some 5.3 million individuals in 2022¹⁶ (or 13 per cent of Iraqis). Recent developments have led to further expansion of the programme's coverage, but it remains very poorly targeted, with very high exclusion errors. Indeed, recent government data indicates that various social safety nets cover only 20 per cent of the poor.¹⁷

Other government programmes include subsidies for education and health.¹⁸ Until 2016, IDPs registered by the Ministry of Migration and Displacement (MoMD) were provided with settlement payments as well as food transfers, based on their PDS ration cards. However, the databases used by the MoTI, MoMD and the Ministry of Labour and Social Affairs (MoLSA) are not unified, and the reportedly erratic distribution could explain why only 38 per cent of self-settled IDPs receive their full PDS transfers, compared with two thirds of non-displaced, returnees and encamped IDPs.¹⁹ The Government's White Paper recommends a redrawing of Iraq's social protection system with a unified data hub.²⁰

The labour market and private sector in Iraq

Labour-market participation rates in Iraq were, until 2014, comparable to the (low) averages across the Middle East and North Africa (MENA) but dropped to 44 per cent overall in 2019 and to 39.5 per cent in 2021²¹ – 68 per cent for men and 10 per cent for women.²² The public sector provided about 38 per cent of all jobs in Iraq in 2021²³ and 47 per cent of jobs in the KRI in 2019.

In the public sector, women tend to be employed disproportionately to men (70.5 per cent versus 33.7 per cent), whereas in the private sector, men tend to be employed at a much higher rate than women (65.9 per cent versus 29 per cent). Employment in the private sector – comprising private corporations, quasi-corporations and unincorporated enterprises – accounts for around 62 per cent.²⁴ It is mainly informal and concentrated in retail, construction, textiles, trade, engineering, transportation, hospitality, food and chemicals.²⁵ The top three branches of economic activity reported in the ILO's 2021 Labour Force Survey in Iraq were construction (16.3 per cent), public administration and defence (15.9 per cent), and wholesale and retail trade (14.2 per cent).²⁶ Unemployment was recorded at 16.5 per cent in the same survey. Among IDPs and returnees surveyed in January 2021, unemployment rates reached 24.5 per cent and 21.8 per cent, respectively. The female unemployment rate (28.2 per cent) was about twice the male rate (14.7 per cent), and the youth unemployment rate (35.8 per cent) was more than three times the adult rate (11.2 per cent).²⁷ Paradoxically, the general brain drain since 2003 and the preference of Iraqi job-seekers for public sector jobs make it difficult for formal private sector firms to recruit the human resources they need. The UNDESA estimated that, by mid-2020, there was a total of 95,400 foreign (non-refugee) migrant workers in Iraq,²⁸ but most other sources put the estimate at around 200,000 to 300,000 foreign workers, many of whom are irregular.²⁹

The formal private sector in Iraq is small, urban and comprises mainly individually owned SMEs operating in retail and trade, construction and transportation services, as well as light industry,³⁰ which are estimated to provide almost 90 per cent of private sector employment.³¹ Private businesses are challenged by a weak business environment:³² in the World Bank's Ease of Doing Business Index for 2020, Iraq ranked 172 out of 190 economies – in part, owing to an overly complex regulatory framework with overlapping regulations. Lengthy waits for approvals and licences to start up formal businesses, often requiring approvals of multiple ministries, have been key complaints.³³ Iraq has implemented some business regulatory reforms since 2012, including making it easier to start a business by combining multiple registration procedures and reducing the time to register a company. An online “single window” system for business registration was introduced in 2020,³⁴ which holds promise for a more supportive business environment.

The vast majority of Iraqi MSMEs are informal, and the number of people with informal jobs (5.7 million) represents 66.6 per cent of the total employment as determined by the Iraq Labour Force Survey 2021. As documented in recent surveys, SMEs across Iraq have been adversely impacted by the COVID-19 pandemic, with demand, production and monthly revenues almost halving. In all, 40 per cent of SMEs had to shut down temporarily, but as of May 2021, after severe contraction or non-payment of employees during lockdowns, SMEs have recovered somewhat. Only 2 per cent of the pre-pandemic workforce were let go between February 2020 and June 2021, while 28 per cent of SMEs were at risk of shutting down permanently. Among the strategies employed by SMEs to ensure business continuity, one third of SMEs surveyed had increased marketing efforts, a quarter had started sourcing from new suppliers and 15 per cent had launched online sales.³⁵ SMEs in Dohuk and Nineveh were less affected than those in other areas, but they still lost 14 to 22 per cent in revenue during the pandemic. Only 3 per cent of the SMEs surveyed had received any of the government aid made available, mostly because they were not aware of the programmes or did not qualify.³⁶

The agriculture sector in Iraq

Despite a significant amount of arable land, in the last few decades Iraq has gone from being a surplus producer to a net importer of agricultural produce, which is often explained by low productivity, as well as limited knowledge and capacity among the small-scale farmers. The productivity of state-incentivized, commercial farmers of wheat and potatoes, however, is on a

par with that in Iran, Jordan and Türkiye, but Iraqi farmers face higher production and transaction costs because of limited extension services and disrupted domestic value chains (see **Box 2**). Nevertheless, since 2002, value chains between state-incentivized farmers in Iraq and export companies supported by governmental incentives in Türkiye have developed to include dealerships, franchises and joint ventures. In border cities, before the pandemic, many SME export companies were engaged in the cross-border trade of agricultural (and other) products, and these cross-border value chains are likely to have involved returnees, refugees and other foreign-born residents. While border closures negatively impacted trade during the pandemic, demand and cross-border trade increased in 2021 as COVID-19 restrictions were lifted, so these cross-border value chains might therefore be of interest in terms of increased economic inclusion and job creation.³⁷

Box 2: Agricultural produce markets

A State-Owned Enterprise (SOE) investing in potato production in northern Iraq guarantees farmers a minimum price. Even if market prices fall, farmers can sell for this fixed price to the traders, who deliver to the SOE's cold-storage facility, where the produce is stored until prices rise again. Similarly, the Government buys wheat from registered farmers at silos throughout the country (including three in Dohuk) for a pre-declared price above the market price. Incentivized by this premium, production in the KRI doubled from 2012 to 2016 but has since fallen sharply. Part of the reason for this is that only a small part of the payment is in cash, with the balance issued as vouchers for future payment. While the Government has paid farmers for the 2017 produce, many farmers have still not been paid for 2015–16, nor necessarily since. The Ministry of Agriculture of the Kurdistan Regional Government (KRG) claims that Kurdish farmers are owed IQD902 billion (US\$611.5 million). Meanwhile, Türkiye and Iran strategically support the export of their products to the Iraqi market, to gain foreign currency. This increases the burden on small-scale farmers, who are not able to compete with low-priced imported produce.

Source: MPDI, *The Politics of Agricultural Development in Iraq and the KRI*, October 2019.

Across Iraq, the primarily small-scale private agricultural sector makes a significant contribution to employment in general, and rural (often unpaid) employment in particular, in informal dairy, livestock, and vegetable production. Non-incentivized small-scale producers of livestock and vegetables, however, are often excluded from value chains, and compete with subsidized imports from Türkiye and Iran. In the KRI, only 6 per cent of the labour force is registered as employed in agriculture. Agricultural livelihoods in the KRI were disrupted in the 1980s by the Ba'ath regime's systematic destruction and relocation of farming villages to peri-urban areas. The resulting decrease in food self-sufficiency has not since been reversed with a coherent investment strategy for rural reconstruction and agricultural revitalization, as oil revenue has largely been invested in the public sector.³⁸

Across Iraq, markets are functional and accessible to consumers but heavily import-dependent, with the northern region (Erbil, Dohuk, Sulaymaniyah and the northern part of Mosul) importing items mainly from Türkiye, Syria and the United Arab Emirates. From October 2017 until the pandemic struck in early 2020, prices of food and commodities remained largely constant. During the pandemic, however, imports declined and prices increased, with the inflationary pressure persisting in 2021. Demand and supply chains gradually picked up again as the COVID-19 restrictions were lifted. The ongoing shift in humanitarian assistance from in-kind commodities to cash, as well as the multi-purpose unconditional cash assistance and the one-off COVID-19 cash transfer of US\$200 to refugees and IDPs during 2020 and 2021 in particular, has helped regenerate purchasing power and stimulate local markets, while MSMEs are in need of access to finance.³⁹

Poverty and humanitarian assistance in Iraq

Prior to the pandemic, the poverty headcount ratio for Iraq as a whole was estimated at 22.5 per cent (reaching 41.2 per cent in areas previously occupied by ISIL).⁴⁰ **The economic fallout from the COVID-19 pandemic, however, is estimated to have increased poverty to 29.8 per cent by the end of 2020.**⁴¹ In July 2020, a poverty modelling study predicted that the poverty rate in Iraq would increase to 31.7 per cent in 2022, adding 2.7 million new poor to the 6.9 million already living in poverty before the crisis.⁴² Economic growth and security remain uneven across the country, and the standard of living in the conflict-affected areas in northern Iraq, including Nineveh Governorate, are still below 2014 levels, affecting returnees, IDPs and other vulnerable groups in particular. In addition, in 2018, some 332,000 non-displaced Iraqis were estimated to be severely affected by conflict, lack of public services and limited livelihoods.⁴³

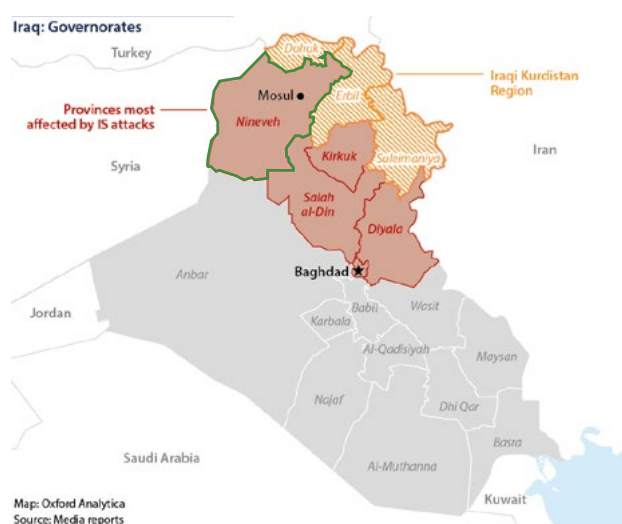
Despite similar pre-COVID 19 poverty levels among refugees, IDPs and host communities, the available social protection and international humanitarian aid are primarily delivered to returnees and encamped IDPs, while self-settled IDPs and poor, non-displaced households are not as well assisted. The severity of the recent civic protests and the impact of COVID-19 on livelihoods have underlined the need for growth-promoting and inclusive economic diversification and job creation. With the vast majority of IDPs and refugees from Syria not intending to return, the need is increasing for more inclusive economic opportunities, especially in the historically under-resourced northern governorates administered by federal rule.⁴⁴

Governance in the Kurdistan Region of Iraq

The Iraqi federal laws apply to the KRI only if alternative or amended laws have not been introduced by the Kurdistan Regional Government (KRG) and its agencies and court system. Therefore, the laws and practices within the two regions can differ significantly. Since the issue of budget allocations for the KRG erupted in 2017, Baghdad resumed budget transfers to Erbil in 2018, but at a reduced rate of 12.67 per cent (against the former 17 per cent), which affected the frequency of public sector salary payments in the KRI. Nevertheless, both federal and KRG revenues remain dependent on and thus vulnerable to oil-price changes.⁴⁵

In the framework of the PROSPECTS project, this initiative currently targets its outreach to two governorates in Iraq: Nineveh, under federal rule, and Dohuk, in the KRI (see **Figure 1**).

Figure 1: ILO PROSPECTS intervention area



Nineveh Governorate is historically one of the most ethno-religiously diverse and least developed governorates of Iraq. It has an **estimated population of 3.27 million**, 61 per cent of whom were urban residents before the ISIL crisis in 2014, when nearly half the population was displaced. The majority of the population is Sunni Arab, but Shia Arabs, Kurds, Turkmen, Yezidi and Shabak ethnic groups, as well as smaller Syriac and Assyrian Christian communities, have also called it home. As a result, the recent violent past lingers in the form of significant levels of inter-ethnic distrust, suspected ISIL affiliation, and uneven access to resources. By 2013, Nineveh was already home to a disproportionate share of the poor in Iraq (20 per cent).⁴⁶ In December 2021, **40 per cent of Iraqi returnees**, or 1.9 million people, and **253,500 IDPs (22 per cent of all IDPs)** lived in the governorate,⁴⁷ with 23 per cent of IDPs living in the last IDP camp to remain open.⁴⁸ Nineveh is also home to **802 Syrian refugees and 9,670 refugees from other countries (Türkiye, Iran and Occupied Palestinian Territory)**.⁴⁹ Agriculture is a key component of Nineveh's economy, with the key crops including cereals, sugar cane, sunflowers, vegetables and herbs.⁵⁰ The governorate has been known for crafts, including the production of copper, pottery and household appliances. However, many local entrepreneurs and professionals have moved to the more stable and secure KRI, resulting in a "brain drain", capital flight and the deterioration of public services (electricity, clean water, etc.).⁵¹ In addition, sporadic ISIL attacks or armed clashes among militias have continued.⁵²

Dohuk Governorate, with a total host population of around **1.3 million people and 249,165 IDPs**, nearly all of them from Nineveh,⁵³ borders Türkiye and Syria and the Mosul Lake, which forms its border with Nineveh Governorate.⁵⁴ Overall, in 2013, poverty rates in Dohuk were low, at roughly 6 per cent.⁵⁵ Administered from Erbil, it is much smaller than Nineveh,⁵⁶ but more stable and affluent, with agriculture, orchards and pasturage being the economic mainstays.⁵⁷ The urban economy, centering on oil and gas, health, education and tourism, was heavily affected by the general economic crisis in the KRI from 2014 to 2016, when the property market crashed, with repercussions for jobs and rental prices.⁵⁸ Since then, Dohuk may have benefited from the influx of entrepreneurial IDPs from Nineveh and refugees from Syria. Nonetheless, among the lower economic echelons of society, increased competition for available jobs has also driven down wages and limited infrastructure development (especially in the area of water).⁵⁹ In December 2022, Dohuk was home to **84,420 Syrian refugees and 6,269 refugees from elsewhere**.⁶⁰

▶ 3

The Financial Sector





▶ 3. The financial sector

The Central Bank of Iraq's strategic vision

The Central Bank of Iraq (CBI) was established as an independent regulator in 2004 and is responsible for Iraq's monetary policy, as well as for licensing, regulating, and supervising banks and lending companies, and overseeing the national payment system and payment service providers. The Iraqi Central Bank Law (2004) and the Banking Law govern the financial services sector throughout the country.⁶¹ Transfers to the KRG from the central government in Baghdad pass through the CBI to the Kurdish Ministry of Finance and Economy (K-MoFE). Over the past years, the CBI has improved its oversight and coordination of its branch network, while prudential supervision standards have been harmonized for all banks, including its seven branches in the KRI.⁶²

Box 3: The CBI One Trillion Dinar Initiative

During the economic lull in 2015, the CBI allocated one trillion dinars (US\$685 million) to a subsidized credit line [with partial underwriting (Tamwil)] to encourage banks to finance Iraqi SMEs and larger enterprises, and thus promote entrepreneurship and job creation in manufacturing, agriculture, real estate, commerce and the services sectors. An additional 3 trillion dinars (around US\$2 billion) have been allocated since then, making it a 4 trillion dinar initiative, to which 49 domestic banks have now signed up. Small SME loans of between IQD5 million and IQD50 million (US\$3,390–33,900) carry a 2–4-per-cent annual interest rate for a maximum five-year term. By August 2022, 60 per cent of the funds had been allocated to around 40,000 projects across Iraq – 29 per cent of them in the housing sector, 21 per cent in the commercial sector, 25 per cent in industry, 14 per cent in services and 3 per cent in agriculture. A further 7 per cent was distributed as personal bank loans. ILO PROSPECTS uses funds from the CBI initiative to enable displaced Iraqis to access loans from three banks.

Sources: <https://tamwil.iq/bigform.html> and <https://reliefweb.int/report/iraq/ilo-and-central-bank-iraq-launch-new-financial-initiative-supporting-youth-and-small-and>

The CBI has launched its second strategic plan, covering the years 2021–2023, with a view to achieving sustainable economic development and prosperity for Iraqis. The plan focuses on financial stability through improved risk management and financial inclusion, the reinforcement of the banking sector and the promotion of digital transformation. The CBI intends to further promote financial inclusion through the One Trillion Dinar Initiative to finance SMEs, large enterprises and

housing loans (see **Box 3**). The CBI has been preparing a national financial inclusion strategy with advice from the Arab Monetary Fund and the Alliance for Financial Inclusion, which the CBI joined in December 2020.⁶³ A national Financial Inclusion Committee was established in 2018 and sub-committees for SMEs, digital financial services, financial education, consumer protection and data collection have also been established,⁶⁴ while the CBI has begun to monitor several financial inclusion indicators.⁶⁵ The CBI has also established a special unit for microfinance and engaged directly in consumer protection initiatives, such as developing a guide, a website and a Facebook page to increase public awareness of banking and consumer protection, and to facilitate complaints handling.⁶⁶ In early 2020, the CBI also launched a real-estate lending initiative and an Islamic finance consolidation programme through banks.⁶⁷

The banking sector in Iraq and the KRI

The banking sector is under-developed, with low banking penetration rates and a limited loan-to-GDP ratio of 25 per cent at the end of 2020, in part owing to widespread public distrust in banks.⁶⁸ In 2021, the Iraqi banking system comprised 74 banks with 904 branches across the country, albeit concentrated in Baghdad and Basra. These include seven state-owned banks, 53 private sector-owned banks and 14 branches of international banks, mostly from the United Arab Emirates, Türkiye and Iran.⁶⁹ The largest three – Rafidain Bank, Rasheed Bank and the Trade Bank of Iraq (TBI) – account for around 80 per cent of banking-sector assets. Rafidain and Rasheed offer standard banking products but primarily provide pension and government salary payments to Iraqi individuals. Larger commercial banks also provide a full suite of products but tend to favour credit to larger projects and enterprises, while smaller private banks earn most of their revenue from exchange services and ATMs.⁷⁰ Iraqi banks contributed only 2 per cent of the national GDP in 2021.⁷¹

In the KRI, despite 49 banks reportedly operating there, six of which are state-owned, the banking sector remains underdeveloped. The six state-owned “trade” banks are TBI, which is the largest, Erbil Bank and three local Kurdish private banks: the Kurdistan Investment Bank, Cihan Bank for Islamic Investment and Finance P.S.C. (see **Box 4**). There are also 20 branches of Iraqi banks, including Rafidain, which has been renamed to Dasiniyah Bank in the KRI, and ten foreign banks, which have brought some innovations to the market. Digital payment and a broader set of finance options are becoming more widely available, and Iraq’s first private digital payment card was launched in 2019.⁷²

In 2015, the Iraqi Council of Ministers issued a decision aimed at levelling the banking playing field by expanding the range of financial services that private banks are allowed to provide to government ministries and SOEs.⁷³ However, this still requires pre-authorization from the Iraqi Ministry of Finance, in accordance with the 2016 Public Financial Management Law.⁷⁴ Despite the decision, Iraqi and KRG authorities have largely continued to direct government and state-owned enterprises’ cash-flow activities to state-owned banks. Without access to public employees’ salary accounts, private banks cannot assess their salary history and are thus reluctant to provide them with loans.⁷⁵ The severe liquidity crisis facing most banks, especially in the KRI from 2014 to 2017, was compounded by the CBI effectively freezing the current accounts of commercial banks. In 2015, the KRG seized the funds in the CBI branches in the KRI, including the regulatory capital of Iraqi public and private sector banks deposited at these branches, exacerbating illiquidity in a number of private sector banks.⁷⁶ Private banks’ cash reserves were further depleted by KRG-issued cheques, which banks cashed for their customers but were then unable to exchange for cash at the CBI branches (as the latter had no cash either). Many private banks restricted their customers from withdrawing cash from their bank accounts altogether,

and rescheduled and refinanced loans. New bank lending and the issuance of guarantees to the private sector virtually stopped.⁷⁷ While conditions have eased and banks are now more liquid, this recent history has left the banking industry with a very significant trust gap, and few Iraqis trust banks with their money today.

Box 4: Cihan Bank: An ILO PROSPECTS partner

Cihan Bank was established in February 2008 and opened its head office in Erbil in April 2009. Cihan Bank is a fully Islamic bank, listed on the Iraqi Stock Exchange since 2017. It is subject to the standards of disclosure of the Iraqi Securities Commission (ISC) and the Iraqi Stock Exchange. The bank has branches in Dohuk, Sohan, Zakho, Mosul and Bagjer, and provides a range of Islamic banking products and services to its core customers of government entities, companies and individuals in Iraq, including in the KRI. E-banking and mobile banking have recently been introduced.

Cihan's murabaha (an Islamic financing structure) contracts for SMEs are offered for asset purchases in agriculture, industry, trade, tourism, health and education, and range in value from IQD5 million to IQD50 million (US\$3,390–33,900) disbursed directly to the selected supplier(s) based on quotations. The borrower repays over a period of 12 to 26 months at an annual service fee of 8 per cent. The borrower must present one of the four valid identity documents, a tenancy contract, a feasibility study and a business licence, as well as registered land or real estate (mortgage) covering 200 per cent of the asset (loan) amount, and two or more government-employed guarantors.

Source: <https://www.cihanbank.com.iq/en/branches/>

The loan-to-deposit ratio in Iraq (banks' credit to deposits) is relatively low, at 70 per cent (July 2020).⁷⁸ **Credit provided to the private sector amounted to 9 per cent of GDP in 2018 (against 55 per cent, on average, in other MENA countries).**⁷⁹ On the supply side, banks associate SMEs and households with very high risk, owing to the private sector's informality, poor financial reporting standards and lack of credit history (credit registries/bureaux). Lending to SMEs tends to involve higher risk premiums and high collateral requirements, as banks complain that there is a lack of viable projects. At the outset of the pandemic, the CBI lowered the bank reserve requirement by 2 per cent and extended repayment terms on its directed lending initiatives, providing liquidity support to banks. This supported an increase in the provision of credit to the private sector (mainly households) of about 15 per cent in 2020. However, reported non-performing loans at state-owned banks had increased to 12 per cent by June 2020 (and were likely under-reported).⁸⁰

In 2019, the CBI announced that the Law on the Iraqi Company for the Guarantee of Deposits had passed. **An Iraqi Deposit Insurance Corporation was to be established as a joint stock company with capital of IQD100 billion (US\$67.8 million) contributed by 42 private, governmental and foreign banks, the National Insurance Company and the public sector employees' Pension Fund.** The Deposit Insurance Corporation aims to guarantee deposits made with banks operating in Iraq up to a maximum of IQD150 million (US\$101,700) per depositor in banks that the CBI requires to fulfil liquidity requirements. The Law enables the Corporation to compensate depositors of less than IQD100 million (US\$67,800) at the rate of 51 per cent of the value of deposits, whereas higher deposits will be compensated at only 25 per cent, and the monthly cost to customers would be 1 dinar for every 10,000 dinars of the deposit value.⁸¹ News media reported that the CBI governor opened the head office of the Corporation in September 2021,⁸² but it remains unclear if it is functional.

As many bank customers lost their savings or were blocked from accessing their deposits in the past, an independent, effective and well-monitored deposit guarantee entity would be a welcome addition to the financial sector.

Digitization in the Iraqi banking sector

In an effort to increase formal financial inclusion, the CBI is working to further modernize payment systems and promote electronic payments in Iraq. The electronic debit/transfer **QiCard with biometric authentication** was developed by the Iraqi company ISC, is partly owned by the government and two state-owned banks, and is registered with the CBI. **A large proportion of public employees already receive their salaries via public banks through QiCards, which are increasingly replacing the previous cash-based payment processes.** By winning the contract to distribute government salaries, pensions and social security payments, ISC was able to issue 7.4 million QiCards (representing 63 per cent of all electronic cards issued in Iraq) to public sector employees and social-transfer recipients, who can transact with around 14,000 merchants,⁸³ including in Nineveh and Dohuk.⁸⁴ Since 2010, the QiCard has also been used by MoLSA and the MoMD to disburse pensions and cash assistance, including grants to IDPs (but not to refugees or other foreigners). Some 320 state-owned bank branches and 52 private bank branches were providing cash disbursement facilities to QiCard users by 2018, in addition to some 81,700 QiCard shops, including more than 10,000 in Nineveh.⁸⁵ **Part-owner Rafidain Bank added an electronic credit evaluation and approval functionality to the QiCard in 2018, enabling the bank to issue US\$2 billion in private (salary-guaranteed) loans in its first year of operation.** The loans ranged from IQD1 million to 10 million (US\$678–6,780), with annual interest rates of about 9 per cent, payable over 60 months. More than 60 per cent of these loans went to start-up businesses.⁸⁶ Since mid-2019, however, the number of QiCards issued has declined drastically, as they are being replaced by the MasterQi Card, which is a debit card issued with authorization from MasterCard, or by e-wallets. The number of e-wallets opened had grown exponentially to more than 2 million by the end of 2021.⁸⁷

Mobile-phone penetration is high in Iraq, at 78 per cent in federal Iraq and 90 per cent in the KRI. The mobile coverage and network stability are adequate across most of Iraq, except in some rural locations and around borders close to Mosul in Nineveh. Mobile money transfers are managed through a network of agents and ATMs across Iraq.⁸⁸ The largest four electronic (mobile) payment companies licensed by CBI are AsiaHawala (2014), Zain Cash (2016), FastPay (2017) and NassWallet (2019) – the latter two being particularly popular in the KRI.⁸⁹ The UNHCR provides cash assistance to IDPs via Zain Cash and AsiaHawala, which allows customers to have a mobile money account linked to their SIM card or mobile application, through which they can make a range of financial transactions (money transfer, electronic bill payment, funds disbursement service), as indicated in **Table 3**. For refugees, Zain Cash has partnered with IrisGuard since 2019 to replace SIM-based mobile money disbursements. Cash payments are made to recipients by Zain agents based on iris scans and subsequent ID verification via UNHCR servers.⁹⁰ While this has increased speed and convenience for recipients, it may not facilitate the formal financial inclusion of refugees. Recently, the Electronic Gate for Financial Services (“Iraq E-Gate”) has been launched, offering an interoperable payment platform, authorized by the CBI, to promote digital payment services to Iraqis.⁹¹ However, the electronic payment infrastructure remains insufficient and not fully connected. For example, not all ATMs are yet linked to a central switch, and customers of one bank cannot access their funds via ATMs of other banks.⁹²

Table 3: Examples (end-2019) of electronic (card-based) and mobile (phone-based) transfer options⁹³

	Type	Delivery mechanism	Coverage	Currency	Sender/transfer fee	Cashout fee	Agent fee	Total cost (estimate)
QiCard	Smart card	Contracted agents, ATMs	All governorates	IQD and US\$	0.7%	n/a	n/a	n/a
Zain Cash	Mobile money	Contracted agents, National Bank of Iraq, Mastercard, ATMs	All governorates	IQD and US\$	1.5% all Iraq 1.75% in Nineveh	0.5–1%	Merchants deduct 0.6% from wallet balance	7.85–9.35%
AsiaCell/AsiaHawala	Mobile money	Contracted agents, ATMs	All governorates	IQD	0.25%	0.5–1.2%		6.5–6.9%

Domestic and international money transfers in Iraq

Exchange houses, *hawala* (money-transfer) services, e-vouchers (for example, Red Rose and the WFP’s SCOPE) and pre-paid cards (such as SWITCH) are the most used transfer mechanisms within Iraq. *Hawala* dealers are certainly the most omnipresent and best known of all payment service providers, and while they are registered with authorities, community-based *hawaladars* often have more flexible customer due diligence (CDD) procedures than other FSPs. Fees are not standardized across *hawaladars*, but they generally charge US\$2–4 per domestic transaction by the sender, with the provision of a free receipt.⁹⁴ Since 2017, exchange houses have been required to conduct CDD on customers whose transaction values exceed the equivalent of US\$10,000,⁹⁵ and they are not legally allowed to transfer funds outside of Iraq.⁹⁶

During the COVID-19 lockdowns, banks were only allowed to open for a limited number of days in a week and this slowed down payment processing and approval procedures. In May 2020, the CBI issued Directive No. 5/6/822, which increased the average fee of 0.25 per cent to 0.7 per cent on all cash withdrawals in US dollars for transfers received from abroad. Accordingly, only 75 per cent of any amount received could be paid out in US dollars, with the remaining 25 per cent being automatically exchanged into Iraqi dinars at the prevailing official exchange rate.⁹⁷ A cash withdrawal limit from wallets and accounts was also introduced. With limited liquidity, some banks also imposed restrictions on customers’ cash withdrawals, including smaller FSPs, particularly *hawala* agents, which negatively affected their liquidity and float. By the end of 2021, however, liquidity levels and transfer mechanisms were reportedly back to normal.⁹⁸

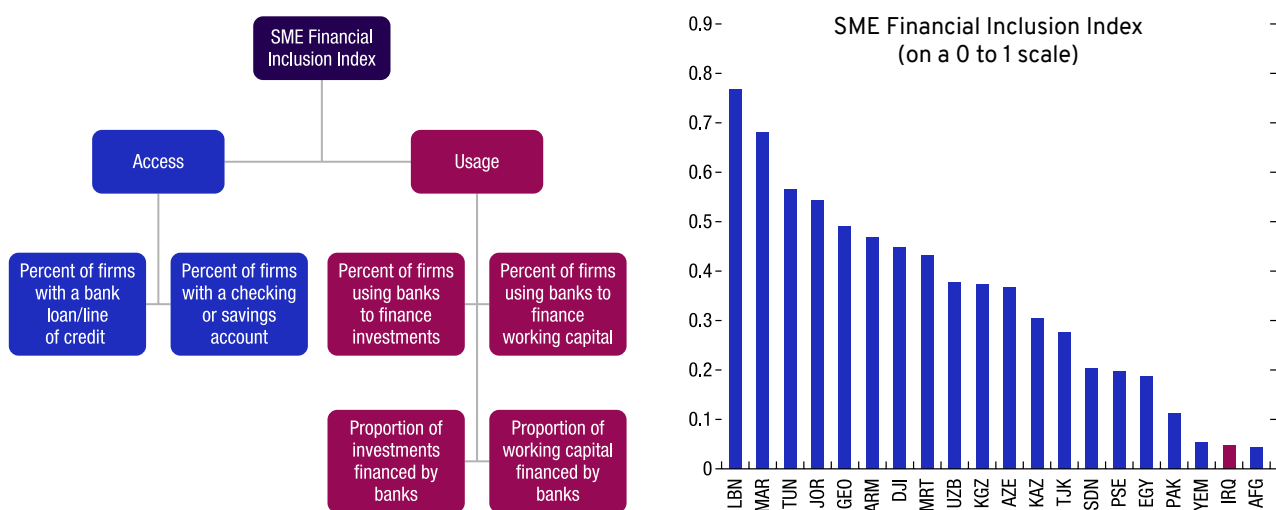
The Iraqi insurance industry

The Iraqi insurance industry is in its infancy. The Insurance Law adopted in 2005 requires insurance companies to be licensed by the insurance regulatory authority, Al-Diwan, and they are subject to reporting and supervision requirements, including: prior approval by Al-Diwan of the opening, closing or relocating of branches; minimum capital (set by regulation); and “fit and proper” requirements for management, auditing and reporting. According to the law, and in order to protect insurance policyholders, all insurance companies must deposit an amount (determined by Al-Diwan) in a licensed Iraqi bank as a guarantee for the payment of any future claims and liabilities. Separate licensing requirements and procedures under a special instruction apply to insurance agents, but these must be licensed by the regulator as acting on behalf of insurance companies.⁹⁹ Zain has recently introduced a micro credit life insurance policy (*Salamatak*) to its Iraqi pre-paid mobile-phone customers, entitling them to cover of IQD2.5 million to 3.75 million (US\$1,695–2,542) in the event of death or permanent disability due to accidents, based on the value of monthly phone recharges.¹⁰⁰

3.1 SME finance

In 2019, Iraq had the second lowest score for SME financial inclusion in the MENA and Central Asia region after Afghanistan, according to the IMF (Figure 2).¹⁰¹ Only 2.7 per cent of all firms in Iraq had financed investment projects through bank loans, compared with an average of 23.7 per cent in the MENA region. Accordingly, fewer than 5 per cent of SMEs in the formal sector have ever received a bank loan.¹⁰² Unsurprisingly, access to finance to grow businesses has been a consistently popular demand among Iraqi entrepreneurs, but formal FSP credit, on the other hand, is not in great demand. About half of SMEs surveyed by the International Organization for Migration and the Food and Agriculture Organization in June 2020 had borrowed money. However, 38 per cent of all borrowing was informal, from friends and family, whereas 36 per cent of borrowers had used post-dated cheques to secure a formal FSP loan, or had borrowed from suppliers. Only 2 per cent had applied for a new bank loan or a loan rescheduling from an FSP to cope with the pandemic in 2020/21.¹⁰³ The use of supplier payments as a source of borrowing for SMEs is important to note, as it is indicative of the informal networks of mutual financial support within value chains – which may have come under increased stress during the pandemic.

Figure 2: The SME Financial Inclusion Index for the MENA region



SMEs' lack of access to formal finance

The standard bank loan terms do not seem appealing to SMEs, as loans are expensive, the application process is onerous, the repayment terms are too short and collateral requirements exceed loan amounts. When Iraqi banks do lend out, they collect the highest interest rate spread (7 percentage points) in the MENA region, implying high funding costs for the private sector. This may reflect higher operating costs, lack of competition among banks (higher mark-ups), or simply elevated risk perceptions.

Further exacerbating the issue are bankers' limited experience in lending to SMEs and a general lack of technical skills in analysing credit risk and conducting cash-flow analyses.¹⁰⁴ Banks often over-collateralize loans – that is, they require 150 per cent or more in collateral – especially for small firms,¹⁰⁵ and the objectivity of collateral valuations is often questioned. FSPs typically seek fixed/immovable assets (land and real estate) as collateral, but SMEs mainly possess moveable assets, such as equipment and inventories. Some banks also use post-dated cheques¹⁰⁶ as collateral, as they are easier and faster to enforce.

In a 2020 survey by the ILO and the Fafu Institute for Labour and Social Research of 1,175 MSMEs across the KRI and northern Iraq, most businesses reported generating a steady but relatively modest profit before the COVID-19 pandemic: 50 per cent were averaging less than IQD1 million (US\$680) profit per year and 37 per cent were breaking even. While 75 per cent of MSMEs had no financial commitments prior to the pandemic, 26 per cent had taken on some debt to get through the crisis (14 per cent had microfinance loans, for example). In June 2020, in the midst of the pandemic, many of the MSMEs surveyed had retrenched employees and were concerned about losses in sales, income, cash flow and revenues. Very few, however, were worried about banks closing, which confirms the limited role of formal financial services in business development in Iraq. Likewise, only 10 per cent of the enterprises surveyed had accessed any government or donor-funded support to handle the COVID-19 crisis, with the vast majority being unaware of any assistance. Unsurprisingly, more than 80 per cent of the MSMEs surveyed requested direct financial support, while around 20 per cent preferred wage subsidies and 10 per cent were in need of technical assistance to develop business continuity plans and prepare for the future after the pandemic.¹⁰⁷

Public and private efforts to boost the financial inclusion of SMEs

The Government of Iraq adopted a Private Sector Development Strategy for 2014–2020, which included a pillar on SME development. **Iraq has relied on direct public sector intervention to boost the financial inclusion of SMEs, including targeted lending to SMEs by state-owned banks and ministries, and SME credit guarantees. However, the results have been mixed (see Box 5).** To avoid crowding out private credit, these targeted interventions would have required more equitable regulations and supervision. Well-designed credit-guarantee schemes can contribute to the financial inclusion of SMEs in emerging markets, but they may also weaken credit discipline and they do not always meet the objective of generating additional or financially sustainable SME credit.¹⁰⁸

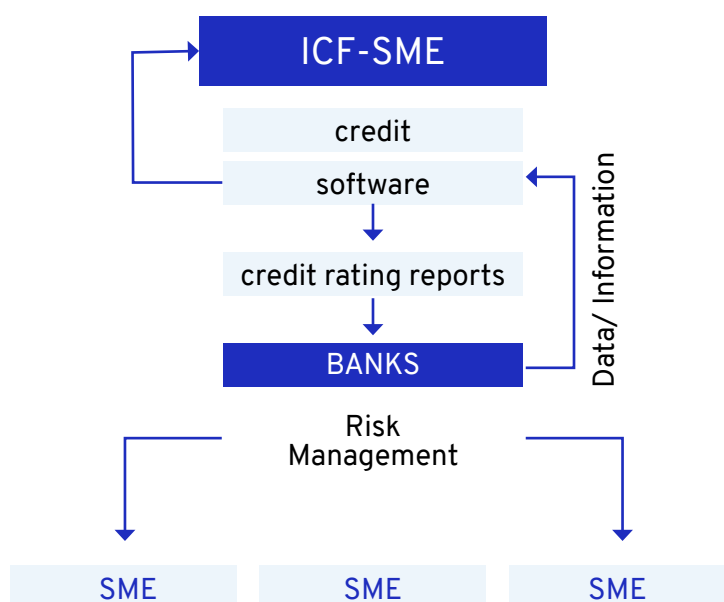
Box 5: The Support of Small Income-Generating Project Law

The Ministry of Labour and Social Affairs (MoLSA) has been lending to small businesses since 2007 at highly subsidized rates. In 2012, the national parliament passed the Support of Small Income-Generating Project Law to support small businesses, exempting them from income tax and government levies. In addition, the Law created a fund with IQD150 billion (US\$101.7 million) in capital as a vehicle for the Government to provide interest-free or nominally charged MSME loans, ranging from IQD5 million to 20 million (US\$3,390–13,560) through MoLSA, which has since managed most of the government-supported loan schemes to promote entrepreneurship and MSMEs. In October 2012, MoLSA reported 73,323 loans disbursed at subsidized rates (0%–2%) between 2007 and 2009, but more recent information on its current portfolio could not be found. In 2016, MoLSA stopped new disbursements from the fund in the KRI. The World Bank Emergency Social Stabilization and Resilience Project had allocated US\$80 million in 2018 to support the institutional strengthening of this loan scheme, but that project was cancelled in mid-2021.

Private sector-led support to encourage commercial financing of SMEs in Iraq has been championed by various funders, but with limited success so far. In 2003, the IFC approved a US\$170 million Iraq Small Business Financing Facility. Since then, two institutions established with funding from the United States Agency for International Development (USAID) and owned by commercial banks have been providing loans and loan guarantees to SMEs in Iraq:

- **The Iraqi Company for Bank Guarantees (ICBG)** was established by 11 private Iraqi banks in August 2007 with a US\$5 million grant injection from the USAID-funded Tijara project,¹⁰⁹ and 16 banks now participate in its loan guarantee programme. The ICBG provides partial guarantees of both principal and interest (up to 75 per cent) to privately owned banks lending to Iraqi-owned SMEs at a fee of 2 per cent of the loan value.¹¹⁰ By 2015, the ICBG had guaranteed nearly 8,000 loans in a cumulative portfolio of IQD90 billion (US\$77.2 million).¹¹¹
- **The Iraqi Company for Financing SMEs (ICF-SME)** was established in 2009 with a total capital of IQD270 million (US\$235,000) owned by eight shareholding Iraqi and regional private banks and supported by the USAID-funded Tijara project up to 2013. The ICF-SME was set up to pioneer expanded SME credit availability through product innovation, stable funding, pricing and loan incentives, as well as targeted loan programmes. The objective was to act as a catalyst to accelerate private-bank penetration of the SME loan market by utilizing donor funds and retained earnings into bank loans to SMEs. The ICF-SME is registered as a limited liability company with a robust advisory committee. Selection and management criteria are based on assessments of the recipient banks and their ability to lend on to SMEs – see **Figure 3**.

Figure 3: Functions of the ICF-SME



The ICF-SME used to offer the capacity to deliver funding and technical services to privately owned commercial banks in Iraq, while functioning as an apex-like financing structure for funders, selecting and monitoring the local participating banks. Tijara provided technical support and three conditional grants totalling US\$8.95 million to establish the ICF-SME and channel funding (for revolving lines of credit) to multiple Iraqi private commercial banks for lending on to SMEs at an annual management fee of 1.5–4 per cent. It also provided technical assistance to the participating banks. The ICF-SME managed two additional grants, including one worth US\$10 million from Tijara for lending on to SMEs owned by IDPs. Participating banks were required to contribute their own capital as co-funding for the loans they provided to SMEs across Iraq. SME loans were offered for 12 to 24 months and ranged in value from IQD6 million to 300 million (US\$4,000–203,400), but were capped at IQD20 million (US\$13,560) for IDP-owned SMEs under the Iraqi Vulnerable Group Support Initiative (IVGSI). The interest rates on these loans were capped at 10 per cent, but were reduced to 7 per cent, well below the average banking rates, for the 2,923 loans to displaced SMEs financed under the IVGSI programme, at a total value of US\$33.5 million.¹¹²

As at the end of 2020, the ICF-SME had 5,830 loans outstanding with nine banks at a total value of US\$89 million, and bank contributions amounted to US\$19.5 million. In Nineveh, 643 loans at a total value of US\$5.8 million were outstanding, and 191 loans at a total value of US\$2.6 million were provided in Dohuk Governorate. In 2020, the ICF-SME received US\$708,600 from the CBI's Tamkeen fund to disburse zero-interest loans through the Ashur International Bank for Investment and the Iraqi Middle East Bank to MSMEs in Nineveh under the Nineveh Empowerment Programme for FDPs, which resulted in the disbursement of 200 loans.¹¹³ While the largely donor-funded ICF-SME model may not be very sustainable, lessons have been learned and banks engaged during its operation. This model's strengths could merit replication, especially in terms of risk-sharing and training for banks in working with SMEs.

3.2 Microfinance

Up to 2014, the Iraqi microfinance industry comprised 12 microfinance institutions (MFIs) that operated in all 18 provinces of Iraq. From 2015, eight remained operational. The microfinance industry, already challenged by a difficult legal environment, limited funding, weak capacity and limited training opportunities in the country, was significantly impacted by both the general financial downturn in Iraq and the ISIL insurgency. The four MFIs that closed down did so because of a lack of access to customers and security. They were based in Anbar, Nineveh (Mosul) and Salah ad Din Governorates and their closure impacted an estimated 21,490 active customers with US\$22 million in credit outstanding, or 15 per cent of the overall market. The eight remaining MFIs consist of five smaller, locally-owned MFIs, one larger MFI managed by the humanitarian INGO Relief International, and two faster-growing MFIs affiliated with international industry players: Vitas Iraq, owned by Global Communities (formerly CHF International), and Al Thiqa, originally established by Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance.¹¹⁴

By the end of 2021, after the worst of the pandemic was over, the Iraqi Microfinance Network (IMFN) reported that member MFIs across Iraq had a total of 67,500 loans outstanding at a total value of US\$143.7 million (with an average loan size of US\$2,230), which represents a 16-per-cent reduction in the value of the combined pre-pandemic portfolio as at August 2019.¹¹⁵ In 2021, women made up 28.7 per cent of borrowers and the majority of outstanding loans were issued for MSMEs in trade and services. Altogether, in August 2019, the MFIs had 46 branches and 11 satellite offices, and employed a total of 389 staff, of whom 35 per cent were loan officers. Three of the reporting MFIs have branches in Dohuk, Nineveh and Erbil. In addition, two smaller Iraqi MFIs in Nineveh are re-emerging from the ISIL crisis. The MFI Bright Future, which focused specifically on the KRI, has not reported to the Iraqi Microfinance Network since 2015 and is thought to be in extreme difficulty. The average PaR(30) – portfolio at risk greater than 30 days – ratio across MFIs was nearly 20 per cent at the end of 2021,¹¹⁶ compared with 9.2 per cent in August 2019, when 82 per cent of loans outstanding were business loans for MSMEs and only 3 per cent were for agriculture. All MFIs lend in US dollars and leave the foreign-exchange risk to the clients.

Governance of the microfinance sector in Iraq

The microfinance industry falls under the regulatory jurisdiction of multiple laws and supervisory bodies. The Central Bank Law provides that “the CBI may take whatever action it deems necessary to regulate and supervise lending companies, microfinance companies, and any other non-bank financial institutions not otherwise regulated under Iraqi law” (article 4). As such, the CBI arguably has the right – and capacity – to regulate MFIs, and it has reportedly begun to explore options for

bringing MFIs under its regulatory umbrella and updating its regulations to include microfinance.¹¹⁷ However, all MFIs in Iraq remain not-for-profit NGOs, registered with the NGO Directorate under the (federal) NGO Law No. 12 of 2010, which requires both national and international NGOs operating in federal Iraq to comply with reporting rules and requirements, including mandatory payment of taxes, VAT and customs duties, and annual audits. The KRG parliament approved a separate NGO Law in 2011 for NGOs (including MFIs) operating only in the KRI, exempting them from taxation. MFIs that operate across both jurisdictions must register both in Baghdad and in Erbil, and are thus at a financial (tax) disadvantage to MFIs operating only in the KRI. Overseeing some 3,000 NGOs across Iraq, the NGO Directorate has not adopted special regulations for NGO MFIs. In addition, the NGO Law does not address the issue of interest on loans, but several MFIs report having been (a) told to abide by an interest-rate cap set by the NGO Directorate (flat interest rate of 15 per cent per annum, inclusive of all fees); (b) prohibited from transferring funds outside the country to repay a loan to an investor; or (c) prevented from selling assets to a for-profit institution.¹¹⁸

In 2010, the CBI issued the SME Finance Company Ordinance¹¹⁹ explicitly allowing commercial companies (SME finance companies) to engage in lending activities for SMEs, which can include micro enterprises, but prohibiting them from mobilizing deposits. This was seen as a road map for NGO MFIs to transform into commercial entities, and while some NGO MFIs have expressed interest in establishing such companies, they have either not been allowed to do so, or they have assessed the benefit of transformation as less important than the risks associated with remaining as NGOs. This is partly due to the requirements for establishing a company under the Ordinance:

- The SME Ordinance set a moderate minimum capital requirement of IQD2 billion (US\$1.4 million) for a joint stock company and IQD1 billion (US\$677,800) for a limited liability company.
- Board members must be residents of Iraq, which may be problematic for foreign investors.
- Companies must get prior CBI approval for opening, closing, relocating, or merging branches and for the minimum and maximum loan amounts offered to customers.
- Loans can only be provided for business purposes, can only be issued in IQD and can only be provided to Iraqi citizens or entities.
- SME finance companies can borrow up to a maximum of 300 per cent of their capital from local or foreign banks.
- The regulations issued by the CBI for the Ordinance use the term “concessionary interest rates” but do not specify any cap on interest rates. The instructions state “interest rates must be calculated according to international best practices to cover operational and financial costs”.¹²⁰

Since 2010, the CBI and the NGO Directorate have been trying to reach agreement on the interpretation of the regulations regarding how an NGO MFI can legally “transform” its operating model into that of an SME finance company or another for-profit company, but this remains a contentious issue.¹²¹

Historically, most MFIs have relied on grants, but there have been few new grants to the sector since September 2012, when the last USAID-funded sector-support programme ended. Other sources of funding are limited, as NGOs cannot raise equity or take deposits. Despite the absence of restrictions on fund transfers into and out of Iraq, international microfinance investors have not been active in the country, but the Overseas Private Investment Corporation (OPIC) and KIVA supported the larger MFIs up to 2015. There appear to be few local investors willing to lend to MFIs. However, Vitas Iraq has recently received a US\$3.9 million portfolio guarantee from Proparco,¹²² and the World Bank COVID-19 Adaptation and Recovery Pilot (CARP) project is expected to allocate

US\$2.5 million to improve MFIs' balance sheets in the wake of the pandemic.¹²³ **NGOs are not legally prohibited from borrowing, but local banks are reluctant to lend to NGOs in the absence of legally liable owners of customary collateral.**¹²⁴

The insurance regulations have made the option of buying risk cover for customer death (credit life insurance) so expensive for MFIs that the majority have chosen to internally absorb any write-off on the death of a customer.¹²⁵ An NGO MFI can have a contractual relationship with an insurance company but cannot be an agent. A Lebanese-based insurance company, Commercial Insurance, has been providing credit life insurance policies since 2012 (currently to Vitas and Amalkom). In light of increasing credit risk, some MFIs have sought guarantees for their loan portfolio. Other MFIs, including Al Bashaer, tried to close a deal with the ICBG, but found it too expensive.¹²⁶

The Iraq Microfinance Network was formally registered in April 2012 as an independent NGO. It represents all active NGO MFIs and is the industry body in charge of strengthening the sector through coordination, training, advocacy and research. It aims to facilitate dialogue between microfinance stakeholders in the country, lobbying for more favourable policies with the government, and collecting industry data. It used to publish reports analysing the state of the microfinance industry in Iraq and organize national conferences gathering local and international partners. It has also delivered training workshops to its members.

The International Monetary Fund has recommended increased financial inclusion in Iraq through extending CBI supervision to include microfinance and mobile payments, and through promoting financial education and consumer protection.¹²⁷ In 2014, the CBI governor reported that a department for microfinance had been established at the CBI.¹²⁸ In addition, the CBI has established a Financial Inclusion Committee, of which the president of the Iraqi Private Banks' Association and a representative of the IMFN are members. The Committee aims to:

- **Transfer microfinance industry supervision to the CBI.** All MFIs in Iraq remain regulated under the 2010 Iraqi NGO Law and/or the 2011 KRG NGO Law (if operating in the KRI) and thus report to the NGO Directorate.¹²⁹ The Prime Minister's Office supports transferring the duty to supervise MFIs to the CBI;
- **Provide credit reference services for MFIs,** either by enabling them to access and report to the existing Credit Registry managed by the CBI for private banks, or by establishing a credit reference service specifically for them. Delta Informatics, which manages a platform sharing anonymized borrower information among MFIs in Jordan,¹³⁰ has offered to install a similar credit information-sharing system for the Iraqi MFIs.

3.3 Informal Finance

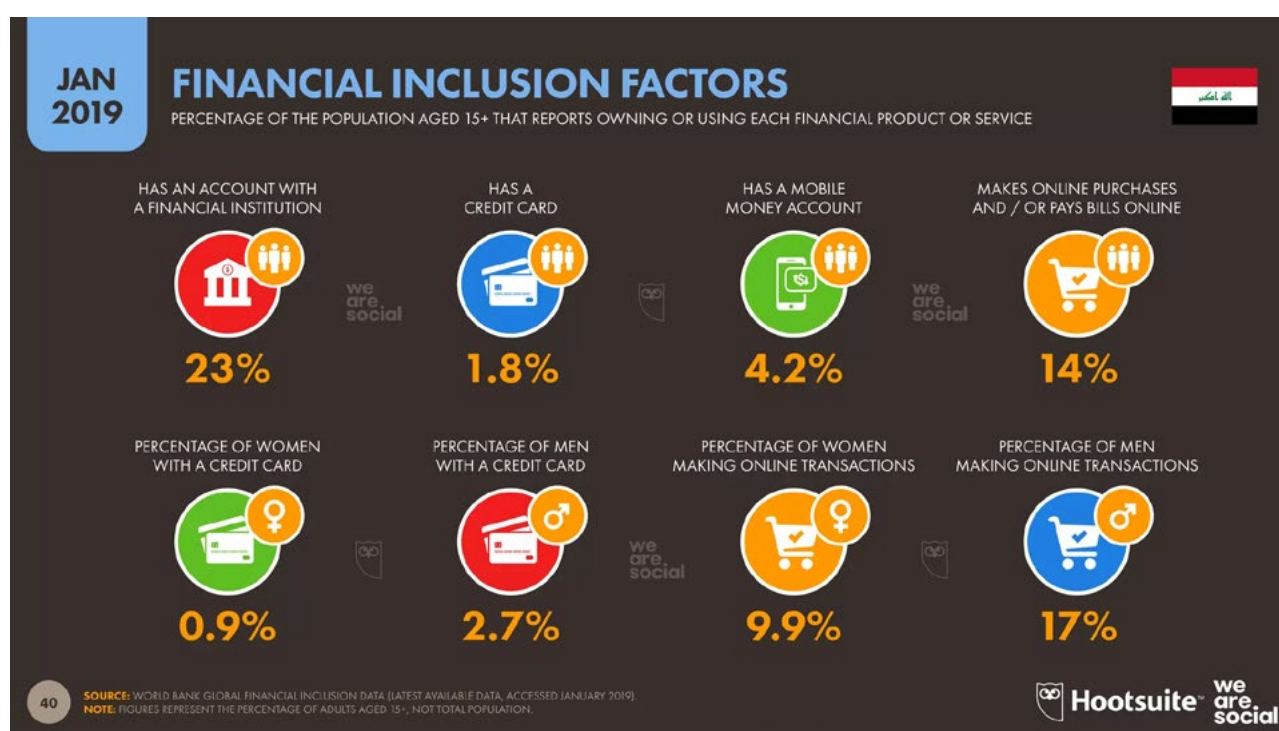
Formal financial inclusion in Iraq is low. The population displays a strong preference for cash, partly owing to general distrust of the banking sector after decades of financial sector instability, when private deposits were lost and not compensated. Despite the many challenges, the number of Iraqis overall with bank accounts grew from 11 per cent in 2014 to 23% in 2017 (see **Table 3** – no data exists specifically for the KRI), but only to 19.5% for women.¹³¹ While salary payments (for both civil servants and private sector employees) are still often made in cash, rather than through commercial banks, the fact that 19.1 per cent of the population received a digital transfer in 2017 is promising.¹³²

Table 4: Financial inclusion data, Iraq (Findex 2017)

Formal financial inclusion, %	22.7%
Borrowed any money in past year (+15 age)	63.4%
Of these, from FSPs	3.1%
Of these, from family or friends	52.1%
Saved in the past year (+15 age)	31%
Of these, saved with an FSP	1.6%
Of these, saved with Sifa//Gamiy'at/non-family (2014)	16.9%
Made/received digital payment	19.1%
Mobile money account (+15 age)	4.2%

The increasing use of digital transactions is reflected in Figure 4 (below), but the use of cash remains highly popular. While nearly two thirds of the population borrowed in 2017, and one third saved, the use of formal FSPs for these services is negligible. A significant demand for both credit and savings services in Iraq and, by extension, in the KRI, remains unmet by the formal financial sector, and customer preferences are not in the banks' favour.

Figure 4: Finance inclusion factors in Iraq, January 2019



Outside of the banking system, traditional money traders (*hawaladars*) are the most commonly used financial service providers in the country, offering a widely available, cheap and traditionally trusted network to move money (either payments, donations or loans) between individuals and, sometimes, also for lending. *Hawala* transfers are considered faster, cheaper and more reliable than banks, and are used by IDPs, refugees, residents and humanitarian agencies and I/NGOs alike. The largest *hawaladar* firms in Iraq and the KRI are licensed by the CBI and have global networks of associates, facilitating both physical and mobile transfers, which suggests they manage a large proportion of the remittances to and among Iraqis, and likely also among foreign-born residents.¹³³

Numerous money-exchange offices and *hawalas* operate in the IDP and refugee camps for Syrians in Dohuk, albeit typically as unlicensed individual handlers of transfers from and to Europe, Syria, Iran and Türkiye via their networks, as well as via Moneygram and Western Union. *Hawala* dealers charge US\$2–4 per transaction for transferring money within Iraq.¹³⁴

Based on anecdotal data from only one refugee camp in Dohuk, there may be one *hawala* for every 1,000 camp residents in Dohuk, transacting US\$15,000–20,000 per month. Some of these *hawaladars* provide interest-free personal loans to well-known customers, and regret the fact that a bank or MFI is not yet operating in or around the camps. The personal risk to them of storing and managing large sums of cash is considerable, and they would very much appreciate banking services in the vicinity of camps.¹³⁵

The vast majority of lending in Iraq is provided by friends and family, as well as by local merchants (for stock taken by retailers or basic shopping on credit), outside of the financial system, and is usually free of interest and collateral requirements. Recent research suggests that shop-owners and traders who do not provide credit to customers receive fewer day-to-day customers than those who do. For these informal lenders, there is, therefore, a social and financial imperative to accommodate the demand for credit unmet by FSPs, despite the levels of risk. Merchants extend credit to customer households they know may never repay the full loan value, and attach only lenient terms and conditions based primarily on pre-existing relationships or family ties. Informal business lending is relationship-based, and often spans periods of three to ten years, so the lenders are well aware of their position within their communities. Their motivations for lending and their status as lenders are formed within systems of informal social safety nets in the local communities,¹³⁶ but the debt is extended through the value chains, as smaller merchants also buy on credit from wholesalers.

In the cash-based economy, community-based savings and loan groups can present an effective means to keep cash moving in local economies, instead of sitting idle. In a 2021 study by the Cash and Livelihoods Consortium for Iraq (CLCI), 20 per cent of 772 households surveyed across all wealth groups were both borrowing from and lending to their personal circles (family, friends and local shopkeepers). While only 1 per cent of borrowers reported paying interest on their loan, and 8 per cent of lenders reported charging interest, mark-up of sales on credit is not uncommon. Informal lending agreements rarely feature fixed timelines for repayment, but the speed of repayment is sensitive to the needs of both the borrower and lender. Faced with declining sales during the COVID-19 pandemic, there were indications that business-owners sought to recall debts from customers to make repayments for their own debts to wholesalers; 20 per cent of (mostly relatively wealthier) respondents to the 2021 survey confirmed that they had to repay their debt faster during the COVID-19 pandemic. In addition, 33 per cent of poor households surveyed reported that their loan requests were declined by lenders during the pandemic, indicating a potential credit crunch. About a quarter of the lending in 2021 was not motivated by profit – for example, the loan was to return the favour of a previous loan, or to pay it forward in the hope of obtaining financial assistance in the future. This could indicate that informal savings groups (*Gamiy'at* and *Sifa*, etc.) functioned as mutual support networks to even out income or consumption during the pandemic, especially among households with irregular incomes.¹³⁷

In another small CLCI survey from 2021, 50 per cent of respondent households saved, even if poorer households were able to save less than before. Of those that saved, 90 per cent saved in cash or gold at home and primarily for emergencies; 12 per cent used Rotating Savings and Credit Associations (RoSCAs) and only 1 per cent saved with FSPs. In Sinjar in particular, survey respondents

in 2021 reported a lack of FSPs and stated that RoSCAs were also not common. Fifty per cent of respondents had borrowed, more among IDPs and returnees than among hosts, but primarily for daily essentials (food, rent, basic needs). Households appear to prefer their borrowing relationships to be underpinned by personal relationships, likely owing to the flexibility in repayment schedules. The RoSCAs enable households and businesses to borrow and lend without having to deal with many of the key perceived shortcomings of FSPs: geographical distance; stringent documentation requirements; complex procedures; impersonality; inflexibility; and *riba* (interest on conventional loans). Only 4 per cent of the CLCI survey sample in 2021 had never been involved with a RoSCA, and while some members had exited due to lack of savings or disruption of their RoSCA, these informal savings and loan groups could be revived.¹³⁸

A third small study for CLCI conducted in 2019 sheds light on informal trade finance in two conflict-affected rural towns (Anbar and Salah al Din). Many larger businesses had not returned to their original location of operation, and between 70 and 80 per cent of businesses were reportedly damaged by the conflict. As elsewhere in Iraq, the majority of the businesses assessed were small, informal and family-run (workshops, food shops, carpenters, stationery and clothing shops, etc.). Eighteen per cent of MSMEs were run by women, and 30 per cent had received cash assistance. Of these 83 per cent of traders in Anbar and just over half (51 per cent) in Salah al Din purchased their stock on credit from wholesalers, with more than half of them owing a minimum of IQD750,000 (US\$630). Conversely, 80 per cent of the MSMEs provided goods on credit to end-customers, citing an average debt outstanding of IQD3.5 million (US\$2,940). Some vendors – for example, of appliances – owed IQD5 million (US\$4,200) to wholesalers, delaying repayment until enough customers had paid for items bought on three-to-six-month purchase contracts. **Multi-purpose cash assistance enabled recipients in the areas assessed to make debt repayments as individual consumers and thus keep critical lines of credit open, but the cash injection did not reduce the net total of debt owed by either businesses or individuals.**¹³⁹

▶ 4

The Target Population





▶ 4. The Target Population

The population of Iraq was estimated at 40.22 million people in 2020, of whom around 70 per cent live in urban areas.¹⁴⁰ The overall population in the KRI is estimated at around 6.2 million people,¹⁴¹ of whom 20 per cent have remained in rural areas.¹⁴² Ethnically and linguistically, the population is divided into sub-groups of Arabs, Kurmanji, Sorani and Palewani-speaking Kurds, Turkmens, Chaldeans, Assyrians and Armenians, among others. By religion, the population consists of Shi'a and Sunni Muslims (both Arab and Kurdish), Christians (including Chaldeans and Assyrians), Kurdish Yezidis, and a small number of Jews and Sabeen Mandaean.¹⁴³

Iraqi Returnees

In all, 6.1 million Iraqis (15 per cent) have been displaced since the ISIL insurgency in 2014, mostly internally in Iraq but also to neighbouring countries, as refugees. Of these, 4.95 million had returned by December 2021, the vast majority (94 per cent) finding their own homes to be in habitable condition. However, the rest are living in rented or hosted accommodation, in temporary or sub-standard accommodation, including informal settlements, public spaces or damaged homes.¹⁴⁴ Nearly 2.6 million were displaced from and within Nineveh Governorate; 1.93 million of these had returned home (55 per cent to Mosul) by December 2021.¹⁴⁵ All of the 756 people forcibly displaced from Dohuk Governorate in 2017 have also returned home. Several studies have documented challenges for these returnees, including the destruction of their productive assets and livelihoods, damage to their property, unequal access to services, and acceptance, depending on ethnic and religious identity. While the current additional security measures taken by authorities often relate to fears of affiliation with ISIL,¹⁴⁶ the historical differences in socio-economic capital among the many different ethno-religious sub-groups should be kept in mind when analysing the potential customer base for FSPs.¹⁴⁷ Such concerns also affect Iraqis who have returned from exile as refugees abroad.

As at December 2022, there were 259,000 Iraqi refugees and asylum-seekers in Türkiye, Jordan, Syria, Lebanon, Egypt, and in the Gulf Cooperation Council countries, the majority of whom had arrived since 2014,¹⁴⁸ and some much earlier. Sunni Iraqis returning from Syria especially have been blocked from entering areas under Kurdish control, because of their perceived affiliation with ISIL. It is essential to recognize that many of these Iraqi refugees were IDPs before they left the country. Now that they have returned, these “cross-border returnees” may have reached their homes or areas of origin, but unless they register with authorities or UN agencies, they are often not recognized as eligible for humanitarian assistance. As many have not been able to re-establish

their livelihoods and therefore require assistance, they have re-displaced to IDP camps, effectively starting the cycle of displacement all over again.¹⁴⁹

Internally displaced Iraqis

Some 1.68 million Iraqis remain internally displaced as at December 2022, 56 per cent of whom are from Nineveh Governorate. While there are IDPs across all 18 governorates, one fifth are in Nineveh itself and another fifth are in Dohuk Governorate in the KRI.¹⁵⁰ Of the 253,503 IDPs registered in Nineveh in December 2021, 45,225 (18 per cent) were living in the only remaining IDP camp, Qayyarah Jeddah 5.¹⁵¹ In Dohuk, however, 44 per cent of the 249,165 registered IDPs were hosted in 11 camps,¹⁵² as illustrated in Table 5.

Table 5: Overview of Iraqi IDP populations, December 2021

	Iraq overall	Nineveh Govt. (Dec. 21)	Dohuk Govt. (Dec. 21)
Total est. population	40,222,500	3,828,197	Est. 1,500,000
Total Iraqi FDPs:	6,138,788	2,592,501	249,921
1. Of whom returnees	4,952,232	1,927,572 (74%)	756
Returnee HHs	825,372 (6/HH)	123,365 (6.4/HH)	125 (6/HH)
Returnee adults, 18–59 years	2,476,116 (50%)	983,062 (51%)	378 (50%)
Of whom female	1,287,580 (52%)	501,362 (49%)	197 (52%)
2. Of whom IDPs	1,186,556	664,929 (26%)	249,165 (25%)
Of whom from/in Nineveh:	664,929 (56%)	253,503 (38%)	248,391 (99%)
Of whom encamped	179,120 (15%)	45,225 (18%)	108,525 (44%)
Of whom 18–59 years	83,652 (47%)	18,542 (41%)	53,177 (49%)
Of whom female	42,662 (51%)	9,827 (53%)	26,057 (51%)
Encamped IDP HHs	29,664 (6/HH)	7,538 (6/HH)	18,088 (6/HH)
Of whom self-settled	902,448 (75%)	189,516 (74%)	119,502 (48%)
Of whom 18–59 years	424,150 (47%)	89,073 (47%)	56,166 (47%)
Of whom female	207,834 (49%)	43,645 (49%)	27,521 (49%)
Self-settled IDP HHs	34,639 (6/HH)	31,586 (6/HH)	19,917 (6/HH)

Refugees and asylum-seekers in Iraq

The UNDESA estimated a total foreign-born resident population (FBR) in Iraq of only 365,800 people by mid-2020,¹⁵³ 57 per cent of whom are of working age and 45 per cent of whom are women.¹⁵⁴ The majority of this population (74 per cent) are refugees from Syria,¹⁵⁵ but the remaining 26 per cent of the FBR population is quite diversified, as illustrated in Table 6, and the numbers are likely underestimated. The ILO estimates that 140,000 migrant workers are in an irregular situation.¹⁵⁶

Before the large influx of Syrian refugees to Iraq, Turks and Iranians (most of Kurdish descent) made up the majority of the refugee communities residing in camps and urban areas across the KRI, including in the disputed district of Makhmour, between Erbil and Nineveh.¹⁵⁷ It is estimated that some 44,000 refugees from Iran and Türkiye currently live in the region. In addition, a smaller

group of Sudanese and Palestinian refugees (descendants of those who arrived after 1948) has been residing mainly in Baghdad and Mosul. Several hundred refugees from Occupied Palestinian Territory and Iran have been living in border camps since 2005, after having been refused entry into Jordan and Syria.¹⁵⁸

Table 6: Overview of FBR and refugee populations in Iraq (Dec. 2019)

	Total	No. of adults (18–59 years)	Of whom, no. of women	No. of HHs	Encamped adults	% self-settled	Main governorates of residence
Est. no. of FBRs, June 2019 ¹	368,062	228,198	95,843	122,687	21.5%	78.5%	Baghdad, KRI
No. of registered Syrian refugees ² (Dec. 2021)	254,561	133,900	62,113	77,144	49,543	84,357	Dohuk (34%), Sulaymaniyah (13%)
No. of refugees from Iran and Türkiye (long-term refugees/migrants) ³	27,460	17,025	3,830	5,492	10%	90%	Erbil (27%), Dohuk (21%), Suli (12%)
Palestinians (descendants 1948)	12,342	6,417	2,824	2,470	5%	95%	Baghdad, Mosul
No. of refugees from elsewhere in MENA/Africa	7,802	4,680	843	1,950	0%	100%	Main cities
Migrant workers from MENA (Egypt, Jordan)	27,772	16,665	3,832	7,935	0%	100%	Main cities
Migrant workers from Africa, SE Asia (Bangladesh, India, Pakistan)	26,983	17,540	7,225	7,710	0%	100%	Cities, rural
Skilled workers/expats/investors in oil/business from MENA/Gulf	1,393	975	326	695	0%	100%	Main cities
Skilled workers/ investors/expats from elsewhere	935	794	310	625	0%	100%	Main cities, Erbil/Baghdad

1 UNDESA-estimated migrant population in mid-2020: International Migrant Stock | Population Division (un.org) and calculations based on nationality and gender.

2 UNHCR figures from December 2021: <https://data2.unhcr.org/en/documents/details/90364> Breakdown of Nov 2019: <https://data2.unhcr.org/en/documents/download/73115>

3 UNHCR PoC data 2021: <https://www.unhcr.org/refugee-statistics/download/?url=X2ZjeU> 79% of the FBRs listed by the UNDESA are reflected as persons of concern (PoC – refugees and asylum-seekers) by the UNHCR in 2021.

Most of the other refugees have been granted humanitarian residency permits by the Iraqi Government; these must be renewed annually. A minority received residency on political (asylum) grounds. In 2021, 10,073 people from Türkiye, Iran and from Occupied Palestinian Territory were still listed by the UNHCR as asylum-seekers.¹⁵⁹ They were joined by refugees and asylum-seekers from 18 other countries in the MENA region, the Gulf and the Horn of Africa, and were settled primarily in low-cost areas of the main cities. The UNHCR records some 47,250 stateless people, including Iraqi *bidoons* and other ethnic minorities, as “persons of concern” (PoC). However, by December 2022, the UNHCR reported a total PoC population of 294,796,¹⁶⁰ 87 per cent of whom were Syrian refugees.¹⁶¹

In December 2022, the UNHCR registered a total of 256,006 Syrian refugees in Iraq, and nearly all the Syrian refugees, most of whom are Kurds, reside in the KRI. In May 2019, however, 9 per cent of Syrians surveyed in the KRI reported not having registered with the UNHCR, so the actual number is likely higher. A total of 160,374 (63 per cent) have self-settled primarily in peri-urban and urban areas, while the rest are settled in refugee camps in the KRI.¹⁶² Dohuk Governorate was hosting a total of 86,703 Syrian refugees in December 2022, while only 802 were living in Nineveh.¹⁶³

Social cohesion among forcibly displaced and host communities in the KRI

In the KRI, the majority of Syrian, Iranian and Turkish refugees and 85 per cent of all IDPs are Kurds, and the shared Kurdish identity among the majority seems to have facilitated social cohesion. Although some refugees have had to culturally adapt and learn the local Kurdish dialects spoken in different areas of the KRI, they have generally been welcomed. However, the recent influx of Iraqi IDPs to the KRI has led to additional integration challenges for the majority of refugee Kurds, shifting the barriers from socio-cultural to economic, especially during the economic decline of 2015/16 in the KRI.

More than half (55 per cent) of internally displaced households (65 per cent of encamped households) across the KRI are originally from Nineveh, as are 97 per cent of the IDPs now hosted in Dohuk Governorate. Most of these IDPs originate from the Sinjar district (63 per cent), where the Kurmanji dialect of Kurdish is widely spoken – this differs from the Badini and Sorani dialects more commonly spoken in the KRI – and 28 per cent come from Mosul, where Arabic is commonly spoken.¹⁶⁴ Across the KRI, 8 per cent of IDPs are Arabs, and 5 per cent are Christians or part of other minorities, including Shia Turkmen and Shabaks.¹⁶⁵ Community tensions have increased in some areas, but generally, most refugees report being well treated in the KRI. By contrast, it has been harder for non-Kurdish Iraqi IDPs to integrate in the KRI,¹⁶⁶ and among the IDPs and returnees, Yezidis appear to be particularly vulnerable – possibly owing more to their historic marginalization in Iraq than to their most recent experiences of displacement.

4.1 Socio-Demographic Characteristics

The target population in Nineveh is slightly more diverse than the population in the KRI and in Dohuk, but overall, the sub-segments show similar demographic characteristics, with the displaced segments displaying a higher level of economic fragility.

The displaced populations are comparatively younger than hosts in the KRI. Adults of working age comprise 55 per cent of the non-displaced, whereas they comprise 46 per cent of self-settled IDPs and 39 per cent of encamped IDPs, as illustrated in Table 7. About 20 per cent of the population in all sub-segments is young (aged 15–24). By gender, the populations are balanced overall, but men are slightly over-represented (52 per cent) in urban areas and under-represented (49 per cent) in camps. The overall dependency ratio (number of dependents for every 100 individuals of working age) for KRI is 64, but higher in Dohuk, at 69, and higher still among IDP and refugee sub-segments.¹⁶⁷

Table 7: Tentative comparisons among sub-segments of the target population (in KRI/Dohuk, where available)

	Non-displaced	IDPs			Refugees	
	Overall/hosts	Returnees	Self-settled	Encamped	Self-settled	Encamped
% aged 18–64 years of the total population	55%	47%	46%	39%	52–57%	53%
% women of total population	50%	52%	49%	51%	48%	49%
Mean age at which women marry	20.7		19.9	19.2		
Size of HH	5.1	5–6.8	5–6	4.6–5.3	3–6	6
Dependency ratio	69.9		78	90		
% Female-headed HHs	11%	7–21%	11%	21–44%	8–22%	

Sources: Kurdistan Demographic Survey 2017, e61.pdf (gov.krd)

<https://data2.unhcr.org/en/documents/download/69906> Reach MCNA Returnees, September 18

In the KRI, an average household (HH) contains 5.1 members and 11 per cent of households are female-headed, often because of widowhood.¹⁶⁸ Accordingly, a much higher proportion of encamped IDP households in the KRI (21 per cent) are female-headed.¹⁶⁹ Among encamped IDP households in Nineveh, 30 per cent are headed by women. Among refugees surveyed in May 2019, more Iranian households reported being female-headed (22 per cent) than Turkish (8 per cent) and Syrian households (10 per cent). On average, displaced households are smaller than the average for the KRI.¹⁷⁰

Differences in Educational Attainment

Education is a measure of human capital – associated with productivity, better job prospects, higher income and better welfare in families. Literacy is also an important indicator of eligibility for banks, but high educational attainment does not necessarily correlate to entrepreneurial acumen and is thus less important as an indicator of prospective successful finance for self-employed individuals. Against an overall literacy level of 50 per cent in Iraq (2018),¹⁷¹ in the KRI, 85 per cent of men and 70 per cent of adult women are literate, while only around half the population has completed formal secondary education, as illustrated in Table 8.

Table 8: Tentative comparisons among sub-segments of the target population (in KRI/Dohuk, where available)

	Non-displaced	IDPs			Syrian refugees	
	Overall/hosts	Returnees	Self-settled	Encamped	Self-settled	Encamped
Literate, m	85%	79%	80%	64%	80–86%	76–80%
Literate, f	70%				37%	37%
Completed primary education	34%	40%	35%	38%	43% (45% f, 21% m)	40%
Completed secondary education	51%	55%	44%	40%	29% (26% m, 12% f)	26%
Completed tertiary education	5.5%	24%	10%	1.6%	4%	4%
No schooling	17%	21%	14%	21–28%	13–20%	24%

There is a gender gap in education, most notably for encamped IDPs and refugees, but it is likely to diminish over time, as the enrolment of girls, including in secondary education, has increased since 2016 among all sub-segments.¹⁷² Among IDPs in Iraq, the levels of education are similar except for Yezidis: 50 per cent of Yezidi IDPs surveyed in 2018 had not received any formal education. Conversely, a higher proportion of returnees have attained secondary or higher education,¹⁷³ which may suggest that Iraqis with higher human capital are more likely to return and/or that time in exile has been spent on education. While older adult women have less education, young women are catching up, and more education correlates to increasing economic participation. Among the few women who work, 34 per cent hold a secondary or a graduate degree. Similarly, 92 per cent of women holding a secondary or a graduate degree work in the public sector, compared with 57 per cent of women who have completed basic education and 25 per cent of women who have no degree.¹⁷⁴

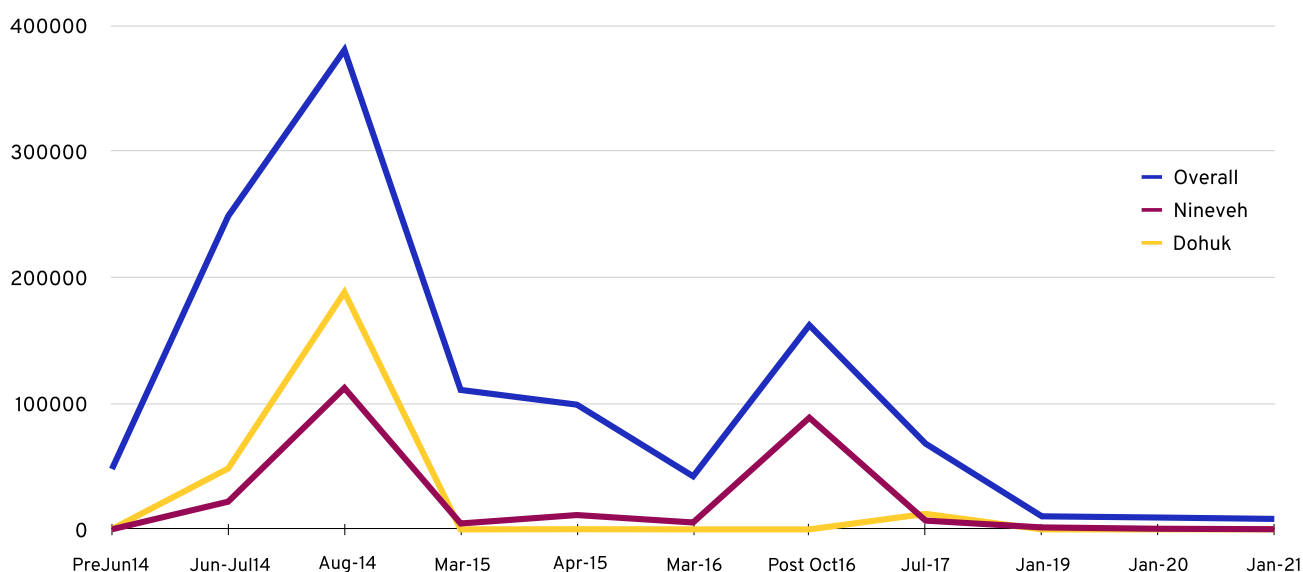
Public primary and secondary schools have, in principle, been free of tuition fees for Iraqis and, since 2014, for Syrian refugees in the KRI. As such, the vast majority of non-displaced (94 per cent) and refugee households (89 per cent) report having access to basic education for their children. Nevertheless, the closure of schools during the pandemic and the attempt to provide online education instead negatively impacted education among FDP households. From 2020 to 2021, the number of households with at least one school-age child not attending school regularly increased, reaching 35 per cent among IDPs and 29 per cent among returnee households by August 2021. The main reason reported among self-settled IDPs and returnees was costs (32 per cent and 24 per cent, respectively).¹⁷⁵

About half of MSMEs surveyed by the Government and the UNDP in 2020 indicated the need to develop practical professional skills for employees, while 28 per cent found it difficult to find skilled workers.¹⁷⁶ The Labour Law (No. 37 of 2015) states that vocational training, when provided, is available to all on an equal-opportunity basis, including to migrant workers.¹⁷⁷ Vocational preparatory education consists of three-year programmes in vocational schools and institutes. More than 400 schools and institutes offer these programmes in Iraq and the KRI, with a total enrolment of just under 60,000 students. In addition, there are technology universities and polytechnic colleges, while seven of the 38 MoLSA training centres located in the KRI enrolled 1,400 students in 2015, of whom 45 per cent were female. It is, however, widely acknowledged that technical and vocational training options need to expand, modernize and become better at meeting specific market demands.¹⁷⁸ The most popular course in 2015 across Iraq was “business innovation”, followed by sewing, computing, hairdressing and English language.¹⁷⁹

4.2 Displacement phases and migration paths

Overall, the vast majority (92 per cent) of the 1.16 million Iraqis who remain displaced in the country have been in displacement since October 2016, or for longer than five years, including in Nineveh (96 per cent of IDPs) and Dohuk (95 per cent), as illustrated in Figure 5.

Figure 5: IDPs registered by ‘wave’ over time



The recent large stream of returns, with 82 per cent of all the registered IDPs returning home by the end of 2022, seems to indicate signs of stability for Iraqis, despite 12 per cent of all returnees living in severe conditions. Within Nineveh, 29 per cent of returnees live in critical, destroyed or heavily damaged housing.¹⁸⁰ Even so, most families who had returned to their area of origin (94 per cent) intended to remain there for the next 12 months, similar to the average across Iraq of 97 per cent (survey in by September 2021). The vast majority (92 per cent) of returnees surveyed in June 2021 felt safe, and around 80 per cent reported being able to meet their basic needs, with the percentage being slightly higher among those who had been home for more than three years. Underlying market factors such as lack of investment, uneven access to vocational and school education, limited job opportunities and limited infrastructure (re)construction, exacerbated by the economic fallout from the pandemic, continued to affect returnee livelihoods in 2021.¹⁸¹

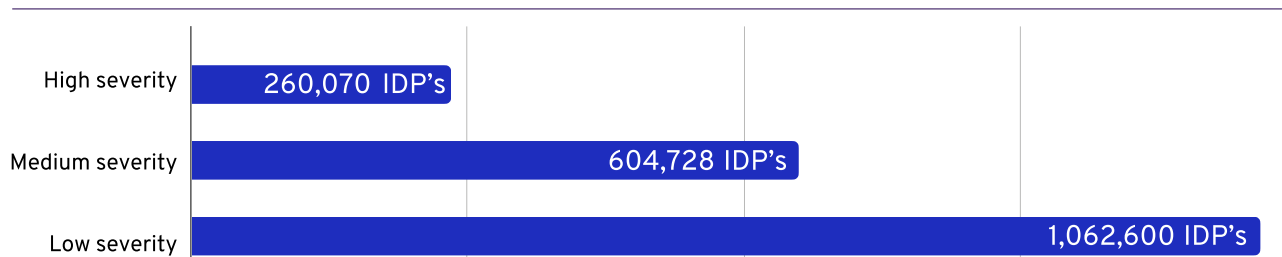
Some secondary displacement has occurred in 2021-2022, especially due to camp closures, but this has affected only 1.5 per cent of all IDPs and 0.25 per cent of IDPs displaced within Nineveh Governorate.¹⁸² In mid-December 2021, Nineveh’s Qayyarah Jeddah 5 camp was the only IDP camp in federal Iraq that remained open, and it was being closed in late 2022, resulting in further displacement. Additionally, 25 IDP camps hosting an estimated 180,000 individuals as at November 2021 remain open in the KRI.¹⁸³ As at August 2021, only 2 per cent of encamped IDPs intended to return to their area of origin within the next 12 months, the majority citing damaged homes, lack of livelihood opportunities and lack of basic services in the areas of origin as reasons for not being able to return. On average, 84 per cent of all encamped IDPs in Iraq and in Dohuk intended to stay where they were. The slight variations among camps correlated to livelihood opportunities and median income (the higher the income, the more likelihood of staying).¹⁸⁴

By June 2021, 99 per cent of all non-encamped IDPs surveyed reported feeling safe in their current locations, and only 5 per cent of IDP households reported facing discrimination in accessing employment, housing, documentation, health services and education.¹⁸⁵ In some parts of the country, however, a lack of community cohesion is an issue. Some Yezidis may be afraid to return to their historical homeland of Sinjar, where many were kidnapped or killed by ISIL. In other areas that were once mixed Sunni and Yezidi – and are now guarded by Yezidi militias – Sunni residents are worried they will be blamed for the atrocities of ISIL and are afraid, or forbidden, to go home.¹⁸⁶ Sinjar district falls within the disputed territories of northern Iraq. However, in October 2020, the Government of Iraq and the KRG signed an agreement on the status of Sinjar district, detailing and organizing aspects of administration, security and reconstruction, with the aim of restoring security and stability in preparation for the return of more displaced people.¹⁸⁷ **As at August 2021, 83 per cent of self-settled IDPs, an increase from 74 per cent in August 2020, had no intentions to move.** Only 1 per cent were contemplating returning to their areas of origin and 4 per cent of self-settled IDPs (1 per cent of encamped IDPs) were considering moving. The self-settled IDP population must therefore be considered very stable overall and likely to stay in its current locations.¹⁸⁸

Returnees’ and IDPs’ levels of stability

The majority of the current IDP population in Dohuk is in stable, protracted displacement.¹⁸⁹ **The displacement profile of IDPs within Nineveh Governorate is slightly less stable, primarily owing to the severe conditions in which returnees settle.** During the past two years, some 100,000 IDPs have returned to Nineveh. The majority arrived from camps that had been closed in the governorate and across federal Iraq, as well as from Dohuk. In addition to camp closures, the COVID-19-related movement restrictions on encamped IDPs also drove returns. Three quarters of recent returnees have settled in their areas of origin, and 46 per cent own the dwelling in which they currently reside.¹⁹⁰ However, many of these locations are classified as “high severity” locations, lacking services, livelihood opportunities and, to a lesser extent, security. As at December 2021, 13.5 per cent (260,070) of returnees in Nineveh live in “severe” conditions.¹⁹¹ They are likely to move again, unless conditions improve. Conversely, 55 per cent of self-settled IDPs have returned to locations of “low severity”, as shown in **Figure 6**.¹⁹²

Figure 6: Distribution of returnees in Nineveh by condition of location, December 2021



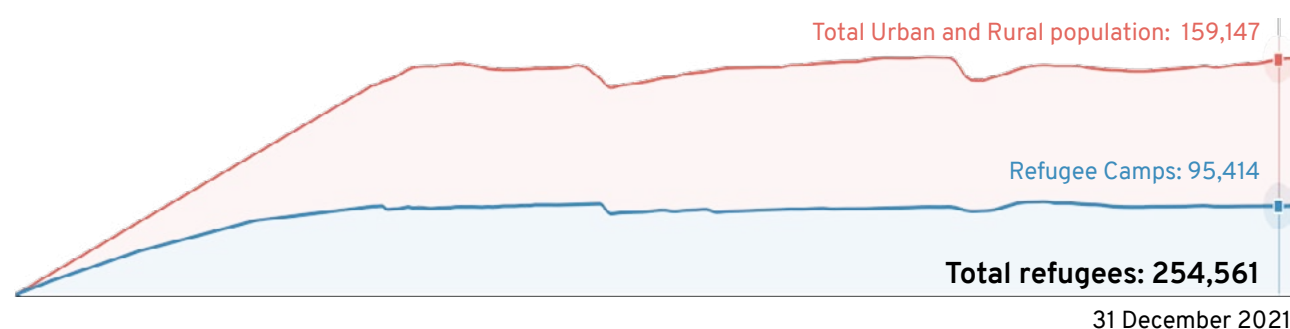
As at December 2021, 68 per cent of IDPs in Nineveh lived in rented accommodation across the governorate, up from 45 per cent in July 2019, whereas 3 per cent lived in an owned home, and 4 per cent were staying with family and friends. Among the 18 per cent of encamped IDPs, 96 per cent had no intention of moving in the short term as at August 2021, and 84 per cent were not planning to move within the coming year.¹⁹³

Among the nearly 250,000 IDPs currently living in Dohuk, nearly all arrived from Nineveh during 2014 (95 per cent). Among these households, 43 per cent reside in at least 15 IDP camps and settlements, whereas 3 per cent own their homes and 45 per cent rent accommodation, 8 per cent of which is classified as “critical”.¹⁹⁴ The self-settled IDP population in Dohuk (around 15,480 households), of whom around 85 per cent are Kurdish (mostly Sunni Muslims, as well as Yezidis), have settled primarily in the district of Sumel, which offers lower living costs not too far from the two economic centres of the governorate (Dohuk and the border town of Zakho), and in the areas of Sheikhan and Bardarash, which border Nineveh. These two districts already had a significant population of Christians and Yezidis before 2014 and are thus preferred by IDPs from these same religious communities.¹⁹⁵ In Iraq, like most other places, self-settling IDPs prefer to reside as close to home as possible, and among their peers, indicating the importance of social networks.

Refugees’ levels of stability in Iraq

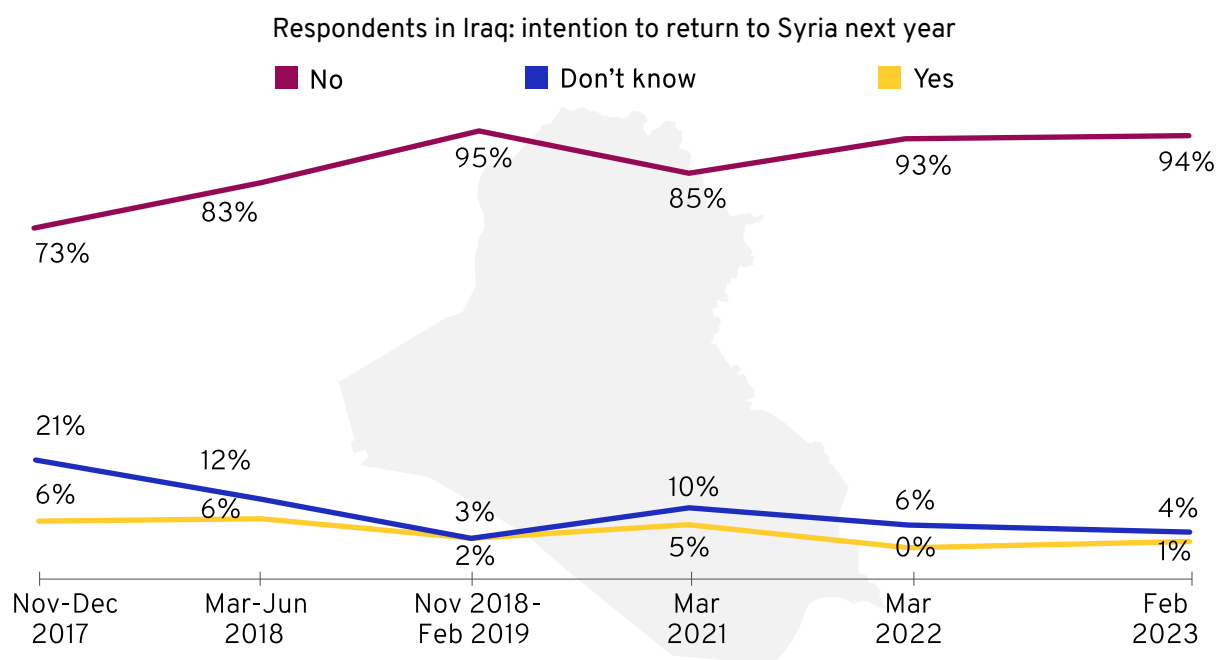
As at December 2022, 6,269 non-Syrian refugees were registered by UNHCR in Dohuk and 1603 lived in Nineveh.¹⁹⁶ The majority of the 86,156 Syrian refugee households in Dohuk are Kurdish, thus sharing the same ethnic origin as the host community. The majority (85 per cent) arrived between 2012 and 2013, while 15 per cent were displaced between 2014 and early 2016. Since then, the population has remained stable, as illustrated in Figure 7. In October 2019, a military offensive by Türkiye against Kurdish forces in north-east Syria compounded existing insecurity and uncertainty on Iraq’s western border and led to the latest large influx of Syrian refugees to the KRI.¹⁹⁷ Overall, 63 per cent of the Syrian refugees in Iraq are self-settled. In Dohuk, most self-settled Syrians live in the city of Dohuk and in and around the border town of Zakho and the surrounding areas of Rizgari and Derkar. In May 2020, 60 per cent of Syrian refugees in Dohuk rented their accommodation, a high 19 per cent owned their homes and 16 per cent were hosted for free.¹⁹⁸

Figure 7: Stability of Syrian refugee population



While the hope among Syrian refugees of an eventual return to Syria remains strong (56 per cent) across the MENA region, intention to return in the next 12 months has remained low across the region and decreased from 2.4 to 1.7 per cent in 2022 according to UNHCR’s seventh Regional Survey on Syrian Refugees’ Perceptions & Intentions on Return to Syria, Egypt, Iraq, Lebanon, Jordan. In Iraq, the intention to return over the next 12 months declined compared to other countries from 4.4 to 0.3 per cent in 2022, while 4.3 per cent were undecided. (see Figure 8).¹⁹⁹

Figure 8: Intent of Syrian refugees in Iraq to return



Reasons for not wanting to return are consistently reported as lack of safety and security and the lack of livelihood/work opportunities. For those who are not willing to return, access to livelihoods and work opportunities inside Syria was cited as the third reason for them to change their mind and consider returning.²⁰⁰ Verified cases of spontaneous return to Syria declined from 8,508 in 2020 to 3,111 in 2021, primarily owing to increased insecurity, the economic downturn in north-east Syria and relaxation of COVID-19 restrictions in the KRI.²⁰¹ In 2022, 80 per cent of Syrian refugees in Iraq had no hope of returning home in the near future.²⁰² The most common reasons for wanting to leave were high living costs (49 per cent), lack of employment opportunities (39 per cent) and limited access to services (19 per cent).²⁰³

Since October 2019, more than 25,000 refugee families have crossed the borders to the KRI and Nineveh. The new Syrian refugees were registered at the border before being transported to the refugee camps – either Gawilan in Dohuk (hosting 9,360 refugees in 2022) or Bardarash in Nineveh (housing 4,009 Syrian refugees in March 2022).²⁰⁴ From there, some Syrians can obtain clearance to reunite with self-settled family members residing in the KRI. While only 1 per cent of residents of Bardarash intended to return to Syria in March 2022, 60 per cent intended to stay in the camp for the time being.²⁰⁵

Contrary to common risk perceptions among financial service providers (FSPs), few displaced households actually move. Between 2017 and 2018, only 3 per cent of self-settled IDPs in Dohuk and 1.5 per cent among IDP households in Nineveh moved between districts, while 4.5 per cent of all self-settled IDPs in Iraq moved out of the country. The main reasons provided by these few “movers” were better jobs (22 per cent), cheaper housing (17 per cent), or to join family (22 per cent). The majority (75 per cent) of self-settled IDPs who have moved are able to meet their basic needs.²⁰⁶ In August 2021, only 4 per cent of returnees, 3 per cent of self-settled IDPs and 1 per cent of IDPs in camps were considering moving from their current location within the coming year. However, the main reason for moving was their lack of finances to return and restart (28 per cent),²⁰⁷ so better access to finance might help more IDPs return home.

4.3 Legal Status, Requirements and Customer Due Diligence

Forcibly displaced communities' legal status and rights

The Iraqi legal framework recognizes the rights of all Iraqis to a personal identity and to access to a range of basic services, such as education, healthcare, adequate housing, justice and compensation for housing, land and property losses, and employment. As citizens of Iraq, most IDPs, whether still in displacement or internal returnees, have the same legal rights as non-displaced households. The Iraq Constitution (2005) guarantees freedom of movement, travel and residence for every Iraqi, and specifically for the workforce. The Iraq National Policy on Displacement (July 2008) reiterates the right of all displaced people (IDPs, returnees and, to a more limited extent, refugees) to enjoy freedom of movement, access to basic services and employment, but capacity to fully implement the policy has been limited.²⁰⁸ Obtaining the documentation necessary to exercise citizens' rights can be challenging, especially for families associated with ISIL membership, who are subject to stringent movement restrictions, even in IDP camps.²⁰⁹

Legal documents required in Iraq

Obtaining documents is further challenged by a legal identity documentation system in flux. Historically, Iraqis have needed and been able to obtain four core legal documents, a combination of which is required to access public services, and a fifth was added in 2021. The five documents are:

- **Civil Status ID**, which serves as a source of identification and is issued by the Ministry of Interior (MoI) Civil Status Affairs Directorates at governorate level, in accordance with Civil Status Law No. 65 of 1972 and Civil Status System Law No. 32 of 1974.²¹⁰ Based on National ID Law No. 3 of 2016, the Iraqi MoI started issuing a new biometric “**Unified National ID Card**” in 2018, with 10 years' validity and a personal identity number, meant to replace the Civil Status ID and Nationality Certificate (see below), and, eventually, the Residency Card (see below). Issuance of the new ID cards has, however, been slow, and the old cards are still being issued outside of bigger cities. With UNHCR support, the Directorate of Civil Affairs, Passports and Residency in Nineveh Governorate opened the first national identification document centre in East Mosul in October 2019.²¹¹ Application procedures have been digitized in Baghdad,²¹² but IDPs in the KRI must go to their place of origin to apply for a new national ID card.²¹³ Applicants must submit their existing Civil Status ID card, Nationality Certificate and Residency Card. For children under 12 years to get a new ID card, parents must also submit proof of marriage by the court with two witnesses. The at-the-counter application process can take up to a month, and the cost of a new ID card is IQD5,000 (US\$3.40).²¹⁴
- **The Nationality Certificate**, which is issued through the MoI Travel and Nationality Directorates at governorate level, in accordance with Iraq Nationality Act No. 26 of 2006 (the Citizenship Law).
- **The Housing Information/Residency Card**, issued by the MoI to heads of households, which provides proof of an individual's place of residence. Iraq already has a procedure in place for a **Housing Endorsement (Residence Confirmation Letter)**, which is accepted as an authorized document alongside the other official documents, and could be specified as an alternative for customer due diligence (CDD) purposes. The letter is issued by the local lead *Mukhtar* of the neighbourhood of residence and requires the approval of the Mayor's Office, the (formerly) Municipal Council, or the Security Office (*Asayish*) in the KRI. The Housing Endorsement provides proof of residence for a primary occupant of a specified property.²¹⁵

- The **Public Distribution System (PDS) card** issued by the Ministry of Trade and Industry (MoTI) to heads of households enables nearly all households to receive a monthly food ration at nominal cost.²¹⁶ In order to obtain a PDS Card, a Civil Status ID and Residency Card are needed. In May 2018, the Government suspended the issuance of PDS rations to foreign-born permanent residents (e.g. Palestinians). In March 2019, this decision was reversed with some restrictions, and now, to reactivate their PDS entitlements, FBRs need to submit a written request, fingerprints of all family members, their original permanent residency permit and an attestation letter from the Mol.²¹⁷
- For the October 2021 elections, a long-term **Biometric Voter Card** was being rolled out for eligible citizens. The Council of Ministers announced that, as of 12 January 2021, this voter card can be considered an official ID document for citizens aged 18 and above. Employees were encouraged to update their biometric data for the Voter Card by 1 April 2021;²¹⁸ however, as of December 2020, the United Nations Assistance Mission for Iraq reported that only 15.3 million (58 per cent) of the 26.6 million eligible voters had received their new voting cards.²¹⁹

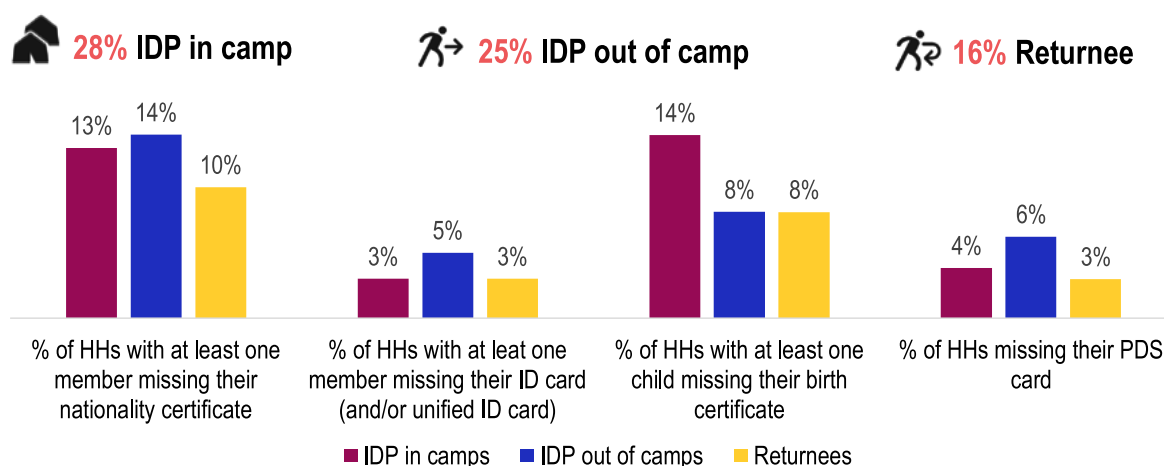
Access to legal documents for forcibly displaced Iraqis (IDPs and returnees)

Iraqi citizens who live abroad, including as refugees, are expected to go to Iraq to obtain or renew a national ID card, which is not a feasible option for the majority. It is technically possible to submit documents and be biometrically registered at their closest embassy, but the process may take up to 12 months and, by the end of 2019, only the old national ID cards were being issued through embassies.²²⁰ Iraqi returnees from abroad whose Iraqi nationality has been revoked, or people without identification papers, can apply for new IDs at the General Directorate for Nationality Certificates in Baghdad.²²¹

For many IDPs, going to their place of origin to apply for a new national ID card is also not a feasible option. The 2021 REACH Multi-Cluster Needs Assessment estimated that 18 per cent of, or 1 million, IDPs and returnees in Iraq are missing at least one key identity or civil document, such as their birth certificate, PDS card, Civil Status ID card, Iraqi National Certificate, or Unified ID Card.²²² A significant proportion of the “paperless” households are Iraqi families who lived under, or fled from areas formerly under, ISIL control. Some lost their documents as they fled their homes; others had them confiscated by various parties to the conflict, or were issued ISIL documentation instead. The financial cost of issuing, updating or renewing documentation was reported as the most significant barrier to accessing documentation by IDPs and returnees surveyed by the Norwegian Refugee Council in 2018.²²³

However, few FDP households (4 per cent) are missing more than three documents and humanitarian agencies are assisting the most affected households to resolve their issues.²²⁴ Of the 3 per cent of returnees and 2 per cent of self-settled IDPs surveyed by the International Organization for Migration in June 2021 who had lost documents during their displacement, 86 per cent of returnees and 62 per cent of self-settled IDPs have succeeded in replacing all or some of those documents.²²⁵ In August 2021, a minority of displaced Iraqis reported they were missing one of the core documents, as illustrated in **Figure 9**, mostly because they had not attempted to obtain or renew their documents (41 per cent).²²⁶ Therefore, overall, **the majority of Iraqi IDPs and returnees have personal identity documentation to prove their identity and access public services and support, and should therefore not present a problem for FSPs performing the customer due diligence (CDD) processes required for loans.**

Figure 9: Percentage of households missing at least one key ID or civil document, August 2021



Entry by IDPs into the KRI became easier after October 2017, and residency permits are now issued, despite a few challenges faced by Iraqis from formerly ISIL-held or conflict-affected areas. They generally require a Kurdish sponsor (*kafeel*) and/or a recommendation letter from the *Mukhtar* and/or the local council in order to take up legal residency. In addition, clearance from the local *Asayish* (security agency) is required, and applicants in Dohuk must present a local sponsor. Such sponsorship requirements are generally not grounded in law nor are they officially announced. In Erbil and Sulaymaniyah Governorates, the local *Asayish* in the neighbourhood in which households are seeking to reside can issue a Residency Card (“Information Card”) without a sponsor, but single Arab and Turkmen males require documentation of regular employment and a letter from their employer in order to obtain the one-year renewable Residency Card (otherwise, only a one-month renewable residency is issued).²²⁷

Access to legal documents for foreign-born residents (asylum-seekers, refugees and migrants)

The federal Government has exclusive power over issues of citizenship, naturalization, residency, and the right to political asylum for foreigners, including refugees and migrants, as provided for in Political Refugee Law No. 51 of 1971,²²⁸ MoMD Law 21 of 2009²²⁹ and Foreigners’ Residency Law No. 76 of 2017.²³⁰ Foreigners who enter Iraq must generally have a passport or similar travel document with an entry-visa stamp (documenting legal entry) and proof of being free of infectious diseases, including HIV. The entry visa is valid for three months. Before the expiry of the entry visa, foreigners must regularize their residency in federal Iraq, in one of the following ways:

- Foreigners having entered through official border crossings can apply for a **one-year renewable visa** for the purpose of family reunification or study, either by presenting an Iraqi sponsor (*kafeel*), or by providing proof of being financially self-sufficient (for example, a work contract or evidence of bank deposits), based on which a **residency permit** can be granted, which is valid for one year and renewable. Foreigners found to be without a valid visa and residency permit in federal Iraq are subject to penalties of IQD100,000 (US\$68), increasing by IQD10,000 (US\$7) a day to a maximum of IQD5 million (US\$3,387).
- In addition to the residency permit, foreign (migrant) workers require a **work permit** issued by MoLSA, as regulated under Labour Law No. 37 of 2015, Directive No. 18 of 1987 and MoLSA Resolution 80 of 2013.²³¹ Migrant workers contracted through official recruitment companies generally receive a contract valid for one year and renewable for an additional year, after which foreign workers require a visa and a residency permit.²³²

- Foreigners (including Syrians and other Arab nationals) found to have entered irregularly are generally referred to the processes of **registration as asylum-seekers** (see below).²³³

The 2006 Iraqi Nationality Law provided that all non-nationals with a regular status, except for migrants from the Palestinian Territories, could apply for citizenship after ten years of continuous, legal residence in Iraq. The 2017 Law on the Residence of Foreigners provides for Palestinians to obtain permanent residence, but this path does not extend to other foreign residents in federal Iraq.²³⁴ In addition, the Federal Labour Law includes a protective provision that foreign workers who are legally residing in federal Iraq for the purpose of work and who have a work permit will not be considered to be “illegal or irregular” by virtue of loss of employment, nor will loss of employment lead to the withdrawal of a residence or work permit.²³⁵

The Kurdistan Ministry of Interior decided to waive all daily penalties on expired and delayed residency permits and exit visas during the COVID-19 pandemic.²³⁶ However, since April 2022, visitors to the KRI, including returning citizens, must produce proof of vaccination or a negative COVID-19 test on arrival, and must sign a pledge committing to 14 days self-isolation following their arrival, which, if violated, can involve a fine of IQD1 million (US\$680). If visitors test positive and infect other people in the KRI with the COVID-19 virus, any medical costs must be borne by the visitors themselves, and they will be held accountable under the law according to the Iraqi Penal Code of 1969.²³⁷

Iraq is not party to the 1951 Convention Relating to the Status of Refugees or its 1967 Protocol. However, the Constitution of Iraq guarantees the right to political asylum in Iraq and prohibits *refoulement*. In 2017, the Iraq Council of Ministers approved a new bill on refugees, but a refugee law has yet to be passed. The Permanent Committee of the Ministry of Interior (PCMol) in Baghdad is responsible for the registration and documentation of all refugees.

“Political refugees” governed by Political Refugee Law No. 51 of 1971 include Palestinians, as well as some of the refugees from Iran, Türkiye and elsewhere who arrived in Iraq in the 1970s and 80s, and who have been granted permanent residency. After a registration exercise in 2008, Palestinian refugees in Iraq generally hold ID cards issued by the PCMol, but they must travel to the Embassy of from Occupied Palestinian Territory in Baghdad to renew other civil documentation. These ID cards are, however, easily distinguishable from Iraqi IDs, being red for Palestinians having arrived in 1948 and their descendants, and yellow for those having arrived in 1967 or later. The ID cards are not always recognized at security checkpoints, which can result in harassment or temporary detention, and thus restricts free movement for education and work, especially for Palestinian teenagers. Job-seeking Palestinians in Mosul have faced difficulties, as the PCMol ID cards are reportedly not accepted as a legitimate form of documentation by formal employers there. The new Unified National ID Cards, which are gradually being rolled out, are identical for all political refugees (with permanent residency) of nationalities other than Iraqi.²³⁸

In 2016, the UNHCR and the PCMol signed a memorandum of understanding regulating the registration and documentation of refugees, asylum-seekers and other persons of concern,²³⁹ and the MoMD, supported by the UNHCR, is now registering all asylum-seekers:

- **A UNHCR/PCMol asylum-seeker certificate** confers the right to reside in a refugee camp in federal Iraq, including in Nineveh, and to access the (free) services provided there. Syrian refugee children can register for free at public schools and Syrian asylum-seekers are entitled to the same health services as nationals, but Syrian refugees residing in camps are not allowed to work formally.²⁴⁰

- **Refugees and asylum-seekers who wish to stay outside of camps in federal Iraq must have a valid visa** under the regulations in the Foreigners' Residency Law, which require an Iraqi *kafeel* [sponsor]. The MoI grants visas to Syrians and some other refugees, valid for three months, but the visa-renewal process seems to be challenging. Across federal Iraq, including in Nineveh, asylum-seekers have faced different standards of treatment and policy changes that affect their access to legal residency.²⁴¹
- **Asylum-seekers are not issued with residency permits (except in Najaf and Karbala) nor work permits outside of the KRI.** Many of the Iranians and Turks who have been in Iraq since the 1970s and 1980s, and their children born in Iraq, lack access to civil IDs.²⁴² Similarly, the Syrian refugees encamped in, for example, Al Qa'im camp in Anbar Governorate, are not provided with Residency Cards.

In the KRI, comparatively favourable policies are in place for migrants, refugees and asylum-seekers, especially those of Kurdish ethnicity, as managed by the KRG MoMD and MoI Directorates of Residency, the Board of Relief and Humanities Affairs (BRHA), as well as the *Asayish*, which is the primary security agency operating in the KRI.²⁴³ However, access and residency requirements are not always clearly defined and/or implementation can vary or be subject to changes, depending mostly on the shifting local security situation.²⁴⁴

- **Asylum-seekers arriving at a KRI border can obtain a temporary three-month entry visa to reside legally, while registering with the UNHCR.** Those who have arrived from Syria since October 2019 were only provided with a 15-day entry visa and faced challenges completing the application for asylum and UNHCR registration in this short time frame.²⁴⁵
- **Asylum-seekers registering with the UNHCR and the Department of Displacement and Migration receive either a refugee or an asylum-seeker certificate from the UNHCR, which is valid for one year.** With this certificate, they can obtain a temporary residency permit, valid for six months and renewable, to stay legally resident while they process their standard residency permit, which is valid for one year and renewable. The temporary permit is free of charge, but applicants need to pay IQD8,000 (US\$5.40) for the photograph. Refugees and asylum-seekers who are not registered with the UNHCR do not have access to residency permits in the KRI.
- **Standard residency permits are issued to all individuals in a family in Dohuk,** but in Erbil, individual permits are only issued to those aged 12 and over, and, in Sulaymaniyah, only to those aged 14 and over. To get a KRI residence permit, FDPs must submit an application to the KRG Directorate of Residency with a valid UNHCR asylum-seeker/refugee certificate; an ID document (such as the personal ID card, Family Book, family registration statement, or individual civil registration statement); a Residence Confirmation Letter certified by the Mayor's Office; and security clearance from the *Asayish*. A blood test to confirm HIV negativity is also required at a cost of around IQD31,500 (US\$21).²⁴⁶

Together, the UNHCR certificate and the KRI residency permit entitle the bearer to essentially the same rights as a KRI citizen, such as freedom of movement, access to public services, including free education in public schools and health services on a par with Iraqi nationals,²⁴⁷ as well as the right to work in the private sector. In practice, however, residency permits are only required for particular jobs in the private sector and not for unskilled and daily labour. If found or stopped at checkpoints without a valid residency permit, refugees can be detained or deported, but this is rarely reported. However, the KRI Residency Card is only valid in the KRI. Asylum-seekers who have only registered in the KRI may be arrested and detained for illegal entry in governorates of federal Iraq.²⁴⁸

Levels of registration among refugees

Nearly all refugee households in the KRI (97 per cent) stated that they were registered with the UNHCR in 2018. Only 7 per cent did not hold KRI residency permits. Camp residents are more likely to be in possession of residency permits than those living outside of camps.²⁴⁹ Among the self-settled refugee sub-segment, 15 per cent of households overall reported that one member was missing at least one document.²⁵⁰ The majority of Syrian refugees reported having KRI residence permits (91 per cent), marriage certificates (80 per cent) and a Family Book – a document also used in Syria (81 per cent). However, only 30 per cent had passports.²⁵¹ Among the self-settled Syrian refugees in the KRI who did not have a valid residency permit, 4 per cent had entered through unofficial border crossings, 10 per cent could not afford the renewal fee and 6 per cent could not find the Iraqi sponsor required for the *Asayish* security clearance.²⁵²

During 2020/21, COVID-19 restrictions, limited staffing, and localized security concerns (mostly outside of the KRI) led to delays in or suspensions of UNHCR registration and government processing of documentation. As a result, refugees have faced challenges accessing documentation, and have experienced UNHCR certificates being rejected at checkpoints.²⁵³ Nevertheless, 96.5 per cent of self-settled refugees surveyed in May 2020 had at least one document, as illustrated in Table 9.²⁵⁴ By mid-2021, 79 per cent of self-settled refugee households in the KRI and 86 per cent of those in camps reported having at least one of the official documents required for CDD purposes.²⁵⁵

Table 9: Refugees by legal document status, May 2020

Document status	Refugees	
	Encamped	Self-settled ²⁵⁶
% adults with valid documents	93%	96.5% Dohuk: 99%
- National/civil ID		70% Dohuk: 68% Nineveh: 80%
- Iraq/KRI Residency Card	97%	72.5% Dohuk: 89%
- Family Book		Dohuk: 49% Nineveh: 6.3%
% HHs with PDS card		
% HHs UNHCR registration (PCMoI ID card)	99%	91% Syrian 86–88% other
% adults with passport		22% Syrians 67–74% other Dohuk: 15% Syrians Nineveh: 6.4%
% HHs missing one key document	7%	3.5% Dohuk: 11% Nineveh: 12%

Legal access to formal financial services by forcibly displaced persons

Forcibly displaced persons without an officially recognized identity cannot, in general, access formal financial services in Iraq. FSPs require a valid ID and residency documentation from customers applying for credit, in line with the CDD regulations and Anti-Money Laundering/Counter Terrorism Financing (AML/CFT) Law No. 39 of 2015.²⁵⁷ Among authorities (Ministry of Finance/the National Board of Pensions, MoLSA for unemployment benefits, Ministry of Trade for PDS rations, etc.) and some banks, accepted ID documents include social security cards, PDS (or Qi) cards, the

national ID (*shehada al jinsiya*), passports, residency permits (*iqama*) and/or marriage certificates. As discussed above, most of the target population can present one of these documents.

In addition to the AML-CFT Law, which was extended to apply to the KRI by administrative order in 2016, the CBI issued Instruction No. 1 of 2017 to partially simplify customer due diligence (CDD) rules for financial institutions.²⁵⁸ The instruction defines customer due diligence, and allows banks and NBFIs to apply simplified due diligence measures for low-risk customers, including other financial institutions, and transactions not exceeding IQD1 million (US\$680) or the equivalent in other currencies, aligned with the global recommendations of the Financial Action Task Force.²⁵⁹ In 2018, the CBI AML-CFT Office and the NGO Directorate signed a memorandum of understanding on monitoring mechanisms of NGO sources of funds to limit “suspicious transactions” among NGOs (which includes some microfinance institutions).²⁶⁰ Before or while opening an account, establishing a business relationship with a customer, or making a wire transfer of more than IQD1 million (US\$680), FSPs are required to:

- Identify and verify the identity of the customer, beneficial owner, and persons acting on behalf of customers, through reliable, independent source documents, data or information. Data required includes full name, nationality, date and place of birth, passport number for non-Iraqi persons, the address of the customer’s actual place of residence, the purpose and nature of his/her employment or business, and any other information deemed necessary;²⁶¹
- Understand and, as appropriate, obtain information on the ownership structure of a legal person (for example, a business entity), and the purpose and intended nature of the business relationship;
- Monitor the business relationship on an ongoing basis and examine any transactions carried out to ensure they are consistent with their knowledge of the customer, commercial activities and risk profile, and, where required, the source of funds. This includes keeping records of transactions for five years; and
- Report timeously to the authorities if a suspicious transaction is detected.²⁶²

If customers have an acceptable type of verifiable ID and proof of legal residence, they should not be excluded as FSP customers for reasons of not meeting know-your-customer requirements. For refugees and asylum-seekers, all FSPs should consider accepting the UNHCR/PCMol biometric registration certificate as sufficient ID for new customers. This is currently done by registered *hawaladars* distributing humanitarian cash transfers.²⁶³

Encamped IDPs and refugees do not own their accommodation, nor do they pay rent or utility bills,²⁶⁴ so they can obtain the “proof of residence” necessary for Residence Cards from the *Mukhtar* or camp management. Only 18 per cent of hosts in urban areas (5 per cent in rural areas) in the KRI rent accommodation, whereas 82 per cent of self-settled IDPs and 87 per cent of self-settled refugee households rent their current residence. However, in 2016, only 15 per cent of households that rented accommodation in Dohuk had a written and signed contract (20 per cent of hosts, 15 per cent of IDPs and 1 per cent of refugees).²⁶⁵ By November 2019, 10 per cent of returnees and 13 per cent of self-settled IDPs lacked a formal tenancy agreement for their current accommodation.²⁶⁶

Despite verbal rental agreements among hosts being the norm, for IDPs and refugees, informal rental agreements do not provide a “proof of address” and increase the risk of evictions. Nearly all (92 per cent) Syrian refugee households, against only 56 per cent of Iranian and 43 per cent of Turkish households, are tenants in the KRI. Of the refugee households surveyed across the KRI in

2017, 49 per cent had a formal agreement with their landlord, but only 8 per cent of self-settled refugee households in Dohuk reported having a valid, written agreement. Formal rental agreements are more common in urban areas (50 per cent of households had a formal agreement with the landlord), than in rural areas (15 per cent). By November 2018, 80 per cent of self-settled refugee households who rented across the KRI had a verbal or written rental agreement, but in Dohuk, only 68 per cent of refugee households renting their accommodation had a written rental agreement.²⁶⁷ To facilitate access to their products and services, FSPs could accept the Residence Confirmation Letter issued by *Mukhtars* as sufficient proof of address for customers who do not have written rental contracts.

A 2019 amendment to the Investment Law provides that at least 51 per cent of the capital in (federal) Iraqi joint stock or limited liability companies (LLCs) must be held by Iraqi individuals or corporations, but this restriction does not apply in the KRI.²⁶⁸ In order to provide credit (whether cash or purchase or leasing contracts), most banks require formal employment or business documentation. Given the extent of informality in Iraq, banks could consider whether and how they may be able to approve credit based on cash-flow analysis for informal businesses, as MFIs generally do. Credit provided as part of government lines of credit/grants, with guarantees, or otherwise underwritten by the Government, used to be restricted to Iraqi citizens. However, the second amendment to the Investment Law opens up access by foreigners to such credit sources, too.²⁶⁹ While banks may have to adjust internal eligibility criteria, there are no immediate legislative reasons to exclude IDPs and FBRs in this framework.

Iraq has implemented mandatory SIM-card registration regulations, which require customers to present approved identity documents before a SIM card or mobile money service can be activated, but this does not appear to be a constraint in Iraq.²⁷⁰ In January 2019, mobile-phone penetration in Iraq overall was 96 per cent (90 per cent in the KRI), mostly on pre-paid agreements, and 36 per cent of the population overall had smartphones.²⁷¹ In the KRI in 2017, 81 per cent of all households in the KRI owned a smartphone, as did 69 per cent of self-settled IDPs and 68 per cent of encamped households. Among IDPs and returnees, the WFP is increasingly delivering cash-based food assistance to refugees in Iraq through mobile money transfers, having distributed SIM cards to recipients in nine camps in 2019.²⁷²

4.4 Labour-market participation

The labour-market participation rate in Iraq dropped from 44 per cent in 2018 to 39 per cent in 2021, based on the ILO's Labour Force Survey results. Reflecting a common pattern across the MENA region, only 9.6 per cent of all women in Iraq were in the labour force in 2021.²⁷³ In 2021, the unemployment rate in Iraq stood at 16.5 per cent, which was higher among the female labour force (28.2 per cent) than the male labour force (14.7 per cent).²⁷⁴ It is useful to note that there were few people with formal employment working in the informal sector (about 9,000 persons). However, there was a significant number of persons with informal employment in the formal sector (1,011,000 persons).

Labour-market participation rates and employment characteristics for Iraqis

In 2017, nearly 50 per cent of the non-displaced workforce in the KRI were public sector employees, with the percentage of economically active women, at 76 per cent, much higher than

that of males, at 44 per cent.²⁷⁵ Since 2015, the Council of Ministers allowed Government employees displaced from conflict areas to continue to receive their salaries, and to work, if possible, in the areas to which they had fled. So, out of the 23 per cent of male IDPs who were employed in the public sector before being displaced, nearly all reported that they were still receiving their salaries in 2017.²⁷⁶ Among men, especially those employed in the military and security forces, many had been recalled to their previous duty stations, and had lost their salary if these orders were not followed.²⁷⁷ The women who work in the public sector are overwhelmingly in social services, including health (8 per cent), education (66 per cent), banking and administration, whereas men are employed across more sectors and in high-skilled technical, semi-skilled and low-skilled positions.²⁷⁸ While public sector jobs remain preferred among all Iraqi population segments, and may offer increased long-term job security, not all these jobs are necessarily well paid, and during the economic crisis in the KRI, public employees were frequently not paid on time or in full.²⁷⁹

Across the KRI, only 8 per cent of the non-displaced population surveyed by the Government in 2017 worked in the private sector as employees, 4 per cent as employers, 35 per cent were self-employed and 17 per cent in casual jobs. Comparatively, 6 per cent of self-settled IDPs were private sector employees, while 10 per cent were self-employed.²⁸⁰ Like returnees, most of the IDPs across Iraq surveyed by the IOM between 2016 and 2021 worked in the informal sector, often in irregular jobs (34 per cent), and often in a different sector from before they were displaced.²⁸¹ Already in 2019, 58 per cent of encamped IDP households in Dohuk and 45 per cent in Nineveh reported private sector activities as a primary source of income, including in construction (44 per cent), agriculture (15 per cent) and small-business ownership (15 per cent).²⁸²

By August 2021, 69 per cent of encamped IDPs were economically active, 21 per cent in regular and 48 per cent in irregular (temporary, seasonal, casual) employment. Better livelihood opportunities remain a priority need for 58 per cent of encamped IDPs. In the camps of Dohuk, IDPs generally reported better food security and higher salaries, whereas the IDP population in the last remaining IDP camp in Nineveh (Qayyarah Jed'dah 5) reported lower economic activity and food security levels, likely linked to the high proportion of female-headed households (38 per cent).²⁸³ Female-headed households are less mobile, have less access to the labour force, and are thus more economically fragile. However, the “business districts” of several camps, which are not yet served by FSPs, appear to be functioning and potentially under-served (see **Box 6**).

Box 6: Camp-based cash in, cash out businesses need finance

In the “business districts” of both the Domiz 1 refugee camp and Shariya IDP camp in Dohuk, traders are selling everything from live chickens, rugs, clothes and appliances to foodstuffs from shops and trucks, while hairdressing, beauty and machinery-repair services are also on offer, among many others. Bakeries, restaurants and tea shops receive customers, and when asked in passing, most business-owners indicate profits are good. One of the estimated 25–30 hawaladars in a camp hosting around 30,000 people estimated his money exchange turnover at US\$20,000/month. If US\$500,000/month is needed, the average cash-flow of the estimated 500 businesses could be in the vicinity of US\$1,000/month, on a par with or better than many micro enterprises worldwide. “It would be great with a bank outlet here – the risks of carrying around this much cash is a drain,” said the hawaladar.

Source: Author’s interviews in camps.

Among the returnees surveyed by the IOM in June 2021, 31 per cent were employed in the public sector and 34 per cent had found employment in the informal sector.²⁸⁴ An additional 15 per cent lived off pensions, while it was estimated in September 2020 that 19 per cent of IDPs and returnees were unemployed.²⁸⁵ The percentage of self-settled IDPs generating income from casual labour, however, had decreased from 42 per cent in 2017 to 34 per cent by June 2021,²⁸⁶ suggesting better job stability in displacement for self-settled IDP households, despite the impact of the pandemic. Accordingly, 85 per cent of a sample of returnees surveyed by the IOM in November 2018 reported that they had returned to the same type of job they had prior to their displacement. However, the 15 per cent of returnees whose primary source of income pre-displacement was agriculture have more typically turned to business or informal trade upon return (see **Box 7**).²⁸⁷

Box 7: A returnee's view on farming prospects

“I currently work in plumbing and setting up electricity lines for newly built houses. This profession I learned during displacement and now I am good at it. I was intending when I returned to open a shop and start a new life, but I couldn't open the shop because of lack of finances. It is still a project I intend to do in the future. I was not able to go back into farming, because I don't have the time for it. My brothers began farming but not to the size we had before displacement; that is why it is not enough to pay for the family's financial needs. Some returnees succeeded in returning to [agriculture] if they had the money. That is because the area is damaged and needs reconstruction to be farmed. Others were unable to go back to their previous jobs and had to do another job in case they had professions or skills. Those who don't have professions or skills, they work in construction for a daily wage in the area of origin or nearby areas.”

Source: IOM, Access to Durable Solutions Among IDPs, January 2019.

Agriculture was the livelihood of an estimated 16 per cent of Iraqi families,²⁸⁸ **and employed 44 per cent of working women in 2017.** Nineveh's economy remains largely agriculture-based, with up to 80 per cent of households in Sinjar district working in agriculture before 2014. In Dohuk, in 2016, agriculture was also reported to be the biggest private sector employer of women (45 per cent).²⁸⁹ In recent years, however, farmers' incomes have reduced by almost 50 per cent, with destroyed assets, lack of access to market and finance, and a lack of government assistance cited as the most important factors in this downturn.²⁹⁰ In addition, urbanization has led to a lack of labour supply for agriculture, which has been filled by migrant labour. In the KRI, manual farming labour has been provided by internally displaced Yezidis and, to a lesser extent, by migrant workers from Egypt and Bangladesh, as well as refugees. The traditional system of sharecropping is also still in existence. In Dohuk, local farmers contract Yezidi families to work the fields, providing accommodation, with the sharecropping families and farmers sharing investments and returns.²⁹¹

Whether employed in the public or private sector, however, the income generated from work was not sufficient to cover basic needs for many households. These challenges have been exacerbated by the economic impact of the pandemic, especially on workers in the informal labour market, as illustrated in **Table 10**.²⁹² Three months into the pandemic, only 23 per cent of a national sample surveyed by the ILO were working as usual, and 23 per cent had been permanently laid off. Among young workers and in the KRI, the percentages were higher, at 36 per cent and 31 per cent, respectively.²⁹³ However, by June 2021, 22 per cent of self-settled IDPs across Iraq had a public sector job.²⁹⁴

Table 10: Initial impact of COVID-19 on employment in Iraq, June 2020 (sample survey, n=3,047)

	12 months prior to pandemic (Apr19–Apr20)			3 months into pandemic (May/June 2020)			
	Overall	North Iraq (incl. Nineveh)	KRI	No change	Reduced work	Temp. laid off	Permanent job loss
Economically active	61%	65%	38%	23%	35%	15%	23%
Male	74%			23%	36%	15%	23%
Female	10%			27%	25%	16%	19%
Construction	28%	29%	12%				
Other services	41%	40%	50%				
Industry	12%	13%	12%				
Agriculture	5%	5%	5%				
Public sector	14%	14%	10%				
Private/family business	38%	38%	49%				
Self-employed	35%	35%	32%				
Temp/irreg./seasonal	53%	50%	74%				
With contract	34%	33%	36%				
Unemployed	19%	14%	55%				
Male	17%						
Female	28%						
Outside workforce	20%	22%	7%				
Male	9%						
Female	62%						

While the majority of the displaced in Dohuk are self-settled in urban areas, communities often comprise a complex mix of small-scale farmers, informal settlers, industrial entrepreneurs and urban middle-class commuters with different livelihood trajectories.²⁹⁵ In June 2021, the UN²⁹⁶ and the IOM identified that expense levels and debt have risen for displaced Iraqis, and although 70 per cent of self-settled IDP households were able to provide for their basic needs, they perceived their standard of living to have decreased.²⁹⁷

Labour-market characteristics and participation rates of refugees and migrants

Self-settled male refugees in the KRI have the highest labour-market participation rates of all sub-segments. Among refugee households surveyed in 2018, Syrians more frequently reported having at least one working member (90 per cent) compared with Iranian (74 per cent) and Turkish households (80 per cent).²⁹⁸ Among self-settled refugee households in the KRI, 89 per cent (in Dohuk – 35 per cent of refugee residents) earned income from employment in 2019.²⁹⁹ In August 2017, 45 per cent of encamped Syrian refugees in Dohuk and 32 per cent of self-settled Syrian refugees had prior experience in construction, while 10 per cent of encamped and 17 per cent of self-settled refugees had worked in hospitality and services, and 12 per cent were trained in artisanal/vocational trades.³⁰⁰ While 7 per cent of Turkish refugee households reported working as teachers, engineers or lawyers in May 2019,³⁰¹ the 10 per cent of professionally trained Syrian refugees had largely not found work in their fields by August 2017. However, in Dohuk, 27 per cent of working Syrian refugee-camp residents and 35 per cent of self-settled Syrian refugees held permanent (regular) private sector jobs in August 2017.³⁰² Refugee women who headed households and were economically active more frequently reported having permanent employment (54 per cent against only 29 per cent of males),³⁰³ but one job may not generate sufficient income to cover basic needs.

By 2018, the most common livelihood activity was casual labour in construction and services, in which most Syrian refugees in Dohuk (69 per cent encamped and 61 per cent self-settled) and most encamped refugees (70 per cent) were employed, in unskilled positions; this was less common among self-settled refugees (53 per cent) in Dohuk. Skilled labour was reported as the main source of livelihood by 5 per cent of households in Dohuk.³⁰⁴ In May 2019, nearly nine in ten refugee households reported generating additional income from primarily temporary or casual informal-sector employment in construction, services and artisanal/vocational crafts.³⁰⁵

A comparison of the employment situation of non-displaced and displaced segments in Iraq

As illustrated in Table 11, livelihood strategies are similar among all displaced households, with greater barriers, fewer opportunities and less income among self-settled (and returnee) households, and slightly higher shares of refugees than IDPs in vocational professions. Of these, many are self-employed and most are in informal positions.³⁰⁶

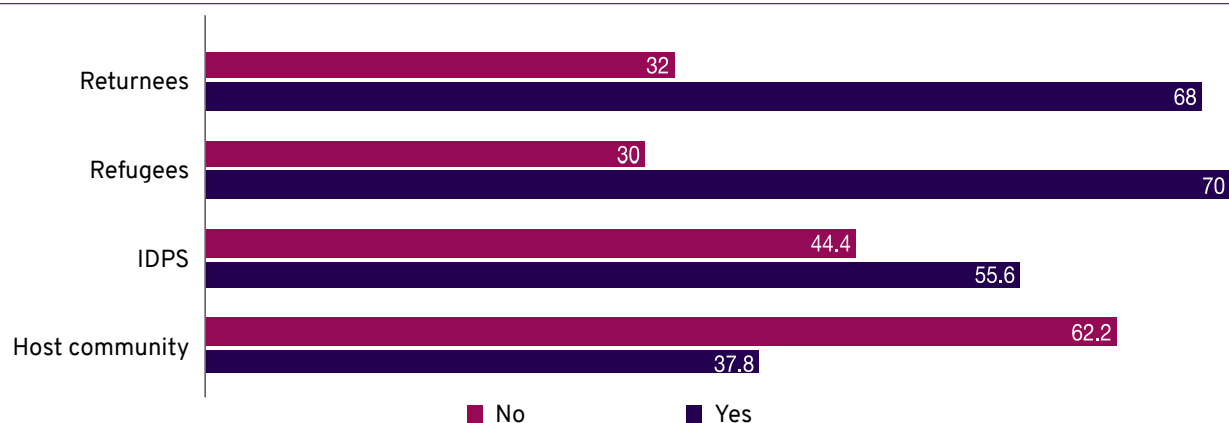
Table 11: Tentative comparisons among sub-segments of target population (in KRI/Dohuk, where available)

	Non-displaced	IDPs			Refugees	
	Overall/ hosts	Returnees	Self-settled	Encamped	Self-settled	Encamped
Labour-market participation, men	70%	89%	71%	53%	75%	Est. for HHs: 73%
Labour-market participation, women	19%	12%	8%	7%	9%	
Type of employment:						
Public/SOE	47-49%	25%	25-31%	21%	5%	
Private employee	8%	13%	11%	13-18%	28-35%	27%
Private employer	3%		2%	2%		
Self-employed (MSMEs)	16-20%	21%	8-22%	10-15%	10-15%	9-10%
Casual/family/unpaid	21%	41%	30%	39-45%	61-68%	64-69%
Private sector	51%	75%	69%	45-58%	95%	100%
- agriculture	6-11%	1%	0.5-4%	15%	6-10%	
- construction	9%	10%		44%	30-52%	45%
- retail/services	29%	31%			21%	10%
- manufacturing/vocational	7%	10%			18%	5%
Unemployed, male	9%	37%	12%	20%	9%	24% (m+f)
Unemployed, female	20%	10%	19%	11%	32%	
% HHs w/ 1 unemployed	8-16%	37%	12-22%	36%	9%	
% HHs w/ no one working	22%	23%	16%	20-46%	18%	27%

Sources: KRDO, IOM, UNFPA, The Demographic Survey of the Kurdistan Region of Iraq, 2018; CCM Cluster, REACH, UNHCR, Iraq, IDP Camp Profiling – Round XV, Situation Overview (June – August 2021); WFP and UNHCR, Joint Vulnerability Assessment, June 2018; UNHCR and IMPACT REACH: MSNA IV of Refugees Living out of Formal Camps in the KR-I, May 2019.

In a study conducted in 2017 by the WFP, it was identified that more refugees seemed to aspire to starting a business (74 per cent) than hosts and IDPs.³⁰⁷ This entrepreneurial aspiration among refugees was also identified by a small survey by Oxfam in Nineveh in 2017 (see Figure 10).³⁰⁸ It would thus appear that finance for enterprise development would be relevant to the sub-segments of returnees and refugee households, as well as IDP households who are not considering returning and who are motivated to establish or improve their livelihoods where they currently reside.

Figure 10: % households owning (red) or interested in opening (blue) an MSME, May 2017 (n=312)



The regulatory environment for formal private businesses is believed to be bureaucratic for Iraqis and foreign-born residents alike, even if more recent one-stop shops are aiming to facilitate processes. However, the legal framework for investment allows foreigners to invest in the KRI without an Iraqi partner, employ foreigners in equal numbers to nationals, and repatriate wages and profits. The widespread perception that Syrians, especially, must have an Iraqi partner to formally start a business is not founded in the KRI legislation, but is enforced in federal Iraq, even if regulations may be unevenly implemented. Similarly, FBRs with Residency Cards or similar documentation are not barred from banking, despite their widespread formal financial exclusion. With the amended Investment Laws in 2016, FBRs, including Syrians, would also, in principle, have equal access to government credit schemes for SMEs.³⁰⁹

The proportion of economically active unemployed adults in Dohuk did not change markedly between 2012 and 2016, and thus the influx of IDPs and refugees did not have a great impact on access to jobs for hosts.³¹⁰ The mismatches in the state-driven economy, where job-seekers with relatively low levels of employable skills, education, and entrepreneurial drive compete for a limited number of high-skilled formal jobs, already existed before the arrival of refugees and IDPs, and the gaps in the private sector have historically been filled by foreign-born workers. With the increasing supply of job-seekers in the contracting economy, competition has increased, and wages have been depressed for all.³¹¹ The informal economy in the KRI (less so in Nineveh) appears to have expanded to accommodate the increasing supply of labour, but for a majority, informal-sector work does not generate the desired income, and revenues decreased during the pandemic.

Formal unemployment estimates increased to 19 per cent overall in Iraq in 2021. A nationally representative sample of mainly non-displaced households in Iraq, surveyed by the World Bank, registered a decrease in labour-force participation from 68 per cent in October 2020 to 59 per cent in January 2021; the decrease in women's participation was much lower, at 37.2 per cent. The unemployment rate among the sample was 23.5 per cent overall, increasing to 26.3 per cent in the KRI.³¹² While the economic participation rate was higher in the KRI than in northern Iraq, including Nineveh, 55 per cent of the workforce in the KRI was unemployed, compared with 14 per cent in northern Iraq in May 2020.³¹³ By January 2022, 26 per cent of IDP and returnee households surveyed reported that at least one member was unemployed.³¹⁴ IDPs living in camps were less likely to look for work than self-settled IDPs, but among those who were looking, encamped IDPs were less likely to find employment.³¹⁵ Unsurprisingly, employment or livelihood opportunities were a priority need for 58 per cent of encamped IDPs in August 2021.³¹⁶

Overall, 70 per cent of job-seekers nationwide would prefer to open a business.³¹⁷ Among a sample of job-seekers surveyed by the IOM in Nineveh in 2021, an even higher 82 per cent would prefer to

open their own business (85 per cent of men and 71 per cent of women) than find employment (12 per cent). The key barriers to entrepreneurship development were a lack of: financing (96 per cent); connections (*wasta*) (18 per cent); input and raw materials (16 per cent); experience (8 per cent); and training/skills (8 per cent).

4.5 Socio-economic Situation

Across all sub-segments, income generated from available economic activities was rarely sufficient for a decent standard of living before the pandemic and the situation is even starker now (see Box 8 for reference figures). A small academic study documented a drop in the average monthly household expenditure across Iraq from IQD1,123,260 (US\$762) before the pandemic to IQD1,039,440 (US\$705) by June 2021.³¹⁸ Employment, especially in lower-skilled, casual or intermittent jobs, does not generate sufficient income to cover rising costs of living, especially for households that are renting accommodation, putting children through school and paying for healthcare.³¹⁹ In a sample of vulnerable (but not necessarily displaced) workers employed in the KRI and northern Iraq in May 2020, monthly earnings had declined by between 36 per cent and 48 per cent, respectively, during the first three months of the pandemic, mostly owing to the reduced hours worked as a consequence of the mobility restrictions (see Table 12).

Box 8: Reference data for earnings in Iraq

The mean monthly income in 2022 was IQD3.4 million (US\$2,305).

Salaries were reported to range from IQD518,000 to IQD9,150,000/month (US\$351–6,203), with a median of IQD2,050,000 (US\$1,390)/month.

The national poverty line is IQD117,104 (US\$80)/person/month or around US\$400/HH/month (2021).

In March 2021, the national minimum wage was IQD350,000/month (US\$237).

In 2018, the average household expenditure, a proxy for the living standard, was IQD239,000/month (US\$162) per person or IQD1,293,000 (US\$877) per household in the KRI, slightly higher in Dohuk.

A monthly income of IQD750,000 to IQD1 million (US\$510–680) was considered average in the KRI before the pandemic.

Sources: <https://worldpopulationreview.com/country-rankings/median-income-by-country>; Labour force survey, ILO and <http://www.salaryexplorer.com/salariesurvey.php?loc=103&loctype=1>

Table 12: Impact of COVID-19 restrictions on earnings of vulnerable non-displaced HHs in KRI/North (n= 1,129)

	12m prior to pandemic (Apr19–Apr20)			3 months into pandemic (May/June 2020)		
	Overall	North Iraq	KRI	Overall	North Iraq	KRI
Mean income/month	IQD348,266 (US\$236)	IQD342,986 (US\$233)	IQD418,621 (US\$284)	IQD219,808 (US\$149)	IQD219,937 (US\$149)	IQD218,570 (US\$148)
% reduction				36%	36%	48%

Compounding this severe economic impact, only 3 to 5 per cent of the sample surveyed by the ILO in 2020 were covered by social security or health insurance. By June 2020, 19 per cent of these non-displaced households reported having received government cash assistance to improve their circumstances, whereas 26 per cent had received in-kind assistance.³²⁰ While employment – and with it, income – is picking up again, the pandemic clearly was an economic shock.

Income levels of displaced and non-displaced households in Iraq

Among **returnees** surveyed by the IOM in June 2021, 84 per cent of households that returned home in late 2017/early 2018 were able to provide for their needs, compared with 72–79 per cent of those returning later. As 58 per cent of the returnee households surveyed reported having temporarily lost a job owing to the pandemic, their income has declined. With the rising prices, expenditure is being cut where possible, and debts are being incurred to cover the deficit. By June 2021, only 6 per cent of returnee households reported having received humanitarian assistance, in the form of either food, water or cash from friends or NGOs.³²¹ By August 2021, 70 per cent had borrowed money, primarily from relatives (58 per cent) and friends (27 per cent). Only 1 per cent of returnees had borrowed from banks or microfinance institutions. Encouragingly, 75 per cent of all returnees who had borrowed had either repaid their loans or were in the process of doing so.³²²

One third of **self-settled IDPs** consider the loss of household income the greatest challenge of the pandemic; 62 per cent of IDP households live on an income from employment and pensions of less than IQD480,000 (US\$325) per month.³²³ According to a survey by the IOM in June 2021, 64 per cent of IDPs had had one or more household members temporarily lose their job, thus 45 per cent had to reduce their household expenditure. This might also explain why more IDPs have applied for compensation for damaged housing provided by the Ministry of Migration and Displacement (MoMD) as a one-time cash package of IQD1 million (US\$680) for households displaced in 2014,³²⁴ but the processing and pay-out of the compensation has been slow. Only around 12 per cent of self-settled IDP households reported receiving aid.³²⁵ As a result, debt financing of basic needs has also increased for this sub-segment. By June 2021, 45 per cent of self-settled IDP households had had to reduce their overall expenditure. About two thirds of the households surveyed in June 2021 needed to borrow money to manage their pandemic-affected financial situation, and while they were able to do so, the main source of borrowing (for 70–80 per cent) was relatives and friends.³²⁶ While loans or purchases on credit from shopkeepers was a main source for 66 per cent overall (42 per cent in the KRI), only 1 per cent of IDP households had borrowed from moneylenders or banks.³²⁷ By August 2021, 58 per cent of IDP households reported having debt of IQD90,000 (US\$60), or more, per household member.³²⁸ Of all IDPs who had borrowed during their displacement, by June 2021, 26 per cent had fully paid off their debt, while 41 per cent were in the process of paying it off and 27 per cent had not yet started repaying.³²⁹

Encamped IDPs and refugees have the lowest income of all sub-segments and have to borrow or spend savings to meet daily needs. Among encamped IDPs surveyed in 2019, 51 per cent also reported having sold assets to meet their basic needs.³³⁰

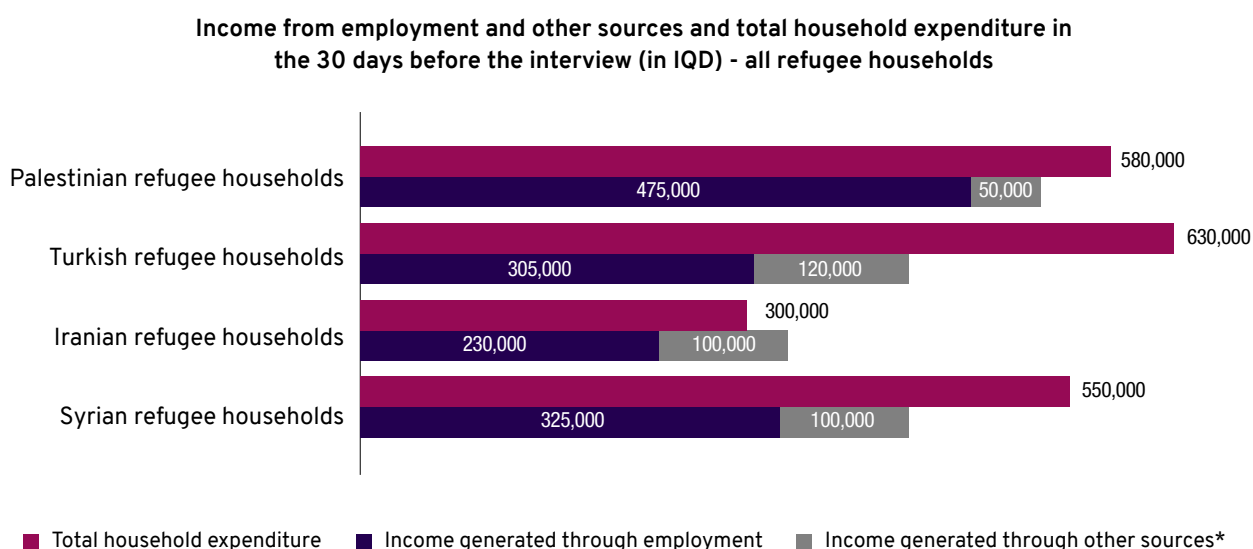
- Despite these coping strategies, the average monthly income of encamped IDP households in Nineveh was only US\$177 against average household expenses of US\$254 in February 2019, resulting in a monthly gap of US\$137, on average. In Dohuk, encamped IDP households generated more income (US\$283, on average) but the average household expenditure per month was US\$348, so the gap was still significant, at US\$65 per month. IDP households borrow primarily from friends and relatives (81 per cent) and shopkeepers (60 per cent). However, indicating

a relatively sound credit culture, debt repayment was reported as 7 per cent of the monthly household expenditure, increasing to 19 per cent in Nineveh.³³¹

- In August 2021, 69 per cent of encamped IDP households still generated income from work, but the average monthly amount had dropped to IQD348,740 (US\$236); in Qayyarah Jadah 5 camp in Nineveh, the drop was even greater, to IQD178,034 (US\$121). Twenty-five per cent of households relied on MoMD assistance and 31 per cent reported that donations from NGOs or charities were an important additional income source, and a total of 80 per cent or more of encamped IDP households had received some form of assistance.³³² Encamped IDPs and refugees do not pay for rent and basic utilities, and thus have fewer expenses than self-settled displaced households, but they are less economically active and may have faced more mobility restrictions than other IDPs.³³³ As a result, debt levels have increased. In August 2021, 45 per cent of households relied on loans as a main source of income, while 68 per cent were buying goods on credit.³³⁴

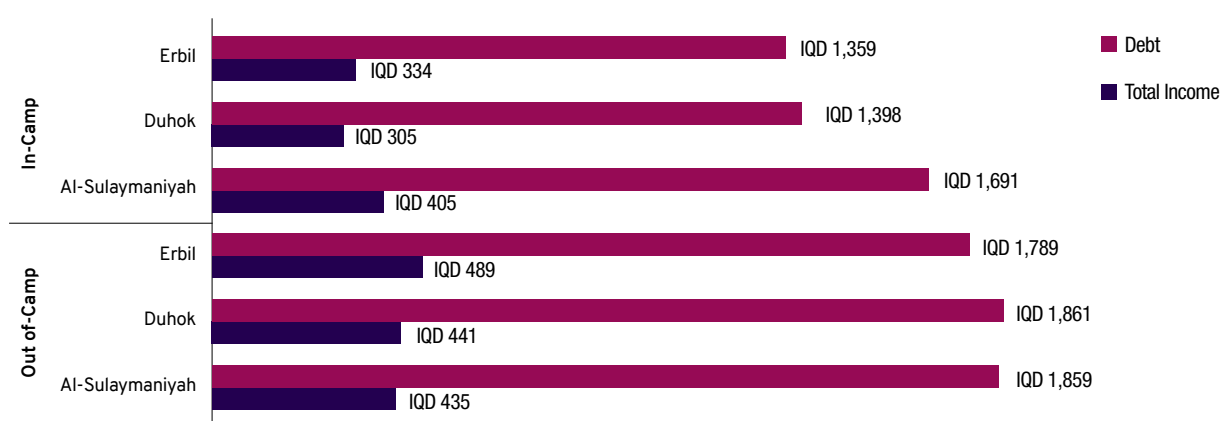
Self-settled refugee households in Dohuk reported an average total household income of IQD775,000 (US\$650) per month in 2019. Overall, nearly 40 per cent of self-settled refugee households generated all of their income from employment, with no supplementary sources needed to cover their basic needs. On average, the income from work across self-settled refugee households in the KRI was IQD455,000 (US\$380); this was supplemented by income from non-work sources, adding up to an average monthly income of IQD690,000 (US\$580). Iranian refugee households had relatively lower employment and total income, whereas Turkish refugees earned less from work (63 per cent) than Syrians (72 per cent), but received more non-work income, largely as remittances.³³⁵ By May 2020, 89 per cent of self-settled refugees in the KRI still generated income from work, but the total intake averaged IQD329,000 (US\$220) across refugee households, reaching IQD333,000 (US\$222) in Dohuk and IQD448,000 (US\$300) in Nineveh,³³⁶ and the total income differed by nationality group, as illustrated in **Figure 11**. In 2021, the main income source for 91 per cent of refugee households was work, but 23 per cent relied on NGOs, charities or friends and relatives, with only 1 per cent accessing the MoMD grants. Some of the more vulnerable refugee households also receive the multi-purpose cash assistance (MPCA) and winter support in the form of one-time cash grants. Of the 219,000 targeted Syrian refugees, 98 per cent had received this additional support by December 2021, but only 35,467 non-Syrian refugees had.³³⁷ Despite this support, 93 per cent of refugee households reported their income had decreased below pre-pandemic levels.³³⁸

Figure 11: Income and expenses of refugee households in Iraq, 2020



As a consequence, debt had increased among the most vulnerable refugees, with 69 per cent of households buying on credit from vendors and 84 per cent of refugee households reporting being in debt in 2021, with a 4:1 debt-to-monthly-income ratio, averaging IQD1,861,000 (US\$1,262) for self-settled refugees and IQD1,398,000 (US\$948) for refugees in camps in Dohuk, as illustrated in Figure 12.³³⁹

Figure 12: Average reported monthly household income and debt among Syrian refugees, 2021 (IQD 000s)



Acute demand for credit in Iraq among refugees, the internally displaced and host communities

While the income and expenditure levels may differ between the sub-segments of hosts, IDPs and refugees in Iraq, the overall picture of expenses exceeding income, and debt being incurred to cover the gap, is the same. Given the financing gap in most household budgets, the level of borrowing is unsurprising, and not a new phenomenon. On average, in 2018, households spent 240 per cent of their monthly income, ranging from 453 per cent in Kirkuk to 219 per cent in Nineveh. Households in Iraq use debt in a strategic and supplementary way to cover budget deficits, or as a tool to cover less predictable lump-sum expenses, such as large medical bills or seasonal agricultural expenses.

Nearly all borrowing is informal and free of collateral and interest, with funds provided by family members, friends, or local merchants. Household debt is relationship-dependent, thus accessing debt and receiving better terms and conditions is contingent on pre-existing social and kinship ties with the informal lenders. Both lenders and borrowers invest social capital in building and maintaining these relationships, which act as proxies for formal loan agreements in the informal lending market. Lenders offer debt, in part, through a sense of communal obligation, but do need an established level of trust with the borrower before extending credit. For this reason, few households (just 5 per cent of those surveyed in Nineveh in 2018) borrow from more than one lender at a time.

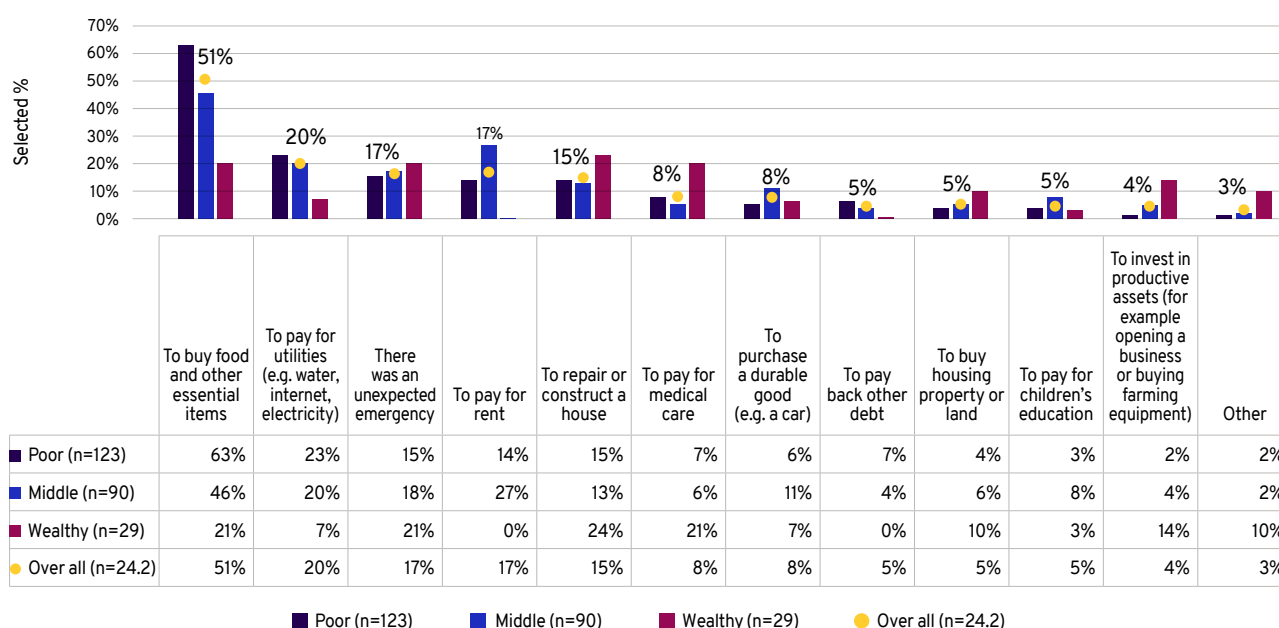
Households prioritize food, housing (rent, repairs), water and healthcare, but also repayment of debt (especially to non-family sources) in their expense budgeting. Debt repayments help sustain healthy relationships with creditors in order to retain continued access to credit – for example, multi-purpose cash assistance and other non-employment income sources are used to pay down debt owed.³⁴⁰ A relatively lax repayment enforcement regime among informal lenders (and debt forgiveness among relatives) appears to be a calculated return on the social capital invested by borrowers. According to the small survey from Nineveh, the average amount households should be repaying every month was IQD109,000 (US\$74), but the average amount actually repaid per month was only IQD19,764 (US\$13). While borrowing is widespread, 71 per cent of households also agreed that there is a social stigma attached to being in debt, and lower-than-expected repayments impact

the social contracts negatively.³⁴¹ Despite lenient repayment enforcement practices in the informal lending market, and a substantial volume of repayments in arrears, the available data indicates a relatively sound repayment culture among borrowers.

While humanitarian assessments often focus on household debt for consumption (basic needs) among the most vulnerable of the forcibly displaced, informal credit and debt appear to be present at all income levels and across most value chains, but particularly in trade, consistent with the majority of small family-owned firms in Iraq and trade being a prominent sector. A cross-segment survey by the Cash Consortium for Iraq in 2021 found that one third of all households borrowed, including for daily needs, but poorer households were more likely to borrow (51 per cent) than middle-income households (30 per cent) and wealthy households (13 per cent). Similarly, poorer households borrowed primarily for food and basic daily needs (63 per cent), while middle-income households typically borrowed to pay rent (27 per cent), and wealthier ones were more likely to borrow for larger one-off expenses and investments, like housing (38 per cent of total debt purposes), vehicles and consumer durables (15 per cent), business establishment (7 per cent) or home building (15 per cent),³⁴² as illustrated in **Figure 13**. As IDPs in this survey were, on average, more income-poor than the non-displaced and returnee households, more IDPs borrowed (52 per cent), compared with returnees (35 per cent) and non-displaced households (23 per cent).³⁴³

For Iraqis, income poverty aligns with displacement status and drives a need for small-value and continuous borrowing for daily consumption, while also preventing debt-financed investments in future income generation, such as business start-up or expansion. As illustrated in **Figure 13**, the amount of debt outstanding on the part of households decreases with poverty level, indicating that households in general only borrow what they absolutely need, while borrowing for food and basic needs increases with poverty level. Encamped IDPs and refugees do not generally need to borrow for rent or utilities, but these are big expenses for self-settled IDPs and refugees, requiring consistent borrowing. While 14 per cent of wealthier households had borrowed for investment purposes, only 2–4% of the poorer households had done so.³⁴⁴ Across all sub-segments, an average of 5 per cent of displaced populations borrowed for productive purposes. Over the past year, the need to repay debt was a top priority for one fifth of displaced Iraqis and, unsurprisingly, one fifth also asked for more information on how to get more financial support.

Figure 13: Reasons for borrowing by wealth group (Nineveh and Anbar), 2021 (n=242)



Wealth also appears to correlate to formal financial inclusion. Of the households disaggregated by wealth group in the 2021 study, no poor households had a bank account, while 1 per cent of middle-income households and 9 per cent of wealthy households were formally financially included. By displacement status, 4 per cent of the wealthier returnee households had bank accounts, compared with 2.7 per cent of both IDP and non-displaced households. Overall, all population segments in Iraq borrow informally (see **Table 13**), and prefer to do so, irrespective of their wealth status. The barriers to formal financial inclusion are not primarily physical (distance, access, documents), but appear to stem from perceived lack of relevance of FSP services.³⁴⁵ The awareness and information gap between FSPs and prospective customers may drive such perceptions. This would indicate a need for additional financial education to reduce the trust and knowledge gaps among population segments who have not been exposed to the products and services offered by formal FSPs in Iraq.

Table 13: Income, expenses and debt among sub-segments, 2021

	Returnees*	IDPs*		Syrian refugees**	
		Self-settled	In camps	Self-settled	In camps
Average HH income/month, IQD <IQD 480–500 per month (US\$325–340)	463,401 61%	434,294 66%	348,740 74%	441,000	305,000
% HHs with work as primary income source (regular/irregular)	28%/43%	16%/59%	21%/48%	94%	89%
Average HH expenses/month In US\$	533,263 361	568,004 385	507,141 344	589,000 400	550,000 373
Monthly deficit/HH In US\$	-69 862 47	-133,710 90	-158 401 107	-148,000 100	-245,000 166
% HHs borrowing	50%	61%	61%	77%	84%
Average HH debt, IQD In US\$	9,129,648 6,190	8,717,438 5,910	1,961,640 1,330	1,861,000 1,262	1,398,000 950
Borrowing for food/daily necessities	26%	23%	46%	73%	83%
Borrowing for rent/utilities	25%	43%	9%	74%	8%
Borrowing for MSME/ assets/ investment	8%	5%	6%	4%	1%
% HHs borrowing from family/ friends***	73%	82%	73%	93%	93%
% HHs borrowing from shops/ local vendors***	42%	42%	42%	46%	69%

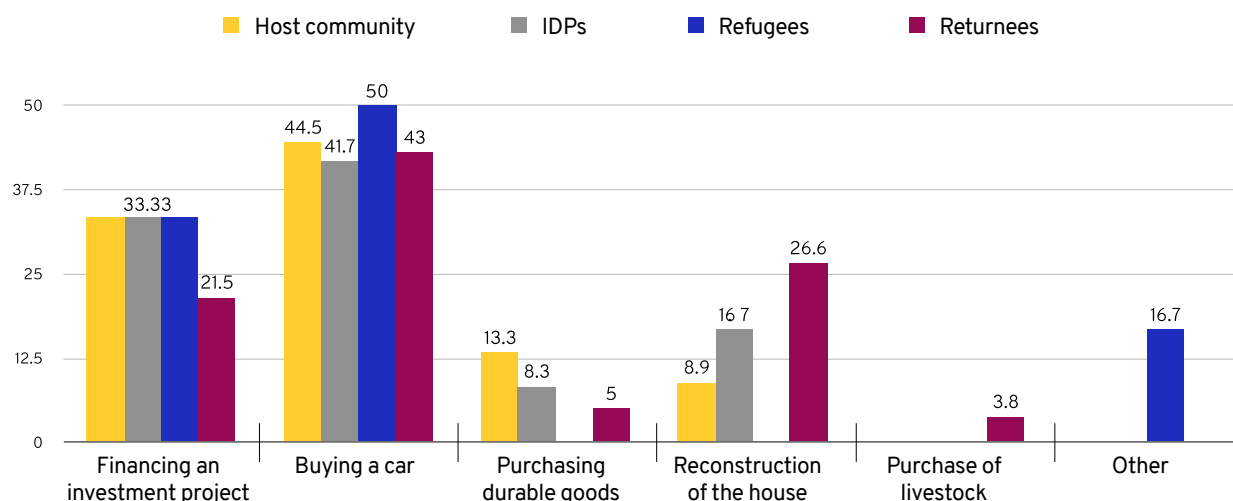
* Data from REACH MCNA 2021 Dataset summary tables, 27 October 2021.

** Data from IMPACT REACH, *Multi-Sector Needs Assessment* (MSNA 2021, presentation October 2021 (data for Dohuk used, where available).

*** Data for refugees from IMPACT REACH, *MSNA IV of Refugees Living out of Formal Camps in KR-I*, May 2019 and for IDPs from IOM, *Access to Durable Solutions Among IDPs in Iraq: Six Years in Displacement*, February 2022.

However, a small Oxfam study conducted in Nineveh in 2017 documented that target sub-segments were aware of and had used microfinance in the past. Nearly half of returnee households (47 per cent) but also 20 per cent of host households, 8 per cent of IDPs and 7 per cent of refugees reported having had a microfinance loan, typically issued as a *Murabaha* product³⁴⁶ for a vehicle or other durable goods, a business project, or, less commonly, for home improvement through a local bank or MFI, as illustrated in **Figure 14**.³⁴⁷

Figure 14: Purpose of microfinance loans accessed by HHs in Nineveh, 2017 (n=312)



As most MFIs cite a high demand that their current capital cannot fully meet, there would seem to be a demand for more sustainable credit in the market. The connections between the informal credit provision in the market and the micro loans provided by MFIs is not clear. It would be of interest for the MFIs to explore the levels of formal and informal indebtedness among their customers in more detail to ascertain whether customer businesses actually generate the profit necessary to ensure timely repayments of all debt, or whether the share of deferred payments (items purchased on credit) is as high among the microfinance borrowers as it appears to be among informal borrowers.

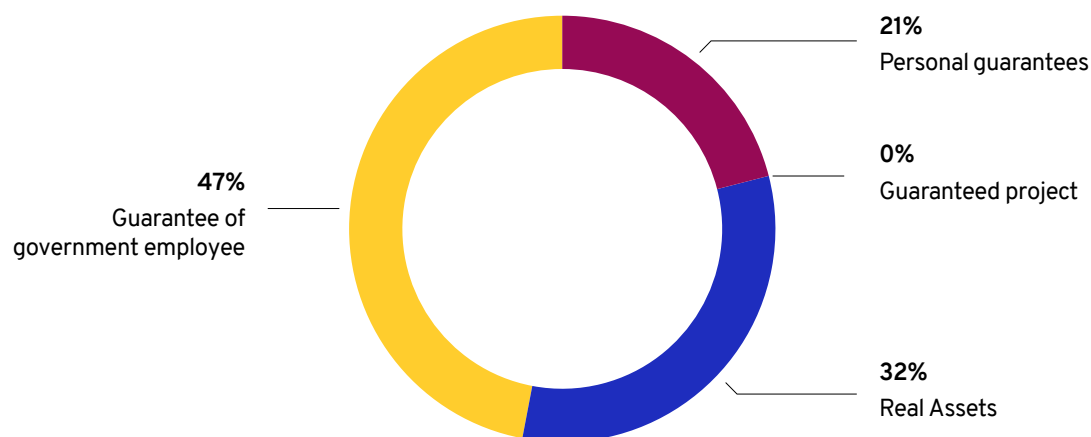
Informal finance appears to be readily available, often placed within the trade value chain – but likely extending across the economy. In 2021, 97 per cent of self-settled IDPs reported being able to borrow money (from family or friends) if needed.³⁴⁸ However, 15 per cent of overall loan requests, rising to 33 per cent among the poor, had been rejected during the pandemic, and 20 per cent of borrowers had had to repay faster than usual, indicating a potential credit crunch, as everyone was borrowing more in 2021.³⁴⁹ This has implications for banks, as formal FSPs are unlikely to be able to compete directly with the informal lending market, and would thus need to focus on MSME-owners who cannot access sufficient credit informally, either because their social network is disrupted, or because they need more credit than informal lenders are willing to provide.

The continuing reliance on debt by a majority of households and MSMEs would suggest a risk of chronic over-indebtedness in households with low and/or irregular incomes, and a high accumulated debt burden, including households running small businesses. Overall, 5 per cent of the households in the small study in Nineveh and Anbar in 2021 were borrowing to pay off other debt.³⁵⁰ This confirms the need for formal FSPs to carefully segment and appraise prospective customers – not only by economic participation but also by income generated and total existing debt levels – to calculate repayment capacity.

4.6 Access to collateral – property and asset ownership

Poorer population segments are often associated with a lack of repayment capacity and/or lack of the guarantees or collateral required by FSPs, whether fixed salaries or the forms of collateral needed to obtain formal credit (see Figure 15).

Figure 15: Collateral types required by 17 microfinance providers in the KRI, 2018



Credit guarantors as major collateral in Iraq

The concept of credit guarantors is well-known in the informal lending markets of Iraq. For borrowers who may not be sufficiently credit-worthy (such as self-employed owners of micro enterprises or casual labourers), well established and influential community members, *Mukhtars* or sheikhs often act as a *waseet (intermediary)*, brokering loan agreements for both personal and business loans. If loans are not repaid as agreed, the creditor can hold the sponsor, the debtor’s father, or even tribal leaders liable.³⁵¹ The sponsorship concept has been transferred to both microfinance and bank credit, with FSPs often requiring guarantors, but the social capital (respect) of the traditional *waseet* has often been augmented with required financial capital, determined by sufficient and stable income (government jobs), as indicated in Figure 15. While widely practised, the guarantor requirement can pose barriers for displaced sub-segments, who may find it hard to “earn the trust” of a local influential person to act as guarantor.

Private property and moveable assets as collateral

Three quarters of non-displaced households in the KRI own their home, but in 2017, only 55 per cent had formal documentation to prove this.³⁵² Likewise, displaced sub-segments do have certain assets that could be used as “real asset” security, as illustrated in Table 14. Most refugee households reside either in houses (73 per cent) or apartments (20 per cent), typically with rental contracts. However, in 2018, 36 per cent of Turkish households and 17 per cent of Iranian households reported owning their KRI residence, while 95 per cent of Syrian refugees are estimated to own a property in Syria.³⁵³

Table 14: Housing, land and property (HLP) assets of displaced sub-segments, 2021³⁵⁴

	Returnees	Self-settled IDPs	Encamped IDPs
% HHs with valid documentation of ownership of HLP assets	59%	42%	29%
% HHs whose owned homes were destroyed	55%	65%	90%
% HHs having claimed compensation	51%	48%	52%
% HHs having received compensation	4%	2%	2%

Historically, formal registration of property with authorities is not widespread among any of the target sub-segments. Before 2014, only 10 per cent of homeowners in Nineveh had formally

registered their residential property with the Real Estate Registry; 20 per cent had registered commercial property; and 45 per cent had formally registered agricultural land and property through State institutions before 2014. Under customary and Islamic norms, few Iraqi women officially own agricultural land. In addition, their names are often not listed on property title deeds that may be in their possession.³⁵⁵ As a consequence, women often lack formal collateral to offer when applying for formal credit.³⁵⁶

In August 2014, the Ministry of Justice (MoJ) locked the land registry and suspended all transfers and registration of property ownership in areas under ISIL control (including in Nineveh), when it became known that ISIL was running property registration and administration departments in areas under their control, including issuance of property documentation. Further, the MoJ declared all new transfers of ownership and registration of real estate in Anbar, Salah al Din and Nineveh areas under ISIL control as void, so even if households had wanted to register property, this would have been impossible in the conflict-affected areas. Instead, **informal and community-based channels have been used to register and manage property, typically informal buyer-seller contracts, sometimes validated by local community leaders.** Local tribal officials (*Mukhtar*) are often important interlocutors in relation to housing, land and property rights. In Mosul city, in particular, *Mukhtars* routinely validate contracts, but require a valid civil ID. While such arrangements appear to work, it may be difficult for households seeking compensation to formally document their ownership with these informal community mechanisms.³⁵⁷

The Iraqi Government has pledged to compensate all citizens whose properties were affected by war-related incidents since 2003, in accordance with the Laws on Compensation (Law No. 20 of 2009, Law No. 57 of 2015, Law No. 262 of 2008). Claims from IDPs to the Compensation Commissions set up under the mentioned laws have increased in 2020/21, but 79 per cent of IDP and returnee applicants were still waiting for a decision in their cases by June 2021.³⁵⁸ In addition to capacity issues, property restitution is likely slowed down by the requirement to submit proof of ownership.³⁵⁹ IDP families with perceived ISIL affiliation are often denied the security clearance needed (in lieu of residency permits) in the KRI, preventing them from lodging compensation claims altogether.³⁶⁰

In 2017, 57 per cent of households across the KRI owned a car, compared with 34 per cent of self-settled IDP households and 25 per cent of emcamped IDPs.³⁶¹ Given that a large proportion of MFI loans have been issued for acquisition of vehicles, these figures may have increased, and are likely to be similar among refugee households. However, **in the absence of a central registry for moveable assets, most FSPs in Iraq do not readily accept moveable assets as collateral.**

Business properties as collateral

Business properties have become easier to obtain. In March 2016, the Cabinet approved a proposal by the Ministry of Planning to enable poor Iraqis to access housing and shop stalls. A housing subsidy of 50 per cent of the housing cost and fees (rental) is provided, while the remaining 50 per cent is repayable by the recipient in 15 to 20 years. The administrative cost of this scheme (1 per cent of the total value of the subsidy) is covered by the Government. For commercial space (shop stalls), the Government will equally provide a 50 per cent subsidy and cover the administrative fee, while the balance is repayable in five to ten years.³⁶² For many IDPs, these subsidies would be very welcome, but the extent to which the Cabinet decision has been implemented is unclear.

Foreigners, including registered refugees, can own property in the KRI, especially if they qualify as “investors”. The Property for Foreigners Law (82) of 1961 states that foreigners within Iraq are

treated the same way legally as Iraqis are treated within the foreigner's country. However, foreigners must meet the following criteria:

- They must have stayed in Iraq at least seven years.
- The Government of Iraq must not have any security concern about them.
- The property to be purchased must be more than 30 km from an Iraqi border.
- The property must be *tapu*, that is, officially registered by the Directorate of Tapu.
- No more than one property can be purchased.
- The purchase must be approved by the Ministry of Finance through a court process.³⁶³

The Iraqi Company Law (1997) and the Investment Law of 2006, amended in 2015, seek to level the access and benefits for Iraqi and foreign investors in Iraq. Iraqis and foreigners in partnership can establish a domestic limited liability company at the minimum capital of IQD1 million (US\$680), which would put this within reach of many IDPs and refugees.³⁶⁴ Despite the complex procedures, there were no regulatory or legal restrictions on FBRs, including refugees, owning and managing businesses in Iraq until recently. Legislation passed in 2019 stipulating that foreigners can own no more than 49% of any company in Iraq was being enforced in federal Iraq by September 2021.³⁶⁵ The amended Investment Law also opens up the possibility of access by foreign investors to state-subsidized loan schemes that were previously only available to Iraqis, provided that such investors also invest in housing and have completed 25 per cent of the project. The National Investment Commission and provincial investment commissions have been established to help investors engage in federal Iraq, including through “one-stop shops” issuing visas and licences to investors, both for legal entities (domestic companies) and for individuals, in addition to facilitating the business registration managed by the Ministry of Trade.³⁶⁶ Foreigners are also explicitly permitted to open bank accounts.³⁶⁷

In the KRI, however, foreigners may own 100% of a business, but they must employ nationals and foreigners in equal numbers. Foreign-born residents are allowed to (i) possess, use, and dispose of their investment, (ii) manage or participate in managing a business entity, (iii) transfer their rights and obligations, and (iv) transfer dividends, profits and investment proceeds to their home country.³⁶⁸

While many households own property that could be used as collateral for formal credit, a much lower proportion have formal documentation to prove their ownership. It will be a challenge for FSPs to accept and use the existing informal contracts and registrations as collateral for credit, but rather than expecting borrowers to formalize their documents, adjustments to the collateral policies may be necessary.

4.7 Savings practices

Very few Iraqi returnee households (7 per cent) surveyed by the IOM had savings left by June 2021,³⁶⁹ while only 25 per cent of self-settled IDPs still had savings left at that time.³⁷⁰ Among encamped IDP households, 63 per cent reported spending savings to meet their basic needs in 2019. While depleting savings for basic needs is not a sustainable livelihood strategy, it is nevertheless encouraging that some residents still had savings to spend after more than four years in camps. For 39 per cent of encamped IDPs, savings represented their main source of “income” in 2019.³⁷¹ Spending savings is consistently reported as a “coping mechanism” among displaced sub-segments, but the sources of savings and ability to save are not tracked by humanitarian surveys.

The recent Cash Consortium for Iraq study from Nineveh and Anbar provides new insights into saving behaviours, indicating that nearly half the households surveyed actually do save and that saving correlates to wealth. While 81 per cent of relatively wealthy households saved in 2020/21, so did 43 per cent of middle-income households and 24 per cent of poor ones. By displacement status, 60 per cent of returnees, 44 per cent of non-displaced and 41 per cent of IDP households saved during the second year of the pandemic, which, in itself, is an achievement.³⁷² This is corroborated by the latest Multi-Cluster Needs Assessment, which shows that 14 per cent of returnee households (and 7 per cent of IDPs, whether in or out of camp) used savings as a primary income source in 2021.³⁷³

Confirming earlier studies, saving for emergencies or for an expensive medical procedure was the motivation for 75 per cent of savers in 2021, and – likely related – nearly all savings are kept at home in cash (76 per cent), gold (14 per cent) or foreign currency (9 per cent). Savings for investment in a profitable venture (7 per cent) or assets (6 per cent) are much less common, and almost exclusive to the wealthier households. While the majority of non-savers attribute this to the lack of income left after meeting basic needs (83 per cent), the additional 9 per cent of all households (13 per cent of poor households) who attribute the lack of savings to the lack of income left *after debt repayment* indicates a positive repayment culture among, especially, poor households.³⁷⁴

As is the case for borrowing, formal FSPs are not considered an option by many Iraqis for depositing excess wealth. Only 7 per cent of households surveyed in Nineveh and Anbar in 2021 considered bank accounts (including in Islamic banks) a better alternative to the option of keeping cash at home, but 12 per cent saved in a *Gamiy'at* or *Sifa* (RoSCAs). *Sifa* is a communal RoSCA, essentially a rotating savings club, where members pitch in an agreed amount per day, week or month, and take turns – in a pre-set sequence or, more commonly, by lottery – receiving the combined “cash pot” of money as an interest-free loan. While it is often thought that *Sifa* have disappeared from Iraq given the economic hardship faced by many households, studies since 2017 suggest that this is not the case, as one quarter of refugees, IDPs and returnees and one third of host households surveyed in 2017 were familiar with *Sifa*, and were active members,³⁷⁵ and 18 per cent of displaced households surveyed by the Cash Consortium for Iraq were familiar with *Sifa*.³⁷⁶

In many countries, including Iraq,³⁷⁷ RoSCAs or village savings and loan groups (VSLAs) have been promoted by I/NGOs as a forum for rural or poor people to attain financial literacy, pool savings and access lump-sum loans (see Box 9). In some markets, VSLAs are being digitized and linked to FSPs for safer storage of savings and access to additional credit managed through the group. While the non-financial service provision within the RoSCA forums often generates social benefits for members and increases financial management skills, the results of adding external funding to these community-based groups have been mixed. However, the linkage banking model to enhance the safety of *Sifa* savings may be worth exploring in Iraq, especially if linked with liquid and conveniently located cash-out points, such as *hawala* agents.

Box 9: Accessing finance for business

“I laugh when I remember how I wanted to have my own business but couldn't; I came here as a refugee and had to work as a daily worker in a factory to support my family and now I have my own business. I still can't believe that my dream came true.” Yasmin Muhammed Ali, baker, Dohuk.

Source: Oxfam, *Livelihoods in Protracted Crises: Using Savings and Small Business Grants to Build Resilience in Conflict-affected Communities in Iraq*, 2018.

▶ 5

Conclusions and Recommendations



► 5. Conclusions and Recommendations

5.1 The scope of demand for formal financial services in the market

Understandably, employment and livelihood opportunities are the most frequently reported priority need among all population sub-segments.³⁷⁸ At the lower end of the labour market, the majority of available jobs and livelihood opportunities do not generate enough income for households to cover expenses without continuous debt, and while demand for grants for business restart, consumption, and asset purchase is very high across all displaced (and some host) sub-segments, the demand that can actually be met by sustainable formal financing is lower, as illustrated in **Table 15**. The lower demand for livelihood assistance from refugees correlates to a very high level of economic participation, while the lower demand among encamped IDP populations correlates to fewer economic opportunities and a higher dependency on aid.

Table 15: Tentative comparisons among sub-segments of target population (in KRI, where available)

	Non-displaced	IDPs			Refugees	
		Returnees	Self-settled	Encamped	Self-settled	Encamped
% HHs economically active (male)	70%	70%	75%	70%	94%	89%
% HHs earning > IQD500k/m (US\$340/month)	64%	39%	34%	15–26%	20%	10%
% HHs self-employed/with MSME (estimated)	20%	25%	22%	10%	20%	15%
Priority needs 2020/21, % HHs estimated with potentially bankable demand:						
Livelihoods/jobs/income	20%	52%	51%	64%	20%	10%
Dohuk			41%	69%		
Nineveh			49%	59%		
Consumer finance	40%	25%	25%	5%	25%	15%
Finance for MSMEs	15%	23%	10%	5%	15%	10%
Finance for agriculture	5%	22%	5%	5%	5%	5%
Finance for housing/repairs	10%	35%	25%	46%	24%	5%

Sources: https://www.impact-repository.org/document/reach/0fb0ccac/REACH_IRQ_Camp-profiling_XIV_Sep2020.pdf; <https://iraq.iom.int/resources/access-durable-solutions-among-idps-iraq-six-years-displacement>; <https://reach-info.org/irq/mcna2021/>; <https://data2.unhcr.org/en/documents/download/65023>; <https://data2.unhcr.org/en/documents/download/69906>; <https://data2.unhcr.org/en/documents/download/72938>; Iraq – Location Assessment (Informal Settlements) [April - June 2022] – Round 7 | Displacement Tracking Matrix (iom.int)

This is due partly to an apparent lack of awareness of the FSPs available and their products, and partly to the fact that these products are not perceived to meet the needs of the target populations. Recent research suggests that there is a gap in awareness among FDPs and hosts about FSP offerings in Iraq. Most FDPs surveyed do not seem to know that Shariya-compliant financing is being provided – for example, by Cihan Bank – nor that MFIs operate in their areas. In addition, there is a significant trust gap between prospective customers and formal FSPs. The legacy of political and economic crises, as well as banking collapses, has left the population with little trust in the capacity of formal FSPs to safeguard their savings. FSPs in northern Iraq, and in the border areas in particular, are considered not only inaccessible but also to lack products that are suitable or desirable. Formal FSPs are perceived to be expensive and bureaucratic in terms of their requirements and processes, and their products are not perceived as appropriate for low-income families looking to borrow small amounts for daily needs.³⁷⁹

In northern Iraq and the KRI, the informal credit market appears to meet most of the demand. The informal credit market within communities, which includes individuals and MSMEs as both lenders and borrowers in mutually beneficial social relationships, as well as community-based financial groups like *Gamiy'at* and *Sifa*, appears to be fully functional and preferred by the majority of prospective FSP customers. In addition, displaced populations, especially, might self-exclude from formal finance owing to perceived (and often actual) ineligibility, perceived high costs and collateral requirements, and perceived absence of Shariya-compliant credit.

There is therefore a need both to better inform the market of available products, terms and conditions for formal finance, and to adapt traditional FSP products and practices to better suit the demand of the market and to re-build trust. It is evident that in-house customer-centric innovation, product redesign and marketing are required for FSPs to present themselves as competitive alternatives to the widespread informal cash credit market. Prospective micro- and small-enterprise (MSE) and household customers must be expected to display high levels of price sensitivity, being unfamiliar with and often opposed to secular interest. Shariya-compliant sales mark-up products appear to be more accepted. Working with and through the existing actors in the informal financial market may be the best way forward for FSPs wishing to enter this market.

The most conventional entry path for FSPs would be to focus on the small segment of relatively wealthier households, who might not be able to borrow the lump sums they need from informal sources for acquisition of assets, investment in MSMEs and home construction. This prospective customer segment is likely small, but if well-served, there would be cross-selling opportunities of “overdraft”-type consumption loans for daily needs, savings products and insurance. It is also likely that word-of-mouth marketing to other prospective customers would happen, if current customers are satisfied with their initial experience.

- While there is some demand for business finance, there are few indications of a high demand for traditional SME finance, as there is very little evidence of the targeted sub-segments having (re-)started larger enterprises. Among the market segments explored in this report, however, there is a small share of **well-established SMEs** who have wanted bank loans in the past, but were unable to meet requirements, such as for collateral. These businesses would be a natural starting point for formal FSPs wishing to re-introduce themselves to the finance-seeking MSME market and correct perceptions of inflexibility.
- Many MSMEs have been facilitated with government- and donor-funded grants, so the legacy of “free” financing is likely to influence demand for sustainable finance. To be able to segment the MSME market and identify the MSMEs that are willing and able to manage repayable loans,

FSPs may require support in the form of technical assistance and awareness sessions on how to tell the difference.

Half of businesses surveyed in mid-2020 had been profitable without borrowing prior to the pandemic, and one third of these enterprises were continuing to operate. More than 80 per cent of these existing businesses indicated a need for direct financial support in 2020; however, only 5 per cent expressed a demand for credit. While 28 per cent of businesses surveyed had received external support before the pandemic, the vast majority (91 per cent) had received their support from civil society organizations, especially in northern Iraq. Since the pandemic, 16 per cent of existing MSMEs in the KRI and 8 per cent in the north have introduced e-commerce functionality.³⁸⁰

- FSPs could focus on the larger informal lenders in the communities and on designing **“on-lending” products for traders** and shopkeepers, thus alleviating the credit crunch within the value chains and communities currently shouldering the increased demand for credit. It is likely that a proportion of the current, informal lenders in the market, who are typically SME traders and *hawaladars*, would demand formal finance to replace the significant burden of savings and cash flow-based expenditure they incur to meet social obligations to customers, and to manage purchases and sales on credit up and down the value chains. SME traders who provide credit are likely more accustomed to working with banks and may also demand more of the standard bank products, including transactional accounts, overdrafts and letters of credit, in particular.
- FSPs may wish specifically to investigate the sub-segment of **cross-border traders** who are re-establishing business links across the borders to Türkiye, Iran and Syria in the wake of the pandemic. Given the widespread perceptions that FSPs do not serve foreign-born residents, FSPs approaching the market with eligibility criteria that enable equal **access for MSME customers of all nationalities** are likely to generate interest, especially if the experiences of the first cohort of borrowers are positive.

Introducing or expanding existing group-loan products to include existing savings and loan groups by offering safer storage of liquid savings and convenient (and preferably digitized) cash in, cash out services through existing agents may be another option. FSPs could consider developing group-loan products for *Sifa* or RoSCAs that were depleted of cash during the pandemic, to bridge the trust and perception gaps.

- There may be a business case for external credit provided through some of these groups to members, but getting groups onboard as depositors would enable FSPs to monitor the performance of their transactional activities.
- The increasing use of digital channels for multi-purpose cash assistance may facilitate the introduction of **mobile money** delivery channels.

Of the returnee households surveyed, 91 per cent had returned to their former home by June 2021 and 75 per cent returned to jobs they had before their displacement. The majority (75 per cent) of returnees live in a home the family owns, but 84 per cent report the condition of their property as either partially or heavily damaged, or destroyed. Among both self-settled and encamped IDPs in Dohuk who own a home (in Nineveh), 83–84 per cent reported in 2019 that these homes were completely or heavily damaged.³⁸¹ Fifty per cent of IDPs consistently rank housing as the most important requirement for their return to their places of origin and, in 2021, 77 per cent of IDPs reported that their homes were completely or heavily damaged. Compensation for this damage has increased in importance for 33 per cent of IDPs, who link compensation to achieving justice. Fifty-

eight per cent of IDPs have applied, but nearly 80 per cent are still waiting for a resolution. In 2018, 27 per cent of returnees and 17 per cent of IDPs sampled took MFI loans for this purpose.³⁸²

- For those returnees and IDPs who do not wish to wait for government compensation, **long-term mortgage finance for reconstruction and short-term loans for home improvement** would thus likely be in demand.

One third of IDP households (36 per cent) cite the lack of income-generating activities at home as a reason not to return, and 34 per cent report not having the financial means to return.³⁸³ Providing better access to livelihoods for this population would seem to be a priority.³⁸⁴ Thirty per cent of current IDPs worked in agriculture before they were displaced.³⁸⁵ Of the few households that have returned to farming, 22 per cent cite a lack of finance as a main problem.³⁸⁶ Around 20 per cent of encamped IDP households in Dohuk and 31 per cent in Nineveh reported that some livelihood opportunities are available at home, the majority (76–77 per cent) seeing these opportunities in agriculture.³⁸⁷ In Sinjar, where FSPs are particularly scarce, around 80 per cent of the population worked in agriculture before 2014, and returnees and IDPs reportedly continue to work in agriculture now, but with reduced capacity, due especially to the loss of machinery, such as harvesters and tractors. Agriculture, livestock and food processing are among the growth sectors considered appropriate for MSMEs in Nineveh.³⁸⁸

- There could be scope for **Shariya-compliant *murabaha* investment contracts within the agricultural and agri-business value chains** to revive agriculture and increase productivity, especially in Sinjar district.

There seems to be widespread motivation for opening new businesses (among job-seekers, in 2021, 71 per cent of women and 85 per cent of men preferred to open their own business, and the biggest barrier was a lack of financing (96 per cent)).³⁸⁹ The general popularity among both IDPs and refugees of the numerous small-scale I/NGO projects offering asset replacement grants for restarting MSMEs suggests a latent demand for more sustainable MSME finance, as corroborated by the very high levels of interest among refugees and some returnees to (re-)start a business.

- **Start-up business finance** is risky and should preferably be supported by business incubation or acceleration hubs. However, partnerships to develop a nurturing ecosystem for prospective MSME owners could be created, including FSPs providing credit for start-ups, especially if a risk-sharing mechanism could be availed of by FSPs.

As can be expected, encamped IDPs and refugees who access free basic services are less economically active and, as a consequence, more economically fragile. This is consistent with general patterns of the most vulnerable displaced households remaining in camps. However, **IDP and refugee camps in Dohuk** feature relatively vibrant business districts, where an estimated 10 per cent of households are running micro and small enterprises (MSEs) in retail and services, and have developed value-chain links with surrounding host communities, financed, in part, by remittances and private loans through *hawaladars*, as well as by humanitarian cash assistance. While encamped households overall are relatively heavily indebted, camp-based micro enterprises appear to be profitable at the lower (rent-free) expense level of their encamped owners.³⁹⁰

- While some camp-based MSEs indicate significant interest in more finance, there is an almost complete lack of awareness of formal finance opportunities in camps, which could be addressed by **information sessions by FSPs, which could also offer onboarding services.**

Iraq ranks 105th out of 144 nations in terms of financial literacy, according to the 2020 *Global Financial Literacy Index*, and the Central Bank of Iraq (CBI) has conducted financial literacy and awareness campaigns since 2016. Rather than focusing on numeracy and technical skills, the Cash and Livelihoods Coalition of Iraq (CLCI) has provided financial education alongside its cash programming for the most vulnerable for several years.³⁹¹ **Financial education** aims to enhance participants' understanding of how to manage available money to bolster savings, investments and other forms of economic recovery. A recent evaluation of the synergetic impact of cash assistance and short financial education modules concluded that the latter had benefited participants. The training sessions also provided opportunities for positive interactions between hosts and IDPs, encouraging participants to share their financial management stories and learn from one another, facilitating the creation of a shared identity around financial struggles and goals.³⁹²

Using the experience of the [ILO Global Programme on Financial Education](#), ILO PROSPECTS has developed a [five-day financial education training programme customized for the displacement context in Iraq](#) and delivered through local trainers recruited from among FSP staff and other stakeholders in the financial sector. So far, 35 trainers have been certified nationally via the ILO course and close to 1,500 prospective bank customers have been trained. Given the large trust and awareness gap identified on both the supply and demand sides, the ILO financial education programme provides an excellent opportunity for prospective bank customers to learn about the available opportunities for formal financial products and their terms and conditions. It is likely that the interaction between FSP trainers and prospective customers can begin to change perceptions about the relevance and suitability of formal financial services.

- **Financial education** as facilitated by the ILO could help close the awareness and trust gap between prospective borrowers and FSPs, and help FSPs segment the FDP market to identify customers who are most likely to benefit from formal finance.
- It could also help FSPs to further **segment the FDP market** by level of vulnerability, to allow the most resourceful MSME owners and households to “graduate” to sustainable formal finance

If there is appetite among FSPs to work with households (consumer loans), start-ups and micro enterprises, such financial education and other **non-financial services (NFS)** will be welcome as complements to the financial services offered. However, with the vast supply of training offers around, there is likely a degree of “NFS fatigue” among more experienced IDP and refugee owners of existing MSMEs, who will be less inclined to participate in – and less in need of – additional business development services or training prior to accessing loans.

- Rather than requiring all prospective customers to attend NFS as a mandatory part of any FSP onboarding process, it will be imperative to **develop partnerships with NFS providers** who can design participatory and demand-based training, focused more on financial education, coaching and mentoring than the standard, short, classroom-based business training.

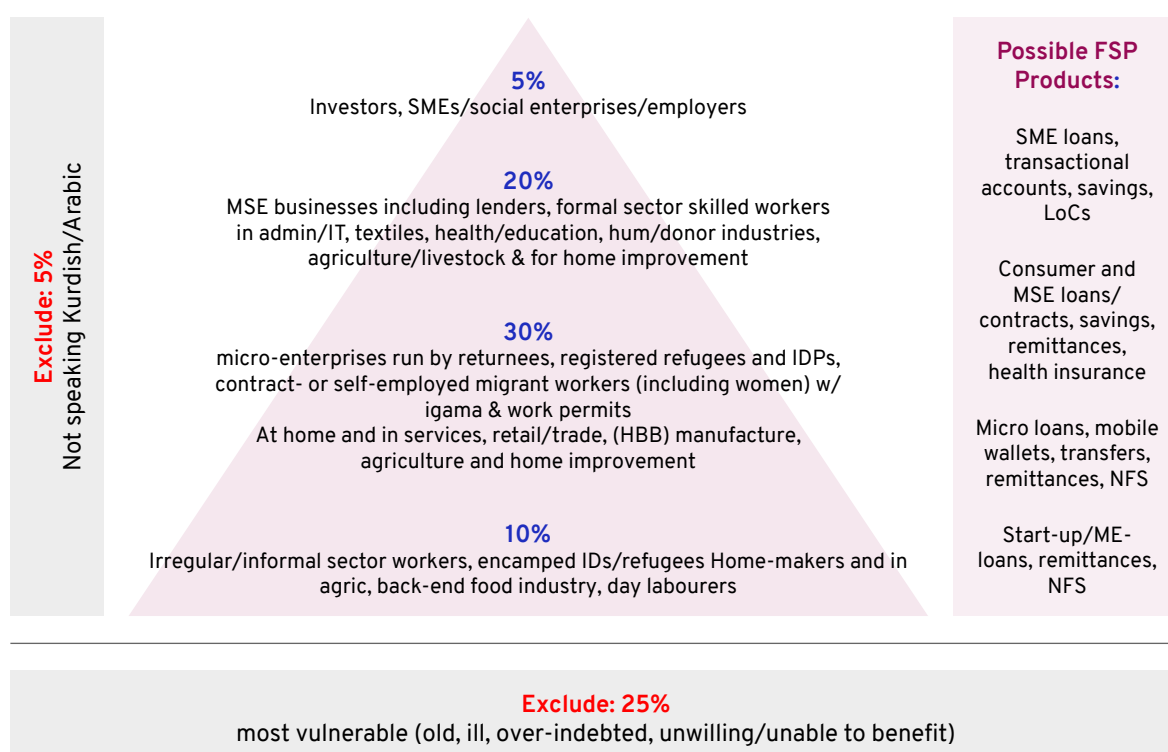
The tentative size of the client segment relevant for FSPs in Dohuk and Nineveh Governorates is presented in **Table 16**. With an **estimated total market of 207,455 households** across all sub-segments in Dohuk and Nineveh who might demand and benefit from access to formal finance, there appears to be sufficient market scope to warrant the effort of additional, local market research and adjustments to the operational parameters necessary to enable formal FSPs to extend services to these new market segments.

Table 16: Tentative scope of demand for formal finance

	IDPs				Refugees/FBR	
	Hosts	Returnees	Self-settled	Encamped	Self-settled	Encamped
% of total HH population						
Dohuk (total 280k)	72%	0.05%	10%	9%	3%	6%
Nineveh (total 622k)	44%	47%	6%	3%	0.02%	0%
% HHs intending to stay	95%	90%	75%	95%	95%	95%
% HHs w/ legal ID/residency	94%	92%	92%	90%	85%	93%
% HHs economically active (male)	70%	89%	77%	53%	90%	73%
Dohuk				75%		
Nineveh				41%		
% HHs earning > IQD500k/m	64%	42%	35%	24%	60%	30%
Deduct for OID/no interest	30%	20%	20%	15%	30%	25%
Adjusted estimated demand %	34%	22%	15%	9%	30%	10%
Adjusted estimated demand, no. HHs	134,130	55,760	9,555	3,600	2,890	1,520
Dohuk	66,777	172	4,335	2,300		
Nineveh	67,355	55,588	5,220	1,300		

Across all sub-segments, the relatively small share of households currently owning businesses (including agricultural and agri-businesses) would be most likely to demand formal finance, and, overall, returnees, who need to restart livelihoods at home, demonstrate the highest level of demand for finance, followed by a segment of self-settled refugees, as illustrated in Figure 16.

Figure 16: Tentative market segmentation by demand for formal finance



5.2 Recommendations for the financial inclusion of FDPs and host communities in northern Iraq

The ILO PROSPECTS project collaborates with FSPs to increase access to formal finance for micro and small-scale enterprises owned by non-displaced Iraqis, returnees, internally displaced and foreign-born residents in Dohuk and Nineveh Governorates, by facilitating a credit guarantee covering defaults on loans provided with little or no collateral. The compilation of this report has resulted in the following set of recommendations regarding facilitating access to finance for forcibly displaced people and host communities in northern Iraq.

Recommendation 1:

Promote product innovation, communication and marketing by FSPs

Given their challenging history, private FSPs in the KRI and in Nineveh are slowly starting to engage actively in customer-facing promotion and marketing. This is because the hitherto low profile of the FSPs meant the target groups had limited awareness of FSPs' eligibility criteria, products and terms. As a result, their decision-making process has been largely based on their perceptions, strongly influenced by historic bank illiquidity, or lengthy and costly processes with excessive collateral requirements. [ILO PROSPECTS has started to engage with FSPs to help them re-build trust and present more customer-centric products and procedures to prospective customers](#), and, in that vein, it is recommended that the following are supported:

- In-house innovation efforts by FSPs to improve communication and the provision of information about products and services, procedures and terms. This may require technical assistance and/or partnerships with FinTech, I/NGOs or MFIs **to improve the agility of FSPs in meeting the demand as presented in this report and determining approaches to close the significant trust and familiarity gaps.**
- **Financial education for FSPs' prospective customers by FSP staff and other industry actors, which appears to be an excellent platform for mutual introductions, myth-busting and awareness-raising.** The training may also help FSPs segment the market to identify the customer sub-segments they can serve best.

Recommendation 2:

Conduct and publish a competitiveness study on available financial services in Iraq.

Formal FSPs face challenges in competing with informal credit providers offering low-value, interest- and collateral-free loans with relatively lax repayment criteria at all levels of the value chains. FSPs also face competitive pressures from semi-formal lenders, as well as from subsidized government loan schemes. The present lack of awareness, disclosure and general information in the market about the comparative advantages of existing FSPs do not allow customers to make informed decisions about their sources of borrowing and contribute to an opaque financial sector rumoured not to be able or willing to meet the demand.

- **In collaboration with the CBI, a competitiveness study on the main types of financial products, services and providers in Iraq should be commissioned and published.** This would provide more clarity on reach, product range, delivery mechanisms, eligibility criteria, and the terms and conditions on offer, to facilitate transparency and contribute to healthier competition.

Recommendation 3:

Engage in a dialogue with CBI on means to expand access to finance to a broader segment of the population that includes IDPs and refugees, while ensuring due diligence and risk-sharing

Private banks are reporting to the CBI difficulties in disbursing loans smaller than IQD50 million (US\$33,900), though most of the demand for finance among all targeted sub-segments is for smaller MSE loans. Such loans might be more efficiently offered by MFIs and banks with a customer-facing SME department. Therefore, coordination could be strengthened with the CBI's Financial Inclusion Committee, to further the formal financial inclusion of IDPs and refugees, including through:

- **Confirmation by the CBI of the accepted ID and other customer due diligence (CDD) documents required for all population segments in federal Iraq and the KRI to access financial products and services.** In addition to the temporary e-wallet issued to refugees to enable them to receive cash assistance, it is recommended that the CBI guide FSPs on how the simplified CDD procedure already in place for low-risk FSP transactions applies to refugees. This guidance should specify that just one of the several official ID documents in use in Iraq, including the UNHCR/PCMoI card issued to refugees and asylum-seekers, will suffice as proof of identity. In addition, the guidance should clarify that a Housing Endorsement (Residence Confirmation Letter) authorized by local authorities is acceptable as an alternative “proof of address” for CDD purposes; all these procedures should enable the refugees to access credit through the One Trillion Dinar Initiative by the CBI;
- **Simplification of the identity verification process by FSPs** – for example, through secure access to the databases of MoMD, or through the development of a central, digital know-your-customer data utility, which FSPs can use to register new customers and verify their identity, in line with Financial Action Task Force guidance,³⁹³
- **Advocacy for more sustainable risk-sharing mechanisms** by the Iraqi Company for Bank Guarantees (ICBG) as co-guarantor of smaller loans issued to IDPs and hosts through banks (and MFIs); strengthening ICBG capacity to expand its guarantee portfolio and expertise is critical to help scale up SME lending.

Recommendation 4:

Advocate for greater financial-sector coordination and integration

- **Advocate for the development of a simple mechanism for credit reference services (CRS) to support banks and MFIs serving low-value customers.** This could be done either by enabling MFIs to access and report to the existing Credit Registry managed by the CBI for private banks, or by establishing an adapted closed-circuit CRS specifically for MSE credit.
- **Support efforts to facilitate improved microfinance industry supervision by the CBI and the update of the 2010 SME Finance Company Ordinance in line with CBI efforts to develop a National Financial Inclusion Strategy.** More specifically, capital requirements, non-prudential regulations of SME finance companies and limitations on lending to Iraqi citizens, in Iraqi currency, and to certain sectors only, should be reviewed. Support the facilitation of dialogue between the CBI, the Prime Minister's Office and the NGO Directorate currently governing MFIs in federal Iraq and the KRI, respectively, to develop practical, appropriate and politically agreed guidelines on the conversion of MFIs into commercial non-banking financial institutions, supervised by the CBI.

Recommendation 5: Seek policy clarity and disseminate information on access to private entrepreneurship

The formal legislative frameworks for entrepreneurship can be enablers of private investment and entrepreneurship, especially in the KRI. Nonetheless, limited awareness and implementation capacity, as well as uneven enforcement of the regulations, present significant administrative barriers for FDPs. For instance, the second amendment to the Investment Law stipulates that foreigners can own no more than 49% of a formal Iraqi company, which adversely affects refugee-owned MSMEs in federal Iraq.³⁹⁴ Nevertheless, this amendment does not clarify the provisions for residents who are foreigners to access government lines of credit and guarantees underwritten by the Government.

- **Iraqi authorities are recommended to provide clearer guidelines on the regulations enabling FBRs to engage in entrepreneurship and private sector development**, including the right for FBRs to open a bank account, own and lease a property, start a business outside of camps³⁹⁵ and register such a business.
- To promote the formalization of MSMEs in Iraq, discussions and advocacy efforts could promote the development by the Ministry of Trade and Industry of a specific **'MSME investment licence'** with lower requirements for capital, documentation and reporting, as happened in Egypt in 2018, with the introduction of the "One-Person Company".³⁹⁶

Recommendation 6: Support the improvement of the business development services ecosystem in the target areas

In the markets of Dohuk and Nineveh, facilitating improved livelihoods through MSME credit will require providing additional non-financial services to new prospective customers and partner FSPs alike. Product development and innovation, as well as customer-centric information and marketing, will be required from FSPs, while some MSMEs will likely need support in the form of business incubation or acceleration hubs, in addition to financial education/literacy.

- **A nurturing business development services ecosystem for prospective MSME owners and their FSPs should be promoted**, through better connections, information-sharing and collaboration across the humanitarian development nexus. Care should be taken to include *Slfa* and *Gamiy'at*, *hawaladar* and existing businesses providing credit in the local communities and business associations.
- **In addition to the financial education and entrepreneurship training efforts, there will likely be a demand for tailored mentoring and coaching services to help business owners and their FSPs succeed.** This is because recently arrived IDPs and refugees may be unfamiliar with both formal finance and local business requirements, norms and networks. Therefore, partnerships should be developed with specialized, community-based NFS providers with an in-depth understanding of local business processes and procedures, including the informal mutual assistance and financing systems in place.



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- 2 <https://www.aljazeera.com/news/2022/7/28/iraq-political-chaos-why-did-protesters-storm-parliament-explainer>
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