



**IRAQ TRUST FUND
ANNUAL PROGRAMME¹ NARRATIVE PROGRESS REPORT**

REPORTING PERIOD: 1 JANUARY – 31 DECEMBER 2009

Submitted by:

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Country and Thematic Area²

Programme No: C10-07

MDTF Office Atlas No: 66991

Programme Title: Enterprise Development
and Investment Promotion in the SME sector
in Iraq

Participating Organization(s):

United Nations Industrial Development
Organization (UNIDO) - Iraq

¹ The term “programme” is used for programmes, joint programmes and projects.

² E.g. Priority Area for the Peacebuilding Fund; Thematic Window for the Millennium Development Goals Fund (MDG-F); etc.

Implementing Partners:

- Ministry of Industry (line ministry), KRG Board of Investors, Erbil Chamber of Commerce, Thiqr Provincial Council, Thiqr Chamber of Commerce
- AMALKOM

Programme Budget (from the Fund):

US\$ 3,057,537

Programme Duration (in months):

- Start date³: 28 June 2007
- End date: *Original end date*: 28 December 2008
- Revised end date: 30 June 2010
- Operational Closure Date: 30 June 2010

Budget Revisions/Extensions:

- First Extension: 31 August 2009
- Second Extension: 31 December 2009

I. Purpose

The UNIDO project “**Enterprise Development and Investment Promotion for the SME Sector in Iraq**” was conceived and designed to revitalize the existing private sector and create job opportunities through enterprise up-grading and new enterprise creation. A crucial component of the project is to facilitate institutional development and capacity building for governmental counterparts in Iraq in order to ensure sustainable development and continuous support provided to new and existing enterprises. The functional activities of the project started in February 2008, in the three selected governorates: Baghdad, Erbil, and Thiqr.

The outcome of the project is based on the Government of Iraq’s priorities as indicated in the National Development Strategy (NDS); International Compact with Iraq (ICI) and reflected in the matrix of the UNCT’s Economic Reform and Development Outcome Team (ERDSOT); namely to encourage the development of SMEs in Iraq and the creation of employment opportunities for Iraqi people.

³ The start date is the date of the first transfer of funds from the MDTF Office as Administrative Agent.

Main Outputs:

- (1) To provide immediate technical support to ailing enterprises (in the designated Governorates) in order to restore their operations (*During the kick-off meeting in Bahrain, taking into consideration that the project was conceived in 2004, it was requested that UNIDO focus on the upgrading/growth component instead of ailing enterprises*) and to upgrade their competitiveness by promoting international partnerships in terms of technology, market access, finance, etc.
- (2) To facilitate the creation of new enterprises (in the designated Governorates) in order to provide employment and income generating opportunities for the people and to reduce poverty.
- (3) To develop/strengthen institutional capabilities in the areas of Enterprise Development (in the designated Governorates) and in FDI promotion in order to ensure sustained economic growth and global integration.

Main Targets and Indicators:

- (1) At least 10 enterprises assisted in re-starting their operations; at least 25 existing enterprises upgraded in specific functional areas (marketing, production, quality management, etc.); at least 20 enterprises upgraded through the promotion of international partnerships (market access, technology, management know-how, etc.) in each designated Governorate.
- (2) At least 100 potential entrepreneurs trained in Enterprise Creation; at least 60 new businesses (micro-small) established and around 200 job opportunities created in each designated Governorate.
- (3) A Revolving Fund mechanism developed to facilitate the attainment of outputs (1) and (2) above.
- (4) Enterprise Development Unit established and functional in each designated Governorate.

II. Resources***Financial Resources:***

The project is funded by the Italian Cooperation for Development through UNDG Iraq Trust Fund for an amount of 3,057,000 USD (including UNIDO support costs). The project management submitted a formal request to UNDG ITF for a movement of funds between project budget lines in the process of requesting the second extension. The request was approved by the Chairman of UNDG ITF Steering Committee. All the activities carried out by the project followed financial practices in line with UNIDO administrative rules and regulations.

Human Resources:

- National Staff: The project has recruited one driver and one programme assistant based in Jordan. In Iraq, the project has recruited two local coordinators and three secretarial

assistants. Additionally the Ministry of Industry & Minerals (MIM) has nominated three personnel from the Ministry to oversee and support the project activities in the governorate of Baghdad. (Counselors and trainers of the project are recruited based on a cost sharing approach with the counterparts).

- International Staff: The project has recruited one full time project coordinator and one part-time enterprise development specialist. In addition, during the reporting period, the project has recruited one international short-term advisor to support the development of the embedded EDIP credit facility and one short term international expert to review and guide the work of local consultant for the enterprise upgrading component.

III. Implementation and Monitoring Arrangements

a) Project implementation

The project implementation and supervision responsibility is with the Investment and Technology Promotion Branch at UNIDO headquarters, where a Project Manager has been assigned to coordinate the overall planning and implementation of the project. The project is being implemented in the field through a Project Management Unit in Amman, where an International Project Coordinator is placed. He is responsible for the monitoring of the project's activities in the three governorates and has undertaken several missions to the project sites in Iraq (Erbil and Baghdad). Due to the security situation in the country, the project is monitored from Amman through regular tele-conferencing and reporting.

The project's two main components: Enterprise Creation and Enterprise Upgrading follow different implementation mechanisms.

i) Implementation of Enterprise Creation Component

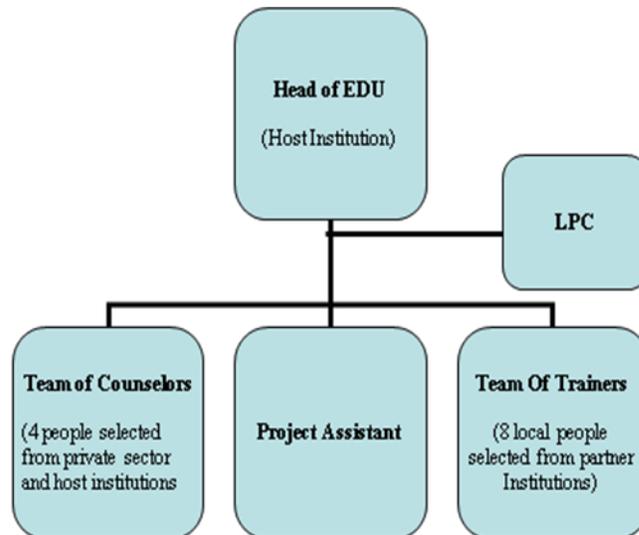
In order to ensure effective implementation and institutionalization of the project in each of the governorates, an Enterprise Development Unit (EDU) has been established in one of the partner institutions in each governorate to provide training and counseling services to the Iraqi entrepreneurs.

The day-to-day project activities in the governorates and in the EDUs are implemented through two local consultants, which act as Local Project Coordinators (LPC) in Erbil and Thi Qar, and three administrative support staff (one for each of the targeted governorates). The Ministry of Industry & Minerals (MIM) has nominated three personnel from the Ministry to oversee and support the project activities in the Governorate of Baghdad.

The Local Project Coordinator works together with the Project Assistant in the EDU to organize and report training and counseling activities. The Head of the EDU nominated by the host institution is responsible for the activities of the EDU. In the case of Baghdad, the role played by the Local Coordinator and the Head of EDU is being performed by three MIM officials nominated.

The team of trainers for enterprise creation, representing various stake-holders who were previously trained, forms an integral part of EDU staff.

Structure of the EDU



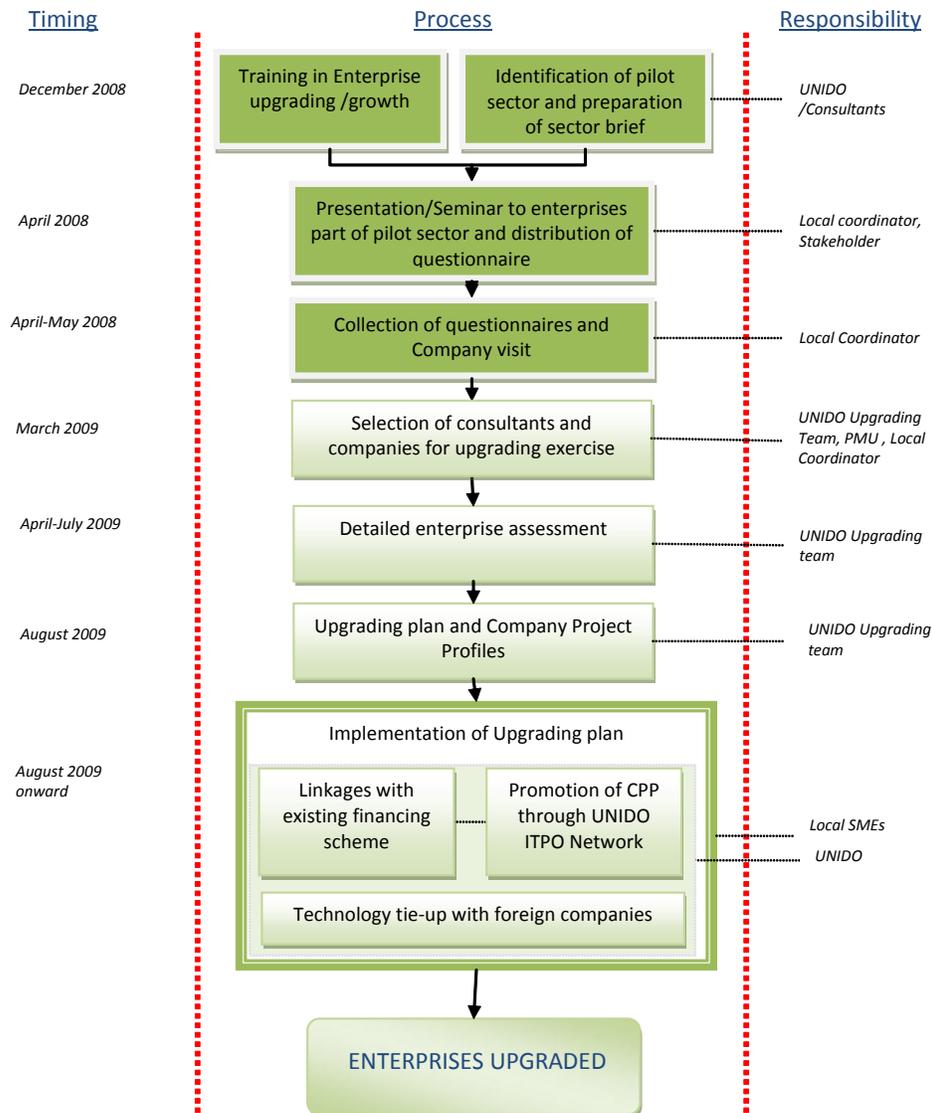
Role of the EDUs in the project implementation:

- **Training of entrepreneurs (ToE):** The team of trainers (ToT) who were previously trained in the Training of Trainers for enterprise creation are responsible for the trainings. The infrastructure of the EDU is being utilized to promote the ToE, select entrepreneurs for training, and organize the training. *Please refer to [Annex 1](#) for the organization and monitoring mechanism of the ToEs.*
- **Business advisory/counselling services:** The trained entrepreneurs graduating from the ToEs are provided with business advisory services by the EDU. The team of business counsellors, who were previously trained through the project, provides this service to the EDU and graduate entrepreneurs. *Please refer to [Annex 2](#) for the organization and monitoring mechanism of the business advisory services.*
- **Assistance to the counselled entrepreneurs:** In particular, EDU advise in the areas of technology development, equipment, financial linkage, market access, and legal/administrative procedures.
- **Liaising** with various governmental/ international / civil society institutions to build synergies for the project activities.
- **Promoting the project in the governorates.**

ii) **Implementation of the Enterprise Upgrading Component**

The component is implemented by UNIDO Trade and Capacity Building branch of UNIDO HQ, where a professional staff has been assigned to manage the activities related to this component. The enterprise upgrading component aims at providing technical support to existing SMEs in the

three governorates in order to upgrade their competitiveness by providing direct technical assistance in terms of technology sourcing, market access, and finance. The component has been following the process outlined below.



b) Monitoring Arrangements

The project monitoring is administered through the Project Management Unit (PMU) in Amman, which follows a remote monitoring approach due to security situation in Iraq. Regardless of the challenges caused by the remote functioning, regular monitoring and advice are provided through electronic mail, regular telephonic conversations, and missions of the international project coordinator and consultants to Iraq.

In addition to the work plan the LPC is also in charge of preparing the training and counselling reports which is later reviewed by the PMU. The PMU maintains the quality and effectiveness of these services delivered by the trainers and counsellors with the thoroughly designed organization and monitoring mechanism. Please see [Annex 1](#) for the organization and monitoring of the training of entrepreneurs.

The prior experience of UNIDO in many developing countries, and especially in the region, shows that entrepreneurs abandon their responsibilities if they are left alone after the trainings. The project as part of UNIDO's EDIP model designed the provision of business counselling support to the trained entrepreneurs to address challenges in implementing their business ideas. Team of counsellors have been trained as part of the project and placed in the EDUs.

The business counselling/advisory services play a crucial role in achieving the targets of the project and thus PMU provides special supervision and support to the counsellors and the LPC. The counsellors are provided with regular mentoring on the development and status of the projects through an international consultant, who regularly reviews the counselling reports. The counsellors submit monthly report of the counselling support provided, which effectively documents the services/advice offered by the counsellors to the entrepreneurs and the status of their projects. In order to record the time provided by the counsellors, a log book is maintained in the EDU under the supervision of the Head of EDU. Please see [Annex 2](#) for the organization and monitoring of the counselling services.

Every week the Project Coordinator and LPC discuss the bottlenecks in project operations (e.g. money transfers, logistics, technical advice) and together define the most appropriate way to proceed. The LPC is also responsible for liaising with counterpart institutions in the selected Governorates to monitor and evaluate the activities of the EDU. For instance, in Thi qar representatives from the Provincial Council of Thi Qar, the Governorate of Thi Qar and the Chamber of Commerce has formed a Managerial Committee to manage and monitor all the activities of the project in the Governorate.

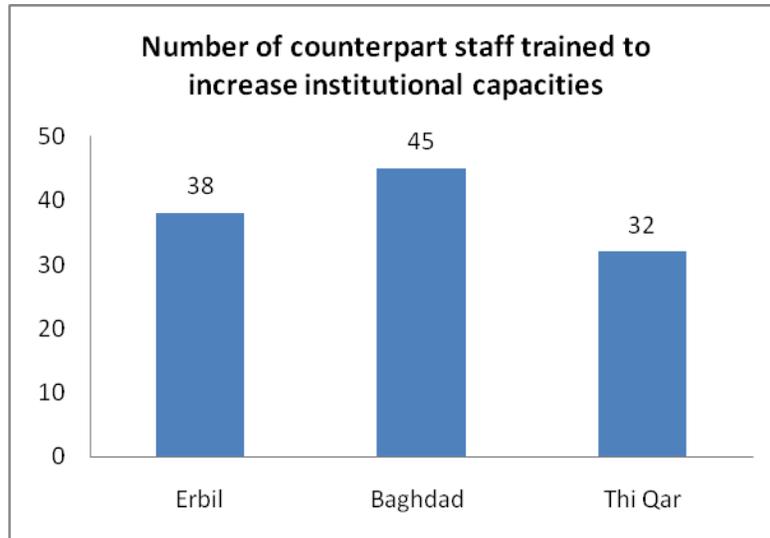
IV. Results

The following is an assessment of all the outputs proposed in the project document:

- 1) To develop/strengthen institutional capabilities in the areas of Enterprise Development (in the designated governorates) to promote domestic investments.

EDUs have been established and are operational in three governorates. They are designed to facilitate the creation of new enterprises and support existing companies in expanding their business. The team of trainers and counsellors have been trained and are placed in KRG, Baghdad and Thi Qar. Eight training programs for institutional capacity building have been conducted, with nominees from the various partner institutions. These trainings are: Training of Trainers (ToT) for Enterprise Creation, Training of Business Counsellors, Training of Consultants for Enterprise Up-grading, Training on Investment Project Preparation & Appraisal,

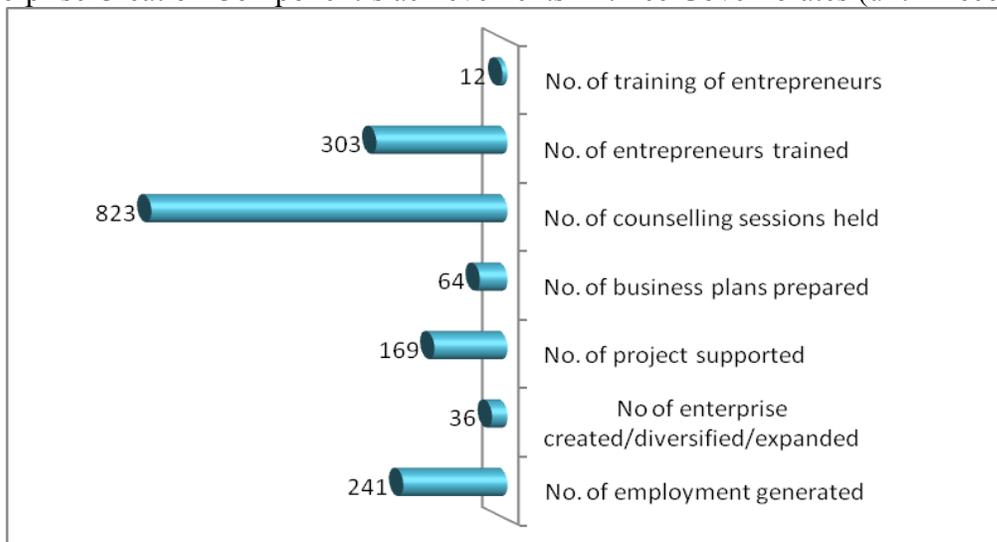
Training on COMFAR (Computer Model for Feasibility Analysis, and Training on Financial Counselling and Ad-hoc Training on Business Counselling.



- 2) To facilitate the creation of new enterprises (in the designated Governorates) in order to provide employment and income generating opportunities, and to reduce poverty.

The teams of trainers and counsellors for enterprise creation component have been trained and are placed in the EDUs. The program is proceeding as per approved Steering Committee work plan in KRG, Thi Qar and Baghdad. The Detailed achievement status of the component can be found in [Annex 3](#).

Enterprise Creation Component’s achievements in three Governorates (until December 2009)



- 3) Develop a Revolving Fund scheme to be administered by local and/or international financial intermediary and strengthen its capabilities for efficient and transparent administration of the fund.

Project activities related to the establishment of EDIP Credit Facility have not proceeded according to the agreed work plan. Preparatory activities, including preparation of credit facility strategy and identification of potential bidders in Iraq, were completed by June 2008. The first bidding process was launched by UNIDO HQ in August 2008. Despite completion of technical and commercial evaluation of the submitted proposal, the process was cancelled due to non-clarity in the project document on the following issues:

- Mode of disbursement (grant/loan) that UNIDO can follow with the selected financial institution;
- Financial management of the fund after the completion of the project;
- UNIDO liability vis-à-vis the donor in case of default by loanees.

These issues were discussed during the Steering Committee meeting which was held in Rome in April 2009. As per the Steering Committee recommendation, the above issues were clarified and next steps were identified accordingly to incorporate the clarifications sought.

In May 2009, a new bidding process was launched in line with the new recommendations and the contract was successfully awarded in December 2009.

- 4) To provide immediate technical support to ailing enterprises (in the designated Governorates) in order to restore their operations and to upgrade their competitiveness by promoting international partnerships in terms of technology, market access, finance, etc)

The enterprise upgrading component has started in KRG and Thi-Qar with an initial assessment of local private companies. Awareness seminars in all the governorates have been completed. 40 companies in KRG, 37 companies in Thi-Qar and 41 companies in Baghdad have compiled the questionnaires; and their requirements have been mapped defining the upgrading needs. A specific mission was undertaken in Erbil by the Project Coordinator to agree with partner institutions on the work plan and on specific activities required in the governorates. In December, 2008, the “Training of Consultants” in enterprise up-grading component was conducted in Amman, where nominees from local counterpart institutions were trained to apply the UNIDO Methodology of Enterprise Upgrading.

The team of consultants in the Governorates of Erbil and Thi-qar, under the supervision of UNIDO International Consultant, has been able to complete 23 enterprise assessments and upgrading plans. The diagnostic work has started in Baghdad in December 2009.

- 5) To develop institutional capabilities in FDI promotion to ensure sustained economic growth and global integration.

During the Steering Committee meeting in April 2009 at the presence of Donor, GoI and UNIDO decided to concentrate the efforts on the enterprise creation and upgrading components. Though

no activities were targeted towards institutionalisation of the investment promotion agency, some capacity building activities were undertaken. A training course on Investment Project Preparation and Appraisal techniques was conducted in Amman on November 2008 for officials nominated by the project stake-holders. In addition to representatives from KRG & ThiQar, 10 officials from the Ministry of Industry & Minerals- Baghdad participated. The purpose of this training was to build the capacity of the officials in preparing investment project reports and appraising an investment proposal. In addition, UNIDO has supported the KRG Prime Ministry's Office in organising a study tour in Egypt and Jordan aimed at analysing the legal and institutional set up of industrial zones.

Cooperation achieved:

The project has continued its close cooperation with the Provincial Reconstruction team (PRT) in Nassirya and the Italian Trade commission. During 2009, there was a scope of providing loans to the enterprises supported through the program from the PRT. The Italian Trade Commission has also facilitated the contact between Italian and Iraqi private sector and supported entrepreneurs to identify suitable Italian machinery supplier to upgrade and enhance their production capacities.

V. Future Work Plan

The enterprise creation and enterprise upgrading components of the project has been proceeding according to the work plan agreed during the April 2009 Steering Committee. Most of the technical activities for these two components have been completed in December 2009.

The last six months of project activities will focus on:

- 1) Supporting the beneficiaries in applying their upgrading plans through promotion of international partnership. As part of the support provided to the private sector, the project will support a study tour to promote foreign partnership, technology transfer and quality equipment purchase. The study tour is planned for February 2009.
- 2) Monitoring the impact on the disbursement of loans by the selected financial institutions to the beneficiaries of the project. The project has already created a pool of potential projects which are ready to be established/expanded/diversified if the funds are made available to the entrepreneurs. These entrepreneurs are not being able to access conventional commercial loans due to lack of adequate collaterals as security. Extending the project will enable the entrepreneurs to establish or expand their business through the EDIP credit facility. The project since now has been operating without the credit facility on board and has delivered the present results.



PROJECT IMPLEMENTATION WORKPLAN

ENTERPRISE UPGRADING		2010					
Output/Activity		1	2	3	4	5	6
Erbil /Thi Qar							
Support in the implementation of upgrading plans							
Preparation and promotion of Company Project Profile (CPP)							
Selection of 7 enterprises for foreign partnerships							
Study tours to promote foreign partnerships.							
Support in accessing EDIP SME credit facility							
Baghdad							
Support in the implementation of upgrading plans							
Preparation and promotion of Company Project Profile (CPP)							
Selection of 6 enterprises for foreign partnerships							
Study tours to promote foreign partnerships.							
Support in accessing EDIP SME credit facility							
EDIP CREDIT FACILITY		2010					
Output/Activity		1	2	3	4	5	6
Transfer initial portion of the Credit facility to financial intermediary							
Fund disbursement to EDIP enterprises/entrepreneurs							

VII. Abbreviations and Acronyms

EDU: Enterprise Development Unit

GoI: Government of Iraq

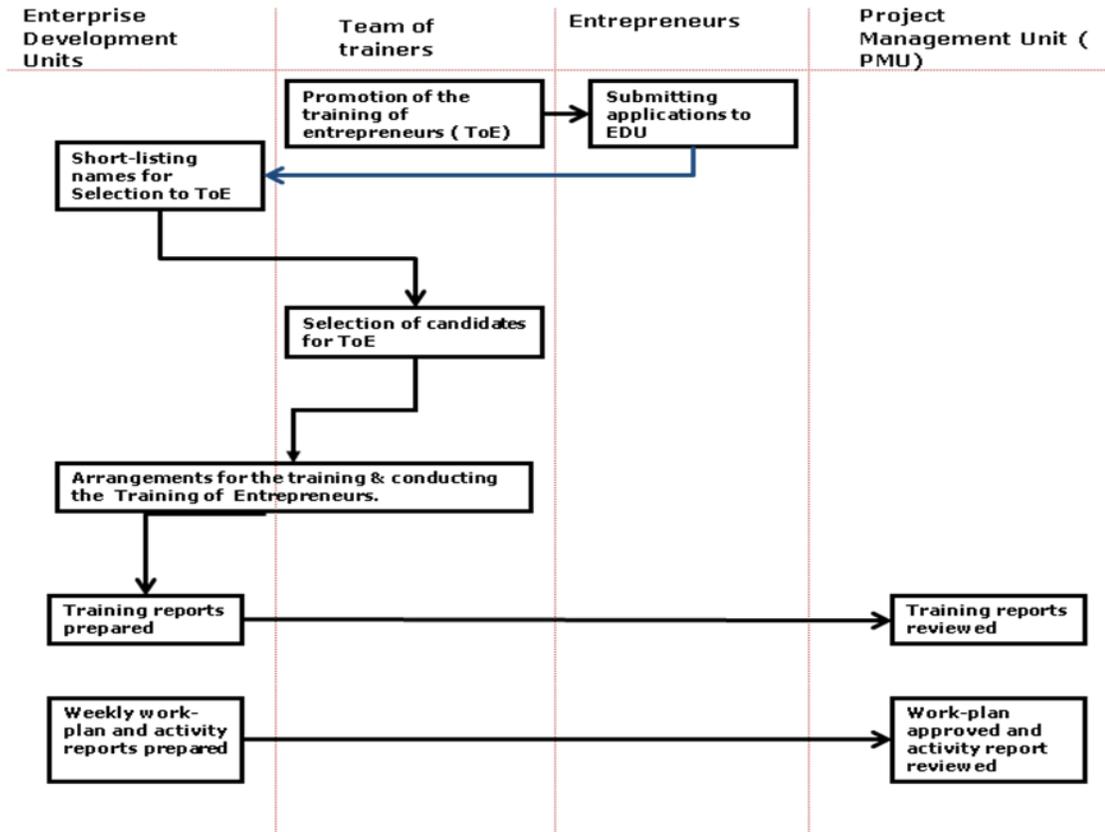
PSC: Project Steering Committee

PMU: Project Management Unit

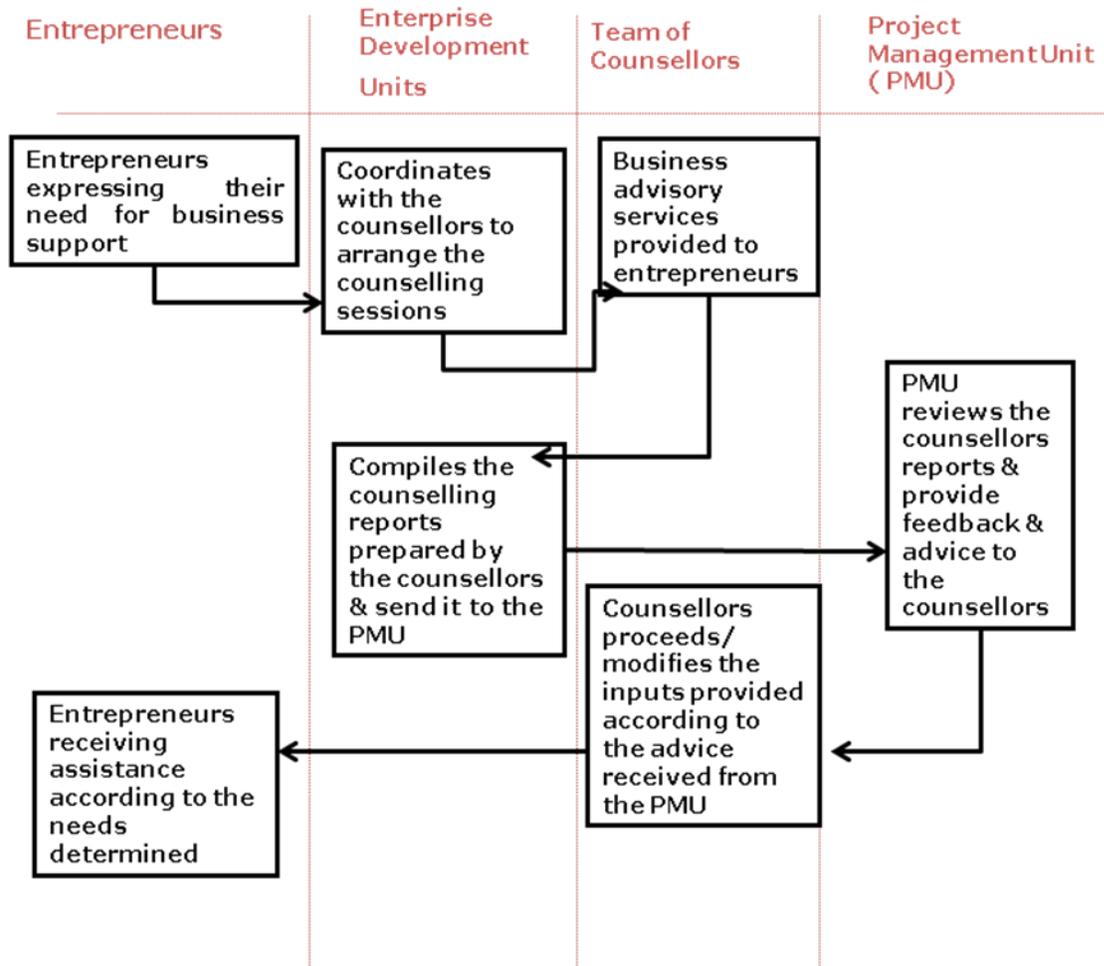
SME: Small and Medium size Enterprises

SPX: Subcontracting and Partnership Exchange

Annex 1: Organization and Monitoring of the Training of Entrepreneurs



Annex 2: Organization and Monitoring of the Counselling Services



Annex 3: Achievement Status of the Enterprise Creation Component

Achievement Status Report
Enterprise Creation Activity in IRAQ
(as of November 2009)

Number of Institutional Set up Created and operational- Enterprise Development Units	3
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Institutional Capacity Development Indicators	#
Number of counterpart staff trained	115
Number of training/workshop conducted inside Iraq	12
Number of training/workshop conducted outside Iraq	15
Number of staff trained which are providing Trainings	23
Number of staff trained which are providing Counseling	18
Number of staff mentored on constant basis	17
Number of counseling reports reviewed and approved	172

Number of Entrepreneurs/companies applying to ToEs	451
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Number of Entrepreneurs/companies attending training course in EDU	303
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Number of Entrepreneurs/SMEs counseled	192
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Total number of counseling sessions held	823
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Total number of business plans prepared	64
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Total number of project supported	169
Start up	105
Expansion/diversification	64
Concluded	36
On-going	123
Pending	8
Cancelled	2

Total number of project concluded	36
<i>Expanded</i>	26
<i>Diversified</i>	2
<i>Established</i>	8

Total Employment generated	241
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Total Investment Generated (USD)	1,902,500
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Annex 4: List of major activities in 2009 with pictures

Training of Entrepreneurs in Thiqar, Erbil and Baghdad



Enterprise Upgrading Closing Dinner (Amman, 17 December, 2009)



Computer Model for Feasibility Analysis and Reporting (COMFAR) Training, and Training of Financial Counsellors (Amman, 6-13 December, 2009)

