



**FINAL NARRATIVE REPORT  
IRFFI/UNDG IRAQ TRUST FUND (UNDG ITF)**

<p><b>Participating UN Organization(s)</b></p> <p><i>UN Industrial Development Organization (UNIDO)</i></p>	<p><b>Sector(s)/Area(s)/Theme(s)</b></p>										
<p><b>Programme/Project Title</b></p> <p>Enterprise Development and Investment Promotion in the SME sector in Iraq (EDIP)</p>	<p><b>Programme/Project Number</b></p> <p>C10-07</p>										
<p><b>Programme/Project Budget</b></p> <table border="0"> <tr> <td><b>UNDG ITF:</b></td> <td>3,057,537 USD</td> </tr> <tr> <td><b>Govt. Contribution:</b></td> <td></td> </tr> <tr> <td><b>Agency Core:</b></td> <td></td> </tr> <tr> <td><b>Other:</b></td> <td></td> </tr> <tr> <td><b>TOTAL:</b></td> <td>3,057,537 USD</td> </tr> </table>	<b>UNDG ITF:</b>	3,057,537 USD	<b>Govt. Contribution:</b>		<b>Agency Core:</b>		<b>Other:</b>		<b>TOTAL:</b>	3,057,537 USD	<p><b>Programme/Project Location</b></p> <p><b>Region (s):</b> Centre, south and north</p> <p><b>Governorate(s):</b> Baghdad, Thi Qar and Erbil</p> <p><b>District(s):</b> All districts of aforementioned governorates.</p>
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<b>Other:</b>											
<b>TOTAL:</b>	3,057,537 USD										
<p><b>Final Programme/ Project Evaluation</b></p> <p><b>Evaluation Done</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>Evaluation Report Attached</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>	<p><b>Programme/Project Timeline/Duration</b></p> <p><b>Overall Duration</b> <i>June 2007 – December 2010</i></p> <p><b>Original Duration</b> <i>April 2007 – December 2008</i></p> <p><b>Programme/ Project Extensions</b> <i>First Extension: August 31, 2009</i> <i>Second Extension: December 31, 2009</i></p>										

# **FINAL NARRATIVE REPORT**

## **I. PURPOSE**

### **a. Introduction**

The UNIDO project titled “Enterprise Development and Investment Promotion for the SME Sector in Iraq” was launched in 2007 in the governorates of Baghdad, Thi Qar and Erbil with the aim of reducing poverty through the creation of employment and income generation opportunities for Iraqi people. To achieve these ends, the project focused on the small- and medium-sized enterprises (SMEs) in Iraq and strived to create new enterprises and upgrade existing ones through technical assistance activities including trainings, business counseling services, and matchmaking activities such as study tours to international fairs and meetings. The project paid special emphasis to building the capacity of the national as well as local institutions through the establishment of offices named “Enterprise Development Units” (EDUs) within these institutions to ensure sustainability and facilitate the delivery of aforementioned services to Iraqi entrepreneurs.

### **b. Project outcomes and outputs**

#### **Outcomes:**

1. 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 and finance.
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.

#### **Outputs:**

1. At least 10 enterprises assisted in re-starting their operations; at least 25 existing enterprises upgraded in specific functional areas (marketing, production and quality management); at least 20 enterprises upgraded through the promotion of international partnerships (market access, technology and management know-how) 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.

### **c. Relevance**

#### Millennium Development Goals:

Goal 1: Eradicate extreme poverty and hunger.

Goal 8: Develop a global partnership for development. Particularly, Target 8F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications).

## National Development Strategy 2007-10:

Section 5: Revitalize the private sector particularly through the creation of an enabling environment. Particularly, Target 5.4F: Encouraging the establishment of small and medium scale enterprise projects, and developing appropriate financing mechanism for such projects.

## International Compact with Iraq:

Goal 4.3.2: Create an enabling environment for private investment and job creation.

## ERDSOT Outcome Team Outcomes:

1. Improved policies, strategies and related institutional developments, which are sensitive to MDGs, social inclusiveness, gender equality and inclusive of those in poverty, all in terms of positive economic growth.
2. Enhance the key-sectors of local economies in the most-deprived areas.

### **d. Partners**

To ensure sustainability, it was deemed crucial for the success of the project to secure the participation of national as well as local private and public sector institutions working with the private sector from design phase onwards. Institutions such as chambers of commerce, ministries, associations, civil society and universities were engaged throughout the project to maximize the development impact of project activities.

Ministry of Industry and Minerals in Baghdad served as the line ministry for this project. Moreover, KRG Ministry of Industry as well as Chamber of Commerce in Erbil and Provincial Council as well as Chamber of Commerce in Thi Qar were chosen as primary counterparts. These institutions accepted to host the UNIDO-supported Enterprise Development Units (EDUs) in their governorates. UNIDO provided capacity-building services to staff of EDUs, all of whom were nominated by UNIDO.

All counterparts were involved in the monitoring of the project through local steering committee meetings. Additionally, specific roles assumed by counterparts are as follows.

### Baghdad

1. Ministry of Industry and Minerals is the line ministry for project activities. The Ministry also hosts the EDU in its premises. While three ministry employees were appointed to run the EDU, a number of ministry staff members were nominated to provide training and business counseling services within the EDU.
2. Ministry of Planning and Development Cooperation participated in the project kick-off and endorsed the work-plan for project activities.
3. Federations of Iraqi Industries as well as Industrial Bank have contributed to project activities by nominating their staff members to serve within EDU as trainers and counselors.

### Thi Qar

1. Thi Qar Provincial Council is the focal point for the project in the region and provided local institutional support to facilitate project implementation. It has played a pivotal role in identifying suitable candidates for the capacity-building exercises of the project. Members nominated by the council served as trainers and counselors within the EDU.
2. Thi Qar Chamber of Commerce hosts the EDU in Thi Qar. To ensure project implementation, they also appointed the Head of EDU.
3. Thi Qar Vocational Training Centre hosted the training courses for entrepreneurs and has been providing services for the implementation of the enterprise creation component in the governorate.

4. Thi Qar Engineering Union nominated staff members who have been trained through the training of trainers to provide trainings to entrepreneurs. The Engineering Union members have been trained as business counselors and are providing business advisory services to graduate entrepreneurs from the training of entrepreneurs.
5. Thi Qar University nominated staff who have been trained through capacity-building activities and served as a part of the Team of Trainers conducting the training for entrepreneurs.
6. Provincial Reconstruction team (PRT) in Nassiriya: The PRT has supported implementation of the project in Thi Qar and, in particular, identified candidates to serve as local consultants as well as counselors.
7. Agro-industry Union: The project team in Thi Qar has coordinated with the union in organizing special entrepreneurship development programs for its members. In total, 21 agro-engineers participated in this training. The training is a result of the growing recognition of the EDU and the services it provides.
8. UNIDO RAPID Project: RAPID is another UNIDO Iraq project with the objective of increasing income-generating opportunities for the IDP community in the Thi Qar Governorate through enhancing technical skills and promoting the development of micro and small-scale agro-industrial, manufacturing and services enterprises. The beneficiaries of RAPID who are provided with technical skills and toolkits through RAPID have been supported by the EDUs to gain managerial skills and financial linkages to improve their services and generate more income.

#### Erbil

1. KRG Ministry of Trade and Industry is the focal point for Erbil and hosts the EDU in this governorate. They have contributed to the project by appointing one of their staff members to run the EDU and nominated several to conduct trainings and business counseling activities.
2. KRG Board of Investment is the technical reference point for the operational activities of the project and has nominated some of their personnel for capacity building exercises, including the Training of Trainers and Training of Counselors. Board of Investment personnel have also been trained in investment project preparation and appraisal techniques.
3. Erbil Chamber of Commerce and Industry hosted the EDU in Erbil prior to the Ministry of Trade and Industry and nominated staff to serve as trainers and counselors within the EDU. The Chamber of Commerce & Industry personnel have also been trained in investment project preparation and appraisal techniques for identifying relevant investment projects and appraising them.

#### Other institutions

1. Italian Trade Commission (ICE) partnered with UNIDO to facilitate networking activities in Iraq and matchmaking activities with Italian companies operating in relevant sectors. To this end, an awareness seminar was organized by ICE allowing an Italian delegation of private companies to participate and interact with the Iraqi enterprises promoted under the project.
2. Iraqi Company for Bank Guarantee (ICBG) participated in the EDIP kick-off meeting and its member banks have been involved in the financial consultations for handling the revolving fund. By the inclusion of ICBG inside the project framework, we aimed to ensure the provision of loan guarantees for enterprises supported through the program.

## II. ASSESSMENT OF PROGRAMME/ PROJECT RESULTS

### a. Results

During the project period, **115 Iraqi officials** have been trained by UNIDO and over 20 of these individuals currently provide local entrepreneurs with training and counseling services within the EDUs in the aforementioned governorates. This implementation methodology is adopted to ensure national ownership and is expected to assure the sustainability of the project after the project comes to a close.

The EDUs have thus far trained more than **354 entrepreneurs on enterprise development skills** in the governorates of Baghdad, Erbil and Thi Qar, supported **248 business projects** through more than 1,100 counseling sessions, and facilitated the **establishment/expansion/diversification of 100 enterprises** in Iraq (36 in pipeline as of December 2010, already processed in the credit facility). These activities led to a creation of over 500 jobs (estimated number), bringing in economic relief and improved socio-cultural status to these families, through economic value generation amounting to more than USD 5,000,000, improving their overall quality of life.

### b. Achievements

The following sub-section presents an assessment of all the outcomes against the targets stated in the project document.

***Outcome 1:** 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).*

EDIP has provided support to Iraqi entrepreneurs in the governorates of Baghdad, Erbil and Thi Qar through the Enterprise Development Units (EDUs) hosted within local institutions mandated with supporting the local private sector. This outcome was achieved through both enterprise creation and enterprise upgrading components of the project. As mentioned previously, these EDUs provided local entrepreneurs with trainings on business development focusing on issues such as general management, bookkeeping, marketing and production as well as entrepreneur-specific and one-to-one business counseling/advisory services. Entrepreneurs who completed trainings at the EDUs were invited to come back for these counseling sessions, held by UNIDO-trained counselors from Iraqi institutions at the EDUs, with the aim of allowing Iraqi entrepreneurs come up with plans to expand their existing SMEs. To date, with the support of UNIDO-assisted experts in the EDUs, a total of 46 enterprises were expanded through project activities. Overall figures regarding the activities pertaining to this output are provided below.

In addition to that a total of 102 business plan were prepared by the EDUs, which may translate in additional enterprise expanded in the year 2011.

In addition to that, during the second half of year 2010, the three EDUs in the governorate have provided partnership match-making services to foreign companies willing to enter the Iraqi market. These services include:

- Identifying equipment suppliers/technology sourcing from outside the country as per the needs expressed by the local enterprises.
- Organize study tours for the local enterprises to visit international fairs and exhibitions.
- Identifying suitable local projects that could match the interest of a international company for equity participation, technology supply, management expertise, machine supply etc.
- Identifying companies abroad interested to buy specific niche products from Iraq.

EDUs have facilitated the participation of Iraqi entrepreneurs to two fairs: the Levante Fair in

Bari, Italy and the FoodIST Fair in Istanbul, Turkey.

In collaboration with Italian Trade Commission and Fiera del Levante, the EDU facilitated the participation of 10 entrepreneurs from Iraq to EDIL LEVANTE Construction Fair 2010 in Bari, Italy. The Iraqi SMEs discussed international partnerships with foreign companies and gained more information about machinery, equipment and new technologies used in the construction field. Three Iraqi companies have purchased equipment and machinery from the fair. For the conclusion project between the Italian Alpina Industries Spa and the Iraqi Al Tall Co., UNIDO and EDUs staff has also been appointed to facilitate the negotiation between the two parties.

6 Iraqi entrepreneurs from the governorates of Baghdad, Thi Qar and Erbil have participated in a United Nations Industrial Development Organization (UNIDO) mission to the FoodIST Fair held in Istanbul from December 10-12, 2010. Over 20 bilateral meetings were held between 5 Iraqi participants and exhibitors during the Fair. UNIDO staff has provided technical assistance to facilitate these discussions and will keep assisting Iraqi entrepreneurs after the Fair in discussing partnership opportunities with companies they got in touch at the Fair.

In July 2010, UNIDO has received a request from the Italian Federation of Chamber of Industries to identify potential partners in Iraq for 9 Italian companies specialized in specific industrial sectors. These Italian companies are either looking for sales/appointing distributorship or joint venture and technology transfer in Iraq. In this regard 56 eligible and interested companies' details were collected by the EDUs from the governorates and shared with ASSAFRICA-MEDITERRANEO. UNIDO and ASSAFRICA-MEDITERRANEO through the EDUs facilitate and monitored the establishment of the contact between the Italian and Iraqi companies. This activity will be concluded within the framework of the Investment Promotion for Iraq (IPI) project. Additionally, negotiations were launched between companies from within the region after each study tour. Until the end of EDIP, 150 projects have been promoted, 5 of them have been concluded.

Last but not least, 15 project profiles have been prepared by EDU. These profiles are of Iraqi companies looking for partnership either in technology, equity or market access. These profiles have been circulated through the UNIDO-ITPO network. ITPO Rome has shortlisted few profiles for further promotion, while ITPO Tokyo in collaboration with Japan Cooperation for Middle East has displayed the profiles in its website.

***Outcome 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.*

The trainers and counselors nominated by the Iraqi institutions and placed within the EDUs have trained **354 entrepreneurs** in enterprise development. As noted previously, topics covered include general management, bookkeeping, marketing and production as well as entrepreneur-specific and one-to-one business counseling/advisory services. Entrepreneurs who completed trainings at the EDUs were invited to come back for these counseling sessions, held by UNIDO-trained counselors from Iraqi institutions at the EDUs, with the aim of allowing Iraqi entrepreneurs come up with plans to create new SMEs. The target of 100 per governorate projected by the project document has been exceeded.

Out of these entrepreneurs trained, **250** were also **counseled** at the EDUs. Among these, **119 were new entrepreneurs**, whereas 131 were existing entrepreneurs.

During the project implementation it was discovered that some Thi Qar entrepreneurs value the Training of Entrepreneurs merely for educational aspirations even though they do not want to or cannot afford to start-up their own businesses; they attend the course to gain entrepreneurship skills and the certificate to continue their business activities with the improved skills. The Local Coordinator in Thi Qar has also reported that the certificates actually help these participants in getting jobs as the employers are willing to employ them with the certificates that demonstrate high skills according to Thi Qar standards.

	<b>Baghdad</b>	<b>Thiqr</b>	<b>Erbil</b>
<b>Total number of projects supported</b>	39	68	100
<b>Total number of SMEs counseled</b>	39	70	100
<b>Established</b>	2	8	8
<b>Expanded/Diversified</b>	1	7	38
<b>Business plans prepared</b>	29	15	24
<b>Employment generated</b>	13	43	334

**Outcome 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.*

Since there were no private or non-profit SME lending facilitates in place in 2004 when EDIP was originally drafted, the project included a credit facility/revolving fund scheme component to ensure that an appropriate financing scheme is provided to the beneficiaries supported through the project activities.

The final product was a UNIDO-owned fund with a risk-free zero-interest loan spread over a period of twenty-four months, which would be lent to financial institutions operating in three project governorates through the process of international bidding. With regards to the exit strategy, it was mentioned that the fund should be returned to the UNIDO at the end of the contract period and will be used towards the execution of technical assistance projects, which will emerge in 2011-2012.

Amalkom, an Iraq-headquartered and -managed independent member of the CHF International family of microfinance institutions, was chosen to manage the loan on behalf of UNIDO. The contract with Amalkom came into effect on February 20, 2010 and covers a period of twenty four months.

Outreach activities began in June with Amalkom loan officers contacting EDIP clients to discuss financing opportunities. Following an indication of interest, they met with the individuals to share the application forms as well as to provide guidance on the potential loan products and the repayment burden.

The final agreed loan product adopted by Amalkom retains international microfinance best-practices while providing favorable terms to lower risk clients such as those from the EDIP program. The terms of the Amalkom-UNIDO product are listed below with the favorable elements explained in brackets:

*Start Up*

- 2 month fixed grace period (a fixed grace period is a favorable term for EDIP clients)
- Loan terms of up to 21 months to be negotiated between Amalkom and the client at the mutual agreement of both (the extended length from the standard 18 to 21 months is a favorable term for EDIP clients)
- Interest rates as per existing loan product of 12 percent interest plus 3 percent administration fee

*Existing business (in existence longer than six months)*

- 0-2 month grace period to be negotiated between Amalkom and client at the mutual agreement of both (a possible grace period for existing businesses is a favorable term for EDIP clients)

- Loan terms of up to 21 months to be negotiated between Amalkom and client at the mutual agreement of both (the extended length from the standard 18 to 21 months is a favorable term for EDIP clients)
- Interest rates as per existing loan product of 12 percent interest plus 3 percent administration fee

The rationale is that EDIP clients had undergone substantial business training and mentoring, developed detailed business plans, and received considerable professional support. Together, these elements should benefit both the lender and underwriter. For Amalkom, the business skills training reduce risk, making EDIP clients more attractive. For UNIDO, it highlights to borrowers the benefits of undertaking business planning and management training, contributing to the programme's aim of a sustained revitalization of enterprises.

<b>Status of EDIP Credit Facility as of end 2010</b>		
<b>Governorate</b>	<b>Status</b>	<b>#</b>
<b>Erbil</b>	Loan Disbursed	0
	In pipeline	1
<b>Baghdad</b>	Loan Disbursed	3
	In pipeline	24
<b>Nasiryah</b>	Loan Disbursed	10
	In pipeline	22
<b>Total</b>	Loan Disbursed	13
	In pipeline	47

**Outcome 4:** *Develop/strengthen institutional capabilities in the areas of Enterprise Development (in the designated governorates) to promote domestic investments.*

As noted previously, to ensure sustainability and ease the implementation of the project given the constraints imposed upon the international experts of UNIDO due to the security concerns in Iraq, Enterprise Development Units (EDUs) were established in the governorates of Baghdad, Erbil and Thi Qar. A sustainability plan is also being formed for their adaption by the host institutions to achieve sustainable institutional capacities built by the project.

The Team of Trainers and Counselors who were nominated among the officials of Iraqi institutions have been trained and are placed in Erbil, Baghdad and Thi Qar. To this end, training programs inside and outside Iraq have been conducted for institutional capacity building, with nominees coming from the various partner institutions. The trainings improved the institutions capacities in enterprise creation, upgrading, and project appraisal techniques and software. The training programs are namely: Training of Trainers (ToT) for Enterprise Creation, Training of Business Counselors, Training of Consultants for Enterprise Up-grading, Training on Investment Project Preparation & Appraisal, Training on COMFAR (Computer Model for Feasibility Analysis, and Reporting) and Training on Financial Counseling. Ad-hoc training courses for counselors and experts in Erbil and Baghdad to improve the capabilities in applying UNIDO methodology were undertaken by the project team in September 2008 and June 2009 respectively. These officials further improved the capacities of Iraqi institutions in supporting enterprise creation and growth through their activities in the EDUs.

The project's initial target was to train 5 officials per governorate to become trainers, and 5 officials per governorate to become counselors. This target was exceeded during the implementation of the project:

	<b>Total</b>
<b>Number of counterpart staff trained</b>	115



<b>Number of training/workshop conducted inside Iraq</b>	22
<b>Number of training/workshop conducted outside Iraq</b>	8
<b>Number of staff trained which are providing trainings</b>	21
<b>Number of staff trained which are providing counseling</b>	22

After the trainings only successful trainees were selected to undertake their roles as trainers, counselors, and consultants. This selection was deemed necessary in order to maintain the quality of services offered in EDUs. The officers who were not selected were still able to improve their skills, and increase the capacities at their institutions through the trainings.

The Team of Counselors trained through Training of Counselors (ToC) and IPPA have been provided with feedback, 19 of them are mentored on a constant basis by a Senior UNIDO Consultant. Strong mentoring mechanism of EDIP is ensuring 100 percent support to and commitment in building capacities in Iraq institutions.

The Team of Trainers was also constantly mentored by Local Coordinator and through the Project Coordinator and International Consultants' visit to the field throughout the project duration. For instance, during the February 2010 Erbil Mission of the Project Coordinator and Consultant a separate meeting was held with the trainers to improve training activities and tailor made the training programme according to the needs of each governorate.

***Outcome 5:** Develop institutional capabilities FDI promotion in order to ensure sustained economic growth and global integration.*

While this outcome was originally included in the project document, during the kick-off meeting, it was agreed that this outcome should be put on hold. Moreover, during the Steering Committee meeting in Rome in April 2009, it was decided that to concentrate the effort in the enterprise development component and the new work-plan was approved without further investment promotion activities.

Nonetheless, a training course on investment project preparation and appraisal techniques was conducted in Amman in the month of November 2008 for officials nominated by the project stake-holders. The purpose of this training was to build the capacities of Iraqi officials in preparing investment project reports and appraising an investment proposal. In addition, UNIDO has supported the KRG Prime Ministry's Office in organizing a study tour in Egypt and Jordan aimed at analyzing the legal and institutional set up of industrial zones. A one day workshop on Investment promotion for 7 personnel from Ministry of Industry and Minerals, Baghdad was organized in the month of August 2010 in Erbil.

The newly-launched Investment Promotion in Iraq (IPI) project will also leverage the capacity of the EDUs in this area.

### **c. Cross-cutting issues**

The project strived to contribute indirectly to MDG Goal 3 (promote gender equality and empower women) through implementation-level interventions. However, despite UNIDO's efforts and many discussions with counterparts, participation of women to project activities remained limited due to socio-cultural issues. To overcome these challenges, UNIDO has been working to develop a project that follows EDIP methodology in the same governorates and specifically targets women by collaborating with civil society including women's organizations. Talks are currently being held with UN Women to finalize the design of this project.

While the project did not have a significant environmental impact itself, to contribute to environmental sustainability, it was decided to add environmental risk assessment as a topic to be covered by trainers and business counselors with the EDUs during their sessions with local entrepreneurs and enterprises.

### III. EVALUATION & LESSONS LEARNED

#### a. Evaluation

An independent evaluation was conducted by UNIDO Headquarters in accordance with rules and regulations of the organization. Surveys and face-to-face interviews both involving UNIDO project staff members and beneficiaries in Iraq were utilized for this purpose. The results of this evaluation are yet to be released.

#### b. Ownership and Sustainability

The continuation of assistance provided to Iraqi entrepreneurs is crucial for the success of the project and more importantly for the development/growth of SMEs and the Iraqi economy. In order to ensure the sustainability of the project, rather than providing services directly to Iraqi entrepreneurs by bringing in UNIDO experts for short-term consultancies, the project focused on facilitating the creation of Enterprise Development Units (EDUs) within Iraqi institutions mandated with supporting the private sector. The host institutions were assigned according to their relevance and alliance with the EDU services to ensure that in the future, after the phase out of the program, the project activities will be absorbed by the host institution and EDU activities will continue.

Since EDUs are “owned” by host institutions, to maintain institutional ownership, the Head of EDUs were assigned by the Iraqi host institutions. The **cost sharing mechanism** with the host institutions also demonstrates full commitment by the counterparts from the beginning of the project till the end. These plans will also enable host institutions to incorporate the EDUs within their own organizational structure. In fact, the Ministry of Industry and Minerals has already turned the EDU into a formal department on enterprise development and appointed 4 of its staff members to serve within this department.

For the sustainability of the project’s assistance, special attention was given to **building the capacities of EDU host institutions**. Instead of using external resources, the project has trained Iraqi officials to conserve local ownership and institutionalization of the EDIP’s support to entrepreneurs. EDIP has trained 21 officials who are currently providing trainings, and 22 officials who are providing counseling services on a constant basis. Additionally, EDIP has conducted 22 trainings inside Iraq and 8 trainings outside Iraq only devoted to increase the capacities of Iraqi officials in supporting SMEs. The training subjects included preparation of project appraisal, conducting financial feasibility studies through advanced software (COMFAR), preparation of enterprise upgrading plans, building business advisory/counseling skills. These officials were mentored on a constant basis to further strengthen their improved skills. This trained human capital in the Iraqi institutions will also ensure the sustainable transfer of information and knowledge accrued through the project.

The sustainability of EDUs has been discussed in details with the counterparts and focal points in each institution throughout Local Steering Committee Meetings of the new project “Enterprise Development through Information and Communication technology” (EDICT) and “Investment project for Iraq” (IPI). In August 2010, during the Operational Meeting with Head of EDUs and

Local Coordinators, how to maintain the sustainability of the EDUs and ensure the continuation of support to SMEs was discussed in details. It was decided that the EDUs should come up with a sustainability plan in close consultations with the counterparts. The discussions at the Operational Meeting their ideas included charging the entrepreneurs for some business advisory services like business plan preparation, match making, business information packages, and seminars with banks.

The counterparts from Erbil have expressed their commitment in ensuring the sustainability of the EDUs with the guidance of counterparts in Thi Qar, the Head of EDU (assigned by the Chamber of Commerce) and the Local Coordinator has already submitted a draft sustainability plan. In Baghdad, the Ministry of Industry is fully committed and has already assigned 3 officials to take active role in project activities to ensure both institutional and financial sustainability of the project.

To allow for a smooth transition and handover, an **EDU Operational Hand Book** has already been drafted. The purpose of this handbook is to provide Standard Operating Practices (SOP), a reference for all current and future EDU staff, and to define operational sustainability. In this handbook roles and responsibilities of each EDU staff and operational modalities of EDUs are presented in details further documenting EDU operations and services.

### c. Lessons Learned

#### Socio-economic differences between governorates have an impact over implementation

Although the project design does not necessarily account for the below-mentioned socio-economic gaps between governorates, the PMU as well as the local staff have been working around these challenges at the implementation stage to come up with contextual solutions to the needs of each governorate. Local Steering Committee Meetings have provided indispensable advice and feedback in this regard as well, contributing substantially to the success of the project. It should be noted that the differences between the governorates noted below contributed to the divergence in the results.

In all governorates, and particularly in Baghdad, the primary obstacle to project implementation activities was the security situation. *In Baghdad alone, from June 2009 until May 2010, there were 3476 reported incidents.* Attackers did not discriminate, civilians, regardless of their affiliation and background, were often the targets. These attempts to destabilize the country limited the economic activity and entrepreneurship within the country, while also constraining their participation in the project activities such as trainings which are held in public venues such as ministries and chambers of commerce.

*A high correlation* has been observed with the security situation and project success rate. Erbil with least security incidents has shown the maximum outcomes, whereas Baghdad with high incidents of terrorist activities has shown the least achievement.

Thi Qar suffers from chronic unemployment. The figure remains at 31 percent, which is more than double of the national average of 15 percent. Thi Qar has the worst unemployment rate among all the governorates in Iraq. Illiteracy and education, security situation and ethnic tensions (from June 2009 until May 2010 there were 111 security incidents), geographical penetration in marshlands are some of the causes. Thi Qar is one of the poorest governorates; it occupies the lowest per capita expenditure quintile (44.7 percent). These factors along with the lack of support to SMEs, lack of infrastructure and financial schemes available are creating main obstacles in Thi Qar to achieve project targets.

In Erbil the security situation is much better than Baghdad and Thi Qar as can be seen in the chart above (from June 2009 until May 2010 there were 16 security incidents took place). The government's support to SMEs is also stronger in Erbil, i.e. land allocation, business seminars,

relative availability of financial-credit supports. However, the education level is still very low in Erbil. Illiteracy rate ranks the fifth worst in the country. This increases the demand for training and counseling services from existing SMEs.

#### Constant mentoring and coaching

It has been observed that to ensure effective and timely implementation of project activities, **continuous mentoring and coaching** of the project teams in the field is necessary. Regular advice and monitoring from the Project Management Unit (PMU) to the project team in the existing EDIP project has resulted in desired outcomes. The PMU has developed systems for activity monitoring through work-plans and activity reports. The business counseling is mentored through a rigorous reporting system developed by the PMU. Continuous reviews of counselors' performance and provision of advice are part of the system. It has been observed that regular mentoring has helped to build the capacity of the counselors, allowing them to handle various issues raised during counseling sessions with the entrepreneurs. Hence, it is felt that constant mentoring, where the project team can seek advice and be supported, has led to effective and efficient implementation.

#### Phased implementation of project activities

Another pertinent observation from executing the EDIP project shows that a **phased approach** to implementing the project activities is more effective. The activities should be planned and implemented according to the stage that the project team reaches in each of the governorates. This phased approach gives the field team the opportunity to get fully prepared before implementing activities, and ensures that the field team is not taking actions that the beneficiaries are not yet ready to absorb, nor creating a situation in which the project team is over-burdened and fails to deliver.

#### Necessity of the full commitment of institutions to release counselors and assignment of "coordinator of team of counselors"

The Team of Counselors are officials working for Iraqi institutions, as they receive request for their counseling services they should be released by their institutions. However, it was observed that some institutions were not ensuring this release of time regularly. Moreover, the demands for counseling sessions have been increasing as the project is reaching out more beneficiaries. This is presenting a challenge for the counselors to spare time to write good quality reports. To ensure the continuation of good quality counseling services and reports, and to encourage the active participation of counselors' inter-alia institutions a new member of the EDU, "Coordinator of Team of Counselors" was deemed crucial.

#### Specialization of Services provided by EDU

Experiences accrued through the EDIP project showed that SMEs in Iraq need specialized business development services such as marketing plan, preparation of BP, which are not available in the market.

General counseling services do not meet all the needs as the Iraqi entrepreneurs need specific support in preparation of feasibility studies, investment promotion, preparing detailed marketing plan and technological sourcing. This finding led to the design of specialized trainings in the new complementary Investment Promotion in Iraq (IPI) project to increase the capacities of counselors in providing specialized advice and more refined inputs. It is also important to understand the different backgrounds of counselors to utilize the diverse skills through assigning them a specialized role accordingly.

#### Promotional Activities

Continuous promotional activities are deemed necessary to keep the high level of participation in the project, and to allow for a comprehensive selection process of entrepreneurs to attend the

ToEs. Failure to continue widespread outreach activities not only negatively affects the number of people who join the training courses but also limits the variety of entrepreneurs who can benefit from the EDIP project. Therefore, tailor-made promotional activities should always be ready at the EDUs for any relevant activity. The promotional materials should be distributed in Chambers of Commerce, Industrial Associations, Industrial Areas, workshops, schools, etc. to inform the society of the opportunities available at the EDUs to support them.

#### Proper design of financial facility at the outset is crucial

The presence of a credit facility to support trained entrepreneurs to start/expand or diversify their business was a valuable tool designed in 2004 to complement the technical assistance provided by UNIDO. The experience of UNIDO in the region shows that for effective implementation of technical assistance program for SMEs, the availability of financial schemes for the enterprises is very crucial. In 2004, it was observed that many enterprises were not capable of availing loans from commercial banks due to non-availability of collaterals even though presenting viable project plans. This need has led to the formulation of introducing a pilot revolving fund which would use the project financing methods for selecting projects.

Nonetheless, the structure and implementation modalities of this specific fund were not properly elaborated in the project document, which led to a substantial delay (almost two years) in the activation of the facility. Despite this initial set-back the EDIP credit facility supported the establishment/expansion of more than 50 SMEs in Iraq, contributing substantially to the attainment of project outcome.

Moreover, the inclusion of a loan facility within the EDIP program serves not only to finance the expansion of the existing client's businesses, but provides other broader benefits to development efforts in Iraq. For EDIP clients gaining a credit history through an institution such as Amalkom is an important element in accessing lower interest rate middle market loans from some of the institutions listed earlier. This will help ease the transition of EDIP clients from small businesses to mid-size enterprises beyond the life of the EDIP program. Beyond the EDIP program the establishment of the facility is the first in Iraq to partner a UN technical assistance program with an Iraqi lending institution. This partnership model is common throughout the world and can prove highly successful in Iraq with continued support from international donors.

Lastly, UNIDO's decision to adopt an interest free loan as opposed to a grant to the implementing institution is a timely move towards breaking the dependency of microfinance institutions upon international donors and also brings in accountability. Interest free loans are an interim solution between grants that are often provided during start up years and accessing financing on the international markets, which still remains difficult considering the high perceived risks associated with Iraq and the ongoing credit shortage as a result of the international financial crisis.

During the implementation the following challenges (which can be grouped into internal and external) were faced.

#### *Internal challenges:*

*Misplaced Expectations:* The most substantial challenge for the EDIP Loan Fund were the negative reaction by EDIP clients if they are not seeing tangible benefits from the time invested into the EDIP programme and misperception of the structure of the credit facility. Some EDIP clients had expected more favorable terms from this UNIDO loan program and the "high interest rate" was the major factor. The challenge has emerged when balancing the expectations of EDIP clients while retaining best practices in managing the loan fund (according CGAP guidelines), including not imposing loan conditions upon the lending institution. To mitigate this risk UNIDO's field representatives has conveyed a unified position on the benefits of the facility and the finality of the terms.

*Threat of Reneging on Repayment:* If the UNIDO EDIP program ends before the loan fund or there is a perception of the EDIP program winding down, there will be a risk that borrowers will renege on repayment under the false impression that there will not be any follow up. The consequence would be the equivalent in microfinance terms as a run on a bank, where rumors of closure spread and borrowers will delay repaying loans. Thanks to the continuity between EDIP and EDICT programme this risk has drastically reduced.

*External Threats:*

These threats include increased instability, which can lead to delayed repayments and defaults; appropriation of NGO assets by the government under the accusation of 'profiteering'; and expanded, timely and accessible government-subsidized lending program.

The risk of increased instability has been mitigated by the UNIDO by partnering with an experienced institution in the field which continued to lend and recover loans continuously through the worst periods of Iraq's recent history. The risk of government appropriation is ever present. Mitigating this risk is beyond UNIDO's influence through efforts are currently being undertaken to move the regulation of microfinance institutions to the Central Bank as non-bank financial institutions as opposed to being registered with the NGO Office. Lastly, the threat from an expanded, timely and accessible government-subsidized lending program would undermine demand and potentially derail the fund. This is highly unlikely as the timeframe required for government funds to expand sufficiently to pose a threat is beyond the timeframe of the UNIDO facility.

#### IV. INDICATOR BASED PERFORMANCE ASSESSMENT

	Performance Indicators	Indicator Baselines	Planned Indicator Targets	Achieved Indicator Targets	Reasons for Variance (if any)	Source of Verification	Comments (if any)
<b>Outcome 1: 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.</b>							
Output 1.1: Improved performance, including access to foreign markets, of existing businesses resulting from upgrading.	At least 30 enterprises assisted in re-starting their operations.	0	30	35		Project database, records and statistics of other organizations and government	
	At least 75 existing enterprises upgraded in specific functional areas.	0	75	131		Data base of enterprises upgraded  Interviews with enterprise management and investors	
	At least 60 enterprises upgraded through the promotion of international partnerships.	0	60	150			

**Outcome 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.**

Output 2.1: Increase in the number of enterprises created in the SME sector and increase in the number of sustainable jobs generated.	At least 300 potential entrepreneurs trained in enterprise creation	0	300	354		Project database, records and statistics of other organizations and government	
	At least 180 new businesses (micro-small) established.	0	180	20	As identified by evaluators: 1) low quality of design of logical framework (confusing outcome with outputs), 2) over-optimistic indicators and targets, which are not in line with resources provided by the project, 3) Lack of basic institutional and credit support to SMEs, 4) Security and socio-economic situation.	Data base of enterprises upgraded	
	At least 600 job opportunities created.	0	600	500		Interviews with enterprise management and investors	



**Outcome 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.**

Output 3.1: Increase in the number of existing enterprises and potential entrepreneurs accessing the revolving fund for upgrading/rehabilitation and new enterprises creation.	A revolving fund scheme operational	-	Y	Y			UNIDO partnered with Amalkom for implementation
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**Outcome 4: To develop/strengthen institutional capabilities in the areas of Enterprise Development (in the designated Governorates) to promote domestic investments.**

Output 4.1: Functional institutional capabilities to support the promotion of domestic investments.	Enterprise Development Unit (EDU) functional in each governorate	0	3	3			
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## EDIP Achievement Status Report – as of December 2010

<b>Number of institutional set up created and operational- Enterprise Development Units</b>	<b>3</b>
<b>Institutional capacity development indicators</b>	<b>#</b>
Number of counterpart staff trained	115
Number of training/workshop conducted <b>inside</b> Iraq	22
Number of training/workshop conducted <b>outside</b> Iraq	8
Number of staff trained which are providing trainings	21
Number of staff trained which are providing counseling	22
Number of local staff trained which are preparing upgrading plans	15
Number of staff mentored on constant basis	19
Number of counseling reports reviewed and approved	176
<b>Number of entrepreneurs/companies applying to ToEs</b>	<b>475</b>
<b>Number of entrepreneurs/companies attending training course in EDU</b>	<b>354</b>
<b>Number of entrepreneurs counseled</b>	<b>223</b>
<b>Total number of counseling sessions</b>	<b>1144</b>
<b>Total number of business plans/upgrading plans prepared</b>	<b>102</b>
<b>Total number of project supported</b>	<b>248</b>
Start up	117
Expansion/diversification	131
Concluded	64
On-going	160
Pending	20
Cancelled	4
<b>Total number of projects concluded</b>	<b>114</b>
<i>Expanded</i>	<b>44</b>
<i>Diversified</i>	<b>2</b>
<i>Established</i>	<b>18</b>
<i>Through the credit facility</i>	<b>50</b>