

# MSME SUPPORT CASE STUDY

## DRC MENA livelihoods learning programme 2017-2019

IRAQ

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The Danish Refugee Council (DRC) is a humanitarian, non-governmental, non-profit organisation founded in 1956 that works in more than 40 countries throughout the world. DRC fulfils its mandate by providing direct assistance to conflict – affected populations – refugees, Internally Displaced Persons (IDPs) and host communities in the conflict areas of the world and by advocating on their behalf internationally and in Denmark.



*An internally displaced woman who received support from DRC and now runs a restaurant in Iraq. January, 2017. Photo by: DRC*

## Brief project description

This case study analysed a one-year project implemented in Duhok and Erbil – Kurdistan Region of Iraq (KRI) – in response to a large wave of displacement in the area. Support to micro, small and medium enterprises (MSME) consisted of two types of services: a) financial support for the start-up of new small enterprises (\$7,000 grant); and b) support for the scale-up of existing small enterprises (\$5,000 grant). Business training and coaching were given, and grants were conditional on entrepreneurs matching DRC's grant to the business.

The Theory of Change / Impact Chain for the MSME support component is briefly outlined below:

54 businesses were supported in the two cities in KRI.

### Impact chain for the MSME Support



## Observations and findings

- 1. Operational context:** Historically, Iraq is a rentier state. Oil contributes 60% of GDP and 90% of the Government's revenue, and the private sector is small. In KRI, the economy has been slow since the start of the conflict. The cost of doing business, especially in urban areas, is high, and there is high competition from cheaper imports from Turkey.
- 2. Targeting:**
  - **Interest in entrepreneurship:** Many IDPs and host community members are former public servants and are still paid by the government. This impacts their willingness to engage in business activities. Syrian Kurds, who have limited access to public employment, have demonstrated more interest in entrepreneurship.
  - **Displacement status:** Displaced populations in KRI have more space to start their businesses, compared with other displacement contexts. However, cultural barriers may hamper some key steps to start a business (e.g. legal approvals, finding affordable properties to rent).
  - **Gender considerations:** Women have fewer options to own their own business because of cultural barriers: they often must work from home, they are limited to certain sectors or activities (e.g. hairdressing, food and food processing, retailer, sewing) which tend to be saturated and, because they do not have control over the household budget, they are not able to bring in matching investment funds.
  - **Age considerations:** Youth have a harder time accessing credit than older people, they find it harder to be trusted by investment partners and usually do not have their own savings. They rarely have previous experience managing a business.

- **Illiteracy:** Many candidates could not read or write. It was not found as a barrier as most of the time they have notions of numeracy. About 60% of the businesses that DRC supports, even when the entrepreneur is literate, do not keep books.
- 3. Training:** The session on customer services was the most appreciated session of the business training. Clients also valued the training as a networking opportunity.
  - 4. Partnership model:** In most situations, the partnerships consisted of a business manager (typically a displaced person) and an investor (usually from the host community). The partnership model was successful when: 1) partners knew and trusted each other; 2) partners had complementary skills and/or resources; 3) partners had a balanced relationship and shared profit equally.
  - 5. Barriers to start a business:** Entrepreneurs mentioned that the main barrier to starting a business without external support was lack of investment capital. However, it also appeared that borrowing money from extended network was possible primarily for middle-age men (this option was more limited for youth, women and refugees since they have a small network). In some cases, it was found that entrepreneurs had reached the limit of borrowing possibilities; in other however, the reasons why entrepreneurs needed DRC's support were less evident.
  - 6. Investment capital and grant size:** Investment of \$14,000, in this case coming equally from a grant and matching funds, was the minimum necessary to establish a business that could support 3 families (i.e. two partners and one employee). For a business to generate any additional employment, at least twice as much capital would be needed (e.g. for a small manufacturing unit, about \$25,000 total).
  - 7. Programme design:** Grants were spent according to plans for two main reasons: 1) DRC's time investment in business coaching at business proposal stage; 2) matching fund and grant disbursement in 2 or 3 instalments.

## DAC criteria assessment

DAC CRITERIA	ASSESSMENT
RELEVANCE	<p>In a situation of protracted displacement (5-6 years), business support was relevant for middle-aged men in building self-reliance and promoting the integration of displaced populations.</p> <p>The intervention was less relevant for women and youth because cultural barriers prevented them from setting up businesses and accessing support.</p> <p>Most businesses seemed to address gaps in market services and goods, especially: retailing (and any shop, such as carpentry) in underserved areas and construction services (blacksmith, sales of electrical material). Other businesses, such as sewing, and food processing, were faced with high competition.</p>
COST-EFFICIENCY	<p>No cost-efficiency analysis has yet been done of this work: it was found that the way DRC budgets are structured do not allow an easy cost-efficiency analysis and we would need to put in place a more systematic registration of staff time (and other costs) to be able to draw conclusions.</p>

DAC CRITERIA	ASSESSMENT
EFFECTIVENESS & IMPACT	<p>It is too early to assess the impact of the interventions, since businesses have been running for only 3-6 months. A few observations are however worth making.</p> <p>Some businesses were only just breaking even, but monthly profit for start-ups was typically around \$400 (typically shared between three families). Scale-ups had higher profits, but it is difficult to know how much profit had increased as a result of the grants. Household income was not significantly higher than before the project. This indicates a need for more realistic expectations: the size of investment that would be needed to make a family self-sufficient from a business is considerable, and many aid projects probably promise to achieve unrealistic objectives.</p> <p>Even if household income was not greatly increased, the project still had positive effects on the entrepreneurs' family. They had shifted from unstable to stable work, and some women had increased work outside the home. Some had been able to repay their debts. Household well-being also improved because of: having something to do, interacting with new people, having hope that things will improve.</p>
SUSTAINABILITY	<p>It is very difficult to consider sustainability after such a short time, and it will be important to continue to learn about the progress of the supported businesses after the lifetime of the project. Businesses that can generate profit offer the potential to produce lasting impact. It may be that some businesses could improve their management. There may be potential to improve sustainability with continued support in areas such as business coaching (to improve business added value and competitiveness), in marketing, or with further investment grants for expansion.</p>
COVERAGE	<p>54 grants were provided across two cities. This is very limited considering the scale of the crisis.</p> <p>To increase coverage using the same grant model, DRC would need to have more grant funds, but also to reduce the time which staff has to invest in administering the grants and in monitoring each business. Ways of achieving this are now under consideration, and they include both ways of reducing costs (e.g. outsourcing more of the support) to more radical changes such as finding ways to support people of concern to access financial services, rather than providing direct financial support.</p>

## Main take-aways

The level of financial and human resources invested by DRC results in limited income increase compared with pre-project situation. The proposed model for MSME support may not be the most relevant and/or effective:

- DRC should further investigate which model of support - start-ups versus scale-ups - yields the most results towards the set programme objectives .
- Alternative ways of supporting MSME through training and capital grant (current project model), for instance through fostering market linkages, are worth exploring.

