2021
Recommendation Paper

TABLE OF CONTENTS

Introduction

In today's world, entrepreneurship is considered one of the greatest engines leading to economic growth. It is a driving force for economic development, innovation, and social empowerment.

Policymakers in the last decade, whether in developed or developing countries, have focused on entrepreneurial growth as a means of fostering economic growth and improving the welfare of their populations. Across Iraq, including in the Kurdistan Region, scarce government employment opportunities and the economic impact of the COVID-19 pandemic and oil price fluctuations have meant that there is a greater need for private sector development across the country.

Despite the need for this shift towards the private sector and the growing emphasis on youth seeking private sector opportunities, including entrepreneurship, obstacles to business development remain. In light of this, from March through May 2021, Five One Labs, in collaboration with the Rwanga Foundation and with the support of the Netherlands Consulate General, conducted a research project to better understand the challenges facing entrepreneurs from across the Kurdistan Region of Iraq (KRI). More than 20 business owners, both men, and women, running tech and tech-enabled businesses, and other relevant stakeholders from across sectors participated in three focus groups and a panel discussion to discuss the obstacles and challenges they are facing and to suggest solutions for implementation by Kurdistan Regional Government.

This policy paper provides a summary of the challenges and proposed solutions highlighted by focus group participants and panelists. This document is thus not an analysis or commentary by Five One Labs but rather an aggregation of the views of the entrepreneurs and stakeholders who participated in this project.

In instances where the views are Five One Labs' alone and do not derive from the focus groups or panel discussion, they are clearly noted in the document.

Methodology

The challenges and recommendations outlined in this policy paper are derived from observations from a series of focus group discussions with entrepreneurs in the Kurdistan Region and a panel discussion on challenges to tech entrepreneurship, all of which took place from March through May 2021.

Focus Group Discussions

To gather first-hand perspectives on challenges that startups face, Five One Labs gathered twenty entrepreneurs from across the KRI to take part in focus groups (with five to seven entrepreneurs each). These focus groups, hosted in partnership with Rwanga Foundation, were thematically organized in three sessions: tech/tech-enabled businesses; female-owned businesses; and challenges related to business registration and the regulatory environment in the KRI. These sessions took place from March 28-31 and lasted an hour and a half each, and they were hosted in Kurdish, Arabic, and English to target a wider circle of entrepreneurs. The entrepreneurs' identifying information has been withheld as they participated under the condition of anonymity.

Panel Discussion

Subsequent to the focus groups, Five One Labs hosted a panel discussion in Erbil entitled "Overcoming the Obstacles Tech Businesses face in the KRI" with a range of panelists representing the private and public sectors, including:

- Hiwa Afandi: Head of the KRG Department of Information Technology
- Zana Mahmood: Entrepreneur and Founder at Enlightors and One Connect
- Ahmed Surchi: Chief Operating Officer at Hawre Surchi Law Firm
- Nazmi Mousa: Representative of the KRG Ministry of Labour and Social Affairs
- Rene Van Eijk: Senior Digital Policy Advisor at the Ministry of Economic Affairs and Climate Policy in the Netherlands
- Jacob Van Der Vis: Advisor at the Chamber of Commerce in the Netherlands

The goals of the panel discussion were to present the findings of the focus groups, assess the issues and challenges mentioned by entrepreneurs, and discuss various proposed solutions.

Challenges Faced by Entrepreneurs

This section outlines the key challenges faced by startups that were noted during the focus group and the panel discussion. In each subsection below, we have noted the challenges that entrepreneurs mentioned that relate to various laws, policies, or norms, and then highlighted the impact that the entrepreneurs felt that these challenges had on their businesses or startup experience.

The challenges included:

Challenge 1: Complex and costly business registration process

---

Entrepreneurs and startup owners who participated in the focus groups and panel discussion shared that the registration process's exceptional length and bureaucratic steps are particularly challenging for startups. Additionally, the same approach is applied to all businesses, whether they are startups or larger businesses, despite the lack of resources of many startups.

The challenges that relate to the <u>current business registration</u> policy include:

- For a business name/trade to be registered, it has too many restrictions when it comes to approving the name, such as not being able to use numbers, city names, or verbs. There is no specific justification for rejecting a business/trade name and there is often a lack of clarity in terms of the requirements. Also, there is a different cost for registering the same business name in a different language.
- Every startup must have a physical office that shall be its registered main office. As per the KRI registration policy, a startup must provide a physical address for registration. In addition, the applicant/shareholders have to present privately owned or leased property offices. The Inspection Department at the Registrar's office undertakes due diligence process and verify the office's existence and the accuracy of the address.
- The amount that needs to be deposited in a commercial bank as the initial capital is prohibitively expensive.
- Some companies' business nature requires the approval of multiple ministries authorities or authorities.
- Federal Iraq does not recognize a startup registered in the KRI until the same startup is registered again in Baghdad.
- The current law does not specifically apply to covering technology businesses; an application, website, or e-commerce business cannot easily register within the existing framework without workarounds.

Challenges Faced by Entrepreneurs

Challenge 1: Complex and costly business registration process

---

The impact of the business registration challenges includes the following:

- Entrepreneurs lack clear instructions on what the process of registering a business is like and what steps to take, which means the process can be lengthy and costly.
- The lack of designation for technology businesses such as e-commerce, SaaS, applications, etc. often either forces the entrepreneur to register the actual business as a project of that company or means that he or she altogether avoids registration, which results in limited legal protections for the startup (and potentially increased personal liability).
- Company registration in KRI depends on the understanding level of the employees of involved government institutions, especially when it comes to tech businesses, as there is a lack of awareness in the government institutions on what is a tech business and how it can operate and recognized as a business.
- Residents of Kirkuk and other cities besides Erbil, Sulaimaniyah, and Duhok cannot be CEO of their own companies operating in these three cities, which limits the ability of founders outside of these provinces to conduct business.
- Co-working or shared spaces are not legally recognized by the government to be used as the office space required for business registration, which means startups need to bear higher costs when renting an office because this is a registration requirement.

Challenges Faced by Entrepreneurs

Challenge 2: Limited intellectual property protection

Startups use a trading name, brand, logo, patents, products, etc. and many entrepreneurs highlighted the importance of protecting these in order to maintain their competitive advantage, attract investors and retain value for their customers.

Entrepreneurs and startup owners that participated in the focus groups and panel discussion shared that:

- For startups to be able to protect their intellectual property, the current IP law needs to be enforced by KRG and amended to cover tech businesses.
- Public and business awareness of the importance of intellectual property in the KRI is low.

The impact that entrepreneurs believe results from the lack of enforcement of the current law includes:

- Lack of enforcement of the IP rights for businesses restricts startups from creating unique products and services, which limits their long-term success.
- There is an increase in the likelihood of idea theft, especially when it comes to tech business ideas.
- There is a lack of effective management of intellectual property and awareness among startups. There is no clear definition and guidance on how these policies affect entrepreneurs. The entrepreneurs shared that they don't receive advice or understand the different kinds of intellectual property protection and how they fit into their business. This goes back to the fact that there is no clear definition and guidance on how these policies affect entrepreneurs.

Challenges Faced by Entrepreneurs

Challenge 3: Obstacles with the banking sector and limited awareness of e-payments

---

Banking and e-payments have become a crucial part of helping businesses succeed. As business owners, the entrepreneurs felt that the use of digital payment methods would increase revenue, expand the customer base, reduce expenses and automate the process.

Entrepreneurs and startup owners that participated in the focus groups and panel discussion shared that:

- The current local banks in KRI are not readily able to support entrepreneurs. Banks having limited financing available for businesses, especially for new, innovative startups as there is a cumbersome process for obtaining loans from the government or private banks (if this option is even available)
- International e-payment options like Paypal or Stripe are not available, and many local credit cards do not work to purchase things internationally.
- There is a lack of public awareness of e-payments and mobile payments.
- Private and public bank requirements for startup loan eligibility are very strict, startups loans are infrequent and are only available for those who have government guarantors or can put up houses for collateral.

These result in challenges that the entrepreneurs think are some of the main reasons it is difficult to scale a startup in KRI. The impacts highlighted include:
These issues created challenges for the entrepreneurs that they believe are some of the reasons why it's hard for startups to scale up and grow in KRI. Some impacts that were highlighted by the entrepreneurs included:

- Lack of e-payment results in startups not using international business products or connecting with freelancers outside of the country (for example, using platforms like UpWork, SquareSpace, Wix, or others). This also makes it challenging for startups to purchase ads on Instagram or Facebook or other goods and services from abroad.
- Limited e-payment and banking options means many startups are not able to expand internationally because they are not able to sell their products or services and engage with potential international customers.

Challenges Faced by Entrepreneurs

Challenge 4: Taxation policy that does not favor small businesses

---

Entrepreneurs and startup owners that participated in the focus groups and panel discussion shared that:

- The KRI tax policy is unsupportive of, or even hostile to, startups.
- Most new businesses lose money in their initial years before becoming profitable, which is common for new businesses given outgoings on salaries, marketing, and other expenses that often exceed earnings. Tax Law No. 113 states that 15% of the revenue of any company needs to be paid as a tax annually. The percentage of annual tax is the same for startups as it is for larger enterprises.

The impacts noted by the entrepreneurs included:

- The current tax policy is prohibitively high for new businesses, especially ones operating at a loss in the early years, and this can discourage an entrepreneur's decision to register his or her businesses legally.
- The government hasn't implemented tax holiday post-pandemic to support startups, and many startups face additional challenges paying tax after COVID given they lost multiple months of revenue.
- Entrepreneurs feel like they have unclear guidance on startups' tax liability and benefits.
- There is a lack of understanding from the entrepreneurs on the purpose and difference between social security and taxation.

Challenges Faced by Entrepreneurs

Challenge 5: Digital skill gap

Startup owners in the Focus Group Discussions shared that:

- There is an apparent digital skills shortage in KRI across all business functions in organizations, particularly in digital business management and app development.
- There is a lack of access to local skilled workers with technical ability.
- The education sector does not showcase any efforts to reskill and does not emphasize training and apprenticeships to help individuals develop new careers.
- Also, there is a lack of government support for the IT sector and limited opportunities to start training people to meet the demand for IT expertise and fill the gap in technology skills that the COVID-19 pandemic has amplified.
- There is a lack of public awareness about the importance of digital talent.
- The government is not keeping the pace when it comes to training the institutional government employees with digital skills.

And, these challenges arise with the above obstacles; it was shared that:

- This lack of emphasis on digital skills results in low trust in local workers.
- Many startups rely on outsourced labor for IT skills and app development, and they hire foreign contractors because they cannot easily find high-quality local talent. This is especially hard on startups as the salary requirements are high for these skills outside of KRI.
- This shortage results in losing competitive advantage for startups and hence minimizes the opportunity of getting investments.
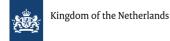
Challenges Faced by Entrepreneurs

Challenge 6: Limited opportunities for, and understanding of, investment

---

The entrepreneurs shared the following investment-related challenges:

- There is a misconception and lack of knowledge on what an investment is and what investment opportunities are available for startups.
- It is common in KRI for local investors and entrepreneurs to develop investment relationships based on word-of-mouth referrals. Often these investments are based on simple agreements that may not be legally enforceable or based on laws that will protect both parties. Additionally, this kind of agreement regularly ends up with the investor taking over more than 50% of the company because of a lack of awareness of how investment agreements should work, which leads to lack of trust on the entrepreneur's part.
- There is a perception that there is a lack of local investment in local startups because investors are not aware of the emerging local businesses and distrust their ability to succeed and grow.
- There is no law to support serious private investment which also protects the startup and the investor simultaneously.
- There is a lack of support enabling investors and potential partners to enter the KRI market in sectors besides oil and gas while making it safe for startup owners and protecting their rights.
- There is no community hosting the committed, early-stage angel investors and venture capitalists who prioritize backing local founders.
- The government has not prioritized setting up a specific startup fund.

These challenges result in the following:

- Startups are not easily able to expand and grow locally and internationally.
- Lack of investment has increased the need for public and private bank loans.
- Entrepreneurs can be exposed to predatory practices by investors given the limited opportunities for startups to access capital (low supply of funds with high entrepreneur demand).

Recommendations and Suggested Reforms

The recommendations below have been drawn from multiple sources. The majority were highlighted and shared by the entrepreneurs during the focus group discussion as answers to the challenges and the obstacles they face. While the entrepreneurs did not have suggested solutions to all of the aforementioned challenges, we have outlined all of their proposed options below.

In addition to the recommendations mentioned by the entrepreneurs, there are several proposed solutions provided by both Five One Labs and the Rwanga Foundation based on our experience working with, and providing programs and services for, entrepreneurs throughout the KRI.

Focus Group and Panel Discussion Recommendations

Recommendation 1: Reforming business registration process

- The rules with regard to reserving and approving names for companies should be simplified, and a centralized new process should be implemented for the time-bound approval of names for companies.
- The process and regulatory framework should be reformed to reduce the overall time taken for incorporating a startup. There should be a particular focus on doing this for tech startups.
- Business registration fees need to be reduced to incentivize registration.
- An accessible search facility should be created or/and improved online to search against all the registered entities operating in the KRI.
- Manual approval by government offices should be reduced and digitization of the process should be increased.
- Additionally, coworking spaces or shared spaces can be recognized as "offices" for businesses to register in order to reduce costs associated with registration.

Once the process is simplified, the rules are clear, and there is public access to information about the progress of registering a business and the names of registered entities, the government will have more accurate data of the existing startups, more startups will be protected by the law, the government will take in more tax revenue and it will influence the entrepreneurs to go through the process because it allows startups to:

- Establish the business as a legal entity and is more professional.
- Establish credibility with their customers and suppliers.
- Attract business and funding opportunities.
- More easily receive bank loans and investment from local and international investors.
- Ease the ability to open a bank account.
- Increase the ability to hire employees and protect their innovations, data, and workforce.

Kingdom of the Netherlands

51LABS

Recommendations and Suggested Reforms

Recommendation 2: Digitization of e-signatures

The KRG's effort to digitize every process and establish the digital infrastructure of the government institutions and optimize the administration of public services can also include the adoption of electronic signatures. Passing an act to ease the adoption of electronic signatures ensures that they can be used in the court and ensures that the startup owner's electronically signed documents hold up in a court of law.

It will help both startups and government institutes with:

- Streamlined signing processes.
- Reduction of the time of legal and registration processes
- Cost-saving.
- Increase in feelings of safety and security.

Recommendation 3: IP, trademark, and content protection

- The KRG should establish a set of standard rules for online businesses and other intermediaries to ensure that all users have IP rights. This will help foster innovation and growth and facilitate the ability of smaller platforms and providers to compete while at the same time ensuring the rights of individuals in the KRI are protected.
- The KRG should enforce trademark, copyright, and IP laws.
- Copyright laws should also take into consideration creative works, including website and app source code, UI-UX designs, and marketing materials such as graphics, videos, and sound recordings.
- Trademark law should take into consideration the brand of a company. This includes the name (including the names of any specific products or services), logo, tagline, and other brand elements.
- Patent law should include the protection of software or hardware innovations made by startups.
- The KRG should regulate online content and IP and could model it off similar laws such as the Digital Service Act that was implemented in Europe.

Kingdom of the Netherlands

51LABS

Recommendations and Suggested Reforms

With the adoption of this recommendation, it will foster and grow the tech entrepreneurial ecosystem because:

- The IP of a tech startup is typically its most valuable asset. The products and services it brings to the market will help it secure market share and earn revenue.
- IP is also a significant consideration for investors because they'll want to know that the startups have control over all the ideas, code, and branding they will need to develop and market their products and services. Clearly, without its IP, a tech startup would have little leverage in the market locally and internationally.

Recommendation 4: Facilitating digital payments and mobile banking

As businesses operate to procure and retain customers, digital payment has become the key to the success of startups internationally, especially tech and e-commerce businesses. Customers expect seamless, quick, and personalized transactions. There should be an emphasis on increasing societal awareness of e-payment methods and banking includes and highlighting the currently available solutions as an alternative to cash payments. This should be done among all age groups.

The implementation of e-payment methods and the spread of awareness on how to use these tools will support entrepreneurs in:

- Increasing efficiency, which results in higher profits.
- Empowering female entrepreneurs, as digital payments give women better access to the marketplace, lowering barriers to entry and mobility.
- Bringing more people into the formal financial system through account ownership, making KRI and Iraq on the same level as its neighboring countries.
- Increasing potential customers for startups.

Recommendations and Suggested Reforms

Recommendation 5: Upskilling of government employees

The emergence of tech businesses and the effort of the KRG to digitize procedures should come hand in hand with assessing and training the employees working in these public institutions, especially ministries relevant to registration.

This impact will be as follows:
- Processes in government institutions will be more streamlined, as government employees will have an understanding of what the business model of the startup is, especially with the tech businesses.
- Both entrepreneurs and government employees will save time.
- Upskilling government employees will also help reduce the current digital skill gap that exists in KRI.

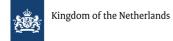**Recommendation 6: Reforming taxation**

There are a number of ways the government can reform taxation policy. This includes:
- Implementing a tax holiday for the period of two years for new businesses, which will also incentivize startups to register.
- Limiting the amount of capital that a startup needs to have on hand to register, and reducing the amount of minimum capital/turnover required to keep their registration, especially for the first few years after registration. This can be run as an incentive program by the government to encourage economic activity and foster growth and can be temporary and revised by the government from time to time. This will motivate the entrepreneurs to quickly register and operate their businesses without worrying about capital paid upfront or and turnover and focus on executing their idea.

Recommendation 7: Increasing awareness of entrepreneurship

The KRG can launch a campaign to highlight the emerging startups in KRI, including spotlighting female entrepreneurs and those organizations working on incubation and acceleration. In addition, the government can implement an entrepreneurship awareness campaign in collaboration with Five One Labs, aiming to provide young people in KRI with knowledge of entrepreneurship benefits, advice, and awareness of relevant regulations on starting a business and highlighting the successful startups in the region.

This campaign will foster entrepreneurship and company creation, and these new businesses will attract resources to new activities. When they prosper and can grow rapidly, they generate significant numbers of new jobs. It will also help the startups to be more recognized when approaching an investor.

Recommendations and Suggested Reforms

Recommendation 8: Development of one-stop shops

Given the number of ministries and government offices involved in the business registration process, Five One Labs proposes the creation of "one-stop-shops" to facilitate the registration process.

These could be housed at the Chambers of Commerce or through partner agencies. This would limit the number of steps (and potentially the number of signatures) required to complete the registration process. In addition, these one-stop-shops could offer evening or weekend opening hours to support entrepreneurs who may be working full-time so that they do not need to take leave from work. Another recommendation is to also ensure that these registration locations have female employees available so that it is easier for women to complete the registration process.

Recommendation 9: Using support organizations to facilitate registration

The KRG could consider providing a certain designation to entrepreneur support organizations (like incubators, accelerators, coworking spaces, etc.) so that they can be facilitators of the registration process.

For example, an entrepreneur could go through a program or pre-registration process with an organization (like Five One Labs, The Station, Takween, etc.) and receive a certificate or authentication of the process that the entrepreneur could then use to advance through the process more quickly. Another option is that the one-stop-shops for registration be located inside existing coworking spaces or the offices of entrepreneur support organizations.

Recommendation 10: Offering sabbaticals to government employees

In order to incentivize entrepreneurship, the government could consider offering sabbaticals from government employment or provide subsidies to private sector companies to offer sabbaticals to their employees to pursue entrepreneurship.

The combination of the likelihood of startup failure and the limited availability of good jobs, providing a sabbatical that guarantees a person's job after a defined period could de-risk the pursuit of an entrepreneurial venture.

Recommendations and Suggested Reforms

Recommendation 11: Introducing a KRI-wide entrepreneurship curriculum

The KRI could consider introducing the concept of entrepreneurship and investment as part of academic studies in public and private universities in order to build awareness and excitement among youth from an early stage.

Some universities throughout the KRI are now providing courses about entrepreneurship. A way to strengthen these curricula is to develop them in partnership with entrepreneur support organizations and under the supervision and approval of the ministry of higher education in KRI. A curriculum should be developed to teach students how to launch their startups and learn the necessary steps for the registration process, tax payment, and other relevant policies and procedures.