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# **Investment in Iraq**

## **Trends, Opportunities and Outlook**

March 2011

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# Iraq Political Overview

Despite repeated delays, Iraq in March 2010 concluded its second national election since 2003, which after more than nine subsequent months of legal disputes and fractious coalition building saw Prime Minister Nouri al-Maliki return for a second term. The return of a fairly similar ruling coalition has reassured foreign firms of political and legal continuity in the years ahead. The retention by Maliki's State of Law coalition of the Ministry of Oil portfolio in particular was welcome news for foreign firms. The latest developments in 2011 include:

- **Federal Budget Approved.** Iraq's \$82.6 billion budget for 2011 was passed in February. Although it projected a deficit, the budget was based on oil revenue of US\$76.50 per barrel, and so with current global oil prices near US\$100 per barrel, Iraq will like run a fiscal surplus this year. Over \$25 billion was allocated for government investments, representing a 25% increase over the 2010 budget.
- **Cabinet Formation Still Undecided.** As of mid-March, Prime Minister Maliki retains personal control of the Interior and Defense ministries. A parliamentary vote intended to nominate new ministers was postponed, and a resolution is unlikely to occur until late April. However, in the case of other cabinet posts, Maliki has approved the appointment of long-serving technocrats from rival factions, indicating his desire to work with experienced ministers rather than simply political allies.
- **Government Offers Concessions to Protesters.** In response to widespread demonstrations that began in February, the Iraqi government has announced that Prime Minister Maliki will not seek a third term in office, and would accept 50% of his prior salary. The governors of Basra, Babil, Tameem and Wassit provinces resigned, as well as several provincial council members throughout Iraq. Parliament also canceled a \$1 billion purchase of F-16 fighter jets and instead bought more food rations.

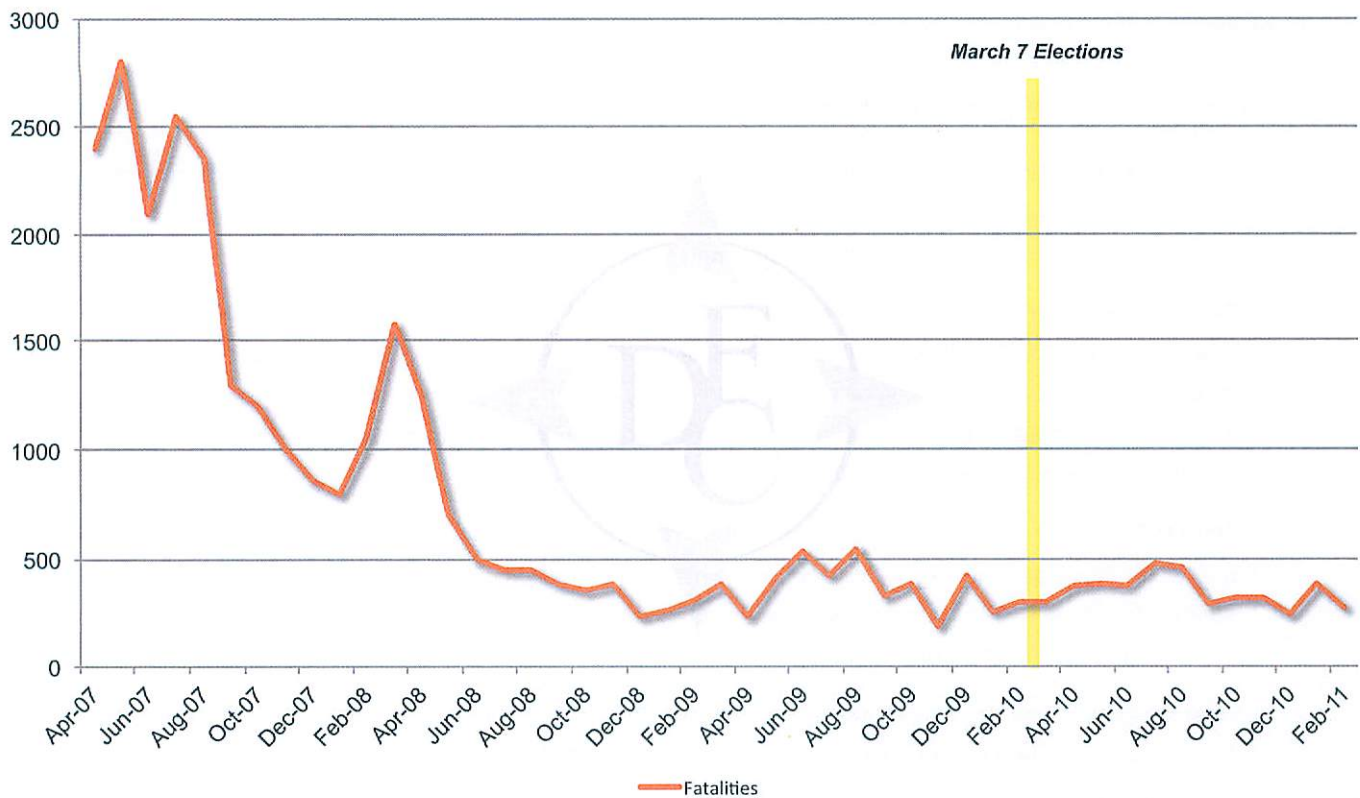
# Iraq Security Overview

The security environment in Iraq did experience a clear deterioration during the summer of 2010. However, the violence was clearly tied to the overall political uncertainty facing the country, and it fell sharply once political compromise had been reached at year's end:

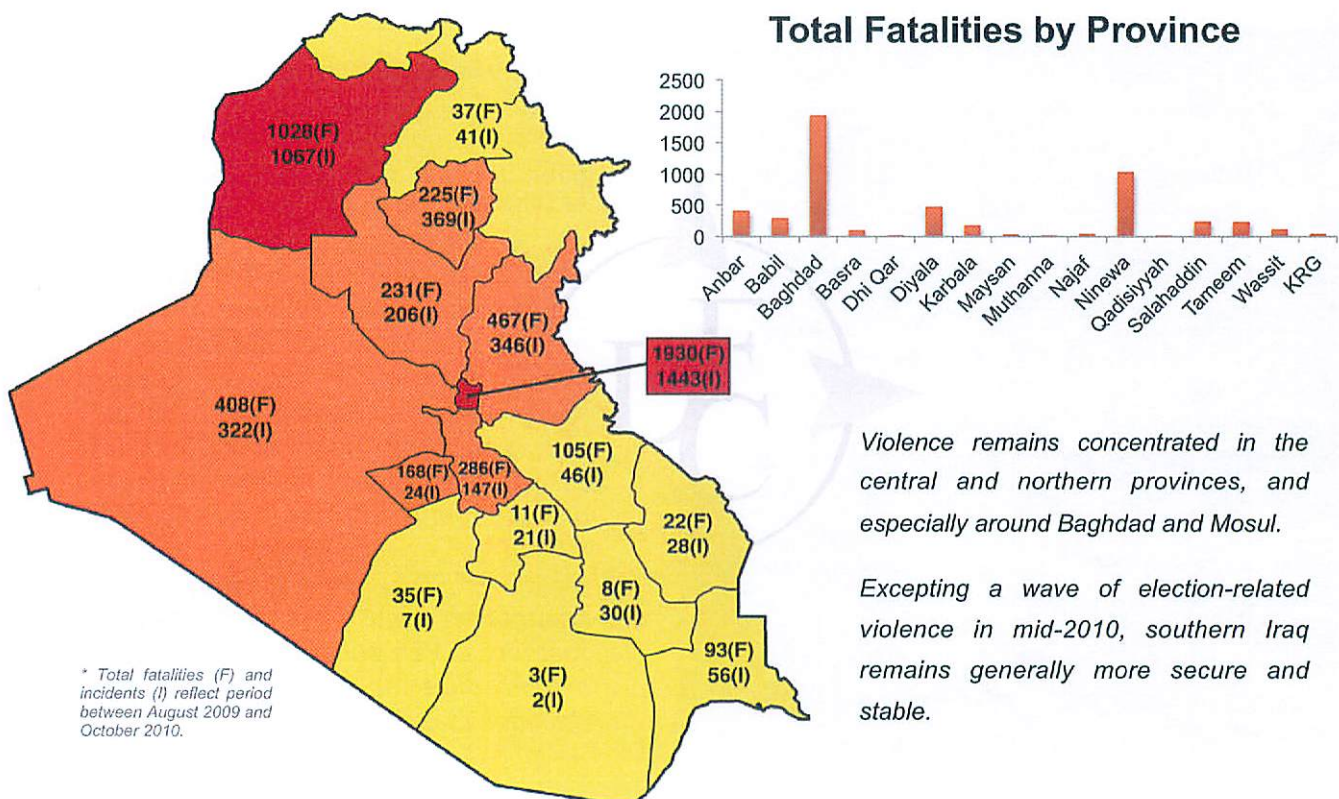
- **Outlook for 2011.** With a new government in place, the security outlook is expected to remain relatively positive through 2011, particularly for foreign business interests in Iraq. The threat of targeted political violence will continue into the indefinite future, along with occasional increases in sectarian violence that coincide with religious holidays. The future of Kirkuk and its oil resources, as well as the lingering uncertainty over oil revenue sharing between the Kurdish region and rest of Iraq, continue to be the largest political challenges, and have the greatest potential to disrupt progress in Iraq.
- **Political Protests Likely to Continue.** The apparent success of recent protests in Iraq could encourage those who have yet to take to the streets or have not had their demands met by recent concessions. It is to be stressed, however, that most protests in Iraq have been peaceful and nonviolent. The majority of the demands have focused against corruption and on the lack of constant electricity, water, affordable food, and employment. The government has made concessions and investments to meet these demands. The success of peaceful protests may serve as a counter-influence to violent extremism and insurgents.



# Violence in Iraq (2007 – Present)



## Geographic Distribution of Violence



Violence remains concentrated in the central and northern provinces, and especially around Baghdad and Mosul.

Excepting a wave of election-related violence in mid-2010, southern Iraq remains generally more secure and stable.



# Recent Trends in Investment

In researching Iraq, Dunia collects and analyzes investment data from a combination of publicly available regional and industry-specific media, as well as private sources, in order to gauge emerging investor attitudes and intent in Iraq. Several major conclusions emerged from Dunia's analysis:

- **Stability Allows Broader Investment.** 2009 and 2010 saw a major expansion of foreign commercial activity beyond Baghdad and Iraqi Kurdistan. Major improvements in the security situation across Iraq encouraged investors to look beyond the safety and stability of the Kurdish region.
- **Oil and Gas to Drive Growth.** With more than a dozen oil fields now under development by foreign firms, Iraq expects to achieve a budget surplus by 2012. IOCs are investing billions of dollars in developing the fields, but growing oil revenues are finally allowing Iraqi provincial government to invest in infrastructure upgrades. National oil production, including exports from Iraqi Kurdistan that restarted in February, now average around 2.7 million barrels per day.
- **Non-O&G Sectors (esp. Real Estate, Industrial Manufacturing) Also Growing.** Although investments in oil and natural gas are expected to drive the majority of investment in Iraq, there is major activity in other sectors as well. The National Investment Commission hopes to build millions of new homes, as well as attract at least US\$300 billion in foreign investment by 2015.
- **Western Firms Now Joining Regional Investors.** While regional firms from Turkey, Iran and the UAE drove most investment in Iraq post-2003, the second half of 2010 and early 2011 has seen a number of firms from France, Italy and the UK announce major entries into the Iraq market.

## Iraq Investment Outlook

### Macroeconomic Data

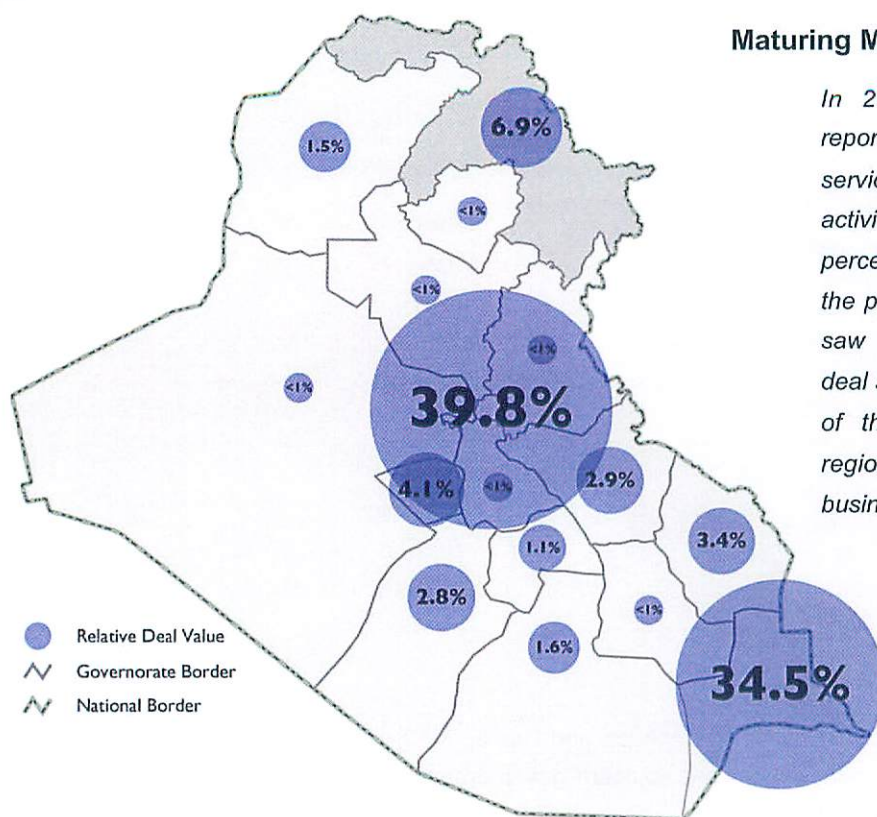
Land Mass:	441,839 sq km
Population:	30.4 mil [2011 est.]
Nominal GDP:	US\$ \$84.14 bil [2010]
GDP Growth:	7.3% [2010 est.]
GDP per capita:	US\$ 3,891
Inflation:	4.2% [2010 est.]
Oil Production:	2.7 mil bpd [Mar 2011]
Labor Force:	8.5m [2011 est.]
Unemployment:	15.3% [2011 est.]
Imports/GDP:	50.1% [2010]
Exports/GDP:	58.4% [2010]
External Debt:	US\$ 52.58 bil [2011]
Debt/GDP:	62.5%
Govt. Budget:	US\$ 82.6b [2011]
Fiscal Deficit:	US\$ 13.4b [2011]
Currency:	New Iraqi Dinar (ID)

### Key Investment Thesis

*Iraq's economic infrastructure has been destroyed by more than 25 years of war and sanctions that began with the Iraq-Iran War in 1980. Some 95% of the Iraqi federal budget is currently derived from crude oil sales, the vast majority of which is dedicating to supporting state owned enterprises, social welfare programs and various subsidies. Iraq needs hundreds of billions of dollars in foreign capital in order to rebuild infrastructure and kick-start private sector growth. With its rapidly growing, predominantly young population and vast hydrocarbon resources, Iraq could experience near double-digit economic growth for decades to come.*



# Geographic Distribution of Investment\*



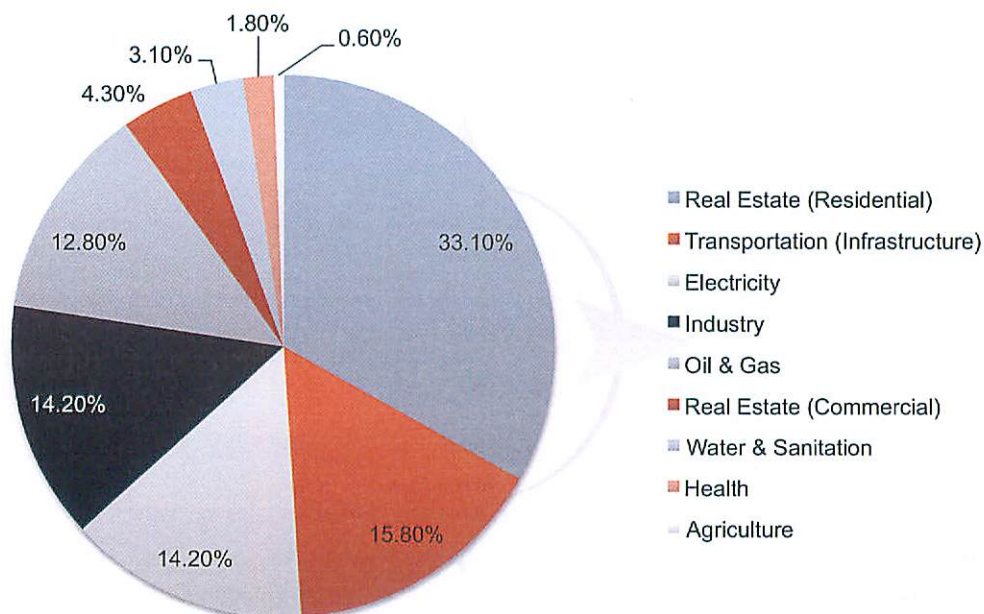
## Maturing Marketplace Sees Greater Deal Flow

In 2010, foreign firms and investors reported \$42.668 billion in \*investments, service contracts and other commercial activities across Iraq — an estimated 48.7 percent increase in total deal value over the previous year. At the same time, 2010 saw higher volume and smaller average deal size, which reflects a growing maturity of the Iraqi economy as a place for regional and international firms to do business.

Map reflects data for 2010

# Distribution of Investment\* (2010)

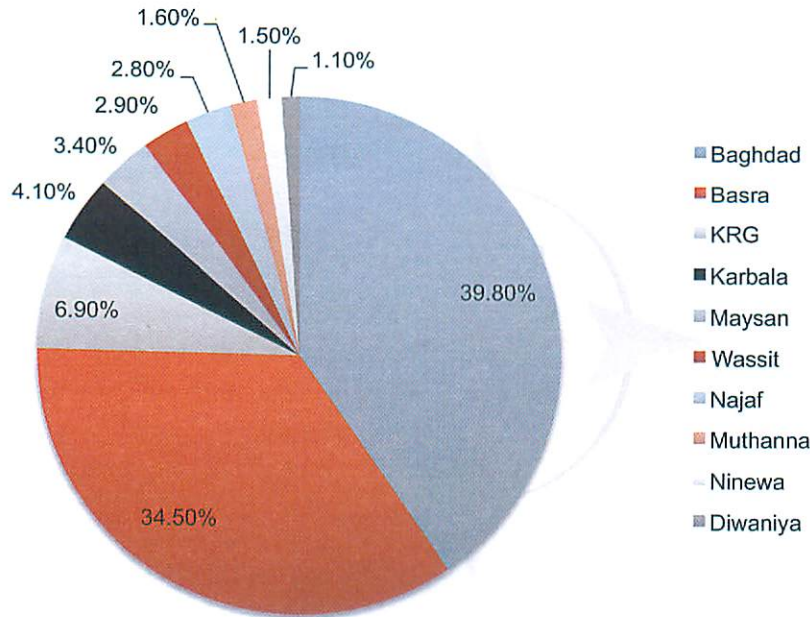
## \*Foreign Commercial Activity by Sector



- The top sector was residential real estate, which accounted for 33% of all reported for foreign commercial activity in Iraq during 2010. The other top sectors were transportation infrastructure (including sea, air, roads and rail), electricity and industry (particularly materials like cement and steel), and oil & gas.

# Distribution of Investment\* (2010)

\*Foreign Commercial Activity by Province



- Aside from the obvious economic dominance of Baghdad and Basra, 2010 saw sizeable increases in foreign commercial activity in the relatively secure southern governorates. This trend was particularly evident in Karbala, Wassit, Maysan and Najaf.

## Geographic Origin of Investment\* (2010)

Geographic Distribution and Value of \*Foreign Commercial Activity in Iraq

Country	\$ (millions)	% Total
Turkey	14,883	34.9%
Italy	5,292	12.4%
France	4,243	9.9%
South Korea	3,269	7.7%
USA	1,997	4.7%
China	1,736	4.1%
UAE	1,318	3.1%
Canada	1,247	2.9%
UK	1,215	2.8%
Australia	883	2.1%
Russia	752	1.8%
Jordan	669	1.6%

- Turkish firms top the geographic rankings of foreign commercial activity, while Italy, France, South Korea and the United States have eclipsed regional countries that previously played a dominant role.
- Trade volumes between Iraq and its neighbors Iran and Turkey are expected to exceed US\$20 billion in 2011, and UAE investors continue to pursue major real estate and service sector investments across Iraq.



# Recent Deals in Southern Iraq

2010 saw sizeable increases in foreign commercial activity in the relatively secure southern governorates. This trend was particularly evident when looking at deals valued at under \$1 billion, with governorates like Karbala, Wassit, Maysan and Najaf each attracting levels of foreign commercial activity as high as in the Kurdish region:

- **Oil & Gas Sector.** *Royal Dutch Shell* has been contracted to build an oil pier near Basra for the receiving of tankers and other cargo ships supplying the oil industry. The South Oil Company contracted Dutch firm *Van Oord* to dredge the waters around the Al-Basra Oil Terminal in a \$100 million deal. US firm *Emerson* won a contract to provide oil metering systems, and Australia's *Leighton* is the prime contractor on the oil terminal. US firm *Fluor* won a contract from *ExxonMobil* for engineering, procurement, and construction works at West Qurna I. *BP* and *CNPC* awarded *Worley Parsons* of Australia a \$100 million FEED at Rumaila
- **Electricity Sector.** France's *Schneider Electric* and *Areva* signed deals worth \$52 million with to build 15 power stations Basra. Turkish firm *Çalık Enerji*, already a major investor in Iraq, signed a \$445.5 million deal to build a 1,250 MW power plant in Karbala, which will be the single largest power plant in Iraq when completed.
- **Non-O&G/Energy Sectors.** France's *Matière Eiffel* was contracted to build a major highway bridge in the city of Nasiriya, at a cost of about \$20 million, to be funded by the local council. UK firm *Range Hospitality* has partnered with the Bahraini *Al Daaysi* Group for a \$100 million housing contract in Karbala.

## Politics in Southern Iraq

Regional politics in southern Iraq are generally defined by the power struggle between governors and the provincial councils. In fact, the provincial council chairman is in some cases regarded as more powerful. Politics at this level is fairly fractious, driven by personal relationships, and often defined by decisions made by the central government in Baghdad. The elected provincial councils are funded directly through the national budget, but have the power to review ministry plans and budgets, and to organize the administration of the delivery of services. They are also empowered to raise their own revenues, and establish district-level councils. However, many of these provincial councils have in reality low capacity to govern their own internal affairs.

The three main Shiite political groups vying for power and resources in southern Iraq are Prime Minister Nouri al-Maliki's **Islamic Da'wa Party**, the **Sadrist Trend** of Moqtada al-Sadr and his followers (often called Sadrists), and the **Islamic Supreme Council of Iraq (ISCI)**.

Politics in southern Iraq have been dominated by two trends so far in 2011:

- **Shift of power to Sadrist Trend.** On December 28, 2010, provincial councilor and Sadrist Trend Ali Dway was elected governor of Maysan in a 14 to 13 vote. This was the first of several southern governorships that Maliki had reportedly promised the Sadrists in return for their support of his premiership, including Maysan, Qadisiyah, Babil, and Dhi Qar.
- **Protests over poor services.** With protests erupting since last summer over electricity shortages, a new wave of demonstrations in February and March have focused on poor public services and corruption. Basra governor Sheltagh Abboud al-Mayah and Babil governor Salman al-Zargani — both members of Maliki's own Dawa party — resigned under pressure. Other provinces (Wassit and Najaf) have also sacked top provincial officials in a bid to quell discontent, and further reforms are likely to occur in 2011.



# Structure of Local Business Communities

- **There are few if any 'overwhelming' business power brokers**, but rather each community contains a handful of influential people, usually independent owners of small-to-medium businesses, who operate across political and tribal affiliations, and who are considered to be of particular stature and importance. Often these are men who established construction, shipping or logistics contractors that worked with the US or other foreign governments following the 2003 invasion.
- **The role of the government remains large, but is not necessarily absolute.** The historical legacy of central planning that predates even Saddam Hussein has left a lasting impact on Iraq's economy, with independent businesses often dependent on connections to local officials or agencies. However, the fluidity of provincial-level politics means these relationships are often neither permanent nor inflexible.
- **Tribal relations are most important at the rural level.** Tribes are not particularly important at the provincial/city level, but are of overwhelming importance when it comes to field-level hiring or contracting. The loyalty of tribes to any business or political party is secured by gaining the loyalty of the local sheikh, often through promised of money, jobs or other benefits. Inter-tribal interactions are generally regarded as having a zero-sum nature, and many foreign firms operating in Iraq have already discovered the complexity that tribal politics can add to operating in the field, but the risks can often be mitigated through the development of a robust business engagement strategy.
- **Unions** in southern Iraq have little real power beyond their ability to provoke controversy and make noise. They were suppressed under Saddam Hussein, and their relative importance has since been exaggerated by the US government. The Director General of the South Oil Company is known to hold the unions in contempt. International firms would be well advised to avoid interaction.

## Local Iraqi Business Partners

The following are Iraqi companies that Dunia has identified as having performed quality subcontracting work for foreign firms.

Company	Industry	Primary Contact	Headquarters	Markets	Email Address	Telephone	Website
Basra East Co.	Construction, Engineering	Ghassan Al-Jasim	BEC Building, Ashar Street P.O. Box 24017, Sharjah, UAE	Basra	ghassan.jassim@basraeast.com	+971505869337 (UAE) +9647801390180 (Iraq) +9647902751871 (Iraq)	basraeast.com
Rukin al-Zawra Co.	Construction	Khalid Ali Ahmed	Nidhal Street, Park Alsadoon, Zone Q 103, Lane 34, Bld. 11, Baghdad, Iraq	Iraq-wide	khalid@migcompanies.com	+96417177776 (Iraq) +9647901913790 (Iraq)	www.migcompanies.com
Kufan Group	Construction, Engineering	Maythem Al-Asadi	Al Mansour, Mahala 605 Zuqaq 8, Baghdad, Iraq	Iraq-wide	maythem@kufan-group.com	+9647910908064 (Iraq)	www.kufan-group.com
Abdullah A. Al-Jiburi Contracting Co.	Construction, Engineering	Abdullah A. Al-Jiburi	Abu Al-Haj Commercial Complex, 3rd Floor Amman, Jordan	Iraq-wide, UAE, Kuwait, Egypt, and Turkey	abdullahaljaburi@yahoo.com	+962799555558 (Jordan)	www.jiburico.com
ALMCO Group of Companies	Construction, Engineering	Namir El Akabi	International Zone Baghdad, Iraq	Iraq-wide, UAE, UK, Kuwait, Afghanistan	namir.elakabi@almcogroup.com	+9647901920199 (Iraq)	www.almcogroup.com
Taha and Partners Group	Construction, Engineering	Khalid Mahdi	Taha Group Building Sec. 101, St. 23, Bldg. 38 Baghdad, Iraq	Iraq-wide, Jordan, UAE, UK	kmahdi@taha-partners.com	+9647901906756 (Iraq) +96418556109 (Iraq) +9647901102707 (Iraq)	www.taha-partners.com
Miyah Al-Jazeera Co.	Construction	Fadhil H.E. Kamaluddin	Jubila, near the market, Basrah, Iraq	Basra	miyahiljazeera@yahoo.co.uk	+9647801086391 (Iraq) +9647801044550 (Iraq)	
Bur Al-Aman Co.	Construction	Mahmood Al-Mosawi	Jubila, near the market, Basrah, Iraq	Basra	mr.mahmood@hotmail.com	+9647801001010 (Iraq) +9647703110210 (Iraq)	www.buralaman.com
Al Merjal General Contracting Co.	Power	Alaa K. Khedher	Karrada Al Sharkia Hattar Street Haddad Building, 2nd Floor	Iraq-wide, Jordan	merjal@merjal.com	+9647901934343 (Iraq) +96227682543 (Jordan)	www.merjal.com
AlBilal Group	Power, Electricity	Akeel A. Razzak	14th Ramadan Street, Area No. 609, Street No. 18, House No. 45, Baghdad, Iraq	Iraq-wide, Jordan, UAE, Egypt	akeel.razzak@bilalgroup.com	+96265829734 (Jordan) +96265829735 (Jordan)	www.albilalgroup.com



# Local Iraqi Business Partners

Company	Industry	Primary Contact	Headquarters	Markets	Email Address	Telephone	Website
Snafee	Power, Electricity	All F. Snafee	Four offices in Iraq, HQ in Basrah	Iraq-wide, Jordan, UAE, Kuwait	ali.snafee@snafee.com	+96440612848 (Iraq) +9647809933333 (Iraq)	www.snafee.com
KAR Group	Power	Brad Camp	Khanzad, District 328 St. 14, House 17, Erbil	Iraq-wide	bcamp@darbglobal.com	+9647507825685 (Iraq)	www.kargroup.net
Al-Maeen International	Power, Engineering	N/A	14th Tamuz Street Basrah, Iraq	Basra	alyasri_company@yahoo.com	+9647801402727 (Iraq) +9647801001523 (Iraq)	
Gulf Banks Co.	Electricity	Yarub M.H. Al-Saba'a	Arasat Al Hindya Babil Q. Sec 929, Street 30 H. 143/2, Baghdad, Iraq	Iraq-wide	yarub@gulf-banks.com	+9647901330958 (Iraq) +9647901415215 (Iraq)	gulf-banks.com/index1.htm
Al Khaleefa General Contracting	Electricity	Raad G. Al-Badran	Bradha-a Basrah, Iraq	Iraq-wide	raadhabib@yahoo.com	+9647802816278 (Iraq) +9647801012226 (Iraq)	
Ardh Al Sudoor Co.	Electricity	Talib Adbid Baneen	Hai Al-jazaier Basrah, Iraq	Basra	etalib70@ardh-alsudoor.com	+96440622211 (Iraq) +9647801057983 (Iraq)	ardh-alsudoor.com
American-Iraqi Solutions Group	Engineering	Carter Andress	Al Kindi Sector 213, Road 44, al Harithia Baghdad, Iraq	Iraq-wide, Jordan	candress@aisgiraq.com	+9647901916087 (Iraq) +962796731257 (Iraq)	www.aisginc.com
ITN/Al Seqir Express Cargo Ltd.	Logistics	Heather Boesch	Karada District No. 905, Street No. 1, Bld. No. 8, Baghdad, Iraq	Iraq-wide, UAE	heather@asecl.net	+97143321099 (UAE)	asecl.net
Momentum Logistics	Logistics	Matthew Derrick	Offices across UAE and in northern Iraq	Iraq-wide, UAE	mderrick@momentumlogistics.com	+97165588412 (UAE)	www.momentumlogistics.com
Starlight Maritime	Logistics	Giovanni Marseal	Head office in Sharjah Airport Free Zone	Iraq-wide, UAE, UK, USA, Turkey, Jordan	star@janan.demon.co.uk	+971508905103 (UAE) +447720523988 (UK)	www.starlightmaritime.com
Othmel	Logistics	Leith Mutwalli	Karada District Sec. 903 St. 13, House 18 Baghdad, Iraq	Iraq-wide, UAE, Sweden	leith@othmel.com	+97143216117 (UAE) +971505517762 (UAE)	www.othmel.com

## Primary Obstacles to Doing Business

Many impediments currently affect the logistical capabilities of foreign firms and investors in Iraq:

- **Ongoing (although improving) security challenges.**
- **Bureaucracy and red tape**, including lack of inter-ministry communication;
- **Bribery and corruption** at all levels of government and society;
- **Under-investment in transportation infrastructure;**
- **Poor Internet connectivity and poor mobile phone coverage;**
- **Inadequate banking services/financial infrastructure;**
- **Fewer financing options** for Iraqi small-to-medium businesses;
- **Lack of market information** (supply, demand, pricing, etc.);
- **Difficulties in partner vetting** because of short-term track records, cultural and other barriers.

Basra airport is also often a bureaucratic nightmare for foreign visitors, as visas honored in Baghdad are usually not honored in Basra, while foreigners can wait in inefficient immigration/customs lines for up to 8 hours. By the same token, international airlines continue to sign new agreements and announce new routes to Basra and other Iraqi cities nearly every month. **Emirates** recently announced a new SkyCargo route to Basra in order to capitalize on growing demand for air freight.

Iraqi logistics firms, such as ITN, Mateen Express, and Starlight Maritime, have eased some mobility concerns, but the sheer number of checkpoints (many of which are illegal and demand bribes) on Iraqi roads and highways seriously hinder the movement of major equipment. The Iraqi government is focused on alleviating these difficulties, primarily through the development of significant transportation and shipping infrastructure, including deep water ports at Umm Qasr and al Faw in Basra, as well as shipping and processing depots. **Royal Dutch Shell** is building its own docks along the Shatt al Arab waterway in order to facilitate its operation at the Majnoon field.



# Recent Logistical Issues

As of early 2011, there are now reports that certain new logistical problems are emerging:

- **Visa applications for foreign businessmen are becoming more complicated.** In early 2010, the visa process to enter Iraq was both liberal and easily accessible taking only around 24 to 72 hours to go through the relevant procedures and paperwork. With the new government in place, instead of the original five forms, now eight separate documents need to be filled out, two of which are in Arabic. Moreover, the administration process has been prolonged to at least 14 days. As of February 2011, Iraqi authorities have extended the process even further to a total of 21 days which led to complaints by the US Embassy and has caused disagreements between the two countries.
- **Oil sector appears especially vulnerable to visa delays.** Since early February, international oil companies (IOCs) and oil services companies have reportedly have been largely unable to secure visas for essential personnel. According to two high-level officials in the Interior Ministry, the delays are the direct result of orders from prime minister's office, although they did not provide details as to the exact reason for the delays or the nature of the orders. As a result of the visa stoppage, IOCs say they cannot adequately rotate personnel in-and-out of country, which may soon cause delays in the actual progress of oil field development. At the same time, Sami al-Araji, head of Iraq's National Investment Commission, said he has still been able to process visas for investors who have worked directly with him, but added that he is aware of the new delays after a private security company recently raised the issue with him.

## Final Thoughts

- If current trends continue, 2011 will be the first year for Iraq without major violence and without the distractions of political upheaval.
- Investments diversifying outside of just oil and gas sectors.
- Significant renewed interest in Iraq by GCC-based funds and multinationals.
- Iraq is one of the few emerging markets with a stable and growing foundation for government finances.
- Iraq has some of the most favorable foreign investment laws in the Middle East.
- Macroeconomic fundamentals far surpass most of the rest of the Middle East, and foreign direct investment are all relative plays.

*There is no other country in the world with 30 million or more people, which has an investor-friendly political culture, has suffered decades of underinvestment, and has stable access to growing government revenues.*



With offices in Washington DC, Dubai and Kampala, Dunia Frontier Consultants (DFC) provides consulting services to investors and corporations operating at the frontiers of 21st century business. Dunia has performed dozens of due diligence and market surveys in the agriculture, oil and gas, manufacturing, logistics, and real estate sectors of Iraq.

With a world-class staff and highly efficient global network of consultants and partners, we support your endeavors in several key areas:

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- **Risk Reporting and Analysis.** Anchored by rigorous data collection and subject matter expertise, we organize and deploy research teams across the Middle East, Africa and South Asia to help our clients mitigate risks and optimize decision-making in key transactions;
- **Business Development.** With well-developed local networks in the world's financial capitals and across key emerging markets, we identify prime market opportunities and business partners for our clients, and provide essential insights to help them navigate new markets.
- **Information Networking and Design.** We develop and refine research methodology and analytic tools to generate useful information for clients operating in data-poor and challenging business environments.

[ Contact: Kyle Stelma, Managing Director | [kyle.stelma@dfcinternational.com](mailto:kyle.stelma@dfcinternational.com) | (UAE cell) +971559259869 ]