

An eye on the alluring leaders, emerging sectors, leading companies, and rising trends shaping the future of the Kurdistan Region of Iraq.

KURDISTAN REVIEW

*Special
Edition*

Diplomacy & Politics
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Human Capital
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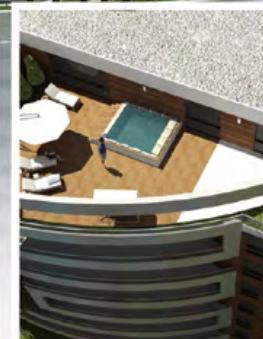
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- Falcon Demining
- Falcon German Trading
- Falcon Transportation
- Falcon Logistics
- Full Service
- Brayati Construction
- Quesco Turbo Machinery Services

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"We warmly welcome the members of the global investment community, and want them to know that the future of the Kurdistan Region is bright and open to their involvement."

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Nechirvan Barzani

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"We have taken bold and creative steps in the area of energy development and foreign investment to ensure that international companies, including bluechips, establish a presence here and help us to develop our energy resources."

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"Our current expectation is that, by 2019, the Region could be exporting around 2 million barrels per day, with an additional one million bpd going into the northern pipelines from fields in other areas in the northern part of Iraq."



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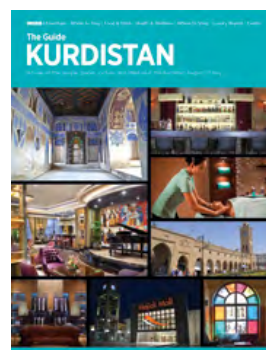
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SUPPLEMENTS



“The Guide: Kurdistan” helps you to experience the social and cultural life in the Kurdistan Region in order to better realize its dynamics. It details the premium hotels, restaurants, health clubs, luxury brands, and shopping centers of the Kurdistan Region.



“The Kurdistan Region Facts & Figures 2013” presents the most accurate and recently updated information on a number of critical sectors. The figures contained therein demonstrate the success of and growing interest in Kurdistan.

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Kurdistan Review

An eye on the alluring leaders, emerging sectors, leading companies, and rising trends shaping the future of the Kurdistan Region of Iraq.

While there is significant turmoil in the Middle East, the Kurdistan Region of Iraq has distinguished itself via its dedication to political stability, democratic governance, economic development, and national cohesion.

The Kurdistan Regional Government (KRG) has fully committed to implementing ambitious reforms with an eye towards further establishing the Region as a major destination for both the regional and global business communities. A favorable Investment Law and stable business environment have enabled Kurdistan to advance its economy across a wide variety of sectors. This development has, in turn, contributed to the Region's rapidly growing reputation as a premier global business and investment destination.

The sustainable growth that is readily apparent throughout key economic sectors can be directly traced to the good governance policies of the KRG, as well as to measurable long-term strategic planning and a strong commitment to the overall development of the Kurdistan Region.

The IIG team based in the Kurdistan Region has met with leading government officials to ascertain the recent achievements, developments, and policies relating to a number of different sectors. Our researchers also met with leading CEOs in the Kurdistan Region to explore their success stories, the opportunities from which they have benefited, and the challenges they have faced.

Kurdistan Review is the most comprehensive economic review ever produced on the Kurdistan Region of Iraq. With our special issue, we aim to update the prominent and engaged global audience on the recent developments in various sectors by highlighting the policies of the KRG and the projects of the leading companies that have shaped the future of the Kurdistan Region.



In partnership with

Department of Foreign Relations (DFR)
Kurdistan Regional Government (KRG)

Special thanks to

Aziz Ahmad, Project Leader, DFR

We would like to express our gratitude to Minister Falah Mustafa Bakir for his support of our project in the Kurdistan Region of Iraq.



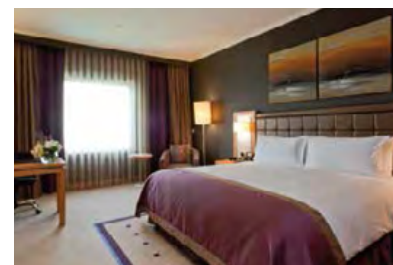
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THE KURDISTAN REGION AT A GLANCE

Established	1991
Status	Federal Region
Political Structure	Parliamentary Democracy
Capital	Erbil
President	Masoud Barzani
Prime Minister	Nechirvan Barzani
Legislative Power	111-seat Kurdistan Parliament

Overview *Diplomacy & Politics*

Commitment to
Democracy & Rule of Law

In a very brief period of time, the Kurdistan Region has managed to achieve a rapidly developing economy, political stability, and national cohesion.

The Kurdistan Region, aided by robust economic performance and a commitment to democratic consolidation, continues to raise its global profile. Kurdistan's democratic credentials, political stability, economic development, and national cohesion stand out in its region, and within Iraq itself. This focus on internal democratic development has been complemented with a pragmatic and confident foreign policy that stands eager to engage regional and global partners. These elements, and the institutional stability they provide, have created an important foundation for the international business community that is successfully establishing itself in the Region. Kurdistan has employed its vast hydrocarbon wealth for both economic and diplomatic ends, establishing itself as a major economic actor in the region and beyond. While some challenges persist, including disagreements with Baghdad and the ongoing civil war in Syria, such issues do not appear to threaten Kurdistan's continued growth or stability. ►

A stable governing coalition composed of the Kurdistan Region's two historically prominent parties, the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK), has overseen much of Kurdistan's recent growth. Parliamentary elections in September 2013, however, saw a decline in popular support of the PUK, and a dramatic rise in popularity of the Gorran (Change) Party, an opposition reformist offshoot of the PUK. While the KDP remains the predominant party in Kurdistan and will invariably carry the most power in the regional government for the next several years, it will have to work increasingly hard to maintain influence amid a growing opposition and a weakened partner.

Constitution (Draft) Article 1

The Kurdistan Region is a region within the Federal State of Iraq. It is a democratic republic with a parliamentary political system that is based on political pluralism, the principle of separation of powers, and the peaceful transfer of power through direct, general, and periodic elections that use a secret ballot.

As a result of major structural reforms, the Kurdistan Region is emerging as a new regional center of attraction for businesses.

Structure

The Kurdistan Regional Government (KRG) is the autonomous governing body of the Kurdistan Region, and holds constitutionally recognized authority over the governorates of Erbil, Duhok, and Slemani. Kurdistan's central legislative body is the Kurdistan Parliament (KP), a 111-member, unicameral body of lawmakers. The President appoints the Prime Minister from the largest bloc to form a government. The cabinet is then approved by the Kurdistan Parliament.

The President of the Kurdistan Region is elected directly by the people of Kurdistan. The President is the Commander-in-Chief of the Peshmerga (who are the Regional Guards). The President, as established by the KP in 2005, is elected every four years, and is legally restricted to serving two terms. Masoud Barzani, the current president, was first elected in June 2005 by the Kurdistan National Assembly, the precursor to the Parliament. Electoral reform implemented in 2009, however, changed policy such that the President is now elected by popular vote. President Barzani was reelected in July 2009, receiving over 70% of the popular vote. The President's Chief of Staff, Dr. Fuad Hussein, heads the President's secretariat, known as the Diwan.

The KRG's governance of the Kurdistan Region is largely autonomous from federal Iraq. Iraq's Constitution recognizes the KRG and the KP as Kurdistan's governmental institutions and identifies the Peshmerga as the Kurdistan Region's military force. The Constitution also gives the KRG authority to exercise legislative and executive authority in certain areas, including allocating the regional budget, security, education and health policies, natural resources management, and infrastructure development.

Additionally, Kurdistan has an independent judicial system. The system is headed by a Supreme Court of Cassation, which decides cases of the highest importance, as well as cases that have been appealed through lower courts. The system also has a number of lower courts that decide on commercial and criminal disputes.

While there is significant turmoil in the Middle East, the Kurdistan Region has distinguished itself via its dedication to political stability, democratic governance, economic development, and national cohesion.

The KP has yet to finalize a constitution to institutionalize the KRG's structure and policies. While the KP approved a draft constitution in June 2009, it is still awaiting the necessary approval by popular referendum to become operational. The revision of the constitution has been a source of heated debate in the Parliament. The draft constitution was to be put to a popular vote in the 2009 elections. In the run-up to the September 2013 elections, a majority of the KP voted to extend President Barzani's term by two years to 2015, as legislative wrangling over revisions in Kurdistan's constitution continued.



The Parliament

The Kurdistan Parliament dates back to 1992, following Kurdistan's uprising and assertion of autonomy. The Parliament serves as the central legislative body of the Kurdistan Region, and demonstrates its enduring commitment to the democratic tradition. A democratic and transparent legislative process, as carried out by the Kurdistan Parliament, differentiates Kurdistan from many of its neighbors, and provides a foundation for its political stability.

Members of the KP are elected through a proportional representation electoral system. In the 2013 elections, a candidate needed to get over 19,000 votes, based on the electorate turnout, to enter the Parliament. The Parliament houses 11 functional committees that oversee legislative issues within their purview. The annual KRG budget, for example, is submitted to Parliament by the Ministry of Planning, and is then reviewed by the parliamentary Committee for Finance and Economy and Committee for Legal Affairs before getting approved. In

addition to legislating Kurdistan's laws and budget, the Parliament is also responsible for ratifying agreements with foreign entities and working with the federal government. The KP's legislative history has been impressive, including the passing of the 2006 Investment Law, Kurdistan's hydrocarbon law, laws protecting women, and developing the draft constitution.

To encourage diversity, 11 seats in the KP are automatically assigned to parties representing minority groups in Kurdistan. Of those eleven, five seats are allocated to Turkoman representatives, five to the Chaldean, Assyrian, and Syriac representatives, and one to the Armenian representative. In addition, a legal minimum quota is in place to ensure that at least 30% of the seats in the KP are held by women.

Parliamentary elections are held every four years in accordance with the Region's electoral law. Voter turnout and political participation in Kurdistan are relatively high: the 2013 elections had a 74% turnout of eligible voters.

KURDISTAN PARLIAMENT

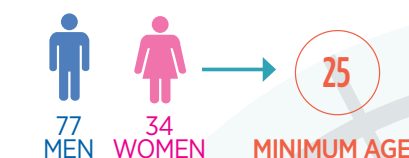
May 19, 1992

The first Parliamentary and Presidential elections

ELECTIONS

4 YEAR TERM

In the 2013 elections, a candidate needed to get over 19,000 votes, based on the electorate turnout, to enter the Parliament.



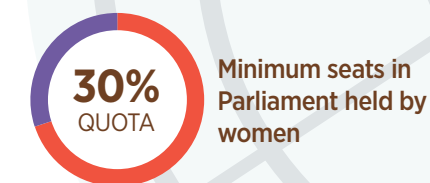
Speaker of Parliament

Dr. Arsalan Baiz

Deputy Speaker of Parliament

Dr. Hassan Mohammed Sura

TOTAL
111 MPs



11 committees oversee legislative issues within their purview

Political Parties and the 2013 Election

The Kurdistan Parliament has, until recently, been dominated by a coalition of the two main Kurdish parties: the KDP and the PUK. President Masoud Barzani leads the KDP, with Prime Minister Nechirvan Barzani serving as the Vice President of the Party. Iraqi President Jalal Talabani leads the PUK, with Kosrat Rasul, Vice President of the Kurdistan Region and Dr. Barham Saleh, former Prime Minister of the Kurdistan Region, serving as Deputy Secretaries of the Party. This coalition, organized under the “Kurdistani List,” won the regional elections in 2009 with over 70% of the popular vote. However, in the recent elections of September 2013, traditional voting patterns changed. With nearly 38% of all votes cast, the KDP received the largest amount of votes of any political party. Consequently, the KDP now holds 38 seats in the 111-member KP.

As a result of his failing health, Iraqi

President Talabani has been largely absent in terms of his PUK activities, thereby creating a leadership vacuum within the party. In response to these and other issues, in the 2013 elections a number of the party’s supporters defected to a rival reformist block, and the PUK received only 17% of all votes. The party now occupies only 18 seats in the KP—a sharp decline from the 29 seats it held in 2009. In contrast, the recently formed Gorran (Change) Party (which advocates reformist policies) has now emerged as the second largest political party in the KP, earning 24% of all votes and a total of 24 seats in Parliament. Led by Nawshirwan Mustafa, Gorran is most strongly supported in the eastern governorate of Slemani. This governorate is the electoral homeland of the PUK, the party with whom Gorran was formerly affiliated.

The Kurdistan Islamic Union finished fourth in the elections, receiving 9% of the vote and 10 seats in the KP, and the

Kurdistan Islamic Group received 6% of the vote and six parliamentary seats. The Islamic Movement of Kurdistan, the Socialist Democratic Party, the Kurdistan Communist Party, and the Toilers Party each earned one seat, respectively.

The 2013 Parliamentary elections proved once again that elections in the Kurdistan Region are conducted democratically and are reliable.

2013 ELECTION RESULTS

POLITICAL PARTIES	Votes	%	Seats	+ / - (2009)
Kurdistan Democratic Party	743,984	37.8%	38	+8
Gorran Movement	476,173	24.2%	24	-1
Patriotic Union of Kurdistan	350,500	17.8%	18	-11
Kurdistan Islamic Union	186,741	9.5%	10	+4
Kurdistan Islamic Group	118,575	6%	6	+2
Islamic Movement of Kurdistan	21,834	1.1%	1	-1
Socialist Democratic Party	12,501	0.6%	1	-1
Kurdistan Communist Party	12,392	0.6%	1	-
Toilers Party	8,681	0.4%	1	+1

TURKOMAN (MINORITIES)

Turkoman Development List	5,259	44.2%	2	+2
Erbil Turkoman List	1,951	16.4%	1	-
Turkoman Change and Reform List	1,926	16.2%	1	+1
Turkoman Movement List	1,753	14.7%	1	-

ASSYRIANS, SYRIACS AND CHALDEANS (MINORITIES)

Rafidain List	6,145	48.2%	2	-
Chaldean, Assyrian & Syriac Alliance	5,730	43.5%	2	-1
Abna Rafidain List	1,090	8.3%	1	+1

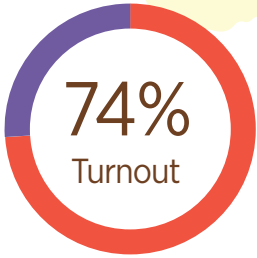
ARMENIANS (MINORITIES)

Barwan Isan Mergoz Batros	531	-	1	+1
TOTAL SEATS			111	111

Election Watch — The 2013 Parliamentary Elections

Eligible Voters

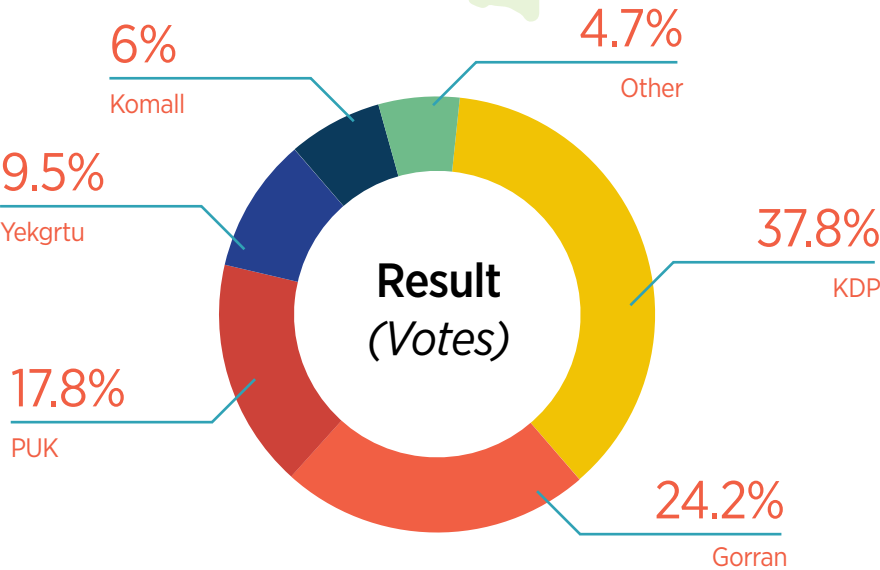
2,653,743



Voters

1,968,775

Major Political Parties



A total of 1,129 candidates (793 male, 336 female) contested the 111 seats in the Parliament. With over 2,800 international observers from 192 countries monitoring the election.

DIPLOMATIC MISSIONS

Consulate Generals
Iran, Russia, Germany, France,
Turkey, UK, USA, Jordan, Palestine

Consulates
Egypt, UAE

Embassy Offices
Korea, Sweden, Romania,
Netherlands

Embassy Consular Offices
Italy, Poland

Honorary Consulates
Spain, Japan, Denmark, Belarus,
Slovakia, Brazil

Commercial Offices
Austria, Czech Republic, Greece

KRG OFFICES WORLDWIDE

Australia
Austria
European Union
France
Germany
Iran
Italy
Poland
Russia
Spain
Sweden
Switzerland
United Kingdom
Washington DC

Operating under the “Good Neighbor” strategy, the Kurdistan Region has established strong bilateral relationships with its neighbors.

Foreign Relations

Political stability, a rapidly developing economy, and strengthened democracy have given the KRG the opportunity to pursue an energetic and broad foreign policy. The KRG’s dynamic foreign relations are crucial and integral components of the Kurdistan Region’s economic and social development. The KRG’s primary body for directing its foreign affairs is the Department of Foreign Relations (DFR), which is headed by Minister Falah Mustafa Bakir. The DFR’s foremost objectives are to raise the global profile of the Kurdistan Region, improve the Region’s international ties with various governments and international organizations, and present the emerging opportunities in the Kurdistan Region to regional and international actors.

The KRG’s foreign policy vision has paved the way for the establishment of various diplomatic representations in Kurdistan. A total of 26 countries have diplomatic presence in Erbil, with Canada and China recently announcing plans to establish diplomatic missions. Multinational bodies, including the EU, UN, ICRC, Japan International Cooperation Agency, and the Korea International Cooperation Agency also have offices in Kurdistan. This significant diplomatic presence demonstrates the confidence that foreign governments place in the Kurdistan Region. Additionally, the KRG’s presence abroad has also grown significantly since 2007. The KRG currently has representative offices in 14 countries.

Kurdistan is determined to work closely with its immediate neighbors in order to contribute stability, security, and prosperity to the region. In accordance with its policy of open door diplomacy, the KRG has been able to forge strong ties with its immediate neighbors in recent years. “We want to develop our relations with our neighbors based on mutual respect, understanding, and benefits. Thanks to our leadership, we have been able to prove to our neighbors that we have no intention whatsoever to harm their interests,” Minister Falah Mustafa Bakir told IIG.

The best example of the Kurdistan Region’s evolving relations with its neighbors is its relationship with Turkey. Flourishing trade between the two, an influx of Turkish investment, and energy agreements have paved the way for increasing geopolitical cooperation, and helped overcome decades of tension. This expanding partnership, built upon mutual economic interests, was symbolized by the visit of Turkish PM Tayyip Erdogan to the Kurdistan Region in March 2011, the first such visit by a Turkish leader. Increasing trade volumes between Turkey and Kurdistan (\$8.4 billion in 2012) empirically demonstrate the importance of this developing relationship.

Kurdistan’s vast hydrocarbon resources have raised the Region’s global profile and positively impacted its foreign relations. The KRG employs the Region’s natural resources for the social and economic development of the people of Kurdistan. In order to increase this development, the KRG is actively increasing investment in the sector, as well as the Region’s channels for hydrocarbon export. In accordance with Kurdistan’s increased investment in energy export, the KRG has completed an oil pipeline, which will allow the Region to export crude oil to European markets through Turkey’s Ceyhan Terminal. The completed pipeline will soon begin exporting high volumes of oil. Additionally, a second, similar pipeline is in planning stages and, when operational, will further increase oil and gas export potential substantially.

As a forward thinking government, the KRG has been able to shape the Kurdistan Region into a gateway to Iraq, not only with its economic development, but also with its active foreign policy vision. Moving into the future, the KRG intends to maintain a dynamic foreign policy based on developing good relations with its neighbors and resolving issues through dialogue. This will allow Kurdistan to strengthen its ability to develop prosperous relationships with foreign capitals throughout the world. 

Political stability, a rapidly developing economy, and strengthened democracy have given the KRG the opportunity to pursue an energetic and broad foreign policy.



PRESIDENT MASOUD BARZANI

Farsighted Leadership

President Masoud Barzani provides IIG with exclusive insight into the driving forces behind Kurdistan's success story, the democratic progress that has been made during his leadership, and the policies that have ensured that the Region remains a stable area of operations for the global business community. President Barzani also discusses Kurdistan's regional and global vision for continuing to improve political and economic relations with the world's largest powers, as well as the Region's long-term goal of becoming a key player in the energy sector of the surrounding region.

ABOUT PRESIDENT BARZANI

1946 — Born in Mahabad, Iran

1979 — Elected as the leader of the Kurdistan Democratic Party

2005 — Elected as the President of the Kurdistan Region

2009 — Re-elected as President by gaining 70% of the votes

2011 — Awarded with Atlantic Award for his role in promoting peace, stability, and religious tolerance in the region.

Speaks Kurdish, Arabic, Persian, and English

IIG: What would you say are the driving forces behind Kurdistan's success story?

MB: Two of the most important factors behind this success are the stability and security that exist in the Kurdistan Region. Without these twin forces, we would have found it impossible to achieve the level of development that we currently enjoy. I believe another critical component for our ongoing stability and security is the culture of coexistence, tolerance, and acceptance that has been established in the Region.

IIG: You issued a statement that underlined your commitment to defending the democratic rights of the Kurdish people. How would you assess the progress that Kurdistan has made in terms of democracy?

MB: We have already discussed the importance of stability and security, but I believe that perhaps the greatest success of the Kurdistan Region is the fact that our democratic system has flourished. As a result of the uprising in 1991, for the first time ever, the people were able to liberate all of the Kurdistan Region from the oppressive institutions of the former regime. In March of that year, I gave a speech in Koya in which I declared

that the era of armed revolution was over. Instead, I asked the people of the Region to embrace the concept of free elections. Only by instituting such democratic processes would we be able to establish both our constitutional legitimacy and our governing institutions. It was clear then that the people needed to be the source of the decisions concerning the future of the Region. From that point, we were able to establish the Kurdistan Regional Government (KRG), the Kurdistan Regional Parliament (KRP), and numerous other governmental institutions and offices. Of course, there were deficiencies in this process, as there are with any new government. However, most importantly, the democratic process was established as the guiding principle of the Kurdistan Region. I believe that we now have standing in the international community as a result of this belief.

IIG: How do you assess Kurdistan's energy potential in terms of becoming a key player in the region?

MB: We are in the early stages of the process. The Kurdistan Region is rich in natural resources, particularly in regard to its large deposits of minerals, oil, and natural gas. According to the Iraqi constitution, it is our right to benefit from

“We warmly welcome the members of the global investment community, and want them to know that the future of the Kurdistan Region is bright and open to their involvement.”

these resources. Therefore, we currently have many of the major oil companies working here. We are committed to the contracts that have been signed and we are strongly supporting their implementation. As I said, we are at the beginning of this development. However, I believe that there are obvious signs that the future of the Region is bright.



“Both the culture and the people of Kurdistan will never allow for terrorism, violence, or extremism to establish footholds in the Kurdistan Region.”

IIG: How essential are collaborative efforts between the Kurdistan Region and the federal government of Iraq in order to combat common regional challenges?

MB: Coordination and cooperation between the federal government and the KRG is of fundamental importance, and this extends to numerous bilateral issues. We live in a challenging part of the world, and a lack of coordination and cooperation could easily produce negative consequences. Certainly, there will be new developments and complex challenges within the region, and the strength of this relationship will play a vital role in our ability to address them. Both the federal government and the KRG are hoping for a positive future, and our being able to tackle unexpected obstacles together will ensure that both sides will benefit as a result.

IIG: How would you categorize the Region's political and economic relations with the GCC countries?

MB: The Kurdistan Region has strong, open relations with the Gulf countries. We firmly believe that we can benefit from the experience of others, so we welcome political and economic relations with these countries, as well as the rest of the global community. The Region has high potential for development, and foreign expertise will be essential in allowing us to achieve our goals.

IIG: What is the administration doing to ensure the Region remains a stable area of operations for the global business community?

MB: We live in a region that is constantly changing, and it is impossible to predict future developments or their potential outcomes. So, from the very beginning, we believed the only way to remain strong and stable was to create solid democratic foundations. We established free and fair elections and instituted the concept of a peaceful transfer of power via the ballot box. It was and still is the people of the Region who decide what leader deserves to be in power, rather than one individual holding permanent authority. As a result of this dedication to democracy, we created institutions predicated on both the constitution and the rule of law. We believe that, as a result of all of these efforts, we have established a system that will guarantee that we remain stable and secure in the face of an ever-changing world. As a result, both the culture and the people of Kurdistan will never allow for terrorism, violence, or extremism to establish footholds in the Region.

IIG: Kurdistan has been forging strong economic ties with the world's largest economic powers. How would you characterize Kurdistan's regional and global vision in terms of continuing to improve medium-term political and economic relations?

MB: Our strategy is one of openness, and extends to any and all countries that are interested in developing relations with the Kurdistan Region. Among the countries that have already done so, Turkey is certainly very important to us. It is both our neighbor and a developing country, so we have many things in common. This relationship further reflects the idea that the modern world is based on mutual interests, particularly those relating to economics. Above all else, economics allows for development and the pursuit of solutions to complex problems. So, in this regard, we are open to every country that seeks to establish both mutual interest and mutual understanding.

IIG: What message would you like to convey to the global investment community regarding the future of the Kurdistan Region?

MB: We warmly welcome the members of the global investment community, and want them to know that the future of the Kurdistan Region is bright and open to their involvement. As I said before, we are in the early stages of our development, so there are many opportunities for involvement here in the Region. With that in mind, we invite the global investment community to visit Kurdistan and see what we have to offer. ①

Shaping the Future of the **KURDISTAN REGION**

Prime Minister Nechirvan Barzani provides IIG with exclusive insight into the main pillars of the KRG's policy in terms of development, the major structural reforms that his government has achieved, the key projects for the diversification of the investment, and the role the oil and gas sector has played in the development and stability of the Kurdistan Region. PM Barzani also discusses the bilateral relations with neighboring countries, the key sectors that will offer the most opportunities for job creation, and the importance of promoting the democratic voice of the Kurdistan Region worldwide.

IIG: What are the main pillars of the KRG's policy that will allow the Region to continue the momentum that it has gained in recent years?

NB: There are three key elements to our success. First, we have provided a stable and secure environment for our people and for our businesses to develop. Without this, and without the support and cooperation of our people with our security forces, what you see today in the Kurdistan Region would not have been possible.

Second, we are trying to use our limited resources to develop the infrastructure – both physical and human – to allow our economy to grow and our people to enjoy the benefits of this growth.

Finally, we have taken bold and creative steps in the area of energy development and foreign investment to ensure that international companies, including blue-chips, establish a presence here and help us to develop our energy resources.

IIG: What structural improvements has the KRG achieved in terms of reforming the administrative system?

NB: Our administrative system has evolved a great deal since the early 1990s when we began from scratch, but we still have far to go.

It is important to note that in 1991, after the establishment of the safe haven and no-fly zone, Saddam Hussein withdrew not only his troops but the entire administration and public services in the Kurdistan Region. Overnight, we had to step in and take over schools, hospitals, and the running of a region that had been devastated by genocide, chemical bombardment and the destruction of thousands of villages.

I'm proud that our people stepped up to this challenge and we were able to cope, despite the shortcomings and sacrifices people had to make. For example, there were times when there weren't sufficient

funds to pay teachers' salaries but they continued to work because they didn't want the next generation's education to suffer as theirs had.

In the two decades since then, we have been able to improve in many areas. We took a significant step forward in 2006 when the Erbil and Slemani administrations were unified. We have adopted laws that promote accountability and transparency. We have invested in training civil servants, published the KRG's oil contracts, participated in internationally-recognised transparency initiatives and created a specific department within the Council of Ministers to promote and implement meaningful measures to fight corruption and promote transparency.

The KRG is working closely with the UK National School of Government to build and improve human capacity and further develop our public services. We have also signed a long-term agreement

About

1966 — Born in Barzan

1989 — Elected to the leadership of the Kurdistan Democratic Party (KDP)

1996 — Appointed as the Deputy PM of the KRG

1999-2009 — Served as the PM in two successive cabinets

2010 — Elected as Vice President of the KDP

2012 — Formed the 7th cabinet of the KRG

2013 — Elections resulted in KDP's landslide victory
Speaks Kurdish, Persian, English, and Arabic



with PricewaterhouseCoopers (PwC) to develop and implement our good-governance and transparency strategy. These important initiatives are also strongly supported and promoted by the KRG Department of Foreign Relations and KRG Board of Investment as both work closely in conveying our messages and needs to the international community.

We have made substantial progress and the public has high expectations of its government, so we will continue to try to minimise bureaucracy and promote transparency.

IIG: What is the medium-term policy of the KRG in terms of prioritizing key areas for investment and development?

NB: We have three priority sectors: agriculture, industry, and tourism. This Region was once the breadbasket of Iraq and the majority of the workforce worked in agriculture until the 1970s. But the destruction of our villages and the conflict with the former regime left the countryside destroyed and empty of people. We need to rebuild the agriculture sector to create jobs, ensure Kurdistan Region's food security and to produce, market and export our products to the world.

Tourism is another sector that can help revive the countryside, as well as our cities, and provide jobs. Our Region has a rich heritage and a people with a welcoming culture. It's time we used these to advantage our society.

We also want to focus on industry as a way of bringing Kurdistan Region's economy into alignment with other countries in order to become a producer and not just consumer.

We have given these three sectors priority because we don't want to be over-reliant on oil and gas, but it doesn't mean that the other industries are not important. We need investment in many sectors.

IIG: What role can the oil and gas industry play in the development and stability of the Kurdistan Region, as well as in furthering relations with neighbouring countries?

NB: The liberation of Iraq has given us many opportunities, one of them is that

for the first time in our history we are able to manage our natural resources and to use them for the good and prosperity of the Kurdistan Region. Electricity is no longer in short supply, even though demand is increasing rapidly as our economy grows. We can plan for the future as we will have an income that will benefit us and the whole of Iraq.

At the same time, having this resource is helping us to further our cooperation with our neighbors and to put this Region on the world energy map. Turkey is an important neighbor and an influential player in the Middle East. Its growing

“We have invested in training civil servants, published the KRG's oil contracts, participated in internationally-recognized transparency initiatives, and created a specific department within the Council of Ministers to promote and implement meaningful measures to fight corruption and promote transparency.”

economy means that its demand for energy will increase. We have that resource and we can use it so that we all benefit.

Kurdistan Region is also strategically placed as such that countries in Europe are now considering our assets when they reflect on their energy security. These developments create win-win situations.

I would like to add that our oil contracts, whether with an oil major or a medium-sized company, have a positive impact at a community level as well. In all of the contracts there is the social responsibility agreement with the companies, including infrastructure and human

capacity development, building homes, schools, hospitals, and other services critical to the needs of our people. This is something that is often overlooked by the local and international press.

IIG: What policies will the KRG pursue in order to strengthen the financial sector in particular so as to support this progress?

NB: We lack a modern and productive financial system. Access to credit, to trade financing, and the development of a consumer and corporate credit market are essential to further the Region's economic development. This is a problem that affects all of Iraq. We have seen some small steps, but there is much work to be done.

We are planning legislation to promote the financial sector, such as insurance, and we plan to create institutions such as the Erbil Stock Exchange to give a platform for local companies to raise funds.

Several international banks have a presence here but we need more of them and we need them to offer more services, particularly to businesses. We also need a banking system that offers mortgages so that housing can become more affordable for those on lower incomes.

We have seen several small steps from international banks here, and we anticipate more in the future.

IIG: With the rise of a younger generation that is increasingly well qualified, which sectors do you expect will offer the most opportunities for job creation?

NB: Our young people, like those in many other countries in the Middle East and Asia, look to the government for jobs. The pension is attractive to them and the idea that they can have a job for life. We want to move people away from that and to make the private sector much more attractive and dynamic. To achieve that there needs to be a better balance between public and private sector pensions and a realisation among our young people that quite often the private sector offers better pay and opportunities.

Outside of the public sector, the retail and hospitality industries as well as construction offer many jobs. In the future,



we hope the oil and gas sector will provide more jobs to local people.

As we revive our industry, tourism, and agriculture sectors we hope they too will be hubs for job-creation.

IIG: How significant is it for the KRG to strengthen its civil society in order to promote the democratic voice of the Kurdistan Region worldwide?

NB: In 1992, when we had our first parliamentary elections, we reserved five seats out of 105 for minorities, and this policy continues today. We demonstrated then, as we do now, that our success as citizens of the Kurdistan Region is intertwined.

We have done much to protect women's rights and to try to prevent violence against women. For example, there is a 30 per cent quota for female members of parliament and we have provided training for the police in tackling the issue of honor-based violence. But we need to do more and we need to continually be vigilant that we aren't becoming complacent. Where possible, the KRG has worked hand-in-hand with non-governmental organisations to promote the well-being of our citizens, be they ethnic or religious minorities or women.

The KRG also provides stipends and resources to many groups to carry out

research or to take care of vulnerable groups, without trying to influence their work.

Today we are praised for not only protecting minorities but in providing refuge to those fleeing from violence in other parts of Iraq and in Syria, which brings me to how we are viewed internationally and within Iraq.

We have promoted dialogue and peace, not only in the Kurdistan Region and Iraq, but also with neighbouring countries. We have been committed to forging democracy in Iraq, even though there have been major setbacks. We are committed to promoting the dialogue towards peace in Turkey.

Such issues require leadership and a realistic approach that acknowledges that there will be stumbling blocks on the way, but engaging in a peace process or dialogue, even if it appears to be progressing slowly, is always better than conflict.

All these efforts complement one another to send a strong message to the international community that we genuinely believe in democracy, the rule of law, and being a source of stability.

IIG: What is your key message to the globally engaged business and investment community?

NB: My message is that Kurdistan Region

“We have taken bold and creative steps in the area of energy development and foreign investment to ensure that international companies, including bluechips, establish a presence here and help us to develop our energy resources.”

is open for business and there are many opportunities here for those who wish to be part of this Region's historic turnaround from being an oppressed, neglected part of the world to being a democratic society with a dynamic, investor-friendly economy.

The KRG supports investors by offering incentives for strategic projects, especially those in line with the needs of our people and government.

Our rich and vibrant region can be used as a platform for doing business in all of Iraq. This Region is not just a market for 5 million people, but has access to a market for over 30 million. ☞



Establishing Stability

Dr. Fuad Hussein

Chief of Staff to the President of the Kurdistan Region

Dr. Fuad Hussein provides IIG with exclusive insight into the KRG's legacy of political stability, the evolution of the Region's relations with Turkey, and the perceptions of Kurdistan abroad.

“We are committed to the federal constitution, and we are of the opinion that the establishment of a strong democratic, federal system in Iraq would benefit all parties involved.”

IIG: How would you characterize democracy in the Kurdistan Region?

FH: The Kurdistan Region has many political parties that are reflective of the diversity of the Region. Today, we have more than 40 political groups, which range significantly in their size, makeup, and beliefs. The Kurdistan Parliament (KP) reflects this diversity. It features 111 seats, a majority of which are occupied by the coalition government that combines the KDP, the PUK, and some other smaller parties. There are also three opposition groups, two of which are Islamist and the other is secular and more leftist. Then, of course, there are seats in the KP reserved for minority groups. The Kurdistan Region is not just composed of Kurds, but rather also includes

Turkoman, Assyrians, and Chaldeans. We have Muslims, Christians, and Yazidis as well. So, there are representatives from the political groups, but then also the national and religious communities as well.

IIG: How do you think the Kurdistan Region has been able to establish such prolonged stability, especially given recent events in the surrounding region?

FH: I think there are two reasons that the Region has had such stability. Firstly, there was never any gap in terms of leadership. When the previous regime collapsed, the Kurds already had their own government, Parliament, political leadership, and political parties. Moreover, our political parties have their roots in the people. The Kurds have been in resistance for many years, so they also have concrete ideas about how best to secure their own futures. Secondly, as part of that resistance, we had military forces [the peshmerga] in place. So, we had our own security services, our own political groups, our own government, and our own leaders. This created a feeling of strong unity, which then facilitated stability.




“The Kurdistan Region is a success story in terms of security, but also economic development, social openness, religious tolerance, and the implementation of a democratic system.”

About

Dr. Fuad Hussein is the Chief of Staff to the President of the Kurdistan Region. He holds the rank of minister and plays an active role in the KRG Council of Ministers. Dr. Hussein earned his PhD from Amsterdam University in the Netherlands, where he also served as a lecturer. In 1985, he published his influential work, “The Legal Concept of Self-Determination and the Kurdish Question”.

Turkish companies here even before 2008. I believe that the change came from within the current government of Turkey. The AKP [the ruling party in Turkey] changed its policy towards both the Kurdish issue and the Kurdistan Region. This shift impacted their overall behavior, specifically in regards to their willingness to pursue new approaches in their relations with us. Simply put, I think that the Kurdistan Region became more of a reality in their eyes. So, since 2008, we have achieved a high level of cooperation based on mutual interests, as well as geography and common history.

IIG: Regarding the leadership of the Kurdistan Region, when President Barzani attended the World Economic Forum in Davos, he did so for the first time while functioning as President. What do you think this distinction meant in terms of defining the Region's standing and prestige on an international level?

FH: I do believe that this recognition owes to our people, their struggle, their quest for freedom, and the fact that they successfully built our country from nothing. However, when we meet with different groups, we can see that people interact with the President as though they are interacting with a head of state. I think this indicates two different things. Firstly, it shows that people are recognizing the Kurdistan Region as an important economic power in the region and as an economic power for the future. Secondly, and perhaps more obviously, it means that people are therefore recognizing the leadership of the Kurdistan Region as being integral in that success. So, they invite us to these meetings and engage in meaningful dialogue with our leaders. We are politically, geographically, and economically a part of Iraq. We are committed to the federal constitution, and we are of the opinion that the establishment of a strong democratic, federal system in Iraq would benefit all parties involved. Nevertheless, I feel that people do approach us in a manner that reflects their view that we are an independent state in a period of economic boom. 

IIG: Do you think it's fair to categorize the Kurdistan Region as a success story in terms of providing security both for its own people and for the foreign companies operating here?

FH: The Kurdistan Region is a success story, not only in comparison to the rest of the country but to the rest of the region as well. Certainly, it is a success story in terms of security, but also economic development, social openness, religious tolerance, and the implementation of a democratic system.

IIG: Looking further abroad, Turkey has obviously become a strong source of political and economic support. How would you categorize relations between Erbil and Ankara?

FH: The relationship between Erbil and Ankara is very strong. However, this wasn't always the case. There has been a significant shift in our relations since 2008. Many people argue that this new relationship was established solely because of Turkish economic interests. I am not of that opinion. Certainly, it plays a role. However, there were hundreds of

Securing a Rapidly Developing Society



Karim Sinjari
Minister of Interior

Minister Karim Sinjari provides IIG with exclusive analysis of the operations of the Kurdistan Region's security apparatus, as well as the challenges of confronting new and evolving threats associated with the Region's rapid development.

IIG: Can you provide us with a brief summary regarding the establishments that comprise the Kurdistan Region's security forces?

KS: The Kurdistan Regional Government is comprised of a variety of security forces, all working in concerted cooperation to deliver dedicated and quality security services to the people of the Kurdistan Region. Within the Ministry of Interior (MOI), there are a variety of police forces that specialize in specific sectors. These include general police, as well as specialized forces for traffic control, crime fighting, criminal evidence, oil sector security, and civil defense, among other specialties. Our security forces also include the Regional Security Agency and the Asayish Security Force. The Asayish are an intelligence agency much like the American FBI or the British MI-5. Finally, Kurdistan has Regional Guards, commonly known as the Peshmerga, that serve as our legally constituted military defense force.

About

Karim Sinjari was initially appointed as Minister of the Interior in May 2006, and was reappointed in October 2009 and April 2012. From 2001 to 2006, he served as the Interior Minister in the KRG's Erbil and Dohuk administration, and was elected to the central committee of the KDP. Prior to that time, Sinjari worked as the Director General of the Kurdistan Region's security service from 1993 until 2001. He is fluent in Swedish, English, Arabic, and Persian.

IIG: How has the MOI been able to maintain such a commendable reputation in terms of overall security when the region in which Kurdistan is located remains so unstable?

KS: The Kurdistan Region has a number of elements which, when taken in combination, allow us to realize a very high level of security. First, we have very dedicated, loyal, and experienced security forces. They take their work very seriously, as they know they are protecting their homes, their families, and all of the residents of the Kurdistan Region. Second, we have a population that is very supportive of our security forces and work in cooperation with our objectives. Unlike the situation under the previous regime, in which people were afraid of the security forces, today people are eager to share information with us about suspicious persons or activity. This is due to the people's understanding that we are working for them. Finally, the people of Kurdistan reject the philosophy



of violence and terror. Taken in combination, these features create an environment that is very conducive to the settling of peace and stability.

IIG: What role has the MOI played in terms of developing and facilitating that overall stability?

KS: There are several areas in which the MOI has played a role in developing the Region's stability. For example, we demand a high standard from our policemen and employees, and we have increased the numbers of our security forces. We have also obtained and continue to procure much needed equipment and modern technologies. This is an especially important area, because for decades we had been left behind by the wave of modernization that had swept through modern law enforcement. Finally, we have worked hard to modernize our laws to provide greater understanding of and respect for human rights.

IIG: How much cooperation is there between Erbil and Baghdad in terms of dealing with potential security threats?

KS: We maintain a high level of cooperation with Baghdad. The KRG's MOI has employees who are imbedded in the Federal Ministry of Interior in Baghdad, and we regularly exchange delegations back and forth between Erbil and Baghdad. Additionally, we routinely share information of mutual concern.

IIG: What are the MOI's plans for the future in terms of new equipment, training, and further modernization?

KS: We are constantly seeking ways to improve the capabilities of our security forces. In terms of equipment, we are always looking for new forensic equipment that will enable us to achieve a modern, international standard in our forensic investigations. We would also like to improve our abilities in terms of dealing with financial crimes and enhance our capability in combatting crimes relating to narcotics.

In the past, these types of crimes have not presented major problems for us. However, as a result of the rapid development that the Region has experienced, they are becoming increasingly problematic now. So, we have plans to focus on improved awareness in these areas, to more effectively combat these crimes.

IIG: What additional issues do you see emerging as a result of the rapid development occurring within the Region? What role can the MOI play in mitigating those challenges?

KS: On one hand, there are factions who may be jealous of our progress in delivering development to our people. These actors may seek to destabilize the prosperity that we have achieved or aim to achieve. So, we are always on guard against these external threats. Other concerns we have relate to the rapid

"The people of Kurdistan reject the philosophy of violence and terror. Taken in combination, these features create an environment that is very conducive to the settling of peace and stability."

pace of development, and crimes that are associated with increased prosperity, modernity, and openness. Prior to our liberation from the previous regime in Baghdad, we lived under a significant degree of isolation. The regime prevented the Region from achieving many of our goals, and the sanctions implemented after Kurdistan's uprising further stunted our development. Now that we are rapidly catching up, we will have to face many of the problems of a modern society, which were less prominent in the past. These include cyber-crime, financial crimes, drug offenses, and an array of other scams and criminal activity. Therefore, with our development, we must also constantly update our security forces' training and obtain the latest technologies to counter these growing potential threats. ☞

Open Door Diplomacy



Falah Mustafa Bakir

Head of the Department of Foreign Relations

Minister Falah Mustafa Bakir details the Kurdistan Region's strategic foreign policy goals and objectives, development as an international actor, and current relations with both its immediate neighbors and the United States.

About

Falah Mustafa Bakir was born in Erbil in 1964. He holds a B.A. degree in English Language and Literature from the University of Mosul, and a M.A. degree in Development Studies at the University of Bath in the UK. He also completed the Executive programme for senior managers in government at Harvard University's Kennedy School of Government.

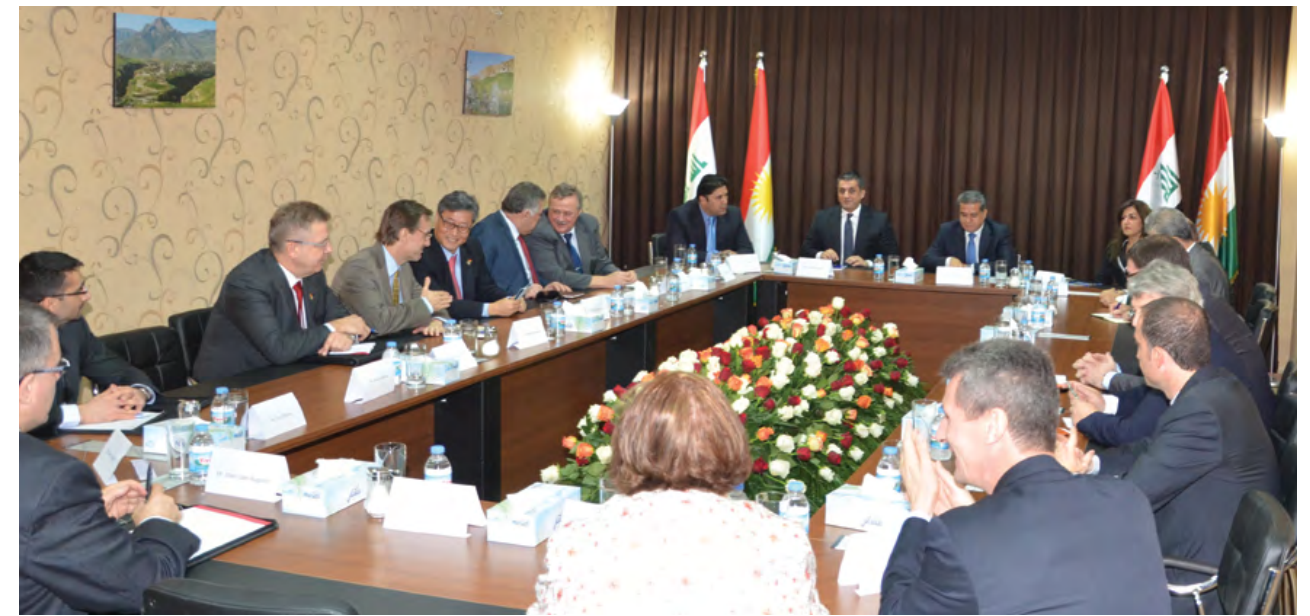
IIG: What are the key objectives and goals for the Department of Foreign Relations (DFR)?

FM: The KRG is a forward-looking government that wants to ensure a bright future for its people. Once we determined that to be our goal, we then had to make the preparations and the roadmap for how to get there. To get to the stage where we can interact with the international players, we first have to pave the way for better relations with our neighbors, with the countries in the Middle East, and with the nations across the world. We have, therefore, adopted an open door policy that allows us to reach out to the international community and tell them who the Kurds are, what the Kurdistan Region is, what we hope to achieve, and where we want to go. We have been able to work with the Iraqi Federal Foreign Ministry to attract and encourage foreign countries that have embassies in Baghdad to open representations in the Region. So, one of the pillars of this policy has become the establishment of foreign representations in Erbil. We are also working diligently to further our contacts to major countries

around the world. A primary means for doing so is through the KRG representative offices abroad. In accordance with the Federal Constitution, we have the right to promote cultural, economic, educational, and investment relations with countries outside both the Region and Iraq. We are therefore working to build and enhance our political, economic, cultural, and educational ties with the outside world.

IIG: What is the primary message that the KRG is trying to communicate to the broader global community?

FM: We want our private sector to have beneficial opportunities to interact with their partners across the world. We want our universities to be connected with their international counterparts. These partnerships are what we hope to achieve. This Region is strong in a variety of ways, but we need partnerships with countries around the world to rebuild our infrastructure, provide better services, and establish our institutions. We have rich natural resources. We have to invest in education and human resources. In so doing, we will be able to further benefit



from our natural resources. Therefore, our overriding goal is to diversify our economy, benefit from our natural resources, build our institutions, and develop the capacity of our people. In essence, we want to put our house in order internally to show the proper image of the Kurdistan Region to the outside world.

IIG: How you would categorize your current relations with your neighbors?

FM: We enjoy very good relations with our neighbors based on mutual respect, understanding, and benefits. We have proven to our neighbors that we are a good partner, and a factor for stability. We are friendly, we do not pose a threat, and we are ready to work with them to find common ground. It is normal to have differences and to have disagreements. However, it is abnormal not to have talks. Therefore, we have always called for open dialogue in order to find proper ground on which to work.

IIG: How would you assess bilateral relations between the US and the Kurdistan Region?

FM: The people of the Kurdistan Region appreciate what America has done for them; we will never forget that it was a coalition headed by the United States that liberated our people from the regime of Saddam Hussein. This means a great deal to us, so both the KRG and the Region's private sector wanted to be partners with

American organizations in order to work towards a brighter future.

I would like to note that we do appreciate the efforts that have been made regarding the travel restrictions. There have been some positive changes, but not to the extent that would give complete assurance to investors contemplating involvement here in Kurdistan. We want and need a clear distinction that reflects the fact that the Kurdistan Region is safe and secure. Direct flights and a simplified visa process would make such a distinction even clearer.

IIG: In certain cases, increased involvement from a country's private sector can lead to increased diplomatic relationships. Do you think a similar situation could happen with the United States?

FM: It can go one of two ways. On one hand, you can have very strong political relations that facilitate increased educational and economic relations, as well as investment opportunities; on the other, you could have the reverse. If you look at our relations with Turkey, we focused on our common ground: business and commerce. Trading was the main pillar of this relationship until a time when, thanks to the dedication and leadership of both sides, we were able to understand the reality of the situation and a decision was made to take it further. In the case of the United States, I think either approach

“We enjoy very good relations with our neighbors based on mutual respect, understanding, and benefits. We have proven to our neighbors that we are a good partner, and a factor for stability.”

is feasible. As I said, we have a welcoming attitude towards America as a result of what they have done for our people. I do feel that they could have done a much better job supporting our democratic experience here in the Kurdistan Region because ours is a model not only for the rest of Iraq but also for the entire Middle East. Thanks to the vision of our leadership and the tolerant culture that we have established, the Kurdistan Region can, I believe, be the model for a democratic society here in this part of the world. ☞

INSIGHT

Expanding Trade Ties



Nick Baird, Chief Executive of UK Trade & Investment (UKTI) —

Nick Baird analyzes the development of UK-Kurdistan business ties, and discusses the key economic areas of interest for British companies considering using the stability and prosperity of the Region as a bridge to enter the Iraqi marketplace.

When I visited Erbil last year, I was immediately struck by the scale of opportunity that exists, and the huge amount of progress taking place as the Kurdistan Region of Iraq continues the path towards modernizing its economy.

With strong growth rates, I hope that these developments, and the relative stability that the region enjoys, can spread to the rest of the country.

The UK will certainly do all it can to support this goal. Our relationship is stronger than ever. We have had a series of Ministerial visits to the Kurdistan Region, which are indicative of our long-term commitment to the Region. Lord Marland, the Prime Minister's Trade Envoy, conducted one such visit in September.

Certainly, if a company wishes to gain a foothold in the Iraqi market, the Kurdistan Region is an obvious gateway. And this 'gateway role' is becoming increasingly important since firms have begun to recognize its potential.

I am pleased to see an increasing number of British businesses realizing the opportunities that the Region can offer, including Standard Chartered, Deloitte, Mott McDonald, Parson Brinckerhoff, Control Risks Group, and the Olive Group, while showing Kurds what we can offer too – expertise, professionalism, and delivery.

This presents major openings for both Kurdish and UK companies to work together in partnership, particularly in areas where Kurdish businesses welcome UK knowledge and expertise, including infrastructure, energy, education, finance, healthcare, and education.

British firms are already doing well, with over 110 British firms active in the Kurdistan market. Land Rover, for example, chose Kurdistan as its base for regional operations. Gulf Keystone is doing very well and aims to become one of the leading producers of hydrocarbons in the region, while Genel Energy has generated great results for the first half of 2013 with its Bina Bawi, Chia Surkh, and Tawke discoveries.

Meanwhile, UK construction and project management firms are delivering

major projects in the education, healthcare, housing, transport, and infrastructure sectors. Our architecture and design firms continue to enjoy success, including a role in designing the Erbil and Slemani Airports, while UK legal and financial firms are helping to develop the business services upon which the Kurdish and Iraqi economies will rely. UK education and healthcare companies also aim to make major contributions.

We are very keen to develop and expand these relations in whatever ways possible. Take education, for example. Partly as a result of the large number of Kurdish students attending UK universities through the KRG's Human Capacity Development Program, we have established thriving educational links. In fact, an increasing number of British universities have formed partnerships with their counterparts here in the Region – we hope that some at least will consider opening their own campuses here. Additionally, the British Council has played a significant role in expanding educational opportunities by providing English language training and examination services for local students.

During Lord Green's visit to Iraq earlier this year, he gave a commitment to deliver a trade mission to Baghdad, Basra, and Erbil in late 2013. This will be the largest ever UK business mission to Iraq and the Region, to see firsthand the huge potential that exists there.

“When I visited Erbil last year, I was immediately struck by the scale of opportunity that exists and the huge progress taking place as the Kurdistan Region of Iraq continues the path towards modernising its economy.”

Meanwhile, UKTI will be bringing 40 Kurdish investors and business people in an inward investment mission to the UK at the end of 2013. We believe that we are entering a new phase in our business relations with the Region, as this will be the first mission of its kind.

While we very much welcome further commercial involvement, in order to win work, UK companies need to be present on the ground in the Region. We are delighted that a number are now planning to open offices here. The recent opening of a branch of the Iraq British Business Council in Erbil will also help boost the UK commercial profile in the region. It is clear from talking to Kurdish leaders that the UK has a well-respected brand. But competition from other nations is intense, and work is needed to encourage more suitable UK exporters to consider the Kurdish market.

We want to make it easier to do business between our countries, which is why Lord Marland formally launched a new visa application center on 24 September, catering to all categories of

visitor, so people no longer have to travel to Amman or Baghdad to apply for a UK visa.

We are also building a new and permanent consulate facility in Kurdistan, which should be operational in 2015. British business involvement here in the Region is huge and we are very proud to be playing a role in its continued presence.

But our relationship is, of course, not one-way. The Kurdish community in Britain plays a crucial role in improving UK-Kurdistan business ties, and the Kurdish diaspora living in the UK provides us further insight into the market. Indeed, people who hold dual nationals or have strong links to Britain drive quite a significant proportion of the business activities.

My hope is that as Britain and Kurdistan build upon this important and valued relationship, it will continue to unlock exciting opportunities, strengthen ties, and enable business to flourish and prosper between our nations – consolidating our ambition to be Kurdistan's international partner of choice.

“Certainly, if a company wishes to gain a foothold in the Iraqi market, the Kurdistan Region of Iraq is an obvious gateway. And this gateway role is becoming increasingly important since firms have begun to recognize this potential.”

Q&A



Strong Relations

Hugh Evans
British Consul General,
Kurdistan Region

Hugh Evans gives IIG his thoughts on the current relations between the UK and the Kurdistan Region.

IIG: How important do you think it is for British companies to establish commercial relationships with local or regional companies?

HE: I believe that British companies are increasingly pursuing such opportunities; collaborating with regional companies to enter the Kurdistan market via a joint venture is a logical way for our companies to facilitate the development of the Region. For example, in the last 2 years, there have been a number of meetings that brought together British and Turkish companies in Istanbul. We may pursue similar opportunities with UAE companies. We feel that the experience and regional familiarity of British companies makes them attractive partners for international companies examining the Kurdistan market. We feel that all of these factors give us even more leverage to be able to identify the commercial opportunities available.

About

Hugh Evans has been working in the Foreign Service for 28 years. He previously served in Washington, Kenya, Khartoum, and Moscow. He was appointed to his current post in 2012.

IIG: Is there any misconception among the British business community regarding the security situation in Kurdistan?

HE: Unfortunately, there is. The popular image of Iraq is not very positive and the security situation outside of Kurdistan affects activities here negatively. However, our travel advice regarding the Kurdistan Region is very clear; we consistently encourage people to come to the Region, regardless of whether they're coming for business or tourism. In our experience, every company that comes here to see the situation inevitably comes back once they see firsthand the stability and strength of the Kurdistan Region.



The partner of choice

Alistair Burt,
UK Minister for the Middle East

IIG talks to Minister Alistair Burt on the current bilateral relations between the UK and the Kurdistan Region, and his medium term expectations regarding the economic and political progress of the Region.

This interview was given in September 2013. Alistair Burt has since been replaced as Foreign Office Minister for the Middle East by Rt Hon Hugh Robertson.

IIG: In terms of the UK's Middle East policy, where does the Kurdistan Region fit?

AB: Iraq is a key country in the Middle East, and so we are committed to seeing it become increasingly stable, prosperous, and democratic. The Kurdistan Region has a major part to play in that.

We hope to see a resolution to the various disputes between the KRG and the Federal Government, increasing Iraq's stability; the Region continuing to act as a gateway for international trade and investment, increasing Iraq's prosperity; and free and fair elections this autumn, increasing Iraq's democracy.

IIG: What role would you say British businesses have played in furthering bilateral relationships?

AB: I think British businesses' engagement with the region is a crucial part of this. It shows Iraqi Kurds what we can offer – expertise, professionalism, and delivery – and increases the understanding of the Region back in the UK. I want to see the UK, and UK businesses, be the partner of choice in the Kurdistan Region.

IIG: What role do you expect the Kurdistan Region to play in helping European countries meet their growing demands for oil and gas?

AB: Newspapers and journals have been filled over recent years with articles about the Kurdistan Region's enormous oil and gas potential, and Erbil feels like a town experiencing a genuine boom. Meanwhile, Europe's energy demands continue to grow. So there is clearly potential for the Region's supply to help meet Europe's demand – or that of other parts of the world. This will, however, depend upon the routes that are available for exporting the Region's energy.

IIG: The British Parliament unanimously recognized the Kurdish genocide in Iraq. What is the UK government's position on the recognition of the Kurdish genocide?

AB: I was privileged to be part of the deeply moving and well-informed debate on this subject in Parliament earlier this year. Saddam's campaign against the Kurds was, simply, horrific. The Assad regime in Syria has provided us with a vivid and tragic reminder of the horror of chemical weapons. I have every sympathy with the victims, and those who lost family members or friends, and I stand alongside Iraq's Kurds in saying we must not allow such weapons to be used again with impunity.


Since Parliament's debate, I have also considered again carefully whether the UK Government should formally recognise the Anfal campaign as a genocide. The difficulty is that genocide is a crime, and Governments simply aren't best placed to determine where crimes

“There's clearly huge potential. I hope that the Kurdistan Region will continue its economic and political progress, and act as an example of stability and prosperity in a turbulent region.”

have and haven't been committed. This is a judicial question which needs to be answered by a credible judicial process, and that is how genocide has been recognised in the past. As a result, I've had to conclude that the UK Government is unable to recognise this as a genocide. But this does not for a moment change the revulsion that we feel about what happened, or our utter condemnation of it, and I am pleased that this issue has received greater attention here, including from Parliament, over recent months.

IIG: What are your medium term expectations regarding the economic and political progress of the Kurdistan Region?

AB: There's clearly huge potential. I hope that the Kurdistan Region will continue its economic and political progress, and act as an example of stability and prosperity in a turbulent region.

There are challenges, though. Partly, these come from wider instability in the region. We hope that the KRG will be able to come to an agreement with the federal Government on their dispute over hydrocarbons, which could offer a 'win-win' by providing more certainty for all. 

INSIGHT Looking Ahead

KRG DEPARTMENT OF
FOREIGN RELATIONS

Over the past five years, the Department of Foreign Relations (DFR) has become a vital link for the Kurdistan Regional Government to the outside world, as improved international ties are essential to its future growth and security. The DFR was formed in 2007 to lead on several fronts, including representing the Kurdistan Region to the international community and serving as a focal point for diplomatic channels, think tanks, media outlets, investors, and businesses.

During this challenging mission, the DFR has encouraged neighbors and its friends abroad to establish a diplomatic presence in Erbil to pave the way for political, economic, cultural, and educational exchanges and opportunities. There are now over 26 foreign representations in the Kurdistan Region. The DFR is proud of this achievement and believes that this makes a strong statement about the importance and confidence that foreign governments attach to the Kurdistan Region.

The DFR has facilitated the appointments of several new KRG Representatives in Europe to promote awareness and build ties with important member states. Over the past two years, the DFR has appointed new representatives to France, Italy, Sweden, Brussels, and Austria, and it is in the process of identifying other countries.

Today the KRG has 14 Representations in key, strategic locations to work with its vibrant and active Diaspora community to develop strong international partnerships.

The staff members come from rich backgrounds – many expats who have returned to contribute to the rebuilding of their Region and to apply their skills set

for the betterment of their department. A significant number of the DFR's staff members are female – many are abroad as part of the Human Capacity Development Programme (HCDDP) to pursue postgraduate studies and return to apply their experiences to the DFR. Young people need training in the areas of management and diplomacy, and the DFR is always on the alert for opportunities to improve the skills and abilities of its personnel.

The key challenges for the DFR over the next few years will be to institutionalize the Department. They have established working groups to visit other ministries and departments to conduct the following:

- Gather annual facts and figures
- Compile guidelines and policies for inter-cooperation with KRG authorities
- Produce key publications with reputable, international firms
- Facilitate the establishment of new KRG Representations abroad
- Enhance communications with other foreign ministries and investment agencies in the international community.

Their work has been challenging, but they are optimistic. They have strong will from their staff and they have the support from their leadership.

The DFR has solid communication with the Federal Ministry of Foreign Affairs in Baghdad, and discussions about making the Department part of the Iraqi Diplomatic Mission are ongoing. The KRG's representations abroad have working relationships with the Iraqi Embassies and they coordinate official visits with respective embassies.

But there remains much to be done. Meaningful topics for the next few years include:

- Moving to new, permanent premises
- Creation of country and regional desks
- Forging strong ties with well-known think tanks and institutions
- Establishment of a strong information and media directorate
- Diplomatic status for the KRG representations

“A significant number of the DFR's staff members are female – many are abroad as part of the Human Capacity Development Programme to pursue postgraduate studies and return to apply their experiences to the DFR. Young people need training in the areas of management and diplomacy, and the DFR is always on the alert for opportunities to improve the skills and abilities of its personnel.”

There are also discussions regarding establishing a diplomatic training institution in the Kurdistan Region for the Department's staff and for those in representations abroad.

The KRG's DFR has a challenging and exciting road ahead of it, but the DFR is confident that the Department will continue to serve as a key component of the Kurdistan Regional Government and its communication with the international community.

Today, the Kurdistan Region is becoming a growing player on the international scene, and the DFR is playing an important role in that effort.

The future of the Kurdistan Region looks bright.



Kurdistan in the UK

Bayan Sami Abdul Rahman

The KRG High Representative to the UK

Bayan Sami Abdul Rahman provides exclusive insight into increased relations between the KRG and the British government.

I was knocking on a lot of doors of trade organizations. They were very hesitant because they did not differentiate the Kurdistan Region from the rest of Iraq. Also, nobody in the UK was interested in terms of going to Kurdistan or doing business. We have tried to build confidence amongst the British business community. We have encouraged Kurdish trade organizations to come to the UK and to meet people and try to find partners for themselves. By 2006, we managed to get two different organizations, British Expertise and the Middle East Association, to go to Kurdistan, see for themselves, meet the Prime Minister, meet the individual ministers, and meet the Chambers of Commerce. That's how we've progressed with the business community.

However, we also focused on many other areas. We focus on our relationship with the British Government, Parliament, think tanks, and the international media. We focus a great deal on the Kurdish and the Iraqi community in general. We have branched out a great deal.

IIG: How would you characterize current relations between the KRG and the UK?

BSAR: Where we are today is totally different. There are several major British trade organizations that we liaise with on a daily basis. There's the Middle East Association, British Expertise, UK Trade and Investment, and the Iraqi-British Business Council. Of course, there are many more private business organizations that we speak with and individual businesses that come to us. Promoting trade and investment is a very big part of our office's work and it's on a different footing. They come to us rather than having us knock on everyone's door.

In 2005, I felt that perhaps there was only myself and one or two others who spoke up for Kurdistan in terms of trade. Today, there are dozens or scores of businesspeople who have visited Kurdistan through these trade missions that we organized.

The media situation has also changed. I think a lot of the media do accept that Kurdistan is different from the rest of Iraq.

About

Bayan Sami Abdul Rahman was appointed to her current post in 2005. Prior to her appointment, she worked as a journalist for 17 years. She holds a degree in history from London University.

The trade and investment situation, as well as the understanding amongst the business community has changed, and our relationship with the British government is better and much more detailed. There is a Consulate General in Erbil. Our representation has expanded in terms of number of staff and geographic location.

Another area of our work that has expanded dramatically is our work with Parliament. In 2005, we established "All Party Parliamentary Group" (APPG) on the Kurdistan Region. This APPG is one of the most proactive APPGs in the whole of Parliament. There are hundreds of these types of groups, perhaps 600 or 700 in the British Parliament. Honestly, out of that number, ours would be in the top five in terms of how proactive there are. This is fantastic for us. We've been able to show the MPs that we have shared values. We believe in democracy. We believe in women's rights. We do have a lot of issues and problems to iron out. However, we look to Britain as an example for all of those issues and we welcome British advice.

IIG: How much engagement is there between the two sides?

BSAR: There is quite a lot of engagement. We have people from the British government that advise our government on how to train the police, to deal with women who feel threatened, to train firemen to an international level, to test the medicines that come to Kurdistan properly. So, in healthcare, education, women's rights, there's British involvement. The majority of students choose to study in the UK. There are thousands of Kurdish students currently studying there. Our relationship with the UK is detailed and widespread. Our office also liaises with Northern Ireland, Scotland, and Wales. So, there's lot of interaction. ⑤



Developing European Partnerships

Delavar Ajgeiy

Head of the KRG Mission to the EU

Delavar Ajgeiy provides his analysis of the developing strategic and commercial relationship between the EU and the Kurdistan Region. Ajgeiy also discusses the role that his office plays in improving business ties, and elaborates on his belief that the Kurdistan's energy sector will strengthen the bilateral relationship between the EU and KRG.

IIG: Could you provide our readers with a brief background about your Mission's history?

DA: The KRG Mission to the EU was established in Brussels in 2000. The Mission's main objective is to maintain and strengthen the political, economic, and cultural relations between the Kurdistan Region and the European Union institutions.

The Mission is the official body representing the Presidency, the Government, and the Parliament of the Kurdistan Region on the European Union political arena. In this capacity and in accordance with the provided mandate, the Mission works to establish and maintain strong and consistent relations with the institutions of the European Union. The Mission

also holds KRG representational mandate in the countries of Benelux (Belgium, the Netherlands, and Luxembourg).

IIG: How much engagement is there at present between the KRG and the EU?

DA: An important part of our work is to serve the European business community. We do so by informing them about the trade and investment opportunities in the Kurdistan Region or by facilitating trade missions from or to the Kurdistan region.

Serving the Kurdish (and non-Kurdish) community in the European Union countries has been another important part of the work of our Mission. Through the years, our Mission has been providing consular services, such as Power of Attorneys and/or the acknowledgement of different sorts of certificates.

IIG: Which areas does your mission prioritize in terms of promoting the Kurdistan Region in the EU?

DA: The KRG – EU Mission is mandated to establish and facilitate strong and consistent relations between the European Parliament and the Kurdistan Parliament. In doing so, the Mission will use existing and new channels. One important body in this regard is the European Parliament's Office for the Promotion of Parliamentary Democracy. Through engagement and partnership with OPDP, the Mission will help to establish inter-parliamentary cooperation bodies between the European and the Kurdistan parliaments.

The KRG – EU Mission is authorized to reach out to the business world. It can establish forms of cooperation and association with governmental departments responsible for trade and investment, (Governmental) trade agencies, Chambers of Commerce, multinationals, individual companies, and any other type of profit seeking entities. In doing so, the Mission is expected to work as a bridge, linking together foreign and domestic parties in either bilateral or multiparty settings. Moreover, the Mission holds the mandate to organize and facilitate business trips, business seminars, conferences, and events.

About

Delavar Ajgeiy is head of the KRG Mission to the EU. Prior to this post, Ajgeiy served as coordinator of the KRG in Denmark, and head of the European Desk for the Kurdistan Democratic Party (KDP). He holds a master's degree from the University of Copenhagen, and speaks five languages.

The European Parliament (EP) is regarded as the most important venue for our mission. The EP is the EU's most accessible institution in which the KRG has established contacts and relations.

IIG: What do you hope to see regarding bilateral relations between the EU and the Kurdistan Region in the medium term?

DA: In the upcoming year we will work to establish a stronger relationship with European Commission. The current Commission's position towards the KRG is not optimal. The Commission, under the pretext of protocol, prefers to deal primarily with Baghdad. However, as the KRG builds on its energy potential, the EU's overall interest and the Commission's attention to the KRG will likely increase accordingly.

The Mission could thus use the energy issue to lay a foundation for improved relations with the European Commission. We will therefore emphasize two primary arguments: Firstly, we intend to emphasize the strong geopolitical position of the Kurdistan Region, and the role of President Barzani in Iraq's overall political process. Secondly, we intend to emphasize the KRG's energy ambitions, and the potential role it could play in promoting for the energy security of the EU.

In the coming period, the Mission will identify and study the opportunities to approach the Directorate-General for Energy. Through this relationship, we hope to discuss the possibilities of establishing a future framework in which the relations between the European Union and the Kurdistan Region can be shaped. ⑤

investing more than just words.

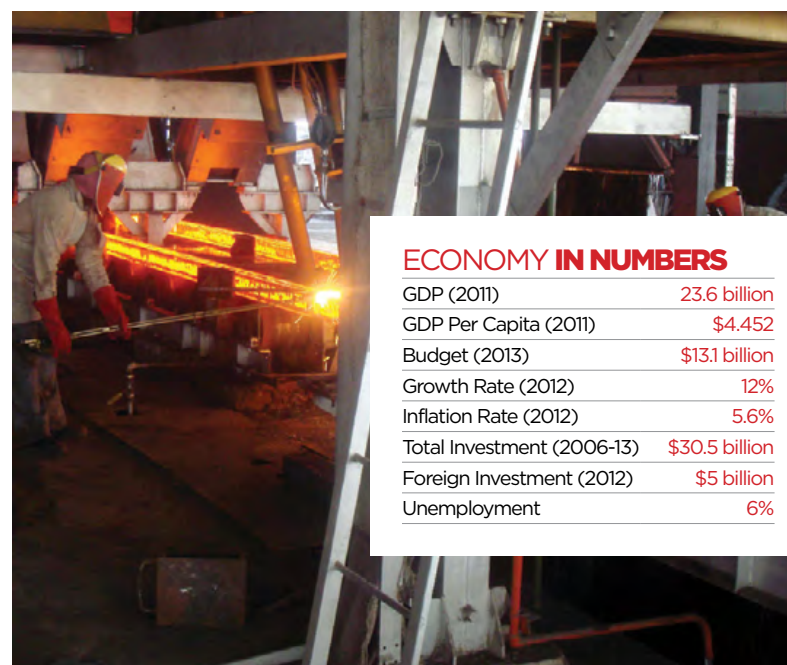
12 industries
27 companies
12000 co-workers
1 holding
1 country

to improve your quality of life.



فاروق القابضة
FARUK HOLDING

At Faruk Holding we believe in investing in our country and establishing a solid foundation that supports the shared interests and aspirations of our people. To date we have projects in the realms of Telecom, Construction, Hospitality, Medical, Real Estate, Project Management, Agriculture, Information Technology, Energy, Commercial Agencies, Cement and Insurance. Our mission remains to modernize, while helping the communities in which we work.



ECONOMY IN NUMBERS

GDP (2011)	23.6 billion
GDP Per Capita (2011)	\$4.452
Budget (2013)	\$13.1 billion
Growth Rate (2012)	12%
Inflation Rate (2012)	5.6%
Total Investment (2006-13)	\$30.5 billion
Foreign Investment (2012)	\$5 billion
Unemployment	6%

Overview *Economy*

Determined to Grow

An expected 8% growth rate, giant investment projects, and sound economic policies have ensured that the wind is blowing on the side of the Kurdistan Region.

The Kurdistan Region's growth rate was 12% in 2012 and is predicted to reach 8% in 2013. The Region as a whole has a GDP of over \$23.6 billion, with per capita income standing at \$4.452. Approximately 55% of all investment in Iraq is taking place in the Kurdistan Region. According to Ministry of Trade and Industry reports, during the first quarter of 2013, more projects were underway in Kurdistan than were completed in all of 2012.

As a result of a favorable investment law, a burgeoning private sector, a forward thinking government, and a strong security environment, the Kurdistan Region continues to register impressive economic growth and now seeks to assert itself as a new investment hub in the Middle East. Indeed, the past decade has seen this once deprived and isolated area open itself to the world at an amazing pace. A variety of significant developments have facilitated this successful growth pattern. ►

Emphasizing Institutions

For a number of years following the Kurdish liberation in 1991, there were two separate governments in the Region; one based in Erbil and headed by the Kurdistan Democratic Party (KDP) and one based in Slemani and headed by the Patriotic Union of Kurdistan (PUK). However, in early 2006, the two governments were unified, and the modern Kurdistan Regional Government (KRG) was formed. One of the priorities for that government was to create a legal foundation that could attract investment. A task force was implemented to identify the shortages or vulnerabilities in the investment climate (excluding the oil and gas sector), as well as the steps that could be taken to rectify those deficiencies. It was determined that a new law was needed to encourage more private sector participation and that a new physical institution was needed to oversee this development. As such, the Kurdistan Board of Investment (BOI) was established in 2006, with Herish Muharam installed as its Chairman. The mission statement of the new organization was simple: create new opportunities, provide professional services to investors, and work to rebuild all of Iraq through the Kurdistan Region. To accomplish these objectives, new legislative structures were also needed.

Developing the Framework

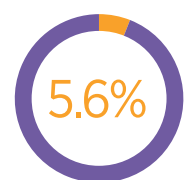
The 2006 Investment Law, which was passed by the Kurdistan National Assembly and was ratified by President Masoud Barzani, remains one of the most important factors in the rapid economic growth that has been achieved over the last decade. The law stipulates that foreign investors can repatriate their profits in full, are equally treated under the law, are entitled to all the capital of any project, and enjoy the same rights as local investors to purchase and own land. In addition to these protections for foreign investors, the law establishes additional tax incentives and benefits to encourage foreign investment. Perhaps most notably, as a result of the Investment Law, the BOI was able to establish a streamlined licensing process that expedited the infrastructural development that was so necessary in the Region. The BOI awarded its first investment license in November 2006; in the seven years since, it has issued a total of 594 licenses with a total investment capital of \$30.5 billion. Of those licenses, 526 were granted to local companies, 43 to foreign companies, and 25 to joint venture partnerships. Thus, both the 2006 Investment Law and the institutional oversight provided by the BOI have been integral in promoting the growth of the Region's private sector, the cooperation of local firms with international companies, and the attention of foreign operators.

KRG Investment Law, Article 5:
A Project shall be exempt from all non-custom taxes and duties for 10 years starting from the date of providing services by the Project, or the date of actual production.

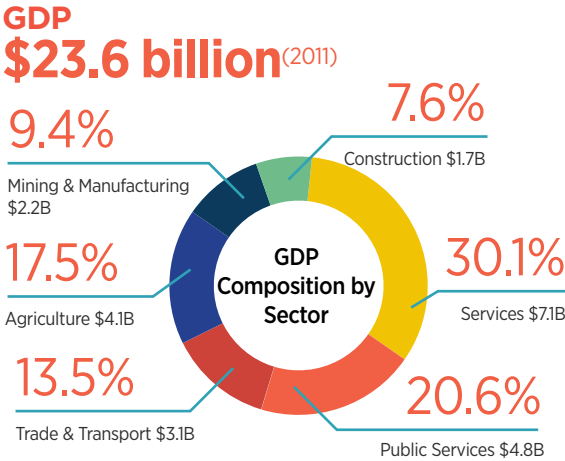
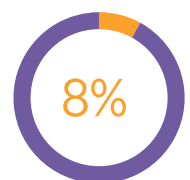
The hydrocarbon industry plays a pivotal role in the development and welfare of the Region.

\$30.5Billion
The BOI has licensed 594 projects since 2006

INFLATION RATE
(2012)



GROWTH RATE
(2013-Projected)



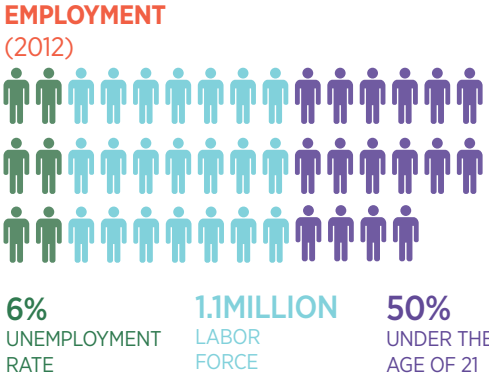
Infrastructure Improvement

In 2012 alone, a total of 138 investment licenses were issued with a total value of approximately \$6 billion; 77 licenses have been granted so far in 2013. Thus, 36% of all projects licensed by the BOI were authorized in the last two years alone, indicating that the infrastructure and economy of the Region continue to expand considerably. In an effort to promote further development, the BOI made the decision to decentralize, giving its branch offices in the three governorates of the Region increased licensing authority; a greater number of projects have been implemented as a result.

In terms of the economic areas impacted by this investment, of the 594 total projects authorized, housing remains the largest sector with 166 total projects (27.9% of all investment). However, as a result of the large number of housing developments under construction, the BOI made the decision to suspend housing licensing in order to focus on more critical areas, such as agriculture, tourism, and industry. Consequently, industry (136 projects constituting 22.9% of all investment), tourism (101 projects constituting 17.0% of all investment), and trading (87 projects constituting 14.6% of all investment) have come to the forefront. Despite being identified as a key area for expansion, the agriculture sector remains limited in its development, with 23 projects forming just 3.9% of all investment (sixth on the list behind the health sector).

Nevertheless, the \$30 billion that has already been invested has gone a long way towards correcting many of the issues that plagued the Region prior to the creation of the Investment Law; no area serves as a better example of this fact than the electricity sector. In 2006, the Kurdistan Region was forced to import all of its electricity. Today, the abundant gas resources of the Region now provide a maximum of 2,800 megawatts (MW) of power, with plans to expand to 4,000 MW by 2014 and 6,000 MW shortly thereafter. Despite an increase in total consumers from 705,000 in 2009 to 1.1 million in 2013, Kurdistan now enjoys approximately 23 hours of power per day, in comparison to the rest of Iraq, which averages just 4 hours.

36% of all projects licensed by the BOI were authorized in the last two years alone, indicating that the economy of the Region continues to expand considerably.



GDP PER CAPITA (2011)
\$4,452

The Kurdistan Region's GDP per capita has increased by 1400% since 2003.

POPULATION
5.3 MILLION

3%
NET POPULATION GROWTH RATE (2012)

Oil and Gas Expansion

The abundant natural resources of Kurdistan remain at the heart of the Region's burgeoning economy. In recent years, global energy leaders seem to have thrown their weight behind the Kurdistan Region. Indeed, majors like Chevron, ExxonMobil, Total, and Gazprom have expanded their operations in the Region, with ExxonMobil alone now having controlling interest in six different exploration blocks. Lured by the estimated 45 billion barrels of oil, 100-200 trillion cubic feet of natural gas, and the favorable production sharing contracts offered by the Ministry of Natural Resources (MNR), around 40 companies are now involved in the oil and gas sector of Kurdistan. Moreover, these companies have committed \$10 billion of investment capital for the Region's energy sector, thereby laying the groundwork for continued infrastructural and economic growth. To that end, a pipeline that will transport oil directly from the Kurdistan Region to the Turkish border (and the international markets beyond) is scheduled for completion in 2013. The new pipeline should reduce the disruptions caused by the current system of trucking oil to the Turkish border, and is expected to help the KRG achieve its export targets of 250,000 bpd by the end of 2013, one million bpd by 2015, and two million bpd by 2019. The Region currently has a refining capacity of nearly 130,000 bpd and is investing significant amounts in order to rapidly increase that number; to wit, over \$15 billion has been invested in overall oil and gas development in the past decade.

Industrial Growth

With the BOI shifting investment emphasis from real estate and housing to tourism, agriculture, and industry, the landscape of licensed projects has changed considerably. Of the 136 industry sector projects that have been licensed since the BOI began its activities in 2007, a total of 58 (42.6%) were authorized in the past two years.

31 of the 138 total projects licensed by the BOI in 2012 were related to the industry sector. Thus far in 2013, industrial investment has constituted 35% (27

Budgetary Issues

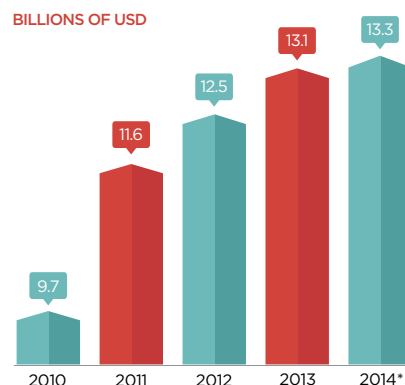
Per the federal constitution, the Kurdistan Region is legally required to receive approximately 17% of the total budget of Iraq. However, because portions of that budget are first allotted to specific agencies within the Baghdad government, the KRG's share tends to be closer to 11-13% of the annual federal budget. As such, the KRG budget for 2013 was approximately \$13.1 billion, of which an estimated \$2.5-\$3 billion was allocated to funding investment projects across the three governorates of the Region. Similarly, the 2012 KRG budget was approximately \$13 billion, with a \$2 billion deficit.

Disagreements over the funds allocated by the federal budget have been at the heart of tensions between the KRG and the central government in Baghdad. The central government's 2013 budget allocated \$646 million to pay the oil and gas companies developing the Kurdish fields. This number was calculated based on the total expected oil production of 2.9 million bpd at a price of \$90/barrel. However, the KRG had previously requested \$3.5 billion in funding, largely as compensation for amounts previously owed by the central government. Despite these disagreements, the Iraqi Parliament was able to pass the 2013 budget, despite strong objections from Kurdish MPs. Disputes over budget allocations, as well as the KRG's decision to begin exporting oil directly to foreign markets, are expected to continue to put a strain on Erbil-Baghdad relations.

projects) of the 77 total licenses authorized. The majority of these projects have related to the production of steel, iron, aluminum, concrete, and plastic; this fact most likely demonstrates that there has been a shift towards local production of the necessary construction materials.

Despite these indicators, the industry sector within the Region remains limited. At present, Kurdistan faces a number of both internal and external obstacles that have prevented additional necessary development. As identified by BOI

OPERATING BUDGET 2010-2014



Companies as of June 2013

2,300 foreign
15,000 local

\$14 billion
worth of FDI has poured
into Kurdistan since 2006.

sources, a number of essential measures are absent, including a uniform trade and industry policy, modern technologies, and sustainable production. In addition, further entrepreneurial, managerial, and technical skills are needed.

Nevertheless, strides have been made to improve the situation to the extent possible. Local facilities are now capable of producing approximately 3,000 tons of steel per day, with plans in place to increase capacity to 1.5 million tons by 2016. Local production of concrete has

seen similar advances, with the Region now having a capacity of 35,000 tons per day. Many credit the Region's developing private sector with this growth, as the majority of these industrial operations were previously controlled by the government. With increased investment in both the facilities and the workers employed therein, both the conditions

Trade Expansion

Approximately 55% of all investment in Iraq is taking place in the Kurdistan Region. According to MOTI reports, during the first quarter of 2013, more projects were underway in Kurdistan than were completed in all of 2012. Since 2006, over \$14 billion worth of foreign direct investment has flowed into the Kurdistan Region. In 2012 alone, foreign companies invested around \$5 billion into the economy of Kurdistan. Additionally, official figures indicate that there are currently 15,000 local companies and 2,300 foreign companies from 78 countries registered in the Kurdistan Region.

In terms of trade and investment, Turkish companies are top of the list. Approximately 80 percent of all goods sold in the Kurdistan Region are made in Turkey. In the real estate sector alone, investment by Turkish companies reached \$4.3 billion in 2012. According to Sinan Çelebi, the KRG Minister of Trade and Industry, relations between the two parties have rapidly evolved in recent years: "In 2009, trade volume between Turkey and the Kurdistan Region totaled around \$4 billion. In 2012, that number was \$8.4 billion." Sources at the MOTI also confirmed that bilateral trade between Turkey and the Kurdistan Region is expected to surpass \$12 billion in 2013. In 2009, only 485 Turkish companies were registered in the Kurdistan Region. In 2013, approximately 1,500 Turkish companies are operating in the Region. These figures demonstrate that Turkish companies constitute over 65% of all foreign businesses operating in Kurdistan.

Iran also represents a critical trade partner for the Region, with the value of bilateral trade between the two sides

and capacity of these facilities have improved. Currently, the Ministry of Trade and Industry (MOTI) has targeted an increase in Region-wide capacity to 150,000 tons per day. This figure would allow the Region to begin exporting its construction materials to the rest of Iraq, as well as neighboring countries within the MENA region.

estimated at \$4 billion for the current year. The Parviz Khan border crossing (located in the western Iranian city of Qasr-e Shirin) attests to this growing relationship, as it was recently identified as the most active trade checkpoint of all the 86 crossings between Iran and Iraq. Iranian officials estimated that in the first four months of 2013, over 82,000 trucks crossed the Parviz Khan checkpoint from Iran into Kurdistan. In contrast, only approximately 250 trucks crossed from the Region into Iran. MOTI sources reported that the majority of items imported from Iran are food products, furniture, and carpets.

Kurdistan's other leading trade partners in the Middle East are Lebanon and Egypt. In Europe, Germany stands as the Region's strongest trade partner, although the KRG has also signed trade agreements with Italy, Poland, and the Czech Republic.

The Ministry of Trade and Industry will soon establish four industrial zones in the Kurdistan Region; one each in the Erbil, Duhok, Slemani, and Garmian areas.

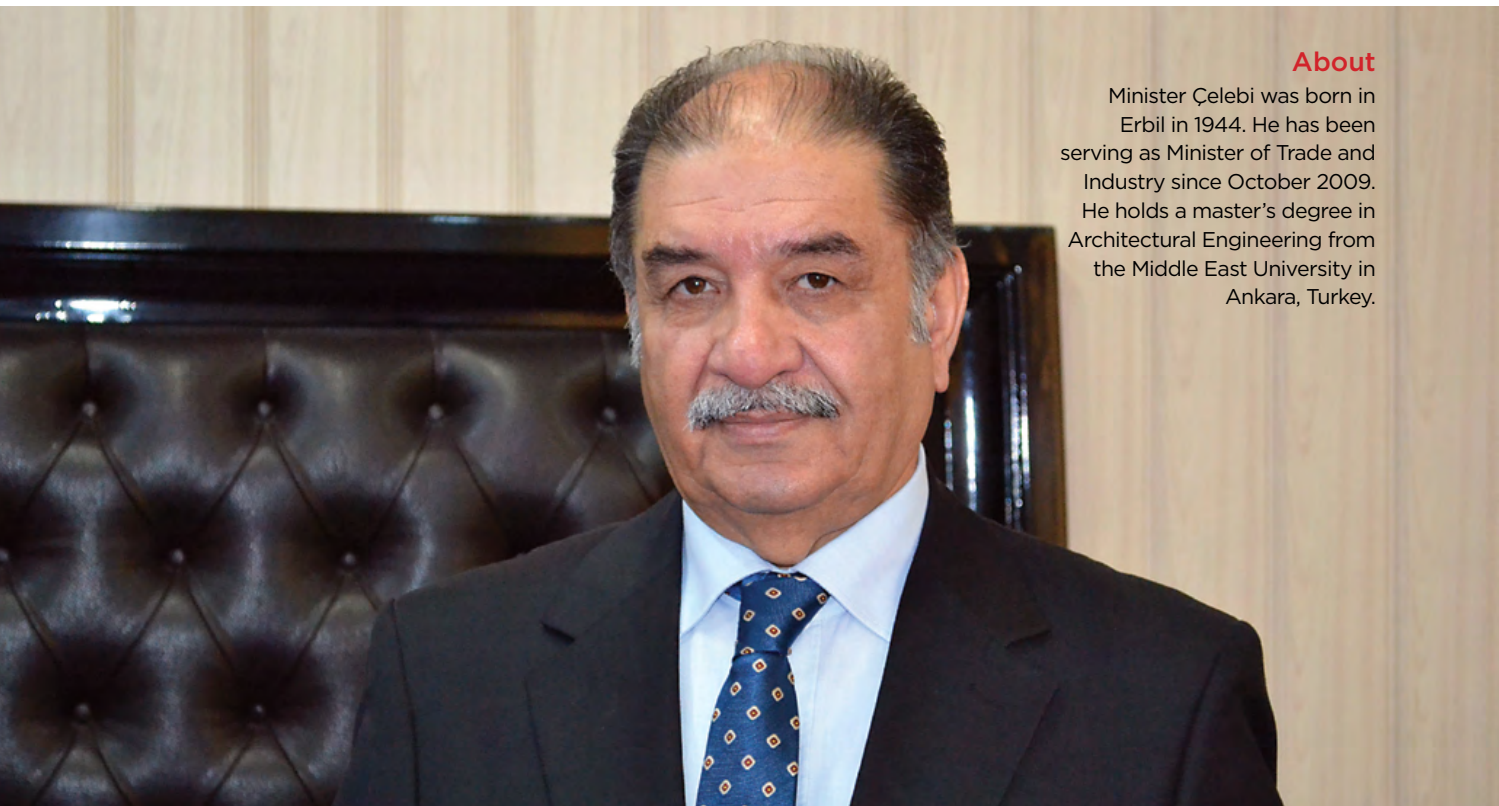
FOCUS: KRG & UNAMI JOINT TRUST FUND

In October 2013, the KRG and the United Nations Assistance Mission for Iraq (UNAMI) signed an agreement that will assist in the further development of the Kurdistan Region. The plan calls for the establishment of a Joint Trust Fund (JTF) meant to support the KRG's growth policy that was effectively outlined in the Ministry of Planning's, "Kurdistan Vision 2020 Development Strategy." The fund will become operational in early 2014.

According to the UNAMI, "The Facility provides a mechanism for the KRG to draw upon expertise of the United Nations System to support the realization of development objectives for and implementation of development programs targeting priority sectors including health and social services, education, employment, physical infrastructure and economic development." The agreement also stipulates that the KRG will serve as the primary funder of the JTF, with the UN operating as a principal co-founder. The JTF is expected to provide over \$18 million in initial financing to support targeted projects and joint-venture programs.

In addition to providing funds for development, the JTF is also expected to allow for better resource mobilization and management for KRG-UN joint efforts, as well as provide for open and honest dialogue regarding development priorities. As stated by Dr. Jacqueline Badcock, the UN Coordinator in Iraq, "We are excited to team up with the Kurdistan Regional Government to work together on reaching the strategic development objectives of the Region and offer United Nations technical expertise to various Ministries."

Broadening the Marketplace



About

Minister Çelebi was born in Erbil in 1944. He has been serving as Minister of Trade and Industry since October 2009. He holds a master's degree in Architectural Engineering from the Middle East University in Ankara, Turkey.

Sinan Çelebi Minister of Trade and Industry

Minister Sinan Çelebi provides IIG with exclusive analysis of the development of the private sector in Kurdistan, the challenges of establishing a modern industrial sector, and increased bilateral trade relations with the Region's neighbors.

IIG: Can you give us a bit of background regarding the Ministry of Trade and Industry (MOTI) and how it has evolved over time?

SC: We inherited a socialist system from the previous regime in Baghdad, so everything was under the control of the central government. At that time, there were two different ministries: the Ministry of Trade and the Ministry of Industry. So, the government controlled both industry and trade. The Ministry of Industry owned and controlled around 40 large factories. There were some small-scale private sector initiatives and factories, but nothing significant. After the collapse of the regime of Saddam Hussein, it was decided that we should abandon the socialist system in favor of a free market policy. However, such a change cannot occur over night; it takes time to amend the rules, laws, and regulations. So, we had to implement these fundamental changes gradually over a longer period of time. We still have not fully completed this process, but we are marching in the right direction.

IIG: What changes have been implemented during that gradual process?

SC: In terms of policy, the first step was for the 5th Cabinet to either sell or long-term lease all the factories that had been state-owned. However, these factories were quite old. Most had been built in the 1960s and 1970s. So, it became important for us to emphasize private sector involvement, and encourage it to be the locomotive for change in all sectors, particularly trade, industry, manufacturing, education, and irrigation. Since the MOTI wasn't itself constructing physical projects, our natural role became to build and construct rules and laws for the regulation of the system. We want to ensure that nothing disturbs the process of modernization. As such, we have already sent six laws relating to commerce directly to the Parliament. These include regulations regarding consumer protection and free trade zones, as well as measures to prohibit the development of monopolies. In my opinion, these are the types of efforts that the government needs to

take responsibility for in order to ensure a stable private sector.

IIG: Can you tell us about some issues were encountered early on in the process?

SC: We effectively had to start from scratch. For that to happen, you need for the production or importing of construction materials to occur quickly. This has occurred. For example, we now have numerous cement factories in Slemani and Erbil. These facilities are producing enough cement for the needs of our Region and, perhaps, more. We have also seen an increase in steel factories. Most importantly, 99% of these facilities are owned by the private sector. These private sector companies are therefore also facilitating the production of local materials. I would estimate that 90% of the buildings you can see that are currently under construction are being completed primarily

with local materials. These are our current objectives, but they have also been our guiding principles for the past 10 years.

IIG: In terms of imports, what regulatory standards are in place to ensure that the items are of a certain level of quality?

SC: In the past, there were many products or goods coming into the Region that did not meet the standard that we have established. So, we brought in SGS [a Swiss company specializing in inspection, verification, testing, and certification services] to monitor the items that are being imported. 99% of the goods that come from Europe and Turkey pass through these filters without a problem. Certain items coming from other countries may be held up at the border because their quality does not meet the established standard.

IIG: How would you categorize your trade relationships with your neighbors?

SC: Any country that wishes to invest in the Kurdistan Region, the door is wide open. Right now, Syria is not accessible. Our trade ties with Iran are strong. We have around 280 Iranian companies registered here. However, it's a relatively small number when you compare trade between Iran and the rest of Iraq. This is because Iran and the rest of Iraq share a much larger border, so trade is more accessible. In contrast, the Kurdistan Region is a direct neighbor of Turkey; so far more goods come from there. Today, we have around 1,500 Turkish companies registered in the Region out of 2300 foreign companies from 78 countries. These numbers are also represented in terms of trade volume. In 2009, bilateral trade volume with Turkey totaled around \$4 billion. Today, excluding oil and gas, that number is around \$8 billion. Our target is to reach \$20 billion trade volume with Turkey in 2020.

Q&A



Planned Expansion

Nawzad Hadi Governor of Erbil

Nawzad Hadi explains the expansion of the capital city and the sectors that he expects to see more foreign investment in the near future.

IIG: Which sectors do you expect to see more foreign investment?

NH: The investment policy of the KRG focuses on industry, agriculture, and tourism. Since the Kurdistan Region has become such an important area for all of Iraq, the policy also focuses on medical issues. Patients from all the provinces of Iraq are coming to Erbil because it is safer. We are also focusing on housing. To date, we have 90,000 units under construction. In the near future, the focus will specifically turn to agriculture and water. We have plentiful water resources. So, I expect the KRG to focus on infrastructural improvements, such as dams and irrigation systems. We need to implement better organization and planning to utilize those assets fully.

IIG: What do you expect in terms of growth within the city?

NH: I fully expect oil revenues to increase in the near future, thanks in large part to the entry of major companies. This will then mean a greater budget for both Iraq as a whole and Erbil itself. We have the freedom and the opportunity to grow.

From 2004 to 2012, we spent \$7 billion on infrastructure improvements. In that same period of time, we had over \$16 billion of private sector investment. So, obviously, private sector investment has played a significant part in the growth of the city. As a result of the significant amount of the investment capital has been implemented in Erbil, I believe that in 5 years, Erbil will continue to expand, with significant growth in all sectors.

IIG: What has the Erbil Strategic Master Plan provided for the city??

NH: We utilized highly skilled individuals from both within Iraq and abroad in order to make this plan become a possibility. The initial plans detailed how to expand the airport and the oil sector, as well as increase power generation in the energy sector. People can see the effect the plan has had on the city. The airport is now modern and appropriate in size. Numerous facilities for higher education are located along Kirkuk Road. The road system itself has expanded. So, it is clear that the city is expanding, but on a scheduled, fixed plan.

Willingness to Overcome



Herish Muharam
Former Chairman,
Board of Investment (BOI)

Minister Herish Muharam details the development and implementation of the 2006 Investment Law, the role it has played in changing the investment climate of the Region, and how he expects Kurdistan and the BOI to continue to provide exciting opportunities for strategic private-public partnerships.

About

Herish Muharam was born in Erbil in 1960. He obtained his BSc in Electrical Engineering. He worked as the Chairman of the BOI from 2006 to 2013. He previously worked as a management officer for the UK charity Save the Children and the United Nations Habitat.

IIG: Perhaps one of the most important piece of legislation passed by the KRG is the 2006 Investment Law. Why was its creation so important and what was the process like in terms of its establishment?

HM: In early 2006, when the KRG was first unified, one of the priorities that the new cabinet identified was creating a strong legal framework and overall economic climate that could attract investment. There was a compelling belief that the government alone could not handle the Region's infrastructure demands, and that a strategic partnership between the public and private sectors was an ideal solution. It was also agreed that this partnership could help create a strong, welcoming legal foundation for private sector involvement. Therefore, several important initiatives were undertaken to make this become a reality. Firstly, the investment climate of the Region was thoroughly analyzed so that the questions of potential investors could be answered openly and honestly.

Next, studies were conducted to identify areas of vulnerability that could pose challenges but also potentially opportunities. The two areas that were primarily identified were the financial sector and infrastructure services. With this research completed, a draft of the law was prepared and eventually passed by Parliament. I was then appointed to operate on two different fronts. Firstly, to create a physical institution that could implement the law and, secondly, to develop a strategy upon which realistic promotional tools could be made available to introduce Kurdistan to the international community. We needed to communicate to both local and foreign investors both what we had to offer and what we expected out of that offer.

IIG: In attempting to establish the BOI's ability operations along those two fronts, did you pursue outside advice or look at other economic models?

HM: We approached many entities, starting with the UN. They facilitated meetings

with the Jordanian BOI, from whose experiences we were able to learn quite a bit. We also conducted studies regarding the efforts of a variety of countries, including Saudi Arabia, Malaysia, and Turkey. We also reviewed the programs of multiple countries in both the Gulf and Europe. We came to the conclusion that we could not simply copy and paste other models here; rather, we needed to learn from their experiences and create a model that could satisfy potential investors and be compatible with our laws and operational guidelines. One of the first concrete steps that we took was at a conference in early 2007, in which we highlighted both the strengths and limitations of the investment climate here. We discussed the issues regarding energy shortages and a lack of infrastructure services. The general feedback we received was that talking about these issues indicated a willingness to overcome them. Overall, the response was incredibly positive.

IIG: In what ways did the situation here evolve as a result of that strategy of direct assessment?

HM: I believe that we were able to identify opportunities more readily than in the rest of Iraq, and work effectively to solve them. Thus, we began to be approached by investors who were seeking to single-handedly take over work in these sectors. As a result of this private enterprise, we quickly made large strides towards overcoming the electricity crisis; this development sent a clear signal to the international community that our government believed in drawing strategic partnerships with the private sector and relied upon their knowhow, experience, and technological capabilities to get projects finished. I also like to add that I think two major factors that further facilitated this growth were the transparency measures and anti-corruption tools that we implemented at an early stage. We also made it well known that the BOI itself did not have the sole power to approve projects, but rather that we coordinated with all the stakeholders and relevant groups in order to make a decision. Essentially, we wanted to make it clear that we would

never license any project without first discussing it with each individual, relevant ministry in order to ensure that the work being done fit with their service provisions and overall priorities.

IIG: Can you provide our readers with specific examples of how things have changed since these policies and procedures were implemented in 2007?

HM: From that initial period until today, I think there are clear signs of growth. For example, at that time, we did not have

“In 2007, we had no steel production. Now, we are producing almost 3,000 tons of steel per day. Our plan is to increase that number to 1.5 million tons per day within three years. In 2007, we were producing only 200-300 tons of cement per day. Now, we are producing almost 35,000 tons per day. By 2020, we expect that number to reach 150,000 tons per day.”

any five-star hotels in operation. This was an issue, as it was something that potential investors (specifically foreign operators) would always ask about. Now we have 5 five-star hotels spread across the Region, with another 8 under construction. I would also venture to say that if you talk to the different groups that have undertaken these projects, you would

learn that they got back their return in a very short amount of time. In 2007, we had no steel production. Now, we are producing almost 3,000 tons of steel per day. Our plan is to increase that number to 1.5 million tons per day within three years. In 2007, we were producing only 200-300 tons of cement per day. Now, we are producing almost 35,000 tons per day. By 2020, we expect that number to reach 150,000 tons per day. In 2007, all bottled water consumed in the Kurdistan Region was imported from abroad. Now, it is rare to find imported water, as we have a number of local brands available. All of this development happened as a result of both the Investment Law and the investment licensing process. So, we have achieved quite a lot and we have left behind many of those shortages that used to be so common.

IIG: In terms of the companies that are getting involved here in the Kurdistan Region, are you pleased with their geographic diversity?

HM: From the beginning, we have wanted our flower of investment to be composed of many different colors. We feel that there is something to be learned from everyone, so whoever wishes to come is welcome. The strength of the Investment Law is that it does not differentiate between locals and foreigners. So, we give the same rights to whoever wants to work here. Similarly, in all our projects, we advise our partners not to think about the population of Kurdistan as the sole beneficiary, but rather the whole population of Iraq. When you go to any hospital or private clinic here, you will be surprised that the number of people from the rest of Iraq is much greater than the number of people from the Region. It is the same for other sectors, including tourism and housing. This is also representative of the fact that purchasing power here is increasingly high. If you go back to 2003, we had approximately 260,000 vehicles in Kurdistan. I believe that number has now exceeded 1.3 million. So, the potential opportunities here are high, and the Region's growth rates across multiple sectors serve as further evidence of that fact. ☺

INVEST IN KURDISTAN

Forging Connections
Chambers of Commerce

Local Chambers of Commerce have been present in Erbil, Slemani, and Duhok since the mid-1960s. However, as a result of the repression from the regime of Saddam Hussein, they were very limited in their ability to promote the economies of their respective cities. Thus, it was not until 2007 that they were able to take on a much more active role in developing commerce in the Kurdistan Region. The three Chambers cooperate via the Kurdistan Federation of Chambers of Commerce and Industry, an umbrella organization in which leaders of each Chamber meet annually to develop strategies and share best practices. Each of the Chambers maintains relationships with several foreign Chambers of Commerce and foreign businesses, and conducts business events, facilitates the establishment of new or foreign businesses in its cities, and advocates for business interests in its respective city.



Dara Jalil Khayat,
President, Erbil Chamber of
Commerce (ECC)

Dara Jalil Khayat has been the President of the ECC since 2006. He is also the President of the Kurdistan Federation of Chambers Commerce and Industry, which oversees the Chambers in Erbil, Slemani, and Duhok. He is Vice-President of the Iraqi Federation of Chambers of Commerce and Industry. Khayat holds a law degree from Baghdad University.

Erbil—

As the Kurdistan Region's economic and political capital, Erbil has gravity and influence that businesses in Kurdistan cannot ignore. Local businesses based in Slemani or Duhok often maintain branch offices in Erbil, and Erbil is the primary hub of international business in the Region. This places the Erbil Chamber of Commerce in the epicenter of the Region's commercial environment.

IIG met with Dara Jalil Khayat to discuss the ECC's role in business development, the improving business conditions in Erbil and the Kurdistan Region, and the challenges that the local business community faces in the Region.

Since 2003, when business in the Region began developing free from the repression of the previous regime, Erbil's business community has had many successes. Start-ups in many industries, such as Korek and Asiaccell in the telecom sector, started small but have grown into

giants over the course of a decade. Foreign investment has poured into the Region, most notably in the oil and gas sector. However, Khayat believes that more could be done to increase the expertise and know-how of businesses in the Region.

Khayat argues that businessmen in the Region should develop new perspectives by building relationships with foreign partners. To encourage this form of exchange, the ECC has signed several bilateral agreements with Chambers of Commerce in Europe and the MENA region. He argues that foreign investment in many sectors of the Kurdish economy can bring expertise to the Region's businesses, and that the 2006 Investment Law has encouraged many businesses to come to the Region. To help facilitate the development of local expertise, the ECC hosts many opportunities for businesses to exchange information and ideas with one another.



Serwan M. Mahmood,
President, Slemani Chamber of
Commerce (SCC)

Serwan Mahmood has been the President of the SCC since 2006. Throughout his career, he has conducted business in agriculture and industry in the Kurdistan Region and greater Iraq.

Slemani—

With the second largest economy in the Region after Erbil, Slemani is a crucial hub for much of the Kurdistan Region's business community, and is home to some of the Region's largest companies. The SCC works with the local business community to promote business and ensure that the investment environment in the city remains healthy and sound.

In his interview with IIG, Serwan Mahmood emphasized the development of Slemani's industrial sector.

Encouraged by the 2006 Investment Law, businesses and factories are taking full advantage of the Slemani Industrial Zone. The city has already developed a niche in the production of construction materials. Mass Group's Slemani cement factory produces 20,000 tons of cement per day, the Faruk Group/Lafarge joint venture in cement production produces similar numbers, and three additional cement plants with similar capacity are

under development. Seven recently established factories produce all of the Region's bricks, and allow for the export of supplies to southern and central Iraq. In addition, five steel plants are scheduled to open in the Slemani Industrial Zone, which will be among the largest in the MENA region. According to Mahmood, there will eventually be as many as 100 factories operating in Slemani's Industrial Zone.

In addition to heavy industry, Serwan Mahmood emphasized the importance of the development of local water resources. As such, he hopes to improve local watershed management, noting, "We have two large dams in place, but our water resources are being wasted." The SCC has also encouraged development in terms of the water industry, with particular emphasis placed on a water bottling facility. Mahmood also stressed the importance of improving Slemani's recycling capability and overall urban planning.



Ayad H. Abdulhalim,
President, Duhok Chamber of
Commerce (DCC)

Ayad H. Abdulhalim has been the President of the DCC since 2006. He holds a degree in English Literature from Mosul University.

Duhok—

Like much of the Kurdistan Region, Duhok has witnessed significant growth in both local and foreign investment in recent years. Although the private sector in Duhok was largely non-existent as recently as 2003, the city now boasts roughly 3,000 registered businesses in a variety of sectors, and the DCC has a membership of over 12,000 people.

Duhok is home to a diverse range of business opportunities across a wide spectrum of sectors. Agriculture is strong in the governorate, and the popular tourism industry is rapidly developing. Industry has expanded significantly as a result of the 2006 Investment Law, and trade has become increasingly important given Duhok's proximity to the Turkish border. Moreover, Duhok will open an international airport in 2015, which will provide the city with the regional and international connections already enjoyed in Erbil and Slemani.

Duhok's strong relationship with Turkey is perhaps its most unique asset. As noted by Ayad Abdulhalim, "The border represents a critical gate for business in Iraq, and its importance stretches throughout the entire country. For this reason, our import/export market is very rich and open." Thus, the DCC actively seeks to foster strong Turkish-Kurdish business relations. The two sides recently negotiated the opening of a Free Zone in the border city of Zakho.

The tourism industry in Duhok has grown rapidly in recent years. To that end, a major resort area located in the Zawa Mountains was recently authorized, and is slated to include hotels, restaurants, fitness facilities, and a golf course. A second resort, located near the Duhok Dam Lake, is also in the planning stages, and other such projects are expected to capitalize on the scenic mountain ranges surrounding Duhok.

INVEST IN KURDISTAN

Simplifying Investment
Board of Investment

Slemani: Hub for Industry—



Farman Gharib Sa'eed,
Director General, Slemani
Branch,
Board of Investment (BOI)

The Slemani BOI itself has authorized more than 60 different investment licenses with a total investment capital of over \$2 billion. Generally speaking, industry and tourism are currently the most active sectors in Slemani, because they are the areas that need the most investment. However, in the city, where there is more modernization, our primary goal has been the promotion of the industrial sector. We feel it is impossible to make significant progress without the development of this key sector. To make such progress, we feel it is essential to further expand our economic relations with any and all foreign companies interested in contributing to our growth and development.

Regarding the future, it is my firm belief that investment licensing will continue to increase, particularly in the tourism sector. In Slemani, because of the nature of the people, the climate, and the overall environment, things are more suited for

tourism. We believe that Slemani will see a huge surge in this sector, and there are signs of this development already.

If you look at the hospitality industry, we have seven large brand names actively involved in the city, the majority of whom are constructing multiple hotels. Millenium is working on three hotels, Sheraton is working on two hotels, Hilton is working on two hotels, and Highcrest is working on two hotels. Ramada, Rotana, and Titanic are all building hotels. Radisson Blu has requested permission to begin working on one as well.

All of this development demonstrates that Slemani is an open gate for people to come invest in the tourism sector. If you look at opportunities for shopping, we know the Slemani Majidi Mall and the Slemani Family Mall will be larger than their Erbil counterparts. This is primarily because, in terms of purchasing power, people in Slemani are willing to spend more money on entertainment. Chavi Amusement Park, which is one of the largest such parks in the Region, is an excellent example of this idea. There's another 2,760,000 square meters park currently under construction, which will be one of the largest in the country. Faruk Group Holding and Dubai-based Emaar Properties are cooperating to build a 2,760,000 square meters park project near the Dukkan area. All of these facts make it clear that Slemani will become the main hub for tourism in the Region.

Investment Statistics

(combined information from Slemani Board of Investment and Slemani Governorate DGs)

Licensed Projects

567 **158**
Total in Slemani

Agriculture: **2**, Communication: **3**, Education: **4**, Health: **2**, Housing: **45**, Industry: **35**, Service: **2**, Sports: **10**, Tourism: **12**, Trading: **43**

\$7.4 Billion

Total Investment

Agriculture: **\$10.6 Million**
Communication: **\$92.9 Million**
Education: **\$459.1 Million**
Health: **\$102.5 Million**
Housing: **\$2.248 Billion**
Industry: **\$3.273 Billion**
Service: **\$36.5 Million**
Sports: **\$18.3 Million**
Tourism: **\$733.1 Million**
Trading: **\$437.3 Million**

Projects By Investment Type

150 **\$6.9 BILLION**
National

7 **\$429 MILLION**
Joint Venture

The Kurdistan Board of Investment made the progressive step to decentralize its authority, giving its branch offices in the three governorates of the Kurdistan Region more control over the licensing process. As a result, the individual needs of the respective provinces are more likely to be met, thereby creating more uniform and relevant opportunities. This decision has also allowed the Slemani and Duhok branches to simplify their investment activities and streamline their licensing processes so as to create the greatest amount of economic interest possible.

Duhok: An Open Door for Business—



Bakhtiyar Ameen,
Director General, Duhok
Branch,
Board of Investment (BOI)

Following the issuing of the Investment Law in 2006, the Duhok Branch of the BOI was established in 2007. If you look at the data for that time period, you can see that investment in this governorate was limited to approximately \$10 million. Now, almost \$5 billion has been invested in the Duhok governorate alone.

I believe there are a number of factors responsible for this development. Duhok is the most secure and safe governorate in the Kurdistan Region; the situation here really cannot be compared with that of Erbil and Slemani, let alone the rest of Iraq. In addition, because of our close proximity to Turkey's border, we have been able to benefit from Turkish companies, people, expertise, and technologies. The oil pipeline that runs into Turkey further strengthens this relationship. The governorate also possesses plentiful resources; we have oil and gas, but also naturally occurring waterways. The Tigris and Euphrates cross the Duhok

Governorate, and provide excellent areas for potential tourist developments.

However, BOI data indicates that only approximately 25% of all licensed projects in the Kurdistan Region have been located here. The Duhok Governorate comprises roughly 21% of the total population of the Kurdistan Region and, in terms of geographic size, is about half the size of the Slemani governorate. So, on paper, this percentage seems logical. However, we are still not satisfied with this number. When you compare the investment figures for Erbil, Slemani, and Duhok, it quickly becomes clear that we are on the low end of the scale. I think one explanation for this is the fact that the BOI only decentralized two years ago. Prior to that time, it was much easier and more logical for a centralized administration to focus on developing Erbil and Slemani, whereas Duhok proved a less convenient destination. In that regard, I think a second explanation would be our lack of an airport. Both Erbil and Slemani have international airports; these facilities make it much easier for foreign investors to access those areas and investigate opportunities. For example, it may only take 3 hours to fly from Istanbul to Erbil, but it then takes 3 hours to drive from Erbil to Duhok. So, we pushed for the government to construct a highway between Erbil and Duhok to decrease this travel time. More notably, we are now in the final stages of constructing our own airport facility, which we believe will help to further promote Duhok as a strategic location for investment.

Investment Statistics

(combined information from Duhok Board of Investment and Duhok Governorate DGs)

Licensed Projects

567 **144**
Total in Duhok

Agriculture: **3**, Education: **6**, Health: **6**, Housing: **40**, Industry: **41**, Sports: **3**, Tourism: **31**, Trading: **14**

\$4.9 Billion

Total Investment

Agriculture: **\$403 Million**
Education: **\$15 Million**
Health: **\$34 Million**
Housing: **\$2.5 Billion**
Industry: **\$1.2 Billion**
Sports: **\$51 Million**
Tourism: **\$639 Million**
Trading: **\$70 Million**

Projects By Investment Type

127 **\$3.3 BILLION**
National

9 **\$1 BILLION**
Foreign

8 **\$544 MILLION**
Joint Venture

Thinking Ahead



“We want to demonstrate that the private sector is capable of raising the standard of an industry and provide a model for others to follow.”

Hawre Daro Noori
CEO, Faruk Group Holding

Hawre Daro Noori discusses the rapid growth of Faruk Group Holding, the development of the private and public sectors in the Kurdistan Region, and the economic areas in the Region that have been prioritized for future involvement.

IIG: Faruk Group Holding (FGH) has expanded quite dramatically in the last few years. How does the company identify potential business opportunities?

HDN: The way we do business at FGH is basically to analyze and understand the market completely before we pursue opportunities. We know that there are deficiencies, and therefore opportunities, in every sector. So, the question becomes which do we target first? The telecom sector is of critical importance for the country. In the past, there was limited infrastructure that was needed for the sector to develop. This was even the case for landlines. Another element, which may seem fairly basic but was actually quite important, was cement. The whole country was ready to build. However, you can't start building without the necessary materials. Of course, there are other raw materials that are also in

About

Hawre Daro Noori has served as CEO of FGH since March 2009. Prior to that time, he worked as CEO of Xendan, the most visited news website in Iraq. Noori graduated with a degree in Finance and Entrepreneurial Studies from Hawaii Pacific University and earned his MBA in Management from the American University in Iraq – Slemani in 2009.

need of importance, but the two elements I mentioned represent the typical type of project that we choose to pursue.

IIG: Are there specific industries here in the Kurdistan Region that you feel require further development or investment?

HDN: From an industrial standpoint, few currently exist on a large scale. In comparison to the rest of the countries in the

region, Iraq used to be very industrialized. However, the many years of war, sanctions, and tyranny took their toll and, gradually, everything disappeared. Now, I think there are opportunities for these industries to reemerge. The petrochemical industry is obviously quite important, but I think there are opportunities for investment across the entire oil and gas sector. I believe that this is where most of the investment (particularly foreign investment) will go. Another area that I think will become increasingly significant is the mining sector. Iraq is very rich in natural resources. So, there is significant potential in the mining sector, if the right companies were to become involved.

IIG: Can you tell us about the goal that the company has established, and how you're going about establishing it?

HDN: I think every company feels comfortable working in an environment that it's been working in for a very long time. We've been able to prosper in and help build up the economy of Slemani, and the city has been very good to us as well. In terms of our overall operations, Slemani has become a stepping-stone for the rest of Iraq. That is, as a result of the stability and opportunities present here, we have been able to establish a presence and then expand that presence throughout the rest of Iraq.

Moreover, it's much easier to hire an international employee to work in Slemani than it is to work in other parts of Iraq. So, despite having our headquarters here, we have been able to reach every corner of Iraq. The market is large in the middle and southern portions of Iraq. Hence, across a wide variety of economic sectors, these are the opportunities that we target, be they in telecom, cement, or any other industry, we use Slemani as a hub to reach other, more widespread markets.

We are from Slemani and, if you look at our operations as a whole, I think it's clear that we love the city very much. We want to further facilitate its development. I think you can see this desire manifested in a variety of ways, perhaps most notably in the fact that, aside from the Region, we

are the largest employer in the governorate at the moment.

We see numerous opportunities here, as we believe that we can be successful across any number of sectors. We believe that the success we had with our cement plants can be replicated across any area in which we apply ourselves. With that in mind, it is our full expectation that, in the next 5 years, FGH will be much more invested in the large-scale industrial sectors of the Kurdistan Region's economy.

IIG: In what other areas of the economy has FGH attempted to provide definitive solutions?


HDN: We have seen this deficiency in the health sector as well. We have many Iraqis traveling abroad to Turkey, Jordan, the UAE, Iran, and India because the healthcare industry here is so limited. So, FGH decided to invest in a very large, ultra-modern hospital. We felt it was our obligation to give back to the community and allow the people of this country to get the right services within their own borders. So we created what is now the largest private hospital in Iraq: the Faruk Medical City. It is a 180-bed, state-of-the-art hospital with connections to world-class consultants and hospitals around the world. We are now able to provide them with something that has never before been available in this country.

Of course, our goal is not to privatize the entire healthcare system, as we do not feel this would be a positive development for the country. Likewise, we don't want the Kurdistan Region to feature only private hospitals. However, we want to demonstrate that the private sector is capable of raising the standard of an industry and provide a model for others to follow.

IIG: What can be done to better utilize the small-scaled economic areas?

HDN: Everything depends on governmental support, regulation, and stable decision-making. Prime Minister Barzani is a visionary leader who understands how the country needs to progress, and he has surrounded himself with capable, forward-thinking individuals. However,

we have a huge government sector, which I believe is not as productive or efficient as it should be. In contrast, we have a very small private sector, which is very productive.

The government provides its employees with salaries, benefits, and very short working hours. As a result, we still cannot attract lots of people from the public sector. However, I believe that this situation is gradually changing. The top people in the government understand that things need to change in order to attract further investment, be it local or foreign direct investment. So, I am very optimistic regarding the direction in which we're headed. 

“As a result of the stability and opportunities present in Slemani, we have been able to establish a presence and then expand that presence throughout the rest of Iraq.”

FOCUS: UB Holding

Decades of Experience

How UB Holding managed to expand its brand from a humble food distributor to a giant production and trading company in the Kurdistan Region.

Founded in 1992 as an importer of basic foodstuffs, UB Holding has grown to be among the largest companies in the Kurdistan Region, with substantial operations spread across several sectors. The company’s initial years were modest. After the Gulf War, sanctions and embargos, as well as Saddam Hussein’s repressive control of much of Iraq, significantly limited the availability of food and other goods in the Region. Given this backdrop, UB Holding was established to address these shortages. The company began by importing basic foodstuffs from Turkey, but expanded through the 1990s to become one of the largest distributors of Turkish foods and goods. By 2000, the company decided to shift from importing and distributing to local production of its goods. UB Holding has since expanded into oil and gas, tourism, agriculture, retail, and hospitality. To accompany its commercial success, the company is also involved in the development of the Region through CSR activities. It has built several schools in the Region, and is constructing an orphanage in Erbil.

UB Holding’s commercial experience in the Kurdistan Region allowed it to expand quickly as the Region began opening up. In the 1990s, for fear of expropriation by the previous regime, UB Holding began investing in industry slowly and cautiously. The company began by making powdered juices, which were immediately popular and profitable. It then expanded into the market for bottled water. At the time, nearly all bottled water was imported. UB Holding began purifying and bottling water in the Region, eventually developing the brands Life, Lolav, and Lava. To solidify the local industry, the company spearheaded a campaign to impose import tariffs on water. Life, Lolav, and Lava now account for roughly 70% of the sector’s market share in the Region.

Expanding from food and water, UB Holding became modestly involved in the Oil and Gas sector as early as 1996, with its establishment of Iraq Oil. The company was attracted to the sector initially by the opportunities presented by the UN’s Oil for Food Program, which opened the oil and gas sector to investment despite the sanctions that limited other sectors. UB Holding’s involvement in the sector increased substantially after the fall of the Ba’ath Regime in 2003. Iraq Oil initially began by opening gas stations, of which the company now operates several across the Region. The company has since expanded into hydrocarbon trading and transportation. Iraq Oil owns two major oil storage stations in Erbil and Zakho, and is currently constructing an additional major storage and distribution terminal in Zakho.

To transport oil and gas, UB Holding owns and operates a major distribution network through its affiliate, Burak Logistics (BL). BL owns over 1,000 trucks that distribute oil throughout the Region and to the Turkish border, and the company is currently working to expand operations through Turkey. This will allow Iraq Oil to export the Region’s oil and gas directly to world markets. Finally, UB Holding recently received a four-year, \$50 million loan from İş Bank, a major Turkish financial institution, to finance continued expansion and development in the oil and gas sector. The loan represents the largest loan the bank has ever made to a company in the Kurdistan Region.

UB Holding is also becoming one of the Region’s major agricultural companies, and has plans for future expansion. The company is currently in the process of opening a major dairy farm and establishing a dairy subsidiary called “Berivan”. UB Holding has signed an agreement with a Dutch company to import dairy

cows from Holland, and has acquired 250 acres of land to establish the dairy farm. In an interview with IIG, Abdul Nazir, an Executive Board Member at UB Holding, suggested that the company would also like to expand further into agriculture by growing fruit and processing it into concentrated juices. However, Nazir hopes to receive government support for such a pursuit. UB has also moved for government backing in the construction of a number of cold storage facilities, and has pushed the KRG to impose import tariffs on fruits and vegetables in order to increase the competitiveness off the Region’s produce.

UB has further expanded its reach by initiating activities in other in-demand sectors. The company gained a foothold in Kurdistan’s prospering tourism industry when it developed the Duhok Business Hotel, and then expanded that interest by constructing multiple amusement parks across the Region. UB is also in the process of establishing cement and steel plants and, through its construction operations, is building a major shopping mall in the city of Duhok. At the same time, the company remains as dedicated as ever to its core activities, including the importing of consumer products and the local production of household goods and food items.

Perhaps most notably, as a result of the considerable success that UB Holding has enjoyed, it has become increasingly involved in charitable pursuits within the Kurdistan Region. The company has built nine schools in the Region thus far, and is in the process of building a 10th. The newest school will be located in Erbil, and will serve elementary, middle school, and high school students. The project will cost the company approximately \$2 billion. Lastly, UB is also constructing an orphanage in Erbil that is scheduled to open soon. ☺



Expansion Through Experience

Bayad Jamal Ali
CEO, Bayad Group/Samsung

Bayad Jamal Ali details the creation, evolution, and expansion of the Bayad Group, as well as the challenges and opportunities inherent in doing business in the Kurdistan Region.

Bayad Group

Founded	1991
Chairman	Jamal Haji Ali
CEO	Bayad Jamal Ali

Company & Brands
BAYAD INC, Samsung, Jamal Bldg, City Center Mall (Real estate), Shazad Plaza Hotel (Hospitality), Miran Group (Construction), SOLO BOSS, Turkish Brands (Furniture), Azmar Air (Aviation) Komar University (Education), North Bank of Iraq (Finance)

Coverage
• 10 brand shops, in Slemani, Erbil, Duhok, Baghdad, Najaf, Kirkuk, and Basra
• 723 dealers and distribution channels
• 14 Customer Service offices
• Distribution Hubs: Baghdad, Basra, Slemani

IIG: Could you tell us about the history of Bayad Group?

BJA: Bayad was started in Baghdad in 1991 as a small textile importer. We had a sister company, Miran Group, that was active in transport between Iraq and Turkey. We were active in the textile business until the late 1990s. However, with the development of the business climate and the country’s overall economy, the company gradually expanded into new areas of business, particularly consumer electronics. Our business relations with Samsung Electronics began in 1998. We started importing Samsung products into the Kurdistan Region in 1998. By 2003, we were able to begin distributing Samsung products throughout Iraq. We have now established an enormous network, and Bayad currently has the largest market share in consumer electronics throughout all of Iraq. Furthermore, while electronics are still the core business of the group, we are now a holding company with investments in several industries, including construction, aviation, finance, and education.

IIG: Can you tell us about the original BAYAD line of consumer electronics that Bayad Group released? How has the line been received?

BJA: We have worked with Samsung for a long time, and eventually we decided to establish our own brand. We hope to shape BAYAD into an international brand originating in Iraq. In fact, we have already begun exporting BAYAD products to Iran, and we are in negotiations to begin exporting to Egypt and Libya.

When we started this idea, we began developing air conditioning units, televisions, refrigerators, and washing machines. This is the brand’s second year in existence. In the first year alone, BAYAD managed to capture 5% of Iraq’s air conditioning market. We did not expect such early success. We are now working on expanding our lines to offer products from entry-level to premium designs.

IIG: Bayad Group has invested in a diverse range of industries. Can you discuss Bayad’s role in these sectors?

About

Bayad Jamal Ali is the CEO and Deputy Chairman of Bayad Group, which operates Samsung Electronics in both the Kurdistan Region and Iraq. Under his leadership, Bayad Group has achieved the largest market share in consumer electronics. Additionally, Ali serves on the boards of directors of several other companies, held fully or in joint ventures with Bayad Group. He holds BBA and MBA degrees from the American University of Iraq, Slemani (AUIS).

BJA: Our two most significant ventures are Azmar Airlines and North Bank. Azmar Airlines was established in 2005. At that time, very few airlines were willing to fly into Iraq, which appeared to us as a major opportunity. In partnership with two other companies, we established Azmar.

Regarding North Bank, the bank was established in 1999-2000 in Baghdad, and we were early funders of the bank. At that time, the bank was quite small, but now it is one of the largest and most traded in Iraq.

IIG: What other steps is Bayad Group taking in the direction of becoming a larger holding company?

BJA: Diversifying our operations across industries provides our company with stability. Each industry follows maturing and declining stages, so diversification allows the company as a whole to continue growing through these cycles. Therefore, we have tried to diversify in this manner over the past several years. Our strategy is not to manage everything we invest in. Rather, we want to invest in opportunities through partnerships with other companies, and allow management to operate separately from the Bayad Group. This is largely because we do not want to lose focus on our central business of consumer electronics. ☺

Success Story

Asia Insurance

Asia Insurance plays a crucial role in developing the Kurdish and Iraqi insurance sectors. The company has ambitious goals to become a major insurance company in the MENA Region. IIG met with Jamal Asfour to discuss the trends, opportunities, and challenges present in the development of the insurance sector in the Kurdistan Region, as well as the critical role the industry plays in fostering sustainable economic growth.

Establishing an insurance provider anywhere is bound to involve complications. However, Asia Insurance, the venture of Faruk Group Holding (FGH) into the Kurdish and Iraqi insurance markets, faces a unique challenge: developing a local insurance industry in a largely deserted market. While this has been an incredibly ambitious project, neither Asia Insurance nor FGH is short on motivation, and Asia Insurance, while still in its infancy, has made extraordinary strides into the market.

Asia Insurance has faced three primary challenges: providing confidence and security to its clients in a new, growing, and relatively insecure environment; collaborating with lawmakers in the KRG and Federal Iraq to shape a legal environment capable of cultivating an insurance industry; and convincing local clientele of the personal benefit insurance provides, despite the lack of compulsory insurance laws. Although Asia Insurance has only been operational since mid-2012, it has begun vigorously addressing these challenges.

As with many other FGH ventures, Asia Insurance strives to operate according to international best practices. This has allowed the company to forge partnerships with many of the world's largest international insurance and reinsurance companies, such as Munich Re, Swiss Re, Hannover Re, and Zurich Insurance Group. These

About

Jamal Asfour holds an Accounting and Finance honors degree from the UK. Asfour worked for a leading Jordanian insurance company for 6 years, where he was the Business development, planning & research director and the project manager for the business plan of Asia Insurance. He participated in multiple technical insurance training programs in Germany, UK, Jordan, UAE, and Bahrain. Munich Re awarded him with a prestigious scholarship, and selected him as one of the most promising candidates in the MENA region. Earlier this year, MENA Insurance Review chose him as one of the most powerful 50 people in the insurance industry in the MENA region.

partnerships provide security and credibility to Asia Insurance's various stakeholders. In an interview with IIG, Asia Insurance CEO Jamal Asfour noted that these partnerships "have given [Asia Insurance] a huge edge above other local players, and have elevated our reputation significantly." Indeed, Asia Insurance has already become the largest insurance company based in the Kurdistan Region.

Perhaps equally important is Asia Insurance's local influence. While the Kurdish and Federal insurance regulatory bodies differ in many ways, Asia Insurance has been certified by both, and is therefore able to operate



“Whenever Faruk Group Holding pursues new opportunities, it always seeks to do so according to international standards. Our overarching goal at Asia Insurance is to compete with major markets in the MENA region. We believe that if the KRG and the central government support the development of the insurance industry, a new era will be created. Asia Insurance is ready to play a central role in that development.”

*Jamal Asfour
CEO, Asia Insurance*

throughout the country. Furthermore, Asia Insurance is assisting the KRG to improve the legal landscape regarding insurance in the Region. For example, at the moment, foreign investors (as per the 2006 Investment Law) in the Region are permitted to employ foreign insurance companies that remain unregistered in Iraq or the Kurdistan Region. According to Asfour, “if the local insurance industry is to develop, we need the support of the government. We need laws to be amended so that foreign investors will be compelled to utilize local insurance companies.” This, he argues, will improve the local insurance sector immensely and will positively affect the Region's current account balance.

Additionally, unlike much of the world, insurance in areas such as driving and workman's compensation are not made compulsory by the government. In car accidents, drivers tend to settle with one another privately, rather than employing the risk diversification and actuarial expertise of insurance companies. This is both inefficient and potentially catastrophic for the individuals involved. As a result, Asia Insurance is working with government to develop laws and enforcement for compulsory use of motor third party liability insurance. However, there is also a public relations dimension to the

issue. “Prior to beginning our operations,” said Asfour, “we organized a marketing campaign called ‘Know Insurance’, in which we demonstrated the benefits of having different types of insurance. We believe that personal selling (face-to-face) is the best approach to spreading our message regarding the fundamental importance of insurance.”

In terms of future ambition, Asia Insurance is aiming high. The value of the insurance sectors in the individual MENA countries is significant. The insurance industry is worth \$5.5 billion in Saudi Arabia and \$900 million in Jordan, notes Asfour. These numbers demonstrate the potential growth of the industry in Iraq. With government support, he argues, Asia Insurance could compete with bigger and better established regional competitors. Moreover, the importance of an efficient insurance sector for Iraqi and Kurdish business and society should be properly understood. “Our message is clear,” notes Asfour, “you cannot sustain a strong economy without a stable insurance industry. If Iraq wants to compete with other countries in this region, it needs to develop a strong insurance industry.” After its initial year in operation, Asia Insurance appears poised to play a central role in that development.

“As with a many other Faruk Group Holding ventures, Asia Insurance strives to operate according to international best practices. This has allowed the company to forge partnerships with many of the world's largest international insurance and reinsurance companies, including Munich Re, Swiss Re, and the Zurich Insurance Group.”

Asia Insurance

Profile

Founded in 2012, Asia Insurance Company is the insurance arm of Faruk Group Holding. The company insures all non-life insurance classes with the major categories being Fire, General Accident, Engineering, Marine, Motor, Group Health, and Individual Health Insurance. It is worth mentioning that the Company was short-listed by MENA Insurance Review in 2013 for the Best Newcomer of the Year Award in the MENA region.

Lines of Business

Property, General Accidents, Engineering, Energy, Aviation, Marine & Inland transit, Motor, Health Insurance, Travel

Services

Insurance Consultations
Identifying Clients Needs
Risk Management
Claims Management
HealthCare Claims Management
Motor Claims Center

Partners

Swiss Re, Munich Re, Hannover Re, Zurich Insurance Group, Hiscox Insurance, Mapfre, Trust Re, Milli Re, Arig, Barents Re

Asia Insurance

Founded	2012
Chairman	Omar H. Ahmad
CEO	Jamal Asfour
Branches	Slemani, Erbil

Analysis: Kurdistan Region & Turkey

Common Vision for the Future

Energy, economic, and trade relations have generated increasing interdependence between Turkey and the Kurdistan Region.

The determination of the Kurdistan Regional Government (KRG) to establish a friendly business and investment climate, coupled with the entrepreneurial spirit of the Turkish private sector, has resulted in significant economic cooperation unthinkable a few years ago. The depth of economic interdependence between the KRG and Turkey is unmatched when compared to their other regional trade partners.

According to Turkey's Trade Ministry, Turkey's export volume to Iraq was \$7bn, 70% of which went to the Kurdistan Region in 2010. In 2011, this figure rose to \$12bn, of which 75% went to the Kurdistan Region. Projections anticipate that, with more emphasis on investments rather than trade, figures could be \$20 billion by 2020. Iraq, particularly the KRG, has quickly become Turkey's second-largest export market. Turkey, on the other hand, is the KRG's largest trading partner.

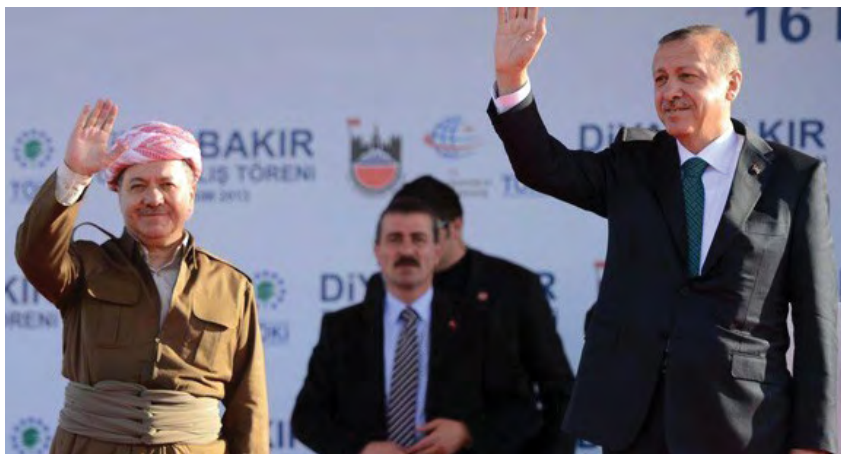
Approximately 80 percent of all goods sold in the Kurdistan Region are made in Turkey. Turkey's business presence is

visible, more than that of any other country, with everything from shopping centers to housing projects to furniture stores, among other consumer and commercial goods, bearing a Turkish trademark.

Turkish companies are engaged in a diverse range of sectors: energy, construction, finance, education, health, telecom, transportation, tourism, agriculture, and water. Until recently, Turkey's economic involvement in the Region has mostly been comprised of trade. Now, as the Kurdistan Region has become even more stable, investment, particularly, in the oil and gas sectors has started to increase.

During his April 2012 visit to Turkey, KRG Minister of Trade and Industry Sinan Çelebi pointed out that 25 new Turkish companies are launched every month in the Kurdistan Region, with more than half of foreign companies registered in the Region being Turkish. In 2009, there were only around 485 Turkish companies operating in the KRG whereas, today, there are approximately 1,500 with roughly 30,000 Turkish citizens possessing residence permits.

“Ankara and Erbil are both committed to developing infrastructure within the Kurdistan Region, thus further deepening economic interdependence. Building an industrial zone along their mutual border, the construction of two more border crossings, and the creation of additional oil and gas pipelines, airports, and highways would signal growing cooperation and promote long-term economic stability within the region.”



President Barzani visited Diyarbakir, the largest Kurdish city in Turkey, on November 16, 2013.



Turkish PM Tayyip Erdogan paid an historic visit to the Kurdistan Region on March 30, 2011. President Barzani and PM Erdogan opened the Turkish Consulate General and the Erbil International Airport.

The KRG, an oasis of peace and stability in the Middle East, has not only invested in its own security, but in the development of its economy, infrastructure, and human capital. Representatives of the Turkish private sector are well positioned to capitalize on positive developments from within the KRG due to common cultural values, historical trade patterns, and a contiguous land border.

Bilateral trade relations have greatly deepened since the first Turkish government delegation traveled to the Kurdistan Region to advance contacts in 2008. The opening of the Turkish Consulate in Erbil in 2010, the 2011 attendance of Turkish Prime Minister Tayyip Erdogan at the inauguration of Erbil International Airport (which was constructed by Turkish companies), the May 2012 visit of KRG President Masoud Barzani and KRG Prime Minister Nechirvan Barzani to Turkey, and subsequent high-level KRG and Turkish government delegations have all assisted in widening of economic relations.

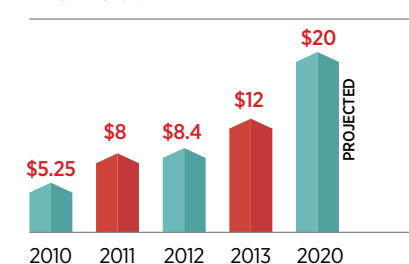
Ankara and Erbil are both committed to developing infrastructure within the Kurdistan Region, thus further deepening economic interdependence. Building an industrial zone along their mutual border, the construction of two more border crossings, and the creation of additional oil and gas pipelines, airports, and highways would signal growing cooperation

and promote long-term economic stability within the Region. Turkey's state-owned TPAO and Genel Energy, an Anglo-Turkish partnership, have both supported the construction of a new pipeline, which would bypass the existing Baghdad-controlled pipeline to carry crude oil from the Kurdistan Region to Turkey. With the cut-off of transportation routes in Syria due to civil unrest, the Region is now the most viable gateway to the rest of Iraq and to the Persian Gulf for Turkish traders. About a third of Turkey's exports to the Kurdish north are sold on to the rest of Iraq.

The KRG has invested heavily in human capital with many skilled workers speaking more than two languages and who are positioned to act as trade facilitators in the Region. Turkish companies and entrepreneurs can provide significant opportunities to transfer their skills and knowledge to the new generation of Kurdish businessmen and women. Both Turks and Kurds remain undaunted by new and challenging markets.

Despite the regional instability and global economic crisis, the remarkable upward trend can be attributed to economic cooperation between Ankara and Erbil. Turkish trade and investment is crucial to boosting the development of the Kurdistan Region and to contributing to Turkey's own long-term socioeconomic development. ☞

Bilateral Trade Volume
Billion Dollars



“The depth of economic interdependence between the KRG and Turkey is unmatched when compared to their other regional trade partners.”

Security and Integrity

About

Harry Bucknall earned a Bachelor's degree in English Literature and a Master's degree in Russian and Czech Language and Literature. He worked for the British Foreign and Commonwealth Office. He has been in the private sector for the past twelve years, specializing in risk management and consultancy. He has been with Control Risks in Erbil since the beginning of 2013.



Harry Bucknall
Regional Manager, Control Risks

Harry Bucknall provides IIG with exclusive analysis of the economic implications of Kurdistan's security, and the services offered by Control Risks relating to integrity, political, and security risks in the Region.

IIG: Control Risks has considerable experience in Iraq as well as in the Kurdistan Region. What are the major differences in your operations in the north versus the south?

HB: To begin, Kurdistan's security situation has long been much more stable than most of southern Iraq. When Control Risks established a permanent presence in Kurdistan in 2006, security, while better than in the south, was not as stable as it is now, and infrastructure was sorely lacking. However, the catch-up growth of the Region has been incredible, and contrasts strikingly with development in the south.

Control Risks has operated in the south for longer than we have in Kurdistan, and southern Iraq is a more mature market. However, I would not necessarily characterize Kurdistan as a frontier market. When comparing Kurdistan with more mature markets in the Middle East, such as Federal Iraq, I conceive of Kurdistan as a hidden market whose potential went untapped for too long. Fortunately, this is changing quickly. Hotel construction in Erbil and Slemani, for example, clearly

“One of Kurdistan’s primary advantages over the rest of Iraq, in terms of doing business, is the lighter regulatory burden and the more streamlined bureaucracy.”

demonstrates how quickly the Region is developing, and how great the demand is.

One of Kurdistan's primary advantages over the rest of Iraq, in terms of doing business, is the lighter regulatory burden and the more streamlined bureaucracy. Ultimately, of course, in both southern Iraq and Kurdistan, a strong grasp of the local environment, regulations, customs, and procedures is crucial. The rewards in both places can be significant once efforts have been invested in firmly understanding the operating environment.

IIG: Control Risks offers security reviews of international business hotels within the Region. What exactly do these reviews entail?

HB: Control Risks has conducted security design and security reviews for many of the major hotel operators including InterContinental Hotels Group (IHG), Hilton, Marriott, Fairmont, and Hyatt, so we are very familiar with brand standards and their security requirements. While it is critical to have robust security measures in place, it is equally critical to ensure the hotel environment is welcoming. The balance, therefore, is subtle, the aim being to provide effective yet unobtrusive security. The evaluation can take different forms. Although we happily conduct security reviews for hotels, the best results are achieved through longer-term partnerships with hotel groups. Collaboration begins long before the construction phase, allowing us to work together throughout the project life cycle, from original design to complete operational capability.

Whether we are engaged throughout the project or brought in to conduct a review, our methodology is defined by an integrated approach. In practical terms, this includes reviewing the threat environment, reviewing and advising on the hotel's policies and procedures, providing accredited training to staff, and creating and testing robust crisis management plans. We also provide embedded security consultants to assist in implementing security procedures and maintaining standards through the long term.

IIG: The driver training school you offer is especially interesting. Can you tell us about the program and its objectives?

HB: Clients are often surprised when we tell them that the biggest risk to their operations in Kurdistan comes from road traffic accidents rather than security incidents. The volume of traffic is increasing drastically, and the road infrastructure is struggling to keep up. The problem is so serious that the government has placed restrictions on the import of vehicles. Control Risks is addressing these concerns through our Driver Training School.

The School is a bespoke facility on the outskirts of Erbil. UK Driving Standards Agency-certified instructors conduct our training, which is internationally accredited. We offer this training not only to our personnel, but also to clients who want to ensure their drivers are proficient. The

“In terms of the Kurdistan Region and our risk rating I would say that we view Kurdistan as an open business environment with significant investment potential. We are very enthusiastic about the Region and would like to see many more international business establish a presence here.”


differences in driving standards from the beginning to the end of a course are very obvious. We give candidates the confidence, knowledge, and expertise to drive safely and responsibly. Additionally, this often helps the locals we train to secure employment as drivers with international companies.

IIG: Control Risks offers due diligence services, both for private and public entities operating in the Kurdistan Region. What issues or concerns do you typically address?

HB: Control Risks provides pre-transactional or pre-relationship due diligence to help organisations mitigate some of the risks of forming alliances with unknown partners, in terms of both companies and individuals. The concerns of our clients are usually either reputational or regulatory. That is, they are concerned that a partnership with a certain company or individual will damage their reputation,

or will affect their exposure to instruments of anti-corruption legislation such as the Foreign Corrupt Practices Act or the UK Bribery Act.

A company's reputation may be damaged by an association with an unsuitable partner in a number of ways, and in this regard, Kurdistan is similar to many jurisdictions in the Middle East and around the world. A partner may misrepresent their level of experience or expertise, or the extent to which they have provided similar services to foreign investors in the past. A partner may also misrepresent the degree to which they can provide introductions to key players in the business world. A partner may also be experiencing financial difficulties, and may not be able to discharge its business obligations. More broadly, a partner may simply have a market reputation as an undesirable company or individual with which to engage. Any of these factors could spell the failure of the investor's venture, and could result in reputational fallout among its clients, its partners, or in the industry more generally.

In our experience, one of the key ingredients of success in Kurdistan is ensuring in advance through due diligence that a local partner is representing themselves, their capabilities, connections, and track record accurately, and that their reputation and perceived integrity is beyond reproach. Our objective is not to stop companies from doing business, but rather to facilitate their operations while protecting their reputation and integrity. 

CONTROL RISKS

Control Risks is an independent, global risks consultancy specializing in political, integrity, and security risks. The company helps some of the most influential organizations in the world to understand and manage the risks and opportunities of operating in complex environments.

Chairman	Crawford Gillies
CEO	Richard Fenning
Headquarters	London
Establishment	1975
Number of employees	3,000
Global presence	34 countries

At the Forefront



Ayad Mirza
Managing Partner, Deloitte-Iraq

IIG talks to Ayad Mirza regarding the competitive strengths of Deloitte's legal practices, the strengths and challenges of the regulatory structure for foreign investment, the main challenges for foreign companies, and the investment and business climate in the Kurdistan Region.

IIG: How would you characterize the investment and business climates of the Kurdistan Region? How welcoming is the Region for foreign companies considering involvement, and what are the main challenges for foreign companies?

AM: Aside from Oil & Gas, which represents the source of revenues for the Region, over the last few years we have seen an influx of private foreign investment. This is especially true in banking and construction where there is a decrease in speculation amongst foreign investors about the health of the economy. In fact, many perceive Kurdistan as a more progressive, secure place with great returns. The Kurdistan Region is

“The market is ripe and demand continues to spur activity. This along with new oil discoveries and increasing government infrastructure spending are contributing to a healthy economy and a growing sense of stability.”

rich in natural resources which have yet to be excavated. These resources will bring in great wealth, the majority of which is earmarked for infrastructure projects such as roads and bridges, sewage, schools, tourism, agriculture, IT, fiber optics, and telecom. These future projects will surely bring jobs and prosperity to an already growing economy. Foreign banks are entering the market in notable numbers which is seen to create healthy competition, as well as working to educate local banks to modernize and connect with international banks. One big challenge that is facing Kurdistan is the lack of information and transparency. The Prime Minister's office recognizes this and is encouraging all KRG ministries to collect key economic data and follow transparent rules and regulations. Once information is available to local and international investors, uncertainty in the market will decrease, and investors can proceed to make better informed business decisions. Additionally, there is still much room for a skilled local workforce. This poses a hindrance to employers who are demanding sophistication and productivity. Iraq was deemed a closed society for so many years, and having opened up at such a pace, a lot of changes need to be made.

IIG: What sort of reforms to the legal framework do you think would enhance the development of the economy?

AM: KRG's Board of Investment has already introduced an Investment Law that provides incentives and tax credits to private investors in an effort to attract them to invest in the Region. There also needs to be more coordination between the various ministries. At times, the inconsistency in the application and enforcement of these laws might add risks to a market that is in need for foreign investment.

IIG: How developed are the Kurdistan Region accounting standards requirements for auditing practices, and what kind of auditing issues should the foreign business community be informed about?

AM: The accounting profession in Kurdistan is quite sophisticated but has suffered exposure to changes in international standards due to years of economic sanctions and the unsettled political arena. The Institute of Auditors and Accountants, while an effective body in enforcing regulations, has not been very active in updating its members with new developments in the profession. The Kurdistan Region follows the Iraqi Unified Accounting System, whereby a rigid and standard set of accounts must be used in preparing local financial statements. Deloitte is well versed and has extensive knowledge of all local statutory requirements to ensure adherence and compliance with such requirements.

IIG: How would you characterize the tax system in the Kurdistan Region?

AM: Theoretically the Iraqi tax code is well written and covers many areas, including corporate income tax, employment taxes, social security funding, real estate taxes, and custom duties plus several other areas. In practice, however, and due to years of neglect, lack of an enforcement body, and perhaps weak audit procedures and guidelines have resulted in non-compliance and tax avoidance. This has resulted in mistrust and non-reliance on the submitted financial statements

which induced the tax authorities to assess taxes on internally developed deemed profit schedules, categorized by industry sector. These arbitrary assessments have created an uncertain environment for foreign investors who prepare and report accurate financials along with tax computations based on their true operating results. Deloitte is currently investing in developing the breadth of our Iraqi service offerings, and has already developed a strong working knowledge of the Iraqi tax and regulatory system. We are a member of the ITIC [International Tax Investment Center], an organization that works closely with the Iraqi authorities to develop best practices and resolve issues with respect to the application of the tax law for foreign companies.

IIG: What are the most important legal changes that foreign investors need to be aware of?

AM: Investment Law no. (4) of 2006, with all its provisions, is perhaps the most important legal change investors should be aware of. The law, amongst other incentives, provided for a moratorium on taxation on certain Board of Investment approved projects, and treated foreign investors and foreign capital the same way as national investors and their capital investment. It also allocated and allotted plots of land for approved projects. Furthermore, the law created a legal framework and provided for guarantees to protect the rights of foreign investors. It also laid out the foreign investor responsibilities thus creating a friendly environment to operate from within.

IIG: How would you characterize the private equity environment in the Kurdistan Region?


AM: The private equity environment is alive and vibrant; however, as the market becomes more sophisticated, we foresee the need for financial due diligence work, mergers and acquisitions, market and corporate feasibility studies, finance and investment strategies, and many other advisory services. Once the Erbil Stock Exchange is up and running, we hope that many of the local conglomerates take

advantage of the opportunity to list their companies via a structured and monitored IPO process. In the meantime, these larger entities must begin the process today of transforming their entities from a family-owned structure to a corporate structure. This would facilitate the external audit process which will provide assurances to outside investors and the public about the integrity and performance of such entities.

IIG: Which areas do you think are the most beneficial for investment in the Kurdistan Region?

AM: The field outside Oil & Gas and its related services is wide open; the Region is in dire need of many industries. We have seen an active construction industry trying to meet demand for residential and commercial space. We have also seen an influx of foreign banks trying to extend credit to somewhat risky but high return investments. Infrastructure projects are next, including sewage, roads and bridges, and schools. Tourism, agriculture, meat and poultry plants, dairy production, technology, fiber optics are all investment opportunities on the horizon.

IIG: Is confidence increasing for long-term investments in the Kurdistan Region?

AM: The market is ripe and demand continues to spur activity. This along with new oil discoveries and increasing government infrastructure spending are contributing to a healthy economy and a growing sense of stability. 



Kurdistan International Bank for Investment & Development

Continuous Progress, Transparency, Trust,
Security, Reputation, and Creativity

KIB follows a clear vision to meet the requirements of important economic sectors and keeps abreast with the technological developments in the banking industry. This vision allows KIB to make contributions towards the reconstruction and development process in the Kurdistan Region in particular and Iraq as a whole.

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Overview *Finance*

Reform & Investment

Despite the significant progress that has been achieved in recent years, major reforms are needed to overcome the fundamental obstacles of the banking industry.

The Kurdistan Region's banking sector receives 16.67% of the economy's overall capital investment. This constitutes roughly \$2.3 billion in projects. These figures indicate that the cutting of significant red tape and the overall healthy investment climate have made getting involved in the banking sector a more feasible option for both local and multi-national banks.

Despite the involvement of foreign branches and the continued growth of local banks, the banking sector of the Kurdistan Region requires further modernization and development. People currently prefer to use cash rather than card, and wire transfers are generally slow and overregulated. Moreover, confusing banking regulations continue into the present. As a result, banks are generally involved in personal banking rather than providing loans or financing for long-term investment projects.

However, the KRG has shown its desire to support the development of this sector. The continued operation of local banks coupled with further involvement from established foreign banks is expected to force changes in the current banking regulations. ▶

BANKING IN NUMBERS

Total Asset (Iraq)	\$164 million
Total Investment	\$2.3 billion
Total Banks	39
State-owned Banks	3
Private Banks	19
Foreign Banks	11
Islamic Banks	6

A Legacy of Doubt

Well-established foreign banks are flocking to the Kurdistan Region, new private banks are establishing themselves in the major cities of Kurdistan, and federal regulations seeking to stabilize the sector have helped improve overall bank performance. At present, the banking sector in Kurdistan consists of 3 state banks, 19 local private banks, 11 foreign private banks, and 6 local and 1 foreign Islamic banks.

Decades of statist inefficiency and instability in Iraq’s financial sector have created general distrust of the banking sector, a fact that the industry has yet to fully overcome. Under the previous regime in Baghdad, the banks were notoriously unreliable, with the regime regularly seizing bank assets, deleting accounts entirely, and frequently passing conflicting regulations. The people of Kurdistan were therefore historically weary of banks, a legacy that continues today. Thus, the residents of the Region felt it was safer to store their money and utilize cash whenever possible.

This remains largely the system presently in place in the Kurdistan Region. Indeed, with a majority of the public still unwilling to place their confidence in

the industry, other sectors have stepped up to fill the void. According to reports from the Ministry of Planning (MOP), in the first six months of 2013, a total of 49.4 metric tons of gold were imported into Iraq via the two airports of the Region, Erbil International Airport and Slemani International Airport. This figure represents a 45.2% increase on the 34 metric tons imported over the same period in 2012. The majority of this gold is being purchased and then stored by the residents of the Kurdistan Region. According to Bakr Aziz, the Director of Quality Control for Gold at the MOP, “Given the weak banking sector in the Region, as well as the lack of a market for securities, stocks, and bonds, citizens have no options for storing and saving money other than buying gold and keeping it in their homes.”

Thus, the local population of the Region has been slow to embrace practices and services that are common across the rest of the world, such as the usage of Visa and Master Card. As a result, the installation of ATMs has been limited, with those that are in operation serviced only infrequently.

Regulation and Iraqi Finance

Unlike the many sectors in the Kurdistan Region that are regulated by ministries of the KRG, the Central Bank of Iraq (CBI) in Baghdad regulates the banking sector throughout the country, maintains price stability, decides monetary policy, manages foreign reserves, and issues and maintains currency. In addition, according to Article 114 of the Federal Constitution, banks operating in the Region must be licensed by the CBI, which is also responsible for instituting any and all reforms of the financial sector. The CBI has taken steps to innovate the sector, such as introducing electronic payments systems for the country, and has attempted to institute reform by providing more stringent banking regulations. However, there is still much to be done.

The Iraqi banking sector itself is composed of 7 state-owned banks, which are

by far the most dominant actors in the sector, and 47 private banks, of which 15 are foreign and 9 are Islamic.

Despite the presence of a number of private banks, the Iraqi banking industry is dominated by the state-owned banks. Iraq’s three largest state banks (Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq) hold 87% of the entire banking sector’s assets.

At present, the banking sector in Kurdistan consists of 3 state banks, 19 local private banks, 11 foreign private banks, and 6 local and 1 foreign Islamic banks.

FOREIGN BANKS IN THE REGION

Bank name	Origin
BankMed	
BBAC	
Byblos Bank	Lebanon
Credit Libanias	
IBL Bank	
Al-Baraka Bank	
Bank Asya	Turkey
Is Bank	
Vakifbank	
Ziraat Bank	
Standard Chartered	United Kingdom

TOP 5 FOREIGN BANKS
% TOTAL CAPITAL

Bank name	%
BBAC	25
Byblos Bank	19
Vakifbank	11
Bank Asya	8
IBL Bank	7
Total	70 %

STATE BANKS IN THE REGION

Rasheed Bank
Rafidain Bank
Trade Bank of Iraq

INVESTMENT PROJECTS
\$2.3 Billion

Limitations on the Private Sector

At the moment, government agencies and state-owned companies (as well as all their employees) are prohibited from utilizing private banks. Given that over 50% of the Kurdistan Region’s workforce is employed in government positions, a major potential source of business for private sector banks is effectively cut off. Moreover, because state banks hold an implicit government guarantee on their deposits, many residents perceive state banks as healthier and more reliable than their private sector counterparts. According to a World Bank report, “Private banks operate on an uneven playing field.”

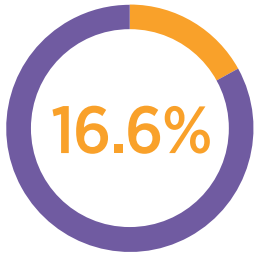
This inequality is perhaps most clearly seen in the CBI policy that requires, as of June 2013, all private banks to have a minimum equity capital of 250 billion IQD, an amount equal to roughly \$215 million. It is believed that this policy is intended to force private sector banks to lend more funds and forcibly encourage smaller banks to merge in order to remain both competitive and operating at government standards.

Potential Reforms

For its part, the Kurdistan Region has attempted to implement change and modernization whenever possible. The KRG Ministry of Finance (MOF) has begun the process of reorganizing and updating the Region’s banking systems, so as to bring them more in line with modern practices. The primary motivation in these actions seems to be the push to reconnect Kurdistan with both international banks and the global financial system. In addition, there are currently initiatives in place in Baghdad to reform the major state banks and level the playing field for private banks. However, the institutional and political difficulties of reform and/or privatization, as well as the empirical lack of reform thus far, have led many to become cynical regarding meaningful reform of the state-centric banking sector. Nevertheless, this “uneven playing field” has not discouraged private banks from pursuing the numerous opportunities available in the Kurdistan Region.

CAPITAL INVESTMENT

16.6% of the Region’s capital investment is dedicated to the banking sector.



STATE BANKS (2012)

% of total Iraqi bank assets



FOCUS:
STOCK EXCHANGE



While Iraq’s banks dwarf Iraq’s stock exchange in terms of size and lending, there are reasons to be optimistic about Iraq’s capital market. Major businesses (including most of Iraq’s private banks) are listed on the Iraq Stock Exchange (ISX). The Exchange’s small size (its market capitalization is currently roughly \$10 billion) and relatively low trading volumes have led some to worry about the liquidity of the market. However, the recent major \$1.3 billion IPO of Asiacell demonstrated the quality of the Exchange, and mobile operators Zain Iraq and Korek are expected to have major listings on the exchange soon.

In addition to the ISX, the Erbil Stock Exchange (ESX) is expected to open and begin listing companies in 2014. While the exchange will start small (it is estimated to open with a market cap of roughly \$8 million), it will provide alternate means of finance for companies and projects in the Region. As Erbil develops in to a major economic hub, and major, high-capital projects increasingly dominate the landscape, the ESX will provide an alternative to banks for financing, and opportunities for investors in the Kurdistan Region’s growth.

Islamic Banking on the Rise

While some private sector banks have struggled to gain a foothold in the Kurdistan Region, Islamic banks have found success. The majority of the population of the Region is Muslim. As such, many individuals prefer to utilize Islamic banking practices.

According to a report completed by Sansar Capital Management, “Kurdistan International Bank (KIB) is the 4th largest bank in terms of deposits and the largest bank by market-cap. It is also the only bank among the five largest banks [in all of Iraq] that is an Islamic Bank.” Among other reasons, KIB has attained a great level of success by implementing some of the key strategies relating to Islamic banking. These include “Murabaha” (the bank finances an asset by buying it and then re-selling it to the end customer at a

higher price), “Mudharaba” (a system of asset management in which profits and losses are split between the bank and the client), and “Musharaka” (a practice in which the bank finances a venture in return for an equity stake with pre-determined figures for losses and profits).

Since 2009, practices such as these have allowed KIB to grow before tax profits by 119%, with a compound annual growth rate of 29.8%. Moreover, KIB’s minimum equity capital has increased from \$85.84 million in 2010 to \$257.5 million in 2012. To continue this stellar growth pattern, KIB recently signed an agreement with SACE, Italy’s leading export credit agency, to support investments, develop trade relations, and strengthen cooperation in export credit.


Private Sector Development

The KRG is actively working to improve the Region’s financial infrastructure, and has dedicated approximately \$2.3 billion to the banking sector. As a result of this renewed emphasis, local banks have already begun to further develop and evolve, most notably North Bank. The largest publicly traded bank in terms of size of deposits, North Bank had the highest profit (\$90 million) of Iraq’s top 30 banks in 2012. In addition, the KRG has encouraged multiple foreign banks to establish their operations in the Region. The banks that have accepted that invitation (the majority of which are Lebanese or Turkish) have been highly motivated to enter an area considered to be a virgin territory.

At present, roughly 80% of the Iraqi population does not have access to a bank account, and only 10% of Small-Medium Sized Enterprises (SMEs) in the formal sector have bank accounts. Iraq’s financial sector comprises roughly 10% of the country’s GDP, which is a very small number relative to most countries. The majority of that contribution is composed of home mortgage activities.

The presence of globally recognizable financial institutions, such as the UK’s Standard Chartered and Turkey’s

İş Bank in the Kurdistan Region, should also promote greater consumer confidence. Indeed, in early 2013, the Erbil based branch of the Turkish banking and financial services giant authorized a four-year, \$50 million loan to UB Holding, one of the largest local companies in the Kurdistan Region. The loan, which is the largest ever extended by İş Bank to a company operating outside of Turkey, will be utilized in the construction and energy sectors. Advances such as this will go a long way towards restoring the trust of the Kurdish people in financial institutions, as will the KRG’s efforts to reform and modernize the system to the extent possible.

Moreover, many of the private banks in Kurdistan are too small in both size and scope to finance the major projects taking place in the Region. As the Kurdistan Region develops economically, the demand for large, well-run banks will only continue increase. Thus, opportunities will continue to present themselves to banks willing to take the chance and establish a presence in the Region. In addition, increased involvement from foreign banks could facilitate competition and, as a result, broader innovation in the industry. 

ISLAMIC BANKS IN THE REGION

Al-Baraka Bank
Al Bilad Islamic Bank for Investment and Finance
Cihan Bank for Islamic Investment and Finance
Dijlah and Furat Bank for Development and Investment
International Development Bank for Investment and Islamic Finance
Iraqi Islamic Bank for Investment and Development
Kurdistan International Bank for Investment and Development

PRIVATE BANKS IN THE REGION

Ashur International Bank for Investment Bank of Baghdad
Bank of Sulaimanyia
Credit Bank of Iraq
Dar Es Salaam Investment Bank
Economy Bank for Investment and Finance
Emerald Bank
Erbil Bank for Investment and Finance
Gulf Commercial Bank
Iraqi Middle East Investment Bank
Investment Bank of Iraq
Mansour Bank for Investment
Mosul Bank for Development and Investment
National Bank of Iraq
North Bank
Sumer Commercial Bank
Union Bank of Iraq
United Bank for Investment
Warka Bank for Investment and Finance



Modernity on the Horizon

Bayiz Talabani
Minister of Finance

Minister Bayiz Talabani discusses the current objectives of the Ministry of Finance (MOF) and the role that private banks should play in creating financial opportunities.

“Our current objectives are to modernize the banking system, and to support investment projects in the fields of agriculture, industry, and tourism.”

IIG: What would you say are the Ministry of Finance and Economy’s goals for the medium term?

BT: Our current goals are to systemize the banking sector, as well as to computerize activities relating to customs, taxes, and retirement funds. We are also working to implement the current investment budget to help create employment opportunities and rehabilitate economic infrastructure. In addition, providing as much of the budget as possible for the social insurance, agriculture, industry, higher education, education, health, and electricity sectors. The Ministry of Finance and Economy allocates funds to build factories and investment projects in the fields of agriculture, industry, and trade. These types of projects can have a significant impact on economic growth.

IIG: In the past, you’ve spoken about the need to develop a “modern financial sector” in the Kurdistan Region. How close do you think that goal is to becoming a reality and what still needs to change to make it happen?

BT: We still have some way to go before these goals become a reality. However, we are taking the basic steps to ensure that we are progressing in the right direction. We are actively working to streamline the process for submitting and receiving information between the MOF and its departments; this involves improved technology and increased training. We are also authorizing new companies involved in finance and management to come to the Kurdistan Region and assist in the modernization of the system.

IIG: What are your expectations for the Erbil Stock Exchange?

BT: The Stock Market has been initiated, but is still a very new phenomenon. My hope is that large companies will become actively involved in it, which will obviously generate more trust from smaller or local companies.

IIG: What role do you believe foreign banks should play in developing the financial sector of the Kurdistan Region?

BT: I believe the biggest role that foreign

About


Minister Bayiz Talabani was born in Kirkuk in 1944. He was initially appointed as Minister for Finance and Economy in May 2006, and was reappointed in 2009 and 2012. Prior to his appointment as Minister, Talabani served as the Head of KRG Fiscal Control.

banks can play is in using their capital to promote further development in the priority investment sectors. These include agriculture, education, transportation, industry, and tourism. In addition, giving loans with minimal rates could also help further development the financial sector.

IIG: Looking at the local banks, do you believe the services and staff are sufficient to satisfy growing demand, or is further development or training necessary?

BT: Training is fundamental for each and every member of the banking community. However, our employees require more training than their counterparts in other countries. This training can occur both inside and outside of the country, because our employees need to be familiar with the changes taking place in the Iraqi financial sector as well as the progress made in the international arena. To establish themselves as reliable performers, our banks must continue to pursue training opportunities wherever they are available.

IIG: The number of private sector banks active in the Kurdistan Region continues to grow each year. What role do you believe these banks have played or can play in terms of stabilizing and developing the Kurdish economy?

BT: As with much of the economy of the Kurdistan Region, the private sector has been (and continues to be) of fundamental importance. In terms of the banking and finance sectors, this is primarily because the private sector institutions are able to provide services that governmental banks cannot. For example, private banks have become the leading entities when it comes to conducting wire transfers either inside Iraq or abroad. If these banks continue to fill in these types of gaps, then they will certainly play a major part in further developing the Kurdistan Region. 

Tradition Builds Confidence



Bustam Al-Janabi

Managing Director, Kurdistan International Bank for Investment and Development (KIB)

Bustam Al-Janabi gives insight into the role that KIB has played in developing the local banking sector, the challenges awaiting the international banks considering involvement in Kurdistan, and the future of the financial sector in the Region.

IIG: Can you give us some background about the KIB and how it has evolved over time?

BJ: Since it began operations six years ago, KIB has become a leading bank in the Kurdistan Region. Currently, it is the largest bank in the Region and one of the largest in all of Iraq. Furthermore, according to evaluations conducted by the Iraqi Central Bank, we are the number one private bank in Iraq and number two overall. We have been able to obtain these high rankings due to our rapid expansion and enduring focus on providing comprehensive banking services to a diverse group of investors. Presently, we have five branches in operation: two in Erbil, one in Duhok, one in Slemani, and one in Baghdad.

IIG: What factors do you believe have played a role in enabling KIB to experience such rapid growth?

BJ: Firstly, we have pursued a diverse investment strategy. Engaging in such a

policy has allowed us to pursue options that may not have otherwise become available. For example, we were able to establish partnerships with Mastercard and Visa because we were willing to pursue agreements that were perhaps unconventional for other banks operating in the Region. Secondly, we seek to provide optimal business services and solutions for foreign operations, including Letters of Credit, Letters of Guarantee, and other agreements in cooperation with different companies. Moreover, our network of banking contacts is quite diverse, and includes individuals or companies throughout Europe and the Middle East. Thus, we are able to facilitate a variety of services for a range of different types of companies. We also work diligently to provide loans and financing for commercial initiatives undertaken by both foreign and local companies alike. In fact, deals such as these have allowed us to effectively double our capital. As a result, we

currently have the largest shared capital of any bank in Iraq: 300 billion Iraqi Dinar or approximately \$255 million. So, in a very short period of time, we've come to occupy a key position in both the banking and financial services sectors.

IIG: What is the state of banking regulation in both the Kurdistan Region and Iraq, and how do those regulations impact KIB's operations?

BJ: KIB is licensed by the Central Bank of Iraq, so we have to abide by their regulations. They are the primary supervisor throughout the Iraqi banking sector. We are also subject to supervision by the Minister of Trade and we are listed on the Iraqi Stock Exchange, which creates further regulation. So, there is a lot of supervision in the banking community. Then, because KIB is an Islamic bank, we must also conform to Sharia Law as well. We abide by Islamic finance rules in terms of contacts and returns on investment. We generate a return on our investments and our savings accounts, but not with a fixed rate. We don't simply implement rates of 5% or 10%. Our returns are based on profit sharing, so the amount earned dictates the amount that will be returned.

IIG: There are numerous international banks that are in the process of establishing branches in the Kurdistan Region. Many of these banks are not based on Islamic Banking Principles. Do you believe that fact could limit their ability to succeed here?

BJ: It really depends on the size and scope of their operations, as well as the services that they are providing. I believe we attract customers because they are drawn to our policies, as well as because they understand the manner in which we operate. With the foreign operators coming in, I think the most important element is that they understand the market. They need to cater their services to the people of the Region rather than expect the local population to rapidly become accustomed to other ways of conducting banking and finance. That said, because these new banks or bank

branches are generally foreign, they may be more appealing to international businesses or operators. For example, there are many Lebanese companies working here in the Kurdistan Region. As a result, there are many Lebanese banks that are either already in operation or will soon be established. So, like with any service, it

“In fact, deals such as these have allowed us to effectively double our capital. As a result, we currently have the largest shared capital of any bank in Iraq: 300 billion Iraqi Dinar or approximately \$255 million. So, in a very short period of time, we've come to occupy a key position in both the banking and financial services sectors.”

becomes about catering to your preferred clientele. If these banks want to pull in the widest customer base possible, then, as I said, it becomes fundamentally important to truly know the market.

IIG: Based on our research, it seems clear that investors have begun to see clear differences between the Kurdistan Region and the rest of Iraq. Is that just in the financial sector or in other areas as well?

BJ: If you examine per capita income in the Kurdistan Region, it's much higher here than in the rest of the country. In my opinion, the rate of development is at least double that of the rest of Iraq. Similarly, there are clear differences in terms of the poverty line. In the rest of Iraq, it fluctuates between 20% and 23% of the population living beneath it. In the Kurdistan Region, the number is closer

to 3% or less. All of these figures indicate that there is a much higher standard of living here in the Region. You can see this reflected in a number of different areas. The unemployment numbers are very low, as workers are needed to complete the numerous ongoing construction projects. The traffic here is another indicator of the standard of living: everyone has a car! Some people have two or three. Financial education has also improved. In 2004 and 2005, we were actively recruiting workers. However, because of our requirements, only a few people were able to apply. Today, because more young people have elected to pursue educational opportunities abroad, there is more unique knowledge than ever before. Local universities have also improved significantly, and are much better at preparing their students to work in the modern world. I believe all of these developments can serve as stepping-stones for the rest of Iraq, but have also gone a long way towards convincing people that the Kurdistan Region is a secure place that is good for investment.

IIG: With that in mind, what do you think is the future of the banking sector here in the Kurdistan Region?

BJ: There is an old saying that I think answers that question rather well: “the past is the key to the future”. If you examine the progress that has been made here in the Region in the last six or seven years, you will see that all signs indicate that we will continue to grow. I believe that a significant portion of that development will come from increased cooperation with investors, both foreign and domestic. I think the increased presence of globally recognized companies like Visa and Mastercard is clear evidence of this idea. It is generally expected that the budget of the Kurdistan Region will continue to increase, which will no doubt lead to further development. This expansion will create opportunities in all sectors, but specifically for banks, as there will be an increased demand for Letters of Credit and Letters of Guarantee. So, overall, the past may have been difficult, but the future is certainly bright. ☺



A Wealth of Experience

Gavin Wishart

CEO, Standard Chartered Bank – Iraq

Earlier this year, Standard Chartered, the British multinational banking and financial services giant, announced plans to expand its operations into the Kurdistan Region. Gavin Wishart details the bank's plans for growth in the Region, strategy for attracting new clientele, and goals for its operations within the Kurdistan Region.

“Standard Chartered is keen to bring its expertise to the dynamic region of Kurdistan, where the pace of development is continuously increasing.”

IIG: Standard Chartered has announced plans to open a branch in Erbil. How would you characterize the potential of the banking industry in the Kurdistan Region and what are the primary motivations for getting involved here?

GW: In line with our strategic focus on the Middle East region, Standard Chartered plans to expand its on the ground presence in Iraq by opening our first branch in Baghdad in November. This branch will be followed by one in Erbil, opening by end of 2013, and one in Basra, which is scheduled to open in the first half of 2014. In the first phase, we aim to service the increasing needs of our existing multi-national clients, notably from the oil and gas, telecommunications, and infrastructure development sectors. Our entry into the Iraqi market is built upon our positive outlook for the economic growth of the country.

IIG: Standard Chartered obviously has a great deal of experience operating in developing markets. Do any of the bank's specific past experiences correlate to the opportunities here? Where do you see the main opportunities for the banking industry in the Region?

GW: Standard Chartered has a clear strategic focus on Asia, Africa, and the Middle East; more than 90% of our profits and earnings are generated from those markets. The Middle East constitutes one of our strategic markets and our entry into Iraq complements our strong network across the Middle East region. The banking industry in the region is maturing, and we continue to invest in our capabilities to provide world-class banking and financial services to our clients.

IIG: How do you personally believe Standard Chartered can facilitate further development in the Kurdistan Region?


GW: We have extensive experience in assisting both sovereign and public sector entities in achieving their development goals. As such, Standard Chartered is keen to bring this expertise to the dynamic region of Kurdistan, where the pace of development is continuously increasing.

About

Gavin Wishart first joined Standard Chartered in 1980, and has since occupied a number of positions across 14 different markets in Asia, Africa, and the Middle East. Prior to serving in Iraq, Wishart served as Head of Banks for Middle East and North Africa and handled the company's relationships with the various financial institutions in the region.

As a result of our strong international network, we believe we will be able to play a leading role in the banking and finance sectors by providing our clients with unprecedented access to some of the world's most vibrant markets.

IIG: How would you define the medium-term goals of Standard Chartered in the Kurdistan Region?

GW: Standard Chartered has entered into Iraq with a long-term view of building upon our existing presence and country-specific expertise that was initially established in 2006 via our representative offices in Baghdad. That said, our medium term goals are to strengthen and deepen our client relationships in Iraq and to become the bank of choice for our clients in both the Kurdistan Region and Iraq in general. 

STANDARD CHARTERED

Standard Chartered has been operating in some of the world's most dynamic and rapidly expanding markets for over 150 years. The company opened its first international branches in Mumbai (Bombay), Kolkata, and Shanghai in 1858, and hasn't looked back since. Presently, Standard Chartered is active in 68 different countries, with 1,700 branches spread across six continents. The UK-based giant offers a variety of different services, including (but not limited to) personal banking, SME banking, wholesale banking, and Islamic banking.



Strong Credentials

Jean M. Abboud

Area Manager, BankMed Iraq

Jean Abboud discusses the expansion of BankMed's activities in the international arena, the services offered to the bank's retail and commercial clients, and the major challenges and opportunities inherent in the banking sector of the Kurdistan Region.

“The current reforms that are being implemented will help to support banks and other financial institutions, and encourage them to invest in the immense opportunities here.”

IIG: What specific services does BankMed offer to its clients in the Kurdistan Region?

JA: We provide both retail and commercial activities to our customer base. On the retail side, we offer the choice between a variety of payment cards with distinctive features and personal loans characterized by fast approval and competitive interest rates. On the commercial side, we offer high quality trade-finance services including foreign exchange, letters of credit, letters of guarantees (LGs), and documentary credit. The bank also provides for corporate commercial lending and our Financial Institution Division offers international clients, through their respective banks, the issuance of all types of LGs in order to bid on and, hopefully, execute projects in both Iraq and the Region.

IIG: To what extent is BankMed well suited to meet the needs of the business market here in the Kurdistan Region?

JA: With its continuous introduction of unique retail products, its dedicated international banking corporate entity, its commercial and brokerage services, its state-of-the-art technology, and its distinctive customer-oriented culture, BankMed Iraq has been able to successfully cater to and meet the requirements of individuals and corporations in the business market. In addition, BankMed Iraq is also backed by one of the strongest banks in Lebanon. Last year was our first year of operation in Iraq, and I am confident that we will constantly upgrade and enhance our capabilities (specifically in terms of technology and human resources) to further capitalize on the great potential of the Iraqi economy and the Kurdistan Region in particular.

IIG: How would you describe the current state of the banking sector in the Region?

JA: The banking sector in the Kurdistan Region is still under-banked, and therefore offers significant investment opportunities for interested parties. Corporate banking activities are expanding as a result of two elements: the presence of a greater number of banks and the increasing number of both Public and Private sector

projects. Furthermore, Iraqi regulators are enforcing new banking regulations to instill confidence in the sector. The current reforms that are being implemented will help to support banks and other financial institutions, and encourage them to invest in the immense opportunities here.

IIG: How competitive is the banking industry in the Kurdistan Region?

JA: The Region is home to over 14 state-owned banks and more than 30 private ones; clearly, the marketplace is becoming increasingly competitive. Therefore, banks will need to implement new systems and offer unique products in order to be differentiated from their rivals. Although personal banking remains in its infancy, banks are looking to expand beyond trade finance. As a result, we are witnessing the introduction of new retail products and specific services tailor-made to the individual needs of the customers.

IIG: Where do you see the main opportunities for the banking sector?

JA: Many opportunities in Commercial Banking and Capital Markets exist in both the Iraqi and Kurdistan Markets. Commercial banking business varies from the traditional Trade Finance to the more sophisticated Project Finance transactions. As a result, a number of multinational companies are pursuing project financing in Iraq. Since the deals from such companies are growing in terms of both number and size, banks will continue to see plenty of incentives from such projects. So, overall, the potential growth is very attractive.

IIG: What level of growth does BankMed project in 2014?

JA: We are looking for significant growth in our business lines. We believe this will be achieved by introducing more sophisticated retail products to further expand our client base. BankMed Iraq will also seek to take advantage of new innovations and technologies in order to better serve our customers. We have achieved remarkable growth in our business thus far and, with further expansion, expect that progress to continue unabated. 

Staffing Kurdistan

MSELECT is a locally established recruitment and staffing agency, operating with international standards. We work with many of the multinational corporations operating in our region. As the leading staffing specialists in Kurdistan, our teams are continuously on-the-ground and working for assignments throughout the area.

We earned our reputation by offering a reliable, high-quality and customer-focused service and by working with consistency, integrity and attention to detail. As local Labour Law experts, we simplify the process of employment for both candidates and employers. To that end, we have a state-of-the-art website, and also offer full staffing solutions including Recruitment, Contractor Management, Training & Development, and HR Advisory.

Having the right people on board in a new market is essential to a company's success. Let **MSELECT**, the local experts build your talent force.

mselect

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HUMAN CAPITAL IN NUMBERS

Total Population	5.3 Million
Population aged (0-21)	50%
Labor Force	1.1 million
Labor Force Participation	38.4%
Unemployment	6%
Unemployment (Male)	4.6%
Unemployment (Female)	12.6%
Annual Budget HCDP	\$100 million

Overview *Human Capital*

Investing in the Future

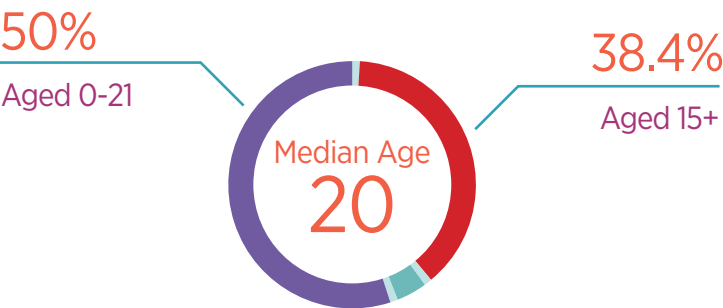
The KRG has pursued multiple programs to promote the appeal of private sector employment, and has secured better educational and training opportunities for the people of Kurdistan.

A new asset has come to the forefront in terms of importance for the Kurdistan Region: Human Capital. To understand the applicability of human capital within the Kurdistan Region, it first becomes necessary to understand the situation in terms of localized labor. Following the uprising in 1991, with only a few local companies operating in the Region and the lack of investment from foreign entities, there were few economic opportunities for the people of Kurdistan except employment in the public sector. For the government, employing the local population to the greatest extent possible was preferable to risking financial ruin for the people of the Region. Thus, a system was born in which public sector employment was prioritized, primarily because of the stability and long-term security it offered. The concept of 401K retirement plans was utterly foreign and the pensions offered by government positions seemed a guarantee of financial security for the future. However, statistics indicate that this system may no longer be tenable, and should instead be replaced by a stronger, more vibrant private sector economy. ▶

Meeting the Demand

According to Ministry of Planning (MOP) statistics, “almost 560,000 people, more than half of all employed people in the Kurdistan Region, work in government. This number includes people who work directly for the government, a small number who work for state-owned enterprises, and a small number who work in mixed public private enterprises.” According to the Kurdistan Regional Statistics Office (KRSO), approximately 80% of all employed women and 45% of all employed men work for the government.

MOP reports also indicated that nearly 1.1 million people aged 15 years or older are active in the labor force. This figure constitutes roughly 38.4% of the total population aged 15 years or older, with the remainder dependent on relatives or government assistance. Labor force participation rates are significantly higher for working age men (66%) than for working age women (12%). In addition, the most recent statistics from the KRSO indicate that the population of the Kurdistan Region is young, with approximately 50% of all residents under the age of 21. It is estimated that over the next 20 years, there will be a sizeable demographic shift as between 850,000 and 1.1 million new job seekers will begin to enter the labor market. Put more directly, an average of 43,000 to 54,000 jobs per year will be needed to keep pace with changing demographics.

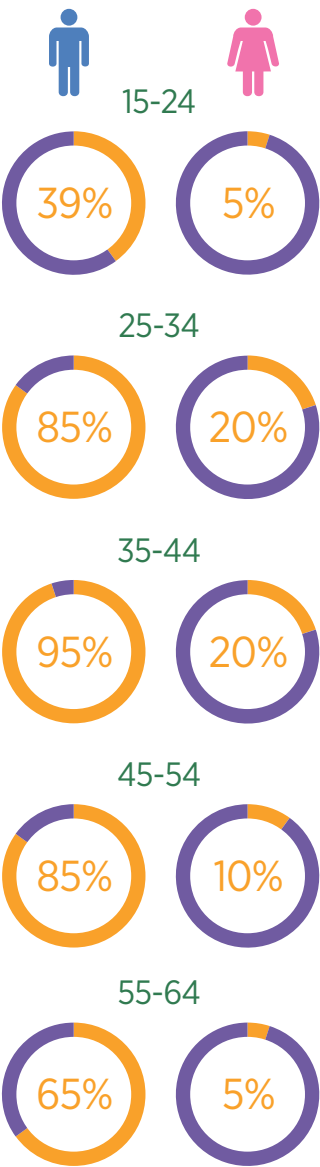


With 50% of the population less than 21, and a median age of 20, it is clear that the demographics of the Region skew young.

Over the next 20 years, there will be a sizeable demographic shift as between 850,000 and 1.1 million new job seekers will begin to enter the labor market.

These figures provide a clear indication that it is no longer sustainable for the government to employ a majority of the working population. The problem of expanding bureaucracy aside, the continued expansion of public sector employment will require additional provisions for salaries and pensions, thereby placing further strain on the annual budget of the KRG. Funds that could be better used for investment and infrastructure development would instead need to be allocated to operational expenses. Perhaps most notably, for the economy of the Region to continue its strong growth requires, as stated by the MOP, “A healthy and innovative private sector... Such a private sector will need access to a pool of labor from which it can hire qualified employees.”

LABOR FORCE PARTICIPATION BY AGE (2012)



560,000 Government employees

80% of all employed women and 45% of all employed men work for government agencies.



PM Nechirvan Barzani
on Human Capacity Development

“The HCDP is an investment in our people, designed to equip our bright students and civil servants with the experience and education they need to build Region’s success. We have so far awarded over 4,300 scholarships and we have postgraduate students across the world studying various subjects, building networks and friendships and making international universities aware of the Kurdistan Region. Having a well-educated society is important to every nation, but perhaps more so in this Region since many of our people had their education disrupted through conflict and displacement and most couldn’t travel abroad. We can’t change the past but we can do something about the future and that’s what this program and our other education and training policies are aimed at.”



Promoting a Shift

The issue remains that the public sector is the preferred means of employment for the people of the Kurdistan Region. “Although for most occupations, wages in the private sector are higher, civil service employment benefits are more attractive than those offered by the private sector,” notes a report from the MOP. More than 80 percent of civil service workers receive health care, retirement, and paid vacation, whereas less than 20 percent of workers in the private sector enjoy the same level of benefits. In addition, public sector employees enjoy set working hours (usually shorter than in the private sector) and a greater sense of job security. Approximately 74% of all private sector jobs occupied by the local population are in the services sector, with 19% involved in industry and 7% involved in agriculture. Thus, at present, opportunities in the private sector are, for the most part, limited to the services industry, which may not seem as appealing or respectable to the locals as sitting at a government desk. Thus, the KRG has begun pursuing multiple programs to promote the appeal of private sector employment, including the creation of a state pension system, unemployment insurance, and promoting better educational and training opportunities.

Developing the Pool

Generally speaking, many of the current public sector employees have skills (specifically strong language abilities and desirable levels of education) that would make them attractive to private sector employment. What they tend to lack, however, are specific skills, training, or general knowhow: the fundamental elements of human capital. For the Kurdistan Region to continue to develop a strong economy fueled by a confident and capable private sector, the capacity of the labor force must increase.

In his interview with IIG, Prime Minister Nechirvan Barzani clearly stated the importance of human capacity development for the long-term economic stability of the Kurdistan Region: “The future to which we aspire requires us to have the knowledge and know-how to

carry this region forward. Developing human capacity is key to achieving that goal.” This faith in the tangible value of human capital led to the creation of one of the shining achievements of the KRG: the Human Capacity Development Program (HCDP). As explained by the Minister of Higher Education, Dr. Ali Saeed, “The KRG introduced the HCDP and allotted it an annual budget of \$100 million. These funds will be used to send our young graduates to pursue their higher education, specifically Masters and PhD programs, at centers of excellence abroad.” The HCDP helps equip the young minds of the Kurdistan Region with the most advanced scientific and technological knowledge, thereby creating a highly skilled generation capable of further developing the economy of the Region.

Encouraging Local Education

While the HCDP represents a strong step in the right direction, education closer to home is also in need of attention. Local public universities are certainly producing capable, well-educated young minds. However, only one of those facilities, the University of Kurdistan – Hewler, conducts classes in English. Given that English is the standard language of most international companies, this limitation further prevents private sector involvement. Moreover, the current placement system for high school graduates is rigid, with top students being automatically enrolled in engineering, medical, or legal courses. This more practical approach has, in turn, impacted private sector hiring practices. Hal Miran, CEO of MSelect, the premier recruitment agency in the Kurdistan Region, has seen this first hand: “I think employers here have learned that, unlike elsewhere in the world, the way you pick a graduate (based on what they’ve studied) is not necessarily the case here in Kurdistan. Just because a student has done well or earned good marks in a certain field does not necessarily mean that he/she is eager to begin a career in that sector or industry. I think this is something that graduates in particular would like to change, especially now that private universities are becoming more prominent here in Kurdistan.” The most notable private university operating in the Region, the American University of Iraq – Sulaimani (AUIS), has embraced

this more diversified model of education, and has seen positive results. Indeed, the well-rounded academic backgrounds of the graduates of AUIS are proving increasingly attractive to the giants of the private sector.

Higher education alone can’t improve human capital; localized training and individual capacity development are vital to the process as well. However, as noted by Miran, “The Kurdistan Region lacks the necessary industry certifications, which are essential for satisfying the health and safety requirements of international companies. We recently polled our clients to determine the skills that were most in-demand. The majority of the responses were related to vocational certifications for employees. For example, certified forklift drivers, welders, and rig drivers were among the most in demand positions.” The KRG has already begun investigating solutions to these more specific areas of need by developing policies that would enable students to work at trainee jobs and internships, companies to pay for training for their workers more easily, and residents to find life-long learning and skill-building opportunities.

The KRG established the Human Capacity Development Program, a highly successful scholarship program with an annual budget of \$100 million that sends young Kurdish graduates abroad to pursue higher education.



Approximately 74% of all private sector jobs occupied by the local population are in the services sector, with 19% involved in industry and 7% involved in agriculture.

Capacity Building Payments

Early in the process of drafting its energy policy, the KRG sought to ensure that the positive effects of the expected oil and gas wealth would be felt across the Region, specifically in regards to developing local expertise. To do so, it implemented a new system. Upon signing a production-sharing contract with the KRG, oil companies would be obligated to pay a “capacity building bonus”. This payment would then be allocated to the funding of large social programs and infrastructural developments. As clarified by the Ministry of Natural Resources (MNR), “The bonus goes towards funding projects such as hospitals, housing, schools and universities, water treatment plants, humanitarian aid, security, as well as towards vocational, technical and higher education programs to help develop Kurdistan’s workforce.” In addition, these companies are further obligated to make additional capacity-building payments once they generate oil profit, with payments ranging in size from 2.4% to 4.8% of profit.


In order to ensure the development of the Kurdistan Region’s workforce, the MNR has prioritized localization, which it defines as “the transfer of scarce skills from experienced expatriate staff to nationals living within the Kurdistan Region.” From an industry perspective, localization represents the only concrete



The current oil and gas industry workforce is approximately 70% local. The Ministry of Natural Resources has targeted a 90% localized workforce by 2016.

solution to the issue of rising demands for a skilled workforce that minimizes the cost of training. To promote this concept in the oil and gas sector, the MNR has begun conducting training programs, enforcing immigration control, and ensuring a reduction in the hiring of expatriate workers with low skill levels. Indeed, the current oil and gas industry workforce is approximately 70% local (which constitutes a 15% increase since April 2011). The Ministry has targeted a 90% localized workforce by 2016. Many of the oil and gas companies that are active in the Region have taken this to heart, and have begun funding university programs, providing internships, and offering scholarships abroad for Kurdish students.

Balancing Foreign Expertise

The oil and gas industry aside, foreign companies operating in a number of different economic sectors have also elected to bring in expertise from outside the Kurdistan Region in order to promote localization. This can be approached in a variety of ways, including on a small scale (only a few foreign workers educating a much larger body of employees) and a larger scale (the vast majority of employees being foreign, with minor positions occupied by locals). However, the process of importing foreign workers can become problematic for two reasons. Firstly, many foreign workers do not speak Kurdish, thereby making it difficult for local workers to effectively learn a new skill or trade. Secondly, at present, restrictions on foreign workers are not strenuously enforced. As a result, foreign companies are sometimes able to hire foreign personnel without making any attempt to transfer knowledge or expertise. In addition, expatriate workers can also be brought in to occupy positions that could be held by local workers. Proposed legal reforms are expected to go a long way towards modernizing the current labor law, and additional restrictions on foreign worker quotas could alter the landscape as well. 



Developing Experience

About

Nisar Talabany has served as a Senior Advisor to the Prime Minister for the past 4 years. Prior to her appointment, she served as Assistant Director to the KRG's Head of Foreign Relations and as Communications Director at the KRG's UK Representation. She holds two Masters Degrees: one in Pharmaceutical Studies from the University of Brighton and the other in International Studies and Diplomacy from SOAS.

Nisar Talabany

Senior Advisor to the Prime Minister

Nisar Talabany analyzes the factors influencing the development of human capital in the Kurdistan Region, the potential problems that could limit growth in the sector, and the possible solutions to facilitate a stronger future.

IIG: How do you evaluate the human capacity development in the Kurdistan Region?

NT: When you talk about capacity development in the Kurdistan Region, you are talking about projects that improve civil service performance, adequately train public servants, and empower the youth. These are all part of the development phase. I would add a third element: human capital. It refers to the knowledge, training, and overall capability of our labor force in terms of economic value. That said, education and repatriation certainly play significant roles in helping to develop this capital. To develop the abilities of the students of the Kurdistan Region, the KRG has established the \$100 million Human Capacity Development Program (HCDP). The HCDP awards scholarships to students from the Kurdistan Region who wish to study abroad. The program itself is obviously

very successful and is an excellent step forward for our people. However, I am of the opinion that in the future, we will need to identify critical areas of study for HCDP. If, for example, we were to determine that the KRG was in need of experts in oil and gas economics, then applicants pursuing that area would be targeted. These individuals could then pursue their education abroad, and return to the Region to work for either the private or public sectors, confident in their knowledge and overall ability. There is a lot of theory behind the economic development of human capacity, but the priority needs to be on empowering our people to improve human capital, so that it, in turn, can become tangible capital.

IIG: What role does repatriation play in further developing human capacity?

NT: As a result of the decades of repression from the regime of Saddam Hussein,

we suffered a brain drain in the 1990s and early 2000s. There were limited economic opportunities here, and our people were suffering. So, many people went abroad. In so doing, they were able to learn skills and develop knowledge that was non-existent here amongst the local population. So, we need to develop a strategy to bring these people back in order to help raise the standard in Kurdistan. The Kurds living abroad have the potential to

“The Kurds living abroad have the potential to be the best bridge between the Kurdistan Region and the broader global community. We need to provide greater incentives to facilitate the most skilled minds to come home.”

be the best bridge between the Kurdistan Region and the broader global community. We need to provide greater incentives to facilitate the most skilled minds to come home.

IIG: What role do you think the Kurdistan Region's rapidly developing economy has played in attracting Kurds living abroad back to the Region?

NT: The Kurdistan Region is still in its development stage. There are many opportunities here because we are in need of expertise and labor in every sector. In contrast, the financial crisis in Europe significantly limited such opportunities there. For the older generation, who are now firmly settled in Europe, this may not have been such a major factor. However, for the younger generation who were perhaps less settled in their careers, the financial crisis significantly limited their opportunities. So, we have seen an influx of young professionals, many of them entrepreneurs, eager to do business here. However, it isn't enough to

simply focus on bringing people back; we also need to emphasize raising the standards here, specifically in regards to education.

IIG: What specific issues you are referring to, and how do they impact human capacity?

NT: Our current educational system has certain gaps in its application, which means our students are graduating with theory rather than with practical knowledge. In addition, we lack certain types of vocational training that are increasingly in demand. We need to focus on these areas by adjusting our curriculum to introduce more practical elements. In the UAE, the government implemented an initiative that paid part of the salaries of the youths working in the private sector. This then enabled those workers to gain employment and training, which benefitted both the public and private sectors. Of course, the UAE doesn't have

the financial constraints that we do and its population is much smaller, but the program was successful. So, similar innovative approaches should be considered for the Kurdistan Region as well.

IIG: Are there certain areas in particular that could benefit from this type of practical training?

NT: Obviously, each and every sector could positively affected, but I would say that the health sector would be a major beneficiary. In the past few years, 2,500 nurses have graduated and begun working in the Kurdistan Region. However, in many cases, they have not had significant practice and have not developed specialties or sub-specialties. Instead, the majority work as general nurses. Since these training programs do not presently exist, the alternative is to bring in foreign nurses to fill these positions. This approach takes jobs away from the local population and brings up the issue of the language barrier. How can you have a nurse that does not speak the native

language of the patient? So, finding effective solutions to these types of problems is of fundamental importance, because they will continue to impact the development of human capacity. In the next few years, we run the risk of graduating students who will not be absorbed by the market because they may not have the necessary expertise. Certainly, we can create employment opportunities, but that is only one side of the coin. The other relates to empowering these youths to apply for and earn these jobs. If we don't do that, then companies will always rely on foreign employees. However, the KRG is forward-thinking, so we are constantly trying to identify problems before they happen so that we will be ideally positioned to address them.

IIG: What can be done to shift employment preferences away from government work and towards private sector opportunities?

NT: We need to familiarize the public with the benefits of the private sector. Obviously, everyone needs a job, and right now public positions are preferred. The salary these positions offer is low, but the hours are minimal and the pension is stable. However, if we were able to effectively communicate that the one-year salary of a private sector position is equivalent to five years of a public sector job, then I believe this preference would begin to change. So, we need exact statistics and precise data to begin swaying public opinion. It's a complicated process, but it's also a necessary one. We are an emerging market, and we are in the “teething stage” that everyone has to go through. However, the emphasis being placed on human capacity development will ensure that from this teething phase, we progress to a regional economic power. ④

Training the Future

About

Haller Dleir Miran was born in Erbil and grew up in the UK. Prior to founding MSelect, he worked for Reed, the largest recruitment firm in the UK. Miran also has a strong business background, given his significant experience in investment banking and investment management.



Haller Dleir Miran CEO, MSelect

Haller Dleir Miran discusses the services offered by MSelect, the premier recruitment agency in the Kurdistan Region. In addition, Miran provides insight into the strengths and weaknesses of the local workforce and his expectations for the future of employment in the Region.

IIG: Can you give our readers some insight into what inspired the creation of MSelect?

HM: As a frontier market early in its development stage, Kurdistan presents many opportunities so I was always looking for a gap in the market, something that worked elsewhere and didn't involve reinventing the wheel. I'd then try to match that with my skills and knowledge and see if there was an opportunity. A recruitment agency fitted the profile, this type of business was not well known yet there was a clear demand. I think at the time of starting up there was only one local company doing this. We try to model the company on a traditional style agency focused on customer service.

IIG: What specific services does MSelect offer to both employers and candidates?

HM: MSelect offers several services relating to staffing solutions, including recruitment, outsourced management, and training. Our clients gain peace of mind of getting to understand the local rules and regulations from a local company that has experience dealing with many

international corporations operating in Kurdistan.

Our use of technology demonstrates we are always looking to improve our services by using systems to help us manage different processes efficiently. Candidates trust in us to give them all the advice needed to find a job. We provide education and insight on CVs, interviews, and general corporate etiquette. Any job seeker can contact us for help throughout any part of the recruitment process. We try to make it as simple as possible for candidates to apply for jobs, and our website has been designed with this in mind.

IIG: Does the education system in Kurdistan impact hiring practices?

HM: Kurdistan is definitely producing extremely bright students; employers are often surprised by the quality of the Region's graduates. Finding educated people is not a challenge in Kurdistan but the issue is we do not have a large enough variety of qualifications from our candidates. The education system needs to introduce specialist degrees of study,

such as hospitality to service the upcoming tourism boom we are expecting and up-to-date oil & gas engineering courses for example, with a lack of skilled talent coming through the sectors growth could be hindered.

IIG: Does the current lack of a diversified educational system pose a potential threat to the development of the economy in the Kurdistan Region?

HM: With so much investment flooding in and so many projects planned, the skills shortage poses a potentially huge problem, especially since there is no quick fix. However, with increased investment in education and training combined with further assistance from the government, I believe we will start seeing this knowledge gap get filled. The KRG needs to launch centers in order to produce technically skilled graduates required to address the gap, this is common in other countries who aim to fill industry needs.

In addition, international companies, especially those in the oil & gas sector, need to work closely with schools and colleges to educate students about the incredible careers available as energy engineers. These schemes need to be introduced at an age where students are making key decisions about further study.

These companies can also introduce internship and graduate schemes together with entry-level vocational training.


IIG: What would you say is the future of employment in the Kurdistan Region?

HM: At the moment, there is a mismatch between skills and jobs, especially amongst the job seekers in rural areas. These people need to acquire the necessary skills and training to enter the working environment and become part of Kurdistan's growth story. The main beneficiary of a skilled workforce will be the private sector, as this is where the majority of the growth will happen.

I think we could expect employment to inevitably move job seekers from rural areas into the large cities, a major factor is having a weak agriculture industry. Any local with a good command of English will want to work for an international company. The obstacle becomes moving non-English speakers to private sector jobs with local companies. Currently, job seekers prefer the public sector to a locally established company. This will take some time to change, but will happen once local employers begin providing training programs and defined career paths.

In most countries, the private sector is the major contributor for national

“The current economic environment makes it plainly clear that a business-friendly government runs Kurdistan.”

income. I recently read that 1 in 2.5 individuals in Kurdistan is on the KRG's payroll, this constitutes roughly 65% of the budget. As the government is actively working to educate job seekers and promote the private sector, we are beginning to see the early signs that this shift is taking place. A large portion of our role is to promote the private sector. However, for this shift to be successful, the KRG itself must become the main motivator for change. The current economic environment makes it plainly clear that a business-friendly government runs Kurdistan. More than anything, this must continue to be the case so that economic growth and job creation remain constant. 



A meeting with a USAID project demo of a new job search platform used in Iraq

FOCUS: KURDISTAN WORKS

Harnessing Technology for Private Sector Development

The Kurdistan Region's labor market faces a major challenge in coming years. According to a recent study commissioned by the KRG and undertaken by RAND Corporation, the public sector potentially accounts for roughly 80% of jobs in the Region. Meanwhile, the demographic makeup of the Region is skewed extremely young: 50% of the Region's population is 20 years of age or younger. This creates an unsustainable situation. The already oversized public sector cannot absorb all of the young graduates planning to join the workforce in coming years. To solve this problem, private sector employment must expand significantly as these new graduates join the labor market. Furthermore, a developed private sector in the Region will promote sustainable, productive, and efficient economic growth into the future in ways that the public sector would have difficulty doing.

To address these problems, the Prime Minister Nechirvan Barzani has long promoted private sector development in the Region. In IIG's interview with PM Barzani, the PM directly emphasizes this theme: "We want to move people away from [the public sector] and to make the private sector much more attractive and dynamic." Under his direction, the KRG has taken several steps to make this goal a reality. Notably, in September 2013, PM Barzani launched Kurdistan Works (KW), the KRG's latest project in this area.

KW is funded and operated by the KRG. It is designed to connect job seekers with employers in the private sector.

KW aggregates job listings posted by local employers and recruitment agencies, presents them in a coherent manner, and connects applicants with active private sector employers. Moreover, the site is tailored to the particularities of Kurdistan. Many in the Region have never worked in the

"Kurdistan Works will help to provide the younger half of the Region's population something that few of their parents have ever experienced: productive and satisfying work in Kurdistan's growing private sector."

private sector, so KW explains the benefits of private sector employment. In addition, a large percentage of the local population has never applied to jobs in the private sector, so the site provides advice on the application process. To further develop the professional competencies that the private sector demands, the site directs users to training centers for courses in English language, computer competency, and other professional skills; KW also provides listings for internships and volunteer opportunities. Finally, the site has a section for members of the expatriate

Kurdish diaspora that might be considering a move back to the Region. The section offers testimonials from other former expats that have returned, and an aggregation of informational resources for those considering a permanent or temporary return to the Region.

KW's launch took place on September 4th at the 2013 Kurdistan Careers Fair in Erbil. The Fair was a public-private event organized by Kurdistan Careers, an organization that operates career fairs in the Region, and supported by the KRG. Estimates suggest that roughly 1,000 job seekers attended the Careers Fair, and met with representatives of nearly 45 local and international businesses. At the event, job seekers spoke to representatives in the private sector, learning what was offered to, and expected of, employees in private sector employment. The highlight of the event was an in-person address by PM Barzani to unveil KW.

In early September, before the site had even been officially launched, over 800 jobs had been posted. By October, the number had jumped to over 1,100. As such, KW appears to have been met with significant success. The site represents a simple, very effective means of addressing the larger problem of a necessary, massive shift of the Region's labor market into the private sector. With any luck, Kurdistan Works will help to provide the younger half of the Region's population something that few of their parents have ever experienced: productive and satisfying work in Kurdistan's growing private sector. ⑩



Expanding Human Capital

Yonghyon Kim

Consul General, Embassy Office of the Republic of Korea, Kurdistan Region

IIG talks to Yonghyon Kim about the importance of cultural exchange, and the emphasis placed on the development of human capital.

IIG: Can you tell us about what activities the Korean International Cooperation Agency [KOICA] has been engaged in and the services it has provided?

YK: Most of the focus has been on education and human resources development, as well as on providing assistance to elevate living standards on a basic level. We believe we are in a unique position in terms of our level of experience. In comparison to other advanced countries, we have more relevant technology and development strategies to share because we only achieved our economic and politico-social development in the past several decades. Our focus is moving more toward sharing our software knowledge and experience in development beyond providing simple hardware assistance. In addition to building a Vocational Training Center in Erbil, KOICA invited more than 1,400 Kurdish people to Korea under the Fellowship Program for human capacity building courses. In close consultation with the KRG, we are helping to build model comprehensive

schools in Erbil, Duhok, and Slemani. This emphasis on education includes facilities for handicapped students and vocational training.

IIG: Is it KOICA or another organization that is primarily involved in this pursuit?

YK: Currently, KOICA is very active on this front. KOICA is working under the guidance of our government, and in that sense with close consultation with our Office. Over the past 10 years, as part of the KOICA Fellowship Program, we have invited more than 1,400 Kurdish officials and youths for training in Korea. We paid for their travel and accommodations while they trained in Korea for 4 weeks. Some individuals also elected to pursue courses in computer programming, auto repair, vocational courses, or public administration. Others selected a one or two year Masters Degree courses. You name it, they wanted it. These are all key areas for developing countries, so it was important for them to be able to participate in the process. So, this was KOICA's focus. The net cost of implementation for these programs was more than \$130 million for the Kurdistan Region alone. This is because the Region is safer, more stable, and perhaps more welcoming than other parts of the country. In the near future, more experts need to be sent to advise and consult. However, I think it will be more important that private sectors, including more private companies, come to Kurdistan to invest as partners.

IIG: Do you think that increased private sector involvement from Korean companies could also help build relationships and further develop human capacity?

YK: Compared to when I first arrived, the number of Korean companies' management staffs operating here has doubled. Soon it will triple, because of the expansion of their projects. There are more and more interested parties in this emerging market. Moreover, Korean companies have been active here in the Region for a long time. For example, the Korean National Oil Cooperation (KNOC) is active in oil exploration here and they are

About

Yonghyon Kim has served as Consul General of the Korean Consulate in the Kurdistan Region since 2012. He began his diplomatic career in 1990, and, in addition to the Kurdistan Region, has served in Seoul, Nairobi, Washington, Beijing, and New York. Kim specializes in US-Korea bilateral relations, with emphasis on political-military issues and on security cooperation issues on the Korean Peninsula. Prior to his current position, he served at the Korean Consulate General in New York.

"Over the past 10 years, as part of the KOICA Fellowship Program, we have invited more than 1,400 Kurdish officials and youths for training in Korea... Some individuals also elected to pursue courses in computer programming, auto repair, vocational courses, or public administration. Others selected a one or two year Masters Degree courses."

making progress. KNOC is a pioneering company that was awarded its first contract here in 2007 rather than a year or two ago. At that time, few major companies were willing to take that risk because they were concerned about security and about alienating the southern part of the country. KNOC, which is partly state-owned, took that risk and invested in the Region. Now we have other companies that are active in power generation, housing, and construction. It is my hope that in the future our companies will expand into areas like agriculture, food processing, and even tourism. ⑩

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ENERGY IN NUMBERS

Oil reserves	45 billion barrels
Natural Gas Reserves	100-200 tcf
Oil and Gas Investment	\$15-20 billion
Oil production (2013)	200,000 bpd
Oil production (2019)	2 million bpd
Power Generation Investment (2013)	\$5 billion
Power Generation Investment (2016)	\$7 billion
Electricity Annual Growth	15%
Power Generation by the Private Sector (2016)	1,700 MW

Overview *Energy*

Reshaping Kurdistan's
Regional and Global
Footprint

New oil and gas discoveries coupled with massive investment in the Region's power sector have guaranteed that Kurdistan will maintain its position as a developing contributor to the global energy industry for the foreseeable future.

OECD predicts that, by the year 2035, the world's primary energy needs will increase by 54%. This upsurge, which also reflects an 87% increase in the demand for fossil fuels, is largely based on the expected needs of emerging Asian economies. In addition, forecasts also predict that this increase in demand will be accompanied by a rise in the price of oil from its current cost of \$100 per barrel to around \$120 per barrel in 2025 and \$155 per barrel by 2035.

Iraq in general and the Kurdistan Region in particular are well positioned to benefit from this growing global demand for oil. In 2012, Iraq became OPEC's second largest oil producer. This development was fueled at least in part by the output gains in the Kurdistan Region. In addition, an already established European market coupled with the expanding needs of the developing economy of Turkey brought further opportunities to Kurdistan, where the potential for export is huge. ▶

As a result of its vast oil reserves and a production capacity that seems to rise by the month, the Kurdistan Region is quickly becoming a powerful player in world energy markets. At present, the Region is home to a total of 57 discovered oil and gas fields, with estimated proven reserves of 45 billion barrels (as well as 25 billion barrels of potential reserves) and 100-200 trillion cubic feet (TCF) of natural gas reserves. To fully capitalize on these resources, the KRG Ministry of Natural Resources (MNR) has established an ambitious program to increase production capacity from its current level of 200,000 barrels per day (bpd) to 250,000 bpd by the end of 2013, 1 million bpd by 2015, and 2 million bpd by the end of the decade.

Around 40 oil and gas companies are now active in Kurdistan, with the world's energy leaders increasingly taking note of the opportunities present in the Region. Supermajors such as Chevron, ExxonMobil, and Total have already established their presence in Kurdistan, with the three companies alone holding

COUNTRIES BY THEIR
PROVEN OIL RESERVES

Country	Oil reserves (billion barrels)
Venezuela	297.7
Saudi Arabia	265.9
Canada	173.6
Iran	157.3
Iraq	143.1
Kuwait	101.5
UAE	97.8
Russia	80
Libya	48.5
Nigeria	37.2



interest in a total of 11 oil and gas exploration blocks. Moreover, a huge push to develop the energy infrastructure of the Region promises to deliver Kurdistan's abundant energy resources to world markets quicker and more reliably than ever before. Indeed, the continued progress made in exploration and production combined with improved infrastructure is expected to go a long way towards allowing the Kurdistan Region to establish itself as a significant factor on the world stage.

There is already significant demand for the oil being discovered and produced in Kurdistan. Indeed, the Region alone would stand in the top ten countries in the world in terms of proven oil reserves.



45 Billion Barrels
Oil reserves



100-200 TCF
Natural Gas Reserves



57
Discovered Oil and Gas Fields



\$15-\$20 Billion
Investment through 2013

14 Upstream Projects
as of 2013

Mineral Deposits

Iron, Chrome, Nickel, Platinum, Gold, Copper, Barite, Zinc

Legal Guidelines

The legislative framework for the energy sector of the Kurdistan Region has its roots in the 2005 Iraqi Constitution. Amongst others, there are three key components of the Constitution that are of particular significance to the energy industry in the Region. Article 112 states that, "The federal government, with the producing regional and governorate governments, shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encouraging investment."

Article 115 states, "All powers not stipulated in the exclusive powers of the federal government belong to the authorities of the regions and governorates that are not organized in a region. With regard to other powers shared between the federal

government and the regional government, priority shall be given to the law of the regions and governorates not organized in a region in case of dispute." The latter article gives priority to the laws of the Kurdistan Region over federal laws, and is invoked when no agreement is reached on oil and gas management and revenue distribution.

In addition, as there were already oil and gas companies active in the Region prior to the creation of the Iraqi Constitution, Article 141 stipulates that, "Legislation enacted in the region of Kurdistan since 1992 shall remain in force, and decisions issued by the government of the region of Kurdistan, including court decisions and contracts, shall be considered valid unless they are amended or annulled pursuant to the laws of the region of Kurdistan by the competent entity in the region, provided that they do not contradict with the Constitution." Thus, the agreements signed between the KRG and the international oil companies (IOCs) that had already established a presence in the Region were legally binding and federally recognized.

It should be noted that the Iraqi central government has taken a very different stance regarding oil and gas exploration and production than the one advocated by the KRG. The central government argues that it alone has the authority to license IOCs to work in Iraq and to determine proper avenues for export. The Baghdad government has therefore declared many of the contracts offered by the KRG to be illegal, and has accused

the government in Kurdistan of exporting crude oil without first coordinating with the federal government.

Per the Iraqi Constitution, in August 2007, the Kurdistan Regional Parliament approved the Kurdistan Oil and Gas Law (OGL), which became active upon the authorization of President Masoud Barzani. The law provided a legal framework from which the Kurdistan Region could further develop its potentially vast oil and gas industry. Under Article 24 of the OGL, the Minister of Natural Resources was given the authority to sign exploration and development contracts with private companies. Perhaps most notably, Article 24 confirms that, "...A Petroleum Contract may be based on a Production Sharing Contract, or on other contracts which the Minister considers to provide good and timely returns to the people of the Region..."

The KRG passed its own hydrocarbons law in 2007.

Around 40 companies from 19 different countries are operating in the Kurdistan Region

Addax Petroleum
Taq Taq (36%)

Afren
Barda Rash (60%),
Ain Sifni (20%)

Chevron
Qara Dagħ (80%),
Sarta (80%),
Rovi (80%)

Crescent Petr.
Khor Mor (40%),
Chemc. (40%)

Dana Gas
Khor Mor (40%),
Chemchemical (20%)

DNO
Tawke (55%), Tawke P.
(55%), Dohuk (40%),
Erbil (40% - Gas Field)

Exxon Mobil
Al Qush (80%),
Bashiqa (80%),
Pirmam (80%),
Betwata (80%),
Arbat East (80%),
Qara Hanjeer (80%)

Gazprom Neft
Garmian (40%),
Shakal (80%)

Genel Energy
Taq Taq (44%),
Tawke (25%),
Tawke P. (25%),
Dohuk (40%),
Miran (100%),
Bina Bawi (44%),
Chia Surkh (60%),
Ber Behr (40%)

Gulf Keystone
Shaikan (75%),
Sheikh Adi (80%),
Ber Behr (40%),
A. Bijeel (16%)

Hess
Shakrok (64%),
Dinarta (64%)

HKN Energy
Sarsang (56,25%)

Hunt Oil Company
Ain Sifni (60%)

KAR Group
Khurmala

KNOC
Bazian, (65%),
Qush Tappa (80%),
Sangaw South (30%),
Hawler (15%),

Marathon Oil
Harir (45%),
Safeen (45%),
Sarsang (18,75%),
Atrush (15%)

MOL
Akre Bijeel (64%),
Shaikan (20%),
Chemchemical (10%),
Kor Mor (10%)

Murphy Oil
Central Dohuk (50%)

Oryx Petroleum
Hawler (65%), Sindi
Amedi (45%),

OMV
Bina Bawi (36%),
Sarta (20%), Rovi
(20%), Chemchemical
(10%), Kor Mor (10%)

Petroceltic
Dinarta (16%),
Shakrok (16%)

Repsol
Qala DZE (80%),
Piramagrun (80%)

Talisman Energy
Topkhana (60%),
Kurdamir (40%)

Taqā
Atrush (53,2%)

Total
Safeen (35%),
Harir (35%),
Taza (20%)

WesternZagros
Garmian (40%),
Kurdamir (40%)

Production Sharing Contracts (PSCs)

In contrast to the 20-year technical service contracts (TSCs) utilized by the Iraqi central government, the KRG elected to award operators in the Region PSCs (usually with levies for development of local infrastructure). As discussed by industry expert Pedro van Meurs, “It is fundamentally important to structure fiscal terms in such a manner that the profitability to the investor is aligned with the goals of the government. If the profitability and goals are aligned, investors will automatically take decisions in such a manner that the value of the government revenues is maximized because in this way also their profits will be maximized.” Dr. Meurs concludes that under the TSCs offered by Baghdad, the interests of the government and the contractors were seriously misaligned. In contrast, he notes that a “PSC would be considered in the national interests by many host governments because it does provide the framework for an optimal level of production and recovery of oil and gas from the reservoirs while creating a high value of government revenues.”

According to Chapter 10 of the OGL, the exploration phase of a typical PSC would last for 5-7 years (depending on renewals). If an IOC declares a commercial discovery, a 20-year period for development and production is granted (with options for automatic extensions). The maximum contract period is 39 years for an oil development and 41 years for a gas development. In addition, in contrast to Baghdad contracts (which stipulate strict contract limits and specified handover dates), the PSCs of the Kurdistan Region are far more flexible.

Refineries

In addition to developments in exploration, the Region is also expanding its refining capabilities, with two major facilities already in place.

The Kalak Refinery, which is located in the Erbil governorate and is operated by KAR Group, currently has a capacity of 100,000 bpd. However, with the help of American engineering firm Ventech, the company hopes to expand that capacity

Exploration and Development

As a result of the PSCs offered by the MNR (as well as Article 141 in the Iraqi Constitution), multiple IOCs were soon involved in the Region. Two of Kurdistan’s earliest entrants, Genel Energy and DNO, remain highly active today.

Genel, the Anglo-Turkish energy firm, began its operations in Kurdistan in 2002 and was one of the pioneers in the development of the Region’s oil resources. The company found rapid success in Kurdistan, and now holds interest in a total of 8 different exploration blocks. In 2004, Norway’s DNO, which was also an early proponent of the Region’s potential, entered into its first PSC to develop the giant Tawke oil field, which has a production capacity of nearly 100,000 bpd. Earlier this summer, the company recorded both its highest production in a single day (113,000 barrels) and its highest sales in a single day (102,000 barrels).

Other medium sized IOCs began to see the potential of the Kurdistan Region, with now critically important entities such as Addax Petroleum, Talisman Energy, Western Zagros, and Gulf Keystone Petroleum (GKP) beginning their operations in the area. Indeed, in late 2007, GKP secured interest in the Shaikan and Akri-Bijeel blocks. Today, it has diversified its portfolio by adding two more blocks, and now sits atop the largest onshore oil discovery not currently in the hands of a major company. As noted by GKP Country Manager Umur Eminkahyagil, “According to gross mean oil in place reserve estimates, the four blocks in which GKP have interest hold at least 19 billion barrels of oil.”

to 200,000 bpd in the near future.

In the Slemani governorate, the Bazian refinery has been operated by Qaiwan Group since 2009. The facility will soon have a refining capacity of 34,000 bpd after its own expansion, which is also being assisted by Ventech. The Bazian refinery is currently producing kerosene and diesel, and will start producing gasoline for the domestic market this year.

The Changing Landscape

In recent years, the lure of the Region’s extensive oil and gas reserves coupled with the attractive terms offered by the KRG have attracted a number of the world’s dominant energy players. The first major to establish itself was Exxon Mobil, which signed an agreement to enter the Region in November 2011. French giant Total followed suit, entering the Region in 2012 by acquiring a 35% interest in each of the Harir and Safin blocks. The company plans to develop those areas jointly with Marathon Oil Company, which itself acquired interest in the blocks in 2010. Total further expanded its activities in 2013 when it acquired a majority interest in the Baranan block. Chevron elected to forego prospects in the south to pursue opportunities in the Kurdistan Region in 2012. Chevron purchased 80% stakes in the Sarta and Rovi blocks in the Region. The company elected to further expand its involvement in the Region by acquiring interest in and operatorship of the Qara Dagh exploration block.

There is good reason for this increased interest in the Kurdistan Region. The aggressive goals established by the KRG provide a clear message to IOCs that the Region is ready and willing to engage in mutually beneficial partnerships. Indeed, the MNR target of 2 million bpd by 2019 would surpass the current output capacities of multiple globally recognizable oil producers, including Libya. Beyond its resource wealth, the Region also offers more stability and safety than does the rest of Iraq, and its PSCs have much higher rates of return (25-35%) than do the TSCs (15-18%) favored by Baghdad.

Major Oil Refineries
Crude oil capacity (2013)

Kalak	100,000 bpd
KAR Group	
Bazian	34,000 bpd
WZA Petroleum	

Tensions with Baghdad

The differing interpretations of the Iraqi Constitution by the federal government and the KRG have led to prolonged tension between the two sides. Authorities in Baghdad maintain that licensing should only be conducted by the central government and that the individual regions are permitted to participate in the process rather than hold their own independent licensing rounds. In addition, Baghdad has argued that the Kurdistan Region’s attempts to export crude oil abroad violate the terms of the Constitution, as doing so potentially removes the KRG’s need to repatriate funds earned from such sales. For its part, the KRG has denied accusations that the Region is exporting crude oil without coordinating with Baghdad. KRG Minister of Natural Resources Dr. Ashti Hawrami has instead argued that potential exports are legal and that the Region is returning 50% of the profits made to the state treasury.

Tensions further escalated in January 2013, when the KRG suspended oil exports through the central govern-

Law Number 5
authorizes the KRG to
begin exporting oil
if Baghdad does not
agree to pay debts
claimed by the KRG.

ment-controlled pipelines as a result of Baghdad’s refusal to pay certain fees. The KRG alleged that the central government owed the Region nearly \$3.5 billion for outstanding payments covering all exports between 2010 and 2013, as well as for compensation for the costs of the oil companies operating in Kurdistan.

Baghdad, which still refuses to pay arrears for foreign oil companies operating in the Kurdistan Region, viewed the PSCs signed by the KRG as illegal and in violation of the country’s sovereignty. In

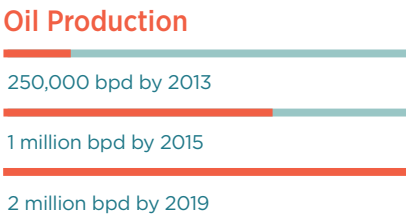
addition, the central government claims that the KRG has not been turning over all of its profits to the central government, has not been forthcoming with its official records, and has not met its export quotas. As a result, the 2013 federal budget, passed by the Iraqi Parliament in March, authorized only \$646 million of the requested \$3.5 billion.

In April, the Kurdistan Regional Parliament passed Law Number 5, which authorized the Region to begin exporting oil if Baghdad does not agree to pay debts claimed by the KRG. In his interview with IIG, Minister Dr. Hawrami noted, “This is an important piece of legislation that... will form the legal basis for the settlement of outstanding revenue issues between the KRG and Baghdad. Essentially, the law outlines a mechanism for defining and then obtaining the outstanding revenues owed to the Kurdistan Region by the federal government since 2004... It will also include items such as the KRG’s share of sovereign expenditure revenues owed to the Region’s security forces (the peshmerga) and payments to the Region as compensation for damage done by the former regime. The new law sets out a pathway to implement Iraq’s Constitution, and by implementing the Constitutional requirements for power and wealth sharing, everyone in Iraq will benefit, citizens and investors alike.” If the debts claimed by the KRG, believed to be in excess of \$20 billion are not paid, then the new law provides for the KRG to begin exporting oil and gas abroad in order to raise the requisite funds.

In late April 2013, a high level Kurdish delegation headed by Prime Minister Nechirvan Barzani paid a visit to Baghdad to resolve differences between the both sides. However, the relationship between Erbil and Baghdad remains tense, despite the fact that both sides agreed to form a committee to oversee legislation relating to revenue sharing during this visit. Questions still remain regarding the Region’s export policy, the federal budget, and the future of the disputed territories (most notably Kirkuk, which is home to 40% of Iraq’s total oil reserves).

Estimates indicate that the new pipeline, which will allow for the transportation of up to 300,000 bpd, could allow the Kurdistan Region to earn nearly \$1 billion each month.

KRG’s oil production to hit
1 Million bpd
by the end of 2015



Direct Connections

Despite the issues between Baghdad and Erbil, the KRG continues to push forward with its ambitious production targets by pursuing plans to begin exporting oil to world markets through its own channels. Once operational, the pipeline will enable the Region to export crude oil directly to world markets without the prior approval of the central government in Baghdad. A long-awaited pipeline linking fields in the Kurdistan Region with the Kirkuk-Ceyhan pipeline is expected to be in operation by the end of 2013. The new line will connect a number of fields in Kurdistan (including those operated by both Genel and DNO) to the existing pipeline at the Fishkhabur pumping station, located in the northwestern corner of the Region near the Turkish border.



“Our oil company already has an agreement with Exxon Mobil. This is a step with the KRG on exploration work.”

Turkish PM Tayyip Erdogan

A long-awaited pipeline linking fields in the Region with the Kirkuk-Ceyhan pipeline is expected to be in operation by the end of 2013.

Estimates indicate that the new line could allow the Kurdistan Region to earn nearly \$1 billion per month. Thus, it will likely soon become a reality that, for the first time, Kurdistan will earn more from its own oil resources than it does from its share of the total Iraqi revenues authorized by the central government.

The pipeline, which was initially designed for natural gas but was later converted to carry oil, will allow for the transportation of up to 300,000 bpd. Sources within the KRG have also indicated that construction of a second pipeline with a capacity of 500,000 bpd could begin in 2014, and would connect Turkey with the oil fields in the Akre, Shaikan, and Barda Rash exploration blocks.

150-200 km
between Turkey's borders and the Kurdistan Region's oil and gas resources.

\$450
Average cost paid by Turkey for 1,000 cubic meters of natural gas from Russia, Iran, and Azerbaijan.

\$200-\$250
Average cost Turkey will pay the Kurdistan Region for 1,000 cubic meters of natural gas.

10.5 TCG
Natural gas reserves that could be transported to and through Turkey.

Second Pipeline

In October, Dr. Ashti Hawrami, the KRG's Minister for Natural Resources, announced that the KRG is planning the construction of a second oil pipeline from the Kurdistan Region into Turkey. The second pipeline will contribute hugely to this acceleration of exports, increasing the Region's export capacity by over 1 million bpd. The pipeline is projected to be completed within 18-24 months.

As with the first pipeline, the export volumes of the second will be independently monitored by the Kurdistan Region, as a result of tensions with Baghdad regarding revenue sharing disagreements between the KRG and federal government.

The Gas Industry

Kurdistan has approximately 100-200 TCF of gas reserves. This figure proves that the gas industry will play a crucial role in Kurdistan's future.

The MNR estimates that the Kurdistan Region is home to approximately 100-200 TCF of natural gas reserves. This figure represents between 1.5-3% of the world's total reserves and provides a clear indicator of the prominent role the Region is expected to play in regional gas markets. The KRG has therefore established a plan for effective gas utilization, which involves first satisfying domestic need for power and industrial usage before moving on

to the possibility of export (which could begin as early as 2016). In addition, the MNR has implemented a strict policy regarding gas flaring that seeks to ensure, "... that all gas is used and flaring is kept to an absolute minimum." Instead, the Ministry has encouraged companies to develop plans for effective gas utilization.

A number of operators have taken that message to heart. Dana Gas, which initially entered the Region in 2007 as part of a joint-strategic alliance with Crescent Petroleum and the KRG, has actively sought to secure the necessary natural gas to run the Region's power plants. The company now operates a Liquefied Petroleum Gas (LPG) facility, which is capable of producing a total of 330 million cubic feet (mcf) per day. Endeavors such as this have helped to improve the Region's developing electricity sector and make plans for gas export far more feasible. Turkey presents an obvious destination for export, as the country's developing economy requires significant quantities of gas to fuel power generation.

Miran & Bina Bawi hold a combined 8-18 TCF

Genel Energy is likely to significantly raise its estimate of the amount of gas it has discovered in the Kurdistan Region. The company now believes that its gasfields at Miran and Bina Bawi hold a combined 8-18 trillion cubic feet of gas, a figure that represents more than twice its previous estimate of gas resources. These developments come amidst important progress on a comprehensive energy-export agreement between the KRG and Turkey that would see 20-25 percent of Turkey's annual gas consumption [10bn cubic meters] supplied by pipelines from the Region.



Powering the Region

By 2016, the KRG aims to produce enough electricity to satisfy the Region’s energy needs and allow for the export of power to neighboring countries.

Growth in electricity demand, generation, and transmission has contributed significantly to broader economic growth in Kurdistan. Moreover, developments in the sector over the past decade paint an optimistic picture for the sector’s future. Until 2009, very little of the Region’s electricity was generated locally, making Kurdistan dependent on Iraq’s national grid and imported power from Turkey. Despite the fact that demand was low and distribution infrastructure was underdeveloped, the Region still suffered from a dearth of available power and often faced blackouts. However, decisive leadership by the KRG’s Ministry of Electricity (MOE) and vigorous development by the private sector have largely ameliorated the situation and laid the groundwork for even more impressive developments.

Whereas demand in 2009 was just over 2,000 megawatts (MW), it has since jumped to 3,750 MW in 2013—an increase of almost 88% in just four years. This is due to a combination of increasing economic development, a growing population, and improved transmission

infrastructure. In the same period, the number of electricity consumers shifted from 705,000 to 1.1 million, and the number of transformers from 20,000 to 28,000. Companies such as MITAS have built much of the Region’s transmission infrastructure, and the KRG recently signed a contract with Siemens to develop a Region-wide communications and power grid over the next four years.

In terms of power generation, the growth is equally striking. In 2007, the Region only produced 482 MW of electricity. As of November 2013, the Region was capable of producing 2,800 MW. Much of the growth in generation is due to the construction of three major gas power plants located in Erbil, Slemani, and Dohuk, built and operated by Mass Group Holding. The targeted capacity of these three stations alone is 3,500 MW, with room for additional growth.

Developments in electricity generation and transmission have brought available electricity to the Region to over 23 hours 30 minutes per day—a number that was in the low single digits not long ago. Furthermore, nearly all of the power

results from local production. The success of the sector has the Region’s policy-makers hopeful for the future: projections for power generation in 2016 are in the neighborhood of 6,000 MW, and there is talk of exporting the Region’s surplus electricity to cities in central Iraq. The major reversal at play in the sector is not only cause for optimism, but also demonstrates how far the Region has progressed in the past decade.

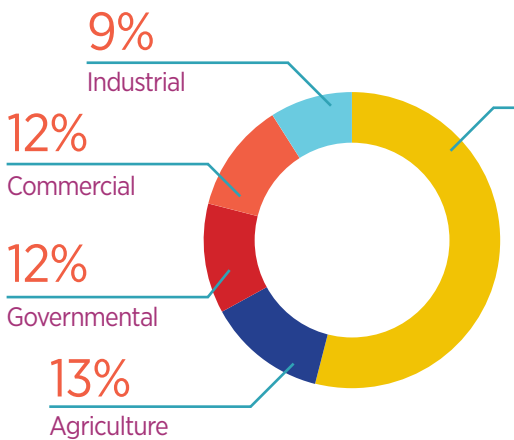
In 2007, the Region only produced 482 MW of electricity; as of November 2013, that number had increased to 2,800 MW. This constitutes a 480% increase in only six years.



Erbil Power Plant

Following a push by the KRG to increase the efficiency and capacity of its energy infrastructure, Mass Global has contracted GE to supply two steam turbines that will augment output at the Erbil Power Plant by 500 MW. The project will also increase thermal efficiency by over 48%. This should supply enough additional electricity to power 100,000 Iraqi residences and will make Erbil one of the most efficient power plants in all of Iraq. Turkey’s ENKA Construction & Industry Company will build the new combined-cycle plant, which is scheduled to begin commercial service in the latter half of 2014.

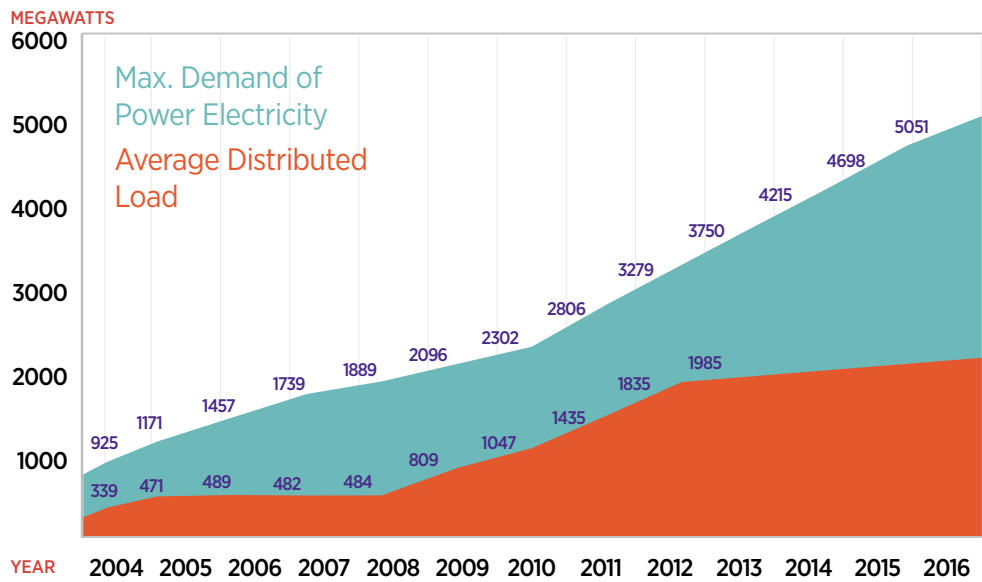
ELECTRICITY DEMAND BY SECTOR



Since 2007, electricity production in Kurdistan has increased by 480%. Moreover, since 2006, energy consumption within the Region has increased by approximately 140%, with current rates around 3,750 megawatts per year.

Income (Revenue) for MoE
Billion IQD

2008	37.7
2009	86.8
2010	115.7
2011	157
2012	249.8
2013	300



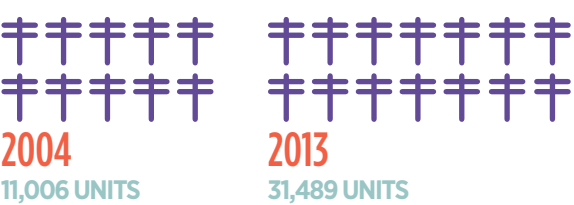
Average of Electricity Provided

2008
7 HOURS

2013
23.5 HOURS

Continued investment and strategic planning have put the Kurdistan Region years ahead of Iraq in terms of the production and transmission of power.

Increase of Distribution Transformers



Total Consumers



Developing the Structure



Dr. Ashti Hawrami

Minister of Natural Resources

As a result of its abundant natural resources, the Kurdistan Region is a rising star in the global oil and gas industry. In addition to the 45 billion proven oil reserves, new oil and gas discoveries in the Region guarantee that Kurdistan will maintain its role as a developing contributor to the global oil industry of the near future. This promising industry also plays a pivotal role for the development, welfare, and stability of the Kurdistan Region. Today, approximately \$15–\$20 billion of foreign investment, largely coming from the leading oil and gas companies, has flowed into the Region. To better analyze these and other recent developments in the oil and gas sector, IIG talked to the KRG Minister of Natural Resources, Dr. Ashti Hawrami, regarding his expectations for the future of the Oil and Gas sector, further developments in the downstream sector of the Region, and the potential mineral wealth of the Kurdistan Region.

IIG: Is the target of 1 million BPD by 2015 feasible? Can existing infrastructure handle those production goals or are new facilities needed?

AH: Based on our existing discoveries, this target is achievable. So too is our goal of delivering this oil to market. We are currently engaging in a comprehensive program to create additional export infrastructure for Iraq through the northern energy corridor; this will move oil both to and through Turkey. This project involves the building of pipelines, pumping stations, storage facilities, and related structures. We are on schedule with this program. Our current expectation is that, by 2019, the Region could be exporting around 2 million barrels per day, with an additional one million bpd going into the northern pipelines from fields in other areas in the northern part of Iraq.

“The Kurdistan Region is considered to offer high potential for mineral deposits such as iron, chrome, nickel, platinum, gold, copper, barite, and zinc. In addition, future geological surveys are expected to conclude that the Region is rich in limestone, gypsum, sands, clays, gravel, and evaporates.”

So, with all of that in mind, it becomes clear that the northern route through the Kurdistan Region will supply significant oil and gas resources to the market. As a result, this line will play a vital role in the future economic prosperity of Iraq.

IIG: Have there been any developments in terms of the downstream industry in the Kurdistan Region, particularly in regards to the petrochemical sector?

AH: In the next two years, as oil and gas production increases, there will inevitably be a greater emphasis on the downstream sector. This development will be driven entirely by private sector investment, with the government simply acting as a regulator only. So, as the Kurdistan Region's refineries further enhance their operations, I expect to see many new domestically produced oil and natural gas products become available on the market. In addition, large-scale international companies have already begun to assess the potential business opportunities in fertilizer production, which would undoubtedly help the Region to modernize and improve its agriculture sector.

IIG: The refining industry still produces some products that contain lead. What steps have been taken to phase out the substandard products?

AH: The MNR is implementing a comprehensive health and environment policy. Neither of the two main refineries in the Region, Bazyan or Kalak, use lead additives in the products. Both refineries use isomerization units and catalytic reformers to raise the octane without the use of lead. There were some suspicions that some of the smaller basic refining units known as topping plants may be illegally adding lead to naphtha to increase the octane to market it as gasoline. However, the MNR is monitoring the situation closely and is already phasing out the use of such small units. The rest of Iraq definitely still uses lead, so gasoline allocations to the Kurdistan Region from Baghdad are leaded. However, the Region plans to be self-sufficient in oil products in a short period of time, which will ensure that the fuel consumed here is much more friendly to the people and the environment.

IIG: What is being done to develop mineral potential in the Kurdistan Region? Thus far, has there been any interest in this market from companies, either foreign or local?

AH: The Kurdistan Region is considered to offer high potential for mineral deposits such as iron, chrome, nickel, platinum, gold, copper, barite, and zinc. In addition, future geological surveys are expected to conclude that the Region is rich in limestone, gypsum, sands, clays, gravel, and evaporates. The implementation of a mining development program would see the creation and development of mineral deposit maps, as well as the creation of mining block licenses and model contracts. These would also necessitate the development of appropriate environmental safeguards. In my opinion, mining should be developed by the private sector. However, just as was the case in the exploration for oil and gas, there will be incentives that will benefit both the investing companies and the country as a whole. There are two laws related to

About

Dr. Ashti Hawrami was born in Slemani in 1948. In 1971, he earned a Bachelor's Degree in Oil Engineering from Baghdad University. Hawrami holds a PhD degree in Oil Reserve Engineering. Dr. Hawrami worked for the Iraqi National Oil Company (INOC) in Basra from 1971 to 1974, and for the British National Oil Company from 1975 to 1982. He served as a Senior Oil Engineer for the London-based Intera Company from 1982 until 1985, a Senior Engineer for an exploration consultancy from 1985 to 1988, the Proprietor and Director of DUK, a limited liability UK engineering and services firm, from 1988 to 1999, and the CEO of ECL Group from 1999 until 2006. After retiring from ECL, Dr. Ashti was appointed the KRG Minister of Natural Resources in May 2006, and was reappointed in October 2009 and in April 2012.

“Our current expectation is that, by 2019, the Region could be exporting around 2 million barrels per day, with an additional one million bpd going into the northern pipelines from fields in other areas in the northern part of Iraq.”

mining currently in the Kurdistan parliament: one for metallic minerals and one for non-metallic minerals. Given all these factors, I believe a modern, well-regulated mining sector in the Kurdistan Region is taxiing on the runway and is almost ready for takeoff. ☞



Powering Growth

Yasin Sheikh Abu Bakir
Muhammad Mawati
Minister of Electricity

Minister Yasin Sheikh Abu Bakir Muhammad Mawati provides IIG with exclusive analysis of power generation, distribution, and transmission in the Kurdistan Region, and outlines the strategic projects which will further facilitate the export of electricity to neighboring countries.

About

Yasin Sheikh Abu Bakir Mawati was appointed Minister of Electricity in 2009. Minister Mawati has worked in the Ministry of Electricity since 1995, serving in a variety of positions. Prior to his ministerial appointment, he served as an advisor to the Ministry. Minister Mawati has a background in electrical engineering, with a specialization in power engineering.

IIG: In terms of demand and capacity, what was the electricity situation like in the Kurdistan Region when you were appointed Minister of Electricity in 2009?

YSABW: The situation was entirely different than it is today. Internal generation only satisfied a small amount of our power demand. Instead, a small amount of imported electricity from Turkey augmented our reliance on the federal network controlled by Baghdad. The Iraqi network regularly suffered from shutdowns and was prone to frequent blackouts. In the month that I was appointed, there were 15 blackouts in the Kurdistan Region network alone. These ranged from 3 hours in length to 24 hours in length. By the end of January 2010, we had already solved 90% of the shutdowns. By March 2010, the issue was completely resolved and there were no more blackouts. In fact, since that time, there have been no blackouts in the Kurdistan Region. I am quite proud of that fact because it correlates directly with our improved ability to supply power.

IIG: How have demand and capacity evolved since 2009?

YSABW: In 2009, the maximum demand was approximately 2,096 MW; today, it is around 3,750 MW. This represents a total increase of 1,700 MW, and a 15% increase annually. In 2009, the average of distributed power was around 809 MW; today, it is approximately 2,500 MW. This represents an increase of roughly 1,700 MW. All of this power is derived from internal generation; we are importing no power from either the Iraqi network or abroad. In 2007, we were receiving approximately 190 MW from the Iraqi grid. We were able to very quickly curb that number so as to promote generation within the Region. Today, our peak demand (which does vary from day to day) is generally around 3,000 MW. If we include the calculated figures for 2013, this number increases to 3,700 MW. The number of consumers has obviously increased dramatically as well. In 2009, there were a total of around 705,000 consumers. Today, there are approximately 1.1 million. Further infrastructure development has added to the demand. For example, street lighting was previously very limited. Now, we have around 700 kilometers of well-lit streets.

IIG: How much of this growth and evolution is a product of the MOE's strategic development plan?

YSABW: We have short, medium, and long term plans for all the sectors that come under our jurisdiction. These include generation, transmission, distribution, administration, and management. Increasing the supply of electricity for our people was part of our long-term plan. The average available power in the summer of 2009 was around 12 hours and 46 minutes per day. This summer, we had approximately 23 hours and 30 minutes per day. We have established strong management and oversight structures in the MOE, and all of our employees are familiar with their individual responsibilities and duties. Each directorate within the MOE has its own operating system with established practices, and they are therefore able to function with maximum efficiency.

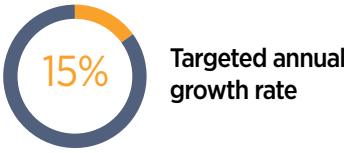
IIG: Looking to the future, can you tell us about your ministry's plans in terms of specific goals and objectives?

YSABW: An issue that we are still combatting concerns electricity transmission and distribution; specifically, we need to upgrade our voltage transmission

abilities. This means expanding even our newest lines [132 KV] to 400 KV for interconnection between the governorates and the other systems in both greater Iraq and the surrounding countries of the region. Establishing 400 KV lines is equivalent to creating highways for the distribution of power. We have two 400 KV substations currently under construction, and there are plans to either repair or modernize two others. In addition, our government is also in discussions with Japan International Cooperation Agency to have them fund the construction of two additional facilities. All of these projects are being pursued with an eye towards our exporting power in the near future.

IIG: Are there other big projects in which you all expect to have further collaboration with international organizations or companies?

YSABW: We recently signed a contract with Siemens for the construction of a large-scale communication and distribution system for the entire Region. This will include three distribution centers (one in each of Kurdistan's three governorates) and then one central dispatch facility in Erbil. That contract, which was signed last October, has a budget of \$70 million and a targeted completion date of 4 years. So, that project is aimed at further developing our distribution and transmission capabilities. That said, we are also working on conservation efforts as well. We are planning to implement the "Smart Water" project, which will monitor consumption of both electricity and drinking water. It would also institute revenue and billing systems, and therefore help to eliminate unlicensed connections. This project has been in discussions for over a year, and is now in the tendering process. Hopefully, a contract will be signed very soon. This endeavor will be the first of its kind in Iraq and potentially even in the Middle East, and will go a long way towards curbing excessive usage of power and water. Our estimates indicate that the project, which also calls for a review of the structure of the tariff system in the Kurdistan Region, could generate revenue of over \$1 billion. ④



1,700 MW by 2016
Power generation by the Private Sector

\$1 billion
Budget for ongoing projects relating to the transmission sector

Power generation investment
\$5 billion by 2013 \$7 billion by 2016

Total Consumers
1.1 Million as of 2013

An Ideal Destination



About

Donnie MacDonald worked with Texaco from 1980 until its merger with Chevron in 2002. He was educated in the UK, and has worked on projects around the world, including in Nigeria, Brazil, and the UK. Prior to his current position in the Kurdistan Region, MacDonald was in charge of Chevron's business development in the Middle East.

Donnie MacDonald
*President & Country Manager,
Chevron Iraq*

Donnie MacDonald explains Chevron's initial decision to pursue opportunities in Kurdistan, the challenges and benefits of operating in the Region, and the unique services and experiences that the company will bring to oil and gas exploration.

IIG: Although Chevron was a relatively late entrant into the Kurdistan Region, its roots in the area go back much further. Can you give us some background regarding the company's work in Iraq?

DM: Chevron has been actively engaged in Iraq for over 10 years. In 2003, Chevron worked with the Ministry of Oil to establish the Iraq Technical Assistance Program, which was subsequently replicated by about 35 other companies. This program established a process for engaging Iraqis, by training them and providing them with access to new technology. This also helped confront the challenges they encountered in field development. Subsequent programs followed. However, the great advantage with our initial effort was that we learned how to work with Iraqis and understand more of the working environment and culture. It also made us more aware of the lack of infrastructure in place. Hence, because

of this early involvement, we were able to better understand the challenges of doing business in Iraq, both from a technical and non-technical perspective.

IIG: The operating environment must have been uniquely challenging. What was the oil and gas industry like during this time?

DM: Our early focus was on the huge fields in the South, which were already discovered. Chevron prides itself on its considerable project management experience, and understanding of how to develop such fields. In 2007, Baghdad initiated a short-term Technical Service Agreement (TSA) program, and Chevron was part of a small group of companies that was invited to help the Government of Iraq (GOI) in specific fields for a short period of time. However, the landscape changed and a formal bid round was introduced instead.

Investment decisions, particularly regarding entry into a new country such as Iraq, are based upon careful technical and commercial evaluations and Chevron decided not to proceed as the bid rounds did not meet our investment criteria. New opportunities must offer competitive returns relative to both the perceived risks and the other investment alternatives in the company's global portfolio.

This was naturally disappointing for us, especially as we had been working on these opportunities for a long time. However, Chevron continues to share a positive relationship with the GOI.

IIG: How then did the company become such an active player in the Kurdistan Region?

DM: Chevron believes it can bring the most value to early exploration and development opportunities, and is committed to building a focused portfolio of key exploration prospects worldwide. Kurdistan, with its attractive fiscal terms and upside hydrocarbon resource potential, fits well in Chevron's portfolio.

In 2006, when we were in the early stages of our discussions with Baghdad, we also set up an exploration group looking specifically at the Kurdistan Region. Chevron has an industry leading record in exploration success and has been ranked number one over the last 10 years in terms of overall exploration success. Thus, the Kurdistan Region, as an exploration opportunity, was always ideal. However, other factors were also considered.

Chevron is a world leader in heavy oil and we are recognized for our capabilities regarding sour gas (Hydrogen Sulfide (H₂S)). When you think exploration, heavy oil, and sour gas, you think Kurdistan. So, even though our initial focus was on the south, we were preparing ourselves for the north as well. When the opportunity presented itself to get involved in the Kurdistan Region, we jumped. So, in the fourth quarter of 2011, we moved north. Within a relatively short period of time, we were able to acquire our interests in the Rovi and Sarta blocks; in June 213, we announced acquisition

of the Qara Dagħ block. Chevron continues to look to build its portfolio in Kurdistan. In addition, within one year of being awarded the PSC for Sarta and Rovi, we started drilling; this represents, by a long way, the fastest entry into the industry in the Region so far.

IIG: In terms of exploration, how do the topography and geology in the Kurdistan Region compare to other areas where the company is active?

DM: One explanation for the rapid pace with which we have expanded our operations here in the Kurdistan Region is that

IIG: What is Chevron's outlook for the Region in terms of the oil and gas sector?

DM: It is our firm belief that, in terms of the oil and gas industry, there are going to be numerous opportunities in the Kurdistan Region for a very long time, and we hope to be here for the duration. There are at least 50+ years of work for the oil industry here, and I expect that number to increase. It then becomes important to think long term, and that is exactly what the KRG is doing. It is implementing strategic plans to facilitate development across a wide variety of economic sec-

“Chevron believes it can bring the most value to early exploration and development opportunities, and is committed to building a focused portfolio of key exploration prospects worldwide. Kurdistan, with its attractive fiscal terms and upside hydrocarbon resources potential, fits well in Chevron's portfolio.”

we have a good idea of what to expect from our blocks due to the wide range of our international operations. We use analogues to examine where we are working in the world and where other companies have been active, and then use those references to gain a thorough understanding of what would be most similar to the Kurdistan Region. What we have seen thus far are large carbonate reservoirs. We are very familiar with these types of reservoirs from the work that we've been involved in in the neutral zone between Kuwait and Saudi Arabia, which we operate on behalf of the Saudi government. As I said before, there is an understanding that H₂S will be present. We are quite familiar with that, particularly in our huge Tengiz Field in Kazakhstan. In fact, our ability to handle complex H₂S opportunities was instrumental in the Chinese government requesting that we operate their Chuandongbei gas field, which is a very sour field. In short, the opportunities here are quite similar to others in Chevron's portfolio.

tors. If you look at other cities around the globe that have exploded in terms of development, there aren't always such plans in place. The agricultural, water, and mineral assets present here further indicate that Kurdistan is truly blessed. So, it has all the right ingredients to be successful. Moreover, with improving relations with the outside world coupled with the strength of the KRG, the Region has the potential to become a regional broker and a major source of stability in an uncertain world. ☞

Broadening the Horizon

About

Baz Karim is the founder of KAR Group. As one of the leading oil & gas industry figures in the Kurdistan Region, he follows the guiding principle of establishing a stable model of Iraqi employment for both operations and investment activities.



Baz Karim
President & CEO, KAR Group

Baz Karim discusses the evolution of the oil and gas sector from KAR Group’s perspective, the differences between the upstream and downstream industries of the Kurdistan Region and greater Iraq, and the emphasis the company has placed on promoting local specialization.

“KAR Group has been very dedicated to processing all the gas that we have. We are currently developing our downstream capabilities for operations involving gas power generation. We are installing our own facilities to do this, and we feel very proud that we are one of the operators doing this.”

IIG: Kar Group was established in 1999. How has the oil and gas industry changed in Iraq since then?

BK: In 2003, the energy sector in Iraq was run completely by the government. This was for all sectors, be it upstream, midstream, or downstream; each one was managed by the government. Iraq was divided between the North Oil Company and the South Oil Company, with each producing a significant quantity of oil. The production capacity for North Oil Company was over 1 million barrels of oil per day [bpd]. After 2003, this number fell to 400,000 bpd for multiple reasons. Firstly, there had been a memorandum of understanding [MOU] between the UN and the Iraqi Government, which called for the maximum capacity of oil production by the North Oil Company. After 2003, this MOU was no longer recognized and production subsequently reduced significantly. Secondly, as a result of the poor security situation in the county, there was considerable damage at these production facilities. This was usually the result of either looting or sabotage. So, it becomes clear why production during that period was limited. The first thing the Iraqi Government decided to do in order to increase the capacity of oil production

was to offer tenders for three different areas. The first, which was located in the north, was the Khurmala field; this project was expected to increase capacity by 100,00 bpd. The second, which was located in the center of Iraq, was Hamrin; it was expected to increase capacity by 75,000 bpd. The third, which was located in the south, was Subba and Luhais; this project was expected to increase capacity by 150,000 bpd.

IIG: How do you evaluate the KRG’s policy regarding natural gas processing??

BK: The KRG has implemented rules and put pressure on all the operators here regarding gas treatment. When there is a gas deposit of commercial size, it must be processed and not burned. This is correct. We must use our natural wealth efficiently. From our first day of operation until now, KAR has been very dedicated to processing all the gas that we have. We are currently developing our downstream capabilities for operations involving gas power generation. We are installing an ambitious 1.2 GW power plant for the recovered gas. We feel very proud that we are one of the operators doing this. We are very serious in terms of maximizing the production and the revenue for the field.



KAR Group is a full spectrum integrated oil company and energy producer working throughout Iraq. It also provides expertise in engineering and construction within the oil and gas industry. KAR Group has an established reputation as a reliable key supplier of oil & gas processing equipment and is committed to providing processing engineering solutions to its customers.

Headquarters	Erbil
CEO	Baz Karim
Established	1999
Operation	Khurmala Dome
Refinery	Kalak-Erbil

It doesn’t matter if it is oil or gas, we don’t want to lose anything.

IIG: Can you explain the similarities and differences between operating in the Kurdistan Region and southern Iraq?

BK: In terms of the upstream operations, there are two different models, each of which appears to be working. The Baghdad model utilizes service contract agreements, whereas the Kurdistan model opts for production sharing agreements. Since major international companies are operating in both the north and the south, both options seem to be acceptable. Given the sheer size of the country, I believe there is room for more than these two models; there are many other strategies that could be implemented to help develop the industry. For the downstream sector, both parties have agreed that there needs to be private sector involvement relating to either local or foreign investment. Once again, the model for each area is different. Baghdad emphasizes the refinery model while Kurdistan prefers a

more varied approach. If you realistically examine them, it becomes clear that there is success in the Kurdish model; the Baghdad model is not entirely financially acceptable. Lastly, for downstream power generation, Kurdistan employs a similar model to its oil and gas industries. That is, the KRG pays the investor a processing or production fee for the electricity the private operator generates. In contrast, in Baghdad, the government has not given any responsibility for power generation to the private sector. So, it is still a government-controlled mechanism. This also partially explains why the KRG has been able to satisfy more of the local demand for power than has the Baghdad government.

IIG: KAR Group’s entry into the oil and gas sector began as a consortium involving significant numbers of foreign workers. Now, it is primarily a local venture. Is this something the KAR Group chose to focus on?

BK: Pursuing this policy allows us to

develop the physical infrastructure of the Kurdistan Region, but also the human capital as well. If we are able to employ locals, be it as engineers, technicians, or simple laborers, we enhance their opportunities. Of course, this is only for 90% of our workforce. We still need that 10% to come from foreign workers because we need their levels of expertise and general knowhow. However, this approach still keeps us functioning in a unique position. A company can use 90% foreign workers and 10% local (as some choose to do), or it can use 90% locals and 10% foreign in specific, necessary positions. The second option allows for greater local employment, obviously, but it also leads directly to greater knowhow and technological familiarity amongst local engineers and technicians. So, for KAR Group, it’s the logical, best-possible approach. ☞

Step-By-Step Innovation



Shakir Wajid Shakir
Country Manager, Dana Gas

Shakir Wajid Shakir discusses the history of Dana Gas’ entry into the Kurdistan Region, the role the company has played in increasing power generation, and the importance of developing the capabilities of the local population.

IIG: What was the situation like when both Dana Gas and Crescent Petroleum first entered the Region?

SWS: When we first became active in the Region, the major issue confronting the government was its inability to resolve the ongoing energy crisis. This issue was plaguing not only the KRG, but also the Federal Government in Baghdad as well. After 2003, there was a significant shortage of electricity; when Dana Gas first began contemplating entering the market, the government provided, on average, only two hours of electricity per day. So, we held discussions with the government regarding the best possible ways to help resolve this crisis. Solving the issue of available electricity remained a top priority for the government. So, it was a priority for us as well.

IIG: How critical do you think gas production will be for the Kurdistan Region?

SWS: If natural gas were not available, the KRG would need to buy approximately \$2.5-3 billion of diesel fuel every year in order to replace the gas that it currently utilizes. In other words, Dana Gas and

About

Shakir Wajid Shakir has worked for Dana Gas since 2007 and served as Country Manager in Erbil since 2008. Prior to joining Dana Gas, he acted as a Project Manager for the UN Food and Agriculture Organization and as a Development Specialist with USAID. He graduated with a BSC in Physics from Al-Mustansiriyah University in Baghdad.

Crescent Petroleum are returning roughly \$2.5-3 billion to the government’s budget every year. These figures alone demonstrate the importance of natural gas, especially in terms of ensuring the long-term energy stability of the KRG.

Then there is the fact that natural gas is friendlier in terms of its environmental impact. Today, when countries are considering signing contracts with private companies, a major consideration is the environmental friendliness of the project being proposed. Gas is a clean energy source, whereas burning diesel will have a significant negative environmental impact. Generally speaking, gas presents fewer complications.

IIG: Dana Gas has the highest private sector investment in the oil and gas sector of any company currently operating in the Kurdistan Region.

SWS: We have exceeded \$1 billion of investment in the Kurdistan Region. When we first entered the market back in 2007, there were only a few companies that were willing to take such a risk. There were even fewer who were willing to invest \$1 billion into the Region. However, we felt that it was the right decision to make. As you can see, the giant companies have come and they are now operating here. However, we were one of the first companies to identify the potential of the Region, enter the market, and begin operating in the Kurdistan Region. More importantly, the wisdom and the long term strategic vision of the KRG leadership gave us confidence to invest and plan to have long term activities in the Kurdistan Region.

IIG: Can you tell us about the company’s plans for future expansion?

SWS: What is currently happening in the Region represents a major revolution in terms of the development of the economy. There are countless infrastructure and development projects throughout the Region. All of these projects will need electricity. The Kurdistan Region cannot be satisfied with the generation of 4,000 MW, because those figures do not meet the non-stop demand for electricity. Moreover, this demand is increasing on a daily basis, and is doing so at an incredibly fast rate. So, this increased demand puts greater responsibility on the shoulders of Dana Gas and Crescent Petroleum. It means that we have to double and triple our current rates of production.

Currently, we are producing roughly 330 million cubic feet of natural gas per day. However, this amount will not be sufficient to meet future demand. So, we are currently in discussions with the government to double our production. We have to have another package of investment, which means between \$500 and \$700 million for the Kurdistan Region alone. The power plants of the Kurdistan Region are thirsty for more gas. The new plants

that are under construction or have been planned will all need more natural gas. The KRG also has a strong desire to export gas outside the country, which will further increase the demand. This

“Fortunately, we were able to get the two plants up and running in a very short time period. Today, they are producing a total of 330 million cubic feet of natural gas per day.”

means that doubling the current numbers may still not be enough to satisfy future energy needs. So, we hope to be able to do everything in our power to help satisfy the growing market.

IIG: Regarding the LPG facility, can you give our readers some insight into its construction and current output capacity?

SWS: The LPG facility is a two-train facility: the two plants are referred to as Chrio-1 and Chrio-2. The units are brand new and were shipped here from the United States. Fortunately, we were able to get the two plants up and running in a very short time period. Today, they are producing a total of 330 million cubic feet of natural gas per day. We have multiple other operations in addition to the LPG facility, including facilities for gas condensate and dry gases.

IIG: Dana Gas’s workforce is 80% composed of local employees in Kurdistan. How were you able to achieve that number?

SWS: The KRG has established a goal of having the local workforce play a strong role in terms of the development of the private sector. When we first began our work in the Region, we were nowhere near that number. However, we established comprehensive training programs for local staff, and were able to slowly

close the gap. Currently, our workforce is actually more than 80% composed of local employees, and is spread across a variety of different sectors. This growth is in large part due to our decision to allocate a sizable portion of our annual budget to sustaining and enhancing these training courses. We are actually in the process of replacing certain senior positions with local staff. We believe that if we help to open the doors for the local population, they have both the motivation and the capability to become incredibly valuable members of our team.

DANA GAS



Dr. Adel Khalid Al-Sabeeh
Chairman

Established	2005
Headquarters	Sharjah
Operations	Egypt, UAE, Kurdistan Region
Net Profit Growth	20% (2012)
Gross Revenues	2.3B AED (2012)
Cash Balance	605M AED (2012)

Kor Mor Block

Interest	Dana Gas (40%), Crescent Petroleum (40%)
Reserve	1.8 TCG
Production (2007-2012)	79 Million Barrels of Oil
Production (2013)	88,000 bpd, 340 mmcf/d, 15,000 bpd of condensate liquids

Chemchemical Block

Interest	Dana Gas (20%), Crescent Petroleum (40%)
Reserve	2.7 TCG

Success Story

Gulf Keystone Petroleum The Dramatic Growth of Gulf Keystone in the Kurdistan Region

Gulf Keystone has played a significant role in developing the energy industry of the Kurdistan Region. With the abundant oil and gas reserves located in its exploration blocks, the company looks likely to continue to occupy a prominent position in the future of the Region.

The name “Gulf Keystone Petroleum” (GKP) has come to have major significance in the Kurdistan Region, particularly in regards to its world-class commercial field at the Shaikan exploration block. Today, the discovery at Shaikan represents one of the world’s largest, on-shore oil and gas developments. Moreover, according to gross mean oil in place reserve estimates, the four blocks in which GKP have interest hold at least 19 billion barrels of oil. As GKP Country Manager Umur Eminkahyagil notes, “Gulf Keystone is a major in the Kurdistan Region of Iraq in terms of our level of activity, foot print, and commitments to the KRG. Our drilling record is a testament to that commitment.”

“GKP has targeted an increase in production to 150,000 bpd in the next three years and 250,000 bpd by 2018.”

Early Entry

The company was already active in multiple areas in North Africa when it first elected to pursue opportunities in the burgeoning market of the Kurdistan Region. Consequently, GKP began working in the Region with interest in four exploration blocks in 2007. GKP entered as the operator of both the Shaikan and Sheikh Adi blocks, with 75% and 80% interests, respectively. In addition, it entered as a non-operator in the Ber Bahr exploration block (40% interest), which is currently operated by Anglo-Turkish firm Genel Energy, and Akri-Bijeel block (16% interest), which is currently operated by the Hungarian company MOL. Work at the Shaikan block advanced rapidly, with GKP registering its first discovery at the Shaikan-1 exploration well in the 3rd quarter of 2009. With the completion of the Shaikan-5 and Shaikan-6 exploration wells in the summer of 2012, the company completed its well appraisal program. In August of the same year, GKP declared the Shaikan field a “world class commercial discovery”. Indeed, as highlighted by Eminkahyagil, “During the extended well testing stage, which was part of the Shaikan appraisal program, we produced 1 million barrels of oil. That number does not even reach 1/10,000th of the field’s gross oil-in-place volumes.”



“Gulf Keystone is a major in the Kurdistan Region in terms of our level of activity, foot print, and commitments to the KRG. Our drilling record is a testament to that commitment.”

Umur Eminkahyagil
Country Manager, Gulf Keystone

About

Umur Eminkahyagil has worked for GKP since March 2012, first serving as Development and Production Manager and then as Country Manager for the Kurdistan Region since September 2012. Prior to his tenure with GKP, he worked as a Vice President for MB Petroleum Services, in various positions at Expro Group, and as a Reservoir Engineer for Shell, mainly in Turkey and Thailand. Eminkahyagil earned a degree with high honors in Petroleum and Natural Gas Engineering from Middle East Technical University in Ankara in 1991.

Development at Shaikan

In the summer of 2011, while the appraisal campaign was still underway, GKP began the initial phases of creating its Field Development Plan (FDP). Following the declaration of commerciality, it stepped up its efforts to finalize the FDP, which was submitted to the MNR in January 2013. According to Eminkahyagil, “This is because the MNR is not just a regulatory body, but also our partner in the development. Based on the MNR’s recommendations and some of our own findings, we made some changes to the plan and then submitted an addendum.” In late June 2013, the MNR approved the FDP. Commenting at the time of the approval, GKP CEO Todd Kozel noted, “This is an historic moment in the evolution of the Company. Gulf Keystone is now fully permitted to commence production from the Shaikan field and this represents a key milestone in the Company’s growth. We have been a pioneer in the Region from the outset and this milestone reconfirms our pioneering spirit and our desire to lead the upstream oil industry in Kurdistan.”

Looking Forward

The FDP called for the escalation of production with a targeted goal of 40,000 bpd by the end of 2013. To allow for this development, the company commissioned its first purpose built Production Facility (Shaikan PF-1), which has a capacity of 20,000 barrels of oil per day (bpd). A second production facility, Shaikan PF-2, which is scheduled to be completed in the fourth quarter of 2013, will rapidly increase that capacity to 40,000 bpd. Following successful completion of the two facilities, GKP has targeted an increase in production to 150,000 bpd in the next three years and 250,000 bpd by 2018. New production facilities are expected to facilitate the completion of such goals. In addition, these growth numbers are expected to go a long way towards helping the MNR achieve its overall oil export targets of 1 million bpd by the end of 2015, and 2 million bpd by 2019.

Beyond Shaikan

Taking into account the latest resource estimates for GKP’s Shaikan discovery, Genel Energy’s Ber Bahr block, the Bijell discovery in MOL’s Akri-Bijeel block, and the preliminary resource evaluation for GKP’s Sheikh Adi block, the company today has a share of gross mean oil-in-place resources of at least 19 billion barrels. Eminkahyagil makes it plainly clear that GKP has big things on the horizon: “Even though Shaikan rightly occupies the newsreels these days, our Sheikh Adi block is only a few years behind of Shaikan.” Indeed, the Sheikh Adi-2 exploration well that was spudded in May 2012 successfully achieved total stabilized aggregate flow rates of 4,235 bpd. Following approval of the company’s appraisal work program for Sheikh Adi, GKP began conducting 2D seismic surveys and will drill an appraisal well (SA-3) for delineation purposes in the fourth quarter of 2013. Company officials confirmed that further appraisal of Sheikh Adi will naturally take into account future synergies with Shaikan in terms of production facilities, infrastructure, and logistics. As summarized by Umur Eminkahyagil, “All in all, with work progressing in our Sheikh Adi, Ber Bahr, Akri Bijell blocks, and the major developments at Shaikan, we look forward to joining the ranks of key producers in the Kurdistan Region.”

“We have been a pioneer in the region from the outset and this milestone reconfirms our pioneering spirit and our desire to lead the upstream oil industry in Kurdistan.”

Todd Kozel
CEO, Gulf Keystone

GULF KEYSTONE



Todd Kozel
CEO

FOCUS: SHAIKAN

First identified by Gulf Keystone in 2009, the Shaikan Field was declared a commercial discovery in August 2012. It is one of the largest oilfields discovered in recent history, and is currently the largest field in the Kurdistan Region

Founded	2001
Headquarters	London
Fields	Shaikan, Sheikh Adi, Ber Behr, Akri Bijeel
Operators	Gulf Keystone, MOL
Reserves	14 Billion Barrels of Oil
Production Capacity	40,000 bpd as of 2013
Target	250,000 bpd in 2018
Producing Wells	12



High-level of Expertise

Dr. Adel Chaouch
*President & General Manager,
Kurdistan Development Venture,
Marathon Oil*

Dr. Adel Chaouch discusses Marathon Oil's evolving plans for the Safen and Harir Blocks, and the company's overall outlook for the Kurdistan Region's oil and gas sector.

Marathon Oil

President and CEO	Lee M. Tillman
Headquarters	Houston
Founded	1887
Global Operations	11 countries
Blocks & Working Interest in Kurdistan	
Harir (45%), Safen (45%), Sarsang (25%), Atrush (15%)	

IIG: How did Marathon Oil's story begin in the Kurdistan Region?

AC: Marathon Oil has a growth strategy that focuses on capturing opportunities that will create long-term shareholder value. This strategy has included analyzing various business opportunities around the world. We believe the Kurdistan Region to be one of the key resource basins we are targeting as a potential growth opportunity. Marathon Oil extensively analyzed the Region and the opportunities here by conducting our due diligence first to conclude that the Kurdistan Region was, and continues to be, an excellent match as a place where Marathon Oil can do business. So, after a period of discussions with the KRG, we entered the Region on October 20, 2010. Our approach was to have a balanced portfolio with four blocks. In two blocks [Harir and Safen] we entered as operator and the other two blocks [Sarsang and Atrush] we entered as non-operator. I believe that our entry was unique in the Kurdistan Region. At the same time, however, we utilized the same approaches that we have implemented in our other operations around the world. Our goal continues to be to enter a new area bringing the necessary high-level of expertise without compromising our ability to focus on safely delivering sustainable benefits to the local communities in which we are operating along with a firm commitment to protect the environment.

IIG: How has the company's presence in Kurdistan evolved since 2010?

AC: Late 2012, the French major Total became our partner in our two operated blocks with a 35% interest in each. So, our Kurdistan Region portfolio, which was already balanced, became further enhanced by this addition. Looking back to 2010 in the Kurdistan Region, if you examine the operators present at that time I believe you will see that Marathon Oil was one of the first large, publicly traded oil and gas companies from the USA to enter this Region. In that sense, we believe that Marathon Oil helped pave the way for other larger companies to enter. Over the past three years, there have been significant changes. We have witnessed the

About

Dr. Adel Chaouch is entering his third year as the head of Marathon Oil's development efforts in the Kurdistan Region. Prior to his work in the Region, Dr. Chaouch served as the director of Corporate Social Responsibility (CSR) for Marathon Oil's worldwide activities and as the Sustainable Growth Manager for Marathon Oil's Central Africa Operations. Dr. Chaouch holds a Ph.D. in Engineering with emphasis on deepwater offshore structures from Texas A&M University.

entry of the larger companies while very few of the smaller pioneer companies have remained. We have seen not only the growth, but also the maturing of the oil and gas industry here, particularly in regard to the services industry. Significant inroads are also apparent in infrastructure development supporting the oil and gas industry. This includes the physical infrastructure of roads and pipeline systems, as well as additional storage and power generation. I think these and other areas will continue to progress, as will Marathon Oil in terms of this industry's growth and its overall success.

IIG: What are the company's plans for the future in the Region?

AC: Marathon Oil was very fortunate in that very early after our entry in 2010 we participated in oil discoveries in both of our non-operated blocks [Atrush and Sarsang]. Late last year, together with our partners in Atrush block, we declared commerciality. Since then, we have filed a field development plan in early May of this year, which will move us forward to full development activities in the next few years. At the same time, we have further exploration and appraisal activities taking place in the Sarsang Block. Hopefully, we will have further discoveries as these activities in Sarsang Block progress. We are also very hopeful that we will see success in our own operated blocks, particularly the area that we are currently testing in Harir. ☞



Analysis— Turkish Policies Empower the KRG's Independent Hydrocarbon Exports
Shwan Zulal

Turkey's recent decision to award the Turkish group Siyah Kalem a license to import gas from the Kurdistan Region increases pressure on Baghdad to allow the KRG the right to export its own oil and gas to Turkey and beyond. For the past year, Turkey has been allowing the KRG to export larger volumes of crude and condensates by truck through Turkey to sell in the international markets.

Turkey increasingly appears to be willing to support the Kurdish position and allow oil and gas to flow to and through Turkey to international markets. Turkey has made it clear that it wants Kurdish hydrocarbons flowing. The difficulty for Turkish policymakers relates to what Baghdad will do and how it will react. Although Baghdad has been making threats, Ankara's recent decisions and actions, largely aligned with the KRG, suggest that Baghdad's leverage is negligible.

Turkey is interested in the Kurdistan Region's gas, as it will give it supply diversification and, more importantly, a better bargaining position with its biggest gas suppliers, Iran and Russia. While the energy case is clear, the political significance of doing business with the KRG is far more profound. Turkey's domestic

issues with its own Kurdish population are holding back the economy of the Anatolian Tiger. Although economic growth has been at record highs recently in Turkey, the stigma of many years of conflict, lack of economic development in Turkey's Kurdish Region, as well as the enormous military expenditure of fighting the PKK, all contribute to the stalling economy, not to mention the large bill for energy. By engaging the Kurdish brethren in the Kurdish Region of Iraq, Turkey is hoping to break the cycle of violence, benefiting both sides in a peace process that has already started.

In the last five years, Turkey has made huge diplomatic strides with the Kurdistan Region. Previously, when issues arose between the KRG and Turkey, the Turkish army often ventured into the Kurdistan Region of Iraq. Now, however, Turkish diplomats meet their counterparts and receive equal treatment.

Kurdistan has as much, if not more, at stake in dealing with Turkey. The KRG understands that Turkey provides the best route to monetize and sell their abundant hydrocarbons. Turmoil in Syria is raging, disputes with Baghdad and major bottlenecks in the south limit export opportunities through federal Iraq, and Iran is not a viable option for export due to international sanctions. The KRG is therefore keen to keep its most reliable neighbor on its side.

The construction of the gas—later converted to crude—pipeline to Turkey is near completion. Complications still remain regarding how to resolve the issues of payments and legality of sales, in addition to the technical issues involved in exporting varying qualities of crude. The KRG appears to be keen to connect the Kurdish pipeline to Kirkuk Cyhan pipeline behind the Iraqi metering station and revive the oil pipeline inside Turkey to connect and sell to the market. The Iraqi government offered to connect at the metering station, but because Baghdad has not paid the fees of the international oil companies (IOCs) in the Region, it is very unlikely that this will happen.

The payment issue is the biggest challenge facing Kurdistan's hydrocarbon

About

Shwan Zulal is a business consultant and political analyst, covering a broad spectrum of political, governmental, and social risk management in the Kurdistan Region and Iraq. Zulal is Head of Consulting and Business Development at Carduchi Consulting in London, as well as a Research Associate at the European Centre for Energy and Resource Security (EUCERS), Kings College London.

exports. Although Turkey has come up with a solution to create an escrow account, Baghdad is unhappy with the arrangement and the US administrations is also not sure how the payment can work and has reservations. The KRG does not want to have the same problems with cost payments to private companies operating in the Kurdistan Region, and Baghdad still believes that the KRG has no right to export independently.

The deadline for pipeline completion was the end of September and the pipeline is near the metering station in Fishkhabur, but there are no signs of export yet. This is largely because the pipeline was converted from carrying gas to carrying crude, meaning that additional infrastructure is needed to pump the oil and the duel Kirkuk –Ceyhan pipeline inside Turkey needing some maintenance, which suggests that more time will be needed for completion. Test flows can take place as soon as mid-December and early next year the pipeline will be operational.

While construction is ongoing, Ankara has awarded Siyah Kalem a license to import gas from the KRG. This came soon after PM Erdogan's announcement earlier this year of plans for a Turkish operator to partner with ExxonMobil to develop gas fields in the Region. Moreover, trucking crude through Turkey and the ongoing negotiations with Genel Energy for gas supplies from Miran field are all clear demonstrations of Ankara's willingness to defy Baghdad, and allow independent hydrocarbon export from the KRG. ☞



Planning for the Future

Bill Jack

General Manager, WesternZagros

Bill Jack discusses the major developments in the Garmian and Kurdamir blocks, his expectations for the activities of WesternZagros in the near future, and the challenges of operating in a new market.

About

Bill Jack has served as General Manager of Western Zagros' operations in the Kurdistan Region since February 2013. Prior to his work for Western Zagros, he served in a variety of commercial, technical, and managerial positions around the world, including Alaska, the UK, Azerbaijan, Australia, Kuwait, the UAE, and Tunisia.

IIG: How would you assess the current state of the oil and gas sector in the Kurdistan Region?

BJ: There's a lot of development and economic activity, and the KRG has been supportive in advancing its plans for the export of oil. Dr. Ashti Hawrami has made this explicitly clear with targets of 1 million bpd by 2015 and 2 million bpd by 2019. These are aggressive targets, and there's a political balancing act involved that falls outside our area of interest. Our job is to find the resources and then progress as rapidly as possible to ensure that the KRG can meet these goals. I believe our future here has the potential for greatness; we expect 2014 to be critical, potentially transformational years for us.

IIG: Can you give us any updates regarding drilling operations in Kurdamir and Garmian blocks?

BJ: In the Kurdamir block, the Kurdamir-3 appraisal well has reached its total depth and is in the process of being tested. 3D seismic surveying was also recently completed in that area. In the Garmian Block, the Hasira-1 and Baram-1 exploration wells are being spudded. In addition, we have drilled two wells in our Mil Qasim Upper Bakhtiari well program.

IIG: What are your expectations for the Kurdamir discovery?

BJ: The Kurdamir-1 and Kurdamir-2 wells found approximately 974 million boe within the Oligocene and Eocene reservoirs. We estimate that the Kurdamir-3 well will have a potential production capacity of between 4,000 and 7,000 bpd. Our estimates of the Kurdamir discovery as a whole indicate total prospective resources of approximately 1.6 billion boe. The Baram-1 well will be the highest impact well that we will be drilling and could potentially prove that the Kurdamir structure extends into the Garmian block. If successful, Baram-1 will be a major extension to this field and our block, and will prove that this field is really quite significant.

IIG: What are the company's future operational goals?

BJ: We feel that there is significant potential for production growth in the Kurdistan Region. Last year, our Sarqala-1 well, located in the Garmian block, discovered significant resources and was able to produce approximately 1 million bbl. These resources were either trucked to the local market or exported to the federal system. So, there was a discovery, but we expect that there is quite a bit more to find. We are confident that these figures can be increased to 30,000 bpd relatively quickly. In addition, we are investigating prospects at Qulijan, Chwar, and Aylan. Simply put, oil is not in short supply. What you look for and what you need, however, is the proper geology.

IIG: Is it challenging to hire locals to work in the oil and gas industry?

BJ: Oil companies can offer the fact that each project will take approximately 20 years to progress from exploration to production. So, there are definite, long-term careers to be had. I think the companies themselves can play a role by providing elements such as international certifications during their respective training programs. WesternZagros does this, and we have seen that it allows workers significant flexibility in terms of choosing to either remain locally employed and support the government and private sector or go abroad to better enhance their careers or abilities. The government has always been a large employer here in the Kurdistan Region, so the concept of companies bringing in concrete opportunities is new. As a result, there's a learning process taking place, and I think the opportunities that oil and gas companies provide are truly exciting for the local populace. Overall, given the acceleration of investment in the Region and the capability development that is already taking place, it's certainly an exciting time to be involved in Kurdistan. ⑩

Focus: MITAS Energy



In 2003, MITAS was among the first international businesses to move into Iraq and the Kurdistan Region and begin rebuilding. In so doing, MITAS brought a wealth of experience to the Region and country. Established in Turkey in 1955, the company has developed extensive scale and expertise in manufacturing high voltage electricity transmission towers and lines. It has achieved global prominence in the sector, and has exported its products and services to over 125 countries around the world. While MITAS has historically developed telecom infrastructure in addition to energy transmission products (including a construction contract with Asiacell in the Region), in 2012, the company began focusing exclusively on infrastructure for energy transmission.

When MITAS arrived in the Kurdistan Region, there was much to be improved in electricity generation and transmission. Electricity supply in the Region was far behind demand, largely due to damaged generation and transmission equipment, and electricity was primarily imported. In an interview with IIG, Kamuran Çelebi, the Regional Manager of MITAS, argues that the early and decisive action of the KRG to rebuild the Region's power generation capacity and transmission infrastructure has brought the progress that the sector has seen in the Region.

Indeed, the sector's accomplishments are impressive. As recently as 2007, the Region only produced 482 megawatts (MW). By 2012 production jumped to 2700 MW, and is projected to climb further in 2013. The Ministry of Electricity plans to double production to 6000 MW by 2016. Power is available in the Region for 23.5 hours per day on average—nearly satisfying demand. The sector's success is striking: while the Region was only recently importing a majority of its electricity from neighboring countries, production growth now has the Region considering exporting its own power to Baiji and Tikrit in central Iraq in coming years.

Much of this development has been carried out by the private sector. MITAS has developed much of the power transmission infrastructure around the Region. Its projects have included constructing the high voltage electricity transmission towers and lines that bring power to and around Erbil, and from a major power plant in Chamchamal to Slemani and elsewhere. This is coupled with private investment in power generation. Electricity supply has been expanded enormously by Mass Group Holdings, who have recently built three major energy generation plants in the Region.

As the Region develops economically and grows demographically, demand will continue to climb steeply. As Çelebi describes, "right now, available energy is



Mitas

Founded in Ankara in 1955, MITAS Energy and Metal Construction Incorporated has grown to be a leading company in terms of the design, production, and installation of steel towers, energy substations, and electrical poles. MITAS has also completed projects relating to energy production and telecommunications in both Turkey and Iraq.

sufficient in terms of meeting demand. However, demand is rising significantly, and the government will need to work hard to find new solutions so as to avoid any and all shortages." Having played a central role in the sector's progress in the Region thus far, MITAS will very likely be a major player in meeting the Region's future energy needs. ⑩

Analysis—

Bold Results

Blessed with abundant reserves, a prudent vision for resource development, and access to lucrative markets, Kurdistan emerges as the last onshore oil bonanza in the world.

Brad Camp

About

Brad Camp is an independent energy sector analyst who has been living in Erbil for the past six years.

“Although the story is young, the results are bold. Kurdistan has arrived as a major player in the oil and gas sector, and has proven that it will prudently manage its natural resources for the benefit of its people.”



Oil seeps across Kurdistan have intrigued geologists for a century, but exploration was oppressively prevented by past Iraqi regimes that feared the development of Kurdish wealth. There was little doubt that abundant reserves existed under the rolling hills and mountainous landscape, but it was not until the liberation of Iraq in 2003 from the tyrannical regime of Saddam Hussein that Kurdistan would embark on a journey that has landed it as the *oil exploration capital* of the world.

Reserve estimates, even in these early days of exploration, are impressive with 45 billion barrels of oil and an estimated 200 trillion cubic feet of natural gas. That level of oil secures Kurdistan eighth place on the list of world oil reserves in comparison with Russia, Libya, and Nigeria. The gas resources are equal to three percent of total known natural gas in the world. These resource numbers are unparalleled in the emerging market energy world and have put Kurdistan on the map as an oil and gas destination.

Having resources is a blessing, but prudently developing and stewarding resources has proven challenging throughout the world. The optimism of a new era in Iraq after 2003 was quickly forgotten as the state descended into strife. The Kurds secured their territory and defined a development plan taking advantage of the newfound freedoms fought for in Iraq. One pillar of the plan

was energy development with a firm focus on ensuring a bright future for its people and guarding against any ambitions of any future Iraqi regime to use resources for destruction.

The Oil and Gas Law of the Kurdistan Region structures the basis for investment and management of the hydrocarbons in the Region. It is brought to life by a model Production Sharing Agreement that balances the risks and rewards of developing oil and gas in an emerging market. Companies from the Americas, Europe, and Asia rushed to Kurdistan to find oil, and oil they found. As resources have been derisked, a wave of consolidation has gripped the Region with super major oil companies arriving and calling Kurdistan home. ExxonMobil, Chevron, Total, and Gazprom Neft all have multiple concessions in Kurdistan today.

Land is sacred for the Kurds, and the people feel connected to the resources bound beneath the land. The Kurdistan Regional Government maintains a robust program, funded by a share of the oil companies profits, aimed at developing strategic infrastructure, upgrading health and education services, training and equipping the next generation for new economic opportunities, and compensating the victims of previous horrors. Recently, the government announced that it would present legislation to the Kurdistan Regional Parliament that would

set aside oil and gas profits for direct distribution to the families of the Region. This citizen-minded model has been successfully implemented in Norway and in the United States in Alaska, yet is not practiced in more closed markets.


Localization of human resources and supply of goods and services is an essential element of the oil and gas sector development program in Kurdistan. Previous Iraqi regimes barred Kurds from senior oil and gas posts and limited Kurds ambitions in energy disciplines. In contrast, the Ministry of Natural Resources has a strategic plan for 90+ percent localization, and companies are embracing this model. New faculties at universities are preparing the first cadres of Kurdish petroleum engineers and technical schools are teaching tradecrafts specific for the energy industry.

Gas is produced in Kurdistan and delivered to three major power plants throughout Kurdistan. The plants vaulted Kurdistan from six or less hours of power a day to full coverage for its citizens. All the while, the government driven power sector in the rest of Iraq continues to lag and fails to deliver stable power to the people. With excess generation capacity in Kurdistan, the Kurds have helped to fill gaps in electricity availability in surrounding provinces.

After satisfying the local demand for oil and gas, the Kurds have looked outward to deliver their resources to world markets. A new oil export pipeline system is designated for completion by the end of the year and will tie to an existing pipeline system in Turkey that carries oil to the Mediterranean Sea coast and onward to

the world moves to cleaner burning natural gas to energize economies.

Although the story is young, the results are bold. Kurdistan has arrived as a major player in the oil and gas sector, and has proven that it will prudently manage its natural resources for the benefit of its people. Kurdistan does not exist in a vacuum, and thus greater Iraqi and regional issues often shadow the progress achieved in less than a decade. Kurdistan has managed to protect itself with progressive policies that benefit its citizens and comply with the norms of the progressive world.

The facts highlight the achievements and the mood proves the bonanza. In both regards, Kurdistan stands successful on the world energy map. 

“A new oil export pipeline system is designated for completion by the end of the year and will tie to an existing pipeline system in Turkey that carries Kurdish oil to the Mediterranean Sea coast and onward to refineries around the globe. As world oil supplies ebb and flow with regional political and security games, the Kurds are making their mark by adding to overall worldwide energy supply and security.”

Having abundant resources and producing them efficiently and effectively means little if there is no way to market them in the energy markets of the world. The Kurds have developed multiple markets to secure the ability to monetize their natural resources.

The local market for oil and gas in Kurdistan has developed rapidly and with priority. Two major, private sector refineries have been built and supply the Region with gasoline for automobiles, diesel for industry and power generation, kerosene for heating fuel, jet fuel for the new airports, and LPG for cooking fuel. The gasoline produced in Kurdistan with Kurdish oil is the first unleaded, high-octane gasoline in the Iraqi Republic. The Kurds are self-sufficient in refined products and with sound policy have promoted a private sector investment approach to refining that costs the government nothing in capital expenditures.

refineries around the globe. As world oil supplies ebb and flow with regional political and security games, the Kurds are making their mark by adding to overall worldwide energy supply and security.

Gas feeds economies and industrial development, and Kurdistan has a strategic plan for delivering gas to Turkey and beyond. Since Turkey has little domestically produced gas, it imports from Russia, Azerbaijan, and Iran. Kurdistan signed a bilateral energy agreement with Turkey and that agreement paves the way for gas from Kurdistan to supply the Turkish market. An export gas pipeline system in Kurdistan is currently under development, and an extension of the Turkish gas pipeline grid to the border is being installed. By 2015, gas will flow from Kurdistan to fuel the demands in Turkey. Beyond Turkey, Europe is a major gas purchaser, and the Kurds will be an important supplier for those markets as

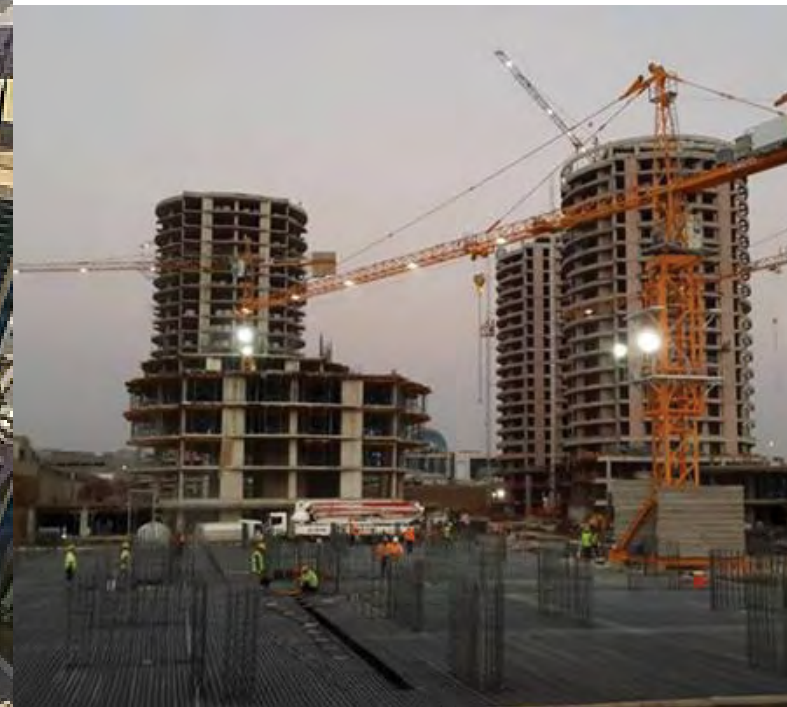


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CONSTRUCTION IN NUMBERS	
Annual Housing Demand	58,690 units
Total Investment (2006-2012)	\$13.7 billion
Total Projects (2006-2012)	166
Investment needed (2013-2020)	\$1.3 billion
Houses in Need of Rehabilitation	283,000 units
Land Allocated	6,057 acres



Overview Construction

Heads Up

Numerous large-scale real-estate projects are expected to help satisfy rising demand across the entirety of the Kurdistan Region.

Although the Board of Investment (BOI) suspended the issuance of housing licenses in 2012, the real estate sector remains an attractive industry for both local and foreign investment. As a result of demographic shifts and increased urbanization, a variety of different developments are required to meet the growing need for both residential and commercial real estate. As indicated by the Ministry of Planning (MOP) Regional Development Strategy, the large demand necessitates engaging a variety of influential entities in housing production to ensure that the diverse needs of the local population are met. Residents of urban areas require multi-story buildings capable of accommodating significant numbers of people. These facilities are more likely to be completed by construction companies with significant investment capital. At the same time, there is still need for single-family units that can be implemented by a wider range of construction companies. Thus, opportunities in the real estate sector are numerous. The reforms and new practices that have been implemented have made the industry more competitive than ever. ▶

Changing Demographics

Since 2003, the housing sector has developed significantly in Kurdistan. Housing prices have risen anywhere from 400% to 1,000% in the last decade. The vast majority of the population of the Kurdistan Region lives in their own homes: in total, 79% of the Region's residents live in houses. From a demographic standpoint, this number is higher (89%) in rural areas than it is in urban areas (77%).

Despite these indicators, the housing sector remained strong through 2011. A major reason for this was the shift in local preference towards single-family homes. As indicated by KRSO reports, household sizes in the Kurdistan Region at that time were fairly large. 29% of all households surveyed reported having four or more children, but 61% of respondents indicated that they lived in households of six or more total residents. Moreover, high birth rates and the large-scale return of the Kurdish diaspora fueled a dramatic population increase. As such, expansion in the housing market was necessary.

Developing the Sector

From the creation of the BOI in 2006 until housing licenses were suspended in 2012, nearly \$30.5 billion of investment flowed into the Kurdistan Region, with a significant majority of that total destined for the real estate sector. In that six-year period, 166 housing projects were licensed for a total investment expenditure of \$13.7 billion (approximately 65% of all investment capital at that time). Since the suspension of housing licensing, that percentage has dipped considerably. Currently, a total of 594 projects have been authorized by the BOI. The total land allocated for those projects totals 11,489 acres. By comparison, 6,057 acres were allocated for housing projects. Thus, nearly 53% of all land authorized for investment projects was intended for housing projects alone. On a governorate level, Erbil was clearly the epicenter of housing construction, with 81 projects totaling \$8.89 billion. In contrast,



Slemanî implemented 45 projects totaling \$2.25 billion in investment and Duhok executed 40 projects totaling \$2.55 billion. In addition, the amount of land allocated for housing projects in Erbil (3,804 acres) was more than that of Slemani (1,353 acres) and Duhok (899 acres) combined. This rapid expansion of the sector across the entire Region energized the market, provided job opportunities, and allowed for further development of the commercial sector.

Approximately 28,300 new homes will need to be constructed annually over the next 10 years to satisfy the current demand for new or improved housing in existing households.

Price Increases

The vast majority of the licensed housing projects were designed as luxury villas or expensive apartment complexes. These projects satisfied the expanding demand for such facilities, but did not assist in

housing program implemented in Erbil which met with success. The new strategy included measures relating to land allocation, financing, housing provisions, building materials, and social infrastructure.

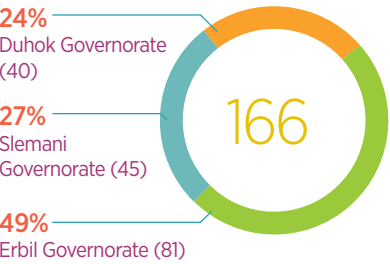
After 2011, the MOHR began to set aside approximately \$250 million annually to finance the construction of 5,000 housing units for underserved income levels.

the problem of low- and middle-income families. Thus, effective solutions were needed to insure that limited income families were provided with the opportunity to attain modern living facilities. In July 2012, the MOP established a new, affordable housing strategy for the Region. The strategy was predicated on an earlier

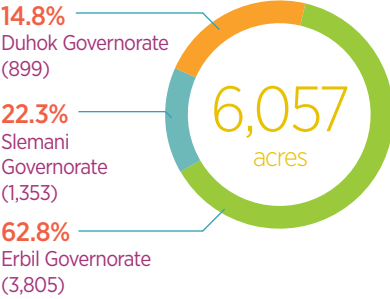
However, a housing shortage for limited income families remains. According to MOHR sources, the Kurdistan Region must invest a minimum of \$172 million per year and construct at least 50,000 housing units annually if it hopes to resolve the current housing crunch within the next decade.

Investment Licenses (2007-2012)

LICENSED PROJECTS
166 total projects in the Kurdistan Region



LAND ALLOCATED FOR HOUSING PROJECTS



INVESTMENT

\$13.7 billion in total investment capital
Duhok Governorate — \$2.55 billion
Erbil Governorate — \$8.89 billion
Slemanî Governorate — \$2.25 billion



Nearly 53% of all land authorized for investment projects between November 2006 and June 2012 was intended for housing projects alone.



Limited Financing Options

If the banking sector were further established, the burden of this housing shortage might be reduced and additional projects could be financed. However, the absence of a strong financial institution, and subsequent lack of a credit system, has hampered further development in the real estate sector. In countries with more established banking systems, financial institutions are able to offer competitive loans to both individual homebuyers as well as companies seeking to fund development projects. However, with no such market in existence, locals are generally forced to make up-front payments in cash. In addition, large-scale companies are required to look outside the Region for financing, a process that can slow or even cancel potential projects. In an effort to improve this deficiency, the MOP has prioritized establishing a modern housing finance system. As indicated by MOP reports, “The KRG will review and improve the laws and regulations related to our financial system to make possible the widespread provision of long-term housing finance, such as mortgages, by NGOs or private financial institutions.”

Competitive Bidding

Early on in the development process, the KRG was eager for foreign companies to increase their involvement in the Region. International expertise and overall knowhow were needed, and foreign technical knowhow was prioritized in order to help modernize an outdated infrastructure system. However, this system did not allow for the creation of a structured bidding process that weeded out companies that were unsuitable for the larger, more strategically significant projects. As a result, multiple investment or infrastructure development projects were delayed or canceled altogether.

In an effort to improve the system, the MOP promoted the implementation of select standards to ensure a more efficient, regulated system: “The KRG will make sure to select qualified companies based on competition to ensure that we get the highest quality for the best price. We will also make sure that this involvement is transparent, with precise data being collected and shared, and that the results of government involvement are monitored and evaluated.” This shift in policy has also impacted the tendering process.

For example, the MOHR implemented a pre-qualification stage for any project with a budget in excess of \$5 million, which automatically qualifies it as “strategically significant”. Companies now wishing to pursue such projects are graded according to their technical and financial capabilities, as well as by the similarity of the projects they have completed in the past five years. “We have been able to eliminate some companies that were not capable of completing these projects successfully,” notes Minister Kamaran Abdullah. “We recently began the tendering process for a new tunnel project. 91 companies expressed an interest the project. In the second stage, after the pre-qualification process, only 19 companies remained, and we sent invitations to bid to those 19 companies. So, the process has been improved,” Minister Abdullah adds. Steps such as these have helped to streamline both the licensing and bidding processes, and have ensured that all companies entering the Region are both qualified and capable.



The KRG will need to invest a minimum of \$172 million per year and construct at least 50,000 housing units annually.

Construction Materials

Generally speaking, a burgeoning construction sector allows for the development of additional fields, thereby fueling further economic growth; a key area that is often positively impacted by development is the production of construction materials. Although local production of construction materials is ideal, in the Kurdistan Region this is not the case. “Most of the construction materials utilized in the Kurdistan Region are imported from abroad,” explains Minister Herish Muharam, the Chairman of the BOI. This reliance on imported products has weakened the economy of the Region, as it prevents a potentially lucrative sector from properly developing. Moreover, because construction companies have been forced to import the majority of their products from abroad, their schedules can be impacted and numerous delays can occur as a result.

To combat this issue, the KRG prioritized local production of the materials that were below the required levels, including cement, bricks, concrete blocks, gypsum, ceramic, and cobble, as well as manufactured goods such as windows, plumbing supplies, and electrical appliances. As stated in an MOP report on the subject, “...It is necessary to stimulate the manufacture of these materials, develop their quality, reduce the cost of production and make them more environment-friendly in order to back the housing program and contribute to its success through supporting the private sector factories, encouraging them to increase production and productivity and improving product quality, privatizing the public enterprises producing construction materials, and completing their rehabilitation.” There have since been signs that the necessary development is occurring.

Local plants are now producing approximately 3,000 tons of steel per day, with plans in place to increase that number to 1.5 million tons by 2016. Local production of concrete has seen similar advances, with the Region now having a capacity of 35,000 tons per day. Officials at the Ministry of Trade and Industry have targeted an increase in that number to 150,000 tons per day, which would allow for export to neighboring countries that are also in need of high-quality construction materials. “So, in contrast with the socialist system of the past, today 99% of these facilities are owned by the private sector,” points out Sinan Çelebi, the KRG Minister of Trade and Industry. Nearly 90% of the buildings currently under construction in the Region are primarily being completed with local materials produced by the private sector.

FOCUS:
DOWNTOWN ERBIL

Among Erbil's mega projects, Downtown Erbil plainly stands apart from the crowd. The \$3 billion, 5 to 7 year project is being undertaken by Emaar, the developer of Downtown Dubai, home of the Burj Khalifa, the world's tallest building. Covering 541,000 square meters (roughly 133 acres), the fully integrated Downtown Erbil will include 15,000 homes, world-class luxury hotels, a central business district, a major shopping mall, restaurants, and cafes. Downtown Erbil is designed to be pedestrian friendly, with 40% of the development's area dedicated to green space, pools, and fountains. It is estimated that the project will create 35-45,000 new jobs within the Kurdistan Region. The project's two high-rise towers promise to reshape the city's skyline, and the massive investment promises to energize Erbil. The project seeks to further improve Erbil's global outlook and dynamism by providing improved options for its residents and visitors, attracting additional foreign investment, and increasing local private sector employment.



“Downtown Erbil is our architectural tribute to Erbil, one of the most fascinating cities in Iraq, with a rich ancient civilization and a fast-growing economy. There’s no doubt there’s a strong sense of optimism and positivity here that reminds me of my home town Dubai.”

Mohamed Ali Rashed Alabbar, Emaar’s Chairman

Standards of Success

Despite these obstacles, the housing and construction market in the Kurdistan Region remains highly attractive and in need of further investment. The signs that the sector is on the right track are evident, with numerous large-scale, highly successful projects either under construction or already completed. Empire World, one of the Region's largest real estate project, boasts a budget of \$2.3 billion and is perhaps the best model of this growth. Slated to be completed in 2017, the project includes 88 high-rise towers, 300 luxury villas, a five-star Marriott Hotel, and numerous commercial structures. By utilizing a local workforce and, whenever possible, local materials, the development has charted consistent growth since construction first began in 2007, and is expected to become one of the most eye-catching areas in all of Kurdistan.

Similar models of development can be seen in the Park View project, which consists of 12 multi-story luxury apartment buildings situated above a shopping facility and numerous restaurant options, and The Atlantic, a combination apartment and luxury villa complex that has already been met with praise from the local community.

Moreover, in Slemeni, Faruk Group Holding has partnered with Dubai's Emaar Properties, the largest real estate developer in the Gulf, to create a \$2 billion resort that will feature hotels, restaurants, and shopping centers. Projects such as these support the idea that the future of the construction sector is bright in the Kurdistan Region. Indeed, at present, there are 78 major projects active in the sector, which register a combined total of \$5.8 billion in investment.

Real Estate – Limited Income Housing Demands

	Kurdistan	Erbil	Slemeni	Duhok
Total Existing Housing Units	1,131,700	478,600	473,800	179,300
Total Existing Limited-Income Housing Units	113,170	47,860	47,380	17,930
Existing Houses To Be Replaced Annually	2,829	1,197	1,185	448
New Housing Required Annually	3,039	1,285	1,272	481
Annual Provision for Gov. Supported Housing	5,869	2,386	2,393	1,091



Downtown Erbil project will cost a total of \$3 billion.

TOP 5 HOTEL PROJECTS

The hotel industry in Kurdistan has exploded in recent years, with international brands from around the world now in the process of constructing new facilities across the entire Region.

Marriott Hotels and Executive Apartments

The Marriott Hotel will be located within the Empire World complex in Erbil. The 28-story hotel will feature 174 single rooms, 30 junior suites, two VIP suites, one Presidential suite, 7 international restaurants, and an 800-person ballroom. The attached Marriott Executive Apartments will feature 24 studio apartments, 20 one-bedroom apartments, and 52 two-bedroom apartments.



Four Points by Sheraton

The Four Points by Sheraton will consist of 250 guest rooms and will offer extensive dining, leisure, and conference facilities. The hotel will also feature all the amenities usually associated with its brand.



Best Western Premier Hotels

The first Best Western is scheduled to open in 2014, will be located in the immediate vicinity of the Erbil International Airport, and will feature 82 guest rooms. The second, scheduled to open in 2015, will be located in the heart of Erbil and will feature 160 guest rooms.



The Park Hotel by Kempinski

The Park Hotel, which sits on a 50,000 square meter plot of land, will be located on Gulan Street across from the famed Sami Abdul Rahman Park. The 24-story hotel is expected to feature five-star luxury amenities and an attached shopping mall.



The DoubleTree by Hilton

The DoubleTree by Hilton will be located on 100 Meter Road near the Ainkawa District. The hotel will be completed as a 190-room business hotel.

Success Story Falcon Group

Empire World is one of the largest real estate developments in the Kurdistan Region. The complex, which was conceived by visionary Chairman Peshraw Majid Agha, stands as a symbol of the unique, innovative undertakings currently on display in Erbil.

With its expanding network of modern roads, huge residential complexes, and developing skyscrapers, the capital city of the Kurdistan Region is in the midst of large-scale development. Yet, for all this growth, there is one giant project that catches the eye of new visitors more than any other: the Empire World complex.

The Empire World project covers 1.25 million sqm and, upon completion in 2017, will feature 88 towers, 300 luxury villas, a five-star hotel, and numerous other facilities. The project will cost a total of \$2.7 billion.

Peshraw Majid Agha sees that cost as minimal compared to what the facility will mean for the Kurdistan Region. “I was born here and have a deep desire for a prosperous Kurdistan. I see Empire World as a way to contribute to that goal by developing the area and creating employment opportunities. Thus, I believe Empire World is a unique project for Erbil that will stimulate growth of the city.”

Early Stages

The location of Empire World itself makes it uniquely positioned to serve as an ambassador for the Kurdistan Region. When Peshraw Agha first investigated options for his development dream, the current location wasn’t quite what it is today: “The plot of land that Empire World sits on was, from the very beginning, ideal for me. Many people didn’t have faith that Empire World would be such a success. I was fortunate enough to be able to see the big picture and envision my goals and the future.”

The project itself began in 2007; it is currently approximately 70%

completed, indicating that the targeted completion date of 2017 will be met. To accomplish this feat, approximately 1,200 workers, both local and foreign, have been hired to oversee planning, development, and construction.

Early on, construction focused on the Royal City development, which consists of 300 luxury villas. The fact that every single unit was sold by 2009 indicated that the public was enthusiastic about the opportunities that a completed Empire World could provide. Such aggressive purchasing decisions also paid dividends for those willing to take the risk. As noted by Peshraw Agha, “The property value of both the villas and the apartments has more than tripled over the years. We have been very fortunate in that with every new development we start, people are reserving and purchasing right away.”

Structuring the Development

Empire World is composed of a number of different commercial, residential, or service zones: they include the Marriott Hotel and Executive Apartments, the Empire Business Towers, the Empire Business Complex, the Empire Royal Villas, the Empire Royal Apartments, the Empire Residential Wings, the Empire Diamond Towers, the Empire Speed Center, and then additional service facilities such as a medical clinic, fire station, kindergarten, and mosque. Falcon Group, which is overseeing construction, employs a unique approach to development that has enabled Empire World to incorporate so many different facilities into one single space. “Empire’s multi-faceted and mixed-use approach to land utilization



“Construction on Empire World began in 2007 and is expected to be completed by 2017. The project itself will cost \$2.3 billion, and we are already more than 70% finished. With over 1,200 local and foreign employees, we have been able to provide the best products and services for our development.”

Peshraw Majid Agha
Chairman, Falcon Group & Empire World



for residential, leisure and entertainment, service facilities, and office/commercial space, affords the project the distinguishing characteristic of being a city within a city”, as pointed out by Peshraw Agha. Empire project offers state-of-the-art business facilities and a residence for the most demanding and important foreign companies operating in Kurdistan. Indeed, multiple international oil and gas companies have already staked their claim to the ample workspaces available at the Empire Business Complex.

Financing A Giant

Despite advances in the banking and financial services sectors, the Kurdistan Region remains rooted in a cash economy. As a result, with banks offering only limited loans, investment projects generally must be funded in cash. In some cases, this lack of a credit system has hindered larger, long-term investment



FALCON GROUP

The companies that make up Falcon Group include Falcon Oil & Gas, Falcon Construction, Falcon Transportation, Falcon Trading, Falcon Real Estate, Falcon Agriculture, and Falcon Security. These companies serve as the individual pieces of a diverse, multi-faceted firm that possesses the unique ability to contribute to the reconstruction efforts throughout Iraq.

Headquarters	Erbil
Chairman	Peshraw M. Agha
Established	2004

projects. In essence, a negative pattern is created in which corporations struggle to fund major projects, which then either fail to get off the ground or stall midway through construction. To prevent such stagnation or financial complications, Peshraw Agha pursued a step-by-step construction schedule: “We solved these problems by building on as needed basis. We only start the next phase of the project when the preceding portion is completed. Thus, we reinvest all of the money made in Empire World back into Empire World. This policy of continuous reinvestment ensures steady growth and has, in fact, allowed construction here to advance faster than was scheduled.”

Enduring Success

Falcon Group and Empire World have been able to stay the course with their long term plans that aim to develop the Kurdistan Region. Peshraw Agha notes,

- 1 Empire Business Towers
- 2 The Marriott Hotel is scheduled to open in 2015
- 3 Empire Wings Residential Towers
- 4 Empire Diamond Towers

“The KRG has provided incentives and attractive investment laws to enable entrepreneurs to work and invest. As a citizen of this country, I believe that I am indebted to my people and my forefathers who sacrificed themselves to build this country. It is up to me and people like me to develop the Kurdistan Region and improve the living standards of each and every individual. There are countless opportunities here for those willing to help rebuild the country.”

Changing the Landscape



Seerwan Hassan Samad & M. Akif İlci
Park View

Seerwan Hassan Samad of Salahaddin Holding Group and M. Akif İlci of İlci Group explain the evolution of the construction sector in the Kurdistan Region, the background regarding the creation of the Park View development, and the pioneering concepts that the complex will bring to Erbil.

“It’s clear that there has been incredible development across all sectors, and a major reason for this is that the KRG is focused on developing Kurdistan as a whole. It isn’t just focused on the capital city of Erbil, but rather all the cities and villages of the Region. Obviously, these goals have required the entry of numerous foreign companies.”



IIG: How has the Kurdistan Region changed since Salahaddin Holding was first established in 1991?

SHS: Throughout the 1990s, there were no factories here and very few companies. The hotel industry was nonexistent and it was extremely difficult to promote development due to ongoing problems. Now, the situation is obviously completely different. There are a number of companies to even try to count, there are many luxury hotel facilities. So, it’s clear that there has been incredible development across all sectors, and a major reason for this is that the KRG is focused on developing Kurdistan as a whole. It isn’t just focused on the capital city of Erbil, but rather all the cities and villages of the Region. Obviously, these goals have required the entry of numerous foreign companies.

IIG: Were vulnerable areas particular targets in terms of İlci’s entry into the Kurdistan Region?

AI: İlci is a professional construction company with experience in a variety of different sectors. In Turkey, the housing market can be particularly challenging. The supply is much greater than the demand. So, even though there are many such construction projects in Turkey, they can be difficult in terms of providing a return on investment. In contrast, the

housing market in the Kurdistan Region was quite the opposite; there was a serious lack of high quality, luxury apartments and houses. So, this was an area that we targeted almost immediately.

IIG: When do you expect the Park View project to be completed?

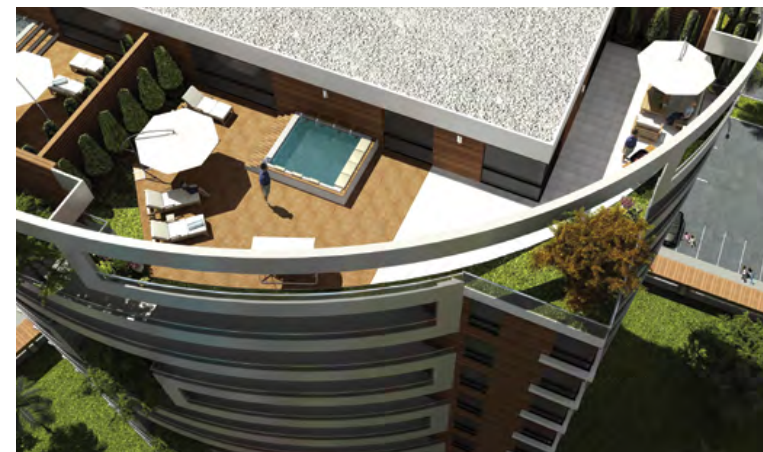
AI: We are actually ahead of schedule. Construction will be completed in three phases, and the first one will be completed in early July 2014. The first phase includes four apartment buildings. By the end of the project, we expect to have 76 shops located at the base of the apartment complex. Some of the facilities will be completed in the delivery of the first phase, as will the sports club and the pools. The second phase should be completed in January 2015. The third and final phase will be completed in July 2015.

IIG: What will Park View provide to the Kurdistan Region?

SHS: The most important thing is the quality of the project in regards to both the materials used and the services provided. We analyzed the other projects to see what worked, what didn’t, and what was missing. We incorporated those ideas into our project. Overall, I would say that the defining feature of Park View is its quality. This relates to the architecture,



Park View will consist of 12 multi-story residential apartment buildings designed to accommodate the diverse population of Erbil. The facility will also include extensive commercial facilities, including a mall and multiple restaurants.



the buildings, the details, and the services. Everything is of the highest possible quality.

I should also emphasize that the development of green areas was also of the major importance to us when we were in the design phase. The Kurdistan Region is in need of more green areas, so we wanted Park View to serve as an example of what is possible.

AI: Regarding the green areas, the total land size for Park View is 50,000 m²; the current plan calls for 35,000 m² of that space to remain green. Our hope is that if someone were to take an aerial photo, the entire area would appear green. To do this, we also focused on the individual buildings themselves. There are small green areas or gardens in front of the individual apartments, which we believe makes the entire facility more aesthetically appealing. This translates to the name “Park View” as well. If we had simply used our name or the name of a person, it wouldn’t be as effective of a brand. Park View gives a better idea of



the apartments, the commercial facilities, and the entire complex as a whole.

IIG: What advice would you offer to construction companies contemplating getting involved the real estate sector of the Kurdistan Region?

AI: Deadlines are taken very seriously here, whether you’re working for the government, a local company, or individual clients. If you miss your final objective, they will lose faith and, with so many capable competitors involved here, that

could mean major problems. So, it’s very important to be organized, particularly in regards to logistics. Most of the construction materials or finishing items will need to be imported, so you have to have everything planned out in advance. It’s easy to build, but it’s not as easy when you’re coordinating purchasing and shipping of products from multiple countries that need to arrive at specific periods. It can be challenging, so utilizing an experienced, organized team is of fundamental importance. ⑩



Turkish Expertise

Sabri Özel
Chairman, SB Özel Group

Sabri Özel discusses SB Özel Group's history in the Kurdistan Region and the development of the Gulan Park project.

IIG: How did SB Özel Group's story begin in the Kurdistan Region?

SÖ: In the early 2000s, we saw that the whole Kurdistan Region, and Erbil in particular, was in the process of being heavily rebuilt. The infrastructure here was, across the board, in need of total repair. However, iron and steel were so scarce here that they really were almost like precious metals. We wanted to help find an effective solution to the lack of resources here. So, we began importing iron and steel into the Region. However, there were some obstacles that really complicated the process. As a result, it became apparent that we needed some form of a concrete solution. So, in 2006, we decided to open the only steel factory in Erbil. At that time, it turned out to be the only factory of any kind in the city.

IIG: Is Erbil Steel Company able to satisfy the needs of the region?

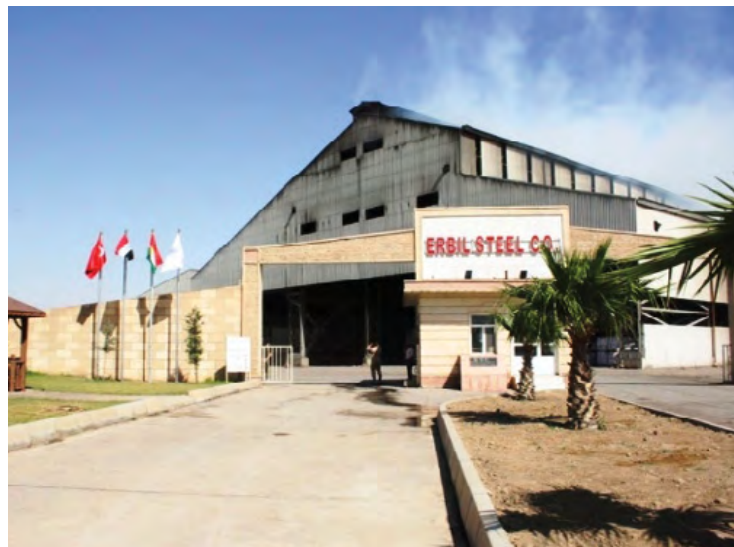
SÖ: Currently, we are able to satisfy about 40% of the demand for steel here in the Kurdistan Region. At the moment, the core material for steel production has been scrap metal. There has been enough scrap metal available in Erbil to keep production running smoothly. However, we would like to increase the capacity of Erbil Steel factory.

IIG: Can you give us some of the details regarding the Gulan Park Project?

“Our goal is to make the foreigners who come here to Kurdistan feel at ease. That's our target audience. So, all four towers will be outfitted to allow our residents to live and work in complete comfort.”

SÖ: It is a 40,000 square meter building complex consisting of two skyscrapers housing a five-star hotel, residences, and a business center. The complex will be finished with state-of-the-art technology, as well as other modern services. The project will have four multi-story towers. Two of the towers will be office buildings, one will be a residential building, and the fourth will be a franchise hotel. The complex will also contain a shopping mall. Our goal is to make the foreigners who come here to Kurdistan feel at ease. That's our target audience. So, all four towers will be outfitted to allow our residents to live and work in complete comfort. The completion date of the project is 2014. 

Gulan Park



Structured Development

Faxir Maraan
Chairman, Ranj Group

Faxir Maraan discusses the changing real estate sector in the Kurdistan Region, as well as the central tenets guiding the regular operations of Ranj Group.

IIG: Can you tell us about the types of projects Ranj Group prefer to pursue?

FM: Our foremost aim is to build the infrastructure of the Kurdistan Region. So, we pursue projects relating to energy, education, agriculture, and industry. On the other hand, we build cities or villages that have the total package, including the most modern design concepts. We look to other cities like Dubai, Paris, and New York for our inspiration. Of course, we will not be like them right away; however, it makes sense to incorporate what's being done in those cities to our work here in the Region.

IIG: What are the main pillars guiding the operations of Ranj Group?

FM: Creativity and innovation, energy efficiency, social responsibility, and safety assurance are the areas upon which we have placed considerable value. However, there is one more element that should be prioritized by all companies operating here in the Kurdistan Region: the desire to speak up and help guide the future of the Region.

IIG: Have there been any drawbacks in terms of operating in real estate sector?


FM: The mortgage market, or lack thereof, definitely creates some problems. Banks here don't give mortgages to potential homeowners, nor do they give loans for investment. Most companies operating in the Kurdistan Region aren't big enough to finance all of the construction process on

their own. So they instead have to construct the project in pieces and then sell individual units to finance additional construction. This can slow the construction process down considerably and makes the housing market more prone to fluctuation.

IIG: Has Ranj Group considered investing in other sectors?

FM: Whenever we enter a new sector, Ranj Group establishes a five-year plan based on what is needed for the Region. Initially, the Kurdistan Region needed an airport. Once the airport was completed and people began arriving here, the Region needed hotels, apartments, and homes to accommodate these new arrivals. So, it made sense to get involved in this sector. We are looking to enter other sectors that are in need of development, specifically industry and agriculture. We have examined new technologies, such as solar power, as well as areas of critical need, like construction materials.

IIG: When do you expect to complete the Warin City project?

FM: We have applied for the license and are working to finalize our plan. We are talking to Disneyland and Europark about the possibility of bringing an amusement park to the city. We are investigating the possibility of bringing in a zoo, as well as a university and a golf course. We want it to be the total package. We hope that the project will be completed in two years. 



Warin City



KURDISTAN BOARD of INVESTMENT

The Kurdistan Region of Iraq is a booming market that offers promising investment opportunities especially in the agriculture, industry, and tourism sectors.



The BOI is providing professional one-stop-shop services to investors and is responsible for granting public benefits to eligible private investment projects based on the investment law of 2006.



www.kurdistaninvestment.org

General Directorate of Investment Erbil (Branch office)

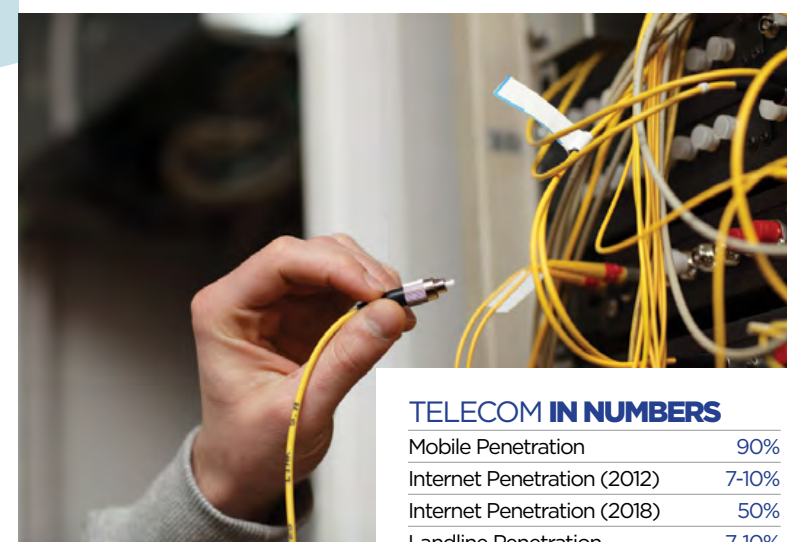
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TELECOM IN NUMBERS

Mobile Penetration	90%
Internet Penetration (2012)	7-10%
Internet Penetration (2018)	50%
Landline Penetration	7-10%
Mobile Operators	3
Sector Growth	30%
Data Service	2G

Overview Telecom

Plugging In

Kurdistan's young and dynamic population, coupled with rapidly increasing mobile and internet penetration rates, indicates that there are long-term growth prospects in the telecom sector.

The telecom sector is among the fastest growing industries in the Kurdistan Region, and is one of the most strategically important sectors for the continued development of the Region. While the sector has been driven in the past decade by strong growth in mobile penetration, much of the sector's continued growth and opportunity will likely lay in Internet and data provision and operation. While mobile penetration in the Region stands at 90%, only an estimated 7-10% of households have Internet access. Increased investment in cable networks and Internet provision are projected to raise Internet access rates to 50% by 2015-2018. Additionally, despite its relative maturity, there is substantial room for growth in mobile operations. Mobile data services are still operating at GSM (2G) technologies, which are slow by global standards. Many of the Region's neighbors have mobile penetration rates at over 100% and offer 3G/4G data technology. ▶



The young demography of the Region (the median age being 20) suggests that there are long-term growth prospects in the sector. The large, younger generation is increasingly present on the Internet, particularly in social media. Demand for ICT services will therefore continue to grow as this generation demands increased investment in the sector. Moreover, companies outside of the ICT sector will increasingly be reliant on social media use for public outreach and advertising.

While aggregated data on the Region's telecom industry is sparse, the scale of the industry's companies indicates that the sector comprises a significant percentage of the Region's GDP. Asiacell, a Slemeni-based mobile operator, alone is valued at roughly \$5 billion (21% of the Kurdistan Region's GDP), and earned nearly \$1.9 billion in revenues in 2012 (8% of the Region's GDP).

While the Kurdistan Region has a mobile phone penetration rate higher than much of Iraq, there is room for additional growth.

Mobile Operators

The Kurdistan Region's telecom industry is largely dominated by the companies that also control the majority of the Iraqi mobile market: Asiacell, Korek, and Zain. Throughout Iraq, Zain is the largest operator, with 13.5 million subscribers, followed by Asiacell and Korek, with 10 million and 4.8 million subscribers, respectively. Zain, however, is based in Baghdad and operates primarily in southern and central Iraq. As such, its presence in the Region is recent and still quite small. Korek is dominant in its home governorate of Erbil, and Asiacell dominates its home governorate of Slemeni. However, while Zain is pursuing expansion into Kurdistan, Asiacell and Korek are expanding southward, with Asiacell currently leading the charge. There is good reason for this expansion, as southern and central Iraq only has a 77% mobile penetration rate, leaving ample room for additional growth.

Mobile phones have become the medium of choice for communication in the Region. While landline and Internet penetration in the Region are both estimated to stand at roughly 7-10%, mobile penetration is estimated to have reached 90%. However, many of the Region's neighbors have achieved mobile penetration rates in excess of 100%. Industry leaders, such as Wael Ghanayem, Chief Financial and Operating Officer at Zain Iraq, have predicted that penetration rates in the Kurdistan Region could reach as

high as 130%: "The GDP in the Kurdistan Region has a high potential growth rate, and is expected to continue increasing. This will almost certainly boost growth in the telecom market."

The primary explanation for the difference in market share between the Kurdistan Region and Iraq as a whole is their divergent histories. Under the previous regime in Iraq, mobile phone networks were prohibited, and countrywide mobile operator licenses were therefore unavailable until 2003. However, the KRG was given the relative autonomy to issue licenses to operators in the Region years earlier. Asiacell and Korek, both of which are based in the Kurdistan Region, began operating in 1999 and 2000, respectively. Thus, the mobile network of the Region was given a considerable head start. Zain Iraq, based in Baghdad, was not licensed to begin operations until 2003.

The independent Communications and Media Commission (CMC) was established in Baghdad to serve as Iraq's federal regulator of media and communications in 2003. Upon its creation, the CMC made official the KRG licenses that had been previously granted to Asiacell and Korek for their regional operations. In 2007, the CMC went a step further, issuing 15-year licenses for national operation to Asiacell, Korek, and Zain Iraq (which presently hold a 47% market share for all of Iraq).

The national licenses cost each operator a fee of \$1.25 billion, and left room for the issuance of a license for a potential fourth mobile operator (which has yet to be announced). The licenses also stipulated that each operator was required to publicly list at least 25% of its shares on the Iraq Stock Exchange (ISX) by August 2011. At present, only Asiacell has complied with this requirement, conducting its initial public offering (IPO) this past February. The Asiacell IPO, which raised approximately \$1.27 billion, was the largest ever IPO in Iraq and the largest in the Middle East in the last five years. Zain Iraq expects to conduct its IPO in the first half of 2014, with industry experts anticipating the company generating in excess of \$1 billion.

In addition to expanding mobile phone use in the Region and country, mobile operators are seeking additional growth by expanding mobile data networks. Currently operating on relatively slow and outdated 2G networks, all three networks are preparing to move forward with faster 3G and 4G networks, upon receiving authorization from the CMC. While 3G subscriptions in the Kurdistan Region and broader Iraq are currently

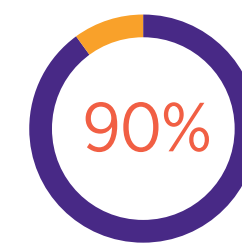
negligible, analysis predicts that by 2015, Iraq will grow to have the third highest 3G subscription rates in the Middle East, behind Saudi Arabia and Iran. Indeed, nearly half of mobile phones in Iraq already have Internet access, and smartphone use in the country is estimated to have jumped 30% in 2012. This has led some to even argue that the surge in smartphones is crowding the market for personal computers.

International telecom majors have also gauged that there are indeed significant opportunities in the Region's mobile operators. In 2011, France Telecom acquired a 20% stake in Korek, and Ooredoo, formerly QTel, a Qatari telecom, acquired a majority stake in Asiacell in 2012. Since Asiacell's IPO in 2013, and with Zain's coming IPO in 2014, investment opportunities in the sector are becoming increasingly available.

Landlines currently only reach 7-10% of the Region's households. Already limited after decades of neglect, they have since failed to keep up with the rapid population growth that has taken place in recent history. This likely reflects their diminished importance amid the rise of mobile communication technologies.



Asiacell alone is valued at roughly \$5 billion (21% of the Kurdistan Region's GDP), and earned nearly \$1.9 billion revenues in 2012 (8% of the Region's GDP).



Kurdistan's Mobile Penetration Rate

THE MOBILE NETWORKS

The telecom industry for the whole of Iraq is largely driven by three major mobile providers.

Zain Iraq
13.5 million

Asiacell
10 million

Korek Telecom
4.8 million



Data Networks

The KRG has encouraged private sector involvement in the development of the Region's data networks. Whereas southern and central Iraq have maintained a monopoly on the country's fiber optic network, the KRG has partnered with private telecom companies to develop a competitive data industry in the Region. A particularly relevant example of this development is Newroz Telecom, which is a locally established company founded in 2007 under the Region's 2006 Investment Law. The company pioneered Kurdistan's data networks, developed Iraq's first international fiber optic connection into Turkey, and transitioned the Region from copper cables to modern fiber optic lines. The company now supplies a majority of the Region's Internet access. Furthermore, Newroz is now developing an extremely fast and modern Fiber To The House (FTTH) network, which will increase the Kurdistan Region's Internet speeds to above those of many western countries.

As a result of endeavors such as these, the Kurdistan Region now has several private sector businesses that provide wireless and hardwired Internet access to consumers and businesses, as well as others that install and operate fiber optic cables. Moreover, industry leaders, such as Kawa Junad, CEO of Newroz, anticipate that private sector competition coupled with continued industry reforms could allow the Internet penetration rate to reach 50% by 2015. The Regional Development Strategy (RDS) for the Kurdistan Region echoes these goals, establishing a baseline target of at least 5% annual growth in internet penetration, with an overall goal of reaching 50% in five years. As noted by the RDS, "This can be achieved through supporting, incentivizing and encouraging private sector companies and offices to expand their services in the Region's governorates."

Internet Use

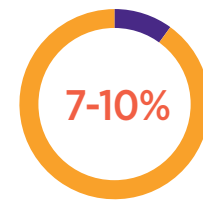
Household Internet statistics underestimate overall Internet access, as many in the Region use smartphones to access the Internet. Young people in particular increasingly use social media as a means to connect to peers, businesses, organizations, and leaders. According to a study by IREX, nearly 50% of people in the Kurdistan Region use social media at least once per week, and 72% of Iraqi Facebook users are between 18-34 years old. Facebook is the most visited website in Iraq, followed by Google, YouTube, and Yahoo, and its prominence allows for direct and current communication between companies and individuals in the Region. Asiacell, for example, has

Whereas southern and central Iraq have maintained a monopoly on the country's fiber optic network, the KRG has partnered with private telecom companies to develop a competitive data industry in the Region.

over 1.1 million followers in Iraq. Korek Telecom has over 500,000 followers, and the American University of Iraq, Sulaimani has over 200,000.

Increasing Internet connectedness and usage, particularly among youth, provides a convenient way to reach people. While many companies employ social media for public outreach, independent websites are also using such sites to reach people. The KRG has employed this technology impressively, targeting young graduates with its "Kurdistan Works" project

Internet access



The KRG Regional Development Strategy has set a baseline target of at least 5% annual growth in internet penetration, with an overall goal of reaching 50% in five years.

to promote private sector employment. The website efficiently aggregates private sector job openings in the Region, and streamlines recruitment and job-seeking processes.

While e-commerce has skyrocketed in popularity throughout much of the world, online shopping has yet to catch on in the Region. The undeveloped banking sector has limited the local population's ability to buy items online, and the poor postal services make shipping expensive and difficult. As these two sectors develop, however, e-commerce may begin to develop in the Region in coming years.

Moving Forward

General consensus seems to be that the next major steps in the Region's telecom sector will be the implementation of widespread 3G and 4G data technology and improved Internet access. Additionally, there is speculation that the fourth mobile operator, when and if licensed by the CMC, will provide higher tech data services. These innovations will allow for faster data to customers' mobile and Internet connections, and will likely provide for a larger role in the telecom sector for data network companies such as Newroz. While this will provide major growth opportunities for data providers and operators, the increased online population will also carry major implications for how non-ICT businesses reach people. ⑩

Expanding Access and Promoting Regulation

Jonson S. Ayo

Minister of Transport & Communication

Minister Jonson S. Ayo reviews the current state of the telecom sector, as well as his Ministry's plans for expanding the industry in the Kurdistan Region.



IIG: What is the present state of the telecom sector, and how it has changed in the past few years?

JSA: There has been a huge change in the telecom industry in the Kurdistan Region. Compared with other parts of Iraq, there is much more development here across the board. However, for us, this is still not enough. So, we have a comprehensive program to develop the sector, particularly concerning internet systems.

We have implemented new operating directions for the telecom companies operating in Kurdistan. We have also developed new monitoring procedures for these companies to ensure that our citizens receive the best possible services. Additionally, we made new amendments to the old contracts of the private sector companies working here, and implemented a new LTE [long term evolution] program to better develop the telecommunications sector.

IIG: Does the internet supply or overall capability meet the demand?

JSA: The supply is not enough and must be further developed. We have two new systems. The first is the LTE system, which allows for the transmission of high-speed data. The second system utilizes VSAT technology and is mostly used in the rural areas. These areas

are not reached by fiber optic cables, and therefore have historically only had limited internet availability. With the implementation of VSAT technology, this will change. In the future, we hope to install further fiber optic cables to better connect the entire Region and ensure that all of our citizens benefit from this technology.

IIG: Are there plans to develop the 3G network to allow the major mobile providers in the Region to better serve their subscribers?

JSA: Our Ministry deals primarily with regulating the companies providing the internet or mobile communication services. So, we monitor Korek, Asiacell, and Zain, and ensure they satisfy our standards. However, the central government in Baghdad handles the development of the 2G system, and installation of the 3G. Hopefully the 3G system will be implemented in the near future.

IIG: Are those three providers enough to meet the growing demand in the Kurdistan Region?

JSA: Right now, yes. There is currently enough competition amongst the major providers to keep the rates low and allow for widespread access for the people of Kurdistan. ⑩



Market Share Mine

Ghada Gebara
CEO, Korek Telecom

Ghada Gebara provides IIG with exclusive insight into Korek's growth targets, and the company's cutting-edge network capacity.

IIG: How has the telecom sector evolved over the past few years and what do you think about its future in the Kurdistan Region and in Iraq as a whole?

GG: Mobile communications have become omnipresent these days thanks, in large part, to the introduction of mobile services after the war. This decision was deemed the only sufficient way to close the technological gap. Individuals, families, and businesses rely on mobile communications for their personal and business needs. This same development needs to happen for data services; we need to make the next jump into the 21st century. The technology maturity curve is different from country to country and market to market, and it is largely dependent on government strategy. For example, 3G/4G has become the backbone in mature and developed markets in which the government chose to make the technological jump. However, here in Iraq, we are preparing for 3G. It is not technology that drives the future. The future is driven by vision and innovation; technology is just a tool to achieve it.

So, I would like to restrict the scope of this question to Iraq only. 40% of Iraq's population is less than 25 years of age. Therefore, the future lies in providing services for this segment, which will soon join the mainstream economy. Moreover, Mobile Money has a big future in Iraq. More than 85% of Iraqis have a mobile phone but less than 10% of them have bank accounts. The convergence of mobile communication and financial services will open up a huge opportunity for new services and products. Mobile Healthcare and Mobile Education also have very big potential.

IIG: What are Korek's growth targets?

GG: We had a phenomenal year in 2012; our network now serves our customers in every part of the country. We achieved a revenue growth of 27% Year Over Year (YOY) and our customer base has grown 34% YoY, which translates to over 1 million new customers who are now enjoying Korek services. These results make us the Fastest Growing Mobile Operator in Iraq and put us way ahead of our competitors.

About

Ghada Gebara began her career in the telecom industry in 1996. She was appointed CEO of Korek Telecom in 2011. She was listed as one of the Top Three Female Telecom Executives for 2012 by CommsMEA.

For 2013, we will continue to maintain the momentum of 2012 and focus on key areas in the center and south like Baghdad, Basra, Najaf, and Karbala. In our historic strongholds, we will continue to expand capacity so we keep offering the best value and the best services to our customers. We will also be closely addressing the corporate segment in 2014 in order to meet the growing demands of rapidly expanding services sector in Kurdistan, specifically the areas of oil and gas, construction, and logistics.

IIG: Have there been any limitations that have slowed the spread of mobile phone usage?

GG: The development of mobile communications in Iraq has been a success story in the last 10 years. However, Iraq still has a long way to go. Amongst 15 Arab countries, Iraq has the lowest mobile penetration. I think the Mobile Industry, as a whole, is enthusiastic to go and hit the market with state-of-the-art services and products. However we need additional support in two main areas: market and/or business focused policy development and security.

IIG: Has there been any progress in terms of the establishment of a 3G network?

GG: We are ready to launch 3G. Our network and systems are 3G capable. However, the lack of clarity and a clear time line on the issuance of the 3G licenses is stopping us from offering these high-speed services to our customers. Our customers are also eagerly waiting 3G coverage, as they want to experience high speed mobile Internet. We hope to get some clarity on 3G license by the end of 2013. ☺



Growing Rapidly

Wael Ghanayem
Chief Financial & Operating Officer

Wael Ghanayem explains Zain Iraq's decision to expand its operations into Kurdistan, the potential benefits and opportunities of doing business in a new area, and the company's targeted growth rates and market share in the Region.

IIG: How has Zain been able to spread so successfully in Iraq?

WG: Over the last 10 years, Zain Iraq has invested more than \$4 billion to build our network. As of today, we have the largest network in Iraq with the best coverage. We have KPIs (key performance indicators) that are comparable to those in developed countries.

IIG: Zain Iraq is becoming more involved in the Kurdistan Region. Why has the company decided to increase its activities in the Region?

WG: Zain Iraq began its operations in the southern region of Iraq. Currently, our market share there is about 50%. Our strategy was to consolidate our presence in the green field areas and then move to more competitive locations. Asiacell and Korek, in comparison, were able to establish their presence in Kurdistan even before 2003. The economic reforms and overall stability of the Kurdistan Region, as well as its high growth potential in the telecom market, make it a more attractive destination for potential investors. Zain Iraq has proved its capability to spread its services and dominate the market in Iraq, even despite incredibly challenging circumstances. With that in mind, we believe that we can achieve remarkable success in Kurdistan as well.

IIG: How has the telecom sector in the Region evolved over the past few years?

WG: The reforms in the telecom sector of the Kurdistan Region began after the war in 1991. The KRG Ministry of Transportation and Communication is the local regulatory body in the area, and the private sector has historically played a major role in providing telecom services. 3G/LTE spectrums were allocated to local providers and the CMC is now in the stage of finalizing the award of 3G/LTE spectrum on the national level. As such, we believe that data will be a major growth driver in the Kurdistan Region. Furthermore, the business environment in the Kurdistan Region is set to attract further investors and large-scale companies, a situation which will also serve to accelerate growth in the telecom sector.

IIG: What is Zain's current market share in Kurdistan?

WG: We completed our network expansion into the Kurdistan Region in February 2013. The market here is mainly divided between Korek and Asiacell. However, since we expanded our network coverage and launched our new offer here, we have achieved remarkable results. We are confident that our subscriber base will continue to grow, potentially at an increased rate. In similar markets, the third entrant managed to gain a 15 to 20% market share within 18 to 24 months.

IIG: What are Zain Iraq's growth targets and overall goals both in the Kurdistan Region and in Iraq as a whole?

WG: The telecom market in Iraq will continue to grow on a relatively slower basis, but the availability of data services via 3G technology should boost growth again. Therefore, we are targeting double-digit growth. Above the average market growth, we are currently implementing an aggressive investment plan of 12-15% of our revenues; this plan targets the modernization of the network throughout the country so as to make it 3G ready. In the Kurdistan Region specifically, Zain Iraq will be the fastest growing telecom company for the near future. Based on the initial results of our product offerings, we are studying a plan to double our investment in the Region.

IIG: Have there been any limitations that have slowed the spread of mobile phone usage in Kurdistan?

WG: Actually, the relevant authorities were very supportive in granting permission to build necessary towers and other telecom equipment. The stability of the Region and the available infrastructure have helped to limit security costs and allow the network to roll out faster. ☺

Korek's Market Share



4.8 million subscribers
as of the first quarter of 2013

Competitiveness through Innovation



Amer Al Sunna
CEO, Asiacell

Amer Al Sunna provides IIG with exclusive insight into Asiacell's comprehensive growth strategy, as well as the role the company's has played in strengthening the position of Iraq's capital markets.

IIG: How do you expect the mobile penetration rate to develop over the next five years?

AAS: Mobile penetration rates have indeed increased very strongly in recent years. However, despite its performance over the past decade, the growth in mobile penetration has shown some signs of slowing compared with previous years. According to Data from Altai Consulting, in 2012, the country was home to around 27 million mobile subscribers, witnessing a 5.5% annual increase in subscribers. This is down from 7.6% in 2011, 13.8% in 2010, and 39% in 2008. We expect growth of 28% between 2013-2017, reaching a 110% penetration rate in 2017. This growth will be aided by the availability of 3G broadband, as well as healthy GDP growth in Iraq. Annual GDP growth is expected to average 10.8% from 2010-2017 due to increased oil production, and this ongoing economic growth suggests increased growth in the mobile telecom sector.

About

Amer Al Sunna was appointed CEO of Asiacell in August 2013, after having served as Asiacell's Managing Director since February 2013. Previous to his tenure at Asiacell, Al Sunna was COO of wi-tribe Philippines, and CEO of wi-tribe Jordan, both of which are subsidiaries of Qatar's Ooredoo Group.

IIG: What are the similarities and differences between the market in the Kurdistan Region and the market in the rest of Iraq?

AAS: Asiacell's operations cover all of Iraq. We contribute tremendously and broadly to rehabilitating the Iraqi economy. For Asiacell, all areas, urban and rural, are important. Kurdistan, for example, is a big market. However, Baghdad, Basra, Karbala, and Najaf are also key markets for us, in that they are very resource rich. In rural areas, much can still be done to expand our network and make mobile broadband accessible and affordable.

IIG: What will the company do to expand its market share?

AAS: Zain and Korek are both strong competitors, which is obviously good for the customer. However, it also a positive for Asiacell because it forces us to constantly reinvent ourselves and push the limits of what our technology can do for the Iraqi people. While our competitors are strong, Asiacell is a step ahead. We have had nationwide coverage for many years now, while others are still trying to roll out wider networks. So, we can instead focus on the customer experience beyond providing classic mobile services. This is demonstrated, for example, by our specialized packages like the Almas Line (which caters specifically to women), the Student Line (available to the students of Iraq and Kurdistan), or our A'mali Services (our new commercial brand for complete business services).

IIG: Asiacell seems to have placed emphasis on finding innovative solutions and offers for its subscribers, such as the Almas Line (which won a Global Mobile Award this year). Do you think this willingness to think outside the box has been a key point in Asiacell's appeal to the people of Iraq?

AAS: Asiacell was the first mobile operator to have nationwide coverage, the first to pay the upfront license fee in full, the first to provide mobile internet services, and the first to be listed on the Iraq Stock Exchange (ISX). Iraq is moving on at an incredibly fast pace, and Iraqis are expecting to be surprised by new services. We know that things change quickly, so we don't just sit on our track record. We work hard to maintain our position.

IIG: During Asiacell's IPO in 2013, the company sold all 67.5 billion available shares and was able to raise approximately \$1.27 billion. Does the fact that all shares sold out rapidly indicate that the people of Iraq see Asiacell as a strong company and a stable investment?

AAS: The IPO was a turning point in our company's history. Those of us who work "inside the machine," and are very familiar with Asiacell, had no doubt about the

company's value: we knew it had unique assets, talented people, and fantastic products. However, we were unsure how the market would react to such an IPO taking place in Iraq. We were pleased to see that the response was a loud vote of confidence. Indeed, as a result of the strong showing during the IPO, Asiacell won "The Best Equity Capital Market Deal Award" at the TMT Finance Middle East & North Africa 2013 Conference. Most notably, the public offering was recorded as the largest IPO in the MENA region since 2008, a fact that is an achievement not only for Asiacell, but also for Iraq's capital market as well.

IIG: Looking to the future, Asiacell is expected to offer 3G and 4G services in Iraq. How far along are these plans? Are there obstacles that inhibit the implementation of these technologies?

AAS: Iraqis want the 3G experience, and many have experienced it abroad. The availability of high speed, reliable Internet access can play a significant role in Iraq's economy. Many studies from around the world find a strong correlation between the development of broadband and economic growth. Beyond the current conventional services available for the Iraqi people, there is a great need for innovative services and technologies such as electronic education, distance learning, mobile health, online banking, e-commerce, social media, online training, and many other services. Iraq needs these services for economic and social development. Asiacell is ready to provide this experience and has been working for many months to launch mobile broadband services. We are waiting to be issued a license by federal regulators to serve Iraqis and the Iraqi economy with 3G services. ⑩

"Beyond the current conventional services available for the Iraqi people, there is a great need for innovative services and technologies such as electronic education, distance learning, mobile health, online banking, e-commerce, social media, online training, and many other services."

EXCELLENCE IN
AIRCRAFT HANDLING

MACAIR
Flight Support

Overview Transport

Taking the Right Route

New road networks are under construction, modern airport facilities are in place, and plans for the establishment of railways and tramlines are on the radar.

The KRG has established three main priorities in order to boost the Region’s transportation sector. Firstly, the government is seeking to continue to develop the Region as an air cargo hub. With three modern international airports soon to be in operation, Kurdistan has the potential to become a logistics hub for southwest Asia and beyond, and an essential node between Europe and East Asia. Secondly, the KRG has prioritized upgrading its road systems, as it believes a network of well-paved roads could be the key to economic development and the expansion of commerce and tourism. Lastly, it has begun the research and development programs aimed at improving mass transportation systems. Implementing such initiatives could provide the residents of the Region with access to employment, community resources, medical care, and recreational opportunities without forcing them to rely on private transportation. ▶

TRANSPORT IN NUMBERS

Airports	2
Road Network	14,841 km
Investment (Projected) (2013-2020)	\$5.2 billion
Required Tramway Investment	\$4 billion
Total Vehicles	1.1 million
Airport capacity (annual)	4.5 million



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A ROADS



The Kurdistan Region currently has a total road network of 14,841 kilometers. This network includes arterial roadways (which link governorate centers with each other and with border crossings), secondary roads (which link areas within districts and subdistricts), and rural roads (which link the residential developments in rural areas with each other and with arterial roadways). According to Ministry of Housing and Reconstruction (MOHR) figures, rural roadways (47%) constitute the largest majority of paved roads in Kurdistan, with secondary roads (27%) and arterial roads (26%) comprising smaller percentages. There are no highways presently available to the residents of the Region, a fact that the KRG hopes to rectify going forward.

Of the three governorates of the

Kurdistan Region, Slemani has the largest total road network at 5,673 kilometers. Erbil has the second largest network at 5,391 kilometers and Duhok the third, with a total of 3,777 kilometers. The most recent data indicates that the total length of all bridges in the Region is approximately 18,000 meters. The Slemani governorate remains the only area in the Kurdistan Region with measurable tunnel systems (a total of approximately 3,230 meters as of early 2013).

Despite the rapid growth of these roadway networks, the supply does not, at present, meet total demand (particularly in regards to the rural areas). According to international standards, for every 100 inhabitants per square kilometer, there should be 1 km/km² of roads. However, the current roadway density

The Kurdistan Region occupies a strategic location between Iran, Turkey, and Syria. Because it is a landlocked area, Kurdistan now relies heavily on its transport links with Turkey and Iran, as well as its modern international airports.

for the Kurdistan Region is approximately 0.1 km/km². To successfully increase this figure to 4 km/km², the network would need to be approximately 44,720 km. As a result of the limited development of arterial roadways, travel between the governorates remains time consuming. To improve travel time and

TOTAL ESTIMATED INVESTMENT IN TRANSPORTATION PROJECTS

Investment Activity	2013-2017	2018-2020	Total (2013-2020)
International and Inter-Regional Transport	\$189 million	\$1.1 billion	\$1.3 billion
Inter-Urban Transport Within the Region	\$872 million	\$348 million	\$1.2 billion
Intra-City Urban Transport	\$1.5 billion	\$1.2 billion	\$2.7 billion
TOTAL	\$2.6 billion	\$2.6 billion	\$5.2 billion

increase the mobility of the residents of the Region, construction of multi-lane highways is essential.

In addition, the number of automobiles presently in operation in the Kurdistan Region has skyrocketed over the past few years. It is estimated that there are between 1.1-1.3 million vehicles currently in use in the Region, which has a total population of 5.3 million. As emphasized by Tahir Abdullah, Deputy Governor of Erbil, in 2007, there were only about 35,000 cars in operation in Erbil. Today, that number is around 400,000. Similarly, the number of taxis in operation in the Region has increased dramatically (45,000 in Erbil and 30,000 in Slemani). Demographic shifts from rural to urban areas have played a significant part in this change.

Although the population growth in the Region's three major cities has continued exponentially, the availability of public transportation has not. A lack of modern public transportation, combined with widely available, inexpensive personal vehicles, has led to considerable congestion on the Region's roads. "Right now, most of the roads connecting the major cities are only one-lane roads," notes Kamaran Ahmed Abdullah, Minister of Housing and Reconstruction. In 2003, on some of the major roads, there was an average of 200 to 500 vehicles per day. Today, the average is more like 5,000 to 8,000 per day. So, one-lane roads are not enough. The capacity needs to increase."

To ensure that such development

happens in a timely and organized manner, the MOHR developed and is in the process of implementing a 20-year, dual-stage strategic master plan for road, bridge, and tunnel construction. The first phase, the construction of all two-lane highways connecting the major cities of the Region, has a targeted completion date of 2017 and requires a budget of approximately \$2 billion. The second stage, which is expected to require approximately \$6 billion in investment, calls for the commencement of privately financed expressways that will most likely employ toll systems. A large-scale ring road project connecting Erbil with Kirkuk and Mosul by means of a modern, six-lane highway is also underway. The system will be under the management of engineering firm KCI, with assistance provided by the Korea International Cooperation Agency (KOICA).

In addition to this strategy, the Ministry of Planning (MOP) has developed plans to implement a national paving program for secondary roads in order to ensure that all such systems are not only completed according to international standards but also well maintained. As part of this program, the MOP is also seeking to "upgrade construction standards for input materials to increase durability of the new roads". Lastly, to combat the natural wearing down of these roadways, the MOP has called for the creation of a road maintenance fund to be supported by appropriate institutional and regulatory frameworks.

Road Networks Statistics

Total Road Network

14,841 km

Rural Roads (47%)

6,975 km

Secondary Roads (27%)

4,007 km

Arterial Roads (26%)

3,858 km

Road Network by Governorate

Slemani: 5,673 km

Erbil: 5,391 km

Duhok: 3,777 km



B AIRPORTS

The Kurdistan Region currently features two modern airport facilities: Erbil International Airport (EIA) and Slemani International Airport (SIA). A third international airport, located in the Duhok governorate, is presently under construction.

EIA was opened in 2011, and currently has a capacity of 3 million passengers per year. Since 2011, EIA has developed into an important hub for business and a potential gateway to the rest of the Middle East. In 2012, 947,6000 passengers utilized the airport (a 53% increase from 2011). Based on current estimates, rates for 2013 are expected to increase by 35%. In addition, a total of 27,859 tons of cargo passed through EIA (a 54% increase from 2011). The facility currently connects the Kurdistan Region to 24 airports in 14 countries by 23 different airlines.

Inaugurated in July 2005, SIA has also seen significant growth in recent years.

In 2012, 248,152 passengers utilized the airport (a 15% increase from 2011). This year, airport officials have targeted similar growth, and expect approximately 300,000 travelers to pass through SIA in 2013. The facility currently connects the Kurdistan Region to 19 airports in 12 countries by 14 different airlines. However, these figures are expected to increase, as SIA is aggressively pursuing a greater role in regional cargo transportation.

Duhok International Airport (DIA) is scheduled to open in 2015, and is expected to facilitate increased international air travel for both the residents of the Region and those of Kurdistan's neighbors, who might otherwise not have access to an international facility. As with EIA, construction at the new airport is being undertaken by a joint venture of two Turkish firms, Makyol and Cengiz, and is being supervised by a team from South Korea's Incheon International Airport.

The new international airport in Duhok, updated cargo facility at Slemani International airport, and already strong shipping industry at Erbil International Airport means the Kurdistan Region could soon become a cargo hub for both the MENA region and further abroad.

C RAILWAYS

In early 2011, the MOTC signed contracts with three international firms to design tramway systems for the three major cities of the Kurdistan Region. According to Minister Jonson S. Ayo, the Erbil tramway design was completed in 2012 and will feature four lines and a total of 87 stations. The designs for Duhok and Slemani are expected to also be finalized by the end of 2013.

However, questions remain regarding the financing of the 150 km system, which will require extensive involvement from a variety of different economic sectors. It is expected that the cost of the entire network could reach or exceed \$4 billion, with the Erbil network alone requiring \$1.7 billion in investment. As such, the KRG is contemplating private sector involvement to ensure uniform completion of the project. If the government were to handle the construction, then the system would most likely be implemented

in stages over a longer period of time.

In addition to the tramway system, there have also been efforts made to begin establishing a strong railway network in the Kurdistan Region. As noted by the MOP Regional Development Strategy, in regards to both passenger and cargo services, railway transport represents an essential activity in the transportation sector. A large amount of the imports and exports for both Kurdistan and greater Iraq take place at the Region's border points. Expanding the railway network of the Kurdistan Region would allow for a greater amount of cargo to be transported over longer distance at a lesser cost, thereby promoting greater trade revenue.

For its part, the MOTC has prioritized connecting the three governorates of the Region with other provinces in Iraq. According to Minister Ayo, the Kirkuk-Slemani route has already been designed,

and a similar plan for the Duhok-Mosul line will be finished in the near future. However, instability in federal Iraq has limited progress on the implementation of these routes, and funding from the central government in Baghdad seems increasingly unlikely.

The KRG is also pursuing opportunities to connect the railway system of the Kurdistan Region with those of its neighbors. The plan calls for an initial connection at the Iranian border, which would then connect directly to Slemani. From there, the route would run to Erbil, Duhok, and Zakho, before culminating in a connection to the Turkish rail network. In theory, the KRG would finance the project. However, the considerable investment required to fund the project will delay its implementation for the foreseeable future, and will likely drive the government to pursue private financing and operating via foreign companies. ⑩

**Strategic Growth**

Kamaran Ahmed Abdullah
Minister of Housing and Reconstruction

Kamaran Ahmed Abdullah gives IIG an exclusive look into the burgeoning road, bridge, and tunnel construction sectors and details the KRG's 20-year master plan for the Region's transportation infrastructure.

“We have a plan with a targeted completion date of 2030, and we will do everything we can to achieve that goal, strengthen the infrastructure of the Region, and improve the entirety of Kurdistan if possible.”

IIG: In 2012, the Ministry of Housing and Reconstruction undertook the highest number of projects in its history. Do you think 2013 and 2014 will see a similar number?

KA: We expect that number to either remain the same or increase. In 2012, we had multiple large-scale projects undertaken as part of our strategic plan. This year, we have a similar number planned, most of which are related to road construction. The Ministry has a strategic plan that covers multiple areas. The first is the construction of roads, bridges, and tunnels and the second is the construction of housing for limited income families.

There was no strategic plan for road construction within Kurdistan prior to 2010. We began to create a master plan in 2011, but we actually focused more on the individual components of the plan such as the traffic load in the Region or the capabilities of existing roads. So, even before the master plan was completed in 2012, we already had an idea of what we needed and what the priority areas were.

IIG: Are foreign construction companies involved in the bidding process for these contracts, or does your ministry prefer to use more local companies?

KA: We are not obligated to deal only with local contractors, nor only with foreign contractors. We deal with companies based on the qualification process. So with any company, whether it is foreign or local, that they are qualified for the project is the only thing that determines whether or not they will succeed past the pre-qualification stage to the second stage of the tender process.

For the larger strategic projects, like road or specifically tunnel projects, there are no local companies involved. These are usually highly technical and difficult projects that cannot be easily completed. So, for these larger projects, we have a lot of foreign companies in competition. Even with the road projects that have budgets of more than \$40 million, it's either a purely foreign company or a joint-venture company doing the work.

About

Minister Abdullah was born in Slemani in 1957, and earned a degree in Civil Engineering from Slemani University in 1981. He was first appointed as a Minister in October 2009, and was reappointed in April 2012. He is also a board member of the American University of Iraq – Sulaimani.

IIG: You mentioned some larger-scale projects currently being undertaken. Can you give us some more information regarding these endeavors?

KA: Right now we have three tunnel projects under implementation and another two in the tendering process. In 2013, we will have the longest tunnel project in the region, which will be two tubes, each 5 kilometers long. Then there will also be multiple other tunnel construction projects. So, we have a plan with a targeted completion date of 2030, and we will do everything we can to achieve that goal, strengthen the infrastructure of the Region, and improve the entirety of Kurdistan if possible.

IIG: The targeted completion date for the roadmap is 2030. Can you tell us a bit about the timeline for the roadmap from now until then?

KA: By 2020, we plan to have completed all the two-lane roads connecting the major cities in the region. These will be Class-A highways. After that, we will begin construction on an expressway that will be financed by investors rather than via government budget and will most likely employ a toll road system.

Today, we have a shortage of roads that match our transport needs. So, by 2017, we hope to satisfy the demands of our traffic load. At that point, the system will need improvement. So, after 2020, we will begin work on the privately financed express motorways. However, we still have to have enough alternative roadways that can be used free of charge. These roads also need to maintain all the required safety measures. Obviously, we want to implement both roadways. We have to have alternative roads free of charge that comply with international safety regulations. Right now, we don't have this. In 2017, we will. ⑩

Focus: **Erbil International Airport**
Global Access and Reach



For many foreigners arriving in the Kurdistan Region, Erbil International Airport (EIA) provides the first glimpse of an increasingly modern and prosperous Iraqi Kurdistan. Opened as a civilian airport in just 2006 and newly renovated in 2010, Erbil's airport has truly taken off. The facility connects Erbil with 24 cities in 15 countries through 23 different airlines, and is continuing to expand its reach. The early successes of EIA have come to be recognized internationally, and in January 2013, the airport was awarded 'Best Emerging Airport' with fewer than five million passengers per annum, by an international jury at the Emerging Market Airport Show in Dubai.

The freedom of movement that EIA provides the Region is significant for several reasons. In IIG's interview with EIA's Director General (DG), Talar Faiq Salih, she argues that "the airport plays a significant role as a gateway, as a connector, and as a facilitator of economic and social growth." Historically, the success of the airport is significant on many levels.

DG Salih describes how prior to 2003, the Region "was effectively isolated from the rest of the world," cut off from the rest of Iraq by the Ba'ath Regime and limited by poor roads through the Zagros Mountains into Turkey. The openness provided by Erbil's airport is therefore perceived as major symbolic victory for the Region.

The airport's contributions to the Region, however, are also very substantive. The high volume of people and goods that pass through EIA is both indicative and supportive of the Region's economic development. The airport has facilitated the influx of foreign investment into the Region, and has become an important hub for the import and export of goods into and from Iraq. Indeed, a large percentage of the equipment utilized by the companies operating in the oil and gas sector passed through the gates of the airport. EIA has also played a prominent role in helping establish the developing tourism industry in Kurdistan. Most notably, it is doing all of this quickly: growth in the volume of commercial passengers and

cargo passing through the airport jumped by 53% and 54% respectively, year-on-year in 2012.

Reflecting the prominence of Erbil as a regional economic hub, there is demand from airlines to further increase the number of routes flown into and out of EIA. Establishing new routes has been slowed by administrative requirements by the aviation regulator in Baghdad. However, EIA is conducting analysis to target investments for further expansion of the airport's capacity, variety of destinations, and number of airlines.

EIA was designed by a British firm and built by a Turkish contractor. The airport has capacity for 3 million passengers annually. It has also one of the longest runways in the world, which thereby enables large-scale cargo aircraft to successfully and easily access the Kurdistan Region. In addition to its main passenger and cargo terminals, the airport has a CIP terminal for private jets and businesspeople, and a VIP terminal for visiting diplomats and dignitaries. ⑥

EIA at a Glance

947,600
Total number of passengers in 2012

27,859 tons
Total cargo tonnage in 2012

2,590
Daily Passengers

13 Average commercial flights per day
17 Average cargo flights per week

23 airports connected to EIA
15 countries connected to EIA

27 airlines
Royal Falcon Airlines, ZagrosJet, Qatar Airways, Caspian Airlines, FlyGeorgia, Air Berlin, Air Arabia, Gulf Air, Emirates, Air Olympic, Fly Olympic, Pegasus Airlines, Transavia, Cyprus Airways, Mahan Air, Egypt Airlines, Fly Dubai, Germania Airline, Royal Jordanian Airlines, Austrian Airlines, Iraqi Airways, AtlasJet, Viking Hellas, Lufthansa, Middle East Airline, Etihad Airways, Turkish Airlines



"Passenger traffic grew by 53% in 2012. This year, passenger traffic is up by 35% in comparison to the same period in 2012. Kurdistan's economy is growing. With that growth comes increased demand for air travel."

Talar F. Salih, Director General, EIA



Focus: Slemani International Airport

The Fast Track



For investors contemplating involvement in the Kurdistan Region, Slemani International Airport (SIA) has played an invaluable role in facilitating development. Travel within the Kurdistan Region can be challenging, with winding roads and frequent checkpoints. Thus, the international services provided by SIA have allowed for direct access for both business and tourism travelers alike. The statistics support this idea; the airport saw a 15% increase in total passengers between 2011 and 2012, and SIA Director General (DG) Tahir A. Qadir expects those numbers to continue to grow in 2013.

However, to continue this positive growth, DG Qadir has big things planned for the near future. The SIA “Cargo Village” is currently under construction, and is expected to be operational by the end of 2013. The airport already handles moderate amounts of cargo, but the new facility is expected to help turn SIA into a regional hub for cargo exchange. “We conducted an analysis of the Sharjah and Dubai Airports, specifically in regards to

their relative distances from key export areas such as Europe and South Asia,” noted DG Qadir. “Our report confirmed that the routes into and out of Kurdistan were much shorter, meaning that cargo companies could utilize SIA in order to cut costs and save fuel. So, we strongly feel that our airport could play a major role in the future of global trade.”

SIA currently connects the Kurdistan Region to 19 airports in 12 countries by 14 airlines, with new routes and carriers expected to come online throughout 2013 and 2014. Each week, the airport averages approximately 106 flights into and out of the Slemani Governorate, and the successful opening of “The Cargo Village” is expected to further increase that figure.

In order to facilitate this growth, DG Qadir has emphasized additional training courses for airport personnel to ensure that SIA functions according to international aviation standards. “Each year we send a number of our staff from a variety of different areas of operations to get additional training,” he explained. “They

SIA at a Glance

14 airlines

Al-Naser, Atlasjet, FlyDubai, Georgia Airways, Germania, Hermes Airways, Iraqi Airways, Middle East Airlines, Royal Jordanian, Qatar Airways, Turkish Airlines, Aseman Airlines, Caspian Airlines, Azmar Airlines

19 airports connected

Malmö, Istanbul, Dubai, Tbilisi, Dusseldorf, Munich, Stockholm, Amman, Antalya, Baghdad, Basra, Batumi, Beirut, Cairo, Erbil, London, Najaf, Doha, Tehran

12 countries connected

Sweden, Turkey, UAE, Georgia, Germany, Jordan, Iraq, Lebanon, Egypt, England, Qatar, Iran

106 Departures & Arrivals per week

Passengers 2011

248,152

2012

286,000

2013

300,000



- 1 Airport Security
- 2 Airport traffic control tower
- 3 Slemani International Airport
- 4 126,878 passengers departed (2011)



“If you look at the statistics for passengers services from 2005 until today, you can see that Slemani International Airport has increased its rates 10-15% each year.”

Tahir A. Qadir, Director General, SIA

then return to SIA, where they work to keep the airport running according to international procedures and regulations.” Additional courses are conducted in the Region or at the airport itself, and help promote performance in all areas (although security has been prioritized significantly).

In its current layout, SIA has a total passenger capacity of 1.5 million travelers per year; however, with minor additions, that number could easily increase to 3 million per year. With the considerable growth already underway in the Slemani governorate and the number of new industries being established each day, there is no reason to believe that such numbers won’t soon become a reality.



Inside Aviation



Dori F. Abouzeid

CEO & President, Macair Flight Support
& Komar Aviation Group

Dori F. Abouzeid explains his company's expanding activities in Kurdistan, the challenges airlines face when seeking to expand their activities into the Region, and his hope for further regulation and cooperation to promote the growth of the aviation industry.

“The airport itself has established clear growth targets, and it's doing everything in its power to make sure they're met.”

IIG: How did Macair Flight Support first become involved in the Kurdistan Region?

DFA: In 2008, we were approached about getting involved in the airline business here in Kurdistan; it was clear that flight support services were needed for airlines operating in the Region. So, we came here and examined at the airport, the economy, and the business community. It was clear that this was virgin territory with a strong opportunity for growth. In the US, there is a lot of competition for providing the services that we provide. Here in Kurdistan, there was both a market and a need; I felt that we would be able to leave our mark. So, we elected to pursue a plan in which we would establish ourselves as a provider of customer service on the fixed-base operation (FBO) side of aviation. As such, we cater to all VIP passengers, and then the aircraft and crew as well. Our goal is to build a state-of-the-art facility for providing these services, then move on to the construction of a maintenance facility, and possibly round-out our work here by establishing a flight school. Two years ago, we began handling these services for all

Macair flights. Macair is the local company and then we have our sister company, Komar Aviation. Together, our personnel have about 120 years of combined experience. They are well-trained, experienced, and highly capable.

IIG: Why did you all elect to pursue only the flight support services as opposed to operating the flights as well?

DFA: When you're talking about Komar and Macair, you're talking about two companies that have access to the global market. That is, we have worldwide coverage. However, Komar is an American company and both organizations utilize American personnel. So, when we were first getting established here, we had to abide by Federal Aviation Administration Order SFAR 77, which did not allow for American pilots or aircraft to fly into Iraq. So, we were somewhat restricted in terms of the options that we could offer.

IIG: If an airline wishes to begin service to the Kurdistan Region, it must first receive authorization from Baghdad. Can that be a challenging procedure?



DFA: To operate in Erbil, you have to get approval to overfly the airspace of Iraq. That authorization is under the control of the Iraqi Civil Aviation Authority (ICAA); any time you fly into the Kurdistan Region you must first receive authorization from them. Then, of course, if you're flying into Erbil International Airport (EIA), you're dealing with their tower and their air traffic controllers. So, they have a certain amount of jurisdiction, which varies based on whether the incoming flight is high altitude or low altitude. This is basically the same procedure as in most other countries, except that communicating with both parties can be challenging. I personally wish that there were better coordination and communication across the board. With that in mind, I should add that the ICAA works in English. They have had Americans working with them since 2003, so the system is fairly well established in that regard. Then, of course, the aviation itself is conducted in English. Generally speaking, their writing abilities are better than their speaking abilities, so it tends to be easier to communicate with Baghdad via email.

IIG: How do you see the aviation industry in the Kurdistan Region developing over the next few years?


DFA: One thing is for certain: things are changing for the better. The people here may have lacked experience in the past, but they're now acquiring it. More

importantly, they're putting the right people in the right places, which will consequently allow them to make the right decisions in the future. The airport itself has established clear growth targets, and it's doing everything in its power to make sure they're met. Obviously, there is a lot of activity in terms of the airlines that are already in the Region or seeking to become established here. As the passenger numbers for both Erbil International Airport and Slemani International Airport can attest, people are coming into Kurdistan at a fairly consistent rate. So, overall, things are moving in the right direction.

IIG: Are there obstacles or challenges that still need to be overcome in order to ensure that this growth remains steady?

DFA: Regulation is the most important factor in that regard. Oversight is fundamentally important, be it from the FAA or from another independent organization. Regulation facilitates safety and passenger confidence. For example, Komar Aviation has had an ARGUS Platinum rating for eight consecutive years. This is the highest safety, management, and business award that you can receive, and we were one of the first 35 companies to receive it. To clarify, that's out of 3,500 companies worldwide. We were able to attain this standing in part because regulations kept us operating at our highest capacity. Moreover, clients don't think to ask certain questions that regulators do. When



a customer is chartering a plane, the first question they ask is, “What's the cost?” This is understandable. However, no one ever asks, “How did you train the pilots? Who maintained your aircraft? How did you maintain the plane?” Instead, they want a cost estimate. So, oversight is needed across a variety of different sectors. Of course, the Iraqi Civil Aviation Authority (ICAA) will provide some regulation. In addition, for some companies based in different parts of the world, oversight will come from their own civil aviation authorities. All carriers are under the jurisdiction of the ICAA, but local oversight is still extremely important. The growth is going to happen, and you need organizations in place to ensure that it happens in the right ways. 

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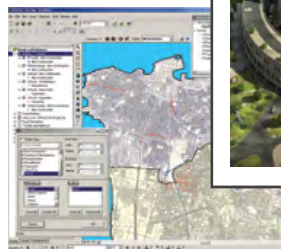
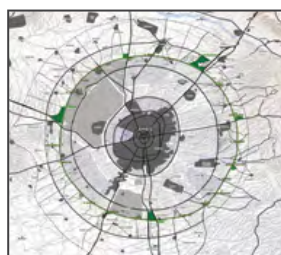
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4,000
EMPLOYEES
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Khatib & Alami (K&A) is a multidisciplinary architecture, engineering and planning company. We have the in-depth and broad technical expertise needed to respond to the complex challenges of projects and to best serve our clients and the community. We are driven by the true determination to improve and sustain the world's built, natural, and social environments. K&A delivers advanced client solutions and services to a wide range of sectors including transportation, energy and water systems. We also enhance living environments, create new buildings and communities, and much more. Capitalizing on a team of professionals and working closely with clients, we combine international know-how and local reach to deliver the most innovative and appropriate solutions. K&A executes medium to mega-sized projects using various delivery methods. For over 50 years, K&A has been committed to its clients and their needs.



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AGRICULTURE & WATER IN NUMBERS

Contribution to GDP	10%
Investment (2013-2020)	\$1.2 billion
Total Investment (2006-2013)	\$677 million
Population relies on agriculture	9%
The KRG's subvention (annual)	\$250 million
Workforce	7%
Projected Investment (Water) (2013-2020)	\$3 billion



Overview Agriculture & Water

Restoring the Bread
Basket

The KRG's Strategic Plan for the agriculture industry aims to restore the Region to its former glory as a large-scale producer and exporter.

The agriculture sector in the Kurdistan Region has seen considerable change in recent years, and therefore has the potential to play a prominent role in supporting the growth of the local economy. As such, the KRG has prioritized the development of its agriculture industry to encourage greater foreign investment. The KRG's Ministry of Planning (MOP) and UNDP joint report noted that the Kurdistan Region boasts a combined 1.5 million hectares of irrigated lands, a diversified population of livestock, and strong environmental and natural conditions that have allowed for the development of a variety of agricultural products. Despite the fact that the agriculture sector comprises only 10% of Kurdistan's economy, there are strong indicators that the industry will play a prominent role in shaping the future of the Region. ▶

For many years, the Region was known as the “Bread Basket of Iraq”. A great variety of grains and vegetables have traditionally been grown in Kurdistan, with wheat and barley among the most common. However, as a result of the policies of the previous regime in Baghdad, agriculture in the Kurdistan Region saw only limited growth for nearly 20 years. Decades of conflict left many agricultural areas negatively impacted, with formerly fertile areas now standing inaccessible or unproductive. The prolonged violence also took its toll on the demographics of the Region as well, with the anti-Kurdish policies implemented by the previous regime forcibly moving a large proportion of the rural population to urban areas. With limited physical infrastructure and a reduced population, farming in these areas declined significantly.

Although the farmers operating in the Kurdistan Region have significant experience, they have been limited in terms of their implementation of modern techniques. The MOP recognizes the severity of this issue, and has already begun devising methods to implement change: “We need to build up our educational extension services to provide training on new agricultural practices or improvements on techniques and methods that could increase efficiencies and production. In addition, we need to help farmers learn to use new technologies for ensuring the health of their crops and livestock and for improving their productivity.”

In 2003, approximately 35% of the population of the Kurdistan Region relied on agriculture as their source of livelihood. However, by 2012, that percentage had dropped to 9%. Moreover, according to figures provided by the Kurdistan Region Statistics Office (KRSO), only 7.1% of the Region’s active workforce is employed in the agriculture sector. In terms of the individual governorates, Slemani (8.4%) has the highest rates of agricultural employment, followed by Duhok (7.6%) and Erbil (5.3%). In addition, agricultural employment is low for both men (6.8%) and women (8.9%).

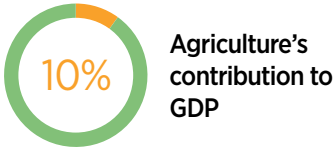
The Ministry of Agriculture and Water Resources (MOAWR) has established

the long-term goals of food security and self-sufficiency, and has identified the ambitious target of becoming a major producer and exporter of wheat, vegetables, fruit, meat, dairy, and poultry to the MENA region and beyond. In addition, the MOP has implemented a three-pronged plan for the future of the sector: promote food security for the people of the Kurdistan Region, economic prosperity for its farmers, and prosperity through the export of new agriculture and food products.

According to Fathi al-Mударis, an Advisor at the Ministry of Trade and Industry (MOTI), “Our development plan also prioritizes new, strategic projects that will help to establish food security. These projects mainly relate to the construction of new wheat and barley silos.” At the moment, the storage capacity of the Kurdistan Region for these two crops is about 280,000 tons. However, the MOTI has concrete plans to increase that capacity to 1 million tons within the next three years. Projects such as these could help promote further local development, paving the way for the possibility of export in the near future.

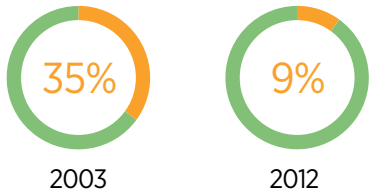
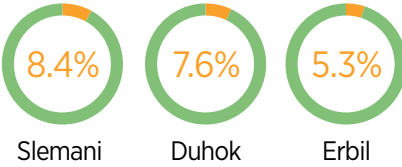


In 2012, approximately 9% of the population of the Kurdistan Region relied on agriculture as their source of livelihood



WORKFORCE

7.1% of the Region’s active workforce is employed in the agriculture sector



Percentage of the population reliant on agriculture as a source of livelihood

\$1.2 billion will be spent for the development of the industry over the next 7 years.

Priority area for investment

The KRG sees the improvement of the agriculture industry as critical for the development of the Region’s economy. Thus, the KRG has prioritized foreign investment in certain areas to facilitate greater growth and development. In accordance with these goals, the MOP has proposed an aggressive investment policy for the sector. It calls for the KRG to allot \$1.2 billion to finance development of the industry over the next 7 years (with the vast majority of those funds being utilized by 2017). Such investment would allow for the implementation of approximately 1,200 new projects, as well as 37 new plans and case studies. Roughly 85% of these programs would be initiated between 2013 and 2017.

To facilitate further investment, the BOI has established alluring incentives, including the provision of land plots for subsidized lease. Statistics indicate that between August 2006 and August 2013, 23 agricultural projects (4% of all projects) were licensed for a total of \$677 million (2.2% of all investment). To accommodate these projects, approximately 13 million square meters of land were allocated by the KRG. The average



land size granted per license varies significantly depending on the location of the project. Agricultural projects based in Erbil received the largest amounts of land (339,426 sqm per license), with Slemani (92,250 sqm per license) and Duhok (6,405sqm per license) earning smaller proportions. However, the licenses in Duhok received the greatest allocation of investment capital, with over \$400 million going to the governorate’s three projects.

48% of the projects licensed by the BOI so far (which total about \$325 million in investment capital) relate to the growing of crops. It is anticipated that these projects will help to further develop the sector and increase self-sufficiency rates in certain critical fields. 52% of all licensed projects (which total approximately \$352 million in investment capital) relate to animal farming, specifically the production of eggs and poultry products. Four BOI-licensed projects alone produce an annual output of approximately 17.5 million chickens to be sold on the local market. Although these investment figures represent steps in the right direction, further progress is needed.

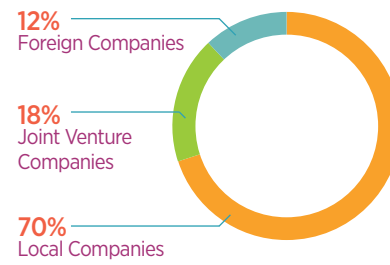
Total Investment (2006-2013)
\$677 million

Duhok received the greatest allocation of investment capital, with over \$400 million going to the governorate’s three projects.

48% of all projects, worth a total of \$325 million, relate to the growing of crops

52% of all projects, worth a total of \$352 million, relate to animal farming

BOI Licensed Agriculture Projects by Type



Strategic Opportunities

In terms of current production, Kurdistan has reestablished itself as a strong local producer of tomatoes, eggplant, cucumbers, onions, watermelon, peppers, and many other fruits and vegetables. Officials at the MOAWR report that the Region has achieved at least 75% self-sufficiency in terms of its production of cucumbers, onions, and potatoes, and has made strong gains in terms of reestablishing itself as a strong local producer of tomatoes, peppers, watermelons, and eggplants. However, large-scale investment is needed to bring about the dramatic change that the sector requires.

The total number of livestock in the Kurdistan Region is around 4 million. However, MOAWR figures indicate that the Region was only able to locally produce 22% of its estimated need of red

meat, which was calculated at 100,000 tons. Similarly, in 2011, the Region produced only 1,430 tons of fish, constituting only 21% of the estimated need of 6,700 tons. Thus, significant development is needed in terms of local production of red meat and fish. Poultry production has fared significantly better, with the Region’s farmers producing 55,000 tons of chicken (56% of total need) and 430 million eggs (67% of total calculated demand).

Crop production is the main source of livelihood for many rural families, with wheat and barley serving as the two main crops under cultivation. Wheat fields in the Kurdistan Region occupy approximately 567,625 hectares and produce an estimated 500,000 tons each year. Barley fields constitute over

10,800 hectares and produce roughly 43,870 tons annually. As a result of these large yields, opportunities for wheat production are limited. However, because both wheat and barley are winter crops, there are definite opportunities to utilize their sizeable land allotments for summer crops. Perhaps most notably, the Region achieved only 11% self-sufficiency in terms of oat production and 8% self-sufficiency in terms of corn production. These two crops represent critical areas of need, and offer potential investors strong opportunities for success. In addition, more recently, rice has developed into a preferred crop, and has displaced bread as the basic staple of the Kurdish people. Kurdish famers have also begun to pursue tobacco as a new agricultural cash crop.

Cultivable Land (in hectares)

Land	Total Area	Total Cultivable Land
Slemani	1,514,120	626,280
Duhok	931,398	301,542
Erbil	1,042,808	291,999
Total	3,488,326	1,219,821
Percentage	100%	34.97%

500,000 tons
Annual Wheat Production

43,870 tons
Annual Barley Production

Financial Constraints

Funding remains a thorn in the side of those parties seeking to further develop agriculture in Kurdistan, particularly since the Region continues to rely on a significant amount of imported food products. Indeed, some estimates have placed figures for this consumption in the neighborhood of \$20-22 billion for the whole of Iraq. Therefore, funds that could be better spent on investment projects are instead spent on imports to satisfy increasing demand.

The agriculture sector as a whole is heavily subsidized by the KRG, with current figures exceeding \$250 million. These funds cover crop production (\$200 million or 80% of all funds), transportation (\$20 million or 8% of all funds), and material acquisition such as seeds, fertilizers, pesticides, and other items utilized

in the growth process (\$30 million or 12% of all funds). The largest of these subsidies relates to wheat production. For 2011, wheat was subsidized at \$300 per ton, with a production target of 500,000 tons; thus, the KRG spent approximately \$150 million to subsidize local wheat production. Funds were also set aside for operation and maintenance costs for irrigation services and employee salaries. These figures will only continue to increase as the population of the Region continues to expand and demand increases proportionately. As such, these figures will soon become untenable. Therefore, the KRG has begun to aggressively promote private sector involvement in the agriculture industry.

Although identified as a priority area for investment by the BOI, the agriculture

sector has seen only limited interest from both local and foreign companies. The MOP, however, has now identified specific areas in which private sector involvement is critical, including developing cold storage facilities, transportation logistics centers, and facilities for packing agricultural products. For its part, the BOI has placed emphasis on projects that promote sustainable, local production, specifically in areas relating to forestry, horticulture, plant and animal production, poultry products, animal husbandry, irrigation, and research and development. In an effort to expand the local workforce involved in this growth, the BOI has also taken steps to encourage farmers to return to their former homes in rural areas by providing them with subsidies and financial grants.

Water

60% of the rivers in Kurdistan originate within the Region, while 40% originate in foreign countries. If regulated properly, irrigation in the Region could be complete and effective. Currently, only 11% of the arable land in the Region is sufficiently irrigated.



The Kurdistan Region faces strong challenges regarding the future of its water resources. Standard practices dictate that for every million people, one billion cubic meters of water are needed. With that in mind, the Kurdistan Region could potentially face a significant deficit in the near future. The lack of significant infrastructure further compounds the situation.

At present, the Kurdistan Region depends primarily on its groundwater resources. However, there have been only limited hydrological studies for the Region, so reliable estimates regarding remaining supplies are particularly narrow. Most reports confirm that the Region has undergone severe depletion, with some aquifers in the Region indicating reductions by as much as 20-40 meters, thereby increasing soil salinity as well.

To combat this dependence, the MOAWR has utilized its resources to

construct a significant number of smaller-scale ponds to serve as retention basins. The construction of a total of approximately 136 such facilities has been targeted for 2013 alone. It is hoped that these water resources could help restore village life, increase the availability of local water, and facilitate modern farming practices. However, current water storage capacity remains insufficient. Therefore, additional investment will be needed to expand these capabilities to match present demand.

Attempts to ration the use of water could also play a vital role in securing the Region’s long-term supply. Studies have demonstrated that an average resident of the Kurdistan Region uses approximately 400 liters of water per day (in some areas, that number is as high as 800 liters). In Europe and the United States, average daily use is around 200 liters per day. The

primary explanation for this over usage is that under the current system of taxation, residents of the Kurdistan Region are charged a flat fee for water consumption. This number is not based on actual usage, and therefore does not serve as an effective deterrent against overuse. To combat this issue, the 2014 Master Plan calls for the installation of water consumption meters in Kurdish households to regulate water usage. The MOP strategic plan calls for a similar system to monitor irrigation usage, which is expected to ensure proper pricing and promote modern agriculture practices (which tend to be more water efficient).

Further infrastructure developments are needed to promote diversity in terms of water production. At the moment, there are no water recycling plants in operation and no systems in place for treating wastewater. “In the rest of the world, there are three types of water,” points out Minister Baban. “In the Kurdistan Region, there is only one and it is used for every purpose, including human consumption and irrigation.” A diversified system for treating and recycling water would further prolong Kurdistan’s extant water resources, and could provide more immediate solutions to issues relating to shortages. ☞

Total Estimated Investment in Water and Sanitation Projects

Million USD

Investment Activity	2013-2017	2018-2020	Total (2013-2020)
Erbil	\$484	\$669	\$1.1
Duhok	\$291	\$402	\$694
Slemani	\$505	\$697	\$1.2
Total	\$1.3 billion	\$1.7billion	\$3 billion

Present Indicators



Professor Serwan Baban
Minister of Agriculture and Water Resources

Professor Serwan Baban presents IIG with exclusive information regarding the present states of the agriculture and water sectors in the Kurdistan Region, the plans for export currently being established by the Ministry of Agriculture and Water Resources (MOAWR), and the priority sectors that are in need of further investment and development.

IIG: Over the last five years, what have been the overarching accomplishments at the MOAWR?

SB: In 2008, we were only achieving 25% self-sufficiency in terms of our wheat production. So, we established a production goal of 500,000 tons of wheat per year. We achieved this target in 2011 and every year since. We have also had quite a bit of success in terms of egg production; our established production target for self-sufficiency is around 646 million pieces; this year, we reached 476 million pieces, which constitutes roughly 70% self-sufficiency. Lastly, in terms of white meat [poultry], we have reached 53% self-sufficiency.

IIG: What are the production areas in which further development is needed?

SB: We have only achieved 25% self-sufficiency in terms of fruit production. In the past, we were a strong agricultural producer, particularly in regards to fruit.

About

Serwan Baban was born in Kirkuk in 1958. He gained his BSc in Geology and MSc in Geophysics from the University of Baghdad. He obtained his PhD in Applied Remote Sensing and his DSc in Geo-based Environmental Challenges from the University of East Anglia, UK.

So, we have a plan in place to reestablish this industry, and we are in the process of negotiating with other international parties to rehabilitate this sector. In addition, we have not achieved our targets in terms of both milk and meat. In these two areas, we tend to rely on imported products or foreign investors; neither of these options is particularly reliable. We have had 12 different companies working on these two areas here in the Kurdistan Region, but they were unable to deliver upon their promises. As a result, we have amended our roadmap to incorporate farmers who keep animals, such as goats

or sheep. We support them by providing them with free inventory or we grant them agricultural loans without interest.

IIG: Has the MOAWR established any goals regarding exporting locally produced items?

SB: There are some areas in which we have a large supply, and these items tend to be seasonal as well. So, we have surpluses that can't be shifted and can't be consumed. We are currently working with four international partners on multiple distinct sectors. We have identified these areas as strategic and are putting the plans in place to begin developing export options. We recognize that we can't pursue such avenues on our own, and that we require international expertise to make our plans become reality. So, we are in the early stages of a process that we expect will revitalize the industry.

IIG: What obstacles do you believe stand in the way of the MOAWR achieving its targets?

SB: Current figures indicate that out of the total investment in the Kurdistan Region, the agricultural sector is allocated about 1%. So, the publicity we are getting is good, but the situation requires us to reflect and self-analyze. We are pursuing both innovative and practical solutions, and have organized conferences (in the Region and abroad) to increase familiarity with Kurdistan and, hopefully, bring investors here to see why it's an attractive, viable area.

IIG: How would you characterize the present situation regarding water resources in the Kurdistan Region?


SB: Kurdistan is part of Iraq. We function under a federal system. So, the water budgeting for the whole country will be done all at once. This doesn't make us happy because of the geopolitics of the area, and I think the implication there is clear. So, where possible, we have developed strategies for ourselves as a region.... The reality is that we need to increase volume and we also need to ration our use. Of course, the third leg of that equation is to talk to international partners. I don't

think it could be done without reaching reasonable agreements with our neighbors, mainly Iran, Turkey, and Syria.

Now, to review the first point, we still have some issues in Kurdistan. Under the federal system, building dams and reservoirs is done by the central government. At the moment, that type of infrastructure development is not happening. However, we need water. My understanding is that we have a limited window to build the reservoirs and fill them. Courtesy of climate change, this year we had lots of rain. We might only get this once in 5 or 6 years, depending on climate change rotation. So, the current resources are in place for these reservoirs to be filled, but it isn't happening.

Moreover, we can't start building dams or reservoirs with the medium resources that we have. Instead, we are able to build small ponds to revive village life. I think we've completed 86 such projects to date, and we have another 50 that we're building. We also decided to go to the BOT-style (build, operate, transfer) to bring the private sector in. We don't have much experience in dealing with that concept, particularly regarding the legal framework. Hopefully we will encourage international companies to build some dams and reservoirs as a result.

IIG: Are you concerned about the future of water in the Kurdistan Region?

SB: If you look at the borders in different parts of the world, the potential conflict there is going to be about water. Part of the problem is that the legal bodies really have not sorted out a clear framework to say what the trans-international boundaries are in managing water. So, at the moment, it means you're really depending on the good will of the upstream countries. This is clearly a problematic issue. In other parts of the world, you negotiate with the communities upstream and downstream, and you form management committees at the NGO level. So, we have taken limited steps towards this model, and are working to evaluate our future situation and how we can make changes now to positively alter the situation going forward. 

“We are pursuing both innovative and practical solutions, and have organized conferences (in the Region and abroad) to increase familiarity with Kurdistan and, hopefully, bring investors here to see why it's an attractive, viable area.”



Erbil Going Green

Dosty Mohamad & Edgar Mourad
Khatib & Alami (K&A)

K&A is a key player in the design and implementation of the Erbil Green Belt Master Plan. Dosty Mohamad and Edgar Mourad discuss the plan's background and specifics, as well as the role it could play in promoting investment in the tourism and agriculture sectors.

About

Dosty Mohamad has been working as Country Manager at the Erbil Branch of K&A since 2005. He studied Physics at the College of Science and received his Master in Business Administration.

IIG: K&A have been involved in a variety of projects in the Kurdistan Region. However, it is the Green Belt Master Plan (GBMP) that could truly alter the face of the capital city. Can you give us some background regarding the proposal?

DM: The GBMP was a strategic initiative that was created as part of the 2007 Erbil Master Plan. Our scope was based on that plan, and called for us to define the area for the Green Belt, detail the plan, and propose a specific roadmap for its implementation based on economic, social, and physical planning. Our plan was intended to limit urban sprawl in Erbil and promote sustainable development. Since continued horizontal growth requires increased infrastructure costs, the government identified limiting that sprawl as a priority, and we took that decision into consideration.

IIG: What other factors were taken into account when K&A initially began working on the GBMP?

EM: We determined that making this area, which is more than 200 km², operate on a station-by-station basis was not feasible. So, we instead identified agricultural opportunities that would keep the area green while at the same time encourage other economic activities. In addition, we also needed to figure out how to supply water to the area. So, in total, there were 3 objectives to the Master Plan. The first was to limit urban sprawl. The second objective was to promote peri-urban agriculture, which is agriculture within an urban environment. The basic idea with this strategy is to promote the creation of high-quality products that are directly related to the city and its overall needs. Most companies cannot compete with Iranian or Turkish goods in terms of price, so it's important to promote the development of local, high-quality products that satisfy specific areas of need. The third objective was the promotion of leisure and recreational facilities to attract further investors. So, we proposed three main hubs for recreation areas near the main entrances to the city. The goal here was

to identify projects, such as small hotels, golf courses, zoological areas, and similar facilities, which would be attractive to investors. These areas would then allow us to finance the rest of the Green Belt spaces as parks or public spaces. We feel that this policy allows for simultaneous development of the land for agriculture, water improvement, or general infrastructure projects.

IIG: Regarding agricultural development, do you believe that the agriculture sector represents a major investment opportunity?

EM: The agricultural system is not optimized for the Kurdistan Region; this is something that needs to change. The same is true for the water system of the Region, especially given that production needs to effectively double to satisfy growing demand. However, the issue for

“The Green Belt will play a role in that the government will utilize it as a way to promote agriculture that relates directly to the market.”

the agriculture sector is not necessarily the sector itself but rather the threat of other sectors. Agriculture requires hard work and long hours and does not promise a rapid return on investment. The local population tends to prefer to be employed in easier, less demanding positions. In essence, it's easier to do nothing than it is to do something.

IIG: What role can the Green Belt play in terms of correcting that issue, as well as other problems?

EM: The Green Belt will play a role in that the government will utilize it as a way to promote agriculture that relates directly to the market. So, on the one hand, this means recreating cooperative agriculture. On the other, it means rebranding the area so that its products will be properly identified. So, if an apple or some other

piece of produce is grown in the Green Belt, it will be labeled as such to identify it as locally produced.

DM: In our report, we also advised the government not to move all the villages located within the Green Belt. Initially, some people felt that these areas should be cleared and then used for reforestation or orchard development. However, it was our opinion that this would not have been a productive solution, since developing new agriculture and properly irrigating it represents a more sustainable pursuit. Instead, we advised the government to encourage these villages to pursue new agriculture projects. If they are already there and they are willing to work, why not help them to build their village and generate products for greater Kurdistan?

EM: Generally speaking, recreating and integrating agriculture in either rural or urban areas is not easy and often requires incentives. Since the KRG is already indirectly paying to assist in social aid for these areas, we concluded that it was logical to take it a step further and promote sustainable agriculture in order to keep these areas growing. When the government made the decision not to expropriate the land for reforestation, we felt that we had succeeded. They initially believed that reforestation would help to stop the dust from impacting Erbil, but we were able to prove that it would not be able to produce such effects. As a result, we were able to push forward with our plan.

IIG: Why would reforestation not provide an effective solution to the dust problems in Erbil?

EM: There are two types of dust here. One is very small and is carried at high altitudes and is therefore almost impossible to prevent. The second type is composed of larger particles and is therefore carried closer to the ground. As a result, shelter beds can significantly reduce this type of dust. Orchards and forests are less ideal for this type of dust. So, reforestation might reduce the dust problems somewhat, but it certainly wouldn't end them

completely. However, we believe that our plan provides these same abilities to perhaps a greater extent, but promotes more widespread development.

DM: The Green Belt will also help to reduce local temperatures by promoting humidity, and could go a long way towards curbing urban heat. If you have a city that is growing continuously and does not have many green areas, the temperature within the city will obviously be much higher than outside the city. Indeed, in the next 30-40 years, it is reasonable to believe that Erbil will expand behind the Green Belt. This means that there would then be a large, green area within a city, which would go a long way towards preventing future heat issues.

IIG: How far along are you in the actual implementation of the plan?

EM: Earlier this year, the project was signed following approval from the Ministry of Municipalities. Getting this approval was very challenging. There were internal conflicts because there was a lot of independent interest in the area in which the Green Belt will be located. However, after almost two years of consideration, it has been signed. So, we can now progress with the regulatory framework, which will enable an investor to begin his or her approach. We want to encourage interested parties to begin getting involved, because we think it will be an excellent opportunity to create significant investment.

DM: However, the Green Belt is an incredibly ambitious project, so it is still too early to fully implement it. The fact that we are now preparing the regulatory framework is, in our opinion, already an achievement. We honestly did not expect the plan to be directly implemented at an immediate pace, but it's clearly being viewed as an area that will promote considerable opportunities. We expect that the government will begin by cultivating interest in the touristic areas in order to promote investment, which would then further fund agricultural development. ⑩

“The Green Belt is clearly being viewed as an area that will promote considerable opportunities. We expect that the government will begin by cultivating interest in the touristic areas in order to promote investment, which would then further fund agricultural development.”

KHATIB & ALAMI

With over 60 years of experience, K&A is a multidisciplinary architectural and engineering consulting company that offers an integrated approach towards the ever-increasing need for concrete and reliable project delivery systems. The company currently has over 23 offices worldwide with a total staff of approximately 4,000 engineers.



Choueifat International School

K&A offered design and construction supervision services for the construction of the facility, which is located on an area of land approximately 150,000 m² in size (making it the largest in the Choueifat chain of schools). The Choueifat International School, which was the first project undertaken by K&A in the Kurdistan Region, caters to roughly 2,000 students, who range in level from nursery school to grade 12. The design process for the facility began in 2005 and was completed in 2007. Construction began in 2008 and the school opened its doors in 2009. The Choueifat International School is composed of state-of-the-art facilities, including an administration building, a multi-purpose hall for 600 persons, 80 modern classrooms, laboratories for the sciences and IT, a library, a cafeteria, staff accommodations, and a gymnasium which features a semi-Olympic swimming pool, a basketball court, and a soccer field. The project was completed on a construction budget of \$25 million.



Erbil Media City

K&A provided design-consulting services and will provide construction supervision for the planned commercial office park located in the capital of the Kurdistan Region. The plan for the facility calls for 1,200 apartments, 200 villas, a hotel, a shopping facility, and one of the largest, HD studios in the country. Erbil Media City is intended to become the new home for all media both in the Kurdistan Region and in all of Iraq.

Erbil Green Belt Master Plan

K&A were contracted by the KRG to define the area for the Green Belt, detail the overall plan, and propose a specific roadmap for its implementation based on economic, social, and physical planning. The plan that K&A devised has three objectives: limit urban sprawl, develop peri-urban agriculture (agriculture within an urban environment), and promote leisure and recreational facilities to attract further investors. The plan is currently awaiting final approval from the KRG.



- 1 Choueifat International School
- 2 Erbil Media City
- 3 Korek Tower
- 4 Erbil Green Belt Master Plan

Headquarters	Beirut, Lebanon
Chairman	Dr. Zuheir Alami
CEO	Dr. Najib Khatib
Founded	1950
Engineers Worldwide	4,000
Employees in Kurdistan	32
Completed / Ongoing Projects	14/7

Korek Tower

K&A designed the plans for the facility, which will consist of twin towers that are expected to become the tallest buildings in Iraq. Korek Tower will consist of one building, which will be completed either as a residential space or a hotel facility, and a second, which will serve as an office structure with a shopping mall at its base. The project is currently in the preliminary design phase, with the tendering process expected to begin in late 2013. The design of Korek Tower was influenced by the historic Erbil Citadel and the Erbil Minaret. The facility will be owned and operated by Korek Group.



Improving Local Production

Dr. Salah M. Bakir
Chairman, Vano Group

Vano Group is major, fully integrated poultry producer and veterinary pharmaceutical distributor. Dr. Salah Bakir provides insights into the current state of the Region's agricultural industry, and where the industry is headed. He describes the challenges to the Region's food security and how they may be overcome, and how Vano Group's integrated organizational structure improves the company's competitiveness and ability to lead the industry.

IIG: How would you characterize the state of the Kurdistan Region's food security? What challenges impede increased agricultural production in the Region?

SB: Unfortunately, the state of the Region's agriculture is weak. The Region only produces 5% of its agricultural goods locally, leaving the Region very dependent on imports. The situation is slightly improved in the poultry industry, where roughly 25% of the Region's poultry products are grown locally. However, that still means that a large majority of the Region's chicken is imported.

Cheap, plentiful imports of agricultural products are the primary impediment to the establishment of a productive agricultural sector in the Region.

Another major challenge to the local poultry industry is a lack of technical expertise in the Region. The veterinary capacities that are necessary for a healthy poultry industry are difficult to find in the Region's workforce.

IIG: Vano Group is expanding very quickly and successfully. How are you overcoming the problems in the industry?

SB: Vano Group has taken advantage of the opportunities available, and actively addresses the problems associated with the Region's agriculture. First, our product is of much higher quality than imported options. Our ability to offer fresh chicken, rather than frozen imports, allows us to form corporate partnerships with companies that demand high quality products.

We have addressed the Region's dearth of technical expertise in several ways. First, we have hired many foreigners to offer their expertise in our quality control department, GP facility, slaughterhouse, and headquarters. Additionally, Vano Group has maintained long-standing partnerships with Aviagen Ross, a UK based poultry supply company, and CEVA Animal Health, a French producer of veterinary vaccines and pharmaceuticals. These partnerships have proven to be immensely beneficial. In addition to employing their expertise and high quality products in our farms and facilities, Vano Group sends local employees to the UK and France for technical training with the companies. Furthermore, Vano Group holds conferences, locally and internationally, in conjunction with Aviagen Ross, CEVA, and other such organizations and institutions. These events increase expertise and improve industry best practices across the Iraqi poultry industry.

Finally, Vano Group's structure allows for increased independence and improved scalability. We are now completely integrated. Vano Group owns its own steel plant to construct its own facilities. This allows us to construct warehouses, factories, and facilities for other companies in other sectors. Through the poultry production process we are active

in every stage, from GP and PS production, through broiler production, slaughter, processing, and distribution. We own our own veterinary labs for biosecurity, disease control, diagnosis, and treatment of our flocks. In many of these stages, we are able to contract with and support other farms in the Region and country. We provide day-old chicks to independent broiler farms, we use our labs to consult with other farms for biosecurity concerns, and we sell CEVA pharmaceuticals around the country.

IIG: What are some changes that you foresee in the Region's poultry industry in the coming years?

SB: Increased local corn and soybean production will lower costs and improve margins in the industry significantly. Soy meal feed is an enormous input cost in poultry production. Imports, which currently come primarily from the US, Brazil, and Argentina, are very expensive. Transportation alone costs us \$200 per ton of imported soy meal—and Vano Group imports thousands of tons of soy meal each year. To improve this situation, Vano Group is working with Agrisoya, a recently established Iraqi soybean production company. We offer them office space and use of our facilities for soy storage and processing.

More generally, I am optimistic regarding the share of poultry that the Region will produce locally. As I mentioned, Vano Group is in touch with many of the local farms and companies in the industry, and there seems to be impressive expansion in the industry. I am hopeful that local production will continue to erode the dominance of imported chicken's market share in the Region. ☞

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EDUCATION IN NUMBERS

Budget Share	16%
Total Investment (2006-2013)	\$668 million
Primary & Secondary Schools	2,641
Primary & Secondary enrollment	1.7 million
Public Universities	13
Private Universities	11
University Students (2013)	115,000

The KRG has targeted the development of a well-educated population in order to allow the Region to continue to make uninterrupted strides in its economic growth.

The education sector in the Kurdistan Region has expanded dramatically in recent years. However, the Region's extremely young and rapidly expanding population continues to push for further growth in the over-all capacity of the sector. The education system itself, which has largely been built from the ground up since the early 1990s, has struggled to keep pace. To combat this issue, the KRG has emphasized strong development in the education sector. 16% of the KRG's budget for 2013 was allocated for the education and higher education sectors. Already large in size, the Ministry of Education (MOE) has become largest KRG Ministry, employing 24% of the Region's workforce. In addition, primary schools, secondary schools, and universities have done their best to keep pace with expanding enrollment figures, with each of the three systems vigorously exploring options to ensure continued forward progress. ▶

Tangram is a member of the



The KRG has two ministries that address education. The MOE administers primary and secondary education, while the Ministry of Higher Education and Scientific Research (MHE) administers university level education. Additionally, the private sector has become increasingly involved at all levels of the educational system. SABIS, a Lebanese private education provider and one of the largest actors in the Region's private education sector, has opened three Choueifat international private schools in Erbil and Slemani, and recently opened SABIS University in Erbil. Like many other industries, private schools and universities are eligible for Kurdistan Board of Investment licensing, and since 2006 have invested \$668 million into 16 BOI licensed education projects. In addition to private schools and universities, the MOE has entered into public-private partnerships with SABIS, leveraging their expertise to operate seven public-private international schools.

1,650,000
Student enrollment in public school

130,000
New Student (per year)

165,000
Teachers

Enrolment
95.9% 88.9%
Primary School Secondary School

Illiteracy Rates
23% 7%
2008 2015 (targeted)

500
New schools to be built



Primary & Secondary Education

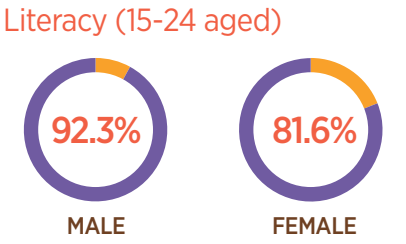
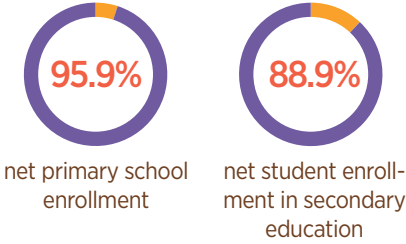
Despite the aforementioned demographic challenges to the Region's schools, the Kurdistan Region boasts the highest primary school completion rates (65%) in all of Iraq, as well as a proportionately high rate of 95.9% for net primary school enrollment (4.5% higher than for the rest of Iraq). Similarly, the Region averages 88.9% net student enrollment in secondary education, with literacy rates reflecting this dedication to education (92.3% for males aged 15-24 and 81.6% for females of the same range). These positive statistics do not hide the fact that the Region's education needs are growing. Indeed, the total number of primary and secondary students in Kurdistan increased from 843,000 in 2003 to 1.70 million in 2012 (a 98% overall increase). The KRG has heavily invested into the physical infrastructure of education, with the total number of public primary and secondary facilities increasing from 1,459 schools in 2003 to 2,641 in 2012 (an 81% increase). Moreover, as indicated by Dr. Asmat M. Khalid, the KRG's Minister of Education, the Region has plans in place to further this growth by establishing 500

new schools over the next two years. In addition to this growth, a total of 165 primary and secondary private schools have been established in the Region; these facilities are also helping to increase the overall capacity of the present system. The KRG is also working to improve the quality of teaching and learning in its classrooms. As noted in reports completed by the Ministry of Planning (MOP), since 2009 the KRG has taken steps to bring primary and secondary education to international standards by implementing numerous reforms. As part of these modernizing strategies, the government implemented a more rigorous K-12 curriculum and made education compulsory through 9th grade (it was previously only compulsory through 6th grade). In addition, steps were taken to improve the overall quality of education by requiring that new teachers have at least a bachelor's degree and attend recently implemented teacher training programs. It is expected that these adjustments to primary and secondary schools will help to better prepare students for the universities of the Kurdistan Region.

Higher Education

There are currently a total of 115,000 students enrolled in the 13 public universities and 11 private universities of the Kurdistan Region. The vast majority of these students attend public universities, which tend to be much larger than private universities and do not charge tuition. Most of the universities in the Region are very new: with the exception of Salahaddin University, nearly all of the local universities are less than two decades old. However, because of the Region's stability, Kurdistan's universities are drawing higher-level professors and students from historically more prestigious universities in Baghdad, Basra, and Mosul. While this process is providing the universities a boost in competitiveness, it also places further stress on the capacity of the Region's higher education system. Kurdistan's public universities face a difficult situation: they operate on a fixed budget, but are pressured to enroll ever-higher numbers of students, and they operate within a centralized, bureaucratic system. However, initiated under the former Minister of Higher Education, Dlawer Ala'Aldeen, and continued under the current Minister, Dr. Ali Saeed, the MHE has implemented a major reform package for public higher education. Aspects of this package include measures to democratize and decentralize the university system, giving each university more independence. This will provide university administrations and faculty more autonomy to develop their

universities. The reforms also include creating an electronic, streamlined admissions procedure to improve student admissions processes, and increasing professional development and evaluation of faculty. To address the growing demand for increased capacity in the Region's higher education facilities, the MHE has been quickly building additional universities throughout the Region; public universities in Ranya and Halabja were opened in 2011, Zakho University was opened in 2010, and Soran University opened in 2009. Finally, many employers in the private sector argue that students coming from the Region's universities do not have the in-demand technical skills or abilities. The MHE has therefore opened a series of schools, known as technical and vocational education and training (TVET) institutes, which will provide students with the practical capacities that employers demand. According to plans established by the MOP, the KRG will work to improve the relationship between what students learn and what employers demand. The MOP's plan articulates that the initiative "will entail developing a closer collaboration between TVET institutions and the private sector in the development of curricula, aligning the TVET occupational mix with the occupational demands of the economy, and increasing the opportunities that the private sector offers for on-the-job training."



Primary & Secondary School Enrollment
843,000 (2003)
1.7 million (2012)

Public Primary & Secondary Schools (81% increase)
1,459 (2003)
2,641 (2012)
500 (2013-2015)
new schools projected to be built

Universities (Total: 24)
in the 13 public universities and 11 private universities


Private and Independent Universities

Other universities are reshaping the possibilities of education in the Region more drastically. The Iraqi public university system relies heavily on the “baccalaureate” college entrance exam to define not only which universities a student is admitted to, but which concentration he or she will study once there. The American University of Iraq, Sulaimani (AUIS) is a private, non-profit university that provides an American style, liberal arts education. Unlike the public universities in the Region, AUIS encourages students to take a broad general education course

load before declaring a major. This is a fairly radical break with the Region’s public university system. Similarly, the University of Kurdistan, Hewler (UKH) is a public, independent university based on the British university structure, with a strong focus on critical thinking. In addition to these models, the number of private, for-profit universities in the Region has expanded as well. Established in the Region in the past decade, many of these universities offer coursework in English, and provide additional capacity to the crowded university system.

Global Outlook

The Region’s universities are increasingly looking internationally to bring their operations and academics to global standards. Students are doing the same, in order to increase competitiveness with international businesses and gain global insight. AUIS, for example, is pursuing academic accreditation in the US, and

has academic relationships with premier universities in the US, including Stanford and UCLA. UKH, similarly, has international partner universities in London and throughout the UK. Universities have historically taught in Kurdish, Arabic, and English, but growing demand for English proficiency has led many universities to teach entirely in English. Finally, the MHE encourages international exchange through its ‘Human Capacity Development Program,’ which is designed to send recent graduates from Kurdish public universities and complete postgraduate coursework in international universities, to further improve their international intelligence, language skills, and professional abilities. 

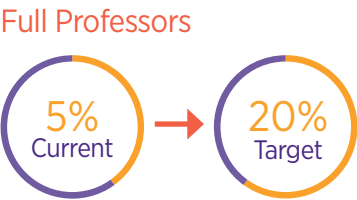
Since 2006, there has been \$668 million invested into 16 BOI licensed education projects.



16% of the KRG’s budget for 2013 was allocated for the education and higher education sectors.

Higher Education in numbers

Class Size
62 students to 1 professor ⁽²⁰¹³⁾
Targeted Goal: 30 to 1



Enrolled Students (2013)
115,000
Expected Graduates (2013)
5,000-6,000

Top Majors
Medicine and Engineering



Bright Future

Dr. Asmat Muhamad Khalid
Minister of Education

IIG speaks with Dr. Asmat Muhamad Khalid regarding the current Ministry of Education (MOE) initiatives and plans for reform, as well as the efforts being made to fully incorporate the rapidly expanding number of students in the Kurdistan Region.

IIG: How would you assess the present state of the education sector in the Kurdistan Region?

AK: The MOE is the largest ministry in the KRG, comprising 24% of the government’s total manpower. Based on our calculations, we have approximately 165,000 employees and oversee in excess of 1.65 million students. Added together, this number represents nearly 40% of the population of the Kurdistan Region. So, it’s a very large sector and is also one of the highest priorities for the current cabinet. The KRG as a whole has begun to embrace the idea that education must be the first step for any future growth within the Kurdistan Region. We are trying to approach education from a variety of different perspectives, as well as by supporting it financially to the greatest extent possible. This is especially important

given that the number of students here will only continue to increase. We have more than 130,000 new students enrolling each year. Providing funding and facilities for this increasing student population is one of the greatest challenges facing the MOE.

IIG: What are the the other main challenges currently confronting the MOE?

AK: I would say two of the biggest obstacles are the limited number of schools and the fact that the skill level of the majority of our teachers does not meet the necessary standard. The rapid rate of technological growth makes it very difficult for our teachers to stay current. They need continuous training programs so that they can adjust their curricula to match international standards. These challenges are fairly common for education around the world, but they still represent pressing concerns. So, our current goal is to increase the standard of our education to bring our educators in line with international practices. We are also working to establish a greater number of schools in order to both prevent overcrowding and incorporate areas that may not yet have access to modern facilities. To enact such changes will require significant financial support, so the limitations of our present budget represents a further issue that needs to be addressed.


IIG: That rise in students indicates that there will be an increased need for new educational facilities. What programs are in place to ensure that expansion occurs?

AK: We have established a plan to construct 500 new schools over the next two years. The modern design and high standard of services that these new schools will offer will prove revolutionary for our education system. We are currently in the tendering process. However, we are not pleased with the existing state of our schools. Essentially, each individual village has its own small school that generally does not provide a high standard of education. We believe it would be far more beneficial to establish one central school that would serve a larger area and would

“We have established a plan to construct 500 new schools over the next 2 years. The modern design and high standard of services that these new schools will offer will prove revolutionary for our education system.”

feature well-trained teachers and modern equipment. This would no doubt prove to be a better environment for education, and would certainly be a more controllable, regulated system. Thus, we have established a second plan of minimizing our overall number of schools, while at the same time increasing the quality, services, and facilities that we have on offer.

IIG: In terms of teachers, what needs to be done to bring this plan to fruition?

AK: The percentage of teachers in the Kurdistan Region that are in need of intensive training is very high, and sits around 60-65%. We are therefore implementing an intensive, two-year training program into our plan: the first year will focus on the scientific side of the curriculum and the second year will focus on improving social outreach and responsibility. This means helping our educators to better comprehend (and therefore teach) human rights, children’s rights, and women’s rights, as well as environmental protection, personal behavior, and character building. Overall, our goal is for our teachers to reflect the modernity and stability of both the Kurdistan Region and the new schools themselves. Without such training, our teachers will not be prepared to confront many of the issues we will soon be facing. So, this is perhaps our most important program, and we at the MOE are quite proud of it. 

Open Minds



Dr. Ali Saeed
Minister of Higher Education (MHE)

Minister Ali Saeed provides IIG with exclusive insight into the current initiatives for developing and reforming the higher education sector in the Kurdistan Region, the role the MHE has played in the KRG’s Human Capacity Development Program, and his overall hopes for the future of the sector.

IIG: How would you characterize the current state of higher education within the Kurdistan Region?

AS: The KRG has initiated higher education reforms focusing on several key issues. There has been an increased emphasis on promoting quality, both in terms of teaching and learning. We are also focused on introducing new changes in the curriculum, implementing continuous academic development for staff and professors, adapting an accreditation system for higher education institutions, and developing human capacity. The KRG introduced the human capacity development scholarship program (HCDP) and allotted it an annual budget of \$100 million. These funds will be used to send our young graduates to pursue their higher education, specifically Masters and PhD programs, at centers of excellence abroad. The KRG is also emphasizing research promotion. Although we have managed to establish several state-of-the-art research centers in Kurdistan, our vision is to invest more in research

“The government has a clear vision and appropriate plan for the future of higher education, and will also continue to provide opportunities for private sector investment in the sector.”

infrastructure by providing additional resources, bringing in newer technology for our institutions, and creating opportunities for our professors and academic staff to connect with their international counterparts. Through this last effort, we hope to encourage joint research and international collaboration. In fact, we have recently introduced new a PhD program that allows students to do a portion of their research abroad. In addition, there has also been serious

investment in terms of establishing new campuses for higher education institutions. For example, new campuses for universities in Halabja, Garmian, Soran, Raparin, and Zakho have all already been initiated. The master plans and designs for the new campuses of Salahaddin and Hawler Medical Universities are underway. With this in mind, the MHE has developed a new approach to support technical education in Kurdistan. Three new polytechnic universities have recently been established with new curricula and new opportunities. Lastly, we have also been successful in promoting the internationalization of knowledge generation and research via the establishment of partnerships and col-

laborations with various universities in different countries all over the world. We are also focusing on strategic areas like oil and gas management, natural resource management, energy contracts, and sustainable and renewable energies. appropriate plan for the future of higher education in the Kurdistan Region, and will also continue to provide opportunities for private sector investment in the sector. **IIG: Can you give us some insight into the new higher education law that is currently in discussion and the impact it might have on the sector as a whole?** **AS:** The MHE has prepared a new draft of the Higher Education Law. This draft will provide a legal base line for reforming the organizational structure of the higher education institutions here in the Region. It will also serve to make them more independent. The draft provides legal guidelines for quality assurance, accreditation, funding, and research promotion

About
Dr. Ali Saeed was appointed to his current position as the Minister of Higher Education by the 7th cabinet of the Kurdistan Regional Government in April 2012. Prior to his appointment, Dr. Saeed served as President of the University of Slemani for over 7 years. He has a background in medicine, and completed his medical studies at the University of Baghdad in 1971. Beginning in 1996, he worked at the Medical College at the University of Slemani and served as the Dean of Medical College from 1997 until 2005.

“The KRG is directing major investment into the higher education sector. We are also working to adapt our accreditation systems, develop our human capacity, and promote high quality research in all our institutions.”

laborations with various universities in different countries all over the world. We are also focusing on strategic areas like oil and gas management, natural resource management, energy contracts, and sustainable and renewable energies.

IIG: There are currently 13 public universities and 11 private universities currently operating in the Region. Are further institutions needed or should focus now be on strengthening the curriculum of those schools?

AS: In the future, we will certainly need to increase the availability of academic institutions in the Kurdistan Region. The number of high school graduates will only continue to increase, which means that there will be continued market demand. However, this development must be done in coordination with other programs. So, we must promote the quality of our institutions and strengthen the curricula of these facilities while at the same time planning to open new academic offerings. The government has a clear vision and

in higher education institutions. It will lead to increased opportunities for the institutions themselves by allowing them to play a part in the overall decision-making process. The draft is currently under discussion by the Council of the MHE. The final draft will be presented to the Council of Ministers and the Kurdistan Parliament for approval.

IIG: What is the MHE’s key objective for the future of higher education in the Kurdistan Region?

AS: The KRG is directing major investment into the higher education sector. We have a clear vision and an appropriate plan to increase the quality of teaching and of learning. We are also working to adapt our accreditation systems, develop our human capacity, and promote high quality research in all our institutions. We believe that the economy, politics, and business of the future should be knowledge based, and that increased scientific research should play a major role in developing the Region. ➊

Leading Thought and Discourse



Dr. Dawn Dekle
President, American University of Iraq, Sulaimani (AUIS)

Dr. Dawn Dekle provides IIG with her thoughts on the role that AUIS will play in the higher education and society of Kurdistan, as well as the local and global aspirations of the university. AUIS seeks to prepare the future leaders of both the Kurdistan Region and greater Iraq with a broad and critical education, and hopes to become a thought leader in the local educational system.

SAVE THE DATE
Sulaimani Forum, March 4th-5th.
The Sulaimani Forum is the keystone conference of the Institute for Regional and International Studies (IRIS), the research center of AUIS. The Forum brings prominent intellectuals and practitioners to the cultural hub of Slemani, fosters a diverse and rigorous academic dialogue, and tackles complex regional and international issues.

About
Dr. Dawn Dekle joined AUIS in September 2013. Prior to serving as President of the university, Dr. Dekle served as the Provost at the American University of Afghanistan (AUAF). She has also held teaching appointments at several universities in the United States and Asia. Dr. Dekle holds a PhD from Dartmouth College, a JD from Stanford University, and a bachelors from Texas A&M.

IIG: What role do you envision AUIS playing in the broader Iraqi higher education system? Do you believe or hope that AUIS’s presence will be a force for innovation of Kurdish or Iraqi public education?

DD: One major difference between AUIS and the Region’s public university system is that in the Iraqi education system, high school students take a college entrance exam called the baccalaureate exam. They are admitted into their universities and courses of study based on their exam scores. At AUIS, students are admitted into the university based on their academic histories, and choose their course of study after one or two years of general education ‘core courses’. In this sense, Iraqi public education is more vocational. AUIS tries to ground these professional capacities in a broader education.

IIG: How do you envision or hope that AUIS graduates contribute to Iraq’s human capital? Are there any sectors or positions that AUIS prepares students for in particular?

DD: Many graduates across Iraq find

employment in the pubic sector, whereas over 60% of our graduates find work in the private sector. In fact, this number increases each year. We aspire to provide our students with a professional skill set to become leaders in whichever sectors that they are hired into. We do not train our students for their first job; we train our students for promotion and leadership within their workplace.

IIG: To what degree, if any, does AUIS aspire to achieve international rather than local recognition? Is local or global prominence more important to the University’s image and trajectory?

DD: AUIS is in the process of attaining national and international accreditation. By bringing international accreditation into the Iraqi system, we can become thought leaders in the quality assurance of our programs. By partnering with the Ministry of Higher Education in the KRG, as well as the Ministry of Education in Baghdad, we can help Iraq advance the dialogue about the accreditation process, and what it means to be accredited. Accreditation provides international

validity to both the quality of programs offered by universities and the operations of universities more broadly.

Regarding partnering with other universities, we have partnerships with Stanford University for law, UCLA for education, and SUNY-Albany for public health. Our partnership with SUNY Albany will facilitate partnerships with other Iraqi universities, as well as universities throughout the Middle East. Public health as a degree program does not currently exist in much of the Region, and we would like to change that through partnerships with local universities.

IIG: AUIS is unique in Iraq in that it is a private non-profit that charges tuition. What are the costs and benefits of this model?

DD: We are a non-profit institute for public benefit. Our Board of Trustees is composed of citizens who serve on a voluntary basis: any revenues that AUIS makes are reinvested into the University. Regarding tuition, Iraq’s public universities charge zero tuition. From a psychological point of view, which has been extensively tested, when people pay for something, they assign it more value. So, having the students pay a small amount makes students value their education more. AUIS receives less than 10% of its revenues from tuition; 90% of our revenues come from elsewhere. The vast majority of our income comes from the generosity of donors in the Region, and from Iraqis and Kurds living overseas who have given back. We thank Prime Minister Barzani and the KRG for their generosity, because they are the University’s largest donors. So, if we continue charging tuition at our current rates, I believe our students will value the education more and feel more connected to AUIS throughout their lives. Essentially, the experience becomes something they own.

IIG: As you mentioned, the KRG has invested heavily into AUIS. To what extent is AUIS dependent on KRG support, and to what degree is the KRG a sustainable source of income for the University?

DD: The KRG has been very generous and supportive, and we are very thankful to them for that. My role as the new President of the University is to demonstrate to the KRG and to PM Barzani that we will use their investment to become financially sustainable. We are using their donations to establish processes, policies, and procedures to make us sustainable without requesting additional gifts. We have initiated this process by establishing a foundation in the US, through which we can receive tax-deductable contributions. Additionally, we are establishing an office of institutional advancement so that people can easily give legacy benefits or cash gifts to the University. It is our full intention to demonstrate that the investment that the KRG has made in us has paid off.

IIG: How does AUIS maintain the diversity of its student body? What outreach is involved in attracting students from southern and central Iraq, as well as surrounding countries, to AUIS?

DD: As the “American University of Iraq”, we are from all of Iraq. The majority of our students come from the Kurdistan Region, but we have students from central and southern Iraq, as well as neighboring countries. We would like to increase that diversity. One of our most successful outreach methods has been through social media. We have Facebook followers from all around the country. This provides us significant, countrywide visibility. Our best ambassadors, however, are our students themselves. Students from the south tell their friends and family about AUIS. This has worked well for us: our Admissions Office has noticed that we are developing a legacy effect. Many younger siblings of our current students and alumni decide to enroll.

We are also taking measures to become prominent throughout the Middle East. We are creating four spaces for Syrians who have been displaced due to the Syrian conflict. We aspire to be like the American University of Beirut (AUB) or the American University of Cairo (AUC), which are well known in the region, so that, like them, we can draw international students into our student body.

AUIS	
Established	2007
President	Dr. Dawn Dekle
Total Students	1,000
Language	English

Partnerships
Miami University (OH), Old Dominion University, Stanford Law School, SUNY-Albany, University of Amsterdam, University of California, Los Angeles, University of Colorado-Boulder

Undergraduate Programs

- BS Business Administration
- BS General Engineering
- BS Information Technology
- BA International Studies
- BS Mechanical Engineering
- BA English Journalism

Executive MBA Program
International Management in conjunction with Steinbeis Hochschule Berlin

Research Center
The Institute of Regional and International Studies

IIG: Can you tell us about AUIS’s Professional Development Institute (PDI)?

DD: The PDI is the arm of our school that reaches out most to the community. It offers open enrollment English language and project management courses for continuing education. The PDI also offers tailor-made courses and modules in cooperation with specific companies and industries. Finally, the institute offers a one year Executive MBA (EMBA) through a partnership with Steinbeis University in Berlin. The EMBA is designed for working professionals, so it is taught in night classes by German and AUIS professors. Through its local outreach and work with local business, PDI is very much an institute of public benefit. 📍



Raising the Quality

Dr. Sherzad Najar

Higher Education Advisor to the PM

Dr. Sherzad Najar discusses the university application process employed in Kurdistan, the identified goals and objectives for improving higher education in the Region, and the reforms and modernizing techniques that could make such development possible.

About

Dr. Sherzad Najar received a Bachelor's Degree in Political Science from Baghdad University, an MA in Diplomacy and International Relations from the Diplomatic Academy in Vienna, and a PhD in Political Science from the University of Vienna. He has served as the Higher Education Advisor to the Prime Minister since 1997 and has over 22 years of experience teaching at universities in the Kurdistan Region. He has served on the Governing Board of the University of Kurdistan – Hewler, as well as the institution's Acting Vice-Chancellor in 2012.

IIG: What is the current placement system for higher education in the Region?

SN: The system is based on each individual student's performance in his or her respective secondary schools. There are two branches that students can pursue: literature and science. If they score over a 90, they will receive preferred placement in either engineering or medical schools. The idea is that the students who perform the best in science courses would then proceed to medical school and the top students in the literature route would then progress to law school. It is my belief that we need to place greater emphasis on the hard sciences, and therefore push students in the direction of the medical and engineering programs.

IIG: In terms of the teachers employed at the public universities in Kurdistan, what is the current student to professor ratio?

SN: The current ratio for our smaller classes is approximately 62 students to one professor. Our aim is to take make this number closer to 30 students per professor. We have other targeted objectives as well, including increasing the numbers of both female students and full professors. Right now, the ratio of male to female students is 60% to 40%; we want that to be closer to 50%-50%. In addition, in terms of all lecturers, the number of full professors is currently only around 5%. We have targeted an increase in that figure to 20%.

IIG: How do you think the universities in the Kurdistan Region compare to the rest of Iraq?

SN: In the past 10 years, the institutions in the Kurdistan Region have become more stable and more developed than many of their Iraqi counterparts. This is in large part because the south is still struggling with security issues, whereas the Kurdistan Region is not. Although Baghdad University, Mosul University, and Basra University all have very strong academic traditions, they are now struggling to remain at the level at which they were previously operating. The universities I mentioned have more professors

and therefore greater experience, but the lack of security and stability undermines those advantages. As a result, we do have students from the south, as well as from other unstable areas in the surrounding region, coming to our universities to continue their academic careers. We welcome this decision, as we are open to any and all students. However, at the moment, there are a limited number of facilities operating here in the Kurdistan Region, so it can be challenging to find places for everyone. This fact serves as further evidence that we need to continue to expand the number of universities and higher education facilities active in the Region.

IIG: Aside from expanding the number of universities, what else needs to be done to improve the overall academic environment of these universities?

SN: We are now discussing a new Higher Education Law, and it will result in multiple reforms. In addition, the Iraqi Government is pursuing a new national strategy for both education and higher education. It will be implemented over the next 10 years, and calls for a budget of 62 trillion IQD [\$53.3 million] to implement specific reforms and operational changes. In particular, it aims to limit the ratio of professors to students in order to conform to global standards and pushes for the creation of new universities. Of that 62 trillion, 36 trillion IQD [\$30.95 million] will be allocated for 63 new projects in the education sector and 26 trillion IQD [\$22.35 million] will be allocated for 115 new projects in the higher education sector. Since the Federal Constitution provides that we receive a specific percentage of federal funds, 17% of that 62 trillion IQD will come to the Kurdistan Region. In my opinion, we need to use at least some of this funding to develop the medicine and engineering departments. It is also of fundamental importance to develop our research programs; such offerings are incorporated into the international university rankings, which is another area in which we need to improve. ⑩



Education and Civil Service Reform

Dr. Heja Sindi

Lecturer, University of Kurdistan Hawler

Dr. Heja Sindi provides his analysis regarding how the higher education sector could be strengthened, and the manner in which broader public sector reform could improve education in the Kurdistan Region.

IIG: What are the vulnerabilities of the public university system in Kurdistan?

HS: While the system certainly allows a large number of students access to university education, the universities themselves still have limited budgets for core expenses like salaries, facilities, and labs. Educational support systems on campuses, such as proper buildings, recreation facilities, sports centers, and other such services, face decline. This disparity negatively affects the quality of our higher education.

IIG: What do you believe needs to be done to change the mentality regarding free education?

HS: There are three major issues preventing this from occurring. Firstly, a major impediment to paying for education in Kurdistan right now is the lack of a developed banking sector. Even if a paid tuition system were to be implemented, students are currently unable to take out the types of loans that would be needed to finance their educations.

Secondly, there is this collective understanding among the public, largely due to inherited socialist values of Iraq's previous regime, implying that the government should pay for everything. Government should, in many cases, be the key player in leading development processes. However, the time has come in Kurdistan to shift from such notions, given the improved economic conditions people now enjoy. The government should develop alternatives to just paying for services without return. Interest free loans, for example, could be one solution, especially in higher education. The Education sector is a bit different, given that preliminary education is free, which is very necessary (particularly in deprived areas with low-income citizens). To summarize, the government must stop playing the proxy role without the public's contribution.

Finally, the majority of employment in the Kurdistan Region is in the public sector. For this form of employment, simply having a degree can be considered more important than the quality of education received. Students do not compete intellectually with one another for public sector jobs in the same fashion that private sector employment demands.

The businesses community in Kurdistan is increasingly developing, and more and more foreign companies are establishing operations here. This growth will obviously cause the private sector to expand. In addition, both the KRG and Iraqi governments are taking great steps to reform civil service. These changes will likely increasingly draw students to private or independent universities, driven by employer preference for students from these universities. This will stimulate a need for reform in the public university system.

IIG: What types of civil service reform are being implemented?

HS: A promising Civil Service Council has recently been authorized by the Kurdistan and Iraqi Parliaments that is intended to reform the public sector. The council will be responsible for defining the structure of the civil service system,

About

Dr. Heja Sindi, is a fellow of the Maxwell School of Citizenship and Public Affairs at Syracuse University, NY, USA. Prior to occupying his present position, Dr. Sindi served as the Acting Head of the Department of Political Science and Sociology and as Director of the Career Development Center at the University of Duhok. His teaching and research interest is in the area of Good Governance, Human Resource Management, and Diaspora Studies.

the jobs that will be included in the new system, and the qualifications needed for government employment. The Council will also lead the way in developing civil service exams. This will wholly reengineer the public sector, making it much more lean, efficient, and specialized. In addition, these changes will make the civil service system more professional, and encourage increased private sector employment. Moreover, I believe that this council will have a positive impact on the public schools and universities. It will force public universities to produce better graduates in order for them to pass the employment filters.

IIG: Can we say that these reforms will 'westernize' the Kurdish university system?

HS: The Kurdish educational system should not aim to emulate the Western educational systems. Rather, sustainability must develop according the specific strengths and weaknesses present in the Region's education system, laws and regulations, philosophy and most importantly the specific needs of the Region's population: students, teachers, parents, and other staff members. However, we can benefit and adapt our system based on the experience of others. Our reform should not aim to Westernize, but to adapt. We must innovate the system to shape it into our own, to think globally but act locally. ⑪




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HEALTH IN NUMBERS

Budget allocation	4.8%
FDI	\$195 million
Total Investment (Since 2006)	\$732 million
Total Hospitals	99
Private Hospitals	40
Investment (2013-20)	\$2.1 billion

Overview Health

On Track for Expansion

Healthcare spending between 2013-2020 is set to rise to \$2.1 billion, with emphasis to be placed on the modernization and expansion of the sector's infrastructure.

Historically dominated by the public sector, the healthcare industry in the Kurdistan Region has recently been revitalized via increased private sector involvement. In part because of the favorable 2006 Investment Law and the strenuous work of the Kurdistan Board of Investment (BOI), the healthcare sector has seen an influx of over \$927 million in investment. Of those funds, \$732 million resulted from the BOI licensing process and \$195 million was rooted in foreign investment. As a result, the Kurdistan Region is now home to a total of 99 hospitals, of which 40 are private.

Expertise and technical ability are quickly expanding in step with increased investment in the sector. Heart surgery, neurosurgery, and kidney transplants are each available in Erbil, Slemani, and Duhok. Internationally accredited diagnostics and testing are available from Erbil's Medya Diagnostic Center. Moreover, Slemani's Faruk Medical Center (FMC), a 160-bed, state-of-the-art hospital is scheduled to open in December 2013, and is developing a modern oncology center. Similarly in the pharmaceutical sector, Erbil's Awamedica and Slemani's Pioneer Pharmaceuticals are applying international best practices to pharmaceutical manufacturing in the Region. ▶

In terms of overall coverage, the Kurdistan Region has an impressive health network. According to the Ministry of Planning (MOP), the majority of the population of the Region lives within 30 minutes of some form of primary health care center (PHC). In more remote areas, hospitals and emergency services have become increasingly available. Each of the three governorates in the Kurdistan Region features public general, emergency, and pediatric hospitals. The quality of service, however, is largely thought to be lacking. According to Hawre Daro, CEO of Faruk Group Holding, those with the means to do so in the past decades have tended to travel abroad for improved healthcare provision when sick.

The private sector is therefore attempting to close the perceived gap in quality between the Region's healthcare and international standards—and it is doing so quickly. Erbil, which now has more private hospitals than public, and has received the majority of private investment in the sector, is becoming a regional destination for healthcare provision. Already, over 50% of patients at some of Erbil's private hospitals come from outside the Kurdistan Region in order to access improved healthcare.

Doctors and Nurses

While health coverage in Kurdistan is excellent, limitations in the Region's healthcare workforce have created some vulnerability in the sector. A 2012 report commissioned by the KRG concluded that while the Region's doctors are well trained, they are lacking in number. The ratio of doctors per capita is lower in the Kurdistan Region than in most other Middle Eastern countries. This translates to limited access to physicians for many people in the Region, despite the overall prevalence of clinics and hospitals. Many PHCs, particularly in rural areas, lack doctors and are entirely staffed by nurses. Additionally, limited salaries in the public sector lead many to seek more substantial income from the private sector. Thus, many doctors

Public Healthcare Management

Recent reduction of the bureaucracy surrounding the public healthcare industry in the Kurdistan Region has helped promote localized management at medical facilities. This system intends to free local and regional health officials to determine daily operations policies, thereby improving the capacity of senior officials within the Ministry of Health (MOH) to determine policy. Indeed, as a result of this decentralization, the Kurdistan Region has been able to implement professional vaccination programs and improved medical training.

Additionally, the MOH and the BOI are making efforts to further reform the system. The majority of the government funding for the health sector has been allocated to developing public primary care. This is being done in an effort to decrease the prevalence of expensive and dangerous secondary and tertiary care. In addition, more attention is now being paid to improving staff capabilities, as well as to modernizing both the knowledge and equipment utilized in such facilities. For example, to improve the quality of maternal and neonatal healthcare, the MOH signed an agreement with Britain's Royal College of Obstetricians and Gynecologists to improve local training

split their workdays between public and private practice, and are subsequently overworked, which decreases the quality of care and simultaneously reduces the public's already limited access physicians. The number of nurses currently active in the Region adequately covers present demand. However, both the MOH and numerous other health agencies are concerned about the poor quality of nursing care in Kurdistan, as well as the lack of defined nursing competencies and responsibilities. Nursing in the Region is therefore in need of immediate attention. While private hospitals currently address these issues by employing international recruiting agencies to hire foreign healthcare specialists into the Region, the KRG is also expanding doctor and

While 40% of the Region's hospitals are private, they account for only 9% of total capacity.

and education. The KRG has also developed a PR campaign to educate the population on the dangers of smoking, obesity, and other health-related hazards.

Finally, the public sector intends to increase investment in healthcare to address increasing demands on the system. The Ministry of Planning intends to spend \$2.1 billion on healthcare investment between 2013-2020, building 165 new PHCs, and increasing hospital capacity in the Region by 3,200 (representing a 42% increase). Much of this expansion will be carried out through public tender, with opportunities for both private and foreign involvement.

The KRG Ministry of Planning intends to graduate 2,097 new doctors between 2013-2020, representing a 38% increase.

nurse training to ameliorate the situation. The KRG Ministry of Planning intends to graduate 2,097 new doctors between 2013-2020, representing a 38% increase, and is improving nurse training, often through international partnerships.

Private Sector Healthcare

Despite these public sector healthcare initiatives, only 4.8% of the KRG's total budget in 2013 was allocated to the health sector. This allocation is extremely small by international standards, and according to BOI sources, it covered only about 40% of the industry's needs. Thus, a majority of the development and improvement in the health sector can be attributed to private and/or foreign investment. The BOI has therefore played a critical role in supporting the private healthcare system, and facilitating public-private partnerships. Since 2006, the BOI has licensed 34 total private healthcare projects (roughly 6% of all BOI projects), worth a total of over \$732 million.

Moreover, such projects also incorporate international expertise, thereby improving the overall quality of care in the Region. Pharmaceutical and diagnostic companies in particular have been keen to capitalize on this level of foreign involvement, using international accreditation to institutionalize high quality products and processes. FMC is expected to open as one of the most modern health facilities in Iraq, and is relying extensively on foreign expertise. The facility plans to

begin operations with roughly 90% of its workforce composed of foreign workers. The hospital has signed a 10-year agreement with Turkish private healthcare giant Acibadem Healthcare Group for the administrative and operational management of FMC. Further, it is employing international recruiting agencies to hire highly qualified healthcare professionals from India, the Philippines, Turkey, Jordan, and other locations. By utilizing foreign expertise, FMC expects to gain Joint Commission International (JCI) accreditation from the Joint Commission, a US-based quality assessment and accreditation organization. As local professionals develop their knowledge and expertise to the required level, FMC will then seek to phase out foreign workers in favor of their local counterparts.

The increase in modern, private hospitals such as FMC will not likely lead to universal privatization of the sector. While private hospitals make up 40% of the total number of hospitals in the Region, their capacity is much lower than that of the public healthcare system. Private hospitals account for only 9% of the Region's total number of hospital beds.

4.8% of the KRG's total budget in 2013 was allocated to the health sector.

\$732 million
investment since 2006

\$195 million
foreign investment

6%
of all Board of Investment projects



Faruk Medical Center is expected to open as one of the most modern health facilities in Iraq

According to Hawre Daro, universal privatization should not be an overall goal in the Region. Rather, modern, private hospitals should pressure improvement and innovation in the public healthcare sector.

Going forward, there is significant opportunity for additional investment in private healthcare. Underinvestment by the KRG in the public healthcare system, as mentioned earlier, coupled with the Region’s rapid economic development is leading to increased demand in premium healthcare. However, total foreign direct investment in the sector is still relatively low, and constitutes only \$195 million. For comparison, FMC alone represents an investment of over \$100 million into the sector. Total BOI licensed foreign healthcare investment only comprises 2.4% of overall BOI investment. As private hospitals continue attracting the many patients that would otherwise have traveled abroad for medical services, it is safe to expect investment in the sector to grow.

Capital City Leads the Way

Erbil is the epicenter of private healthcare in the Region. The city has become a regional destination for healthcare provision, with patients arriving from across Iraq. Of the 34 BOI licenses granted to private healthcare projects, 26 (constituting 75%) were located in the Erbil governorate. In addition, these projects had a total investment capital of \$596 million (roughly 81% of all funds allocated to the healthcare licenses). 24 of Erbil’s 46 hospitals are now private, making Erbil the only governorate in the Region with a majority of private hospitals.

In addition to several state-of-the-art hospitals, Erbil is host to Awamedica, a modern, international-quality pharmaceuticals manufacturer, and Medya Diagnostic Center, an internationally accredited diagnostics lab and clinic. However, private healthcare elsewhere in the Region, such as Pioneer Pharmaceuticals and the FMC in Slemani, has begun to decentralize the healthcare sector throughout the Region.

Pharmaceutical Improvement

Improvements in the Region’s pharmaceuticals industry have been successful as well. Not long ago, all of the Region’s pharmaceuticals were imported, and a high percentage were low quality or counterfeit. In a public-private approach, the problem is quickly being solved. Two Kurdish private pharmaceuticals companies, Awamedica and Pioneer, have been established recently to provide high quality, low cost medicines for the Region.

Meanwhile, the KRG is tightening security to identify and destroy counterfeit medications. According to Dr. Amir Chalabi, Chairman of the Kurdistan Pharmacists Union, a new system will soon be in place that will allow for the monitoring and standardized pricing of all medicines sold at pharmacies in the Kurdistan Region. According to Dr. Chalabi, “Additionally, this system will help remove the price differences in pharmacies and eliminate the phenomenon of physicians making agreements with specific pharmacies and sending patients only to these pharmacies.” Approaches such as these have been largely successful thus far, with the MOH reporting that over 650 tons of low quality or counterfeit medicines have been destroyed in 2013 alone. In addition, local production of high-quality pharmaceuticals has reduced prices considerably, thereby limiting the appeal of cheaper, lower-quality medicines. Such initiatives have also helped the Kurdistan Region to become increasingly self-sufficient in terms of its pharmaceutical supply. ⑤

Expansion
\$2.1 billion to be spent between 2013-2020
3,200 New Hospital Beds
(42% increase)

165 New primary health centers
(19% increase)

2,097 New physicians
(38% increase)

Number of Hospitals, by Governorate and Type

Type	Erbil	Slemani	Dohuk	Total
Public	22	28	9	59
Private	24	12	4	40
Total	46	40	13	99



Strategy & Progress

Dr. Rekawt H. Rashid
Minister of Health

Minister Rekawt Rashid provides IIG with exclusive insights into the Ministry of Health’s (MOH) strategies for improving the capacity and efficacy of the Kurdistan Region’s healthcare system.

IIG: How would you characterize the state of the healthcare sector in the Kurdistan Region?
RR: The healthcare sector has faced various obstacles in the past years because of the limited budgets of hospitals, and a lack of qualified personnel in vital positions such as healthcare administration, healthcare engineering, and pharmaceutical quality control. However, the MOH has aggressively addressed these challenges, and as a result we are seeing significant progress. To improve both the capacity and diversity of the health system, the Ministry is building new general and specialized hospitals in the Region. To address shortages in the sector’s human capital, the Ministry is increasing the number of doctors and health staff. Additionally, we have strengthened quality control of medicines in huge ways. We are adopting a semi-private system at public hospitals, which allows private sector doctors to perform surgeries in public general hospitals. Finally, we are

expanding the reach of polyclinic services in public sector general health centers, and extending their opening hours. As a result, the healthcare sector is developing, despite the presence of some challenges that stemmed from the past.

IIG: What were your Ministry’s key strategic objectives for 2013 and 2014?
RR: The Health Ministry’s key initiatives for 2013 included: strengthening quality control of drug and food safety; building of seven general and specialized hospitals and 12 primary health centers (PHCs) across the Region; strengthening preventive and therapeutic measures to fight cancer and chronic diseases, as well as improving mental health treatment, and controlling communicable diseases; developing and deploying an electronic health information system; increasing and improving capacity of doctors and other health staff; and preparing healthcare reform plans, in collaboration with the WHO and RAND Corporation.

Many of these initiatives are ongoing, and will continue through 2014. Our plan therefore includes additional progress on food and drug control, increasing the number of hospitals (there are currently 10 new hospitals under construction), and further implementing electronic health information systems. 2014 will also see increased initiatives for encouraging and developing public-private partnerships, increased encouragement of widespread health insurance, and extending family healthcare. To establish a health insurance system, we have proposed legislation in the Kurdistan Parliament to develop a legal framework for insurance to operate. We are also working with an American consultancy to further develop an effective overall structure for a health insurance system in the Region. We hope to have an operational health insurance system running in the Region by early-mid 2014.

IIG: What is being done to address the shortage of well-trained nurses in the Kurdistan Region?
RR: The lack of well-trained nurses presents challenges to the Region’s health

“2014 will also see increased initiatives for encouraging and developing public-private partnerships, increased encouragement of widespread health insurance, and extending family healthcare.”

system. However, the MOH is working hard to increase nursing capacities and improve professional development in nursing. We do this through a series of initiatives to increase opportunities for educational and professional development. For example, the Ministry of Higher Education has established a scholarship program to attract people to university nursing programs. The MOH strongly encourages students to take advantage of this program. Additionally, the MOH has conducted 144 training courses in the nursing field, attended by about 5,000 nurses and paramedics. We are also planning to contract with nurse training institutes abroad to provide advanced training to our nurses.

IIG: What role do you think foreign expertise can play in improving the overall performance of the healthcare sector of the Kurdistan Region?
RR: Foreign expertise can play a crucial role in hospital management, health system reform, development of a health insurance system, organizing public-private partnerships, and development and implementation of the electronic healthcare information system. In many of these fields, the MOH itself contracts with foreign experts, organizations, and companies to bring expertise and experience into improving the system. ⑤

Reinventing Iraqi Pharmaceuticals

Dr. Bahram Resul
CEO, Awamedica

IIG talks to the award winning Dr. Bahram Resul on the ground-breaking pharmaceutical company Awamedica, as well as the state of the healthcare sector in the Kurdistan Region. Awamedica is the first state-of-the-art pharmaceutical manufacturer in the history of Kurdistan.



IIG: How did Awamedica first come to be and what were the primary reasons for its creation?

BR: In 2004, the KRG was concerned about the problem of counterfeit medicine in Kurdistan, and therefore desired to establish a high quality pharmaceuticals factory. I created a 10-person committee composed of people from multiple companies. This group helped me to design a state-of-the-art factory that could be constructed in Kurdistan. Extensive research and data analysis informed the design of the facility. It took about one year to complete the design. We wanted to make the factory fit in the Region but also ensure that it would comply with all international regulations to produce the same quality of materials that can be found in Europe or the United States. In 2006, we started the actual construction and the installation of machines, which lasted 3 years. The facility was officially opened in October 2009, and we started manufacturing in 2010.

IIG: Is counterfeit medicine still widely available in the Region?

BR: In Kurdistan, I would say counterfeit or expired medication comprises about 30% of the market. This is obviously a very high percentage. In Europe, comparable estimates would be around 3%. Usually

in Europe you can obtain these products via the Internet. Here, they are carried in on big trucks from a variety of locations. We therefore had to figure out how to stop this widespread availability. The solution that we devised was to create a factory that complies with all international regulations and produces very high-quality medicines. Establishing such a facility would give Iraqis access to better options than the fake medicines that had contaminated the market. Now, I believe we have achieved this solution.

IIG: In what ways does Awamedica maintain its international standards?

BR: Our collaboration with other major pharmaceutical companies ensures that we follow high standards. We have been inspected several times by large international companies, including Sanofi, which is among the largest pharmaceutical companies in the world. Sanofi later proposed a partnership with us, which was signed in November 2011. They selected us because we comply with all of the good manufacturing process (GMP) standards, which are international guidelines for pharmaceutical manufacturing. Additionally, we have an excellent department for quality control, which is comprised of analytical chemistry, physical chemistry, stability

About

Dr. Bahram Resul has been the CEO of Awamedica since its establishment in 2009. He previously held a professorship at the Uppsala University's College of Pharmacy and College of Medicine in Sweden, and held a research position with Pharmacia, a major pharmaceutical company. He holds a PhD from Uppsala University and a degree in pharmacology from the University of Baghdad.

studies, microbiology, and other areas. We control every aspect of production and ensure that everything complies with US and British pharmacopeia regulations.

IIG: Are there any specific products made my Awamedica that you find particularly important?

BR: It is important to have treatments for a wide variety of diseases. Our work on medications to treat chronic problems, such as cardiovascular diseases and diabetes, is particularly important. Roughly 30% of the Region's population suffers from diabetes. This is obviously an enormous number, so effective treatment is incredibly important. Before we existed, people had to take the medicines that were available, which were often counterfeit or poor quality medicines. These items didn't help, and sometimes caused even greater



- 1 Certified technicians measuring raw ingredients
- 2 Final stages of bottling assembly line process
- 3 Exterior of the manufacturing facility
- 4 Approved raw materials in secure storage area



problems. Our products, however, are very effective, safe, and are now available to the people of the Region and the rest of Iraq. We currently have 82 products on the market, with further expansion planned for 2014.

IIG: Is your long-term plan to export to other countries, or are you primarily just focused on Iraq and Kurdistan?

BR: Our focus is to make Awamedica international. Our partnership with Sanofi helps in this regard. They inspected our facilities ten times to ensure that we consistently met their standards. We passed each of these inspections. We started with packaging and then manufacturing some of their products, especially cardiovascular and oncology products. The partnership helps us to maintain an image as a European company based in Erbil, and our intention is to increase our international exposure.

IIG: Do you think Awamedica is able to satisfy all of the demand in Kurdistan?

BR: For each of our products, we currently have the capacity to produce enough medication to satisfy the demand of both the Kurdistan Region and Iraq. For example, we produce Atenolol, which is used to lower blood pressure, for all of Iraq. This is the same for syrups and for antibiotics for children. Every week we send two large trucks filled with our medicine to Baghdad. They then distribute our products to the rest of Iraq.

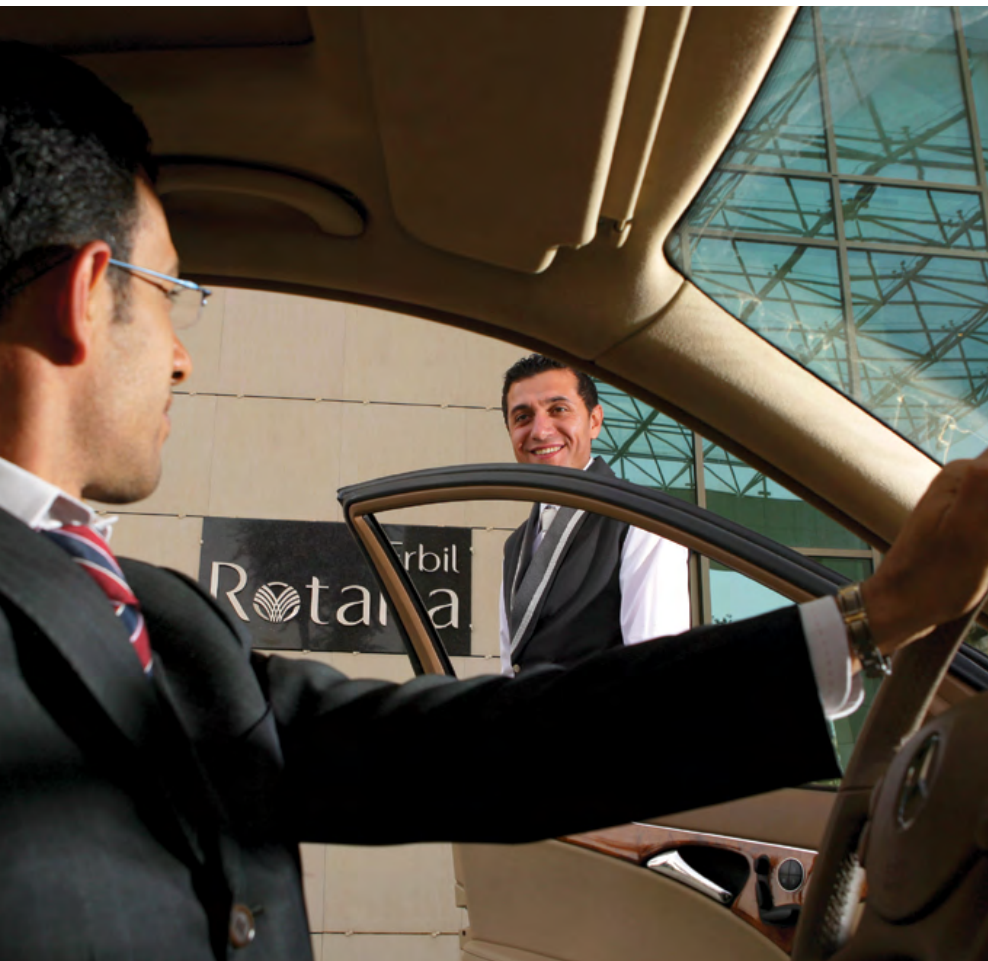
IIG: What is your opinion of the health-care sector in Kurdistan?

BR: The health system needs improvement. For example, in both public and private hospitals, we need nurses. Nurses are central to the operation of all hospitals, but finding qualified nurses in the Region is difficult. The doctors here have excellent experience, but they are not able to

spend enough time with patients. Doctors in Erbil, for example, see 80 to 100 patients daily. This takes its toll on the quality of our medical services, and must be reformed.

IIG: Do you think Awamedica has been able to restore the local population's faith in prescription medicines?

BR: It was difficult in the beginning. Because we are a local company, many people discounted our potential, and assumed that our medicines would be poor quality. Once people began to try our medicines, however, they then realized they were very safe, effective, and good quality. We have a large quality assurance department to ensure that every aspect of production is done to GMP standards and everyone must follow this standard operating procedure. As a result, I believe we have achieved success by maintaining a dedication to this high quality production process. ☞



Overview *Tourism*

Opening up to the World

The tourism industry in the Kurdistan Region continues to grow, and new opportunities are emerging.

The KRG has established specific growth objectives in order to boost its evolving tourism industry, which is emerging as a key sector that is expected to contribute to the rapid economic development of the Kurdistan Region. The results of these goals have, thus far, been strikingly positive. Massive infrastructure improvement, coupled with extensive urban renewal and restoration programs, has helped to both change the landscape of the Region and further develop an already burgeoning industry.

The outside world is increasingly acknowledging the appeal of Kurdistan's diversity of people, landscapes, and traditions. The New York Times recognized the Region as one of its "41 Places to Go in 2011." National Geographic similarly named the Kurdistan Region as one of the "20 Best Trips of 2011," citing it as an "oasis of peace and stability in a historically volatile region." Besides its unique blend of stability and natural beauty, approximately 3,500 historical landmarks located within the three governorates make Kurdistan a key destination for local and foreign tourists. ▶



Iraq's Leading Hotel

Erbil
Rotana

Iraq's Leading Hotel

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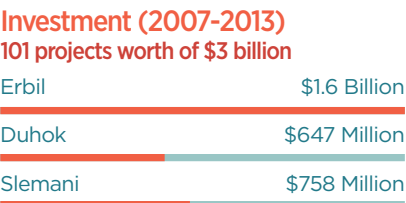
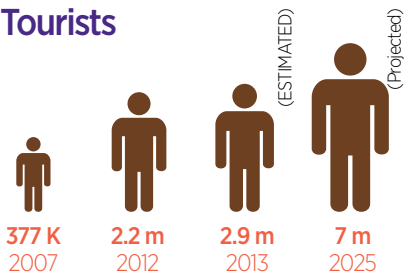
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TOURISM IN NUMBERS

Total Investment (2007-13)	\$3 billion
Revenue (2012)	\$650 million
Revenue (2015)	\$1.5 billion (est.)
Tourists (2013)	2.9 million (est.)
Total Projects	101
Contribution to GDP (2017)	7%
Hotels	400
Occupancy Rates (2013)	80%

Tourists



Revenues
\$650 million (2012)
\$1.5 billion (2015) Projected

Lake Dukan is expected to become a major destination for tourism projects.



In 2007, when the General Board of Tourism (GBOT) first began tracking industry figures, 377,397 tourists visited the Kurdistan Region. By 2012, that number had reached 2.2 million. Estimates indicate that that figure will rise to 2.9 million by the end of 2013, representing a 30% increase over the previous year. To continue that growth, the GBOT has targeted additional expansion to 4 million tourists by 2015 and 7 million by 2025. If those figures prove accurate, then the tourism industry will soon be responsible for creating 25,000 jobs and \$1.5 billion in revenue. Approximately 1.47 million individuals (66%) that visited the Kurdistan Region in 2012 were residents of other provinces in Iraq, 313,144 (14%) were from the local population of the Region, and 433,711 individuals (20%) were from foreign countries. The majority of those international tourists came from neighboring Middle East states such as Iran and Turkey.

The GBOT is actively seeking to diversify these percentages. As such, it has implemented a marketing strategy focused on three distinct areas. The first market is greater Iraq, which is anticipated to have a more immediate impact. The second consists of the neighbors of the Kurdistan Region, particularly Turkey, Iran, and the Gulf Coast Countries. The third target market is Europe, with specific attention paid to those countries that have already established diplomatic relations in the Region.

To encourage increased tourism rates, the KRG has placed particular emphasis on improving the infrastructure of the sector. Since 2007, the KRG Board of Investment (BOI) has authorized a total of 101 tourism projects worth approximately \$3 billion. The Erbil governorate received the lion's share of that investment attention, with 54 tourism projects worth approximately \$1.6 billion authorized for the area. In contrast, the Duhok governorate had 34 projects authorized by the BOI for a total of about \$647 million. Despite significant development of the tourism sector in Slemani, there were only a total of 13 BOI-licensed tourism projects (worth a total of approximately \$758 million) authorized in the governorate.

Kurdistan attracted \$650 million in tourism revenues in 2012; that number is expected to increase to \$1 billion in 2013 and \$1.5 billion in 2015. To enable this progress, the government has begun issuing interest-free loans to those wishing to develop tourism ventures in locations across the Region, especially areas beyond the major population centers. To that end, a major investment project that is expected to have a significant impact on the continued growth of the sector is the planned resort development that will be located on the shores of Lake Dukkan in the Slemani governorate. The project is a joint-venture between FGH and Dubai's real estate giant Emaar, and is expected to be completed with a budget of \$2 billion.



Erbil: A Cultural Capital Emerges

The Arab Council of Tourism named Erbil the 2014 Arab Tourism Capital. As a result, in the coming year the capital city of Kurdistan will stage 40 different cultural events, including festive celebrations for Newroz (the Kurdish New Year), an international marathon, and multiple international film festivals. In addition, Nawzad Hadi, the Governor of the Erbil, predicts that, by 2014, nearly three million tourists will visit the city. To accommodate these visitors and adequately prepare for its new title, the capital is in the midst of an incredible revival of both its tourism infrastructure and cultural heritage.

The city's central landmark (in terms of both geographic location and historical importance) is the Erbil Citadel, which is now a UNESCO World Heritage site given that it has been identified as one of the oldest continuously occupied settlements in the world. The Citadel was damaged by years of neglect, the destructive campaigns of Saddam Hussein, and its temporary usage as a refugee center. As such, the entire settlement is in the process of being painstakingly restored to its original form.

Erbil was named the 2014 Arab Tourism Capital, indicating that the city's tourism industry will continue to expand rapidly.


Expansion of the Hospitality Industry

According to GBOT reports, in 2007, there were only 106 hotels in the Region, 39 of which were located in Erbil. Today, there are more than 400 hotels active in Kurdistan, with approximately 250 located in the Region's capital city. In contrast to their counterparts of the past (the majority of which were constructed in the 1970s or 1980s), the Region's current hotel facilities are structurally modern and operate according to international standards. Sources indicate that an estimated \$1 billion of private investment has been set aside to facilitate further development of the hospitality industry.

Moreover, internationally branded entities such as Starwood (which operates the brands Sheraton and Four Points by Sheraton), Marriott, Kempinski, and Hilton will soon manage multiple state-of-the-art facilities that are currently under development in Erbil. In addition, the Hyatt Hotels Corporation recently announced plans to open the "Hyatt Regency Sulaymaniyah", which will be the first Hyatt-branded hotel in Iraq.

These new hotels will join the likes of luxury facilities like Rotana, Divan, and Tangram, which are already active and successful in the Region. Meanwhile, Millennium and Copthorne will soon manage three new hotels in Slemani, including the well-known Copthorne Baranan and the breathtaking Grand

Millennium Sulaimaniyah. As a result of all of this rapid growth, GBOT estimates indicate that there are over 43,000 hotel rooms available in Kurdistan, the majority of which are regularly occupied by the numerous business travelers who frequent the Region.

Statistics demonstrate that hotel occupancy rates increased from an average of 73% in 2011 to 75% in 2012. Notably, occupancy rates have risen in tandem with the increased supply of available hotel facilities. As a result, experts have predicted that occupancy rates will increase to 80% in 2013. With average daily rates of \$287 (an 18% increase over the average daily rates in 2011), the hospitality industry remains a lucrative sector for potential investors. 

The Ministry of Tourism allocated \$950 million to implement 47 projects in 2013.



A Boutique Hotel in Erbil

Blue Mercury Hotel

Blue Mercury Hotel is located near the Ainkawa Bridge on 60 Meter Street, only 5 minutes from the famous Erbil Citadel. The hotel offers a complimentary breakfast buffet, wireless internet, 24/7 room service, and transport services to and from Erbil International Airport upon request.

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Mawlawi Jabar Wahab
Chairman, General Board of Tourism

Mawlawi Jabar Wahab explains the development of the tourism industry in the Region, his office's efforts to properly brand Kurdistan, and the specific components of the Board of Tourism's Strategic Master Plan, which includes the creation of facilities for hospitality education.

IIG: How do you assess the development of the tourism industry in the Kurdistan Region?

MJW: Prior to 2007, the infrastructure of the Kurdistan Region was limited. This was especially the case for the tourism industry. So, at that time, the KRG began to place emphasis on tourism to make sure that it would become an active, economically beneficial sector. Since then, we have seen the sector develop at an incredibly rapid pace. The statistics support this fact. In 2007, there were only 39 hotels in Erbil. Today, we have more than 250, including multiple internationally branded, five-star facilities. In 2007, a total of 377,000 tourists visited the Kurdistan Region. In 2012, that number increased to 2.2 million.

IIG: What are your expectations for the tourism sector in the short term?

MJW: We have reviewed recent reports from the United Nations World Tourism

“Our key duty is to promote the fact that things here are safe, stable, and worthy of visiting. We are doing everything in our power to demonstrate to the rest of the world that Kurdistan is secure.”

Organization (UNWTO), which indicated that global tourism industry will develop approximately 3-4% this year. Our research confirms these figures in terms of global tourism. However, the general opinion is that this growth rate will be much higher for the MENA area and for the Kurdistan in particular. I believe that the Region is uniquely positioned to continue its rapid growth in the tourism

sector, as we have all the necessary components to develop successfully. We have an ideal location, notable historical sites, beautiful natural settings, a friendly population, and abundant natural resources. So, I believe that the tourism industry can produce significant revenue for the

second market consists of our neighboring countries, particularly Turkey, Iran, and the Gulf Countries. The third market would be European countries, particularly those who have already established diplomatic representations in the Region.

“We have seen the tourism industry develop at an incredibly rapid pace. The statistics support this fact. In 2007, there were only 39 hotels in Erbil. Today, we have more than 250, including multiple internationally branded, five-star facilities. In 2007, a total of 377,000 tourists visited the Kurdistan Region. In 2012, that number increased to 2.2 million.”

KRG, and it was therefore no surprise that the government elected to prioritize this critical sector.

IIG: Do you think that there is misconception about the security situation in the Kurdistan Region?

MJW: The Kurdistan Region is committed to being a part of Iraq. However, the perception of Iraq abroad is obviously quite negative. This negatively impacts the development of the tourism sector in the Region to some extent. Many people are unable to differentiate the cities of Kurdistan from those of the rest of Iraq. As a result, they may not believe that the Region is stable and secure. So, our key duty is to promote the fact that things here are safe, stable, and worthy of visiting. We are doing everything in our power to demonstrate to the rest of the world that Kurdistan is secure. To do so, we have been developing a marketing strategy to better spread this message, and we expect that it will play a major role in facilitating greater tourism figures.

IIG: What is your marketing strategy?

MJW: We have identified three different target markets in which we hope to spread our message. The first market is in greater Iraq, which we believe will have more of an immediate impact. The

We have been quite successful in the first market. We are continuing to promote ourselves in the second market. We are pleased with the results. However, we have had some difficulty with the third market. So, we will need to further promote ourselves in those areas.


IIG: What needs to be done to ensure sustainable growth in tourism sector?

MJW: We have already achieved one major element that will allow us to ensure further development: a strategic master plan (SMP). Our SMP was prepared by the joint venture of a Lebanese and an Austrian company, and is structured in three phases. The first phase has a targeted completion date of 2016, the second has a targeted completion date of 2020, and the third has a targeted completion date of 2025. We evaluate the plan on an annual basis to ensure that we are on track and that all of its components are still applicable. Many unforeseen obstacles and challenges will present themselves over the course of this project, so we do our best to handle them accordingly and remain on track towards the successful execution of the plan. Obviously, the overall goal of the SMP is to ensure that the Kurdistan Region takes its place as an international tourism destination.

IIG: What are the primary goals of the plan, and how do you expect them to be accomplished?

MJW: Our primary target is to have 7 million tourists visit the Kurdistan Region in 2025. However, we also have strategic goals along the way. For example, we have placed particular emphasis on developing the tourism/hospitality education sector. We will be setting up special departments at local universities to accommodate these new fields. In addition, there will be three training centers [one each in Erbil, Duhok, and Slemani]. We are hoping to import French expertise in terms of managing these training facilities.

Obviously, a primary goal of the SMP is to enhance the Kurdistan Region's international brand. To do this, we feel it will be necessary to re-organize the structure of the General Board of Tourism in order to ensure that it operates on a more efficient level. We will also seek to properly incentivize private sector investment by providing loans without interest and by helping to develop their overall operational capacity. We feel that our goals cannot be achieved without an active and eager private sector, so we will do everything we can do ensure that it remains involved.

Lastly, we have placed emphasis on supporting the development of the infrastructure of the tourism sector. Erbil, Duhok, and Slemani all need further improvement if they are to accommodate increased numbers of visitors each year. To that end, foreign direct investment in the tourism sector will become increasingly important. So, we are working diligently to establish connections and promote our SMP abroad. 



Renovating Erbil

Nihad Latif Qoja
Mayor of Erbil

Nihad Qoja details the work that has gone into developing Erbil, the infrastructure that requires further investment, the planned renovations for the Erbil Citadel, and his vision for the future of the Kurdistan Region's capital city.

“If you looked at a picture of Erbil in 2004 and one of Erbil in 2013, you would probably assume that the time difference between the two images was actually 30-40 years rather than eight or nine.”

IIG: You began serving as the Mayor of Erbil in 2004. What has been the biggest success since that time?

NQ: The greatest success has been the growth of the city itself. Before 2004, Erbil did not look anything like it does today. If you looked at a picture of Erbil in 2004 and one of Erbil in 2013, you would probably assume that the time difference between the two images was actually 30-40 years rather than eight or nine. This growth is in terms of both the population and the infrastructure itself. The population of Erbil is over 1.2 million; it was roughly 500,000 in 2004. In 2004, the only proper road was 60 Meter Street. Today, there is a modern traffic system with many proper roads, including 30 Meter and the 100 Meter Streets. The same is true for the number of buildings, the electricity network, and the general infrastructure. All of this development happened after 2004.

IIG: What are the areas that require further development?

NQ: There are many other areas that are in need of further development. Perhaps one of the biggest issues facing the city of Erbil is its antiquated sewage system. The system we currently have in place is very old and out of date. In addition, the population of the city has more than doubled since 2004. So, we can't simply repair or refurbish the sewage system; it needs to be rebuilt from the beginning. However, to do so requires a massive investment from the government. An independent study was conducted regarding the sewage system of Erbil and from that study a strategic Master Plan was devised. That plan called for a budget of \$2 billion. The design is ready, but the amount of money required to make such drastic changes is very high.

IIG: Can you tell us about the work being done at the historic Erbil Citadel? What are the planned changes and when are they expected to be completed?

NQ: The Citadel itself will stay as it is, but it will be renovated. The basic plan calls for the area to be used as a center for cultural activities. For example, the French and Turkish consulates are already

planning to have cultural offices within the Citadel, and other delegations are following suit. We hope that, with time, the area will become the cultural center of Erbil. To help facilitate this change, some of the old houses will be renovated and turned into cafes, restaurants, and hotels. Then there are other changes that are being carried out for more historical purposes. For example, we have already begun work at the main entrance to the Citadel. The current gate was constructed during the era of Saddam Hussein and reflects Babylonian designs rather than Kurdish. Our plan calls for the gate to be redesigned to reflect its original structure. However, because the Citadel has existed for thousands of years, there is much archaeological preservation to be done before most of these plans can be carried out. All the work in the Citadel is being overseen by UNESCO so as to ensure that proper protocol is observed at all times. I believe that the work will take approximately 10 to 15 years.

IIG: How do you expect the city to continue to grow and develop?

NQ: Our priority for the next few years is to renew the old quarters of the city of Erbil. There are many areas here that are very old or run-down, and are in need of revitalization or renovation. In addition, there are many changes planned for the area around the Citadel itself. All the buildings surrounding the Citadel, including the Erbil Governor's office, will be demolished. A few historical structures, such as this office and the bazaar, will stay in their present locations. However, they will, of course, be heavily renovated. The rest will be demolished and rebuilt as cultural areas or parks. This is all being done to help revitalize and modernize Erbil, and more accurately reflect the history and culture of its people. ☞



Pioneering Hospitality

Thomas Touma
General Manager, Rotana Erbil Hotel

IIG talks to Thomas Touma regarding the current climate of the tourism and hospitality industry, and how Erbil Rotana differentiates itself in light of increased competition from other international hotel chains.

IIG: Rotana is the first hotel of its kind in Erbil. How did the Rotana decide to become involved in this market?

TT: The Erbil Rotana was conceived in 2009, and has been in operation since December 2010. Malia Group and Rotana saw the rapid economic development and stability in the Region as an opportunity to enter with a five-star hotel. In 2009, there was nothing familiar to what we had envisioned in Erbil, and this venture represented something different; it was very exciting. However, establishing the first hotel of this kind was a challenge. Both companies decided to take on such a huge investment thanks to the presence of the investment friendly environment of the Region.

IIG: How would you describe current climate of the tourism industry in the Kurdistan Region?

TT: The Kurdistan Region has a lot of attractions for tourists, especially when it comes to cultural tourism and eco-tourism, with many beautiful natural sites yet to be developed and explored. The KRG has established plans to further develop the Region's touristic areas, as well as its infrastructure, since Erbil has been named the 2014 Arab Tourism Capital. The city is planning to host a range of activities, including a winter ice-skating rink, an international marathon, a beauty contest, and many others to entertain an anticipated 3 million visitors in 2014. Additionally, Erbil will continue holding major international medical, oil and gas, cultural, and professional events.

IIG: How do you assess the growth of the hospitality industry in Erbil?

TT: At this point, new hotels are part of an upward cycle in Erbil. We believe that increased competition allows for a better market. It also demonstrates the city's rapid development and growth. Our growth is related to city growth, which requires more hotels and investment. We welcome this evolution.

IIG: How will the Rotana Erbil differentiate itself in light of increased competition from other international hotel chains?

TT: The Rotana's capability and wealth of experience, along with its vast understanding of the hospitality needs of the MENA Region, ensure our success. Time is the most precious commodity in our customers' lives. Therefore, we have chosen to embrace this and make time spent at the Rotana “Treasured Time” for our guests, owners, partners, and colleagues. So, since our opening we have continued to deliver our brand promise, which is “Treasured time. Our promise to you.” Our team of 380 colleagues has aligned its goal of delivering the highest standard possible.

We have focused on rewarding our clients' loyalty through the Rotana Rewards Program. We have established ways to

About

Thomas Touma has been with Rotana for 13 years, serving as the Erbil Rotana's General Manager since its establishment in 2010. Prior to working in Erbil, Touma spent many years in the hospitality industry in Dubai. He holds a degree from the Hotel Institute of Montreal in Switzerland and an MBA from the University of Phoenix in the US.

recognise repeated customers so that we can make them truly feel part of this hotel, as a team and a family. From the very first day, we have wanted to make every guest feel at home, and we have done this with genuine service, and through building strong relationships with them. We aim to engage on an emotional and personal level, not just as their preferred accommodation for what the hotel has to provide.

Our facilities and rooms are certainly important, but the relationships are key. I believe it is our relationships that have allowed us to win the World Travel Award of Iraq's Leading Hotel for three consecutive years in 2011, 2012, and 2013; we promise to maintain this reputation for the future.

IIG: Are there any other cities where Rotana is planning to expand in the Kurdistan Region or in greater Iraq?

TT: In November 2013, Rotana successfully opened the 200-room Karbala Rayhan Hotel, a five-star, non-alcohol brand concept. Additionally, Rotana Hotels are set to operate, between 2016 and 2017, two new five-star hotels: one in Slemani and one in Baghdad.

We believe in this country, and therefore we are bringing Rotana's Arjaan concept to Erbil. The hotel is already under construction, so within the coming two years, by mid-2015, it will open with 158 units. The Malia Group is the major investor for the Arjaan Hotel as well. Rotana's Arjaan brand hotels are hotel apartments, with studio, one bedroom, and two bedroom apartments. They cater to long-term stay guests, specifically those individuals coming to the Region for over a month who desire hotel services in an apartment setup. ☞



A Home Away from Home

Gökhan S. Aykan

General Manager, Divan Erbil Hotel

Gökhan S. Aykan provides IIG with insight into the developing tourism industry in the Region, the changes he has implemented since taking over managerial duties at the Divan, and the hotel's long term strategy for ensuring continued growth and development.

About

Gökhan S. Aykan studied at the Institut Hotelier Cesar Ritz in Le Bouvaret, Switzerland. He began working for the Swiss Hotel Atlanta in 1993. After many years in the hospitality industry in the U.S., Aykan returned to Turkey to serve as the GM of the Divan Ankara. He has been the GM of the Divan Erbil since early 2013.

IIG: How would you describe current climate of the tourism industry in the Kurdistan Region?

GA: The tourism industry is one of the key sectors that the KRG has prioritized. Thus, the sector is growing at a rapid pace. The business friendly environment and massive investment projects taking place in the Region are very encouraging. The expansion in key economic sectors outside of tourism has contributed to the growth of the tourism industry in the Region. Erbil has played host to a number of regional and international exhibitions and events. Additionally, the rapid growth of the sector is also paving the way for job creation for locals. I believe we will see more and more investment and improvement in the upcoming years.

IIG: How would you characterize the Divan Erbil's role within the industry in terms of its short and long-term stay strategy?

GA: Erbil is still developing. I believe the residential sector will be required to catch up to the business sector. This will take some time. For at least the next three years, companies will focus on hotels for their long-term or semi-long-term stays rather than look to the residential sector. Eventually, this will change. For now, however, these guests are providing consistent business. We are therefore trying to be strategic in our planning to ensure that we accommodate them accordingly.

Throughout my career, I have always heard the phrase, "home away from home" utilized by the hospitality industry. Obviously, this is a strong mission statement. However, when the guests are only staying one or two nights, it is very difficult to create that feeling of a "home." In Erbil, we have guests staying with us for three, six, or 12 months. This length of stay really allows us to work on that "second home" feeling. It allows us to both customize all of our services for their needs, and anticipate everything that might become essential. If we are able to learn a guest's habits and cater to him or her, suddenly that person will be in a much more pampered, comfortable environment, and will be more likely to feel at home as a result.

IIG: Does Divan Erbil utilize local expertise or bring in foreign professionals?

GA: Since our overall goal is to combine foreign and local expertise, we are pursuing both options. For example, we have a sushi restaurant on our 21st floor: Qi21. Sushi is an art that requires education. In the beginning, it was difficult to find a local sushi chef. Instead, we brought in experienced chefs from abroad. However, we also hired locals to train underneath them and learn this more formal, structured form of cooking.

If we find expertise or resources locally, we take advantage of them. We want to ensure that we are not just growing as a company, but rather that we are also supporting the local community in its growth. There needs to be a healthy marriage of the two concepts. If we did not pursue such a strategy, we would only be planning for the short-term. That's obviously not our goal. So, we are doing everything in our power to ensure that we invest in the Region and the Region invests in us.

IIG: In terms of furthering that investment, what are the new facilities that Divan plans to offer in the near future?

GA: We will soon be completing our new steakhouse and nightclub. We have also started construction on our ballroom and spa. The spa itself will be quite gorgeous and will feature a fitness center, spa facilities, an indoor swimming pool, and separate grooming and beauty salon facilities for men and women. In the next six months, we are also looking at other options for a la carte restaurants within the hotel. We currently have Seasons (our international buffet), Qi21 (our sushi and grill restaurant), Chopin (our piano bar), and Saray (our coffee shop). We think that there is room for a few more a la carte facilities. We have the locations for them, and we are working on their themes and overall designs. 

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How to Start-Up
DOING BUSINESS IN THE KURDISTAN REGION

Understanding local requirements is key to success

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Deloitte's Kurdistan practice provides comprehensive and integrated solutions.

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Operating in over 150 locations around the world, we are recognized for our talent, scale, position and size. Our firm brings the experience that you require to mitigate the risks and challenges that your business might face in Kurdistan. We have a deep understanding of the local statutory accounting and tax compliance requirements; accordingly, many of the world's largest companies operating in the Region rely on our local expertise.

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As you grow your business in Kurdistan, we will be available to help you every step of the way. We will work with you to ensure that you are kept up to date on developments in the Kurdistan Region regulatory and tax areas.

In a raw and lucrative market such as the Kurdistan Region of Iraq, there are definite opportunities; hence, patience and local relationships are essential ingredients to a successful entry.

The Kurdistan economy is heavily reliant on oil revenues, but recognizing that oil export receipts cannot keep pace with spending for reconstruction, the Kurdistan Regional Government introduced new legislations in an effort to attract private sector and foreign investment. These new measures are meant to boost Kurdistan's economy driving non-oil GDP up.

The primary beneficiaries are many industry sectors including but not limited to: construction and construction materials, branded consumer goods, healthcare, technology & electronics, retailing, financial services and capital markets.

This start-up guide is designed to walk a new entrant through the key steps in setting up a business in Kurdistan. Please note that this guide is general in scope and should not be relied upon as legal, tax or other professional advice specific to your industry, country of origin and business structure. Subsequent changes in or to the foregoing (for which Deloitte shall have no responsibility to advise readers) may result in the information provided by Deloitte being rendered invalid. We hope that you will find this to be informative and your experience here in Kurdistan enjoyable and rewarding.

Respectfully,

Ayad Mirza,
Iraq Country Managing Partner
Deloitte & Touche Management Consulting, WLL

Choice of entity and legal business structure

As a general rule, a foreign company that is “carrying on business” in the Kurdistan Region is required to establish a legal presence in the Region (e.g. company, branch office, etc). While there is no specific definition as to what constitutes “carrying on business”, typically an obligation would arise when the company obtains premises (including rented premises) in the Kurdistan Region, or retains personnel on a more than temporary basis.

Iraq’s Companies Law 21 (of 1997) as amended in 2004, which is adhered to in Kurdistan allows for several types of legal business structures. Principally these include joint stock companies, limited liability companies, joint liability companies, sole proprietorships, and branch offices.

Below we set out to list some of the more important requirements to set up the two most prevalent legal structures in Kurdistan; Limited Liability Companies and Branches of Foreign Entities.

1. Registering a new Limited Liability Company (LLC)

1.1 LEGAL REQUIREMENTS

- An entity name must be reserved at the local Chamber of Commerce.
- An application form must be completed.
- Articles/Memorandum of association must be prepared.
- For each corporate shareholder: a certificate of incorporation; articles of association/charter and a power of attorney in favor of a Kurdistan Region lawyer is to be signed by the director and authorized signatory of the corporate shareholder.
- For each individual shareholder: a passport copy and/or other local identifications, and a power of attorney in favor of a Kurdistan Region lawyer to be signed by all individual shareholders.
- A copy of leased of premises contract in the Kurdistan Region.
- Evidence of residency of proposed managing director in the Kurdistan Region.
- A minimum share capital for an LLC is 1 million IQD must be contributed prior to completion of registration (oil service companies shall have a minimum share capital of 2 Billion IQD).
- An LLC must have one managing director and must appoint a statutory accountant and a statutory lawyer. The latter two must be Iraqi nationals while the managing director could be a foreign national.

Iraq’s Companies Law 21 (of 1997) as amended in 2004, which is adhered to in Kurdistan allows for several types of legal business structures. Principally these include joint stock companies, limited liability companies, joint liability companies, sole proprietorships, and branch offices.

1.2 REMARKS

- Incorporation time: 20 – 24 business days.
- An LLC can be wholly owned by a foreign citizen or a foreign entity.
- The maximum number of shareholders is 25.
- An LLC may engage in any activity other than banking, financial investments and insurance.
- An LLC is required by law to hold two General Assembly meetings per year.
- An LLC is allowed to own real property even if wholly owned by a foreign citizen or a foreign entity.
- An LLC incorporated in the Kurdistan Region cannot operate in Federal Iraq.
- An LLC incorporated in the Kurdistan Region can open a branch in Federal Iraq.
- An LLC is subject to the classification requirements of the Ministry of Planning when such classification is required to enter into a certain contract or tender.
- An LLC can own a motor vehicle but its foreign shareholders cannot own such vehicles in their own names.

1.3 FOREIGN ENTITY AS A SHAREHOLDER

In case the LLC will be partially or wholly owned by a foreign entity, the latter must be incorporated for more than one year. The documents below are to be provided by the foreign entity. All documents must be translated to Arabic and certified at the Iraqi embassy in the entity’s home country:

- Articles of Association
- Certificate of Incorporation
- Last filed financial statements
- Resolution to own an LLC in the Kurdistan Region

2. Registering a branch of a foreign company

2.1 LEGAL REQUIREMENTS

- An application form must be completed.
- Certificate of Incorporation of the Parent Foreign Company registering the branch office.
- Articles of Association/Charter of the Parent Company and a Resolution to open a branch in the Kurdistan Region of Iraq.
- A Power of Attorney from the branch director or authorized signatory in favor of a Kurdistan Region lawyer to undertake registration procedures.
- A copy of leased of premises contract in the Kurdistan Region.
- Evidence of residency of proposed managing director in the Kurdistan Region.
- All documents must be translated to Arabic and certified at the Iraqi embassy in the entity’s home country.
- A branch must have one managing director and must appoint a statutory accountant and a statutory lawyer. The latter two must be Iraqi nationals while the managing director could be a foreign national.

In case the LLC will be partially or wholly owned by a foreign entity, the latter must be incorporated for more than one year.

2.2 REMARKS

- Incorporation time: 10 – 12 business days.
- Branches of foreign companies must keep the same name as the parent company.
- The parent company is financially and legally liable for the branch's activities.
- Branches of foreign companies cannot own real property.
- The approval of relevant syndicates for the branch registration is more costly than the same approvals required to incorporate an LLC.
- Branches of foreign companies can own a motor vehicle.
- Branches of foreign companies are exempt from the classification requirements of the Ministry of Planning.
- Branches of foreign companies registered in the Iraqi Kurdistan Region cannot operate in Federal Iraq.
- The parent company needs to have been incorporated more than a year ago in order to be allowed to register a branch in the Kurdistan Region of Iraq.

3. Residency permits

- Locally incorporated LLCs and branches of foreign companies have the same rights regarding residency permits.
- The LLC or the branch, director and authorized signatory, is the only person allowed to issue a permanent residency under the company guarantee.
- All shareholders and foreign employees need a local Kurdish guarantor in order to issue a permanent residency permit.
- In case the company signs a governmental contract or receives an investment license, it can act as the guarantor for all its employees.

4. Import - Export

- All companies are allowed to issue an import/export license.
- The type of products that needs to be imported must be specified in the license application.
- The ports of entry that will be used by the company need to be specified in the license application.
- Once the license is issued, it must be notified to the relevant ports of entry.
- In case a company wishes to import security-related items, it must be licensed to import such items by the Ministry of Interior.

5. Labor law

- No minimum requirement on the number of local employees in a company.
- All employment agreements must be either in Arabic or bilingual.
- No work permits are required for local or foreign employees. Foreign employees can legally perform their duties based on their residency permit.

Branches of foreign companies registered in the Iraqi Kurdistan Region cannot operate in Federal Iraq.

6. Free zones

- Currently, three Industrial free zones are under consideration as approved projects by the Board of Investments.
- The Duhok industrial zone is already implemented and more investors are sought to settle industries and submit proposals for industrial projects. The Erbil industrial zone has reached the final setup stage and soon investors will be requested to submit proposals for industrial projects. The two Slemani industrial zones offer great potential for investments; one of the zones is currently being developed and master developers are being sought for the other one to propose scenarios of developing the areas for industrial projects.

Taxation

As a semi-autonomous Region, the Kurdistan Region has introduced certain tax laws and practices that diverge from the position in Federal Iraq. This section discusses corporate income tax; including issues such as compliance, income tax rate, and loss carry forwards.

Transfer pricing, capital gains, withholding tax, employment tax, social security contributions, VAT/sales tax and import, export and customs duties are also discussed.

1. Corporate tax

1.1 COMPLIANCE

- Entities are required to register with the Income Tax Directorate in Kurdistan Region (the ITD) for corporate income taxes.
- The Income Tax Directorate (ITD) typically requires Kurdistan entities to complete the tax registration by way of their first corporate tax filing.
- Registered companies and branches of foreign entities are required to make annual corporate tax filings with the ITD, and make payment of corporation tax, by 30th of June following yearend. (Note: the statutory filing deadline is 31 May, but a 1 month extension is in practice applied by the tax authority to all businesses).
- The penalty for late filing is currently 10% of the tax due, capped at IQD 75,000 per year.

1.2 CORPORATE INCOME TAX RATE

- The current corporate income tax rate for all industries is a flat rate of 15%.
- According to the tax law, if supporting books and records are maintained, corporate income tax should be calculated based on the net accounting profits per audited financial statements.
- In the absence of audited financial statements and supporting documentation, it is not uncommon for the ITD to assess corporate income taxes based on pre-determined industry sector deemed profit schedules.

Registered companies and branches of foreign entities are required to make annual corporate tax filings with the ITD, and make payment of corporation tax, by 30th of June following yearend. (Note: the statutory filing deadline is 31 May, but a 1 month extensions is in practice applied by the tax authority to all businesses.)

The Kurdistan Region does not currently impose withholding taxes on service payments.

1.3 LOSS CARRY FORWARDS

Kurdistan Income Tax Law No. 26 of 2007 and its subsequent amendment Law No. 20 of 2011 are both silent about loss carry forwards, but in accordance with Iraqi Income Tax Law No. 113 of 1982 as amended in 2003:

- Losses incurred during the year may be carried forward for a maximum of five consecutive years, to be offset against profits generated from the same source as the original loss.
- Up to 50% of the taxable income in a year may be sheltered by brought forward tax losses.
- To the extent that an entity is loss making, the tax authority may seek to assess the entity on a deemed profits basis, which would effectively disregard any losses incurred in the current year and deny the entity of tax relief for carried forward losses in future periods.

2. Transfer pricing

- There are no formal transfer pricing rules in Kurdistan Region.
- The tax authority, however, reserves the right to adjust transactions, for tax purposes, which they consider not to be at arm's length.

3. Capital gains

- There is no separate capital gains tax regime in Kurdistan Region.
- Gains and losses realized by a Kurdistan entity on disposal of non-current assets is classified as ordinary income and is subject to corporate income tax at the applicable corporate income tax rate.
- The tax law does not specifically provide for a tax on gains realized by a non-resident. However, there are provisions included within the tax law which the tax authority could use to seek to assess tax on a gain realized from the disposal by a non-resident of Kurdistan assets.

4. Withholding tax

- In practice, there is no withholding tax on dividends.
- A tax of 15% should apply to payments of interest to non-residents but this is not always consistently applied.
- The Kurdistan Region does not currently impose withholding taxes on service payments.

5. Employment tax

- Entities registered in Kurdistan Region must register with the ITD for employment taxes with respect to their employees working in Kurdistan.
- Employment tax filings are due annually by 30th of June following yearend.
- Employees working in the Kurdistan Region are subject to personal income tax at a rate of 5% on their income which exceeds IQD 1,000,000.
- Social security contributions withheld from the employee are deductible when calculating taxable income.
- Both foreign and local Iraqi national employees are assessed tax on the same basis.

6. Social Security Contributions

- All employers operating in the Kurdistan Region are required to remit Social Security and Pensions Contributions ("SSPC") for their employees in the Kurdistan Region.
- There are two components to the SSPC: Employees are required to contribute 5% of their monthly salary. The employer deducts at source this amount from the employee's salary.
- Employers are required to pay 12% of the salary in respect of their employees working in the Kurdistan Region of Iraq.
- Exemptions are available to foreign nationals working in the Kurdistan Region if covered in their home country and proof of coverage is documented with the social security office.
- Such proof must be authenticated by the Iraqi embassy in the country where the foreign employee resides.

7. VAT/Sales tax

- There is currently no VAT or sales tax levied on goods or services in the Kurdistan Region.

8. Import, export and custom duties

- Under Iraq domestic legislation, customs duty on goods brought into Iraq is generally 5% of the CIF value of the goods imported.
- Customs duty exemptions may be available for goods and equipment imported in connection with upstream oil and gas activity, or goods imported on a temporary basis.

Employees working in the Kurdistan Region are subjects to personal income tax at a rate of 5% on their income which exceeds IQD 1,000,000.

Investment Law

Law No 4 of 2006, Law of Investment in the Kurdistan Region (the “Investment Law”) provides for tax incentives and exemptions for foreign investors in the Kurdistan Region who are involved in certain qualifying projects. The Investment Law sets out specific sectors which are considered to fall within the scope of the Investment Law. In general, projects involving vital sectors, such as electricity, agriculture, health and environment, infrastructure and education, etc qualify as eligible projects.

1. Key provisions of the Investment Law

According to the Investment Law, projects which fall within the scope of the Investment Law (and which have obtained the requisite approvals) should benefit from:

- Total ownership of project land allowed, except investor may not own land containing oil, gas or mineral resources.
- Full repartition of project investment and profits.
- A foreign investor shall be entitled to send his capital back abroad upon winding up or disposal of the Project without prejudice to applicable laws and regulations regarding taxes and customs.
- **Exemption from the following taxes:**
 - All non-custom taxes and duties for a period of ten years from the date production commences or the date services are offered.
 - Custom duties on imports of spare parts up to 15% of project cost.
 - Custom duties, taxes, import licenses on imported vehicles, equipment, instruments, etc, provided they are imported within two years of approval by the Investment Commission Chairman.
 - Custom duties and taxes on imports of linens, carpets, furniture and other renovation items once every three years for hotels, hospitals, universities, schools, and tourist institutions.
 - Custom duties for five years on imports of raw materials for production.
- Employment of foreign workers provided no capable Iraqis are available. Foreign workers may repatriate earnings.
- Equal treatment of foreign investor and capital as national investor and capital.
- An investor may transfer his investment totally or partially to another foreign or to a national investor, or may assign the project to his partner with the approval of the board.
- Services provided by the Kurdistan Regional Government to the boundary of the project, such as water, electricity, sewage, public roads, telecommunications, etc.
- Foreign or domestic insurance and additional incentives for projects in “less developed areas” and “joint projects” between Kurds and foreigners.
- Protection under the Supremacy of Kurdistan Law (Art. 115 of Iraq’s Constitution) whenever there is any contradiction between this law and “other relevant laws”, the provision of this law shall be applicable”.
- An investor’s initiative and technical know-how are protected under this law and any person, by virtue of his post, who discloses any information, will be punished.

Law No 4 of 2006, Law of Investment in the Kurdistan Region (the “Investment Law”) provides for tax incentives and exemptions for foreign investors in the Kurdistan Region who are involved in certain qualifying projects.

2. Eligible projects

The provisions of this Law shall apply to the projects approved by the board in one of the following sectors:

- Manufacturing industries, electric power and related services.
- Agriculture, whether crop growing farms or animal farms, forestry and related services.
- Hotels, tourist and recreational projects, funfairs, and amusement parks.
- Health and environment.
- Science and technology research, and information technology.
- Modern communication and transport.
- Banks, insurance companies, and other financial institutions.
- Infrastructure projects, including construction, reconstruction and housing projects, roads and bridges, railways, airports, irrigation and dams.
- Free zones, modern commercial markets, and relevant advisory services.
- Education at all levels, within the framework of the educational policy of the Region.
- Any project in any other industry which the council agrees is covered by the provisions of this law.

3. Licensing procedures

In order to avail of the provisions of the Investment Law, the Kurdistan entity is required to obtain an investment license in respect of the specific project. The following are necessary procedures when submitting a request:

- The entity is required to submit an application to the Board of Investment accompanied with documentation that would assist in obtaining the exemption e.g. description of the project, copy of the contract (if available) and a summary of how the project would contribute to the development of the Region.
- The board will have to decide on the application within 30 days from the date of fulfillment of the technical, legal, and economic conditions and requirements.
- The board shall then consult with competent authorities on the advantages of issuing the license and such authorities will give their viewpoint for the acceptance, rejection or amendment request within 30 days from the date of the board’s referral of the application to them.
- If the application is rejected, the applicant may raise an objection to the president of the council within 15 days from the date of the rejection notice.
- The president of the council will have to respond within 30 days and his decision shall be conclusive.

In order to avail of the provisions of the Investment Law, the Kurdistan entity is required to obtain an investment license in respect of the specific project.

Local Statutory Accounting and Auditing Requirements

There is a requirement for Iraqi entities to submit annual audited financial statements to the Companies Registrar and General Commission for Taxation. The financial statements must be in Arabic and in accordance with Iraq's Unified Accounting System "IUAS". Strictly, Iraqi corporate law requires that Iraqi entities maintain Arabic accounting books and records inside Iraq.

1. Local Statutory Accounting Requirements

- For companies that maintain an ERP system in a language other than Arabic, all of the General Ledger line item transactions as shown on the ERP system must be translated into Arabic on a monthly basis in compliance with statutory requirements.
- For companies that maintain their books and records under International Accounting Standards, an annual conversion to the Iraqi Unified Accounting System is mandatory.

2. Local Auditing Requirements

- Under Iraqi law, an entity must engage with a local licensed auditor to sign off the audited IUAS financial statements. It is noteworthy to mention that currently, none of the International Accounting Firms have a local audit license to be able to sign off on the IUAS financial statements.
- The audited financial statements must also be signed off by the company's managing director in the case of an LLC or by the branch manager in the case of a foreign branch.
- A third signature from the company's statutory accountant is required.
- Once signed off, the local licensed auditor and/or the accountant must have the audited financial statements stamped by the Institute of Accountants and Auditors.
- **Typically, five originals are needed:**
 - Two original copies to be kept by the company.
 - One original copy to be kept by the local auditor.
 - One original copy to be submitted to the Companies Registrar on or before April 30th following yearend.
 - One original copy to be submitted to the General Commission for Taxation on or before June 30th following yearend.

There is a requirement for Iraqi entities to submit annual audited financial statements to the Companies Registrar and General Commission for Taxation.

3. Brief history of Iraq's Unified Accounting System

- Work on the Unified Accounting System in Iraq started in April 1979 by the establishment of a committee which was formed by representatives of various governmental institutions and accounting experts.
- The aim was to establish a Unified Accounting System for the government directed economy at that time to facilitate more accurate decision making and firm financial control.
- The final version of the guide to the Unified Accounting System was presented in March 1981.
- The primary objective of the Unified Accounting System is to provide a standardized and uniform chart of accounts that is rigorously applied and used across various industries.
- It provides for a rigid numbering scheme for asset accounts, liabilities, equity, revenue and expenditure accounts and for multiple sub-accounts per category.
- It also provides for unified depreciation methods and tables by industry sector and asset type. The financial statement presentation follows that numbering scheme and provides for a uniform design to all financial statements with extensive statements, analysis and tables to support every single line.
- **The Unified Accounting System (UAS) manual consists of the following main chapters:**
 - The general framework of the chart of accounts
 - Explanations of the chart
 - Handling of transactions
 - Accounting books
 - Financial reporting
 - Guide to depreciation and amortization schedules
 - Costing in light of the UAS
 - Budget planning
 - National accounts
 - Mechanization of UAS
- **The guide to Unified Accounting System includes the basic forms of the financial statements that are believed to satisfy the needs of all users.**
 - The balance sheet
 - Manufacturing, trading, profit and loss, and appropriation account
 - Profit and loss account for completed contracts
 - The statement of current operations
 - The statement of the total added value
 - The statement of the distribution of total added value
 - The accompanied detailed statements (disclosures and footnotes)

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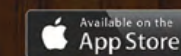
HOW TO START UP
How to Start-up guide provides insight regarding the legal, bureaucratic procedures, and institutional frameworks related to doing business in the Kurdistan Region.



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
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 AN EYE ON THE EMERGING WORLD



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