



THE SMALL AND MEDIUM ENTREPRENEURS (SMEs) IN THE KURISTAN REGION GOVERNMENT – IRAQ

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ABSTRACT

The present paper aims to examine the Federal Kurdistan Region's recent orientation to promote the Small and Medium Entrepreneurs (SMEs), as a part of its strategy after the drop of oil price which is the main revenue of the region, to overcome mass unemployment and to raise the region's growth. We suggest that this policy is an effort to emulate lessons and past experiences of emerged or developed countries such as Germany and South Korea who after the second world war strongly supported the SMEs community and were able to overcome mass unemployment and to raise the growth.

This study uses a statistical data base of the Kurdistan Federal Ministry of Industry and Trade as source of data for analyzing the SMEs status during 2006-2015 in KRG and investigating the possible constraints and pitfalls faced by SMEs community. The study found that SMEs account for approximately (60 percent) of the total job creations in Germany and in South Korea approximately (88 percent) of the total workforce is employed with the SMEs. In the KRG, in contrast, the job creation of SMEs in KRG is comparatively (78.34 percent) in 2015, which is moderate. Caused among others, by the lack of addressing the needs of underdeveloped industrial sphere and pursuing an inadequate promotion policy toward the SMEs and was unable to equip them with the necessary technological knowhow. The study found, however, that the SMEs have a strong potential for effective participation in an acceleration of the wheel of the economy and will prove itself as a major tool for economic

development and prosperity if the policy makers could were to adopt a more pro SMEs promotion policy.

1. Introduction

Economists and researchers alike are of the view that Small and Medium Entrepreneurs (SMEs) are an important source of economic growth and employment creation in an economy (ILO, 2015; Bauer, Schmucker and Vorell, 2008). In Germany, as an advanced economy in the so called first world for instance, a total of more than (99 per cent) of all registered businesses during 2011 were comprised for SMEs groups. According to the statistical data, published by Soellner (2014) in his article on SMEs in Germany, a ratio of (60 per cent) of workforce in the country was employed by these entrepreneurs. They contributed nearly (34 per cent) of the total sales turnover as well as (43 per cent) of gross investment and (50 per cent) of the gross added value in the economy (Klees, 2014).

The adoption of SMEs principles helped many emerged countries in the so called third world improve their standard living through growth and absorption of mass unemployment as well. The Government of South Korea, as one of the leading 'Asian Tigers' for example, support SMEs in many segments of their economy as a part of its overall economic development. Lee (Lee, 2016) senior researcher at Asian Development Bank Institute reports that SMEs account for approximately (99 per cent) of all entrepreneurs in the country, they create almost (88 per cent) employments opportunities of the total workforce and nearly (50 per cent) of the total output and export sector. The mile-stone for the successfulness of economic development in South Korea is primarily in the adoption of the principle of the market economy that encourages the principle of laissez faire which in turn lets the 'magic of invisible hand' have its positive impact on the acceleration of the wheel of the economy. Furthermore, the policy maker in the country strongly supported the SMEs community by introducing vocational training for the development of the human resources and assisting the SMEs community with the necessary of financial advancements.

As the ILO (2015) report the SMEs account for two-third of all jobs around the globe. Accordingly, the positive contribution of SMEs to create employment and growth in Germany and South Korea as well as around the world, confirmed by the ILO, convinced and simultaneously encouraged policy makers in many countries including the KRG to pursue a similar strategy namely a pro SMEs policy, in order to generate growth and to overcome mass unemployment.

This research paper's attempts to quantify and to evaluate the outcome of the promotion strategies regarding the SMEs so far made by the KRG.

The organization of the research paper comprised of seven chapters. Chapter one begins with an introduction. Chapter two discusses the economical frame work of Small and Medium Entrepreneurs (SMEs) i.e. Quantitative and Qualitative characteristics of SMEs.

The third chapter introduces the economic relevance of the SMEs which deals with, among others, the typologies of SMEs and their evolution regarding employment creation and capital investment generation.

Chapter four discusses and evaluates key constrains that SMEs face such as financial deficiencies; unqualified human capital and globalization as well as foreign direct investment issues.

In chapter five we shall introduce policies aiming to overcome key constrains faced by SMEs focusing on the formulation of an effective business plan; its operationalization as well as the role of business consultation and financial advancement programs to support the business community.

In chapter six we shall formulate the conclusion of the research followed by chapter seven which presents the findings and the recommendation program that the research team is suggesting.

2. Statement of the Problem:

The small and medium entrepreneurs have always been the key solvent of unemployment phenomenon and growth stagnation in many countries around the globe. As the ILO (2014) reports, the SMEs contribute to two - third of all job worldwide. In countries who went through wars for instance, started at the beginning of the rebuilding process of their nation's industrial sphere to promote the SMEs community as an important determinant to overcome mass unemployment and combating poverty. Past experience in Germany and South Korea in this field is well documented. According to Soellner (2014) and Klees (2014) the SMEs currently accounts for 60 percent of all jobs creation and around 50 percent of the Gross Added Value alone in the famous industrial site of the state Baden-Wuettenberg in the country. The same development can be followed up in the Republic of South Korea. According to Lee (2016) the SMEs currently account for approximately 88 percent of all employment opportunities in South Korea.

The promotion of the SMEs entrepreneurs in the Republic of Iraq and /or KRG has no history and it represents a totally new approach to overcome the economic crises in the country pursued by the policy makers. It is obvious that the drop of oil price on the international oil market together with costs associated with the civil war insurgency made Iraq insolvent and has to borrow from international organization to meet its obligation towards the public servants. The current research paper intends to focus on the main obstacles and pitfalls faced by the SME community that hinder their effective participation to create more jobs and income.

Objectives of the research

The research paper intends to examine the evolution of the SME entrepreneurs in the capital city of Erbil as well as in other provinces in the KRG regarding employment creation and growth of capital investment. Furthermore, the attempt has been made to

quantify the progress that have been achieved so far in the field. Finally, the research paper presents strategies for possible future development and an effective participation of the SMEs in solving economic problems including employment creation and growth generation in the region.

Literature Review:

SMEs are supposedly playing a major role in building a nation's economy in various ways. The SMEs is able, by adopting suitable policies to contribute to the improvement of macroeconomic variables such as the creation of employment opportunities and the generation of growth and income that ultimately help to alleviate poverty. (Hussain and Wang, 2017; Caribbean Development Bank, 2016) are suggesting that the impact of the SMEs on the economic development of nations can varies due to the possible obstacles such as financial deficiencies; short come of adequate human resources management and technological disadvantageous that the SMEs are facing in case of most developing countries.

Aremu and Adeyemi (2011) tested the role of SMEs as a survival strategy for employment generation in Nigeria. The study spotted that even though the SMEs is the main energetic force behind job and income creation the failure of the SMEs to productively contribute to solve unemployment mainly due to financial obstacles and policy inconsistencies as the part of the overall government interventions failure.

Becker and Cull (2014), surveyed the state of SMEs finance scheme in sub-Saharan Africa, by employing key data obtained from the World Bank and employing econometrical tools to evaluate the financing problems faced by SMEs. The result shows that the majority of SMEs are less likely to obtain a loan for operating their businesses due to the lack of access to an appropriate financial scheme and regulations frameworks.

Bouri and Others (2011), the main obstacles of the SMEs sphere to advance is the financial deficiencies in developing countries. Through their intensive field research concluded that the lending conditions and financial crises were the main obstacles of recent development for SMEs. Eigbirenmolen and Igberaese (2013), conducted a research on "Small and Medium Enterprises financing and Economics Growth: An Econometric Analysis" in Nigeria to investigate the relationship between SMEs and Growth of the economy, by using quantitative method. They found a significant positive relationship between adequate lending scheme adopted by the banking system and SMEs production growth.

2. Theoretical framework of SMEs

2.1 Quantitative criterion

Industrial economists adopt a scientific approach to distinguish between all entrepreneurs. SMEs term suggests a quantitative perspective that orientates itself for the size criterion of the business. For this they develop class intervals for each industrial branch and attempt to organize these groups as homogeneously as possible. For a quantification

purposes economists also use an industrial code number which can be obtained from the year-end business work sheet report that commonly practiced in developed nation which in turn reflects the class interval of certain business (Soellner, 2014; Schierch and Kritikos, 2014). The small and medium entrepreneur, however, lacks a proper definition. In the literatures of business economics, the definition of SMEs is generally heterogeneous and therefore considered to be vague (Berisha and Pula, 2015). For definition purposes economists are quite often utilizing revenue quantity and employees’ numbers as threshold value instead. In countries such as Germany an entrepreneur workers are no more than 500 workforces is classified either as a small or medium business (Becker, 2008, and Bauer 2008). Furthermore, the classification criterion between these two entities depends upon the yearly average budget and the achieved revenues so far (Wehners, 2015). The quantification of SMEs in European countries has been recently standardized as manifested by The European Commission (Gentrid & Justina 2015, Klees, 2008). The European Commission’s categorization of the SMEs can be followed up in Table No.1.

Table No.1: Typology of the Small; Medium & Large Size Entrepreneurs in line with European Union Standards.

Class intervals	Employed work force	Yearly revenue
Micro size class	<10	< 2 Mill EUR
Small Entrepreneurs	< 40	<10Mill EUR
Medium sized entrepreneurs	< 249	<50 Mill ERU
Large Entrepreneurs	>249	> 50 Mill ERU

Source: Soellner, R: Statistisches Bundesamt, Wirtschaft & Statistik, Januar 2014, Deutschland. And the European Commission 2003
 Koessler, R, Zur Bedeutung kleiner und Mittlerer Unternehmen (KMU),2/2006

2.2 Qualitative criterion

The qualitative criterion is a further attempt to classify SMEs. In this context, the Statistic Departments as well as industrial economists in developed nations employs some regulations that contributes to the classification of SMEs and large entrepreneurs. In contrast to large entrepreneurs, the operation of SMEs in the market economy is bound among others, to the following rules (Becker 2008, Hamere 1990; Osteryoung 1994; Urwin & Buscha 2012):

1. The SMEs have to be privately owned entities.
2. They have to be independent by law (separation between owner and the legal status of the entity).
3. Except business risks.
4. They have to be financially independent i.e. not be financed by other interties.
5. Have to operate with their own capital investment.

6. Are not registered with the stock exchange.
7. Employ no more than 500 workers.
8. Must have a director who is responsible for the business management affairs i.e. in a liquidation case.

3. Economical relevance of SMEs in KRG

3.1 The evolution of the SMEs sphere

The authority in KRG adopted the Principles of market economy hoping to quantitatively increase the Growth in the region and to overcome mass unemployment and in turn to particularly reduce spatial poverty in rural areas. Lack of adequate economic planning and financial support for the business community, however, discouraged the private sector to operationalize planned investment and in turn to effectively participate in achieving the designated economic goals of the policy makers. The collapse of oil revenue forced the central government in Iraq and so the authority in the KRG's to drastically reduce public investment as well as to partly freeze salary and wage for public sector employees. Raising unemployment; deterioration standard of living and poverty elevation as well as dissatisfaction among the vast majority of the population forced the authority in KRG to adopt a new economic policy platform, which was based on a free market orientation along with a full use of an entrepreneurial potential that can be a key determinant for growth and employment for the region (Mwangi and Ngugi 2014). In order to encourage the entrepreneurial sphere SMEs, the KRG policy makers introduced with good intentions the Investment Law No. (4) of 2006. The Investment Law has been introduced with the strong belief that the SMEs should be given the opportunity to take a central role for busting the economy since always it has been a more robust employer of the unemployed compared with large firms (Urwin and Buscha, 2012).

This new strategy seems to be an attempt to emulate successful models in the SMEs sphere that have been implemented so far by developed nations, such as those completed by Germany and South Korea. Since it has been particularly supported by the KRG authority, the operationalization of SMEs for the city of Erbil is depicted Table No.2. and in the KRG as a whole, being depicted in Tables No.3 and Table No.4 respectively.

A comparison between SMEs and large entrepreneurs of the city of Erbil in KRG indicates that small and medium entrepreneurs created relatively more employment opportunities and capital investment than their counterpart the large entrepreneurs for the time series of 2006 to 2015 which are depicted in Table N0.4 and Table 5. Despite a “moderate” economic accomplishment of the SMEs in the region, their effectiveness is much appreciated and the contribution of these types of entrepreneurs for growth and employment is judged by industrial researchers as “still beautiful” (De Kok, Deijl and Veeldhuis-Van Essen, 2013). Hence, KRG policy makers should have developed more sophisticated strategies in promoting the SMEs sector in order to rapidly expand and to improve their

productiveness towards generating growth and combating the wide spread unemployment in the community.

Table No.2: The evolution of the numbers of SMEs and LEs in the City of Erbil during 2006-2015

Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
		6	7	8	9	0	1	2	3	4	5
The city of Erbil	Small size class	579	663	868	970	6	9	2	6	7	0
	Medium sized class	107	117	117	154	156	148	172	244	279	292
					112	119	130	148	189	213	222
	Total	686	780	985	4	2	7	4	0	6	2
	Large sized class	24	27	36	47	47	47	60	71	77	79
					117	123	135	154	196	221	230
	Grand Total	710	807	971	1	9	4	4	1	3	1

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade - Erbil

Note: Micro businesses that operate from private homes are not included in the research of SMEs in the KRG.

The class interval evaluation of table No.2 indicates that the quantity of all SMEs categories in the city of Erbil for the time series of 2006 to 2015 has progressively increased. Considering that the Investment Law in the KRG effectively began in 2006, which is a relatively short period of time, suggests that the SMEs have a potential for expanding and dominating as well as promising for flourishing as a source for creating growth. The increment of SMEs in Erbil which, represents the capital, shows that the city has a population of more than 4 million inhabitants and a location for government and executives and many educational centers which attracts domestic investors and future foreign investors around the globe. In order to use the full potential of SMEs in the region, the policy makers have to invest in a number of resources that include financial advancement, the establishment of business consultation centers and hire human resources experts from abroad to assist with the further development of the SMEs skills and their production capabilities.

Table No.3: The evolution of the SMEs in all provinces of the KRG during 2006-2015

Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Small size class	579	663	868	970	1036	1159	1312	1646	1857	1930
The city of Dohuk	Small size class	184	211	242	292	321	329	329	335	384	387
The city of Sulaimany	Small size class	537	616	652	601	616	669	725	790	829	845
Total		1300	1490	1762	1863	1973	2157	2366	2771	3070	3162

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade – Erbil

Table No.4: The evolution of the MEs numbers in all provinces of the KRG for the time series of 2006 to 2015

Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Medium size class	107	117	117	154	156	148	172	244	279	292
The city of Dohuk	Medium size class	29	36	47	46	46	52	65	58	80	80
The city of Sulaimany	Medium size class	41	46	52	54	57	63	66	90	97	100
Total		177	199	216	100	259	263	303	392	456	472

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade – Erbil

Table No.5: The evolution of the LEs numbers in all provinces of the KRG for the time series of 2006- 2015

Geographical Location	Class Interval	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Large size class	24	27	36	47	47	47	60	71	77	79
The city of Dohuk	Large size class	12	12	13	22	27	27	30	39	38	44
The city of Sulaimany	Large size class	18	21	36	30	33	40	42	43	43	38
Total		54	60	85	99	107	114	132	153	158	161

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade – Erbil

Reading the trend of Tables N0.3, No.4 and No.5 we can see that all typologies of SMEs in the other provinces are progressively increasing. The evolution of the small size class entrepreneurs, however, is rapidly progressing faster than the other typologies. This development indicates that the small business community employing their own capital for financing planned investment which is generally limited but still cost effective, is sufficient to establish an entrepreneurship in contrast to the medium and large size classes which borrow investment money to finance proposed projects and generate higher production costs.

The lagging progress of the large size entrepreneurs suggests that they are risk averse and hesitant in investing due to lack of cheap capital and uncertainty caused by the civil war insurgency in the KRG. Furthermore, the different development of SMEs community in the provinces is the result of unbalanced regional parity regarding population concentration and the development of a modern infrastructure.

3.2. Contribution to the employment market

The SMEs in the city of Erbil as well as in other parts of the KRG contributed to generate considerable employment opportunities during the time series 2006 to 2015 which are genuinely contributing to the reduction of the unemployment level in the region, refer to Table No.6; Table No.7 and Table No .8. Despite the relative progress in the employment market, the performances of small and medium enterprises are (78.34 percent) from the total job creation in KRG, which is “still beautiful” and can be further enhanced, if policy makers are able to formulate and implement an effective strategy as a road map to increase the quantity of SMEs as a source of generating growth and employment in the long term. An effective SMEs promotion made by policy makers has to address the unbalanced regional development and population concentration. In order to improve the quality of life of employees and in turn to increase productivity and motivation among the workforce, the government should restructure the SMEs by introducing, among others, the health and safety practices for all employees; improving work conditions, and making the pension and social security scheme as an obligation in the field.

Table No.6: The Evolution of the workforce of SEs in all provinces of the KRG during 2006-2015

Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Small size class	3108	3469	3491	5196	5428	5719	6992	8658	9863	10403
The city of Dohuk	Small size class	824	975	1127	1729	1853	1945	1942	1953	2560	2614
The city of Sulaimany	Small size class	2014	2261	2403	2496	2701	3230	3797	4472	4346	4871
Total		5946	6705	7021	9421	9982	10894	12731	15083	16769	17888

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade – Erbil

Table No.7: The Evolution of the workforce of MEs in all provinces of the KRG during 2006-2015

Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Medium size class	1068	1205	1205	1492	1502	1644	1893	2868	3198	3333
The city of Dohuk	Medium size class	368	523	691	597	597	583	799	1185	1472	1472
The city of Sulaimany	Medium size class	326	392	474	563	627	821	848	1437	1386	1585
Total		1762	2120	2370	2652	2726	3264	3540	4888	6056	6390

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade – Erbil

Table No.8: The Evolution of the workforce of LEs in all provinces of the KRG during 2006-2015

Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Large size class	966	1483	2649	2885	2885	3258	3824	4340	4441	4528
The city of Dohuk	Large size class	264	264	269	493	577	577	711	763	925	925
The city of Sulaimany	Large size class	295	431	1022	477	677	1097	1156	1258	1207	1258
Total		1525	2178	3940	3855	4139	4932	5691	6361	6573	6711

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade – Erbil.

3.3. Contribution of the Capital investment:

A structural difference regarding capital investment for all categories of SMEs in KRG as a whole seems to be obvious since the capital investment gradually has increased in the current year 2015 compared to the base year of 2006, refer to Table No.9; Table No.10 and Table No. 10. By following up the evolution of the capital investment data for all business categories within the time series frame we observe the dominance of small classes except for the base year of 2006. Refer, to Table No.9. In case of introduction suitable and cost-effective financial scheme, which led by policy makers could have the contribution of capital investment in the region progressed much higher.

Table No.9: The Evolution of the Capital Investment (Million USD) of SEs in all Provinces in KRG during 2006-2015

The Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Small size class	14.9	60.2	78.9	80.59	80.42	94.42	123.9	143.2	159.0	
	Large size class	17	59.45	6	61	4	9	7	01	54	16
The city of Dohuk	Small size class	12.8	14.91	18.3	25.5	27.20	27.93	28.18	28.96	34.42	39.98
	Large size class	35	7	2	42	4	9	6	4	8	4
The city of Sulaimany	Small size class	47.6	53.71	56.0	57.6	59.36	72.17	84.58	91.05	34.98	
	Large size class	33	6	4	87	5	65.35	4	3	4	4
Total		75.3	128.0	134.	162.	167.1	173.7	194.7	237.4	268.7	233.9
		85	83	62	19	63	18	87	48	36	84

Source: Calculated by research’s team, employed data base from Kurdistan Federal Ministry of Industry and Trade – Erbil

Table No.10: The Evolution of Capital Investment (Million USD) of MEs in all provinces of the KRG during 2006-2015

Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Medium size class	55.5		60.2	77.70	81.28	74.99	86.20	119.9	137.0	142.7
		25	60.29	9	1	1	6	1	06	6	23
The city of Dohuk	Medium size class	14.0	28.58	35.4	21.37	21.37	25.12	32.41	29.63	38.57	38.57
		95	9	62	5	5	8	7	7	3	3
The city of Sulaimany	Medium size class	21.1	24.16	28.1	30.02	32.21	35.67	37.13	48.59	51.47	53.10
		36	6	08	7	7	3	1	1	8	8
		90.7	113.0	123.	129.1	134.8	135.7	155.7	198.1	227.1	234.4
Total		56	45	86	03	73	97	49	34	11	04

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade - Erbil

Table No.11: The Evolution of Capital Investment (Million USD) of LEs in all provinces of the KRG for the time series of 2006 to 2015

Geographical Location	Class Intervals	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The city of Erbil	Large size class	65.17	120.7	202.7	240.0	240.0	275.3	355.7	542.74	554.7	5652.
		4	45	53	71	71	91	91	8	96	8
The city of Dohuk	Large size class	23.10	23.10	24.61	49.86	59.82	59.82	64.57	2135.7	83.15	83.15
		3	3	8	7	7	7	7	65	2	2
The city of Sulaimany	Large size class	37.43	52.31	139.8	77.40	77.40	100.9	104.2	105.97	105.9	105.9
		8	3	81	8	8	28	36	6	76	76
		125.7	196.1	367.2	367.3	377.3	436.1	524.6	2784.4	743.9	5841.
Total		15	61	52	46	06	46	04	89	24	92

Source: Calculated by the research’s team, employing data base from Kurdistan Federal Ministry of Industry and Trade - Erbil

4. Key constrains faced by SMEs:

4.1 Financial deficiencies:

In the Republic of Iraq as well as in the KRG, it is not common and there is no history of a financial scheme provided by policy makers to assist the SMEs sphere (Al Waseet, 2016). The current attempt of the policy makers in Iraq as a whole, is to pursue a pro-SMEs policy that began only after the drastic decline of oil revenue on the international market, leading to a cut off public investment and causing the frustration of the government not to be able to pay the full wages and salaries of public employees. Mass unemployment and financing the cost of a continuous war against international terrorists forced the authority to follow the path of the new era namely the full attention to promote the private sector. Currently one of the main obstacles facing the SMEs community in Iraq and in the KRG is the methods of financing planned investment. The financing of proposed projects by

investors mostly occurs by relying on their own available capital which is in general insufficient for establishing and running an entrepreneurship (Al-Aly, 2016). Furthermore, the majority of investors are hesitant to borrow from the banking system since they won't accept paying interest rate (or the Reba) on religion background - The Islam faith. Even the investors who accept the borrowing scheme of the banking system are facing bureaucratic hurdles. For instance, the investors are not able to comply with the banks requirement of providing of a document of owing tangible assets such as a property or land for security purposes in case of default. Frequently, banks are demanding higher interest rates that vary between 10 and 15 percent (Al-Nahass, 2008). Furthermore, a destabilization of the exchange rate of the Iraqi currency forces the banking system to offer credits for all their clients only for the short term which is no more than one year for private banks and 3 years for government banks.

Since 2010, the central government of the Republic of Iraq, however, has attempted strongly promote SMEs by facilitating credits with a lower interest rate and a guarantee of payback of the loan by the treasury in case of a decline of payments by the SMEs community. The government of Iraq introduced a 6 percent interest rate on loans for newly established SMEs. From the stated 6 percent interest rate the SMEs have to pay merely 2 percent, since the government covers the remaining 4 percent from the interest cost as a subsidy for the newly commencing entities (Omer, 2010). Because of the poor performances of the SMEs, the Iraqi economists are advising the government to pay particular attention to promoting the real estate sector, primary sector and health sector instead of SMEs who specialized on import (Al-Nussairy 2015). Unfortunately, for the time being the KRG policy maker's lack of sufficient liquidity are not able to implement such a program for promoting the SMEs community caused by the financial deficiency and political differences within the Central Government in Iraq.

4.2 Unqualified managerial personnel:

Training that implemented by human resource managers heavily contribute to improve employee skills and performances which are regarded as the key of successfulness of an entrepreneurship and its competitiveness in any economy (Kook 2000 and Vinesh 2014 and Osei 2007). In this context, the role of the human resource manager in Middle Eastern countries is limited since the "term human resource management" itself in has not yet taken root (Tayeb 2003) and is still in the early stages of evolution. The human resource profession in these countries "has long been a neglected function in the private sector" (Pawan and Debra 2003). According to the ILO (2015), human resource management practices are less present and developed in the SMEs. In this context, the SMEs in KRG are similarly less developed due to numerous obstacles, such as the lack of suitable qualified and trained human resource personnel, who could productively participate in managing a business organization and marketing sites as well as in an accounting department to produce business

plans like financial statements (Al Mahrook and Mukabla 2012), as a prerequisite for processing loans applications for the banks. Because of a lack of sufficient liquidity, the SMEs are not able to offer external training courses for its workforce to improve their skills and abilities. In addition, government d a clear strategy to provide vocational training for young managers. Also, there is no existence of a provision by industry chambers to train inexperienced managers. The performance of SMEs could be improved if the authority implemented an intervention plan that aims to improve the quality of employment, such as enhancing work productivity, creating additional income, elevating poverty and providing economic empowerment for women (ILO 104th session 2005).

4.3. Globalization and FDI Issues:

The impact of globalization on macroeconomic variables, such as employment market and investment growth particularly in the developing countries, is not sufficiently explored yet (Melkote and Freye, 2008). However, globalization can be seen as a life of virtually all segments of the production sphere in economies around the globe and potentially represents a profitable opportunity for foreign markets provided that the firms are capable of forfeiting the internalization of competition which is associated with the globalization process (Croix, 2006). In this context, the increased globalization in the developing world may affect the above mentioned macroeconomic variables in two ways, namely:

1. Positive effects on the employment market:

Globalization of international trade and foreign direct investment (FDI) may contribute for job creation if the foreign affiliates utilizing factors endowment that usually developing countries possess an absolute advantage. By employing labor-intensive industries in the primary sector, for instance, the demand for labor will increase and eventually create new income, raise consumption and improve the standard of living among the locals. Furthermore, foreign affiliates can implement additional strategies to increase employment if they transfer new technologies and participate in training unemployed individuals in less developed countries. This will increase employment and bust related industries of SMEs. Increased competition among business participants causes, in turn, an alleviation of the price distortion (Ozdemir, 2008). A decline in prices obviously may further stimulate investments and create employment opportunities and income which may results in an increased demand on the consumer market. This process can generate the so-called Acceleration Principle via an increase of output growth and investment that is needed to meet the excess demand. To further enhance economic activities the government expenditure will increase in public investment for infrastructure, such building of hospitals, education centers, bridges and etc. This process can lead to a forward operation of the multiplier process and, together with the acceleration principle, will eventually create more employment opportunities, the establishment of new SMEs and generate additional capital investment.

In July 2006, the Kurdistan Government published its liberal Investment Law hoping to encourage FDI to bust industrial sector in particular and to overcome high unemployment. Unfortunately, the evidence of the FDI's role in transferring technology, especially at SMEs level, is scarce. There are few studies on the relationship between FDIs and LEs (Large enterprises), especially in the oil and gas sectors in Kurdistan (Heshmati and Rohna, 2007) that indicate a contribution for a twelve percent in 2012 growth in KRG that has been accomplished (Andrew, 2013).

2. Negative effects on the employment and capital market:

Globalization may cause a disappearance of traditional industrial jobs (Jenkins, 2006) when foreign corporations establish new entities or introduce new products on domestic markets. In order to achieve higher productivity, they compete with local industries by bringing with them a skilled workforce and offering them higher wages, as well as employing sophisticated technologies in order to produce cost-effective products and benefit from economies of scale. Local small and medium sized class entrepreneurs, in contrast, are not able to cope due to the lack of investment capital, the implementation of higher remuneration standards and the limitation of technology transfer in developing countries. They are forced to lay-off employees and/or declare insolvency (Vinig and Kluijver, 2007). The dominance of foreign affiliates on local markets also has an impact on poverty. Researchers are estimating that the poverty level increased in 2004 by approximately 82 million people worldwide (Rodrigo 2015, Heshmati, 2006 and 2008). The impact of globalization on the employment market in the KRG has not been sufficiently explored because of the civil war insurgency and the drop of oil prices on the international market has contribute to a discouragement of foreign affiliates to enter and invest in the KRG' market (Akbat and others, 2006).

5. Overcoming key constrains faced SMEs:

5.1 Formulation of an effective business plan:

The business plan of the SMEs is a road map that precisely describes the dual nexus between the stated goals and the actual performance of the SMEs. In order to optimally achieve the desired goals, managements have to continuously follow up with the elements of the plan and, if necessary, develop proper strategies to ensure rational remedies (Christopher 2013). As (Bianchi 1998) Suggests that a productive business plan should incorporate fundamental issues that most addresses the business overall activities. These issues can be grouped in the following major areas:

- a. Sales & Marketing
- b. Operations
- c. Human resources
- d. Finance
- e. Technology & ITC

f. Management Information

Furthermore, a productive way to control the business operation effectively and ensure growth for SMEs is by introducing a system of metrics and performance indicators (Osi, 2013). The system allows for the setting of a time table to follow up with the work productivity of the participants in production processes.

5.2 Operationalization and follow up of the plan:

The degree of effectiveness of a business plan for SMEs heavily depends upon, among others, the factor endowment in an economy. In a region such as the KRG, production factors i.e. uneducated workforce is less expensive due to the excess supply on the labor market and excess demand on labor market as well. In order to meet excess demand and excess supply on both sides of the market, the SMEs have to effectively employ available resources in order to quantitatively maximize production by minimal production cost. For this SMEs needs support by governmental institutions, such as the chambers of trade and international organizations (UN) which can provide hands-on training for young managers (Kuwait Chamber of Commerce & Industry 2015). In order to meet these challenges, contemporary SMEs have to improve their operational functions in areas such as marketing and sales, accounting, computer and IT, production quality and health and safety (Setyawan and Others), (2015).

5.3 Business centers, consultation and financial support:

The effectiveness of the SMEs sphere is mostly determined by factors that have a local dimension (Lesa'kova' 2012), including self-initiated endeavors that requires consultation and innovation programs by incubators or business centers to further improve productivity. The vital role of consultants in business centers should focuses on providing start-up programs for the SMEs community in order to achieve cost-effective production and economies of scale, introducing atomization technology for production, lines and e-businesses to improve marketing and communication both locally and internationally (Guettler and Others, 2015). The SMEs can be further boosted through the encouragement of invention and the creation of innovation centers led by the support of the government (Turner and others 1989).

6. Conclusion:

This research paper compiled an arrays of data sources obtained from The Federal Ministry of Industry and Trade – Erbil /Iraq in order to explore the evolution of SMEs and its contribution to generate employment and capital investment in all KRG's provinces. Based on these data, the focus was made to quantify and evaluate the status and performances of the SMEs sphere in a specified time series. We explored the capability and potential of the SMEs in all of the KRG provinces and the findings indicate that:

1. The quantitative and qualitative definitions of SMEs that manifested in the European Commission Recommendation for industrial classification are not compatible and

practicable in the KRG's industrial environment since the Micro business classes in the KRG mostly operate from private homes, are not legally registered and statistically not documented, Hence, the Micro Business classification is less suitable to conclude in KRG's industrial sphere.

2.The SMEs community are facing tremendous financial deficiency due to limited own investment capital and the absence of a direct financial advancement program of the KRG's business planners which, in turn, is caused by liquidity problems by the KRG authority itself.

3.The KRG implemented the Investment Law No.4 in 2006, but the domestic as well as foreign investment, are lagging behind the policy maker's expectations due to lack of liquidity of local investor and civil war insurgency which prevent foreign investors for investing in the region.

4. Although the evolution of the SMEs classes in regard to employment contribution and capital growth shows a positive trend, its potential though is far from exhausted due to, among others things, structural problems, such as under-development of electricity highways, IT and marketing communication, human resource practices, pension schemes for the private sector, health and safety regulations, working environment and vocational trainings.

5. Internal and external competitions due to the globalization of trade on the domestic market are major obstacles that hinder the SMEs to progress and benefit from economies of scale that causes higher production cost (TTIP, 2013).

6. Less educated new entrepreneurs are likely unable to formulate an adequate business plan in order to be capable of monitoring and evaluating, as well as in controlling overall business performances

7. RECOMMANDATION

A policy platform that research's team recommend for policy maker in the KGR may include the following strategy planes:

1. The Government should be absolutely committed to the principles of the market economy.
2. The government should intensively request USAID.
3. The government should cooperate with the ILO in area of industrial consultation to assist the business community.
4. Establishment of specialized Private banks to facilitate loans for SMEs
5. Public banks should offer interest free loan for SMEs for a period of five years at least.
6. Provide cost effective financial advancement to SMEs community.
7. Encourage male and female young academicians for managing their own business.

8. Establish business consultation centers led by business specialists to advise young entrepreneurs.
9. Introduce vocational training for new business managers to further improve their skills and to learn the English languages which is important for international marketing.
10. Motivate business endeavors by offering them a traineeship in industrial nation.
11. Courses in communication skill and computer literacy.
12. Offer periodical training on marketing procedures and e-commerce.
13. Encourage business men and business women for joining a yearly exhibition for product promotion (Slibi, 2012).
14. The government should establish industrial site for the business entrepreneurs.
15. Young business men and women should establish an industrial journal for Publicity and exchanges of business news.
16. Imported new technologies by the government should sold to SMEs cost affectively.

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