

THE REVIEW KURDISTAN

REGION OF IRAQ

Open for Business

2014/2
Issue 6



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Chairman, IKG Property



Retail Giant



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KRG Representative in Austria



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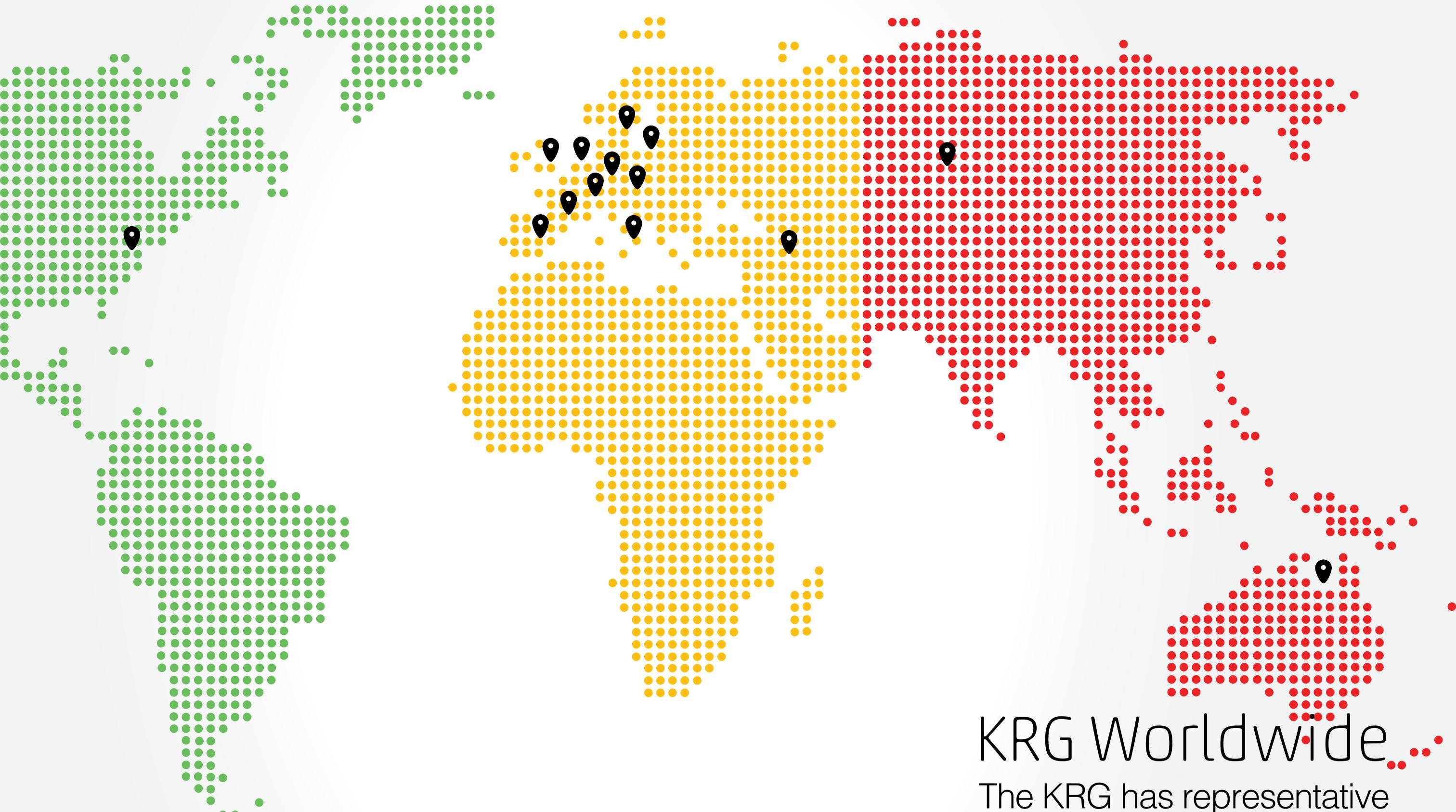
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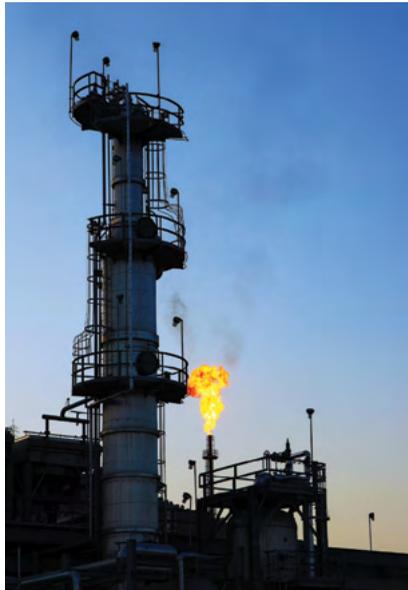
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Energy BAZIAN OIL REFINERY

Refined Petroleum of International Quality
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Construction Qaiwan Towers

Qaiwan Towers' iconic twin tower designed is a breathtaking addition to the Sulaimanyah skyline. The 25-storey building is spread across 11,000 SQM and comprises an office tower, a five star hotel and a premium shopping mall. An important business and commercial hub, the capital expenditure on Qaiwan Towers is in excess of US \$100 million.



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Real Estate Sulaimanyah Heights

Suleymanie Heights is Qaiwan Group's newest and the most ambitious projects till date. With outstanding projects under the belt like Qaiwan City, Suleymanie Mall and upcoming projects such as Qaiwan Towers, it only makes sense the next step is a project of this stature. Suleymanie Heights will be sprawled across 1,099 apartment units and 911 villas of various sizes that are all spread across a jaw-dropping 1,250,000 square meters. It is destined to become the city's most prestigious and desirable commercial and residential development. The capital expenditure on the project is over US \$500 million.



Real Estate Qaiwan City

Qaiwan City is a dynamic, thriving community in Sulaimanyah. Designed to appeal to both home buyers and property investors, the development is a city within a city, offering residents everything they need for a fulfilling life. The city contain 850 villas and 14 apartments, the Qaiwan City covering an area of 400,000 SQM with the capital expenditure on the project is over US \$160 million.



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“THE REAL ESTATE AND CONSTRUCTION IS ONE OF THE MOST QUICKLY CHANGING SECTORS IN KURDISTAN, WITH SHIFTING DYNAMICS IN THE QUANTITY AND QUALITY OF CONSTRUCTION.”

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Planting the Seeds



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“WHILE CHALLENGES PERSIST IN KURDISTAN’S ICT SECTOR, MOMENTUM IN THE SECTOR’S MATURITY AND DEVELOPMENT HAS SHOWN NO SIGNS OF SLOWING IN 2014.”



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The Review Kurdistan

Region of Iraq

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

Co-Publisher



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Invest in Group (IIG) is pleased to announce the release of the sixth issue of "The Review: Kurdistan," which provides fresh business perspectives and features the dynamic leaders, innovative companies, and tremendous opportunities now emerging in the Kurdistan Region.

This issue provides key updates relating to recent developments in a variety of sectors, including Diplomacy, Energy, Economy, Real Estate & Construction, Human Capital, Retail, ICT, and Agriculture & Water. Notably, "The Review: Kurdistan" also includes IIG's exclusive interview and analysis pieces with leading players from various sectors, who discuss the business environment in Kurdistan, their success stories, and key projects that are helping to promote further growth in the Kurdistan Region.

Kurdistan, as a rising frontier market, has remained safe, stable, and open for business in spite of the recent political turmoil in Iraq. The outstanding support of the international community for Kurdistan in its fight against terrorism reflects an investment in the future of Kurdistan and the Kurdish people. We truly believe the Kurdistan Region can serve as a beacon of economic and social progress.

The KRG is committed to creating the best possible business environment for foreign companies operating in Kurdistan. Our special issue for 2014 will highlight the KRG's business-friendly policies, Kurdistan's rising business opportunities, and the overall investment climate within the Region.

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

We hope you enjoy the issue.

Invest in Group

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BRIEFING ⋮



The Eighth Cabinet of the Kurdistan Regional Government

“THE MAIN GOALS OF THE 8TH CABINET ARE DIVERSIFYING KURDISTAN’S ECONOMY TO AVOID AN OVERRELIANCE ON NATURAL RESOURCE EXPORTS, TACKLING CORRUPTION, INVESTING IN IMPROVED INFRASTRUCTURE IN AREAS OF TRANSPORT, HEALTH, AND EDUCATION, ENSURING EQUAL OPPORTUNITY FOR ALL CITIZENS OF KURDISTAN, AND ADVANCING WOMEN’S RIGHTS.”

Nechirvan Barzani, Prime Minister of the KRG

ENERGY
Record Production

DNO has announced record production levels of around 139,000 bpd at its Kurdistan operations in the second quarter. This represents a 76% increase in production levels over the first quarter of the year, and the firm has made clear its intention to further increase oil production in the Kurdistan Region. The company has set a production target of 200,000 bpd for its Tawke operations.

ENERGY
Output to Increase

Genel Energy, Anglo-Turkish oil and gas exploration and production company, has confirmed that oil production at its Taq Taq operations will increase to a record 140,000 bpd in September. In addition to the Taq Taq, the firm operates fields at Tawke. Genel Energy has been maintaining production at these two fields, and combined oil production levels are averaging around 230,000 bpd.

“WE’VE HAD FEET ON THE GROUND IN KURDISTAN FOR 10 YEARS, INCLUDING DURING THE RECENT CRISIS AS WELL AS IN PAST ONES, AND REMAIN FULLY AND FIRMLY COMMITTED TO OUR OPERATIONS.”

Bijan Mossavar-Rahmani, DNO’s Executive Chairman

HIGHER EDUCATION
Quality Assurance Plan

According to Kurdish Ministry of Higher Education statistics, 4,351 Kurdish university students are now participating in the region’s \$86 million Human Capacity Development program that sends students abroad to complete their higher education and gain professional skills before returning to lead development efforts in Kurdistan.

The Plan also involves skill building programs for graduates and educators, as well as a push to open new colleges and departments. Kurdistan’s 13 public universities admitted 36,214 students this year, 4,000 more than the year before, while the region’s 11 private universities admitted 12,000 students, 5,000 more than last year.

ENERGY
Field Development Plan for Akri-Bijeel

MOL Group announced that it had agreed upon a development plan for its operations at the Akri-Bijeel field north of Erbil with the KRG’s MNR. MOL’s operations at the Bijell and Bakrman areas of the Akri-Bijeel field already have a production capacity of 10 mboepd, but the company plans to utilize temporary facilities to boost production to 35 mboepd by the end of the year.

Under the two-phase development plan just agreed with the KRG, MOL will first determine the number of wells needed to develop its holdings at Akri-Bijeel and help install a new export pipeline and an advanced Central Production Facility. By 2017-18, the company expects to increase production to at least 50 mboepd at the site.

Did you know 📌

The Economist’s Intelligence Unit ranked the Kurdistan Region 55th in the world on its “quality of life” index, while Iraq was placed 134th out of 159 countries for which data was available on that measure.



TOURISM Erbil Citadel

UNESCO's World Heritage Committee has named the Erbil Citadel to its list of World Heritage Sites after 18 of the Committee's 21 members voted to approve its application. The Citadel is one of the oldest inhabited cities in the world, with a history that stretches 7000 years into the past.



TRANSPORT Haji Omaran Project

Kurdistan's Ministry of Housing and Reconstruction reports that the first stages of a road project designed to cut travel times between Erbil and Haji Omaran on the Iranian border in half are nearing completion and expected to open by mid 2015. Through the construction of dual carriageway and multiple tunnels, the project seeks to facilitate regional trade and transit.

The second and final section of the project will connect the area of Choman to Haji Omaran with the construction of around 17 km of dual carriageway. The government predicts that this section of the project will be completed sometime in 2017.

TRADE Dubai-Kurdistan

The UAE has pledged some \$7 billion for investment in the infrastructure of Kurdistan, while nearly 118 companies from the UAE currently have operations in the Region. Total trade between the UAE and Kurdistan amounts to over \$8 billion.

"THE UAE IS COMMITTED TO CONTRIBUTE TO THE ECONOMIC GROWTH OF KURDISTAN, WHERE WE HAVE BEEN AMONG THE PIONEERS."

Abdullah Saleh,
Deputy Minister of Economy and Trade

REAL ESTATE Erbil Arjaan

Erbil Arjaan by Rotana will offer 20 stories of first-class mixed-use service complex project providing serviced offices and hotel apartments. The total investment of the project is \$52 million with ownership divided as follows: Malia Invest Holding %60, SS Roza Offshore 30 %, and DIVA Srl 10%.



"AS MALIA GROUP, OUR ROADMAP IN THE COMING YEARS IS ONE OF STRATEGIC GROWTH AND DIVERSIFICATION WHERE INVESTMENT IN KURDISTAN AND OTHER COUNTRIES IN THE REGION WILL FEATURE PROMINENTLY."

Jacques Jean Sarraf,
Chairman & CEO, Malia Group

Did you know ?

The capacity of the Kurdistan Region's oil pipeline to Turkey will reach 220,000 barrels per day at the end of September.

ENERGY Kurdistan's Oil Industry Forges Ahead

Political upheaval has rocked Iraq and touched Kurdistan in recent months, yet oil production levels in Kurdistan appear stable and there are signs that the KRG may be finding more buyers for its oil exports.

While an early August offensive by ISIS prompted American intervention and the bombing of terrorist groups in the vicinity of Erbil, as well as the evacuation of most foreign staff in Kurdistan's oil industry, preliminary figures show that overall oil production levels have remained largely unaffected. Total oil production in the Region, which averaged about 360,000 bpd through June, appeared to be down just 5,000 bpd in the wake of the disruptions caused by ISIS attacks nearby. Though firms such as Genel Energy, Chevron, Exxon, and Hess have evacuated employees from the Region, production operations seem to have remained largely undisturbed. Drilling and exploration activities, however, have been curtailed. TAQA and Hess have both ceased exploration in the Region for the time being, but TAQA has reiterated that the current shutdown will not affect its plans to begin oil production in Kurdistan at the beginning of 2015.

The MNR sought to reassure workers in the energy sector and stressed that its oil production plans would continue as originally envisioned. The Ministry struck a confident tone in a statement, saying: "The enemy has not been able to target oil operations in the Region, but as a precautionary measure some of the exploration activities in areas abutting potential combat zones have been temporarily halted and staff relocated. However, oil production in the Region remains unaffected, and is being delivered to both the domestic and export markets. Indeed, the KRG is expecting that the producing companies will ramp up production in the coming weeks as ongoing export infrastructure improvements come online as planned."

Perhaps the most important element of that export infrastructure is the Kurdistan's newly operational oil export pipeline to Fishkhabour, which was also seemingly unaffected by the disorder of the past weeks and has been pumping a normal level of 120,000 bpd of oil to the Turkish border. In the meantime, work has begun on upgrades to the pipeline to nearly double its capacity to around 220,000 bpd by the end of the month. Nearly 8 million barrels of oil exported through the pipeline, filling 11 tankers, have already been shipped to potential customers via facilities at the Turkish port of Ceyhan.

HOSPITALITY Erbil Rotana welcomes its new GM



Rotana has announced the appointment of Ghassan Dalal as GM of Erbil Rotana. A Lebanese veteran with over 20 years of experience in the international hotel industry including Canada, Egypt, Lebanon, Nigeria and Sudan, Ghassan will bring a unique depth of experience to his new position. Commenting on his new appointment, Ghassan Dalal said: "I am truly excited to work with and build a solid team of local talents that will have long-term success; a practice that has been key in the overall success of Erbil Rotana and will maintain loyalty."

Q&A

Aimen Dean —
Managing Director, Five Dimensions Consultants

IIG: Can you tell us a bit about Five Dimensions?

AD: We are a market intelligence company specialized on the Middle East. We provide forecasts on risks and opportunities in the region. We also conduct detailed due diligence investigations, feasibility report and forecasts based on qualitative data.

IIG: In which areas do you expect to see the greatest demand?

AD: We expect growth in two lines of services: first on geopolitical analysis and second for due diligence investigations. In both cases, it is all about briefing our clients and prospects about Kurdistan. By providing sound data and relevant contacts, we want to add value both to Kurdistan and to our clients by enabling them to identify clear pathways for successful ventures in a market with rarely seen massive potential.

IIG: What are your medium term plans?

AD: We have ambitious plans because we believe in the potential of Kurdistan. We have been visiting Kurdistan for over two years now and even starting working for some prestigious MNCs. At this stage, now, we will expand our network of local associates. In the medium term, we want to be able to quality all opportunities coming up for clients and help them with local support to operate them in a profitable manner.

IIG: How do you foresee the market developing over the medium term?

AD: We believe that Kurdistan is perfectly able to manage the currently highly-troubled regional environment at its most and we don't believe that this will affect the general positive trend for Kurdistan. If the Dubai model is followed, the growth potential is extremely high.

REAL ESTATE Kurd Towers

The Kurd Towers is a deluxe commercial and residential development by Faruk Real Estate. The towers will comprise of 265 residential units and 160 offices. The Kurd Towers will rise 175 meters, making it the tallest towers in the Kurdistan Region and Iraq.



KURDISTAN BOARD of INVESTMENT

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Kurdistan in Austria



**Dr. Mustafa Ramazan Goran —
KRG Representative in Austria**

Dr. Mustafa Ramazan Goran speaks to IIG regarding the ties that the KRG Representation in Austria is fostering between Austrian and Kurdish business and society.

IIG: How would you assess the relations between Austria and the KRG?

MRG: We are fortunate to be working closely with a foreign government whose ties with the Kurdistan Region date back to the 1970s, when Austria was one of the first countries to grant asylum to refugees from the Kurdistan Region. During these difficult times throughout the 1980s, the Austrian government never wavered in their support. Today we are solidifying these historic ties by encouraging and facilitating the active engagement of Austrian companies in the Region. The many official meetings of President Barzani with Austrian President Fischer, as well as the visits of Minister Falah Mustafa and other high-ranking officials with the Austrian chancellery, foreign and other ministries and institutions, including the Austrian Economic Chamber are indicative of our strong friendly relations.

IIG: The Austrian government opened a Schengen Visa processing center in Erbil. In what ways do you think that it will improve ties between the Kurdistan Region and Austria?

MRG: One cannot stress the importance of this Visa application center enough. Prior to the establishment of the application center in January of this year, individuals were required to personally travel to the Austrian embassies in Amman or Ankara, a lengthy process that was also very costly. Many Kurds and Iraqis would make frequent visits to Austria as tourists, students, and patients, and we wanted to help ease the application process for these individuals. We voiced our concerns and urged for a better application process for everyone. Even during a visit to Erbil in November 2011, the Austrian Vice Chancellor and former Foreign Minister Michael Spindelegger agreed and emphasized how essential it was to open such an office. Today, all Iraqi citizens can directly apply in Erbil for a visa.

IIG: How would you characterize the commercial ties between the both sides?

MRG: A number of Austrian companies are already making use of the vast commercial opportunities the Kurdistan Region has to offer. Austrian Airlines was the first international carrier to offer direct flights to Erbil in 2006, contributing immensely in connecting Kurdistan with the rest of the world. Other prominent examples of Austrian commercial activity are the energy company OMV, and Doppelmayr, who built cable cars on Korek Mountain and in Slemani, and is currently working on another project in Duhok. Aside from these projects, our office meets daily with smaller Austrian companies who are showing an increasing interest in the Kurdistan Region's business opportunities. Although at the beginning there was naturally a bit of reluctance due to the unstable security situation in some parts of Iraq, these reservations have largely been overcome thanks to information exchange and first-hand visits to the Kurdistan Region. Our goal now is to promote B2B opportunities between Austria and the Kurdistan Region.

IIG: Do you work with the Austrian commercial office in Erbil or other business groups with interest in Kurdistan?

MRG: The existence of an Austrian commercial office in Erbil as well as the active participation of Austrian companies in the numerous trade fairs, too, underline the great interest Austrian companies are showing in the Kurdistan Region. We plan to organize sector-focused events in the coming months as we firmly believe that the Kurdistan Region's agriculture and tourism sector, which are defined as priority sectors by our government, could benefit greatly from the extensive Austrian expertise and experiences in these fields. 🗨️

About

Dr. Mustafa Ramazan Goran holds a medical degree from the University of Vienna and has been working as a general practitioner in Vienna for 25 years. Dr. Ramazan previously represented the KDP in Austria and was officially appointed the KRG Representative to Austria by the 6th Cabinet in November 2010.

Kurdistan in France



Khaman Zirar Asaad —
KRG Representative in France

Khaman Zirar Asaad provides IIG exclusive insight into the ways in which the KRG Representation in France is bringing French business to the Kurdistan Region.

About

Khaman Zirar Asaad has been the KRG's Representative to France since her appointment in 2010. She previously served as a member of the Kurdistan Parliament from 2005-2009. She holds law degrees from the Erbil Technical Institute, Salahaddin University, and the University of Paris.

IIG: Can you tell us a bit about your office and what it can offer the French business community?

KZA: We have engaged in numerous initiatives and activities in an effort to meet the expectations of private and institutional stakeholders, while living up to the image of Kurdistan's renewal as a dynamic, safe region firmly focused on the future. We approached French business leaders and established contact with their most representative institutions, including the MEDEF, an organization representing the largest French companies, and UbiFrance, encompassing other mid-sized companies, along with follow-up and regular contact with the French Ministry of Economy, Finance and Industry.

IIG: French firms are among the most active foreign actors in the Kurdistan Region. How has your office helped to facilitate this investment?

KZA: French companies are currently well represented in Kurdistan, but a substantial margin for expansion remains. Numerous other profitable investments are available to our French partners. The flagship firms of French industry are currently highly visible in the economic landscape of Kurdistan: Lafarge in the cement works sector, Total in energy, Orange in telecom, Carrefour & Auchan in mass-scale food retailing, and so on, but we hope to see small and medium-sized French enterprises invest more heavily in Kurdistan. Kurdistan was at one point the fruit basket and granary of the entire region; it must become so once again. Our citizens should not settle for being consumers, but must also become producers. This is possible through partnerships with French companies with the goal of

acquiring their know-how and expertise, which are crucial in this phase of our economic development. For example, an agreement was signed to this effect with the French Region of Dordogne. We are also in contact with the Brittany region.

IIG: What direction do you believe the trend of French investment in the Region is heading?

KZA: We believe that France – a pioneering and highly dynamic country in the food industry – should invest more in this sector. The same is true of tourism. Kurdistan, which has enormous potential in this sector, should take France as an example in this area also, by showcasing its rich past, straddling three major civilizations, and its historical heritage, as a means of projecting itself into the future and the modern world.

IIG: How do you foresee relations between France and the KRG developing over the medium term?

KZA: Relations between France and the Kurdistan Region predate the beginning of the economic boom that our country has experienced in recent years. France was at our side during the dark years – the years of dictatorship and genocide. We shall always be grateful to this country and its people who came to our aid in the past, when we were in distress. France is the world's fifth largest economic power and its companies rank among the world's leading enterprises. Our relations are destined to strengthen and develop, given our position in the new emerging Middle East, and given the history of France with this region and its role as a permanent member of the UN Security Council. We have an economic and political partnership, which we must further build upon together. ①

INSIGHT

Notes from Westminster



Gary Kent —
Director, All Party Parliamentary Group on the Kurdistan Region of Iraq (APPG)

Rahman, the KRG's High Representative to the UK, was blunt in her assessment of the new Iraqi realities and the possibilities for federalism 2.0: "Post-Mosul, Iraq has a different geographic landscape, a different security landscape and that has brought the political crisis to the forefront. The Government in Baghdad are dysfunctional. The Iraqi army is in disarray, so the question is, what Iraq are we part of?"

The former Iraqi Minister, Dr. Ali Allawi made the case for confederation but in a hesitant manner because he conceded that the status quo would probably persist: Iraq divided into three effectively sovereign states.

The Committee was electrified by the evidence from the respected former American diplomat, Peter Galbraith, who rounded on the traditional diplomatic mantra of maintaining current borders at all costs. He said that the West's mistake in Yugoslavia was preserving territorial integrity rather than avoiding war, and failing to understand that many simply didn't want to stay in Yugoslavia. He reminded us that America originally sought to keep the USSR intact but that didn't fly which was for the better for the imprisoned nations of the old Soviet Union. He contrasted British acceptance of the right of Scotland to secede with its apparent refusal to allow the Kurds to do the same.

It's impossible to predict what the Committee will conclude maybe in the Autumn. It is possible, if improbable, that the political context will have changed by then. As things stand, however, the de facto division of Iraq is making new thinking essential.

Some MPs, many of whom have seen Kurdistan for themselves on our delegations, sympathise with and see Kurdish independence as a vital bulwark against extremism. There is an openness about supplying military goods to Kurdistan

and one MP has even backed a Kurdish air force. Parliamentarians also recognise the need to supply medicines and greater assistance with the humanitarian problems flowing from the massive influx of up to a million people - about 20% of the Kurdish population.

A major parliamentary debate on the wider issue of the Middle East and North Africa was also secured by Alistair Burt, the former British Minister for the Middle East. The focus was on the Gaza crisis but Kurdistan was a significant part of the debate.

Burt cautiously argued that Britain "should look hard at what support it can give to the Kurdish region" specifically by acknowledging the need to sell oil to survive, having been starved of funds by the Maliki Administration, support on defence and intelligence, and "counselling and discussion about further steps towards autonomy or independence" because "independence for the Kurdish region is a big step that would have serious ramifications, but it is no longer off the cards."

Another Conservative MP, Robert Halfon, who has visited Kurdistan five times, outlined "a few home truths" - realpolitik has often trumped human values, fuelled appeasement and denied the right to self-determination. He was crystal clear about Kurdistan: "Instead of trying to keep together an artificial and broken Iraq, the UK, the United States and their allies should be doing everything possible to help the Kurdistan region to become independent, and to ensure that [it] remains free and democratic."

The future of Kurdistan will be determined by its people and the realities on the ground but British and other parliamentarians will play a vital role in galvanising moral and practical support. Expect to see many more hits on the parliamentary data base. ①

Ambitious Target of Growth



Raad Zahid —
CEO, Erbil Stock Exchange (ESX)

Raad Zahid provides IIG with some specifics on the ESX's opening, initial market capitalization, and plans to attract foreign investors.

IIG: Can you provide us with some specifics on the ESX?

RZ: The ESX got a license from the Iraq Securities Commission. We are working under the mandate of the Iraq Securities Commission, which has the same listing procedures as the Iraq Stock Exchange. We are targeting an opening for the ESX in the fourth quarter of this year. We are expecting an initial capitalization of \$300-400 million. We have a consultant contract with the Louis Berger Group. As a consultant, they are doing work in terms of listing, infrastructure, procedures, and training brokerage firms here on how to be licensed. We expect to take public four companies in the insurance and construction sectors on the ESX when it opens. We have licensed two brokers. One broker got the approval from the Iraq Securities Commission and the second one is in the process of doing so. There are another two that are fulfilling the requirements for ESX to trade as a licensed broker.

IIG: What issues are you addressing for investors that the Iraq Stock Exchange (ISX) is incapable of addressing? How confident are you that the ESX will have enough liquidity to be attractive to investors?

RZ: The ISX is dominated by banks. There is also Asiaccell, which constitutes almost 40% of the market capitalization there. First of all, there is no dual listing between the ISX and the ESX. We are trying to bring more transparency with the companies that will be listed here, especially for foreign investors that play a big role in the economy of Kurdistan. Liquidity will come with the market. Once the market opens, a lot of businesses will see that there are openings



When the market gains momentum and starts to work in the medium term, we are targeting almost 40 qualified companies from the Kurdistan Region to be listed on the stock exchange.



for foreign investors, that they can enter this market easily, and that security here is much better than in Baghdad. These are all factors that will add to liquidity once the market opens.

IIG: How can the ESX ensure proper and accurate disclosure to investors of quarterly financial statements and other important data?

RZ: Apart from the Iraqi standard of producing balance sheets and evaluations for the companies, we are trying to impose the international accounting standard for that reporting so that all the material things, like balance sheets, cash flow, profits, and losses, will be transparent to investors. On a quarterly basis, we are trying to let companies disclose all the information related to the stocks they are listing in the market.



IIG: What level of interest in Kurdistan have you found with foreign investors?

RZ: If you look at the Kurdistan Board of Investment statistics from 2006 until the first quarter of 2014, they will show that almost \$38 billion in funds entered the market in Kurdistan. They were distributed between the oil and gas sector, construction, trade, agriculture, and banking. Rather than going to banks and the financial sector, most companies can fulfill their needs for financing and growth in the future through the ESX.

IIG: Could the ESX's small size be a challenge in terms of attracting those types of investors?

RZ: Yes, but the prospects for growth and capitalization in the Kurdistan Region are better than in the rest of Iraq. Security-wise, communication and transportation are easy here. These are all factors that will entice foreign investors to come and invest in Kurdistan. They will have a window to look at this through the ESX. Currently, we have two funds- one from Sweden and one from England- that are interested to see what companies will be listed so that they can have access.

IIG: Do you look primarily for foreign institutions to underwrite IPOs? Have you found that any local banks are interested in facilitating IPOs?

RZ: The first stage of an IPO is difficult for foreign investors because they have to comply with Iraqi law and the Iraq Securities Commission's procedures. But all locally incorporated companies, even private limited liability companies, can convert to a public joint stock and then do their listing on the stock exchange. We are negotiating two settlements with them on the types of trade that will take place on the exchange. There are other banks that would like to list their shares on the stock exchange in the future.

IIG: What is your medium term target?

RZ: When the market gains momentum and starts to work in the medium term, we are targeting almost 40 qualified companies from the Kurdistan Region to be listed on the stock exchange. Some of them are doing evaluation, and we are helping them by looking at a financial advisor to evaluate their balance sheet and assets until they comply with all the procedures that we require as a stock



We are targeting an opening for the ESX in the fourth quarter of this year. We are expecting an initial capitalization of \$300-400 million.



exchange. Then they will come one by one. With four companies in the first six months, I expect that we might double that by one year of business.

IIG: Turkish, Lebanese, and Emirati companies have strong economic ties with the Kurdistan Region. Do you expect their involvement?

RZ: We have many Turkish and Lebanese banks that are licensed and working here in Kurdistan now. There are a lot of foreign companies from Lebanon, the UAE, and Turkey in joint ventures with locally incorporated companies. Actually, if you look at companies that are now listed on other stock exchanges, like Dana Gas, Abu Dhabi Islamic Bank, and TAQA, they might do a dual listing of up to 20-30% of the stocks they listed in their original market according to the rules and regulations there. In the future, it depends on their needs and how they look at Kurdistan's market. If they do a dual listing after the first year, that will be a positive sign for us. ☞

Building on Industrial Capacity

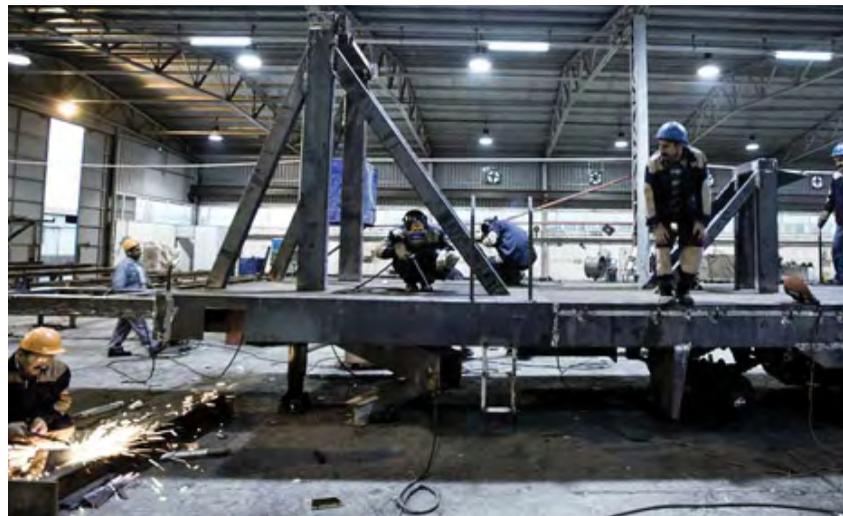


Dilshad Shakir —
CEO, Azady Industries

Dilshad Shakir speaks to IIG about the role that Azady Industries is playing in the development of Sulaimani a center for heavy industry in Iraq and the broader region, and well as the major potential for further growth in the sector.

About

Dilshad Shakir has served as CEO of Azady Industries for the past two years. Previous to his tenure at Azady Industries, he served for 31 years at the KRG Ministry of Electricity. He holds a degree in electrical engineering from the University of Sulaimani.



IIG: Sulaimani has become a major center within the Kurdistan Region for heavy industry—the province produces an enormous amount of cement and steel each year. To what degree does Azady Industries benefit from local strength in industry?

DS: The industrial strength of Sulaimani is very important for us. Most importantly, factories in Sulaimani produce the raw materials that we use, namely steel. Currently the steel plants in Sulaimani use scrap to create their products. While this works on a small scale, most major steel producers use mined iron ore to make steel. Faruk Holding is working to establish such a system, and to begin mining iron ore outside of Sulaimani, which would increase the volume of

local steel production massively. Azady Industries would benefit from such expansion, as steel would be easier and cheaper to source. Currently, when local producers cannot meet our needs, we must import steel from Turkey, which is costly. The challenge to developing these iron ore mines, currently, is regulatory. We are awaiting the development of a legal framework that will allow us to take advantage of these local resources and begin mining.

IIG: How do you view the evolution of heavy industry in Sulaimani and Kurdistan over the coming 5-10 years?

DS: The foundation is already built for Sulaimani to become a major industrial center for Iraq and the broader region.



Already, as it relates to Azady Industries, we can see synergies coming together in here to allow for this growth. As we create galvanized steel for construction, transmission towers, and communications towers, we rely on steel, but also cement, as a complementary good for the structures we build. We already have these inputs. As I said earlier, once Sulaimani's steel factories can use raw iron rather than recycled scrap, this will only improve the efficiency and capacity of Sulaimani's heavy industry sector. Further, we as a company have already taken steps in centering industry in Sulaimani. Azady Industries already has the largest galvanization pool in the country. This allows us to make power transmission towers for both federal Iraqi utilities, as well as the KRG Ministry of Electricity. Previous to this, these transmission towers had to be imported, typically from Turkey or Iran, but sometimes as far away as China. Making structures such as these in Kurdistan only makes sense, and with growth in industrial capacity in Sulaimani, this is now happening.

IIG: Which sectors provide your largest clients? Where do you see further growth?

DS: As I mentioned, the KRG's Ministry of Electricity is a major client. They have plans to expand transmission lines to sufficiently cover all of Kurdistan—all of which requires a huge number of towers. While they have, in the past, used foreign companies to supply these, we are now stepping into that role. We are also supplying towers for similar expansions of transmission lines throughout the rest of Iraq. In the telecom sector, Azady Industries has already established itself throughout the country as a partner of choice for the three major mobile operators, Asiacell, Korek, and Zain, and supply their cell towers. We provide high-quality solutions for setting up GSM towers in areas with challenging geography and weather, cost effectively. In construction, we have had a few clients, notably in construction of the Grand Millennium Hotel. However, construction in Kurdistan is still dominated by cement for structure, so we still view this as a market for future growth rather than a current focus.

Azady Industries

Azady Industries, a Sulaimani-based, Faruk Holding Company, is a regional leader in steel structure manufacture. The company specializes in transmission and communication towers for power utilities and telecom companies, as well as steel structure for construction.

IIG: What improvements or expansions has Azady Industries been working to complete in 2014?

DS: One of the major areas that we have been investing in recently has been our quality control laboratory. We were the first company to have ISO quality certification for both quality management and oil and gas areas, and we are currently working on getting ISO certified for our testing laboratory. We already have the equipment to assess the strength and integrity of all of our products in a number of ways. The certification processes, and more importantly the lab and quality control processes themselves, truly demonstrate our international standards of quality to our clients. 

FOCUS: ECOCEM Finding Synergy in Unlikely Places

Faruk Holding, in partnership with Lafarge, have found an innovative method of using Sulaimani's waste to partially fuel the city's major cement plants—reducing industrial CO2 emissions, lowering operational expenses, cleaning up the city's water and soil, and improving urban safety in the process. As part of Lafarge and Faruk Holding's interest in improving Sulaimani and assisting the Regional Government, the two parties are jointly initiating a comprehensive service to sort the municipal solid waste to produce refuse-derived fuel (RDF), and minimize landfill waste to less than 20% of its original volume.

Already well known for solving problems and filling gaps through innovative and high-quality private sector investment, Faruk Holding is pushing the boundaries once again. Sulaimani Governorate produces hundreds of tons of garbage daily, as Sulaimani grows, it begins to create environmental strain on the city. Landfills, scattered around the outskirts of the city, require massive areas—and in some cases, such as in Tanjaro in the city's south, urban expansion is nearing the dumpsites. They release gases, which pollute the city's air; they pose major fire hazards; and, even as the city is dependent on its aquifers for fresh water, pollute the city's groundwater. Surprising then, that in this refuse, Lafarge and FH find opportunity.

Lafarge and Faruk Holding's major cement plants in Sulaimani —Bazian, Tasluja, and Gasin Cement Company—require tons of fuel for clinker production. The precalciner and the Kiln are operated at around 1,400 degrees Celsius. At this temperature, refuse-derived fuel (RDF)—dried, shredded garbage, essentially—can be used efficiently to fuel the chambers, and is burned so hot that carbon emissions are diminished. The process produces less smoke and pollution than typical burning of trash, and less CO2 than the heavy oil that currently fuels the cement plants.

The RDF plant, operated by Ecocem/Environmental Solution Limited, a company established by Faruk Holding and Lafarge Industrial Ecology, will be based in Tanjaro, just south of Sulaimani. Municipal solid waste trucks will drop off roughly one thousand tons of waste per day to the plant. The waste is then sorted, and 3-5% of the waste, primarily scrap metal and plastic, is removed to be recycled. Water comprises roughly half of the waste. To dry the waste sufficiently to be used in the precalciner, Ecocem will employ bacteria in a process of bio drying, which will heat and dry the trash. Unusable trash will be separated and sent to a landfill, and the dried, shredded RDF

will be trucked to the cement plants. All in all, only 12-20% of the original trash delivered to Ecocem will be returned to a landfill. The rest will go on to productive uses; even the moisture removed will be purified for reuse.

Faruk Holding and Lafarge hope to have the whole operation running smoothly by the end of 2015, and have aspirations to eventually run their plants primarily on RDF. As Sulaimani grows, economically and industrially, as well as demographically, its production of waste is predicted to grow in kind. A parallel expansion of RDF use is built into the Ecocem contract. Ecocem holds a 20-year renewable contract with the Slemani municipality to consume 1,000 tons of garbage per day, with 3% annual increases. This represents over 40% of Sulaimani's total current waste production, and there is ample room for expansion. In the first year, Ecocem plans to produce, from its total waste, 130,000 tons of RDF, which covers roughly 25% of Lafarge/Faruk Holding's cement plants' fuel needs. As Faruk Holding and Lafarge push towards their goal to power their plants entirely from RDF, much more RDF will be produced, and much more waste recycled.

The project benefits everyone involved. By producing their own fuel rather than depending on oil suppliers, Faruk Holding and Lafarge not only improve the predictability and independence of their cement plants, but they will also lower operational costs through cheaper fuel supply. Much more importantly, however, is the impact the project will have on Sulaimani's environment and society. Groundwater will be cleaner, soil will be more productive for agricultural purposes, the air will be fresher, and the city will be more secure as landfill fires diminish. While heavy industry and environmental improvement often seem at odds with one another, Ecocem demonstrates that synergies between the two can be found—to the benefit of communities as well as balance sheets. 

Game Changer



Baker Saeed Taufiq —
General Manager, Azmar Air

Baker Saeed Taufiq discusses Azmar Air's expanding ground handling operations in Kurdistan and the company's ambitious plans to turn its Slemani base into a nexus for international cargo flights.

IIG: Could you brief our readers about Azmar Air and its key projects?

BST: Azmar Air was established in 2005. We are the fifteenth company in the Middle East to have the International Air Transport Association's Safety Audit for Ground Operations certificate. We manage ground handling, cargo, fuel, and catering services at Sulaymaniyah International Airport (SIA). Azmar Air has been growing 20% each year. We have about 600 staff now.

We are also the first company in Iraq to have a private airport, and we are now building Iraq's first specialized cargo airport in Sulaymaniyah, which we will own completely. The new airport in Sulaymaniyah will be the biggest one in Iraq. It will be built at the same airport, with the same runway and taxiway. We will be closing the old terminal and building a new one with a hotel. It will take a minimum of four years to finish. We are also building the Sulaymaniyah Cargo Village, which will be finished in August.

IIG: Do you believe that Sulaymaniyah can be a cargo hub?

BST: Iraqi airspace is a corridor for all the flights between the West and the East. Everyday there are around 300 flights over Iraq. So, Sulaymaniyah is in a good position to be a point of connection between the West and East. Through our cargo company, we can provide the facilities needed for a hub that can distribute cargo from Sulaymaniyah to the East. The new airport will play a crucial role in positioning Sulaymaniyah as a cargo hub for the region. This is our main plan.

IIG: How does the current political situation affect the growth of the aviation industry in Kurdistan?

BST: As you know, all permission comes from the Iraq Civil Aviation Authority

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The new airport in Slemani will be the biggest one in Iraq. It will be built at the same airport, with the same runway and taxiway. We will be closing the old terminal and building a new one with a hotel.
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in Baghdad. No airline can fly to the Kurdistan Region without the approval of the ICAA. It affects us negatively. Airlines know that we have to get that approval from the ICAA, and then they come to us. On the other hand, we have been talking with Baghdad about taking on ground handling operations at the airports in Basra and Baghdad for a year now. We won a tender over seven international competitors. Until now, our case has been stuck in the Ministry of Transportation in Baghdad because of political problems. We are waiting for the situation to change.

IIG: What do you see in the future of the aviation industry in Kurdistan?

BST: The airline business is directly connected with people's economic situation, and the economic potential and growth of Kurdistan. We believe that the aviation industry will improve in the Kurdistan Region if the economic situation continues to improve here. As I mentioned, we would like to see Kurdistan become a cargo hub for the region in the future. 

Driving Growth



Moh'd Fuad Anaswah —
CEO, Niva Car Trading

Fuad Anaswah provides IIG insight into the opportunities, as well as the challenges, in maintaining the skyrocketing growth of the Kurdistan Region's retail and fleet automobile sector, and how Niva has become a central player in the market.

About

Fuad Anaswah has been the CEO of Niva Car Trading since 2011. Previously, he was the founder and CEO of KADDB Investment Group, and Managing Director of Jordan Light Vehicle Manufacturing, KADDB's Jordanian British joint venture company. He holds a Masters degree in Industrial Engineering Management from Jordan University, and a Bachelors degree in Mechanical Engineering from Sheffield University.

IIG: Niva has grown at upwards of 250% per year in recent years. What has allowed you to reach these numbers?

FA: Niva has been fortunate to witness such growth between 2011 and now. The growth has been due to a number of reasons. One of the central factors has been our marketing strategy. We have implemented and adopted an aggressive, and thus far, successful, campaign to make ourselves broadly known by customers in the country. Moreover, we have improved our after-sales services, such as service, maintenance, and parts. We have also increased and improved our sales team by hiring more and more sales professionals and retraining those that we have at global standards. We opened a call center last year that allows us to call each and every client that comes to buy a car, and most of those who service their vehicles with Niva. Feedback from our call center is reviewed each month, and we use the information to improve our sales and services. Regarding the sustainability of our growth trajectory, we will keep growing quickly. Perhaps not at 250% per year, but we expect three-digit growth to continue for the coming years.

IIG: Can you tell us about your expansion strategy within the country?

FA: We are currently expanding into new markets in federal Iraq, including Baghdad and Basra, where we believe there is still a lot of potential for new growth. In Baghdad, we have registered with Gamco, which is the federal agency in charge of purchasing vehicles for federal entities. We hope to serve many of the federal Iraqi public sector entities in coming years. Our Basra branch opened in early June, which has cemented our presence in the southern Iraqi market. Between all of our regional branches, we will serve the entire Iraqi market. Our

strategy is to open most of our showrooms, supply hubs, and service facilities ourselves, to remain fully integrated. In Baghdad, Basra, Sulaimani and Erbil, we have already done this, and we will do the same in Duhok soon. In smaller markets, we will work with sub-dealers. We can supply the cars and parts and support their services, while fostering local business in smaller towns.

IIG: Which demographics and segments of the market do you find most promising for the growth of car ownership in the Kurdistan Region?

FA: The country in the past few years has displayed very fast growth; it has been the fastest growing country in the region. As GDP per capita increases to approximately \$5,000 per year, we will begin to see more and more families and individuals buying cars with better quality—more than just a means of transportation. People begin to look at cars as a means of entertainment, and seek smart, green, and luxurious automobiles. We broadly cover the market from the lower end up to the higher end. Ford suits this strategy very well. It is not cheap, but it is not expensive, and it offers very high value for the money. We start with small, entry-level cars and move up to higher-end luxury cars and trucks. In coming years, we expect for overall increases demand for luxury, safety, intelligence and comfort, and we are well positioned to provide that.

IIG: Importing thousands of cars into Kurdistan and Iraq must present logistical challenges. In what ways have you streamlined the process of getting cars into the country?

FA: Logistics does present major challenges. For our cars coming to the Kurdistan Region, we import cars through Turkish ports and truck them

to our local showrooms. Because of regulatory differences between the KRG and Baghdad, these cars can only be sold in the Kurdistan Region. Safety and quality standards in the KRG are very strict. While our cars all meet these standards, the compliance procedure is expensive and time consuming. When importing cars into the country this procedure is not yet implemented. However, once it is, Ford cars comply with international standards, regardless of regulation or local policy. This becomes problematic if demand shifts between the regions, because we cannot move vehicles between the Kurdistan Region and federal Iraq. I hope that eventually there will be some sort of a free zone between the two or between neighboring countries, so that we can import the vehicles directly into the free zone, and then we can move cars to Kurdistan or federal Iraq as per actual demand. This would make our operations much more efficient, to the ultimate benefit of our end customer.

IIG: In what ways do you collaborate with Ford to realize your mutual goals?

FA: There is a lot of collaboration between Ford, Niva and other Middle East Ford dealerships. Ford has a Middle East office based in Dubai that coordinates all of the regional distributors. They send representatives here each month to help in training our sales team and ensure continuity and consistency between different dealers. Additionally, we have quarterly meetings with all of the Ford dealers in the region, to share insights and collaborate on seasonal marketing campaigns. For example, we roll out a Ramadan campaign in July, in collaboration with other Middle East Ford dealers. Of course, we do our own unique campaigns as well—our Newroz campaign in Kurdistan, for example—but

our synergies with other Ford dealers are very important in promoting the brand.

IIG: Financing presents challenges to many firms in the Kurdistan Region. To what extent does access to finance limit people's ability to buy cars in Kurdistan? Is this changing?

FA: Access to finance is one of our major challenges, both as a company and as retail finance for our customers. Retail financing is somewhat unique to car sales. Some local banks do offer retail financing for car loans. These are at high rates, and short repayment periods. However, it is inconsistent at this stage. Some loans are easy to acquire, some very difficult. Financing through banks still is somewhat below our expectations and ambitions, because retail financing is crucial to car sales, we believe that as financing improves, our sales numbers will also grow.

IIG: Car insurance is only recently becoming available, and is still not widely used in the Kurdistan Region. What is your take on the future of the auto insurance sector?

FA: When our customers purchase cars, we heavily encourage them to buy car insurance. The sector itself is growing, with Asia Insurance serving much of the market. However, the culture of using insurance has not yet been integrated in society, for social reasons or simple lack of understanding. Of course, shifting risk to insurance companies is preferable to carrying it yourself, but at this point it is still relatively rare. There is a potential, I believe, for significant growth in this sector. Asia Insurance is the biggest and most professional insurance company in the country. The company is only three years old—insurance is still a very young industry here. ☺

Niva Car Trading

Niva Car Trading is the exclusive dealer of Ford and Lincoln automobiles in Iraq. A Faruk Holding company based in Sulaimani, Niva maintains a broad presence across Iraq and the Kurdistan Region.

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Financing through banks still is somewhat below our expectations and ambitions, because retail financing is crucial to car sales, we believe that as financing improves, our sales numbers will also grow.
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New Concept in Erbil



John Downe —
Managing Partner, Azure Serviced
Offices

John Downe discusses the opportunities and challenges Azure sees as it introduces the serviced office concept to the Kurdistan Region.

IIG: How did you decide to bring this concept to the Kurdistan Region?

JD: It is an industry that I have been following quite closely for eight years. I have been looking for the perfect opportunity. In the UAE, there are over twenty serviced office centers. In Qatar, Kuwait, Saudi Arabia, Bahrain, and Oman the serviced office concept is very common, but there is nothing here. Erbil is a safe, stable, oil-rich capital city with no serviced offices, and foreign companies wish to expand their presence in the emerging marketplace of the Kurdistan Region. I saw this gap in the market and decided to set up the first and only serviced office center in Kurdistan.

IIG: What were the key challenges in bringing this concept to Kurdistan?

JD: The fit-out was the biggest challenge, because skilled craftsmen were simply not available. We took this floor when it was a concrete shell. Skilled builders, carpenters, interior finishers, and project planning are areas where huge strides could be taken going forward.

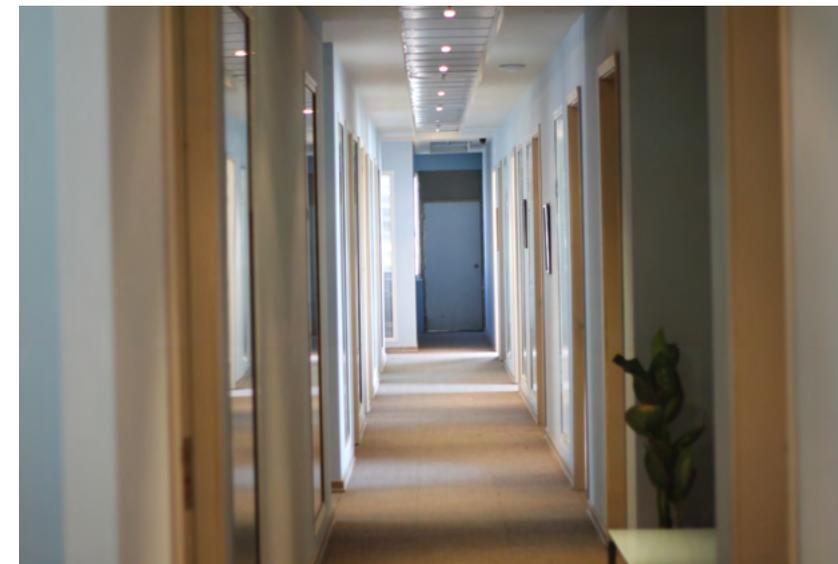
The other challenge was explaining to people what we do. You have to remember that most of our clients are foreigners or foreign companies, so they have probably seen it in Europe or America. But for those who have not, I always say, "I can explain it to you, but just come around and have a look." Once they come around, they understand.

IIG: What is your customer service philosophy?

JD: The whole point of what we do is that clients can come here, sign an agreement, and start work immediately. They move straight in and stay for as long (or as short) as they like. Everything is included and we take away the headache of having to manage a property. The logic is that I want to win clients and I want to keep them. I do not want to upset them, and I want them to be so comfortable here that they never want to leave. That is why, every morning, we have fresh croissants delivered from the best bakery in town, a bowl of red apples, Italian coffee, and English breakfast tea- everything just to make people feel comfortable. All these small things people really value.

IIG: What makes Azure serviced offices unique in terms of services?

JD: The key area of our strategy is pricing and services. What we do is take a bundled approach. We include everything- not only their office, but also free use of boardrooms and meeting rooms, Wi-Fi, and all the utilities. The backup generator is included. We have a steward and tea, coffee, and beverages. We have a reception. We include a phone on your desk, so you have your own phone number, and, if people phone that number, it is answered in your company's name on our reception and put through to you. All of that is included.



IIG: Why should people rent your offices when they can rent a flat or a villa?

JD: We are here, we are up and running, and you can move in today. When you rent a villa or a flat, you have to add into that all the utilities, Wi-Fi, maintenance, the up-front capital expenditure of fixing the AC, remodeling, repainting, buying furniture, and the time cost of that. Plus you will not have a receptionist, security, or a steward. If you include all of that, we are between 30-50% cheaper. Plus, we are flexible. You can leave after three months, or, if you just need a space for a special project for six months, you can take an office for six months just for one project. Nobody else can offer you that. So, life is a lot easier here.

IIG: You are also the head of the Kurdish-British Business Council. How would you define doing business in this market?

JD: Doing business and setting up a company in Kurdistan is reasonably straightforward. If you are setting up a company

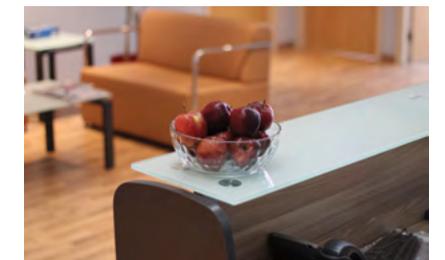
that is owned by individuals here, it can take just three weeks. What takes time is setting up a subsidiary or a branch of a foreign company. If you are setting up a branch of an British company, you have to get all your company papers stamped by the Foreign & Commonwealth Office and notarized back in London, brought out here, and stamped again by the KRG. Those papers will then be used to help establish your subsidiary or your branch here. It can be as little as three weeks or as long as three months. The fact is, though, in most sectors you can have 100% ownership as a foreigner, which, again, sets Kurdistan apart from most Middle East countries including the UAE.

IIG: How have events of the last few weeks affected business?

JD: The last week has been tragic for all those affected and my sincere sympathies go out to families that have been decimated by these terrible events. I am so impressed by the hospitality of the Kurdish people towards the Christians,

About

John is an entrepreneurial business and finance professional with an international track record in corporate finance, private equity, new venture development and turnarounds. Prior to Azure Serviced Offices, John was a director at Ernst & Young Corporate Finance in Bahrain and then co-founded Asil Strategic Partners, a transaction advisory boutique. Before coming to the Middle East, John's career focused on Debt Capital Markets in London with a range of international banks. John holds a BA in Arabic from SOAS and an MBA from London Business School. He also qualified as an Associate of the Chartered Institute of Bankers.



Arabs and Yazedis. Thank goodness too, that we have the Peshmerga to protect us and now the USA and UK are stepping in to help.

The threat to Erbil is, at worst, medium. But the perception of an event can cause chaos and that in itself brings some dangers such as lack of imports. Asymmetric threats persist. Logistics is a concern and flights have been reduced. The US airstrikes have improved morale and people are much calmer. I had one new client due to fly in and sign up, they postponed their trip but are still going ahead with opening an office here at Azure.

Overall, I expect projects may be delayed by a couple of months but businesses cannot afford to ignore the possibilities that are here.

IIG: Can the companies that rent offices come here and work whenever they want?

JD: Yes- 24/7. We have our staff on the premises from 9am to 5pm. If people want to come in at 2am, that is fine. ☺

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THE REVIEW — HUMAN CAPITAL

UNTAPPED RESOURCE *Making the Most of Kurdistan*



Perhaps more than any other sector or resource, Kurdistan’s quickly expanding workforce contains arguably the most potential to reshape the Kurdistan Region’s business, economic, and social landscape for the better, over the long term. This untapped potential is a result of several factors coming together, including latency in the professional capacities of the Region’s workforce, a major demographic skew towards younger generations, and the influx of investment that has swept into the Region over the past decade. The current situation, then, is one in which the workforce is large, young, and yearning for professional development—and the private sector has the incentive and capital to provide it.

The vast majority of Region’s workforce is employed in the public sector—a legacy of both decades of sanctions, which stunted private sector development and employment, and a broader Iraqi history of centralization of the economy beginning in the mid-20th century. Indeed, as of 2012, only 20% of all wage-paying jobs in the Kurdistan Region were in the private sector. This statistic, however, is untenable—something which the KRG’s leadership understands—and is changing. Employment must

shift to the private sector for both reasons of efficiency and demography: The median age of the Kurdistan Region is only 20-21 years, meaning that the working age population is set to expand massively in the coming decade, which the already bloated public sector certainly cannot absorb. KRG initiatives are pushing employment increasingly into the private sector, as well as training employees in methods that improve skills and efficiency in the public sector. The KRG’s Human Capacity Development Program (HCDP) sends recent graduates to international universities for post-graduate studies, many agencies train their own employees (or those of other agencies), and the Prime Minister’s office unveiled in 2013 a website to pair job-seekers with employers in the private sector.

However, some of the biggest momentum for capacity development and training, and private sector employment, comes directly from the private sector. Training takes the form of in-house operations at major companies; training centers at universities, such as the Professional Development Institute (PDI) at the American University of Iraq, Sulaimani (AUIS), and the English Language Center at the University of Kurdistan, Hewler

(UKH); MSelect, a recruitment agency, has a training and development center, as do specific sector oriented companies, such as Stirling Group’s Health, Safety, Security & Environment (HSSE) training programs. Companies use each of these operations, depending on their specific needs, to invest in their employees’ skills, professional development, and expertise—from English (or Kurdish, or Arabic) language, to computer programming, to firefighting.

Perhaps the most promising training and development programs, however, are the products of public-private cooperation. The Ministry of Natural Resources (MNR) conducts the largest of these programs. International oil companies (IOCs), as part of their Production Sharing Contracts (PSCs) with the MNR to explore and produce oil, must contribute a certain percentage of their income towards the MNR’s capacity development programs. Some IOCs take this even further—Gulf Keystone, for example, has improved morale, staff retention, and overall productivity through the creation of a comprehensive capacity development program for their employees in Kurdistan.



Public to Private: The Great Migration

Creating increased employment opportunities in the private sector is among the most important factors in insuring social and economic health in the Region. Given the Region's aforementioned young demographic make-up, it is estimated that the Region will add between 850,000 and 1.1 million new employees to its workforce in the coming 20 years—equivalent to over 20% of the Region's entire current population, and 100% growth on current employment figures.

The KRG's public sector already employs a far outsized percentage of its population in its bureaucracy and direct government employment, state owned enterprises, and public-private initiatives. Further net expansion of the public sector's size, particularly in relation to the Region's population, would broadly be understood as an inefficient use of public resources—let alone a doubling in size, as the workforce is estimated to do over the coming 20 years. This leaves the private sector to pick up the slack in the coming workforce expansion.

This will require increased local

entrepreneurialism, increased foreign direct investment, or privatization of some government functions. The KRG has been actively working towards the initial two options, most obviously through its 2006 Investment Law, which has had great success in both bringing foreign investors to the Region, but also in spurring local investment and entrepreneurialism. Since the law's inception in 2006, the Region has seen 693 new licensed projects, totaling over \$39 billion of foreign and domestic investment, and countless new private sector jobs.

Regarding the third option, outsourcing public sector functions to the private sector, there has been movement as well. Public-private partnership arrangements are developing increasing momentum in the KRG. Particularly where industry specific expertise can be helpful, the KRG is eager to work with private, often foreign, companies. In ICT, for example, the KRG's Department of IT (DIT) coordinates several private companies to achieve the KRG's IT-related goals and benchmarks. In

many sectors, the KRG offers regular tenders and contracts for outsourcing projects, and even works in joint ventures to bring the private sector into public projects. Even within the training and development sector, the KRG contracts with private universities and training institutes to improve the skills of local public workers.

While the migration into private sector employment is a must in coming years, the transition will take time, and will take further decisive action by both the public and private sectors. One 2014 report commissioned by the KRG notes that, in addition to poor English language and computer skills, preference for public sector employment still hinders the private sector labor market, as many competitive employees seek stable jobs in the public sector. Overcoming this challenge will require private companies to compete more strongly with the public sector in the labor market, but will also require a broader understanding among the Kurdish workforce of the benefits of private sector employment.

Private Sector Training

However, to prepare the workforce for the rigor of private sector employment, in some cases additional skills and development training is necessary. This is particularly true for employment in foreign companies operating in Kurdistan. For example, written and spoken English proficiency often presents challenges; professionalism in writing and communication is sometimes found lacking; and basic to intermediate computer skills can need touching up. These skills can be developed at many different professional development and training centers and institutes.

Perhaps less often considered is cultural awareness in the workplace, for both expat workers and local staff. According to Allegra Klein, director of MSelect's Training and Development Center, "On job sites...people work in isolated, close quarters for weeks at a time. This creates potential for clashes from religious or cultural misunderstandings. Companies are therefore making cultural awareness much more of a priority."

MSelect is also now working in recent collaboration with the World Bank's International Finance Corporation (IFC), which is opening up its 'Business Edge' initiative in the Region. The program is active in 30 developing countries, in 10 languages, covering 59 individual topics, tailoring its programming to the needs of local workers, and seeking broadly to improve the professional competencies of employees. MSelect has been selected by the IFC to lead Business Edge courses in Kurdistan and Iraq in English, Arabic and Kurdish.

As many companies and organizations find wide and disparate needs in terms of human capital, universities and training centers find it important

to work closely with companies and clients to tailor courses directly to what is demanded. "It is essential to understand the needs of each client so as to customize trainings and courses relevant to their needs," notes Robert Ritchie, director of AUIS's Professional Development Institute. "Iraq has seen years of conflict, which has adversely affected the opportunity for its people to gain knowledge and skills. Now, especially in the Kurdistan Region, the favorable security situation means that the Region has an opportunity to invest in its workforce. There is a great need for training in Kurdistan and we receive many requests for all kinds of trainings, ranging from language courses to field specific courses."

Companies themselves also provide extensive training to their employees. From retail, where Landmark Group brings in foreign experts to train local employees and management, to ICT, where companies such as CIS and others send their employees to get international certificate for new technologies and equipment. Bigger companies, such as Faruk Group Holding have large staff training divisions to bring staff into line with the companies' quality standards.

Even in healthcare, companies are bringing professional expertise to the field after graduates have left university. Nordic Medical Services, part of RMSI International, trains local healthcare professionals from many of Erbil's hospitals in Pre-Hospital Trauma Life Support. Faruk Medical City partners with local medical schools to bring recent graduates into the hospital in residency schemes, bringing them to speed with international norms in healthcare provision.

850K-1.1 MILLION

THE KURDISTAN REGION WILL ADD BETWEEN 850,000 AND 1.1 MILLION NEW EMPLOYEES TO ITS WORKFORCE IN THE COMING 20 YEARS



IOCS' NET EMPLOYMENT IN KURDISTAN IS CURRENTLY 4,137, AND IS 63% LOCAL.



THE MNR HAS SET A TARGET OF REACHING 90% LOCAL EMPLOYMENT IN THE ENERGY SECTOR BY 2016.

“THE MNR ESTIMATES THAT IOCS’ PRODUCTION WORKFORCE WILL INCREASE BY **200%** FOR EACH **100,000** BARRELS PER DAY PRODUCED. CURRENT PRODUCTION OF 165,000-200,000 IS EXPECTED TO REACH **1 MILLION BPD** BY THE END OF 2015. SUCH PRODUCTION REPRESENTS THE ADDITION OF 1,600 NEW PRODUCTION WORKERS IN JUST **1.5 YEARS.**”

Energy Sector Paves the Way

The energy sector, still the largest driver of Kurdistan’s economy has, in collaboration with the Ministry of Natural Resources (MNR), played a leading role in expanding the skills of Kurdistan’s workforce. Early in the sector’s development in Kurdistan, when the MNR began offering Production Sharing Contracts (PSCs) to international oil companies (IOCs) for exploration and production, the MNR recognized the importance of local capacity development that IOCs could offer the Region. The MNR thus made compulsory a ‘capacity building bonus’ to be paid by IOCs towards local capacity and infrastructure initiatives in Kurdistan. The bonus is first paid upon signing the PSCs, and then, as profit oil is produced, paid as a percentage—between 2.4%-4.8%—of net profits.

The MNR this year is using some of this funding for a major capacity development project targeting thousands of people, including the Ministry’s employees, as well as young

future energy sector employees. The training program is comprehensive, comprised of both formal training and an internship component with an IOC.

However, many oil companies find that the incentive of creating and retaining skilled, professional workers is enough to invest in capacity building programs independently. Many IOCs actively hire local recent graduates for professional positions; MOL Group and Marathon Oil have scholarship programs in place to send recent local graduates to study petroleum engineering at top international universities, and Genel Energy and ShaMaran Petroleum have donated generously to AUIS. Moreover, some companies are finding that investing heavily into the careers of their own local staff pays hefty returns in staff retention, morale, and productivity. Chris Parker, a consultant to the Region’s energy sector, characterized one of such programs carried out by Gulf Keystone, as a small investment for a large workforce

enhancement. Benefits of the program to the company include improved safety and efficiency for the company, and a happier workforce with more defined career paths, more professionalism and competency, and increased pride in their work.

Initiatives such as these, already some of the largest in the Region, are set to expand hugely as IOCs move from exploration to production. IOCs’ net employment in Kurdistan is currently 4,137, and is 64% local. The MNR estimates that IOCs’ production workforce will increase by 200% for each 100,000 barrels per day produced. Current production of 165,000-200,000 is expected to reach 400,000 by the end of this year, and up to 1 million bpd by the end of 2015. Such production represents the addition of 1,600 new production workers in just 1.5 years. Beyond production, the MNR projects that a 5x increase in production increases overall energy sector employment by 3x.

This expansion will also represent growing opportunity for training centers in HSSE. Stirling Group, an HSSE company, is preempting this workforce growth by expanding and broadening its training capacities, including the development of a full-scale oilrig in a training center just outside of Erbil. The company already brings in HSSE training experts from around the world to bring global expertise to the local energy sector.

Moreover, the MNR has set a target of reaching 90% local employment in the energy sector by 2016. The 63% of current local employment by the IOCs in Kurdistan is largely concentrated in the lower rungs of the employment ladder—largely

in unskilled and semi-skilled labor, where locals represent 88% and 95% of the workforce, respectively. Moving locals into more executive, senior, and managerial positions is a long-term goal of the MNR, but one which will take time, as education and experience accrue among the local IOC workforce.

Ian McIntosh, an advisor to the MNR focusing on workforce capacity development, is promoting initiatives whereby the energy sector reaches out and collaborates more closely with local universities and local graduates, and uses apprenticeships to build expertise and high-level skills among young, local professionals in the sector.

Public Sector Initiatives

Prime Minister Nechirvan Barzani has addressed the need for growth in private sector employment at length in recent years, and has made private sector development and public sector reform central priorities of the KRG’s recently formed Eighth Cabinet. This follows a 2013 initiative by the Prime Minister to establish ‘Kurdistan Works’, a website devoted to connecting job-seekers to employers in the private sector, as well as services to educate workers about work in the private sector, and help them to create resumes and CVs to apply for such positions.

Within the KRG’s bureaucracy, and in addition to the MNR, training and development initiatives are also

taking root. Hiwa Afandi, director of the Department of IT, is leading an initiative to have internationally certified training centers, to ensure that computer and IT skills can improve processes and maximize efficiency across the KRG.

While daunting at first glance, the major shifts taking place in Kurdistan, both into the private sector and up the skills ladder, are being taken seriously by both public and private sector stakeholders. Upon closer inspection, a doubling of Kurdistan’s workforce presents much more opportunity than liability—the addition of 1 million bright, capable entrants to the workforce carries with it unrivaled untapped potential for the Region’s economy and business environment. ④

“A DOUBLING OF KURDISTAN’S WORKFORCE PRESENTS MUCH MORE OPPORTUNITY THAN LIABILITY—THE ADDITION OF 1 MILLION BRIGHT, CAPABLE ENTRANTS TO THE WORKFORCE CARRIES WITH IT UNRIVALED UNTAPPED POTENTIAL FOR THE REGION’S ECONOMY AND BUSINESS ENVIRONMENT.”



MSELECT Employee Survey

MSELECT is pleased to announce the launch of our 2014 Kurdistan Oil & Gas Job Market Overview and Salary Survey, the first such comprehensive survey 'from the ground' in Kurdistan. By developing two different surveys, the goal was to approach both employees working throughout Kurdistan and major Oil and Gas 'Exploration & Production' companies operating in the same region. The questionnaires were carefully designed to obtain the participating employees' career

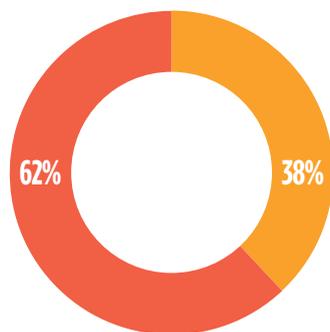
information in light of the fast-paced economic development of Kurdistan, in comparison to the surveyed companies' hiring trends and what they offer in terms of compensation, benefits packages and career development opportunities. Company information was supplied by most of the major international Oil & Gas operators in Kurdistan.

The employees' survey was conducted over a four-month period and covered all types of expertise within Kurdistan. With

over 1,000 respondents, MSELECT was able to form a general idea of the professional disciplines available in the market, their pay structure and benefits received, as well as expectations from current and future employers. This is likely to have a direct influence on companies that are looking to increase their current workforce in the short- or mid-term by adjusting their hiring strategies to effectively attract talented candidates.

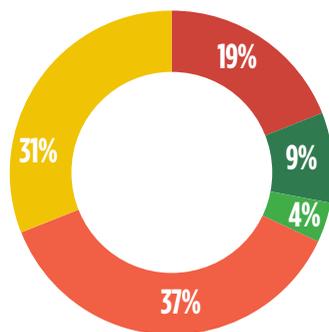


Whom do you work for?



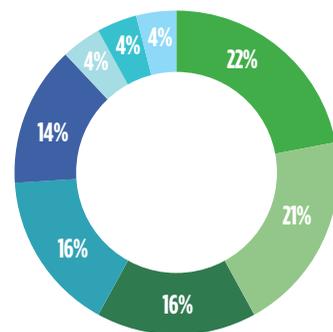
● An International Company
● A locally Established Company

Number of years in current role



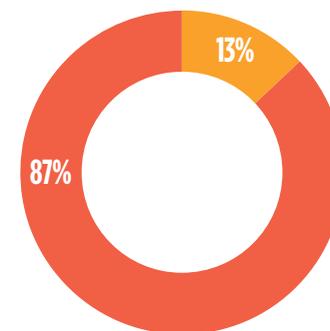
● < 1 Year
● 1-3 Years
● 3-6 Years
● 6-10 Years
● > 10 Years

How did you find your current role?



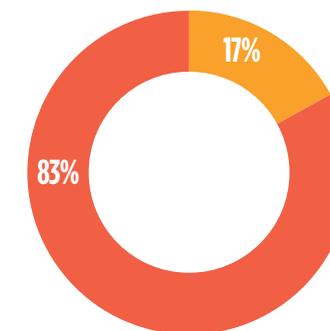
● Company website
● Word of mouth
● Recruitment agency
● Internal move
● Other
● Newspaper
● Head Hunted
● Jobs Board

Seeking a new job role?



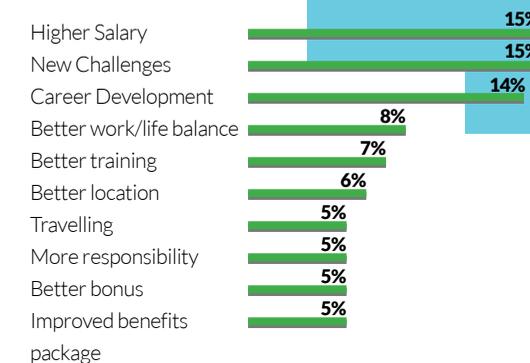
● Yes
● No

Actively or Passively seeking?

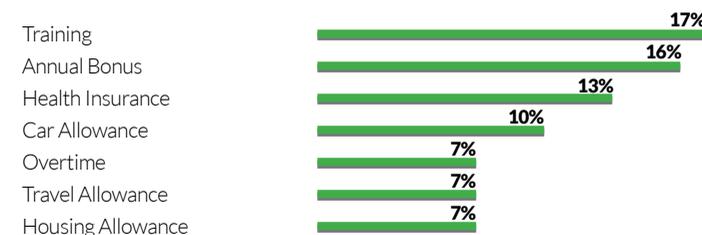


● Actively
● Passively

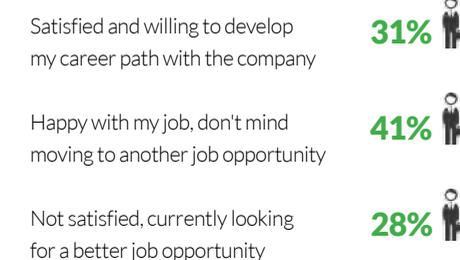
Reasons for looking for a new job



Most important corporate benefits for employees



Overall how satisfied are you with your position at the current employer?



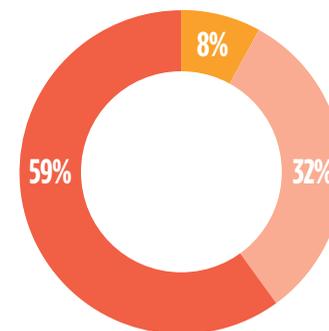
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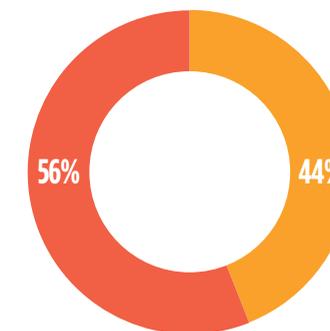


How motivated are you to see your company succeed?



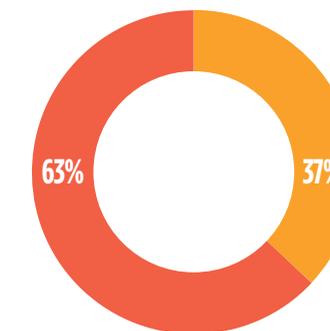
● Highly motivated
● Neutral
● Not Motivated

Did you receive a pay raise last year?



● Yes
● No

Have you had any training in the last 12 months?



● Yes
● No

Educational Edge



Robert Ritchie —
Director, Professional Development Institute (PDI), American University of Iraq, Sulaimani (AUIS)

Robert Ritchie speaks to IIG about the growing demand for professional development training and education in the Kurdistan Region, and how PDI's MBA program remains the touchstone of business education in Kurdistan and Iraq.

About

Robert Ritchie is the Director of PDI at AUIS. In this role, Ritchie oversees all activities related to the creation and provision of educational programs fostering professional growth and development, and directs the University's MBA program. He has over 15 years of international business development and university teaching experience, including 12 years in the MENA region. Ritchie holds an MBA from Boston University's School of Management, a JD from the Temple University School of Law, and a BA from Arcadia University.

IIG: How does PDI collaborate with the private sector (or public sector) to ensure you are satisfying the demands of your clients, in terms of skills covered?

RR: PDI began operations three years ago, and in this short period of time we have had the pleasure of working with some of Kurdistan and Iraq's largest private sector companies, and have developed courses and provided trainings for government and non-governmental entities. The variety of courses that PDI offers and the range of clients that we have places us in a good position to understand the market needs and trends. Being in the professional education field means that PDI deals with different types of clients from individuals who seek to improve their English language skills, to businesses seeking consultation services or trainings, to professionals who look for career advancement by obtaining an MBA or knowledge/skill in a specific area. It is essential to understand the needs of each client so as to customize trainings and courses relevant to their needs. Therefore we apply a client-centered approach to everything that we do.

IIG: What forms of training do you find the most demand for, and where do you find PDI to be particularly strong within the human capacity development sector in Kurdistan?

RR: As we all know, Iraq has seen years of conflict, which has adversely affected the opportunity for its people to gain knowledge and skills. Now, especially in the Kurdistan Region, the favorable security situation means that the Region has an opportunity to invest in its workforce. There is a great need for training in Kurdistan and we receive many requests for all kinds of trainings, ranging from language courses to field specific courses. Our MBA program and English language courses have proven to be very popular and attract a diverse student body due to the fact that these programs were part of the department's initial offering. As PDI expands its portfolio, we are witnessing a rise in demand for courses such as Project Management, IT, Finance and general consulting work. PDI's strengths lie in

focusing on the clients and their needs in whatever field or area of training they may require. There is great demand for quality education and trainings in Kurdistan and we strive to meet the demands of our clients and the market.

IIG: How have you found that Kurdistan's human capital is evolving? Is the skills gap closing with increasing education?

RR: The Kurdistan Region has seen explosive growth in industry, commerce and trade over the past decade. With this growth comes the need for an educated and skilled workforce. The trend over the past few years has seen many of the international companies relying on foreign workers for labor. However, there is an increasing realization that organizations in the Region need to invest in the local workforce, not only to maximize efficiency, but also to help the Region build human capacity. Education and training naturally play a great role in the development of the workforce, and it is evident that the Region needs to continue to commit to Human Capacity building. The skills gap is closing but at a very slow rate, more needs to be done to tap into the human labor potential that Kurdistan has to offer. Moreover, what is required in Kurdistan is to promote a culture of lifelong learning so that human resources of the Region can keep up with the ever-changing needs of business, whether technical or non-technical.

IIG: How has PDI been so successful in attracting high caliber students to the MBA program, despite competition from other Iraqi universities and, in the case of some top students, major foreign universities?

RR: The MBA at PDI is a student centered, dynamic and interactive program that focuses on the main aspects of business and the working environment. The program is consistently updated and touches on current business trends and issues, analyzing real-life case studies. We have recently introduced three specializations to our MBA program: Project Management, Leadership and Finance.

The MBA program strives for the highest standards, comparable to other MBA programs offered internationally. This means that students need not go abroad to receive a first-rate educational experience. The exposure to a new way of learning that is fresh and engaging will equip students with the knowledge and skills necessary to further succeed in their careers.

IIG: The MBA program offers night classes for established professionals, but is also taking steps to recruit students straight out of AUIS's undergraduate program. Who would you say is the target demographic for the program?

RR: The enrollment process encourages applications from a diverse background of students, which complements the program by bringing together a broad range of experience to discuss and analyze business topics and issues. This mix in turn encourages debate and exchanges of ideas whereby students find innovative solutions and discover new ways of approaching work related matters. The target is both experienced business professionals and motivated young graduates. We aim to achieve maximum synergy.

IIG: Have you received feedback regarding the value-add the AUIS MBA provides professionals from the local business community? Does the curriculum of the program reflect any unique elements of the business environment in the Region?

RR: The feedback received from individuals that have participated in the program, organizations and the community in general has been very positive. The MBA program has witnessed growth every year since its inception in 2007. The curriculum of the program is comparable to other MBA programs internationally and at the same time designed to be relevant to meet local needs. We have also redesigned our thesis requirement to focus on real industry problems, resulting in tangible benefit both to the student and their respective companies.



IIG: How does PDI's association with AUIS affect or benefit PDI's operations?

RR: As a department of AUIS, PDI has the support of the university and draws on its physical and human resources to produce quality education and training for its clients. While AUIS educational offerings are based on a liberal arts system, PDI has a mandate to provide trainings and other educational offerings that may differ from the conventional liberal arts model. This gives PDI the flexibility to adhere to the liberal arts principles when needed and to divert where necessary. We believe, and this is supported by our experience, that PDI's training and skills development focus compliments and adds value to the academic liberal arts curriculum of AUIS.

IIG: Does your location in Slemani play a limiting factor in attracting business for professional training, or candidates for your MBA program?

RR: Although the AUIS is based in Slemani, the university, including PDI, receives many applications from all over Iraq and in some cases from abroad. The geographic location of the AUIS campus has not been a limiting factor because PDI is able to provide its offerings in locations of the client's choosing. In fact, PDI has offered a number of trainings in Erbil, the Garmian region and across the Slemani governorate. PDI recognizes the opportunity to explore expansion outside of Slemani. ☞

PDI

The Professional Development Institute at AUIS supports individuals, organizations, and professional groups with courses and programs covering a wide range of subjects, including English language studies and management and business training. PDI offers Iraq's premier MBA program, English language courses, IT courses, and professional certificates in Leadership, Finance, and Project Management—including preparatory work for CAPM and PMP project management certification.



The MBA program has witnessed growth every year since its inception in 2007. The curriculum of the program is comparable to other MBA programs internationally and at the same time designed to be relevant to meet local needs.



Harnessing Kurdistan's Human Potential



Ian McIntosh —
Consultant at the Ministry of Natural Resources (MNR)

Ian McIntosh talks to IIG about the MNR's plans to develop technical and vocational skills that will allow the Kurdish workforce to take on a bigger role at all levels of Kurdistan's booming oil and gas industry.

IIG: Could you brief our readers about the MNR's workforce capability development program?

IM: Our goal is getting more Kurds employed in meaningful roles in the oil and gas industry in order for them to develop technical skills and for Kurdistan to develop a workforce with the technical capability to manage the industry. Workforce development is a key component of regional development: the oil and gas sector is poised to generate significant value, and we want to retain the maximum share of that value that we can within the region. So this project is not just about getting more Kurds into the industry. It is vital that we develop a skilled competent workforce.

IIG: We heard that 63% of the Kurdistan-based workforce for oil and gas companies is made up of locals.

IM: True, and this data does not include service companies. From a survey we did a couple of years ago, we know that the percentage of local staff in the service companies is higher than in the oil and gas companies. So the real answer is higher than 63% - more than two-thirds of those directly employed by the oil and gas industry right now are local staff. But to understand the challenge better, you need go to the last MNR monthly report where you will see a chart that breaks down the IOC workforce by seniority from executive down to unskilled. This shows a high percentage of expats at the senior and high-skilled end diminishing in expats down to the unskilled level, where you see the inverse. So this single percentage measure hides the real challenge.

IIG: How would you define the key phases of the workforce capability development program?

IM: I believe we need to first address getting people into the industry in entry-level positions. This is not so straightforward since the industry finds that school leavers and graduates are not well prepared to meet the demands of this industry. We are developing foundation training to provide a better supply of employment-ready young people. Once employed, recruits have to be trained and developed. I call that the apprenticeship phase. This is a structured training and development period that takes maybe five years to get someone from novice through to being somewhat skilled with meaningful qualifications. The third phase, competency development, is then mastering that job skillset, where you become truly competent in your field. That is one perspective of the overall project.

The other involves breaking the project into job families. Production Operations is one job family, for example. Drilling is another. I started establishing training boards made up of industry representatives to address the specific problems of recruiting, training, and competence development in each job family. This approach is intended to break workforce development down into more bite-sized pieces, so you have people of the same job family focusing on what they can do to get more Kurds developed in that discipline.

IIG: How does the lack of this skilled workforce affect the industry?

IM: The immediate impact is cost. It is an impact on the industry, but ultimately, it is an impact on the Kurdistan government.



Our goal is getting more Kurds employed in meaningful roles in the oil and gas industry in order for them to develop technical skills and for Kurdistan to develop a workforce with the technical capability to manage the industry.



Oil and gas is a global industry. Skilled personnel are readily available in this international market. If you set up a company tomorrow and you need to run a seismic program, you can go hire a seismic expert by the end of next week. So oil companies can easily get personnel, but at a high price. So the lack of local personnel does not actually impede companies doing their work, and moreover, this high cost may not ultimately be a concern to them. Kurdistan uses "cost recoverable" contracts, so while all the costs are at the company's risk until it makes a discovery, once a discovery is put into production, the company is allowed to recover what it has spent from the revenue generated, before its profit oil is allocated. That does not create a great incentive for the oil companies to reduce costs, which I believe translates into lower incentive to develop lower cost local staff.

IIG: You also focus on working with universities. What sort of cooperation will there be in this field?

IM: I am talking to the universities, but a representative of the oil and gas industry, to discuss how universities can better prepare students for our industry. I typically bring about six oil and service companies to the table to discuss what the industry wants from the universities, and vice-versa. We have now established a number of Liaison and Advisory Boards to formalize this dialogue. At this stage it is mainly about understanding what the industry's requirements are.

IIG: Does the MNR support the universities here to open departments dealing with natural resources?

IM: The MNR does not need to be intervening in this manner. A recent survey we commissioned shows that the number of graduates from natural resources programs is already forecast to increase four fold in the next four years. The concern now is the quality of these programs. Through the university liaison I mentioned before we are trying to encourage improvement in university program design, content and delivery.

IIG: So what is the status of the project?

IM: We started designing a number of programs. Unfortunately, most programs are not yet launched due to a lack of resources and funds. For instance, we designed the Foundation Training Program to take unemployed graduates and put them through a pre-employment program that helps them understand how the industry functions, what a business is, what expectations are on them as an employee, how to work together with people (cooperating as opposed to competing), etc., but this is currently suspended, albeit temporarily. Other programs are taking time to reach a consensus within the industry as to what should be done. Oil companies have generally proven to be hesitant in really getting behind the project; certainly none are willing to demonstrate unilateral tangible commitment.

IIG: So is the main challenge funding?

IM: Yes, my initial estimate is that we need to be spending about \$20 million per year on a significant capability development program. A minor part of that is in management, resources and administration, and obviously, a bigger part of it

About

Ian studied civil and mining engineering then trained as a Petroleum Engineer with Shell. He has lived and worked in the UK, Canada and North Africa before Kurdistan. Ian has been working in Kurdistan since January 2010, and was Vice President at WesternZagros Resources until 2013. Ian is currently assisting the Minister of Natural Resources and the Kurdistan oil & gas industry to design and implement plans to increase the number of skilled Kurds working in the oil & gas industry.

is in training delivery. However, half this funding is needed to establish a training academy—initially something as simple as a facility with classrooms so we can actually run these training programs. Then we can get into some of the vocational training facilities like welding workshops and electrical labs.

I am not saying the government needs to fund the project. A lot of the training is for people who are already working at the industry, and companies will pay for that training themselves. A significant amount, however, is for taking school-leavers and graduates straight from university and putting them in foundation and apprenticeship programs to build the talent pool in Kurdistan ahead of the industry. This is where government support may be needed.

I believe the industry should be more willing to pay for the project, because this workforce is being developed for the industry and will be replacing more expensive expats. I also expect the oil and gas companies to be more ready to work together to invest in building that future talent pool.

IIG: How do you structure the priorities of the program?

IM: Foundation Training as mentioned before is a priority. Within the job families I have focussed on competency development in certain key functions. The production operations training board is the most vital to me. Some 4,000 positions will be created in production operations in the next five years. That is a lot of skilled jobs to be created. That, in itself, makes it worthy of attention. The other thing is that those jobs are quite critical in terms of operational risk. These are

the jobs involved in operating the facilities that produce, process, and transport oil, gas, (and especially dealing with sour gas). These are critical tasks, and nobody wants another fatality, fire, explosion, or oil spill. What we are trying to do here is to also protect the people of Kurdistan and Kurdish assets. The best way that you can ensure that there will not be an incident is by having competent people running those facilities.

Drilling operations are also a highly dangerous part of the business, so this job family is also a high priority. The health, safety, and environment (HSE) professionals are an essential part of maintaining the integrity of all oilfield activities so that discipline is a focus area also. The other priority job family is graduate engineers and geologists who fill high skilled roles but also because they are the managers of tomorrow. In the oil and gas industry, most managers are either engineers or geologists. Training tomorrow's leaders is vital.

IIG: Does the lack of vocational training schools pose a challenge for workforce capacity development?

IM: In terms of workforce numbers and overall economic impact, vocational trades—welding, electrical, etc.—are very important. And there is a dearth of training infrastructure in the Region. For example there is only one small Kurdish welding school. Historically most welders came from Mosul or the south. To benefit fully from industrial growth in Kurdistan requires that we develop a regional capability for these basic trades. Service companies employ the welders so this requires a different collaboration. One of the challenges they face is that it

can in fact be advantageous to hire qualified welders from say Sri Lanka than it is to hire local welders. Part of the reason is wage expectation, part is output, and part is quality. However we can readily copy a welding program because there are models in other countries, but it needs funding. I am sure that if we set up a welding school, companies will hire the students coming out of it. We also believe that there is a commercial opportunity to provide such a training facility; the government does not have to fund the establishment of that school.

IIG: Do you see a trend in that direction in Kurdistan?

IM: I do see a desire by some private companies to build training infrastructure. They are certainly looking for an incentive. To have private companies fund the whole workforce project would be ideal but I also understand that it may be a bridge too far. Something that has evolved since I started this is that I have come to put a lot more focus on developing occupational standards. I now think that is the means by which we are going to bring about faster and better capability development. Technical and vocational standards need to be collaboration between industry and government, but once agreed they become the industry's yardstick. By defining what the acceptable standard is for working as a welder on an oil and gas pipeline in Kurdistan, for example, we drive the employers to have workers who meet those standards. If you also have a school that is developing students to this standard, then that human resource supply chain starts to function better. 



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ANALYSIS

Sustaining Growth in Kurdistan:
Creating the Skilled Workforce

Chris Parker —
MBE, Managing Director of Charmogen

Despite all the current turbulence and upheaval in Iraq, the Kurdistan Region continues on a path to prosperity and increasing autonomy. However, several long-term constraints remain as obstacles to long term Kurdish progress. Primarily, Kurdistan will need to ensure economic sustainability, especially by gaining guaranteed revenue flow from her new oil production. Allied to this important political issue is the provision of what I call 'Capital-I Infrastructure': the vital national foundations required for significant economic growth.

One of the main requirements of any growing, new economy is the development of a skilled workforce. This is no small challenge and one that other regional oil boomers have solved by imported labor. The model used to date in many GCC countries has seen cheap skilled labor imported as a workforce with expat consultants providing technical and executive management. This has proved a short-term success but one that has implications for local employment and long-term sustainability. These two issues are ones that the Kurdistan Regional Government (KRG) seems keen to address, not least as its ambitious young populous need employment and not in the already over-burdened public sector. However, the only way this will happen is for a systematic campaign of both regulatory and physical action to ensure enduring workforce development by all parties involved.

Regulatory reform will be the catalyst for physical action, and the KRG should now address three key areas of regulatory enforcement:

1. National standards (provisional or long-term) must be swiftly identified and stated by the relevant Ministries. As importantly, these standards must also be enforced and audited to ensure compliance in both the private and public sectors. Alignment in part or whole with accepted international standards will aid collective 'buy in' and save valuable time. An example would be the use of NEBOSH in HSE as the national standard, even if it is termed as a Kurdish system aligned to NEBOSH. A key driver is the need for commonality in areas such as competency and skills lest multiple terms and taxonomy emerge for the same skill. This is likely to add to the confusion and inefficiency later on if not addressed now.
2. The workforce need to be encouraged to remain in organizations that invest in them and not to depart with newly won qualifications to the highest bidder. This practice discourages investment in development as it is seen as a risk. Again, regulatory best practice exists in many Gulf countries to constrain employees once an employment is secured in order to protect both employers and the national



I believe that Kurdistan has a decision to make-and-soon-on a national strategic plan for its workforce and how to then deliver that operationally. Our own experience tells us that it can be done rapidly and that the Kurdistan Workforce not only thirsts for professional Competency Development but also enjoys hard work.



economic good. A system used successfully in other countries is one of repayment of training costs if an employee leaves a post before a certain time bar date. Another is to license all employees and thus movement is controlled and an employer who wishes to protest against 'staff poaching' can do so with national support.

3. Workforce development schemes such as Competency Management Systems should be required of all medium and major scale organizations in both public and private sector. Without such a requirement, staff development is currently seen by some as a lower priority than short-term profit margins. There is best practice available today from Kurdistan companies such as Gulf Keystone, whose industry leading Competency Based Framework is already repaying the investment with increased staff productivity, loyalty and contentment.

So how would such enforcement work without too much red tape and legal concerns? I expect that a national communication campaign would help to encourage all to support the economy by playing his or her part responsibly in the emerging future prosperity. We are all aware of how far Kurdistan has come in a decade but we must also remain mindful of how the culture of employment and

competency development has had to almost start afresh in a short timeframe. As a practitioner and observer in much of Kurdistan's tremendous success to date, I think that the use of external best practice and expertise in the Ministries to quickly bring about such regulatory change will then enshrine workforce development as a major factor in the security of Kurdistan's economic progress and growth. Without it, the future looks less secure. Short-term gains will be made but the unease amongst unemployed young Kurds, as well as the lack of wealth distribution through career jobs, will bring a whole new set of distractions for an already busy KRG.

In summary, I believe that Kurdistan has a decision to make-and soon-on a national strategic plan for its workforce and how to then deliver that operationally. Our own experience tells us that it can be done rapidly and that the Kurdistan Workforce not only thirsts for professional Competency Development but also enjoys hard work. Those two aspects normally guarantee a major foundation for economic growth, especially with such abundance in extractive resources. These measures will only need a small amount of resources to set in motion, but the return on that visionary investment will see swift rewards and increased economic sustainability and political security in the decades ahead. 

About

Chris Parker MBE was a former COO of the primary oil exploration company in Kurdistan, GM of oilfield engineering plc and a regular speaker at Kurdistan Industry events. He is founder and Managing Director of Charmogen Ltd, a UK consultancy that provides strategic and operational solutions to the oil and gas industry and is the lead provider of workforce Competency Management Systems in Kurdistan.

Kurdistan Careers Connecting Jobseekers with Employers



Dr. Nawzad Kameran —
Partner, Kurdistan Careers
Lecturer, Department of Computer
Science and Engineering, University of
Kurdistan-Hewler

Nawzad Kameran explains how Kurdistan Careers connects Kurdistan's workforce with the region's growing economy through networking and capacity building.

IIG: What inspired the creation of the Kurdistan Careers event?

NK: We thought Kurdistan was missing a place where all of the employment market could come together. Events similar to this already exist at universities, but those are only focused on students. We are focusing on the whole Kurdistan Region. Kurdistan is a growing market, but it is hard to know where to start for new graduates. We thought that, in a two-day event, we could bring together what would take six months of searching to do. Besides that, we knew that an initiative for private sector training was missing here in Kurdistan. Thus, we wanted to raise awareness through annual events and smaller events connected to them, as well as through the media.

IIG: How many people attended last year's event, what was on the agenda?

NK: Over two days, we had around 2,000 people and 48 organizations covering the energy, finance, ICT, higher education, and logistics sectors. We put a lot of focus on capacity building. As I mentioned, training is a big issue right now. We do not have enough skilled people that are ready to go out into the market. I can say confidently that we have played a role in raising the importance of training and development. We had some roundtables focusing mostly on the energy sector after the event. We specifically had one section at the job fair last year called the "internship zone," where we handed out leaflets on what internships are and why they are important. We wrote down a list of all the companies that wanted to receive interns and all the people that wanted to do internships.

IIG: What is the main benefit for jobseekers and companies that participate in the Kurdistan Careers event?

NK: We have realized that networking is not as strong here as we might have thought. For example, we had our first event in Erbil at a government IT training academy with Microsoft-certified courses. Companies did not even know this training academy existed. We asked companies what the main reason they exhibited was in our 2013 feedback survey, and 30% said networking. The main benefit was that companies realized they were not alone facing issues finding good labor. For jobseekers, we provide the largest venue for finding employment opportunities, language and soft skills training, placements, and international internships. The KRG policymakers also benefit from the perspectives of both exhibitors and jobseekers.

IIG: What is your target for the upcoming event?

NK: When companies come here, they hear we have a big labor market. It is true that there is a lot of available labor, but the market is under-skilled. At most universities everything is theoretical. Mostly the private universities and University of Kurdistan-Hewler have been responding by putting in work placements, career planning, and outreach to companies to establish a bridge with students. We are trying to change the culture so students see the reality of things in the field. In our upcoming event we will hold three industry panels to bring those worlds together and point to common ground.



1 Prime Minister Nechirvan Barzani and Deputy Prime Minister Qubad Talabani visiting the Jobs Bazaar of Kurdistan Careers 2013



2 Deputy Prime Minister Qubad Talabani chairs a panel in Kurdistan Careers 2013

3 Jobs Bazaar



IIG: What are your future plans for Kurdistan Careers?

NK: As the economy grows, you need this type of event and other industry focused events to act as a barometer for where the economy is going. We want to be the place that brings together all the companies, expats, and new graduates that want to work in Kurdistan. We want to be that go-to place once a year where you find your job, and we also want to expand into large-scale workshops focusing on professional development. In our upcoming event, we will have an awards ceremony— the Kurdistan Careers Key Awards. It sets a standard within the employment market, celebrates achievement in the local market, and is something to which people can aspire.

IIG: We know that most of your sponsors are giant energy and ICT companies. Do you also target small and medium-sized enterprises (SMEs)?

NK: It is true that most of the sponsors are big companies in the energy and ICT sectors. The majority of exhibitors are SMEs, though. The SMEs do not realize what they are missing out on or the quality of the people they can get. They invest more in family contacts. Participating in something like the Kurdistan Careers event or reaching out to universities to see what qualified people they can get gives more variety to jobseekers and the employment market.

IIG: Are you planning to provide recruitment services?

NK: We stay away from the recruitment process itself, but we give companies a whole list of contacts. Basically, we help on the transparency side of things, so people know which resources are available. Last year, we helped the KRG as they launched their job listing website, Kurdistan Works, at Kurdistan Careers. We helped them connect with all of the recruitment market.

“As the economy grows, you need this type of event and other industry focused events to act as a barometer for where the economy is going. We want to be the place that brings together all the companies, expats, and new graduates that want to work in Kurdistan.”

ANALYSIS

Kurdistan facing tough times but confidence remains high



Shwan Zulal —
Director, Carduchi Consulting

The Kurdistan Region has been known as the gateway to the rest of Iraq because it has been the most secure area in the country and has an open door policy for investment. Even before ISIS (The Islamic State of Iraq and the Levant) came on the scene, the rest of Iraq had been difficult to do business with, while Kurdistan remained open for business. In July this year, however, that image of security and stability was shattered in the wake of ISIS attacks close to the region's capital Erbil that overwhelmed Peshmerga forces.

The natural reaction for businesses was to take precautions, but the impact on the oil industry has been surprisingly minimal, as most producing fields are out of ISIS reach and continue to produce and export. The oil industry has taken measures to protect its staff that include pulling out non-essential workers, and, for a few oil companies, halting operations in certain areas. The industry as a whole, however, is still committed to Kurdistan.

Pulling out staff has affected some exploration and development activities, especially close to ISIS-controlled areas. This has, in turn, affected the service industry, which is largely run by indigenous business. ISIS now controls nearly one-third of Iraq, and trade routes between the rest of the country and Kurdistan have either been cut off or are not safe, negatively affecting the many businesses operating in Kurdistan that also cater to the rest of Iraq.

While Kurdistan has been seen as the place to set up shop in order to service the rest of Iraq, the Iraqi federal government's decision to withhold budgetary

resources from the Kurdistan Regional Government since January 2014 has had a negative impact on the financial situation in the region. Despite all the negative headlines and ISIS advances, many investors—especially the oil companies—are bullish about the future of the region, and the level of confidence remains high.

ISIS overwhelmed Kurdish forces in July, but Peshmerga troops appear to have regained the initiative and have made various advances after US airstrikes. The international community has made various pledges to help arm Kurdish forces. Some of these have been met, while others are still forthcoming. Furthermore, the US, Britain, and France have expressed support for Iraqi Kurdistan and made pledges to protect the Kurdistan Region and their interests in it.

The current crises have dented confidence in the stability of the Kurdistan Region in the short term, and it will take some time to bring back confidence for mainstream investors. Intrepid investors, however, are more bullish than before given the fact that, when the threat of ISIS attacking Sinjar and advancing close to Erbil came, the international community and the US in particular stepped up and vowed to protect the region. American intervention has boosted investor confidence by signaling the interest of the United States and its allies in the security of the Kurdistan Region, which is shared by those who have invested billions of dollars in the oil sector and other industries there. Moreover, the international community's rush to arm Kurdish Peshmerga forces is another vote of confidence in the Kurdistan Region. 

Changing Dynamics



Bilal Wahab —
Assistant Professor, American University of Iraq, Sulaimani (AUIS)

Bilal Wahab provides IIG exclusive analysis into the changing dynamics in Kurdistan's energy sector and regional geopolitics, and argues for further progress in responsible management of the KRG's energy sector and hydrocarbon revenues.

About

Bilal Wahab got his bachelor's degree in the English Language from Salahaddin University. He received his M.A. in International Affairs from the American University in Washington D.C. as a Fulbright Fellow. Wahab is currently a PhD candidate in Public Policy at the George Mason University in Arlington. He has written most widely on energy policy, good governance, transition to democracy, transnational crime, and illicit trade.

IIG: It is safe to say that many of the dynamics between Erbil and Baghdad related to KRG oil exports and revenue sharing will have shifted considerably in coming months. How do you believe the entry of ISIS to central Iraq will affect these issues?

BW: ISIS's incursion and control of swaths of Iraqi territory was indeed a game changer in Iraqi politics, especially the relation between the federal government and the KRG. ISIS separates the KRG from the rest of Iraq with a border that stretches for about 1000 kilometers—and the KRG is not keen to help Iraq's defeated army fight ISIS. However, the entry of ISIS will not change immediately the commercial and legal constraints on Kurdish oil sales. It does change the balance of power between the KRG and Baghdad, though. After the surprising meltdown of the Iraqi military in the face of ISIS, Baghdad's principal leverage over the KRG remains solely economic in the form of the much-needed KRG share of the national budget. The Kurds had their share of land grab as well, controlling Kirkuk and many of its oilfields. Adding oil from Kirkuk to Kurdish oil flow could help the KRG mitigate Baghdad-imposed risks and achieve an unprecedented level of economic independence by year end.

IIG: How might these developments affect Kurdish aspirations for political independence?

BW: We need to wait and see whether the new balance of power would encourage the Kurds to move toward political independence, or leverage it against Baghdad to gain more concessions. Such a trajectory would depend greatly on regional and international politics, especially Turkey's position, whose commitment to the KRG is crucial to the Kurdish energy industry's functioning and survival. Thus far, the ISIS incursion has buttressed the Turkish commitment to the KRG energy industry, and international buyers interested in Kurdish oil heed less Baghdad's threats. I should say, moreover, that it is very important for KRG to uphold the

highest standards of transparency in its independent oil sales since the viability and reputation of its industry depends on it. The fate of revenue sharing depends on the ongoing political reshuffling that is taking place as we speak.

IIG: On the same topic, do you see the instability in federal Iraq opening a door for increased US engagement or explicit support of the KRG?

BW: Iraq has been effectively divided. It is a matter of U.S. policy whether to opt for gluing it back together or to oversee an amicable partition. The Kurds have been committed to federalism, and the Sunnis are increasingly warming up to it. Provincial authorities are primed for power devolution and decentralization. Unfortunately, the federal government was moving in the opposition direction, trying to centralize more power in Baghdad. A clash between these two tendencies was inevitable. For example, central management of the economy has glaringly failed—The government has spent \$600 billion since 2004 with very little to show for, except for the development in the KRG. Indeed, the Iraqi military could not protect Mosul and Tikrit from ISIS, but residents of these provinces have not revolted against their new rulers either.

As for Washington, it has been looking at Iraq through the rear view mirror since 2011. The ISIS invasion was an unwelcome surprise and caused much commentary and debate in the U.S. media and policy circles. It was also a setback and reality check for the Washington's 'One Iraq' policy. Moreover, Kurdistan's strong rhetoric about independence after the ISIS incursion was received with reservations in Washington, and seen as a distraction from the immediate threat posed by ISIS. The KRG, on the other hand, wants the international community to realize that Baghdad is holding back Kurdistan's potential for prosperity and for supplying energy markets with much needed crude. The KRG seems to be lobbying Washington through delegations,

the business community, and Turkey to shift Washington's policy in its favor. And we are sensing a shift in U.S. policy toward independent Kurdish oil sales—from opposition to neutrality.

IIG: There seems to be some degree of opacity regarding recent and future oil sales from Ceyhan. Has the KRG gotten past the initial stumbles of finding buyers? Can KRG oil marketers sell oil at market rates?

BW: Not yet. But the KRG is heading in the direction of independent, stable oil sales at prices close to the market. There is no shortage of oil buyers in the market, but buyers were discouraged by political warnings from Washington and legal threats from Baghdad. That could change due to the easing of U.S. stance after ISIS incursion and the formation of the new Iraqi government.

The KRG has opted for opacity with regards to monetizing its crude in fear of retribution from Baghdad. This, however, should not continue. Unfortunately, history of petrostates indicates that the energy industry is guilty unless proven innocent through transparency and oversight. Given the few actors involved in exchanging substantial amounts of cash, there are ample opportunities for corruption across the oil value chain. KRG oil sales are gaining momentum, and infrastructure investment is underway to boost export capacity. These logistical foundations must be matched with institutional checks and balances that guarantee good governance of the Kurdish oil sector. Dr. Ashti Hawrami's recent commitment to the Kurdistan parliament for full disclosure and transparency is a step in the right direction.

IIG: Perhaps more importantly, has the precedent been firmly set that the KRG has a predictable export route through the KRG pipeline, and a predictable way to monetize the oil exported? Or, can we expect to see ongoing challenges?

BW: The building blocks for a robust

Kurdish energy industry are in place: increasing production, oil-thirsty markets, a cooperative transit state (Turkey), and investment in export infrastructure. Challenges I mentioned earlier—mainly legal and political—still exist, but are waning in the face of the rising opportunities. The development of the KRG's energy industry has gone through phases. Counting on a strategy of establishing facts on the ground, the KRG started small with the so-called wildcatters. The gains were solidified with the KRG legal framework for exploiting the natural resources, including the adoption of industry-favorite production sharing contracts (PSCs). In turn, better-established companies have been attracted to Kurdistan's energy sector. Following the mass of companies and blocks they are awarded, the KRG is eyeing the last and most important phase: consolidation of the industry through mergers and acquisitions by larger oil firms. Monetization of oil is crucial for the success of this last phase, since, according to the terms of the PSC, oil firms are paid a percentage of the oil revenues as cost recovery and profit. Becoming a predictable and reliable oil exporter is within sight for the KRG, granted it remains successful in investing in infrastructure and puts in place necessary governance mechanisms.

IIG: The KRG estimates that once production hits 400,000 bpd, oil revenues will reach the level at which they would no longer depend on federal budgetary allocations. What are the biggest challenges to reaching these production levels?

BW: There are several considerations and moving parts when trying to come up with a break-even point for the KRG. Variables include new explorations, production figures and costs, and international oil prices. For example, as the Kurdish oilfields boost production, do the giant fields in the South boost production to the degree of compensating for the loss from the North? However, more important that

“Natural gas can have stronger ripple effects in the economy, by offering local industry a comparative advantage for lower cost manufacturing and agriculture.”

“how much” is “how stable” oil exports are. In other words, for the KRG, ensuring and controlling a predictable flow of oil and revenue independently would be more preferable to unpredictable revenues controlled by Baghdad.

Furthermore, there are logistical challenges that could slow down the flow of Kurdish crude. Export infrastructure, including pipelines and storage capacity, fall behind production capacity. More importantly, the KRG has not yet put in place institutions capable of responsibly dealing with the windfall from oil sales. The KRG should have learned a major lesson from the suffering it incurred by Baghdad's budget cuts. The KRG needs to build a diversified economy founded on a strong legal and institutional foundation. Up to now, the KRG's economy can be characterized as merely a distribution system—channeling oil revenues that it did not fully control on an uncontrollably enlarging public sector. For example, it is economically wasteful and unsustainable to spend up to 70% of oil revenues on a bloated bureaucracy whose contribution to the economy is about 2%! The Kurdistan natural resources law has important clauses for wealth management, such as a sovereign wealth fund, that need to be implemented. Despite these shortcomings, the KRG has been abler in translating oil wealth into development, a case in point that the management of wealth is more crucial than its size.

IIG: The role of Turkey has been central to the KRG's ability to export oil and, as of recently, home to the KRG's deposit account for oil revenues accrued through sales from Ceyhan. Can we expect this degree of cooperation to lead to increased commercial ties between the two in broader ways?

BW: Yes. KRG needs Turkey's political support and technical expertise. Turkey, in turn, needs to diversify its energy sources and find markets for its industries. The KRG-Turkey commercial and

energy cooperation is a classic example of a win-win situation that has helped both sides put many of their historical disputes behind them, and look forward. It is also an example of economic and commercial cooperation easing political tensions. The relations have so far have been resilient, weathering developments in Syria, Turkey, and Iraq. It has both short- and long-term implications for both sides' economic and political trajectory.

The KRG should know, however, that Turkey, a NATO power, has a much larger economy and could absorb Kurdistan. In other words, independence from Baghdad should not translate to full dependence on Ankara. KRG's leverage on Ankara is much smaller than its leverage on Baghdad. This is yet another reason that necessitates that the KRG invest in creating a robust local economy, interdependent with its neighbor.

IIG: You note in your recent report that further promoting and developing Kurdistan's gas resources could broadly benefit its economy. Can you tell us just how and why this is the case?

BW: Indeed, gas can be instrumental to the economic diversification I advocated for earlier. The KRG has an estimated 165 trillion cubic feet of natural gas, most of which is associated with oil. Gas can be the feedstock for many local industries, including power generation and petrochemicals. Once developed, the KRG can export gas, especially to Turkey, which sees gas as the real prize for its cooperation with the KRG. Less like oil, natural gas can have stronger ripple effects in the economy, by offering local industry a comparative advantage for lower cost manufacturing and agriculture. If exploited well, the KRG could also export electricity. In terms of the environment, gas is cleaner. However, unlike oil, gas has not received due attention. Iraq currently flares about half of gas production due to lack of capturing technology—an obvious opportunity loss. ☹

“The KRG has been abler in translating oil wealth into development, a case in point that the management of wealth is more crucial than its size.”

POWER PLANTS IN REVIEW

The Kurdistan Region will have **8000MW** (Installed Capacity) in 2016.

3886 MW

Power Plants - Total Installed Capacity (in operation)

6400MW

Average produced power (2016)



3000MW
Capacity in Summer (est.)



3500MW
Capacity in Winter (est.)

Existing Power Plants

Hydropower Stations

Dokan

Designed Capacity: 400MW
Average Production: 150MW

Derbendikhan

Designed Capacity: 249MW
Average Production: 100MW

Gas Power Plants

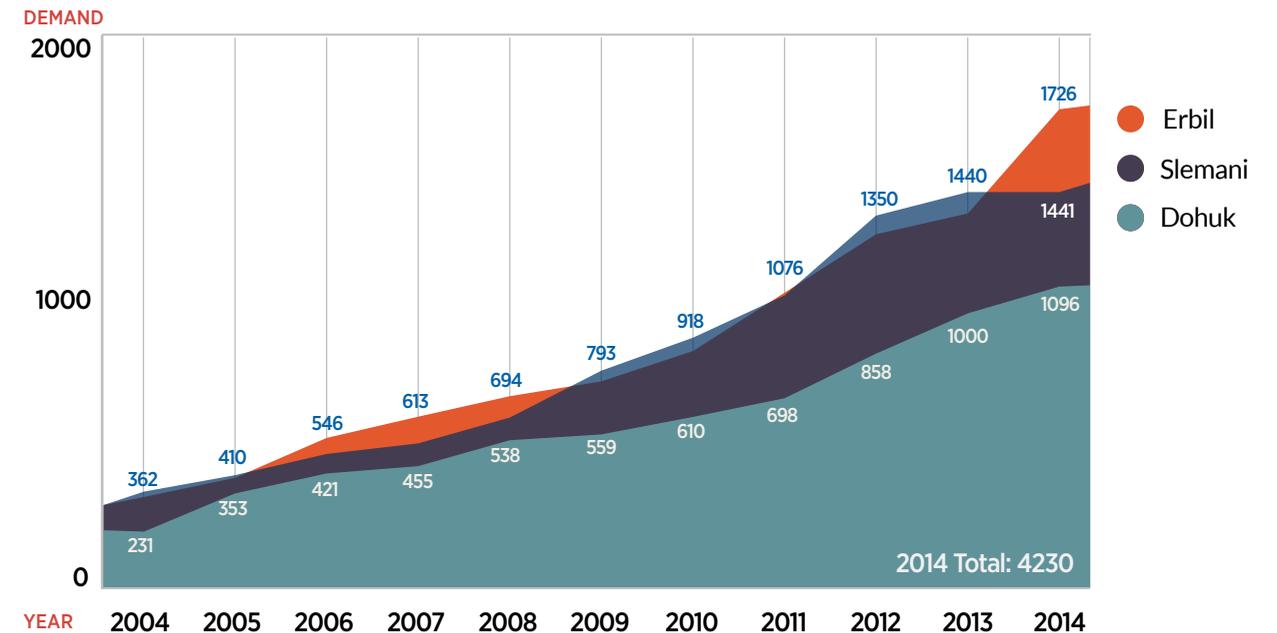
Erbil 1500MW and Slemani 1000MW Gas Power Stations supplied by Natural Gas through pipelines from Kormor Gas Fields (170Km Pipeline to Erbil Power Station and 60Km to Slemani Power Station).
8 units in Erbil and in Slemani in operation.

Diesel Power Stations

POWER STATION	INSTALLED CAPACITY
ERBIL	29MW
DUHOK	29MW
SLEMANI	29MW
ERBIL (SAQAR)	10MW
AKRA-DUHOK (SAQAR)	10MW
KIFRI-SLEMANI (SAQAR)	10MW
CHWARTA-SLEMANI (SAQAR)	10MW
SLEMANI (SAQAR)	15MW
KOYA-SLEMANI (SAQAR)	17.2MW
CHWARQURNA-SLEMANI (SAQAR)	20MW
CHAMCHAMAL-SLEMANI (SAQAR)	24MW

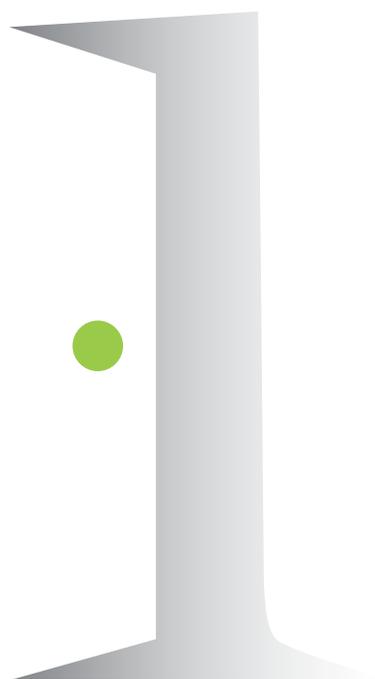
POWER PLANT	IMPLEMENTED BY	USED FUEL	STATUS
PIRDAWD - ERBIL ERBIL 1500MW COMBINED CYCLE POWER STATION	MASS HOLDING COMPANY	DUAL FUEL (DIESEL OIL & NATURAL GAS)	The Power Station consists of 8 units Simple Cycle (GE Frame9) and 2 units Combined Cycle. 8 units of Simple Cycle (8 X 125MW) in operation. 2 units Combined Cycle (2X250MW) under construction. The first unit of combined cycle (250MW) will be operated in September 2014.
CHAMCHAMAL-SLEMANI SLEMANI 1500MW COMBINED CYCLE POWER STATION	MASS GLOBAL COMPANY	DUAL FUEL (DIESEL OIL & NATURAL GAS)	8 Units (GE Frame9) in operation. 2 Units (Combined Cycle) under construction.
SUMEL - DOHUK DUHOK 1500MW COMBINE CYCLE POWER STATION	MASS HOLDING COMPANY	DUAL FUEL (DIESEL OIL & NATURAL GAS)	The Power Station consists of 8 Units Simple Cycle (G.E. Frame 9- 125MW). All units (Simple Cycle) in operation. 2 units Combined Cycle under construction
BAADRA - DOHUK BAADRA 150MW INTERNAL COMBUSTION ENGINE	13 X 13.6MW IMPLEMENTED BY POLTEX	HEAVY FUEL OIL	All Units in operation since September 2011.

Annual Growth in Max. Demand 2004 - 2014



Ongoing Power Plant Projects

POWER PLANT	USED FUEL	STATUS
ERBIL KHURMALA 1000MW COMBINED CYCLE POWER STATION	DUAL FUEL (DIESEL OIL & NATURAL GAS)	KAR GROUP 4 Units Simple Cycle will be operated in September 2014 2 Units Combined Cycle will be operated in 2016
SLEMANI TASLUJA 51MW	HEAVY FUEL OIL	Number of the units: 30 x 1.7MW Completion Date: September 2014
ERBIL / KHABAT ERBIL 300MW	THERMAL	POSCO ENG Number of the units: 2 x 150MW Completion Date: 2016
SLEMANI 750MW BAZYAN	COMBINED CYCLE	QAIWAN GROUP The contract has been signed between Ministry of Electricity and Qaiwan Group. The project will be commenced in 2014.
ERBIL HARIR 200MW	HEAVY FUEL OIL	KAR GROUP The contract has been signed between Ministry of Electricity and KAR Group. The project will be commenced in 2014.
DOHUK ZAKHO 800MW	NATURAL GAS (BACK UP DIESEL FUEL)	POLTEX The contract have been signed between Ministry of Electricity and Poltex. The project will be commenced in 2014.



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THE REVIEW — REAL ESTATE & CONSTRUCTION SHIFTING DYNAMICS

As a central driver of Kurdistan's growth in foreign and domestic investment, construction and real estate draws a huge amount of investment—\$13.7 billion in Board of Investment-licensed housing projects alone since 2006, which does not include commercial or industrial space. It is also, however, one of the most quickly changing sectors in Kurdistan, with shifting dynamics in the quantity and quality of construction, as well as the quality of residential and commercial space demanded by the foreign companies entering Kurdistan. In many respects, 2014 has seen initial rumblings of many shifts in the sector.

Trends that have gained steam this year, and will persist in coming years, include a move towards increasingly high quality builds, standardization and enforcement of construction and development standards, and in the longer term, a stronger and more liquid market with the increased use of financing and insurance in the sector.

Changing demands, following shifts in the larger economy, drive each of these trends. International oil companies (IOCs), for example, which have flocked to Kurdistan in recent years to

begin exploration for hydrocarbons, are moving into production phases. Such a shift means that they will be in Kurdistan more permanently, and will require larger staffs. This translates, in the real estate sector, to higher demand for graded office space and high quality housing (and perhaps less demand for long-term hotel stays and smaller, cheaper forms of housing and office space). Other sectors moving

THE REAL ESTATE AND CONSTRUCTION IS ONE OF THE MOST QUICKLY CHANGING SECTORS IN KURDISTAN, WITH SHIFTING DYNAMICS IN THE QUANTITY AND QUALITY OF CONSTRUCTION.

into the Kurdistan Region, as well as small and medium-sized enterprises (SMEs) will likely take their place in temporary or more affordable spaces, demonstrating increased segmentation of the market.

The sector is still met by many challenges. Financing and insurance markets are immature in the Region, leading to perverse and inefficient outcomes. Consumers tend to buy houses and apartments in cash, as there is no mortgage market. Developers are limited in terms of risk and leverage, as they also cannot finance major development projects, stunting the level of quality and quantity of real estate built in Kurdistan. Lack of insurance means that homeowners cannot secure or leverage their properties.

While building standards exist, enforcement for such standards largely does not, which ultimately leads some developers to build cheap, shoddy projects, sometimes even leading to safety concerns. High demand and the nascent nature of the market have created a degree of short-termism among some developers, as cheap, quickly built projects are expected to be quickly profitable. And, with the Kurdistan's high rents, such developments often are. However, this dynamic is quickly changing as the real estate market, and the Region's economy and business environment overall, are maturing.

As quantity meets demand, however, and global companies set up shop in Erbil, quality is now securely in the spotlight. In many respects, 2014 has seen initial rumblings of many shifts in the sector.

13.7 BILLION

BOARD OF INVESTMENT-LICENSED HOUSING PROJECTS ALONE SINCE 2006, WHICH DOES NOT INCLUDE COMMERCIAL OR INDUSTRIAL SPACE.



58,690

ANNUAL HOUSING DEMAND

Shift in Focus: Quantity to Quality

It is logical that, starting with very little development at all just a decade ago, the construction sector's focus has been to build—as much and as quickly as possible. As quantity meets demand, however, and global companies set up shop in Erbil, quality is now securely in the spotlight. Major international companies, beginning to establish themselves permanently in Kurdistan, demand graded office space. TAQA, the national energy company of Abu Dhabi, is only the most recent IOC to move from its previous villa in Italian City to a more dedicated, permanent office in Empire World; others, including Gulf Keystone and Standard Chartered, have moved into office space in UB Plaza, established by UB Holding.

As more companies make similar transitions, either initially into the Kurdistan Region, or into high quality permanent space, more developers are pursuing quality in their new developments. The Erbil Business & Trade Tower, a new space slated to open its doors soon, consulted with

IKG Property early in the development process to ensure that its floor plans, designs, and safety standards were up to the expectations of global companies.

According to the experts, some of the office space which is imminent due to go on stream still does not adhere to international standards for global organizations. However, quality quickly improving in the Kurdistan Region's real estate supply. The primary motivator for the change in quality is demand for quality in the market. Factors seen as essential for international businesses are still only sporadically applied.

Many private sector changes could move the construction sector in the right direction. Increased use of construction supervision to ensure that design and engineering plans are carried out, true to form and quality, by construction and development firms could improve quality. This would hold builders accountable to designers, as well as the owners of the projects.

Establishing and Enforcing Standards

While market demand is pushing quality higher, this shift to quality is still a work in progress. Low quality building still persists, as unified building standards are still not broadly enforced by the KRG. The sector is unable and unwilling to police itself, and market demand can only do so much to motivate developers to conform to international building standards.

The leading international firms operating in Kurdistan would like to see a more robust regulatory and legal environment: planning, building regulations, and building control need to be rigidly enforced in particular with regard to structural integrity and safety. They see the establishment of universally enforced standards as necessary to the progress of the sector.

Breaking New Ground

Amid these changes, new ground continues to quickly be broken in the sector. IKG Property project a 700% increase in supply across all subsectors by 2017. High-profile commercial and residential projects are going up quickly. New hotels are scheduled to open their doors on and around Gulan Street in 2015, big residential developments on the outskirts of Erbil are in progress, set to expand residential real estate supply hugely in 2-3 years, and much-needed office space is increasingly coming online. Empire World, the highest-profile mixed-use development in Erbil, is incrementally rolling out new space, with international oil companies quickly relocating to the premier office and residential spaces.

Space for Industry

In addition to these eye-catching developments, investment in industrial space is also gaining steam. In addition to Erbil's four current industrial zones, four new zones are slated to open, including a Heavy Industrial Zone, Agro-Industrial Zone, a Petrochemical Zone, and the Hawler Industrial City. Much new industrial space is occupied by the oil and gas industry, with 270,000 square meter of industrial space explicitly allocated to the sector.

The primary challenge faced by industrial real estate relates to the way that land is zoned in Kurdistan. Much industry is developed on land zoned for agriculture. While this has yet to present serious challenges to industrial companies operating on this improperly zoned land, it does create concern for companies planning to invest over the long-term. Farmland remains at risk of being compulsorily taken back by the government, according to IKG. International tenants are starting to vigorously assess land title and implications on long term tenure. Public-private cooperation to re-zone and redefine land for industrial use could ameliorate this challenge and clarify the issue.

Finance and Insurance

Perhaps the most significant limiting factor in the sector is Kurdistan's weak and nascent finance and insurance markets. Alternatively, buyers can pay in installments for housing, but previous to receiving the house. Effectively, there is no mortgage market. Ultimately this leads to suppressed demand for housing and real estate.

For developers, the lack of financial markets also means suppressed supply of real estate. Developers in the Kurdistan Region must self-finance most of what they build, translating to much less risk-taking on their part—and therefore fewer major, ambitious projects.

Beyond Erbil

While Erbil has largely paved the way in the real estate and construction sector, drawing more international investment in the sector than elsewhere, Slemani is seeing major property development as well. Qaiwan Group is investing hugely into real estate, opening Qaiwan Towers, a premier commercial space this year—one of which will, in 2015, house Slemani's Rotana Hotel. Qaiwan is also investing into residential real estate, with Sulaymaniyah Heights, a premier luxury development housing 2,200 units, office and retail space. Qaiwan Group is also developing multiple projects for high and mid-level housing, including the Qaiwan City and Qaiwan Heights projects. In total, Qaiwan Group has over 9,000 new housing units slated to come online in Slemani soon, with several hundred already completed and occupied. Additionally, international malls, long present in the Erbil market, are now opening in Slemani, with a Majidi Mall and Family Mall under construction, as well as City Center Mall, which recently opened its doors in the city.

"HIGH-PROFILE COMMERCIAL AND RESIDENTIAL PROJECTS ARE GOING UP QUICKLY. NEW HOTELS ARE SCHEDULED TO OPEN THEIR DOORS ON AND AROUND GULAN STREET IN 2015, BIG RESIDENTIAL DEVELOPMENTS ON THE OUTSKIRTS OF ERBIL ARE IN PROGRESS, SET TO EXPAND RESIDENTIAL REAL ESTATE SUPPLY HUGELY IN 2-3 YEARS, AND MUCH-NEEDED OFFICE SPACE IS INCREASINGLY COMING ONLINE."

mortgage market creates conditions where a real estate bubble would be impossible to create—a serious concern in such a hot and dynamic market. Of course, this positive aspect does not outweigh the negative. In the longer term, development of the financial and insurance markets will be key to unlocking additional growth and value in real estate. While these markets are deepening, thanks to the efforts of capable and ambitious local and foreign banks and insurers, this will likely present challenges to the broader economy over the medium to long term. 

Addressing New Developments



Dean Michael —
Chairman & CEO, Atconz Group

Dean Michael speaks to IIG regarding Atconz's massive ambitions and developments in the Kurdistan Region, as well as the challenges and opportunities present in Kurdistan's current business and regulatory environment.



On Piroz, we signed an agreement with Starwood International for a four star chain to be built in a location we have near the airport. It represents an investment of roughly \$100 million, including the facilities.



IIG: Considering Atconz Group's role in Kurdistan's real estate sector, where it is a pretty well known name, how would you define the company's goals?

DM: We have learned a lot from the market about how to design a business that works for Kurdistan—what are the market needs in terms of individuals and companies, what is available in the market to achieve certain qualities, and what is available in terms of raw materials and marketing tools. We try to mold these together into one model that works. Our ultimate goal is to develop a program for housing in order to participate in resolving the issue of mass housing for the needy.

IIG: Can you tell us more about this initiative, and how Atconz is going about executing it?

DM: Iraq needs around three million housing units today, and we would like to be central to meeting that need, because we understand our locality better than most. Ultimately, this issue requires effort between the private and public sector; the two must develop, in a joint effort, a model to resolve this issue together. Because Kurdistan is about 20% of the entire Iraqi market, we are looking at the needs of something like half a million units here in Kurdistan. And, when we speak of affordable housing, we mean decent quality units, not cheap quality.

IIG: Tell us more about the product itself—what will the housing developments look like?

DM: "Affordable decent" means meeting the minimum requirements of international standards in terms of sanitation, air quality, insulation, and thermal quality—this is what we would like to achieve. This is our ultimate goal. We hope that we will announce a few programs when the country is ready for it. The study has been done; we have been working on it for the last three years. We even addressed issues of green buildings and sustainability within the program to minimize costs.

However, the market is not ready for it, so we are fine-tuning it and hopefully we will come up with a press release when the country is ready—hopefully as soon as possible.

IIG: How are some of the key projects at Atconz Group like New Azadi, Piroz, and Dragon Mall developing right now?

DM: With New Azadi, we have handed over phase two and there is one phase to go. We delivered almost 600 units of housing. The New Azadi project is a dynamic process. When we started four years ago, it was a \$100 million project. It has since expanded, largely because of the dynamic change in the market. This has altered the phases, and the project is now more than double.

On Piroz, we signed an agreement with Starwood International for a four star chain to be built in a location we have near the airport. It represents an investment of roughly \$100 million, including the facilities. We anticipate that both the New Azadi project and Piroz will be finished by the end of 2017.

For the Dragon Mall, we have held back on it for reasons of trade and commerce. We are still doing the feasibility. We do not have a site or airport specified for the free trade zone, so the market is not ready for such operations yet; we are waiting for these issues to stabilize.

IIG: What green initiatives are you working on in Atconz's projects?

DM: As a matter of fact, we can announce to the IIG for the first time that we have recently begun a project of recycling sewage water for irrigation in Kurdistan. We have a system of wastewater treatment contained within it the project, and we are self-sustaining. Also, we are thinking of doing more green initiatives with our Piroz Hotel project. We will probably aim to have the first LEED (Leadership in Energy & Environmental Design) project in Iraq—which will be a major milestone in the country's history.



IIG: What would you say are the key challenges in the market and how are you addressing them?

DM: First of all, the dynamic here is very active, and challenges are related to the geopolitical environment. Second is that Kurdistan is still a cash economy. It is not like a standard economy linked to the stability of the international banking system. Therefore, the risk is higher than other places, but the reward is also higher. Investors with the best chances of success here have better knowledge of this dynamic environment and anticipate and prepare for changes. The Central Bank of Iraq governs the banking system in the Kurdistan Region, with private banks and insurance connected to it. Baghdad, however, does not support private banks to attract more investment, and they are not very good at attracting the insurance companies that allow the banking system to get involved in business. Today we have a retail banking system and a money transaction system, but little else because of regulatory burden from Baghdad (effectively not allowing the existence of mortgage banking). That is

one of the burdens that we would hope the new government in Baghdad would pay attention to when it stabilizes, because this is the only way to attract investments into the country to help fixing our development problems.

IIG: How does the lack of a mortgage system affect your business?

DM: This is a major problem. Imagine that a project sells units at \$800,000 apiece. People bring \$800,000 in cash in a sack, pay it, and get a house. This is unheard of in any international operating system. Even \$100,000-\$200,000 must be financed in cash. Alternatively, people pre-purchase new homes, where the developer takes a deposit of 20%, then 10% every six months and so on, and delivers the house after 4-5 years. As a result of this, we have so far seen building but we have not seen development. Because of scarcity and the cash economy, there is no freedom to put quality into buildings. People accept low quality, because they cannot finance higher quality. Investors and contactors cut corners for the lowest cost. There are no proper

feasibility or financing processes, and the results are stunted in terms of quality. There is a fertile market for higher quality development once we have the mortgaging and banking involved, we hope.

IIG: What is your key piece of advice as a businessman to foreign companies minimizing risk while doing business in Kurdistan?

DM: Most of the foreign companies did probing before they started to get involved. The best way to probe is to find a local partner. Most of the joint venture projects are more successful than foreign projects. This is because: we are talking investment, not contracts. With a joint venture, you will have the local knowledge, local networks, and local capabilities that will support your cause. This saves you possibly two years of getting along, because the local partner is connected and established. This saves you a lot of money. So joint ventures are a very good idea when you do it with a well-established company within the same field. ☺

Quality - A Rising Trend



Mario Al-Jebouri —
Chairman, IKG Property

Mario Al-Jebouri speaks to IIG about the quickly changing dynamics present in the Kurdistan Region's real estate sector, its current challenges, and future opportunities.

About

Mario Al-Jebouri is chairman and founding partner of IKG Property. Before establishing IKG Group in 2011, Al-Jebouri ran a private equity fund in London, after spending several years in the financial sector. Between 2002-2006, he served as an economic advisor to the Bulgarian Prime Minister, as head Bulgaria's initiative to redevelop Iraq, and as head of Bulgaria's Tourism Agency. He holds a bachelors degree in civil engineering from the University of London.

IIG: Does IKG have plans to expand significantly into cities beyond Erbil?

MA: IKG already covers the entire Kurdistan Region, as well as parts of southern Iraq, without a physical presence. Within the next 12 months, we intend to have people on the ground in both Slemani and Duhok, in addition to Erbil. We are certainly also looking at the situation in southern Iraq, but we do not believe that security and the development of the markets in Baghdad, Basra, Najaf and Karbala are at the level to which we can have a physical presence. Nevertheless, we cover these areas from Erbil with the intention to expand into southern Iraq when the situation permits.

IIG: Many foreign firms in Kurdistan seem to be attaining permanent office and residential space. How will this affect Kurdistan's commercial and residential real estate sector in coming years?

MA: This shift has already largely taken place. The way this will change the dynamics is such that the market eventually dictates to developers how and what they should be developing. Some of the office space which is imminently due to go on stream still does not adhere to international standards for global organizations, be it from security issues, efficiency, or the quality of the build itself. The market is currently indicating these issues to developers in Kurdistan, and we can already see quality shifting upwards. We advise many of the developers that are building new office space regarding these issues, and many of the developers are now applying the advice. One example of this is the Erbil Business & Trade Tower. The developer came to us before construction started, and we went through a very rigorous process of advising them on what international clients would expect from the building. This guarantees that elements of the structure and design already address the concerns that clients demand.

IIG: What will these changes mean for the gated communities that IOCs are moving from?

MA: We will see a slight segmentation of the market. When the large corporations, which can afford to pay larger sums for office space in the new builds, vacate their offices in English and Italian villages, there will be a correction in the rents in these developments. We will then see a second wave of small to medium sized enterprises come into those properties. So, while there might be a slight correction, we do not see it having a severe impact on occupancy. Like in any other market, then, we will see clear segmentation, where there is graded office space for the large corporations, and others will fill the void that they have left.

IIG: What are the major challenges related to creating stricter standards?

MA: The challenge is to create a structure within the bureaucratic institutions to create the leverage, capability and mandate to insure the proper implementation of these standards across the board and without exception. There must be sufficient teeth in the process, enabling them to suspend construction or fine developers that do not adhere to standards. They are building the reputation of the country and the sector. There must be a level playing field between all developers, so that no one feels that they are left out or focused on negatively. This will bring improved standards of living and better quality construction companies. If the basics are established, then there will be huge increases in quality in the sector.

IIG: Have you seen any movement from the public or private sector to address these concerns?

MA: It is hard to believe that the private sector will police itself properly to enforce such standards. The KRG must take a strong stand on this. At the end of last year, PM Nechirvan Barzani called on this to be a top priority of his

government when it comes to the construction sector. The government has, unfortunately, had higher priority things to worry about in recent months, but I am certain that this will become a very vital part of the nation building exercise that the KRG is doing, and will become a priority for the government in months to come. At IKG we have submitted our views and made presentations to the government. We are happy to participate at no cost to the government as consultants, helping to create these structures and standards, bring in the groups like the Royal Institute of Surveyors from the UK or elsewhere to create a real standard, structure, process and procedure which can be implemented quickly. This, for us, is very important.

IIG: Is this something that can be overcome, through policy channels?

MA: With the maturity of the market and increased competition, and even the balance between supply and demand, short-termism quickly begins to weaken. People will become more long-term in terms of their views and visions, and more concerned about reputational risk, which is informed by the quality and credibility they deliver. This is normal and has happened in several other countries. The challenge is to find ways for the government to regulate the process so that it happens in a quick and structured way.

IIG: What effect has limited access to finance and insurance had on the real estate market?

MA: This has a huge impact, both positive and negative. The positive effect is that you cannot create a bubble, which would have happened had debt finance existed. But because everything is cash driven, development either gets delayed or stopped in the developer runs out of finance. The positive side, unfortunately, does not outweigh the negative side. Negatively, growth is very limited. For example, the fact that there is no proper

mortgage market here means that a large chunk of the population cannot afford to take advantage of new units and new supply of real estate coming onto the market. So, the lack of a mortgage market and the lack of project finance to help investors and developers take on more risk has meant that the market has grown to invest in quick return projects, rather than industrial development and other longer-term ROI projects. Regarding insurance, most people here do not know how insurance works, but this will change. Businesses want to know that their buildings are insured, even if they are coming in as tenants. Once assets are insured, investors can then look towards monetizing the assets and releasing cash to reinvest in other projects or sectors. It is certainly an aspect that has slowed growth, and it is critical that it is implemented in the near future.

IIG: How is the real estate market changing as Kurdistan's economy matures?

MA: In terms of real estate, opportunities exist across the board, but there has been a change in the game itself. No longer can you invest in real estate and guarantee major returns on investments. You must now be much more cautious in the types of real estate you are investing in. You must formulate your investment strategy on sound feasibility studies, cash flow projections, and business plans. Numbers, everywhere in the world, are very important in this regard; they are transparent, and will lead investors to ask the necessary questions before investing. This has not been the case in Kurdistan in the past; returns seemed almost guaranteed. Now that there are far more players in the market, more competition and more saturation, this has changed. You must look at what will satisfy demand in both current and future demand; you must look at what clients want now as well as 20 years from now. 

IKG

IKG Property is a premier independent real estate service and advisory firm based in Erbil. The company offers individuals, investors, businesses, and developers insight and market intelligence to inform real estate decisions across Iraq and the Kurdistan Region.



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FARUK HOLDING

FH is comprised of 27 operating companies in 12 sectors: Telecom and IT, Cement Industry, Construction, Energy, Development, Medical Services, Hospitality, Real Estate, Management, Trade & Commercial, Agriculture. FH is incorporated as a holding company, with the controlling shares and branch companies owned by the Chairman of the Board, Mr. Faruk Mustafa Rasool. FH has always been at the forefront of Iraq's development and has constantly aligned business opportunities with the objective of helping the companies of greater Iraq. This approach remains engraved in the company's culture to this day, and it is Iraq's largest and most respected private company, employing over 13,000 people.



FARUK MEDICAL CITY

Faruk Medical City is located in Slemani and provides a wide range of diagnostic and therapeutic procedures ranging in size and complexity. Faruk Medical City (FMC) is committed to improving the healthcare options of the Kurdistan Region, and is outfitted with the latest technology. The facility is staffed by the highest caliber of experienced medical personnel. FMC has taken considerable steps to gain accreditation at both the national and international level, and aims to cover every possible need of the Iraqi community. Faruk Mustafa Rasool hopes that FMC will help end the need of the people of the Kurdistan Region to travel abroad for healthcare and basic procedures.



ASIA INSURANCE

Asia Insurance Company is the Insurance Arm of FH. Asia insurance Company is working to restore and modernize the Iraqi Insurance market with the hopes of it becoming one of the largest in the region. As a market leader, Asia Insurance is committed to adding value to all of its clients' activities. The company places particular emphasis on building long term relationships with clients and associates based on exclusivity, mutual trust, transparency, and quality of service.



ASIACELL

Asiacell is a leading provider of quality mobile telecommunications services in Iraq, with over 10 million subscribers. Asiacell was the first mobile telecommunications provider in Iraq to achieve nationwide coverage, offering its services across all of Iraq's 18 governorates including the national capital Baghdad and all other major Iraqi cities. Asiacell's network covers 97% of the Iraqi population, making the company's national coverage the most extensive of any Iraqi mobile telecommunications operator. Asiacell's network is heralded as one of the most groundbreaking accomplishments in the history of Iraq.



GORAN NET

Goran Net ISP Internet and Broadcast Services was the first company to launch a DSL service in the Slemani region, and is one of the major Internet service providers. Since its inception in 2004, Goran Net has striven to be a leader in its field, which can be seen in the fact that the company has the majority market share for fixed-line Internet users. Goran Net seeks to provide its users with the highest Internet speed available in the country, and the company believes in utilizing and developing local staff and knowledge in order to ensure that the country has first-class individuals capable of undertaking the most complex of communication projects.



NIVA

Established in 2007, NIVA is the exclusive dealer/distributor for Ford and Lincoln vehicles in Iraq. NIVA has currently three main distribution centers, which are located in Baghdad, Erbil, and Slemani. All centers are fully equipped with state-of-the-art facilities providing maintenance according to international standards. More centers are planned to be opened in the short and medium terms to cover further Iraqi governorates. Vehicles sold by NIVA carry a three- year or 60,000 km warranty and free service with original spare parts, as applicable.



ZARYA

Zarya Construction Company is a full-service general construction firm, and is one of the industry's most reputable companies. It specializes in construction, management, design, and building services, as well as transportation, general trading (import and export), communication infrastructure services, and project modification. Zarya also provides all cement services such as quarrying, blasting, engineering, solutions (including design and installation), re-factory maintenance services, and supply of all cement materials and heavy equipment.



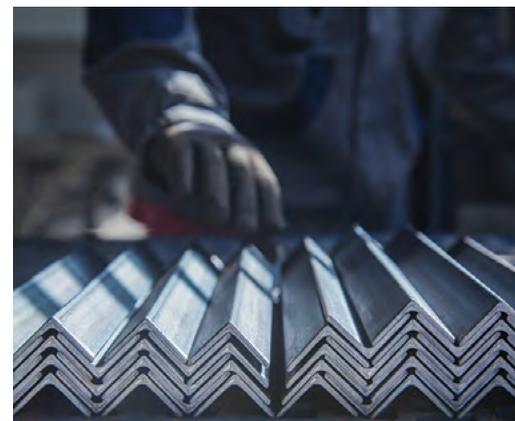
CEMENT

The Bazian Cement and Tasluja plants [approximately 30 kilometers apart] enable the group to respond to the strong demand for building materials in the Iraqi market, a country undergoing massive reconstruction. The demand for cement grows 15% per year. FH seeks to provide for this increasing need by supplying quality materials for the construction of housing and infrastructure. One out of every four tons of cement in Iraq today comes from either Bazian or Tasluja plants.



RASAN PHARMACEUTICAL

Rasan Pharmaceutical is the first company of its kind in Iraq. The manufacturing of IV solutions is critical to the well being of the Iraqi people. With that in mind, Rasan was designed to meet top-quality international standards, an approach that is fundamental in guaranteeing the highest-quality production, manufacturing, and technology. The primary product line of the plant is standard, large-volume IV solution, which contains purified water (to facilitate injections) and then concentrations of different solutions, including dextrose, sodium chloride, ringer lactate, ringer solution, and sodium chloride/dextrose.



AZADY INDUSTRIES

Azady Industries' primary business areas are Galvanization and Steel Structure. Azady is quality driven and client oriented company located in Slemani. The company is managed by highly experienced and dedicated professionals who are fully committed to achieving ultimate customer satisfaction. All of Azady's plants are ISO 9001-2008 certified, and emphasize continual improvement. Azady possesses the largest galvanization pool (13x1.5x2.5m) in the Region, with all necessary pre- and post- treating baths. A quality assurance lab is also integrated into the same area.



GRAND MILLENNIUM SULAIMANI

Situated in the heart of Slemani, the Grand Millennium enjoys a breathtaking view of the city. The 32-story, five-star hotel consists of 253 guest rooms, 55 luxury suites, 7 executive suites, a presidential suite, and an executive lounge. Additionally, the hotel features three restaurants to accommodate all dining needs; Lebanese, an all-day international dining lounge, and a luxurious revolving restaurant at the top of the tower. Located next to the tower is a 362-seat auditorium, a ballroom with seating for up to 800 people, eight additional meeting rooms of varied sizes, and a parking space for 400 hotel guests and visitors. The Grand Millennium also includes a state-of- the-art health club, complete with on-hand personal trainers and luxury spa services. Recreation facilities include indoor and outdoor Olympic-sized swimming pool, tennis courts, squash courts, and jogging trails.

Global Design



Yassin Younis —
GM-Kurdistan, SSH Design

Yassin Younis provides exclusive insight into SSH Design's entrance into the Kurdistan Region, and discusses the challenges and opportunities present in Kurdistan's design and development sectors.

About

Yassin Younis has over 17 years of experience in building industry; his work portfolio extends from UK to the MENA region. Prior to joining SSH, Yassin worked for Atkins UK as design manager and with WSP UK as Associate Director.

IIG: How did SSH decide to enter the Kurdistan Region? What is your overall strategy for 2014-2015?

YY: Kurdistan has a very bright future. Perhaps two years ago a company such as SSH would have thought twice before entering a market like Iraq, but we believe that now is the moment; the time is right for a company like us to bring international standards of quality to this market. Our strategy is to be a strategic partner for architecture, energy and design services, and an employer of choice where ever we operate. We know that we have the vision, values and quality, and feel that the market is much in need of our services. As we only entered the market a few months ago, our market penetration is in the early stages. However, what is unique for SSH, is that we work as sectors spanning across territories. A project in Erbil, for example, will include SSH's top designers from several different offices and countries, including our Kurdistan office. We construct our teams based on the skills of the designers and the needs of the project, which ensures top quality on every project.

IIG: How would you say that construction standards are improving in Kurdistan? What is SSH bringing to the market in this regard?

YY: The market is not heavily regulated. We work closely with the public sector and big construction companies and we heavily stress the importance of playing on a level playing field with other designers and contractors in terms of quality and standards. Our quality is on par with top international designers, and we are confident that we are bringing improved quality and standards to Kurdistan. However, we would also like to stress the importance of having equally implemented and enforced standards and regulation. This improves the outcome for the clients, the government, the contractors, and the end user as a whole. The quantity is now here; what Kurdistan needs now is to focus on maintaining high quality in its developments. When it comes to

construction, one element that is missing is construction supervision. The construction supervision team must ensure that the contractor is building the project true to the original design, with the right dimensions as well as the right quality and safety standards. This is why, at SSH, we focus on four core components: master planning, infrastructure, buildings, and construction supervision. Construction supervision is particularly important to keep quality standards produced at previous stages.

IIG: Where does SSH see Kurdistan in its portfolio in the medium term?

YY: It was a milestone for us to open this office in Erbil. SSH was established in Kuwait over 50 years ago and currently our business is expanding in Oman, UAE, Qatar, Bahrain, KSA and Kurdistan. Our focus has changed to become increasingly international. With Kurdistan in particular, we are confident that we are here to stay; we feel that we are in the right place at the right time. While what is happening in much of Iraq right now is de-stabilizing, we know that the KRG has a steady progress in developing the wealth of the region, and has started exporting a significant amount of oil, hopefully reaching 2 million bpd by 2019. There is democratic process and stability, and the need for increased quality infrastructure and construction is broadly understood. All of the elements are in place, and we think that Kurdistan's trajectory will grow quickly. From Q4 of 2014 SSH we are hopefully of gaining real traction in Kurdistan with a number of project wins under our belts.

IIG: Did you break into this market on your own or with a local partner?

YY: We have a strategic partner in Kurdistan. When we enter new markets, we do so with local strategic partners—clients or contractors or sometimes other companies. In Kurdistan, we are looking to work with construction and development firms. There are many good developers and we feel the market is in need of companies like us. It was challenging



- 1 KFH Residential Tower, Kuwait
- 2 Royal Opera House, Oman
- 3 Universal Printing Press, Kuwait
- 4 Gulf Bank, Algeria

to find a strategic partner that shares our values and can work productively with us. Finally we entered into an MoU with an investment firm. As we are new here, we have yet to begin working on any projects, but we are hopeful that this will change very soon.

IIG: Which area of SSH's work do you see as being strategically most important in Kurdistan currently?

YY: We foresee many important areas for us focusing on building design and infrastructure. Construction supervision, as I mentioned earlier, and master planning also has significant potential here. In truth, however, the market is in need of everything. The built environment has a lot of scope for growth in Kurdistan, and quality is increasingly important. With new water systems, for example, you cannot look to the short term. You

must invest in quality, because major infrastructure projects cannot easily be replaced every few years.

IIG: Do you feel that momentum from local contractors is heading towards improved quality, or are many still looking for quick returns at the expense of quality?

YY: The government sector has certainly shifted towards quality. The general theme is that they want to invest in quality. When it comes to contractors, of course the contractors are builders at the end of the day and they build to what was designed. It is the responsibility of the private developers to emphasize quality by choosing reputable designers. The private sector, in particular the local developers, are moving gradually in this direction as well as the market increasing demand for quality. 

SSH

SSH specializes in the delivery of world-class construction projects in the MENA region. It is rapidly expanding multidisciplinary firm with over 50 years' expertise in architecture, engineering, infrastructure and construction supervision. SSH are respected project leaders, trusted international partners and reputable employers. We aim to be the consultant, strategic partner and employer of choice for the MENA region. Our continued participation in the region's premier construction projects reflects our world-class expertise in specialist markets and our unrivalled local knowledge.



The market is really shifting from a focus on quantity to a much stronger focus on quality. This, confirmed by feasibility studies, led us to enter the market.



The Big Box Comes to Kurdistan



Jean Marie Boixel —
Country Manager– Iraq, SI Retail

Jean Marie Boixel predicts a bright future for hypermarkets like Auchan in Kurdistan.

SI Retail

SI Retail has been established as a platform to undertake retail operations in Iraq. The company owns the exclusive Auchan franchise in Kurdistan and Iraq. SI Retail opened its first Auchan hypermarket in June 2014 inside Mega Mall in Erbil. The target is the opening of 10 hypermarkets in the next 5 years in Kurdistan.

IIG: How would you describe your hypermarket concept in Kurdistan?

JMB: Our job is to answer the needs of the people to bring them into our concept. We sell everything (75% food and 25% nonfood) under the same roof. Our first store in Mega Mall is 5,500 square meters, but we have not been able to replicate our concept exactly with this size. Today, we are able to offer everything we want for the food business, but for the nonfood business we do not offer what we expect to offer because of the size. For example, we do not sell products like appliances in Mega Mall. We will open our second hypermarket in Airport Mall. The size of the store in Airport Mall will be 10,000 sqm. The number of units that we will sell in Airport Mall will be double what we are currently offering at Mega Mall.

IIG: These hypermarkets are a new concept in Kurdistan. How does that affect your strategy?

JMB: Opening in a new country is always a challenge. We challenge the habits of the consumers. In Kurdistan, the local people are used to traditional ways of shopping, so it is a new thing for them. There is a cultural aspect— you do not work every country in the same way. If we offer only 100% French products, we know it will not work. Offering 100% local products is almost impossible. Our

job is to find a good mix for local people between imported products and the local products to which they are accustomed. Unfortunately, local production in Kurdistan is really limited. Our desire is to work with the maximum number of local producers, because it is in our interest to reduce the logistics chain.

IIG: How has the recent turmoil affected your logistics?

JMB: For us it is clearly something we need to manage day to day. It has really strengthened links to Turkey. Today, we are naturally looking more and more to Turkish products, even if that was the case before. If the rest of them are closed off, we do not have many choices.

IIG: Do you see room for other retail giants in both the food and nonfood sectors here in Kurdistan?

JMB: For the food business, we believe that the current players will be the players in the future. A new entrant can come at any time, but the market is not mature for some types of brands. We are seeing more and more middle market brands. Being here and having opened our first hypermarket, with other hypermarkets in the pipeline, we are gaining market share. Kurdistan is an emerging market and, in time, other brands will come. We are here. Carrefour is here. A lot of



Kurdistan is an emerging market and, in time, other brands will come. We are here. Carrefour is here. A lot of Turkish retailers are here and have aggressive expansion plans. We are positive on what we are doing with hypermarkets, and we believe that new brands will come in the future.



Turkish retailers are here and have aggressive expansion plans. We are positive on what we are doing with hypermarkets, and we believe that new brands will come in the future.

IIG: How do you assess the transformation of the market since you started your operations here? What were the initial challenges, and do you see that those same challenges exist today?

JMB: Today there are two main challenges. The first is that we are in a country where 90% of what we sell is imported, so you need to set up your operation with distributors and there can be importation issues. The second is that this is a new market, so we need to drive people into our hypermarkets. We need to change their mentality towards shopping, and for that, we need to bring them the right products at the right price. Other people in this business tend to sell some products at a loss— with either no margin or a negative margin— and compensate by selling other products. We want to try to sell all the products in the store at a low price— not just bakery items or special products. We prefer to have ten clients spending \$10 each rather than one client spending \$100.

IIG: How many items do you stock in your hypermarkets? How many people have been visiting your stores?

JMB: Today, our hypermarkets are divided into 100 different product families. On average, we target 30,000 stock keeping units in a hypermarket. Regarding the number of customers, it is a little below the target we were expecting, but we believe we have more people coming than our competitors when they started operations. We knew that the beginning would be slow, especially with Mega Mall.

IIG: How do you address issues of hiring local staff?

JMB: Staffing is a real challenge for the country. When we started operations, we had to bring talent from outside because there was very limited competition at the time. We currently have a lot of local people working with us in the head office as well as in the hypermarket. It is not easy and we do not say that we will recruit 100% local people, but we have more and more local people giving us résumés and our goal is really to bring up local people as well. We aim to recruit a lot of people and develop locally, because our business is a real local business. We will have a strong local presence by selling products to local people, recruiting local people, and creating jobs. We are trying to target mostly people that are freshly graduated for management and office positions. They are eager to learn the business, and we will teach them as we go. 



About

Jean Marie Boixel has over 25 years of experience in retail, including 20 years with the Carrefour Group where he held various positions, both operational and functional, including full responsibilities of Hypermarket Director. As Director of the multi-format Managerial Training Centre in Carrefour, Italy, Jean-Marie gained an extensive insight into team management. His expertise in purchasing was obtained, in both France and internationally, through his positions as Purchasing Director and Brand Distribution Director.

SI Retail's Expansion in Kurdistan



Christophe Durand —
Expansion and Business Development,
SI Retail

Christophe Durand talks with IIG about SI Retail's expanding operations in Kurdistan and the opportunities in the retail real estate sector.

About

Christophe Durand brings 12 years experience in investment. He joined SI Retail in 2013 after working 5 years for a sovereign fund in Abu Dhabi covering MENA region. Now, he is taking care of the expansion and the real estate projects linked to the development of SI Retail in Kurdistan.

IIG: How did SI Retail decide to start operations in Kurdistan?

CD: We started to monitor the market in 2011. We looked at different sectors, including the automotive and dairy industries, among others. Finally, we decided to go into retail. In 2012, we signed a franchise agreement with Auchan, which is the second largest hypermarket chain in France and the ninth largest in the world. We opened our first hypermarket in June 2014, and we expect to open the next one in the beginning of 2015 in Erbil as well.

IIG: Why did you decide to go into retail?

CD: We saw the very important potential for the retail industry in Kurdistan. Carrefour had just opened when we started the business. City Centre was here with one hypermarket and two small supermarkets. We saw potential in this market for what we would call a “modern grocery concept” involving hypermarkets and supermarkets. Thus, we decided to go for hypermarkets.

IIG: How would you define your business model here in Kurdistan?

CD: The typical size for a hypermarket is between 5,000 and 15,000 square meters. Our model is to be in a 10,000 sqm space plus 1500 parking spots where we offer food and non-food products. This is the way that Auchan started its successful business in Eastern Europe, especially in Russia. We decided to duplicate the same business model starting with hypermarkets.

IIG: How would you describe the retail business environment in Kurdistan?

CD: First, there is strong GDP growth, which has been 10% on average between 2011 and 2014, which leads to an

increasing purchasing power. It is a very positive environment for the retail business. Second, we have a growing population, which is also a positive factor for the hypermarket business. At the same time, it is a young population. Kurdish people know more and more about the development of the hypermarket retail model and shopping concept. Lastly, the growing expat population in the region is also a positive factor for the development of the modern hypermarket concept. If you look at the GCC, growth in hypermarket sales for the last five years has been 10% on average, so we believe this is the type of growth that we can expect for hypermarkets in Kurdistan over the next five years. It could be more, but if we have at least this rate we will be happy.

IIG: Where would you place Kurdistan's retail market in comparison to other markets in the region?

CD: When we studied some of the characteristics of the market in Kurdistan, we saw that the penetration rate (the percentage of sales of food and nonfood products made through the modern grocery formats) was below 5%. If you look at the UAE, for example, 60% of total sales are made through hypermarkets or supermarkets. In Saudi Arabia, it is 45%. In Turkey, it is 20%. We believe that there is the potential for a massive increase in hypermarket and supermarket sales in this country. Even though every country is different, there is a trend towards the development of hypermarkets everywhere in the world. We believe that what has been seen in the Middle East in general in the last 10-15 years is very close to what we see when we look at Kurdistan. We believe that we have a very favorable environment for hypermarkets.

IIG: What is your expansion strategy in Kurdistan?

CD: Our target is to open ten hypermarkets in the next five years. We are very positive on this region and we have put a lot of effort into it. We have set up an headquarter and a team of almost 50 people to run this operation. Now we have 200 people working for us in Kurdistan. Every time we open a hypermarket, we will add 150-250 people. We do not know exactly what the speed of expansion will be, but we are planning to have five hypermarkets in Erbil, three in Slemani, and two in Duhok.

IIG: Are you planning to expand to other sectors?

CD: Real estate is linked to the development of our retail operations, so we will develop some real estate projects, which is the second branch of our business. Every development that we will do in real estate will be to open an Auchan hypermarket. We are not interested in real estate that is not linked to our retail operations. The main driver for us in real estate is to open hypermarkets.

IIG: Why did you decide to go for real estate?

CD: The main reason is that we have been working on expansion for almost two years and it is very difficult to find a good location that is suitable for what we want to do. Existing locations are usually too small, do not offer enough parking spaces, accessibility may also be an issue. As I mentioned earlier, we need to go for at least 7,500-10,000 square meters for our hypermarket concept, we have to meet very strict criteria before envisaging a new location. What we want to develop on the real estate side is a different concept than the shopping malls that already exist in Erbil. We want to open what we call a “retail park.”

We want to have ample flat lands, the project will include big parking spaces where we put an Auchan hypermarket as an anchor tenant, and we build a small gallery around it with some shops. We want to attract other retailers like do-it-yourself, furniture, and clothing retailers to create a new concept that is easily accessible and where people can shop in an easy space. We are not inventing anything— we are just replicating models that have been developed in other emerging and developed markets. For the moment, this type of concept does not exist in Kurdistan. People have started with big shopping malls, but we want to go for a different and easier shopping destination.

IIG: How would you assess the investment environment in Kurdistan, and how much investment are you anticipating for the retail park project?

CD: This is a very interesting market in terms of investment. The investment laws and the environment are very encouraging in Kurdistan. Compared to other markets, it is easier to set up and start a business in Kurdistan. It is also very important for us that we are able to own 100% of the business. We also appreciate the support of Board of Investments to access lands. We do not need a partner like in other countries in the GCC.

Regarding the retail park investment, it really depends on the concept. It can start at \$20 million for the first phase of the project and go up to more than \$50 million if you go with a bigger project. Initially, we will focus on smaller projects and expand it successful in order to introduce a new shopping concept for people in Kurdistan. This type of project could also be a way of attracting capital to Kurdistan from foreign investors from countries like Turkey, Saudi Arabia, and the UAE. ☺

SI Retail

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Retail Giant



Bhupesh Malhotra —
Country Manager, Landmark, Iraq

Bhupesh Malhotra speaks to IIG regarding the opportunities and challenges of pioneering foreign investment in the Kurdistan Region's retail market.

IIG: Landmark has had trouble attaining suitable real estate for malls and shops in Kurdistan—a major concern for a retailer. What initial challenges did you face?

BM: Finding suitable real estate has been a challenge, and as such our strategies have evolved with what works. When we first entered the market, we drove around the city to scout out potential real estate options. As we started calling landlords, we began to develop a broader network of building owners and managers. Once we had a broad set of options, we studied traffic patterns to get an idea of demand for our businesses in each location. This was clearly a very challenging way of going about selecting real estate, especially with language barriers, no unified building standards, and no access to drawn up floor plans. Oftentimes there is no power or other utilities working in the buildings. Title deeds are another challenge; it is unclear who actually owns much of available property. This initially provided challenges for us.

IIG: How have you since been able to adjust your strategy to address these issues?

BM: Our second strategy was to work with the Region's malls. To do this, we looked into possible competitors, traffic volumes, and supermarket base. Much of this work had already been done, because Carrefour was already in Erbil. This gave us more confidence and a larger appetite for risk. We worked together with similar international retailers, where a joint strategy was developed for operating within this market.

IIG: Rents have also increased in recent years. How does Landmark cope with this higher overhead?

BM: Yes, rent expectations are incredibly high. Landlords have a very short-term view; developers want to see a return on their investments within three years. We have a long-term view, of at least 10-15 years, and this we are trying and to build

a business with a long-term view. As this is a new market for us, we are working on building a reputation in Kurdistan. We are looking forward to better prospects by establishing ourselves as we have in other countries.

IIG: You have, thus far, only opened four of 16 total planned locations in Kurdistan. What is your timeline for reaching full capacity in Kurdistan?

BM: The major factor with this setback was delays in the malls. Malls did not activate on the schedule we had drawn out. Construction delays can range from six months to 1.5 years or more. The primary factor contributing to these delays is that owners use their own personal money to finance the malls' development, so if they have personal liquidity problems, the whole development comes to a standstill. We believe formal financing is a challenge currently, and this causes significant delays. Our perception is that this scenario will improve, as several international banks have entered the market.

IIG: Internationally, which market segments has Landmark has the most success in targeting? With this in mind, how would you characterize the way that Kurdistan fits into Landmark's portfolio?

BM: We are in the medium market segment—we cater to the masses. Our prices are very competitive, and offer the best possible value with design in mind. This strategy is well suited for the Kurdish market, because there seems to be a large gap in those offerings. We have major strength in our home offerings—carpets, decor, cutlery, etc.—which are not widely available here. Then, of course, our fashion lines cover the entire family, from babies and children to adults.

IIG: International retail is much newer to the Kurdish market than to most other markets you operate in. How does this affect your operation and strategy?

BM: To establish ourselves initially, we



came with two value brands to test the market, and to broadly establish our presence. This is still our main strategy. We want to be in all of the key locations in the country where malls exist. In some cases we would prefer to open independently on a stand-alone basis, but that poses their own set of challenges. Another key to our operations is to employ local staff whenever possible. This is really the only way that our business can operate. A final challenge for us is access to reliable data. We are currently creating a database, so that once we have a few years of data behind us, we will have benchmarks with which to base future targets.

IIG: How do you foresee the evolution of the sector over the next 5-10 years?

BM: In the next 5-10 years, we will see major growth. It isn't just us; we have already seen the entrance of Auchan, Carrefour, and many others. Many brands are entering the market very quickly. I don't think it will even take five years. The country has to keep up with the entry of international business houses, particularly in regard to transportation, logistics, basic infrastructure, and improve rules pertaining to visas & housing. Visa processing is arguably the most important element right now if the country

wants to activate foreign investment and develop its own competent work force. Additionally, a free trade zone and open skies policy would be more than enough to establish Kurdistan on the map. However, this must all be done quickly. There is no time to wait and see what happens. The government must now react to direct the market where the state wants it to go. The risks and concerns are based on what is happening around us; business is moving forward as planned.

IIG: How do you address the issue of human capital?

BM: Currently we use newspaper advertisements, and local recruitment services. However referrals form a major portion of our hiring strategy. The group has a very dedicated training program, this is designed to develop the local workforce up to senior levels in the organization. Our major challenge is to provide a long term career vision to our employees so that we become the preferred employer over all existing and future competitors. This is only possible by providing clear growth path with training for higher roles, fair treatment, excellent incentive programs and recognition. At this point, our store staff is 85-90% local, while our higher-level managers are all expats. 

Landmark Group

Landmark is a major Dubai-based diversified retail group of firms, operating over 1,800 outlets in 20 countries across the Middle East, Africa, and Central Asia.

“
In coming years, our growth target is to open and operate in all of Kurdistan. We have entered the market with our core brands, with a plan to roll our entire portfolio, based on market response.
”



Divan Hospitality Rising in Erbil

Enjoy our exclusive accommodation approach for more than half a century, while you discover the unique business opportunities Erbil offers.

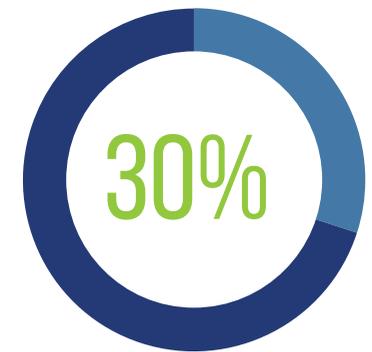


THE REVIEW — ICT STEPPING FORWARD

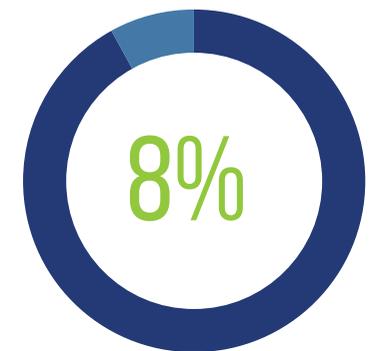
Kurdistan's ICT sector started from almost nothing in 2005, and has since become one of the Kurdistan Region's most well developed and strategically important sectors. While challenges persist in Kurdistan's ICT sector, momentum in the sector's maturity and development has shown no signs of slowing in 2014.

The Kurdistan Region's ICT sector has had a good year in 2014—and given the sector's strategic importance and relevance to the rest of the Region's economy, security and politics, it is important that the sector's growth and development has been strong. Internet penetration rates have been climbing steeply with major growth in local internet services providers (ISPs), mobile penetration rates—already relatively high at roughly 93% within the Kurdistan Region—are continuing to rise, and major ICT hardware manufacturers are working their ways into the market, often through local distributors and partners.

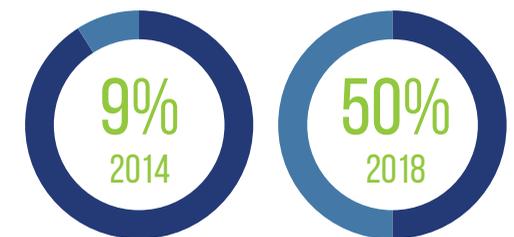
The public sector is quickly developing its own hardware to make the KRG work more effectively and efficiently. However, while there is much to be pleased about in the sector, there are still challenges: regulatory challenges are slowing the roll-out of 3G and 4G/LTE wireless technologies at the level of major mobile operators, as well as local ISPs. Internet penetration, while growing quickly, is still quite low by international and regional standards. Within the finance sector, banks and financial institutions are not sufficiently integrated technologically to provide interbank lending or ATM services—to the detriment of both banks and consumers. Finally, despite the efforts of very effective training centers, and heavy investment from both the public and private sector into the Kurdistan Region's human capital, the level of technological literacy among much of the Region's workforce is still in development. While the many advances in the Region's ICT sector are to be commended, there are still gaps in the market—and still much room for investment in the sector's continued growth.



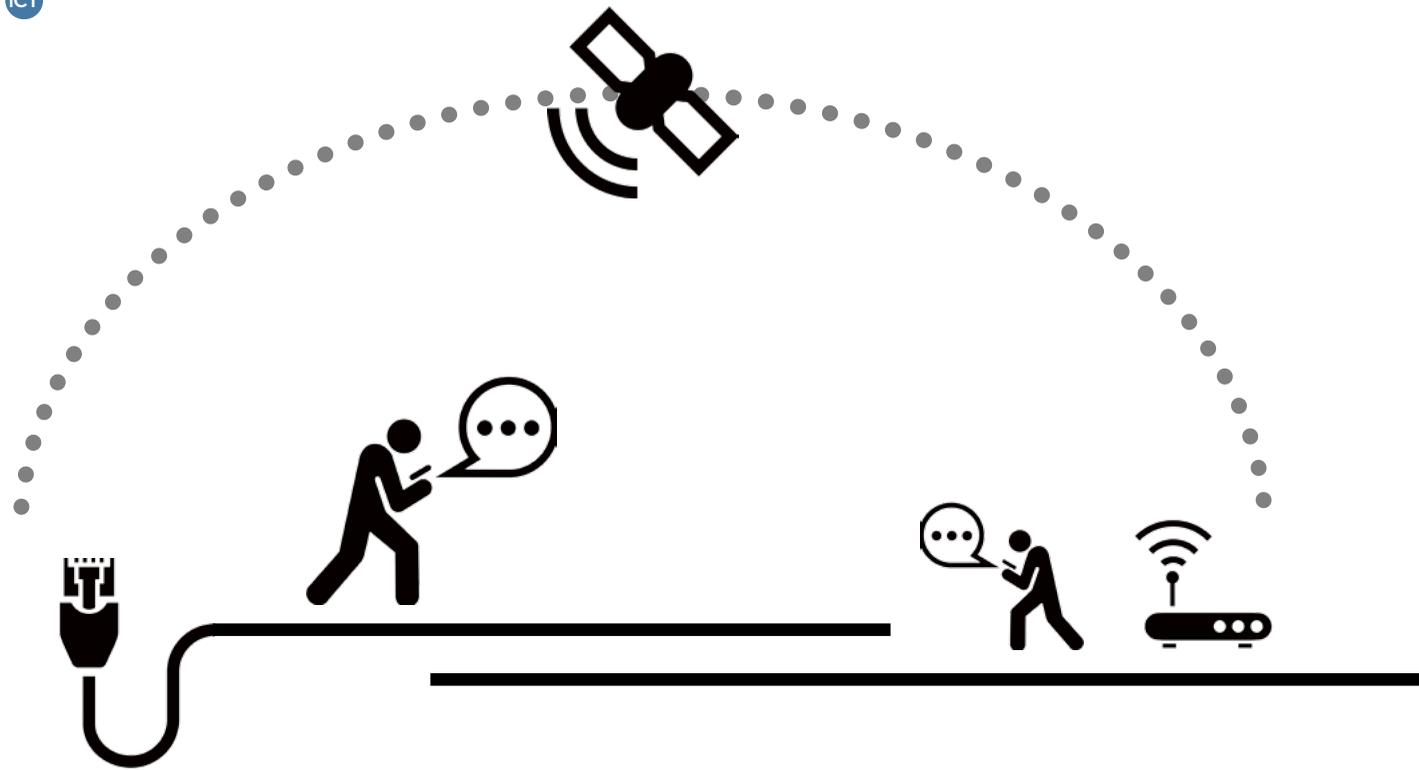
TELECOM SECTOR GROWTH



LANDLINE PENETRATION RATE



INTERNET PENETRATION



INTERNET PROVISION

Wired or Wireless

Internet provision in Kurdistan started from a very low point—the first international cables to bring data in and out of Kurdistan were established in just 2007-2008 by Newroz Telecom. Since then, however, distribution and penetration have grown quickly. While there are still only three international fiber optic operators carrying data into and out of Kurdistan (one through Turkey, two through Iran), investment in ICT infrastructure within Kurdistan has spread provision widely—and has jumped past the traditional stages that many countries have followed. While landlines have stagnated in Kurdistan for decades, leaving many without traditional phone services, new companies are jumping ahead to develop fiber optic cable networks in their place. Fast data networks such as these not only provide fast Internet, but VOIP phone and digital, broadband TV as well.

Within Erbil and Duhok, Newroz Telecom, exploiting their control of the Kurdistan's only fiber optic cables into Turkey, is the central player in Internet provision. Not only has the company run cables in and out of the country, but it was also the first to bring fiber to the curb (FTTC) technologies to businesses and residences within Kurdistan. The company's growth and investment have brought Internet connectivity to hundreds of thousands of homes and businesses since its establishment in 2005. More recently, the company has begun aggressively pursuing wireless technologies, particularly 4G/LTE provision, initially and perhaps most visibly through FastLink, its sister company. Such technologies promise to bring high speed broadband both to more subscribers within cities, but also to smaller villages previously unserved by ISPs.

Within Slemani, GoranNet, a Faruk Group company, is the leading ISP. The

company works with IQ Networks and Al Sard, both of whom operate cables into Iran, as well as Newroz Telecom, to distribute Internet bandwidth in the governorate. By teaming with KurdTel, the operator of landlines (which are currently primarily standard copper cables) within Slemani, GoranNet is working to develop an extensive fiber optic cable network within Slemani, and hopes to make fiber to the home (FTTH) and fiber to the business (FTTB) infrastructure widespread within the city, drastically increasing Internet speeds.

Despite the progress, there is significant opportunity for further investment in the Kurdistan's Internet provision. First, despite the currently low rate of Internet penetration, Kurdistan's international fiber connections are becoming a bottleneck. According to Aram Daro Noori, General Director of GoranNet, while service and pricing for international

data have greatly improved in recent years “thus far, the market is not very competitive...fees are significantly higher than in Europe or the US, which have much more developed and liberal markets for these services.” Deregulation in the international data market may improve this situation.

Additionally, expansion of wireless networks could allow for a much faster expansion of Internet penetration, and much faster rates than development of hardwired infrastructure. While the major mobile operators provide relatively slow GSM Internet to smartphone users, the use of the latest technologies in wireless data transmission, 4G/LTE, is beginning to bring fast wireless Internet access to computer users with limited access to hardwired options. FastLink, a company that uses small mobile devices to connect computers, smartphones, and tablets in Kurdistan to the Internet through 4G/LTE networks, is the Region's leader in this technology. However, as regulators in both the federal government's Communications and Media Commission (CMC) in Baghdad, and the KRG's Ministry of Telecommunications (MOT) in Erbil cut regulatory burden and issue licenses for more ISPs to employ fast new wireless technologies, it is likely that the Region's major ISPs will be quick to follow.

Some companies are already using wireless technologies in innovative ways. TarinNet, an ISP and ICT firm that provides the KRG with much of their Internet coverage, uses a point-to-point network of towers to distribute data around Kurdistan using WiMAX technologies. This allows high volumes of data to travel long distances without the expense or hassle of wired options or 4G/LTE technology.

“WHILE SERVICE AND PRICING FOR INTERNATIONAL DATA HAVE GREATLY IMPROVED IN RECENT YEARS THUS FAR, THE MARKET IS NOT VERY COMPETITIVE... FEES ARE SIGNIFICANTLY HIGHER THAN IN EUROPE OR THE US, WHICH HAVE MUCH MORE DEVELOPED AND LIBERAL MARKETS FOR THESE SERVICES.”



FastLink is Kurdistan's leader in 4G/LTE technology.

Hardware & Infrastructure, Public & Private

The Kurdistan Region's ICT system is, like all others, based fundamentally on a foundation of hardware and infrastructure. Companies, such as Lebanese-based IT company CIS, as well as the aforementioned TarinNet, are quickly importing cutting edge network and computing equipment, through partnerships with global leaders in the sector, such as Cisco, Microsoft, Alcatel-Lucent, and others. Such hardware is used broadly across all sectors in the Region's economy, from enabling inter-bank connectivity, to developing private datacenters for the Region's largest companies.

The largest ICT projects of 2014 have been carried out by the public sector. The Department of Information Technology (DIT) is overseeing the development of an intranet, connecting all branches of the KRG, with all KRG data stored on

a single, enormous datacenter based in the Kurdistan Region. According to Hiwa Afandi, director of the DIT, project will bring major efficiency gains to the Region's public sector, by centralizing many of the processes and procedures that each agency currently must undertake independently. While budgetary constraints may delay the project, its magnitude is regardless bound to make waves in the Region's ICT sector, as well as the whole of the KRG's public sector as previously cumbersome processes are streamlined. This will also create a significant amount of work for the foreign and local private sector. While the DIT is developing sensitive and secure IT infrastructure itself, much of the Department's work will rely heavily on the private sector for consulting and advisory, project outsourcing, and equipment.

3 Mobile Operators

Zain Iraq, based in Baghdad but with operations in the Kurdistan Region, has even more subscribers throughout the country than Asiacell, and is expected to list on the Iraq Stock Exchange soon.

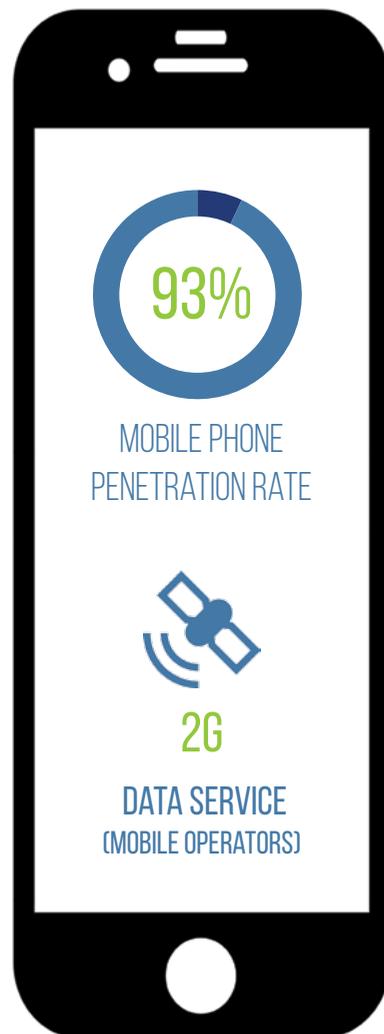
Korek Telecom, based in Erbil, is smaller than the other two, but growing faster.

Asiacell, a Slemani-based mobile operator (and Faruk Holding company) is the largest publicly traded Iraqi company, valued at roughly \$5B.

Mobile Operators

The Kurdistan Region's mobile phone operators are, by far, the biggest actors in the sector. Asiacell, a Slemani-based mobile operator (and Faruk Holding company) is the largest publicly traded Iraqi company, valued at roughly \$5 billion. Zain Iraq, based in Baghdad but with operations in the Region, has even more subscribers throughout the country than Asiacell, and is expected to list on the Iraq Stock Exchange soon. Korek Telecom, based in Erbil, is smaller than the other two, but growing faster. International telecommunications providers have taken notice of the potential of these companies: Ooredoo (formerly QTel), a Qatari telecoms giant is a majority shareholder in Asiacell; Orange (formerly France Telecom) holds a 20% stake in Korek; and Zain Iraq is part of Zain Group, the MENA-focused telecom giant based in Kuwait. The CMC has only auctioned licenses to these three operators. While there has been talk of issuance of a fourth mobile operator license by the CMC, in recent years little seems to have come of it.

Growth in the sector, which has seen breakneck speeds in past years,



is likely to begin to level off in coming years. Current mobile phone penetration in the Region is estimated to be 93%. However, the Region's neighbors in the Gulf have rates reaching 120% or more, suggesting that there is still ample room for net growth in Kurdistan's mobile penetration. However, much growth in the Region will come not from penetration rates alone, but deepening of the mobile sector through mobile data provision and smartphone use. Only small numbers of the Region's population is estimated to use smartphones with data plans. However, movements in the sector suggest that this is likely to quickly grow. The Region's mobile operators are currently restricted to provision of slow GSM data provision. However, the CMC plans to auction licenses for 3G provision to mobile operators soon, with 4G/LTE licenses hopefully in the pipeline. Access to these extremely fast wireless technologies are predicted to encourage more mobile phone users to seek out smartphones and data plans—driving much of the sector's future revenue growth.

Enabling the End User

While much of the Kurdistan Region's workforce has a basic command of computer use, employers believe that there is still much to be desired in terms of the Region's computer and technical literacy. This is, however, quickly changing with the entrance of companies that invest heavily in training their employees, public sector training initiatives, and independent training centers teaching computer literacy. MSelect, an HR and recruitment firm, has recently opened a Training Center with branches throughout the Kurdistan Region. According to Allegra Klein, the Center's director, intermediate computing is one of the most in-demand courses in MSelect's offering. There is reportedly still much room for investment in the ICT training sector, however. According to Godar Ibrahim, CEO of Awrosoft, "for both government and the broader population, there is a major gap in basic skills, which presents opportunities for companies willing to invest in training centers and ICT-focused education."

Some firms addressing the needs of the Kurdish workforce through development of custom software, tailored to the needs of locals, with local IT support on hand to assist in any challenges end users are facing. Awrosoft, for example, a company that writes bespoke software, creates programs that use Kurdish language, with the ability for local companies to customize the software to suit their needs, and with a local support team standing by in Erbil—benefits that massive, global software companies could never provide in this market.

However, ICT literacy is probably most important for the future growth of those in the ICT sector itself. Antoine Kawkabani, CEO of CIS-Iraq, a firm that imports, installs, and maintains ICT equipment in the Kurdistan Region, considers the creation of Kurdistan as an "IT enabled

society" to be of central concern to further growth in the sector, as well as the development of the broader economy and society. As an employer that heavily invests in the capacities of his local workforce, he is personally pushing society in this direction. He believes that more can be done, however. "Developing technical capacity in schools will help to mature the market in the long term, as young students become increasingly acquainted with, and interested in, technology and computing," he told IIG. "A broad ICT system cannot be successful without educating students in IT, and this must begin at a young age."

While the private sector is quickly bringing cutting edge technologies and connectivity to the Region, and conducting widespread employee training, such broad and deep goals of integrating IT literacy into society requires public sector support and coordination as well. Fortunately, the KRG has made this a central focus. According to Hiwa Afandi, KRG Director of IT, his office is working aggressively to educate members of the KRG's expansive public sector in ICT skills and processes. The DIT spent the initial part of 2014 conducting research on what IT skills are most in need of attention and training in the public sector, and are in early stages of rolling out training programs. As part of this process, the department is also establishing an internationally recognized certificate center to increase the technological literacy of employees.

While much has been accomplished as far as enabling and educating Kurdish society to take advantage of the innovation and potential that the Region's ICT sector offers, full technological literacy will take time to develop. According to Kawkabani, "it takes an interested and engaged new generation before the market for ICT can truly mature."👁

"THE KRG'S DIT SPENT THE INITIAL PART OF 2014 CONDUCTING RESEARCH ON WHAT IT SKILLS ARE MOST IN NEED OF ATTENTION AND TRAINING IN THE PUBLIC SECTOR, AND ARE IN EARLY STAGES OF ROLLING OUT TRAINING PROGRAMS. AS PART OF THIS PROCESS, THE DEPARTMENT IS ALSO ESTABLISHING AN INTERNATIONALLY RECOGNIZED CERTIFICATE CENTER TO INCREASE THE TECHNOLOGICAL LITERACY OF EMPLOYEES."

Connecting the Region



Rebaz Kawa —
CEO, TarinNet

Rebaz Kawa speaks to IIG regarding the trajectory of the Kurdistan Region's ICT sector, the opportunities present, and the steps that TarinNet and the KRG are taking to realize the sector's potential.

IIG: In what ways is TarinNet expanding Internet access in Kurdistan?

Our current target market is companies, hotels, houses, shopping malls, and restaurants. We have a point-to-point system. We put access points where possible and where people concentrate. We have network covering Erbil, Slemani, and Duhok. We do not place limits on data use, and we are quite affordable.

IIG: Where do you see opportunities in the IT sector overall in Kurdistan?

Kurdistan's IT market is new. We do not have professional, integrated companies to provide all services within the sector. There is certainly space for these companies. However, until now, the companies that come here tend to do poor work and do not maintain a permanent presence. Companies will come, invest a few million dollars, and leave. However, there is a lot of space and opportunity here. In networking especially, there are very few companies in Kurdistan that can effectively develop fiber networks in new buildings. For Internet and ISPs, the market is already fairly saturated. Between TarinNet, Newroz Telecom, GoranNet, and others, there is less space within the market for Internet provision. However, we do need other services: IPTV, VOIP, networking, intranet, data sharing, file sharing between companies

or government branches or banks, web hosting, server hosting, and others.

IIG: Are you planning on investing in 4G/LTE wireless technologies, like some others seem to be doing?

No, the investment required is more than we can afford right now. Deploying 4G requires over \$100 million to cover all of Kurdistan. I have a license to provide 4G, but use it for WiMAX instead. At this point, however, especially since Newroz Telecom has already begun providing it, it is too late for us to want to invest enough to compete with them. Instead, I would like to improve my business through point-to-point connections to businesses and homes. 4G is better for personal and home users, but less useful for business users. If you are a big company, you probably do not want to provide all of your employees with FastLink; it is much easier to buy a fast Internet connection which all of the employees can use. This is largely why TarinNet is so strong with business and government clients.

IIG: What are your targets and goals for 2015?

This year we would like to really develop our fiber optic networks for our major customers. We will bring fiber to the building (FTTB) to more customers, which will speed up connections



For foreign companies, there are very many government tenders for IT projects, as well as some tenders from major private sector companies. These provide plenty of opportunity for companies that have a permanent presence here.



considerably. Second, we would like to open a new department specifically for networking, covering both intranet and Internet. Developing this department will take two years. There currently no companies that focus exclusively on networking, which represents a major gap in this market. Third, we would like to connect all of TarinNet's towers with fiber optic. Currently, they are connected through microwaves, but cable will speed up the connections, providing better service to our customers. This will help in renewing all of my contracts with businesses and the government. I would also like to run fiber cables to all of the government ministries.

IIG: Regarding networking investment, are you looking to go into partnerships with foreign companies, or do you plan to work individually?

We currently have a partnership with B2MB, which is an affiliate of Cisco. However, the company I would like to create would be much broader than what Cisco currently offers. Finding competent companies in this market is, unfortunately, a challenge as well—you must really be able to judge the competence of companies before you go into business with them. Not everyone wants to come here, and many that do will inflate their capabilities beyond what they are actually

capable of. It becomes challenging to find out which companies really do come with expertise and professionalism. To some degree, this is also related to the nascent nature of this market; lots of new companies come here, and the poor ones have not yet left.

IIG: What advice would you give foreign ICT companies considering entering the Kurdistan market?

For foreign companies, there are very many government tenders for IT projects, as well as some tenders from major private sector companies. These provide plenty of opportunity for companies that have a permanent presence here. To invest, they must work with local companies to liaise with the ministries and understand the market well. There are many local companies that are happy to partner with foreign companies for these purposes. Many companies are doing this to connect the major gated communities with IPTV, VOIP, and other services. It is much more challenging in older construction, but in many of the new ones, it is easier. Bureaucratically it is easier as well, because the compounds are owned by individuals and not under municipal regulation, so doing business with them is easier. As Kurdistan continues to develop, opportunities such as this will only increase. 

TarinNet

Founded in 2005, TarinNet is one of the Kurdistan Region's largest internet service providers, as well as a central player in fiber optic and wireless network development, hardware distribution, web design, web hosting, and commercial IT support. A Ster Group company, TarinNet covers all of Kurdistan. The company serves over 1,000 businesses customers, over 150,000 home users, and all government offices and employees in Erbil, Duhok, and Kirkuk.

Local Knowledge, Local Applications



Godar J. Ibrahim —
CEO, Awrosoft

Godar J. Ibrahim speaks to IIG regarding the current opportunities and challenges facing Kurdistan's ICT sector, the huge potential in several ICT-related fields, and the potentially revolutionary shifts that e-government and e-services could make in Kurdistan's government, economy, and society.

About

Godar is the founder of Awrosoft ICT solutions. He has over 10 years of working experience in different Telecom, IT and computing sectors. Godar worked in Korek Telecom as Data Service Director and Technical Board Member, and in 7Netlayers (Wego) as Technical Manager and General Manager. He is the designer and developer of first Trilingual (English-Kurdish-Arabic) Dictionary (AwroDic) in Kurdistan. He teaches at the University of Salahaddin.

IIG: As an independent software developer, how does Awrosoft position itself in this market?

GJI: The reason that we decided to begin developing software by ourselves is the customization costs. Secondly, the complexity of existing software for the end users in Kurdistan creates challenges. For customization, especially because features are not in Kurdish, when companies want options that do not exist in, for example, Oracle's software, you cannot go to Oracle to address this. For our software, however, we can. This is very beneficial for companies and for the KRG. Additionally, our support is in place, in Kurdistan. Finally, many people, including both the government and private sector, are very happy to see software in Kurdish language. It is very new to many people, so the reaction is very positive.

IIG: How do you see the growth of the ICT sector in Kurdistan?

GJI: The penetration rates for mobile phones in Kurdistan is quickly closing in on 100%, and internet is around 10%, but it is growing very quickly—it should reach 50% by end of 2015. We are expecting that the market for software and ICT in the future will be very high. Additionally, Kurdistan is a very young country; the median age is around 20. We think that the next generation will demand increased e-services and IT solutions much more than the previous generation. We believe that e-services will be a major source of growth. This is why we believe in Core Banking and e-Payment solutions, and e-services in general.

IIG: What challenges do you see in the IT sector for foreign companies?

GJI: The challenges here are largely related to bureaucracy. One of the main challenge that I find when foreign companies come here is that because of not having

familiarity, they must work with a local company. From the initial marketing and implementation to support for end users, foreign companies require local knowledge that only local companies possess. Awrosoft works with many foreign companies, and is in partnership with Oracle, Microsoft, and Kaspersky for software. For hardware, we partner with HP, Dell and Cisco. However, while we get some support from our foreign partners, we still develop all of our software in-house.

IIG: Can you tell us about the training packages you carry out and which ICT skills you find are in most demand?

GJI: We decided to open our IT training center initially because awareness of the importance of ICT literacy among the government and society is still relatively low. We began offering general training courses early on, and we are now working on setting up some events. We have two broad challenges. First, people tend not to be well educated in IT. People need basic skills—how to use Windows, for example. For both government and the broader population, there is a major gap in basic skills, which presents opportunities for companies willing to invest in training centers and ICT-focused education. Second, we have established a training center to teach clients how to use our own software packages. While our software is not very complicated, people still require some training to use it well.

IIG: In what ways does Awrosoft work with the KRG to develop public sector projects?

GJI: Our vision is to work on digitizing Kurdistan. Central to this is the development of smart cities and e-government. We have prepared a technical team to directly address e-government, and have developed some integrated solutions,

including Document Management System, Correspondence System, Archive System, HR, Payroll, Time & Attendance, Accounting and business processes. The challenge that we have had with the KRG in the past is largely that the ways in which they were working with private companies was not made clear. This has improved drastically under Hiwa Afandi, the current KRG Director of IT; he has truly spearheaded joint ventures with local companies. Recent public-private IT projects that we have participated in have been hugely successful, and powerful demonstrations of how the private and public sectors can cooperate in a way that creates very successful outcomes.

IIG: What are Awrosoft's key public sector projects or initiatives for 2014-2015?

GJI: Currently, we are working on an IT project with the KRG to create a KRG Employees ID system. This will be a major milestone in the path to e-government. Based on this, major new services will be developed in HR, eHealth, security, and others. So, many of our projects for the coming year will be based on our ID system. Secondly, we have implemented a document management system, which is very central to the automation of the KRG's internal processes. Once this is completed, the KRG will be able to provide an increasing number of e-services to its citizens. Related to this, we have two recent success stories in this regard, the EIA and the Ministry of Planning, which will serve as a model for future projects in other ministries. We provide these ministries fully integrated packages that streamline everything from HR to security. Within e-government, two new major initiatives that we are working on are e-health and e-education.

IIG: What private sector initiatives to you have in the pipeline?

GJI: We currently have a major project with Newroz Telecom's ADSL system. Based on this, we are hoping to provide more telecom solutions next year. Additionally, we are working in collaboration with other companies to improve aspects of the Kurdistan's financial sector. We are currently working on developing new e-payments solutions. Next year, we hope to have a credit and e-payments system up and running. We believe that this is a prerequisite for electronic services in Kurdistan much more broadly. As this is a major project, we are working with a foreign company for additional support. Security and stability are very important in the financial sector's ICT systems, and the technology is complex. As such, there is a lot of space for foreign expertise to develop banking ICT infrastructure in Kurdistan.

IIG: What major new steps could be taken to bring ICT in Kurdistan to the next level?

GJI: A dream for me personally, and a vision for the company overall, is to establish a Science and Technology Park (STP) in Kurdistan. After looking at how ICT systems in developed countries operate, it has become clear that developed countries invest heavily in R&D. In Kurdistan, there are no active R&D centers, especially in IT. We hope to establish an STP where several science and technology-inclined sectors and companies can work together to build and develop new ideas. I have already written a business plan to start one, focusing first on the IT sector, and applying the system to other scientific fields. This could be an opportunity for foreign investors as well, to come and invest in such a complex. While it would be a long-term investment, it could be very profitable over the long term, as R&D begins to churn out new innovations. 

Awrosoft

Awrosoft was established in 2006. It is one of the first ICT companies to be established in the Kurdistan Region. The company creates business software solutions for medium & large size enterprises across manufacturing, service and commercial industries. Awrosoft provides ICT services for companies in the Kurdistan Region. Its services cover custom-made IT solutions for the public sectors, advanced network engineering services and data security, automation systems.



Recent public-private IT projects that we have participated in have been hugely successful, and powerful demonstrations of how the private and public sectors can cooperate in a way that creates very successful outcomes.



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Ideal Setting for Farming

The unique topography of the Kurdistan Region makes it ideally suited to the development of a prominent agriculture industry. The gentle hills and rolling plains are ideally appropriate for the cultivation of wheat and barley (the two primary grains concerned by the Region's population). Abundant water sources have allowed for the growth of vegetable and fruit production, although not yet on a massive scale. Livestock farming represents yet another major opportunity for the Region's burgeoning agriculture industry, as meat remains the most critical element of any Kurdish menu.

THE REVIEW — AGRICULTURE & WATER PLANTING THE SEEDS

While there have been significant developments in terms of the regulation and infrastructure relating to the water resources of the Kurdistan Region, the same can not fully be said for the agriculture sector. Indeed, continued regional instability has negatively impacted the agriculture industry of the Kurdistan Region. Conflicts in Syria and greater Iraq have limited export opportunities, thereby reducing the appeal for new entrants into this high-potential sector. These issues have also slowed the necessary process of diversifying source locations for agricultural imports. Despite positive advances, the water resources of the Kurdistan Region still remain in a precarious position. As the countries surrounding the Region look to shore up their own domestic water supplies, the Kurdistan Region could potentially see its generally plentiful

water resources dwindle. Despite these obstacles, local production of domestic agriculture products continues to increase, and new treatment and processing facilities will help to modernize the Region's water supply system. It is expected that these efforts will in turn go a long way towards reducing the wasteful usage practices that have existed for so long within Kurdistan. The political stalemate that took place over the first half of 2014 compounded many of these issues, as there was subsequently only limited ministerial oversight for these critical areas. However, a new Minister of Agriculture (who took office in late June) and a re-dedication to the twin policies of conservation and local production will no doubt help bring these vital industries back to a level commensurate with their historical significance.

Infrastructure and Knowledge Lacking

While the transportation infrastructure of the Kurdistan Region has developed by leaps and bounds, it is still ineffective in helping connect growers in remote rural areas with the urban centers that require their produce. Local farmers complain that shipping options are, at best, ineffective and, at worst, non-existent. The process of carrying products to market can therefore be time consuming and deleterious to the quality and condition of the items. Similarly, a lack of storage facilities (specifically

According to the Board of Investment, a total of 25 agriculture projects (3.61% of all projects) have now been licensed

\$704 MILLION INVESTMENT

cold storage units) provides little incentive for farms in the Region to expand their output capacities. With a limited growing season and rapidly changing weather patterns, farmers can ill-afford to miscalculate projected yields. As a result, there is little to no impetus for local growers to expand their operations, let alone consider shifting to the factory-farm systems that would better promote self-sufficiency. Instead, Kurdish farmers tend to rely on historical practices and situation-specific knowledge rather than more modern techniques, and are content to remain small-scale in terms of overall operations.

Investment and Employment

A 2014 study conducted by Rand Corporation found that agriculture continues to account for only a small percentage (6.63%) of employment throughout the Kurdistan Region; this represents a 0.5% decrease from the previous year. Employment rates in the agriculture sector were higher in Slemani (7.7%) than in Duhok (7.1%) or Erbil (4.9%). Despite being identified as a priority development area, the agriculture sector in the Kurdistan Region has seen limited investment in the past year. Board of Investment (BOI) statistics indicate that a total of 25 agriculture projects (3.61% of all projects) have now been licensed for a total of \$704 million (1.79% of all investment). Both of these percentages represent decreases from the corresponding figures IIG reported in its 2013 report. Agriculture projects in the Erbil Governorate continue to receive the largest amount of allocated land (1,023 acres) compared to Slemani (24.5 acres) and Duhok (217 acres). However, in terms of investment capital by governorate, Duhok leads the way, increasing its share to \$430.4 million (about 61.4% of all agriculture investment). Erbil (\$263.1 million) and Slemani (\$10.6 million) constituted smaller percentages.

\$430.4 MILLION

In terms of investment capital by governorate, Duhok leads the way, increasing its share to \$430.4 million (about 61.4% of all agriculture investment)

Erbil
\$263.1 million

Slemani
\$10.6 million

Agriculture continues to account for only a small percentage (6.63%) of employment throughout the Kurdistan Region.

Employment rates in agriculture
Slemani (7.7%)
Duhok (7.1%)
Erbil (4.9%)

Cheap Imports

Markets in the major cities of the Kurdistan Region are packed with fresh produce, delivered daily to ensure it is of top quality. The only problem with this fact is that a significant majority of these items are imported from Iran, Turkey, and other countries in the surrounding region. The KRG has made limited steps to implement a tariff system that would favor local production, but the widespread availability of cheap, foreign foodstuffs further inhibits the development of the Kurdish agricultural system. In addition, with the influx of foreign products, dietary patterns and culinary practices have changed as items that were previously unavailable have now become ubiquitous. Kurdish farmers, who have a long, established history of growing select crops, are not well-suited to cater to this rapidly evolving market.

Impact of Governmental Transition

Continued debate over political power and ministerial appointments lasted until June, and allowed for only limited government involvement in the promotion, regulation, and facilitation of the agriculture industry in 2014. The Islamic League of Kurdistan (Komal) gained six seats in the Kurdistan Parliament in the 2013 elections, and was also given control of the Ministry of Agriculture and Water Resources (MOAWR). On June 18th, the eighth cabinet of the KRG was sworn into office, and Abdulstar Majeed (the appointee from Komal) was named Minister of Agriculture and Water Resources. Minister Majeed will be tasked with modernizing the MOAWR, improving sector infrastructure (namely in regards to factory farming), and developing new long-term plans to promote food security and overall self-sufficiency.

Value of Meat Industry

Although demand for red meat continues to increase, the available local supply does not. As a result, the Illegal Transboundary Animal Trade (ITAT) has flourished. Instability in surrounding countries has allowed for an influx of animals from as far away as India and Pakistan; this reliance on cheap and illegally imported livestock has hindered efforts to increase local red meat production. In addition, with no way to inspect or regulate these animals, there is also potential risk in terms of human health. Indeed, with illegal markets still in operation and no centralized approach in place to combat cheaply available imported meat, risks of disease or contamination remain constant. Increased government oversight is necessary to clamp down on this issue; in addition, experts predict that increased government subsidies to those individuals or groups targeting domestic animal farming could help promote the growth of a critical local industry.



Agriculture production had increased in key areas, ranging from a 33% improvement in tomatoes (136,054 tons) to a 454% increase in okra (34,327 tons).

Opportunities and Challenges

Wheat and barley remain the two biggest crops in the Kurdistan Region, and combined constitute a significant percentage of all agricultural production. However, there have been dramatic improvements in other target areas. A study conducted by the Kurdistan Region Statistics Office (KRSO) for 2013 found that agriculture production had increased in key areas, ranging from a 33% improvement in tomatoes (136,054 tons) to a 454% increase in okra (34,327 tons). Foods that make up a significant portion of diets of the people of the Kurdistan Region remained strong, with final

production totals including 15,204 tons of eggplant, 12,626 tons of onion, 88,063 tons of watermelons, and 47,610 tons of cucumber. Meat production (specifically red meat) has also witnessed growth, as local agriculture companies have begun pursuing mother herd agreements with their European counterparts. Fruit production remains a primary area of need, with statistics indicating that the production and infrastructure costs associated with fruit cultivation (specifically those that necessitate orchard development) serving as a deterrent to small-scale local expansion into the sector.



Final production totals including 15,204 tons of eggplant, 12,626 tons of onion, 88,063 tons of watermelons, and 47,610 tons of cucumber.

Existing Water Resources

The Kurdistan Region is home to plentiful water resources, most notably its numerous river systems. Originating in southern Turkey, the Great Zab River serves as a major water source for the Erbil and Duhok Governorates, while the similarly named Lesser Zab River originates within the Kurdistan Region. The Sirwan and Alwan Rivers pass through the autonomous region from their respective origin points in Iran, while the Tigris River traverses the Slemani Governorate, and then runs along the southwestern border of the Erbil Governorate for a significant distance. The KRG also operates dams at the Region's three major lakes: Mosul, Dukan, and Darbandikhan. In addition, KRG sources note that Kurdistan is home to 5,174 natural springs (the majority of which are located in the Duhok Governorate). As a result of these and other factors, studies have indicated that approximately 50% of the water in the Kurdistan Region exists domestically (in contrast to an estimated 8% in the rest of Iraq).

Overuse Fueling Depletion

The sheer number of water wells currently in use (either for personal or commercial use) has helped provide a greater portion of the population with readily available water. However, taxes on water are levied based on land size rather than on consumption. As a result, the KRG Ministry of Planning estimates that individual water usage within the Kurdistan Region is approximately four times higher than the World Bank standard. To combat this issue, the KRG has prioritized a rapid expansion of its number of dams. The construction of the three major dams is expected to be completed by 2018. With an expanded dam network, the government could begin shifting consumption away from its dwindling groundwater resources.

Declining Availability

Changing environmental conditions throughout the Middle East have had an increasingly measurable impact on the Kurdistan Region. Also, the lack of development of water resources has caused significant damage to the entire agricultural sector, especially during dry periods. Recent reports which indicated an expected increase in drought conditions over the next 30 years caused Iranian officials to begin multiple dam projects, with an eye towards redirecting bodies of water within the country towards areas that are most in need of water resources. These projects could potentially sever strategically significant waterways that flow from Iran into Turkey. Although dam projects in southern Turkey have had less immediate impacts on Kurdish water resources, no formal terms have been agreed that would ensure that such bodies of water remain open and available. A United Nations Development Program (UNDP) study noted that these factors have contributed to a 20% decrease in available water per citizen. Erratic weather patterns have also forced citizens of Kurdistan to become increasingly reliant on the groundwater reservoirs for their water needs. The Ministry of Agriculture and Water estimates that there are approximately 20,000 authorized wells in use, though it is likely that around 18,000 unauthorized or illegal wells operate on a regular basis. There are over 6,000 wells (legal and illegal) for agricultural purposes, and over 500 wells for industrial purposes.

“THE KRG MINISTRY OF PLANNING ESTIMATES THAT INDIVIDUAL WATER USAGE WITHIN THE KURDISTAN REGION IS APPROXIMATELY FOUR TIMES HIGHER THAN THE WORLD BANK STANDARD.”

RESERVOIR DATA

10,000 MILLION M³

(EXISTING CAPACITY)

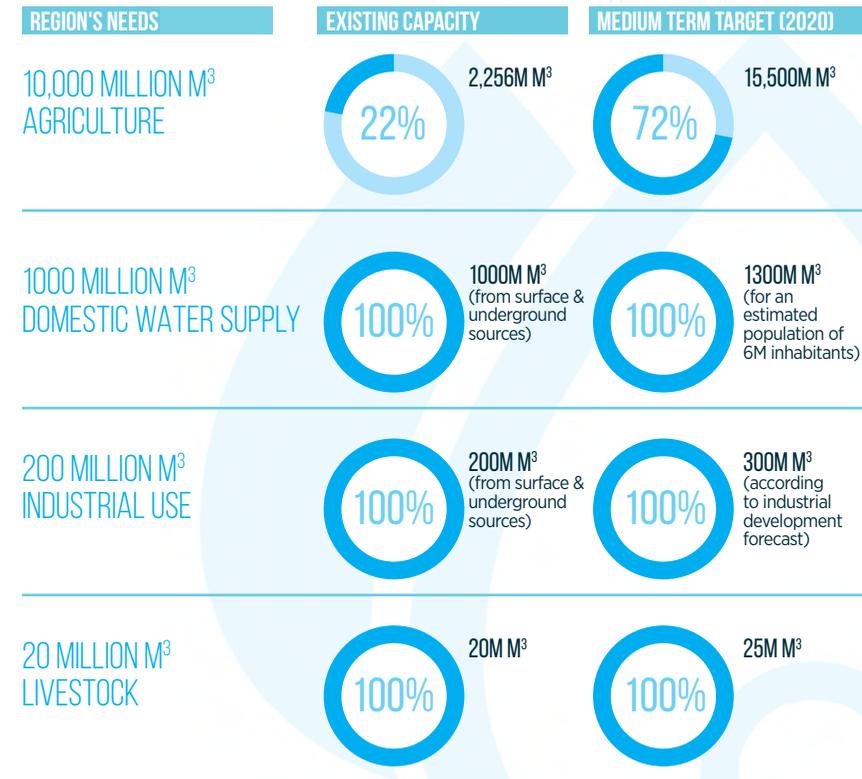
16,963 MILLION M³

(NECESSARY CAPACITY)



BY 2020, CAPACITY IS PLANNED TO REACH 100% COVERAGE

WATER RESOURCES DATA



Infrastructure Needed to Fully Address Water Concerns

To counteract certain issues relating to the excessive consumption of water, the General Directorate of Water and Sewerage (operating under the umbrella of the Ministry of Municipality and Tourism) instituted a strategic plan relating to both the increase of available potable water and the treatment of the Region's wastewater. The plan itself calls for a multi-phase approach to address a wide variety of issues that are presently placing a strain on Kurdistan's limited resources. These solutions include the long-promoted installation of water meters to increase usage fees, the creation of new laws to promote more binding regulations, establishing long-term water development facilities, and (perhaps most notably) the creation of multiple water treatment plants.

The Kurdistan Region at present is dramatically underserved in terms of facilities for water processing, treatment, and recycling. To address this dilemma, the KRG authorized the construction of wastewater treatment facilities in multiple locales throughout the Region. Construction at the \$113 million Goptapa Chamchamel Water Project, located in the Slemani governorate, is already underway, as is work at the \$96 million Amedy Water Project (situated in the Duhok governorate). The primary aims of these facilities, which both have targeted completion dates of 2015, will be to supply their surrounding environs with potable water on a more modern, consistent scale. Similar projects (including the \$960 million Erbil Waste Water Treatment Plant and Network) are in various stages of planning and are expected help modernize, supply, and regulate the Region's expanding urban population centers.

STUDIES HAVE INDICATED THAT APPROXIMATELY 50% OF THE WATER IN THE KURDISTAN REGION EXISTS DOMESTICALLY (IN CONTRAST TO AN ESTIMATED 8% IN THE REST OF IRAQ).

FUTURE WATER PROJECTS

PROJECT	COST (ESTIMATED)	AREA & CAPACITY & CONTRACT TYPE	CONSTRUCTION PERIOD
IFRAZ 4	\$600 MILLION	Water Treatment Plant Capacity: 25,000 cubic meters per hour Contract Type: Design, Build, Operate Area: Northern & Eastern parts of Erbil	2 YEARS
SLEMANI CITY	\$276 MILLION	Three Waste Water Treatment Plants Capacity: 300,000 cubic meters per day Contract Type: Design, Build, Operate Area: Slemani	2-3 YEARS
ERBIL CITY TREATMENT PLANT & NETWORK	\$960 MILLION	Four Waste Water Treatment Plants Capacity: 210,000 cubic metre per day Contract Type: Design, Build, Operate Area: Erbil	8-10 YEARS
DOKAN 3	\$300 MILLION	Water Treatment Plant Capacity: 10,000 cubic meters per hour Contract Type: Design, Build, Operate Area: Slemani	2 YEARS
KHANAQIN	\$195 MILLION	Water Treatment Plant Capacity: 6,000 cubic meters per hour Contract Type: Design, Build, Operate Area: Khanaqin City and 204 Villages	2 YEARS
HARIR	\$110 MILLION	Water Treatment Plant Capacity: 3,000 cubic meters per hour Contract Type: Design, Build, Operate Area: Harir City and 95 villages	2 YEARS
KUSHAF-MAKHMOR PROJECT	\$170 MILLION	Water Treatment Plant Capacity: 2,800 cubic meters per hour Contract Type: Build, Operate Area: Makhmor District, Gewer Sub-district, Debaga Sub-district and 52 villages	2 YEARS
BARDA RASHA	\$80 MILLION	Water Treatment Plant Capacity: 2,000 cubic meters per hour Contract Type: Design, Build, Operate Area: Barda Rash City and 100 villages	2 YEARS
KHABAT PROJECT	\$80 MILLION	Water Treatment Plant Capacity: 3,000 cubic meters per hour Contract Type: Design, Build, Operate Area: Town of Khabat and surrounding villages	2 YEARS

CURRENT WATER PROJECTS

PROJECT	COST / CONTRACTORS	AREA & CAPACITY & CONTRACT TYPE	CONSTRUCTION PERIOD
SLEMANI GOPTAPA - CHAMCHAMAL	\$108 MILLION NOKAN - SUBOR	Water treatment plant Capacity: 6,8000 cubic meters per hour Contract Type: Design, Build, Operate Area: Chamchamal District and 22 sub-districts	2 YEARS
DUHOK AMEDY	\$96 MILLION STEER GROUP- HUMAN-ARISON	Water Treatment Plant Capacity: 2,400 cubic meters per hour Contract Type: Design, Build, Operate Area: Amedy District, Deraluk Sub-district, Sheladze Sub-district and 15 villages	2 YEARS
DUHOK AKRE	\$75 MILLION OMRAB-EVYOL- HARDAM	Water Treatment Plant Capacity: 3,000 cubic meters per hour Contract Type: Design, Build, Operate Area: Akre District and 17 villages	2 YEARS
ERBIL BARZAN	\$80 MILLION ARGE CONSTRUCTION	Water Treatment Plant Capacity: 1,200 cubic meters per hour Contract Type: Design, Build, Operate Area: 51 villages in Barzan	2 YEARS
SLEMANI DARBANDI KHAN	\$20 MILLION OHITAN COMPANY	Water treatment plant Capacity: 1,200 cubic meters per hour Contract Type: Plant, Design, Build Area: Darbandikhan District	1 YEAR
ERBIL & DUHOK RENOVATION	\$135 MILLION STFA-CALYON- FERNAS	Expanding the capacity of IFRAZ-3 water treatment plant from 6000m ³ /hr to 10,000m ³ /hr, and changing the old water networks in many quarters in both Erbil and Duhok.	2 YEARS
SLEMANI & HALABJA RENOVATION	\$193 MILLION SSANGYANG	Halabja Water Treatment Plant Capacity: 50,000 cubic meters per day Changing the old water networks in many quarters in Slemani.	2 YEARS

Divan Erbil: A Home for the Business Traveler



Martin Kolb —
General Manager, Divan Hotel Erbil

Martin Kolb discusses a flurry of new projects at Divan Erbil.

About

Martin Kolb has over 20 years of experience in international travel, tourism, and hospitality industry. Prior to joining Divan Erbil, Kolb held several management positions in R Hotels, Kempinski, Radisson, Golden Tulip, Holiday Inn, Sheraton, Wyndham, Coral Beach Resort, Kuoni, and United Airlines. He studied Business Administration, and speaks three languages.

IIG: How would you define the concept of Divan Erbil?

MK: Divan is known in Turkey as a good hotel brand. We at Divan Erbil are striving to be a five-star international business hotel. Business means catering to what the business traveler wants. We have meeting rooms, 2 ballrooms, break-out rooms, several bars, choices of restaurants, fitness center, indoor pool and as of next summer a large outdoor pool area and big guest rooms. We have an average of 40 square meters per room, and 30% of our rooms are suites, some have kitchens so they are like serviced apartments. I define our hotel as very much dedicated and geared to the international business traveler, with a twist on Turkish hospitality, Kurdish mentality, and European hotel management background.

IIG: What projects do you have planned in the short term?

MK: We recently opened a new spa with a large fitness center, a Turkish bath, a steam bath, a sauna, and a 20-meters long indoor swimming pool. It is indeed very luxurious. We have opened a ballroom for 900 people and added four more meeting rooms, for a total of twelve meeting rooms in brand new conditions. We also have a new steak house. We are going to redo our 21st floor Asian restaurant (sushi and noodles) with terraces overlooking the city. There will also be a bar with a huge terrace on one side of the 23rd floor, and we will have Erbil's highest shisha lounge on the other side. It will be enclosed by glass in winter with heaters. We will also be building an outdoor swimming pool, which we are lacking at the moment.

IIG: Are you planning to build a new business center?

MK: We have two business centers. Trends are moving away from business centers, though, because everyone has their own business center in their laptops or

i-phones. Our internet connection is very strong. We have built a brand new building next to the hotel that will be rented out as offices for international companies on a long-term basis. Office space being connected to the hotel has a lot of advantages. Here, you can do lunch, have coffee, invite guests, and even stay in the hotel.

IIG: What is your staffing policy?

MK: We tell people that this is a nice, safe place to work with more freedom compared to other destinations that have more restrictions. We are paying higher salaries than in the Gulf to overcome the perceptions that come with being in Iraq. I have been speaking to the Ministry of Education about introducing a hotel training program for local people. There would be a one-year program and a two-year program. After training for one month in every department and getting to understand the concept behind the hotel in the one-year program, there would be a guaranteed job with us as a normal employee – a waiter, receptionist, or a housekeeper. In the two-year program, they would be trained two or three months in every department, in addition to training in accounting and sales. After the successful completion of those two years, we would guarantee them a supervisor job.

IIG: What challenges do you see?

MK: Now the challenge is definitely what is happening in Iraq. We are running at around 50% occupancy during the week instead of 90%. The other challenge is training staff. We have local staff applying, but they are not trained in the hotel business, so they apply to become a driver, a bellboy, or to work in security. These are all jobs where it is not necessary for you to have hotel experience. Some applicants cannot speak English, which is a big issue. All of these are minor issues compared to the challenges that the rest of Iraq is now facing. ☹



- 1 Lobby
- 2 Ballroom
- 3 Spa & Indoor Swimming Pool
- 4 Exterior
- 5 Q 21 Bar & Restaurant
- 6 Seasons Restaurant
- 7 Chopin Bar

Erbil Rotana Hotel

The Erbil Rotana was the first five-star hotel to open in the Kurdistan Region and, offering several restaurants, boutiques, healthcare facilities, a swimming pool, and extensive conference facilities, continues to lead the sector.



FOCUS: LEVELINI

Interior Design Redefined in Kurdistan

Since March 2013, Levelini has been working to redefine standards for interior design in the growing Kurdish market. Its Erbil furniture showroom, billed as the largest of its kind for Italian furniture in the Kurdistan Region, offers local customers a taste of the company's eclectic mix of styles sourced from European manufacturers. With an eye to the opportunity provided by surging office and residential development in Kurdistan, as well as a dearth of high quality furniture in the local market, Levelini's founder, Mario Al-Jebouri, strives to differentiate the company from its competitors in the Kurdish market with a commitment to service and quality. Its holistic approach to interior design is meant to appeal to all price levels with furniture for the home, office, leisure, and hospitality sectors.

The company's operations comprise both retail and contract furnishing divisions for individual or corporate clients. Customers have included oil and gas companies, hotels, restaurants, and a 700-unit residential development, and the firm is currently engaged in interior design work for a new shopping mall in Erbil.

Levelini's clients benefit from a range of tools the company offers to help them visualize interior spaces that meet their design goals, budget, and needs. These include AutoCAD and 3D Max rendering, mood boards, and samples that are on hand in the Levelini showroom. Interior designers trained in Europe assist this process. Besides its contract furnishing and in-store operations, Levelini also offers full furnishing packages for two, three, and four-bedroom apartments that start near \$14,000 for a two-bedroom apartment.

Levelini's business philosophy revolves around a multi-faceted approach to quality. Perhaps most importantly, the goods Levelini markets are meant to be durable and sophisticated in their design, whether they are modern or classic in style. For now, redefining customer expectations away from a strict focus on price and overcoming customers' association of Italian brand names with steep price tags may be a challenge for Levelini. "I think in the beginning, like any emerging market, because of the lack of knowledge and understanding, people have been able to opportunistically sell low quality products at high prices. We at Levelini have started



Where

Gallery Mall, Gulan Street, Erbil, Kurdistan, www.levelini.com

to change that," says Al-Jebouri. Looking to move the Kurdish market away from a singular focus on price, Al-Jebouri is quick to point out that Levelini does not consider itself a luxury product or service. Rather, the company aims to cater to all segments of the market and to challenge existing market participants on a value basis. "We feel that Levelini is a trailblazer in the fact that it is providing much higher quality furniture for similar prices to the rest of the market." For Levelini, quality is expressed as much in the sophistication of its staff as it is in the durability of the furniture it markets. "We invest in our staff by sending them to Italy for training, where they understand how the products they are selling are designed, the history of the products, the history of the company manufacturing the products, and the way that fashion trends are produced in the industry on a global scale." The company mixes local and international staff in hopes of achieving a synergy between local knowledge and foreign expertise, while espousing a can-do customer service attitude. "Whatever the client needs, wants, or requires, we will always be able to satisfy those requirements and needs." To meet client needs, Levelini puts great



emphasis on smooth logistics, maintaining a large inventory of furniture in its Erbil showroom to ensure short waiting times for the fulfillment of orders and providing both transportation and on-site assembly for customers.

Levelini's plans do not stop with Erbil. It already has a presence in the rest of Kurdistan and in southern Iraq through its individual and corporate contract furnishing business. The firm is on track to build upon this footprint by opening a new showroom in Slemani in 2015 and is weighing expansion to Duhok soon thereafter. The company's founder is eager

to reach a larger audience of developers and consumers in Kurdistan, buoyed by what he sees as favorable changes in consumer preferences. "You are seeing more and more sophistication creeping into the market and people becoming more aware of different styles and designs and the fact that they want quality." As personal incomes grow with the expanding economy of the Kurdistan Region, Levelini hopes to provide products that will appeal to customers with increasing means and changing tastes. 



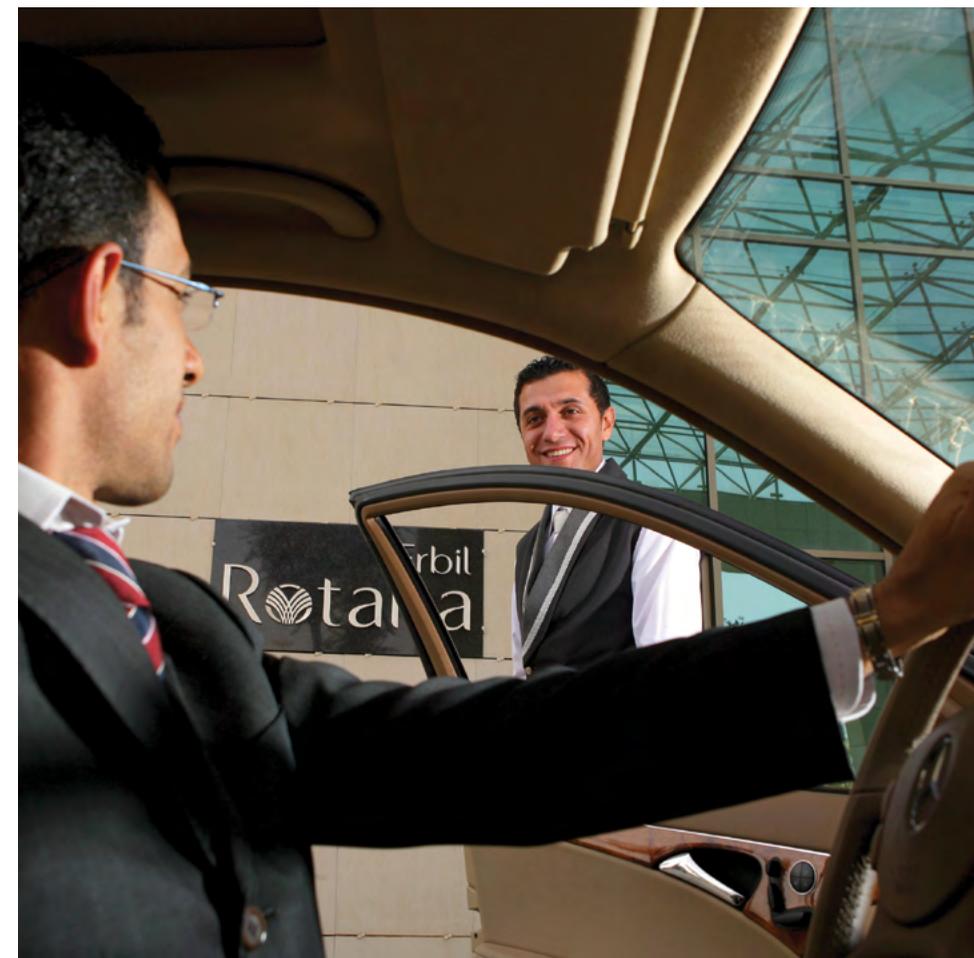
Inspire your guests and meet at Erbil Rotana!

Conveniently located 10 minutes away from Erbil international Airport, the main international fairground and business center. The hotel is adjacent to the English and Italian villages and opposite of the beautiful park Sami Abd Al Rahman; one of the largest parks in Iraq.

Erbil Rotana is an ideal venue to serve your business needs, meetings and events. The hotel provides state-of-the-art conference and seminar requirements spread over 2 floors. The banquet area includes 7 fully equipped and flexible meeting rooms offering daylight with the latest audio-visual equipments addressing the needs of business conferences, meetings, wedding parties or gala dinners. A professional catering & events team is available all the time to make your event a success.

Business travelers can enjoy our wide variety of facilities ranging from 5 restaurants to our enchanting Zen the spa by Rotana or Bodylines Leisure & Fitness Club.

To learn more about Erbil Rotana ongoing promotions, please visit rotanatimes.com.



Erbil Rotana

Iraq's Leading Hotel

Erbil Rotana was bestowed with the prestigious honour of being Iraq's Leading Hotel in 2011, 2012 & 2013, consecutively by the World Travel Awards. This five star hotel offers 201 well-appointed rooms and suites, 7 fully equipped meeting & events venues, 5 restaurants that suit all tastes, a fitness club, spa and pool bar & terrace.

To book your stay at the best available rates, visit rotana.com or call us +964(0)662105555.





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THE FUTURE
SHOULD BE A
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