An ever-changing game plan

Iraq's business climate and the opportunities ahead

In a raw and lucrative market such as Iraq, there are definite opportunities but patience and local relationships are essential ingredients to a successful entry.

Nine years after the U.S.-led invasion, security remains the number one concern to the general public, local businesses and foreign investors. Iraq's infrastructure is still dilapidated and the economy is firmly controlled, for the most part, by the central government. Electricity shortages and an antiquated banking system continue to hinder progress in an economy that was ravaged by wars and sanctions.

To an optimist, these challenges represent opportunities that could translate into higher returns, but relationships and local partnerships are key to breaking grounds in Iraq.

In spite of all these difficulties, Iraq's economy appears to be robust. The Special Inspector General for Iraq Reconstruction "SIGIR" reported that the IMF and the Central Bank of Iraq are projecting a 12% increase in GDP in 2012. The minister of oil also reported that crude oil production just exceeded 3 million barrels per day for the first time in two decades, and, in March, the Council of Ministers approved the largest single-year budget in the country's history of USD 100 billion – of which almost one third is earmarked for infrastructure investment.

Recognizing that oil export receipts cannot keep pace with spending for reconstruction , the government of Iraq introduced new legislation in an effort to boost private sector and foreign investment. Although these changes are easing entry into Iraq's market, potential investors must keep abreast of the ever-changing company, investment and tax laws. Many of these changes are simply repeals of old restrictive laws and

To an optimist, these challenges represent opportunities that could translate into higher returns, but relationships and local partnerships are key to breaking grounds in Iraq

are meant to provide a liberal framework for investment in Iraq. In September 2003, the Collation Provisional Authority (CPA) issued Order No. 39, which repealed all existing foreign investment laws and allowed for the establishment of foreign-owned subsidiaries in Iraq. In October 2006, the Presidency Council adopted Order 39 and issued Investment Law No. 13, repealing Order No. 39 and the Arab investment Law No. 62 of 2002. In 2010, Investment Law No. 2, which is the prevailing legislation today, amended Law No. 13 of 2006 to guarantee the ownership of land by local, Arab and foreign investors for housing projects to house Iraqi nationals as well as the amendment of Statute 7, which organizes the lease rates for lands invested in the various fields.

Accordingly, foreign investors have now been granted equal rights to Iraqi nationals, including the right to purchase shares and bonds of companies listed on the Iraqi Stock Exchange, the right to acquire land for housing projects, the right to lease land for up to 50 years, the right to insure their investment with any national or foreign insurance company, the right to open bank accounts in foreign currency inside and outside the country and the right of repatriation of capital and profits.

To further encourage private and foreign investment, many tax incentives were legislated, providing for exemption from taxes and fees for a period of 10 years as of the date of commencing commercial activity. These exemptions can be further extended for an additional five years upon meeting certain criteria. The tax incentives also provided for exemptions from import duties for the purpose of the investment project for up to three years as of the date of the grant of the investment license. These import duty exemptions are also extendable for the purpose of expanding, developing or modernizing the investment project for up to three years as of the date of notification to the investment authority. Imported spare parts for the same project are also exempt from duties if the value of these parts does not exceed 20% of the value of fixed assets.

In an economy that is heavily reliant on oil revenue, these measures will supplement the reconstruction efforts and will boost Iraq's economy driving non-oil GDP up. The primary beneficiaries will be the following industry sectors: construction and construction materials, branded consumer goods, healthcare, electronics, retailing and hopefully, financial services and capital markets.

However, it should be noted that it is not enough to create facilities for international firms to enter the local market. Rules and regulations must be relaxed and all responsible ministries must work together to ensure expediency and efficiency in processing company registrations and issuing tax clearance certificates which are the initial requirements of starting a business in Iraq. Reforming the banking sector will also ease the flow of money into the country and transform it from a cash-based society into a modern and vibrant community.

Despite the challenges sometimes presented by the Iraqi business and political landscape, regional and global multinationals see huge opportunities and are flocking to the country in large numbers. They are taking many risks but are also building relationships with local partners. Many Non-Governmental Organizations (NGOs) have been working tirelessly in Iraq recognizing that reforming the system will attract foreign companies into the country. They have introduced several training programs geared towards Iraqis working in the public sector to educate them and increase their awareness in an effort to bring some kind of order.

Recognizing that oil export receipts cannot keep pace with spending for reconstruction , the government of Iraq introduced new legislation in an effort to boost private sector and foreign investment

by **Ayad Mirza**, partner, Deloitte in the Middle East