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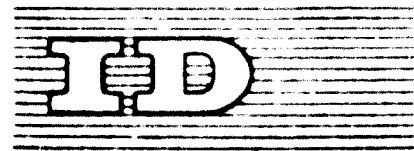
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Agenda item 3

**SMALL-SCALE INDUSTRIES IN IRAQ** <sup>1/</sup>

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## PART I

### BRIEF REVIEW OF POLICIES, PROGRAMMES, INSTITUTIONS AND FACILITIES TO SMALL INDUSTRIES

Historically speaking, small scale industries were found and grown in Iraq since long ago, although they were not numerous in types. They consisted of traditional handicrafts such as hand spinning and weaving, and artistic handicrafts represented in different types of jewellery, and various kinds of small industries, such as hand loom textile (cotton, wool, silk, clothing and the like), mat making and basketry, ceramic industry (ordinary pottery and glazed pottery) wood industries (carpentry, wood working etc.), metal industries (small workshops, smithies), leather and skin industries, apparel, food industries, and so on.

During the Twenties and the Thirties several new industrial projects were established like railway workshops, power houses, and some other manufacturing units, such as textile, cotton ginning, tobacco and cigarettes, construction material. Most of these industries were modern but on small scale encouraged by certain legislations and measures.

As a usual result of the Second World War, during and after, there was considerable interest in the Country in industrial investments due to relatively good profits earned and the measures applied by the Government.

Because there was no clear-cut definition for small scale industries, and since most of the existing industrial undertakings were virtually small in size, investment and employment, the majority of these industries have been able to benefit from the measures, policies and legislations put up by the authorities. Handicrafts, Cottage and most of rural industries could not, however, be benefited from the same due to certain terms, conditions and requisites involved.

These measures and policies etc... can be condensed in the following items:

I. Financial assistance and its institution. As the last part of this paper will deal with this particular item of the Agenda, the relevant notes and information will be stated there

II. Exemption:

In the beginning this measure was expressed by amending the tariff laws from time to time such as what happened in 1967 where the imported machinery and equipment were exempted

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from duty. Another step was taken in 1929 where the Law of Encouraging Industrial Projects was enacted. It was followed, then, by an amendment of the same in 1931 and another Tariff amendment in 1933 with an aim to protect local industries. After the second World War and the early Fifties another important step towards improving and developing industries was taken by issuing Law No. 43 of 1950 consisting of some supervisory policies. This Law was again amended in 1955 aiming at wider scope of assistance experience gathered from the previous applications led to the enactment of another Law, namely "Law of Establishing Industrial Projects No. 18 of 1957.

After 1958 Revolution, it deemed necessary to revise the previous measures and policies. Organizationally speaking The Ministry of Industry was formed. Within this Ministry and in addition to the previous institutions, a directorate - general was formed for industrial promotion and another one for Industrial development (both were combined lately).

In regard to the legislative trends it was aimed at introducing supervisory principles through which the investments in the industrial sector could be controlled in order to save money and time, to meet the actual requirements of industrial development and to protect local industrial production. Measures conducive to this end included issuing of licences after evaluating the projects, offer them certain tax exemption and other facilities. The latest Law, namely "Law of Industrial Development No. 164 of 1964", in force at present, consists of the following facilities:

1. Tax exemption of profits not exceeding 10% for the first five years and 5% for the next five years.
2. Funds allocated as reserves for expansion purposes not exceeding 2% unless if they are not utilized during five years from the date of allocation.
3. Exemption from realstate tax for ten years.
4. Exemption from revenue stamps.
5. Exempting machinery, equipment, raw materials not produced locally from Custom duties.
6. Leasing state lands on nominal rent fee to the industrial projects.

This Law, however, while aiming towards modernizing and mechanising Iraqi industries, consists of a condition which is considered as a barrier between the said facilities and some of the small scale industries. For any project the investment in the machinery of which is less than ID.3000 is not entitled

to the benefits of this Law. In addition there is another prerequisite in this regard. The definition of the projects entitled for the said facilities would use electric power in their main machinery the thing which may not be found in many of smaller industries.

The said situation effected the, so to speak, smaller industries and handicrafts. The result of which these enterprises remained underdeveloped except those with certain artistic nature.

### III. Protection measures

These measures are represented in form of imposing bans on importation and/or reducing imported quantities. The main objective of course of these measures is to encourage national production and entrepreneurship. One of aspects of protection is expressed in measures applied in pricing local products so as they keep suitable level with those imported.

### IV. Institutional facilities

There are at present, several institutions through which the Iraqi industries are served. A part from those indicated earlier the importance of Department of Measurements and Standardization, the Federation of Industries are of notable results.

### V. Policies Regarding industrial states

Unfortunately, there has been no specific attempt towards establishing industrial state as such. The only measure applied in this respect represented in the allocation of certain parts of the major towns including the City of Baghdad as industrial regions. The master plans of Baghdad City and other towns include such regions for future requirements. Lately government owned lands round or nearby urban areas are being allocated as new industrial areas distributed among the industrial projects.

### VI. Special Arrangements

Obviously, all the aforementioned measures, policies, etc. were taken to serve the industrial sector in general. No specific steps were taken for smaller industries and handicrafts until early Fifties. Through the Fundamental Education Mission of the UNESCO and with the assistance of the ILO a scheme for developing small scale industries and handicrafts were established with its main objective to serve rural areas. The activi-

ties of that scheme were restricted to the areas coming under the "The Developing and Exploiting of the state owned Lands System".

It took the form of some vocational training centres to impart training to rural inhabitants in certain cottage and rural industries through the establishment of production - cum - training units specially in weaving, carpentry and smithy. It also included some central mechanical units for ginning and spinning to prepare yarn for weaving centres. From 1952 till 1957 about ID. 200,000 were sanctioned for that purpose. Unfortunately, the outcome was not successful. Therefore that scheme were discontinued. Lately, the possibilities of reviving these units are being studied by the State Organization of Industry.

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PART II

**I. THE FUTURE OF THE TRADITIONAL SECTOR IN A MODERNIZING COUNTRY.**

**II. TECHNICAL SERVICES FOR SMALL - SCALE INDUSTRIES.**

The small-scale industry in Iraq is of considerable importance to the Iraqi economy for the following reasons:-

1. They can help filling the gap expected in the volume of labour force between the estimated increase of manpower and the requirements for the next five year plan. It is noticed, however, that the increase in manpower volume is much higher than the required. Therefore any attempt aiming at labour intensive measures can find suitable remedy in creating new small-scale industries.
2. The general size of the local market is small. On the other hand the expected growth in demand volume will, also, continue to be relatively small. This phenomenon may permit further running and establishing of the smaller projects. Therefore considerable room for them to improve their performance towards the benefit of the national economy is available.
3. Nationalization measures have kept ample room for many types of industries for private sector which are mainly small. On the other hand public sector's large industrial projects need large supplies of small items, semi finished products or raw materials and spare parts. These can easily be supplied through small units manufacturing them within a planned frame.
4. The traditional artistic handicrafts has to continue. Their improvement and development should be given utmost care and assistance.

For these reasons, and others, it has been the subject of discussion in the Ministry of Industry of Iraq, specially by the Industrial Bank, with the help and support of ILO Regional Office in Beirut to formulate a scheme for the promotion and development of small-scale industries.

The proposed scheme will be in the form of a multipurpose organization with the following objectives:-

- a. To provide services which are not being provided as yet by any other organization to these industries.

- b. To provide services in such fields where existing services to industry as a whole are not geared specifically to the needs of small-scale industries.
- c. To collaborate with other respective organizations towards the same aim.
- d. To undertake necessary surveys and studies relevant to its objectives taking into consideration some important principles such as that the development programme of small-scale industries should be within the frame work of the national industrial plan.

The functioning system of such an organization will have to cover all requirements of developing small-scale industry sector so that the organization can introduce and/or perform the best possible level for the future of this industrial sector including the traditional part of it.

Among important surveys will be the investigation of possibilities of establishing industrial states. The present industrial regions in the City of Baghdad mainly and other towns do not seem to comply with the expected features of such measures. Therefore it will be of great importance to carry out studies for developing a rational plan of location of small industries and advise respective authorities for necessary action. Such studies should at the same time determine carefully the sizes and types of the proposed industrial states whether in accordance to kinds of facilities or according to location or function.

It will be of most significance, too, that the proposed organization should consider seriously the requirements of technical services for small-scale industry sector. Techno-economic surveys covering needs of raw materials, markets, power, water, capital and manpower have to be carried out so that extension services can be offered to these industries.

Regarding technical counselling and management development, training assistance for foremen, marketing and common services facilities, the organization can play an important roll directly and/or in collaboration with the Management Development Centre.

Another important need, for which the organization should take deep interest also, is to study and arrange for introducing technological services to small industries. This function can be performed by

conducting special regular or occasional courses directly or in collaboration with the technical schools or technical training centres under construction within the Ministry of Industry. It might be worth while to establish a separate technological institute in the future also.

PART III

FINANCE OF SMALL - SCALE INDUSTRY IN IRAQ

I. Present status of small-scale industries:-

The latest official data available - for 1966 - put a demarkation line for industrial projects. Industries employing less than 10 persons each are considered small-scale. This data shows that:

<u>Classification</u>	<u>No. of establishments</u>	
	<u>1962</u>	<u>1966</u>
With 10 or more persons each	1182	1329
With less than 10 persons each	20191	22168

This group of small-scale industries could be subclassified in the following table:

<u>S. No.</u>	<u>Group Classification</u>	<u>No. of Establishment</u>	<u>Total Employment</u>	<u>Capital invested in machinery. II.</u>	<u>Total Capital investment ID.</u>
1.	Spinning, weaving knitting, tailoring textile etc.	5,043	8,787	410,535	1,079,006
2.	Metallic, mechanical etc. industries	9,053	17,428	908,204	2,900,482
3.	Building materials	213	923	43,977	149,855
4.	Wood industries	2,491	4,730	263,073	631,380
5.	Leather and Shoes	1,492	3,103	106,468	404,882
6.	Food Industries	2,725	10,899	828,002	2,261,172
7.	Paper and printing	116	363	119,774	185,476
8.	Simple chemical industries	106	246	14,518	34,298
9.	Water, Electrical establishments	35	182	155,975	251,595
10.	Miscellaneous industries	312	418	10,890	193,544
Totals		22,168	47,930	3,895,022	8,162,456

## II. Financial measures:

Financial assistance to the industrial sector, in both private and mixed sectors, is the duty of the Industrial Bank of Iraq. The Bank commenced activities independently in 1946 after being a part of the former Agricultural-Industrial Bank established in 1936.

Projects entitled to the privileges offered by The Industrial Bank are confined to those manufacturing semi-finished and finished products provided their main machinery are run by power. Although neither capital investment nor employment volume are necessary conditions for obtaining loans from the Bank, the small industries not covering these conditions cannot benefit from the Bank's activities much. Some times, even when they can borrow from the Bank, they face other problems. They will usually find it difficult to present the required surities and accepted properties to be mortgaged against their loans. Costs of getting the loans is also a burden. On the other hand, the practice of the Bank has been showing during the past few years gradual dwindling in number and amount of loans disbursed to these industries. An important reason resulted from that is a big portion of the demand for loans has been coming from the traditional small industries the number and production capacities of which, as they are shown to the Bank, are approaching the satisfaction of the local demand. The Bank, therefore, feels that such industries do not require further financial assistance. Instead, it is felt necessary that new modernized industries are of more importance in this respect.

Considering the magnitude of small scale industries in the country, with The Industrial Bank as the main source of industrial financing, it is necessary that certain further measures and steps have to be taken in order that all other smaller industries and even handicrafts could be assisted financially. Provisions for applying hire purchase system and for minimizing lending conditions are in need of introducing new legislative amendments.

In the following paragraphs the structure and activities of The Industrial Bank of Iraq are summarized:

### Growth of the Bank's Capital

The capital of the Bank started with ID 0.5 million in 1940. It was then partly raised in 1946. During 1950-1951 it was made ID 1. mil. Then it was raised to ID 3. mil. in 1952-1953. In 1958 the authorized capital of the Bank was raised to ID.8 millions the paid up of which was ID 3.5 millions. Lastly, in 1961 the authorized capital was made ID 10 mil. and the paid up raised to ID 4.750 mil. Both remained at the same level afterwards. It is obvious that the paid up capital is below 50% of the

authorized. The Bank has had to obtain some loans from local financial resources the last of which was as an ID. 0.5 mil. from the Central Bank at the end of 1964. The Bank however, can raise its financial strength by means of issuing under-writings and by borrowing.

Legislative basis of the Bank's structure.

The Law No. 62 of 1961 defined the aim of the Bank to promoting industry and encouraging capital investment in industrial ventures within the frames of the industrial promotion plan.

In regard to fulfilling leading possibilities, the Bank is authorized to give loans for establishing industrial projects, their expansion administration, purchasing of machinery, equipment, rawmaterial and assisting to export their products, i.e. the lending is made for both fixed assets investment and working capital. Enterprises entitled to obtain loans should have the majority of Iraqi ownership, following the same line of Industrial Development Law. Capital from Arab countries however, is treated as being Iraqi.

Ceilings of the amount of loans have been limited by the financial situation of the Bank and by volume of amounts invested in the enterprises and the legal status of the owners of enterprises with the aim of distributing responsibilities and reducing probable risks. Accordingly the maximum amount to be lent to an individual project had not exceeded ID. 20.000. For a limited company the maximum had been ID 50.000 and for a Public Stock Company up to ID. 120.000. With the development in the financial and economical aspects of the Bank the previous ceilings were reconsidered.

The present situation, however, provides that the maximum amount to be lent to an individual project is ID. 50.000 to a limited company ID. 100.000 and to public Stock Co. ID. 250.000. Joint venture companies in which the Bank is shareholder enjoy certain privileges and easier terms. On the other hand these ceilings are to be limited by the total actual investments in each projects. Theoretically, an industrial project can borrow up to 50% of its total cost subject to the aforementioned limitations. Certain tentative rules and instructions are issued from time to time regulating volume of loans taking into consideration the situation of each industrial class, or group and aiming at appropriate utilization of the Bank's funds. Suggestions are under consideration for extending loans for expansion purposes in the public industrial projects.

Participation of the Bank in equity capital of industrial enterprises can be effected either by joint ventures with private capital forming what is known as mixed or joint sector, or by participating with other respective governmental organizations.

As to Banking operations function the Bank's objective is to help the industrial projects through as many functions as possible. Legislative basis of the Bank provides for almost all usual banking operations for the industrial sector.

The Bank undertakes, to fulfil its duties, research activities and surveys, economic feasibility studies, extending managerial, economic, financial and technical aid to its clients and to the industrial sector in general.

Magnitude of the Bank's activities:

Lending:

The loans usually for long up to 12 years and medium up to 5 year-term when they are granted for fixed asset investment. Short-term loans are also issued for working capital purposes. Fixed assets loans includes purchase of lands and or building factory premises, machinery, equipment and tools. Periods of depreciation are also taken in consideration in deciding terms of loans. Securities demanded by the Bank in these cases could be any locally acceptable material property. However the maximum ceiling of a loan does not exceed 90% of the value of state guarantees, bank guarantees and government bounds. In case of immovable properties it is 70%, and in case of movable properties is 60%. 50% of the value of raw-materials or finished goods are also applied. Actual percentages of the aforementioned securities are determined by the Bank from time to time and values of securities are taken mostly at current market prices assessed by a group of experts in each case. Naturally all loans are insured duly either by the borrower or by the Bank on the Clients account.

Total loans made by the Bank up to the end of 1967 are ID. 14,000,000/- Table II shows total annual loans and balances from twenty years.

Participation

This kind of activity is connected with large and medium industries. Therefore it will not be indicated in this paper which is concerned with small-scale industries.

Conventional Banking activities

Banking operations were functioned by the Industrial Bank of Iraq since 1948 especially in L/C opening. During 1957/58 those operations were discontinued on the ground that such activities must be left to commercial Banks. In 1961, however, The Bank resumed these operations, It was seen almost imperative to complement and coordinate long term lending process by necessary banking operations so that the scope of assistance rendered by the Bank to industries is widened. At the moment the main operation is L/C opening. Overdraft facilities, guarantee issuing, discounting of bills are among the other functions.

Number and Amount of Loans advanced  
By the Industrial Bank  
During the Years 1947/48 to 1967

Year	No. of Loans	Amount in ID			
1947/48	54	172,120	1959/60	388	747,816
1948/49	35	50,298	1960/61	389	751,882
1949/50	81	132,110	1961/62	472	1,009,402
1950/51	93	131,949	Last nine months		
1951/52	87	281,224	of 1962	315	845,941
1952/53	157	659,949	1963	292	891,040
1953/54	181	734,140	1964	407	909,903
1954/55	242	1,367,602	1965	404	796,323
1955/56	457	735,040	1966	389	602,559
1956/57	369	745,430	1967	212	458,282
1957/58	292	1,487,452	1967	212	458,282
1958/59	237	569,455			
				5610	14,026,917

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Example of Industry-wise Distribution  
of Loans 1965-1967

Types of Industry	1965		1966		1967	
	No. of Loans	Value ID.	No. of Loans	Value ID.	No. of Loans	Value ID.
Manufact. of Bldg. Material	38	96270	29	71320	10	20040
Smithy and Mach. Works	79	63270	80	47060	31	14150
Grain Milling and Hulling	18	61822	10	35458	11	39030
Ice Factories	28	48300	25	35970	1	2500
Food and Beverage Industries	39	88995	40	65012	20	32710
Weaving Knitting Sewing	80	91498	73	132070	59	108070
Printing and paper Products	16	21860	25	72780	21	80770
Manufact. of Plastic Products	21	65707	15	41600	14	52700
Iron-Wire Industries	6	8386	13	29200	4	15800
Iron-Sheet Industries	4	22250	7	7230	4	25870
Poultry	-	-	2	5200	6	18150
Chemical Products	4	21300	6	14130	1	12373
Other	131	215665	64	45522	30	36117
	464	796323	389	602559	212	458282

III. Commercial and Cooperative Financings

Small scale industry in Iraq, specially those in urban areas can obtain financing facilities, though might be limited, from the commercial banks, conventionally, for short and, to some extent, for medium terms. The basis of such financy depends, however, on the relationships between the bank and between the industrialist or the owner of the project as its client. The closer the relations the wider scope of assistance exists. In the prevailing banking conditions no further scope can be visualized in the field of Commercial banks for smaller industries.

Cooperative financing is experienced widely in many countries. In Iraq, however most of the cooperative activities directed towards consumer and housing cooperatives. Perhaps the existence of the Industrial Bank was the reason for excluding the cooperative method in industrial financing. The absence of industrial cooperatives, on the other hand, in the country can be also considered a reason for the absence of co-operative financing of industries.

Taking into account the necessity of the existence of real cooperative spirit and emphasizing the importance of recruiting a qualified industrial cooperative organization, four types of industrial cooperative societies or associations seem to be suitable for financing small scale industry sector, directly and indirectly. These are: Societies for supplying raw material, Societies for production processes, Societies for marketing of products and Societies for lending. In case of facing managerial and organizational difficulties societies combining those activities can serve the purpose.

I think that an organizational set up such as was suggested in part II of this paper can fulfil these objectives.





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