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## The Impact of Financial Problems Related to Investment Projects in Iraq

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# The Impact of Financial Problems Related to Investment Projects in Iraq

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**Abstract.** This paper investigates the problems that face the process of investment financially in Iraq. The decision to finance and search for the appropriate sources of funding for the project is one of the most important topics facing the path of projects and investors in light of the limited alternatives available and this decision will ultimately affect the success of the project in the future and continuity. The investment process in Iraq in the current time suffers from a list of problems (Lack of specialized investment banks to finance investment projects, the Weak role of financial institutions in providing banking facilities, Suspension of funding of projects by their financiers, Austerity due to the financial crisis has adversely affected the financial allocations of bodies, Lack of stability in the price of construction materials; and government delays in paying dues to private sector companies).

It has been found that (37%) of the investment projects in Iraq have been stopped in the period from (2008- 2017). The accumulation of financial benefits on loans taken by the private sector and its companies from banks and public and financial institutions due to delay in repaying these loans (4.6), and government delays in paying dues to private sector companies (4.5), which means that these two problems are affecting highly and negatively on the investment process. Several solutions are discussed to be benefit in solving the investment financial problems in Iraq.

**Key words:** Investment projects, Financial problems, Brain storming.

## 1. Introduction

Investment projects are one of the most important elements that contribute to the acceleration of growth, which is an effective way to create and multiply wealth, this will improve the situation both at the individual level and at the institutional level, and even at the national level, which is an effective tool to achieve all economic objectives of society, by raising production levels that achieve self-sufficiency [1].

The investment project needs financing to cover all expenses and purchase equipment, machinery and equipment, and the process of finding funds from important functions in different institutions and projects. Financing operations also require a set of decisions, the most important being decisions the decision to finance and select funding sources are important and complex, which requires studying this It is a good and careful study [2].

## 2. Literature review

The financial policy adopted by the entity in structuring its financial structure is the expression of a combination of financial instruments used to finance the financial needs of the enterprise.



## - Project finance sources

### i. First: In terms of duration

- 1- Short Term Financing: loans obtained by the institution to finance its project, and the repayment of the value in a period ranging from one week to one year [3].

The sources of this type are:

- a. Commercial Credit: A company that cannot obtain credit from a financial institution can obtain commercial credit from the seller, which is previously known about the creditworthiness of the company. The seller company obtains information about the buying company and can control the ability of this company to process and the risk involved in granting credit. The amount of commercial credit often depends on the volume of purchases and the credit limits placed.
- b. Bank Credit: It is one of the types of loans obtained by the institution from financial institutions to finance their short-term needs during the cycle of exploitation, such as production activities, marketing, seasonal, loans directed to cover some different expenses, and payment of bank credit within a period of time less than a year. This type of credit is an important means of short-term financing and is characterized by being less expensive than commercial credit in cases of non-utilization of the cash discount and is a source of fixed asset financing.
- 2- Medium Term Financing: The repayment period is between one and ten years. Takes two forms, these include the following:
  - a. Medium term loans: These loans are provided for equipment and production facilities that do not exceed the maximum useful life of seven years (those loans which are limited to a minimum of two years and a maximum of seven years) and are usually intended to finance investments such as machinery and equipment, often subject to guarantees [4].
  - b. Financing by renting elements of assets: The institution can obtain the economic services provided by a fixed asset without buying this asset, and by renting this asset for a fixed period of time against rent payments paid periodically [5].
- 3- Long-term sources of financing: These are the methods used to obtain the money that is repaid in a period exceeding ten years. The sources are:
  - a. Shares: The share is a long-term tool, representing the right of the holder of the profits and assets of the company issuing it, so the issuance of shares is very important for enterprises and companies, in order to increase their ability to finance investment expenses, the increase in the value of the stock leads to increase the money that gets and share earnings are considered part of the net profit distributable and realized by the issuing company [6].
  - b. Bonds: In order to obtain long-term loans for the purpose of financing the various activities of the institution and its investment opportunities, what distinguishes these bonds is traded, which means the possibility of selling and buying these bonds in the financial market. The bond can be defined as an instrument issued by the institution with a nominal value, nominal interest rate and a fixed maturity date [5].  
Bond financing is important in: (1) clearly defining the cost of financing through bonds, (2) The interest obtained by the bond holder is less than the cost of financing through shares, (3) It is flexible in terms of the degree of impact of the bonds on the structure of the institution because it is fixed in duration, value and interest. Reserve for depreciation [7].
  - c. Long Term Loans: These loans are intended to finance investment projects with a life expectancy exceeding seven years. The long-term loan is granted for a minimum of seven years and may be up to 20 years. These loans involve high risk, which leads the banking institutions specialized in this type of financing to seek ways to mitigate these risks. The best means are: the participation of a group of banks assigned to finance one of the projects, the demand for guarantees before the start of the financing process. [8]. The importance of financing long-term loans: 1) These loans enable institutions to dispense with short-term seasonal loans and thus reduce the risk of non-renewal of these loans. 2) The institution avoids

the costs of the general registration process because the investment banks do so. 3) Shorten the time to obtain loans compared to the time required by the public issuance process [9]

**ii. Second: In terms of source to obtain:**

- 1- Internal funding sources: Is the money generated from the business operations of the enterprise, or from incidental sources without depending on external sources. [10]

Internal finance represents the ability of an institution to finance its own new investment projects, and therefore it must establish sources of funding on a permanent basis. [11]

- 2- External financing: is the legitimate recourse to savings available in the financial market or by increasing its capital by offering new shares in the market. [10]

### 3. Research methodology

The research methodology has started with several interviews with governmental employees working in the investment sectors, in order to gather data concerning with the research issue. In addition to interviews with Iraqi and foreign investors, then distribute them a form contains questions related to the financial problems with concern to investment in Iraq. The questions are measured on a five-point Semantic differential using two adjectives with a neutral point (e.g. '1=totally disagree and 5= totally agree).

The format was distributed among (85) investors, (78) were received representing 91.7% response rate, since not all of them had the time to fill the questions (interviews were done while attending Iraqi investment and reconstruction opportunities forum. The forum was attended by a number of ministers, government officials, businessmen and investors with a group of Arab and international companies as well as representatives of regional and international finance bodies). Then by using the brain storming technique with the investors in order to get some solutions for the problems concerned.

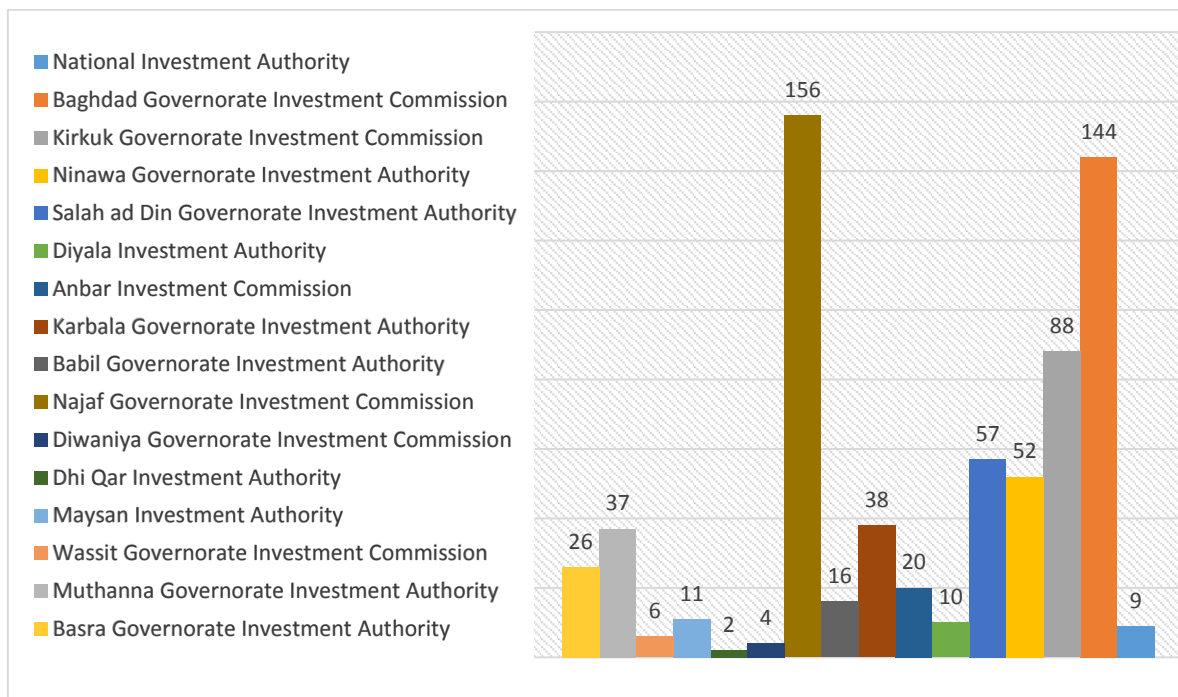
### 4. Results and Discussion

#### 4.1. Data from governmental departments

The governmental departments that have been visited are listed in Table (1):

<b>Table 1. Name of the governmental department</b>
<b>Name of the governmental department</b>
1-Directorate of Diyala buildings
2-Diyala housing department
3-National Investment Authority
4-Diyala Investment Authority

The data have been gathered from these departments are shown in Figure 1 as follows:



**Figure 1.** Shows the projects granted investment license completion rates (0%) from 2008 to 2017

- The percentage of suspended projects granted investment licenses by the National Investment Commission and the investment bodies in the governor's amounted to approximately (37%) of the total investment license, (53%) of these projects are suspended because of financial problems.

#### 4.2. Survey Results

The results obtained from the questionnaire are shown in Table (2) below as mean value of the investor agreement to the proposed problem.

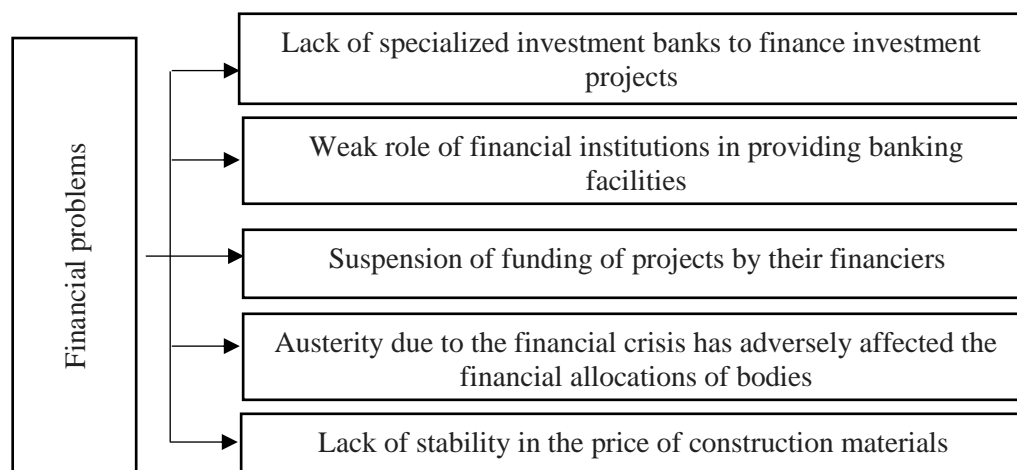
**Table 2.** Questionnaire Results

Statements	Mean value
Lack of specialized investment banks to finance investment projects	3.2
Weak role of financial institutions in providing banking facilities	4.3
Austerity due to the financial crisis has adversely affected the financial allocations of the investment institutions	2.3
Lack of stability in the price of construction materials	1.8
Dismiss tens of thousands of members of the companies because of their inability to pay their salaries	4.2
The reputation of the private sector inside and outside Iraq is exposed to distortion, abuse, and loss of business, financial and community confidence due to non-payment of the amounts of machinery and equipment.	3.9
The Iraqi government and its institutions are exposed to a crack in the international trust wall for the safety and security of the investment environment in Iraq	3.7
The accumulation of financial benefits on loans taken by the private sector and its companies from banks and public and private financial institutions due to delay in repaying these loans.	4.6
Government delays in paying dues to private sector companies	4.5

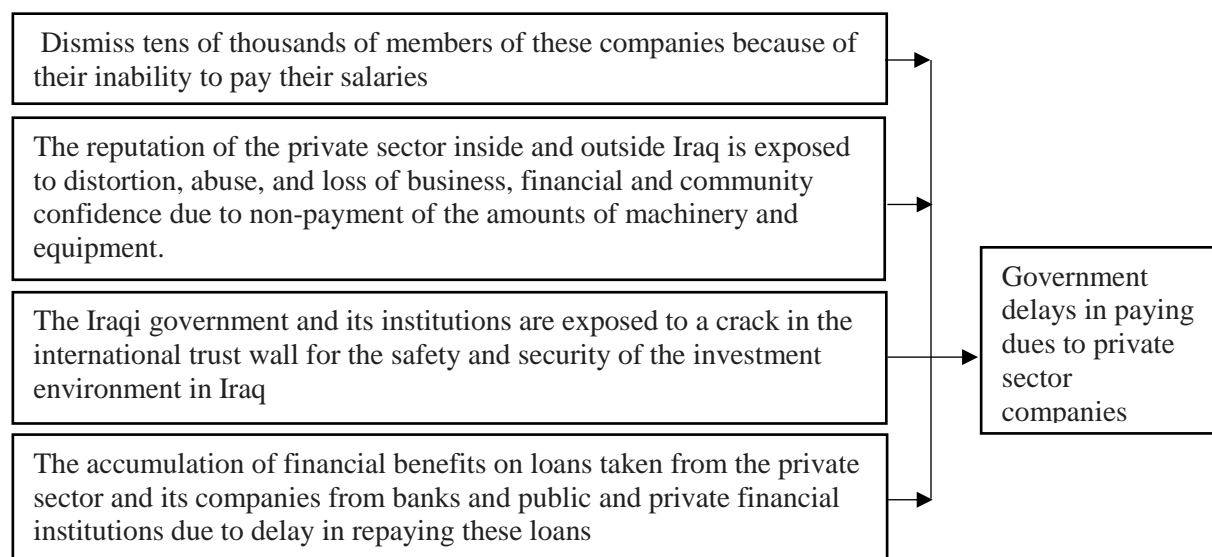
The results obtained from the survey shows that most of the investors have similar ideas about the effect of these problems on the investment process in Iraq. The highest two problems are the accumulation of financial benefits on loans taken by the private sector and its companies from banks and public and financial institutions due to delay in repaying these loans (4.6), and government delays in paying dues to private sector companies (4.5), which means that these two problems are effecting highly and negatively on the investment process because without money any investment project can't continue, so, these should be solved first after that other problems can be solved.

#### 4.3. Brain Storming

From the brain storming sessions with the groups of investors firstly the main problem has identified and then the reasons that led to this problem have been allocated in Figure 2 and Figure 3 as follow:



**Figure 2.** financial problems



**Figure 3.** The effects of government delays in paying dues to private sector companies

In order to solve the above problems to support the investment process in Iraq the following steps should be done:

- 1- Providing an attractive investment climate.

- 2-The necessity of disbursing the private sector's entitlements through government bonds (by issuing government bonds for the purpose of paying the debts of contractors and processors who have financial dues due to the government suffering from the financial crisis at present).
- 3-Supporting of the government to the specialized investment banks to finance investment projects.
- 4-Encouraging foreign investment to associate with the Iraqi investor.
- 5-Strengthening partnership with the private sector.
- 6-Supporting the development of the Iraqi economy (non-oil).
- 7-Fighting corruption.

## 5. Conclusion

The Iraqi investment process suffers from many financially constraints, and any investment project without a financing source would not be considered a project. So, it is important to find solutions to these constraints by the government since the source of the issue is reaching to the government and its decisions.

It is concluded that government delays in paying dues to private sector companies has affected negatively on investment. Several problems have been appeared after that like (Dismiss tens of thousands of members of these companies because of their inability to pay their salaries, The reputation of the private sector inside and outside Iraq is exposed to distortion, abuse, and loss of business, financial and community confidence due to non-payment of the amounts of machinery and equipment, The Iraqi government and its institutions are exposed to a crack in the international trust wall for the safety and security of the investment environment in Iraq, The accumulation of financial benefits on loans taken from the private sector and its companies from banks and public and private financial institutions due to delay in repaying these loans).

In order to get solution for the previous issues several decisions and actions when they are done the problems that constrains the investment process would be minimized by simply finding a formula to pay the investors dues, which can be achieved by supporting the Iraqi economy by non-oil products, fighting corruption in the departments of the government, encouraging foreign investment to associate with the Iraqi investor by providing an attractive investment climate, finally, the government should support the specialized investment banks to finance investment projects.

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