

**РАЗВИТИЕ СТРАН И ТЕРРИТОРИЙ /
DEVELOPMENT OF COUNTRIES AND TERRITORIES**

**THE FINANCE ASPECTS OF BUILDING A SMALL BUSINESS IN KURDISTAN
REGION OF IRAQ**

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The study is aimed at studying the financial aspects associated with the creation and conduct of small businesses in Kurdistan. By Kurdistan in the article we understand the relevant region of Iraq. A qualitative research method was used in the study. The most important data of the method were obtained on the basis of primary data using interviews and questionnaire.

The study showed that small business owners in Kurdistan face many problems, among which the main ones are financial. In addition, among the problems the author notes the weak development of infrastructure, inadequate legislation, lack of management skills in money management; other problems such as corruption and inflation.

Keywords: *Kurdistan Region, small business, finance aspects, finance problems.*

JEL-codes: *D 22, D 23, D 24.*

Due to the growing instability of the global economy, both in regional and sectoral aspects, the socio – economic situation and development of countries and territories with significant hydrocarbon reserves are of particular interest. One of these areas is of Kurdistan Region. (Shkvarya, 2017)

After the lifting of economic sanctions against Iraq, which had a negative impact on the national economy (Айдрус, Меланьина, 2016), and the stabilization of the economic situation in the Kurdish region since 2017, the issue of the development of small and medium-sized businesses has become much more urgent.

Small business enterprise is a sector of the economy that needs Kurdistan Region government attention due to the role it plays in job creation and economic growth in the nation's economy. Small businesses are vital in today's Kurdistan Region economy because many of the revenue obtained by the government are from business taxes. In addition, the existence of small businesses can stimulate the economy. Finally, small businesses are important because it can provide more job opportunities for people so that the unemployment rate is low (Henry and Chinedu, 2009).

Small business can be started at a very low cost and on a part-time basis. Small business is also well suited to internet marketing because it can easily serve specialized niches. Independence is another advantage of owning a small business. A small business is a business that is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are normally privately-owned corporations, partnerships, or sole proprietorships. The legal definition of "small" varies by country and by industry.

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In sum, according to Ford (2004) small business enterprises create most employment, provide a greater degree of economic stability and very often contribute the lion's share of GDP in industrialized economy.

In Kurdistan Region there is no a specific definition of small business companies about number of employees or turnover the only thing that is considerable is the type of organization and extent of capital and until now because of internal problems of region and country there is no constraints for separate between companies related their capacity. A major characteristic of Kurdistan's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business. (Ahmad, 2011)

The research method applied in this study is qualitative and data was sourced by primary and secondary data. The study focused on the problems of financing facing small business enterprises in Kurdistan Region.

According to Small Business Administration (SBA) program Office: There are five important questions when determining money need, your ability to offer a detailed, credible business plan is of prime importance when seeking a loan. Your finance proposal should be succinct and focus on the following key questions:

How much do you want?

How long do you want the money for?

What are you going to do with the money?

How are you going to repay the money?

What are the alternative sources of repayment in the event of something going wrong?

So, when it is time for you to take small business finance, you have to know how to calculate your needs.

When we asked these questions to Kurdish small business their answers were that they calculate the amount of money they need, but in a way that it's not a true and academic way to determine their needs, they cannot understand for what long they need the money. An important part of growth is the budget, or the allocation of funds to those activities that will bring about growth. There is a fine line between not having enough money and having too much money. The disadvantages of borrowing too much are (1) the increased interest costs and (2) exceeding equity limitations. The disadvantage of not borrowing enough is getting halfway through a project and discovering there are not enough funds available to complete it. The problem usually associated with expansion is underestimating costs. But when we asked this question to Kurdish companies all of them said that they determined their need but in a routine way without any budget and accounting statements, also when we asked about some expenses when starting business they don't had information about them that is very important before launching a business to do that some of this operations are: Research and development costs, Business Plan Preparation, Cost of Web Site creation, unanticipated costs, Licenses and Permits and other costs that they don't take into consideration these expenses that will cause lack of enough cash and failure of the business at first time.

On the basis of the analysis of data collected during the interview, the major problem found to have been facing small business enterprises during start up time and growth period in Kurdistan is finance. Lack of finance has been a very serious setback to small business starting from setting – up to the growth of the business. The small business owners' source for funds mostly by

themselves, from relatives and friends or by going into partnership hence borrowing money from banks or other financial institutions has been a difficult or if not impossible task due to high cost of borrowings. These small business owners are mostly asked to provide collaterals by banks before borrowing money which is hardly at their disposal and the burden of high interest rate from these banks are unbearable.

The most common mistake business owners make is not keeping personal and business funds separate.

There are some reasons why it is not a good idea to mix business and personal funds:

- It doesn't look professional: If you are dealing with a vendor or customer and you pull out your personal checkbook or credit card to pay a business expense, you are giving the impression that you are not a real business owner.

- Clear deductions and income: If you want to be able to claim expenses as deductions, you must be able to show that these deductions were for business purposes. Capture business expenses in your business account to make it easier to claim those deductions.

If you put money in the business in the form of property or cash, clearly designate how the money is to be considered – as a loan or as an owner investment. You can choose either a loan or an investment, but make sure the paperwork is complete and that it is easy to see how the transaction is considered on the books of the business.

According to the responses from Sherko Engineering Group about having information related accounting and using of accounting standards they don't have any accountant in the company to set the accounting principles and make statements of daily, monthly, and yearly. Also, the owners and managers of small business in Kurdistan have more negative opinion about use of accounting standards and they believe that with or without these standards they can maximize their profit and these standards cannot affect their profit, they never use them. They don't have knowledge about accounting standards that is useful for success of every company.

To solve these and other problems, owners of small companies usually want to get some knowledge in the field of accounting.

The practice of small business in Kurdistan shows that there are several problems in this area. Lack of sourcing funds from financial institutions is regarded as the major problem facing small businesses in Kurdistan Region. It baffles these small business managers even at this stage where most developed countries have continued to make the accessibility of funds for small business enterprises theirs have been different.

Recently there have been some developmental projects by some local government administrators. These projects include the building of shops but in a high cost rates for business minded people that everyone cannot buy or rent, a hard and few loan packages for micro business managers and mass transits for transportations at somewhat low or high prices. For this reason, in Kurdistan small businesses uses their buildings for business but they do not write it as rent expenses, they know and say that these are expenses that we don't pay it and they do not use financial statements to write them thus financially their income or expenses are not considerably precise.

Kurdish government has been making serious improvement yearly in their regulations concerning business as a whole and Kurdish small business, the government made the law on tax especially in the areas of products in such a way that when adhere to is favorable to business. As the result Kurdish small business has the potential to achieve accelerated economic development and growth.

We noted that though government has at various times provided some measures for the improvement of small business enterprises in Kurdistan Region but all have been abortive due to inadequate legislation. For a proper promotion of the development of small business enterprises, there is need for a well-articulated plans or programs by the government.

There is lack of proper regulation in terms of borrowing funds from the banks by small business owners; lack of focus in formulation and implementation of policies, and tax laws are not favorable to this group of business enterprises as the Swedish business owners continued to have less problems in respect to this.

Inflation was also observed as one of the problems facing small business enterprises in Kurdistan. The result of continues inflation in Kurdistan markets have more effects on small businesses than the large enterprises.

In sum, small business enterprises are seen as an important sector of a nation's economy which should be adequately given attention. There is need for the developing countries to emulate from the developed countries in ways of giving credible support measures in developing small business enterprises within its economy due to their impacts on economy. This can be achieved by creating enabling environments such as providing easy access to funds, good legislation, infrastructure etc.

Most Kurdish people may be employed by micro or small-scale businesses but most GDP is generated by the large-scale export orientated extraction and agricultural companies. Therefore, small business enterprises in Kurdistan require an urgent attention from the government in tackling their problems in order to survive, grow and develop.

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**ФИНАНСОВЫЕ АСПЕКТЫ СТРОИТЕЛЬСТВА МАЛОГО БИЗНЕСА В РЕГИОНЕ
ИРАКСКИЙ КУРДИСТАН**

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Исследование направлено на изучение финансовых аспектов, связанных с созданием и ведением малого бизнеса в Курдистане. Под Курдистаном в статье мы понимаем соответствующий регион Ирака. При проведении исследования использовался качественный метод исследования. Наиболее важные данные метода были получены на основе первичных данных с использованием интервью и вопросника.

Исследование показало, что владельцы малого бизнеса в Курдистане сталкиваются со многими проблемами, среди которых основными остаются финансовые. Кроме этого, среди проблем автор отмечает слабое развитие инфраструктуры, неадекватное законодательство, отсутствие управленческих навыков в управлении деньгами; другие проблемы, как коррупция и инфляция.

Ключевые слова: Иракский Курдистан, Курдистанский регион, малый бизнес, финансовые аспекты, финансовые проблемы.

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