

Iraq's frontier market masters

March 2009

Trade Bank of Iraq (TBI) is one of the first new, post-Saddam banks to have emerged in the aftermath of the Coalition invasion of Iraq. In an exclusive interview in Baghdad, President and Chairman Hussein Al-Uzri spoke to Mike Gallagher about the bank's role in building a new economy.

The Trade Bank of Iraq (TBI) was established in July 2003 to facilitate the trade of goods and services to and from Iraq by providing irrevocable letters of credit. The TBI officially became fully operational in December 2003 and began with a services contract with a multi-international banking consortium led by JP Morgan Chase. It was the first bank to begin offering Iraqi credit cards; it had the first ATM network in Iraq; it had the first fully automated online banking system in Iraq and was the first Iraqi bank to receive lines of credit from international financial institutions.

Hussein Al-Uzri is the Chairman and President of the Trade Bank of Iraq which is Iraq's largest financial institution with \$100 million in capital. Al-Uzri established the Trade Bank of Iraq upon the end of the military campaign of 2003 to facilitate the Government of Iraq trade with the rest of the world. Prior to joining TBI, Al-Uzri served as a managing director at Card Tech, a major emerging markets financial IT and consulting company, and spent 10 years in Moscow managing their activities in Russia. Aluzri is a graduate of Texas Tech University and is fluent in English, Arabic, and Russian.

The term 'frontier market' has been bandied around for quite some time in the Middle East and over the years it has been used to describe the UAE, Saudi Arabia, other parts of the GCC, as well as North Africa. Is Iraq the definitive Middle Eastern frontier market?

Yes, in some cases you could say that. You could say that it is like the Wild West for some people. You could compare it to the gold rush in San Francisco in 1849 or like those who went to the Klondike in Alaska in 1896 when the first people who found gold became the richest. That is why you could describe Iraq as a frontier market. Some of those who have made ventures into the north of the country because it was safer, or even into the south have done quite well. Their returns have been quite substantial.

What would you say to an international bank which may be looking at Iraq and may want to get in on the act?

I would say that they are missing out on big opportunities and I mean both international banks that have a presence in Iraq as much as those who do not have a presence here. The private sector is where the growth is. The public sector is still the biggest area of business, but the private sector is really beginning to catch up. Take a look at the budgets which are being set aside for investments - they are quite substantial. Private sector banks in Iraq are generally quite profitable, as are we and that should go some way to explaining the economic situation here. There may be some issues with the security situation, but we are still making money.

JP Morgan was one of the first banks to begin dealing with TBI in 2003. Are you still dealing with the likes of JP Morgan and Standard Chartered?

TBI was established in November 2003 and started operations in December 2003, so we were up and running within a month. The reason we had to do that was because the Oil for Food Programme, which the United Nations had been running since 1996, was going to be terminated. Another reason was because we had already established relations with JP Morgan and it was with their help that we were able to start quickly. Our relations with JP Morgan have always been extremely good and since then we have expanded our list of correspondent banks. However, JP Morgan is still our main correspondent bank. We now have a list of more than 65 correspondent banks.

How was 2008 for TBI?

It was very good. We easily exceeded our projections. We were projecting a 20 per cent increase on 2007, but have already gone beyond that. This has come off the back of the improving Iraqi economy, although I would admit that the rise in the price of oil in the first half of the year has helped a lot because it meant that we had a supplementary budget.

One of the important factors is that the private sector in Iraq has started to expand. We are seeing a lot of suppliers and contractors using the Iraqi banking sector, rather than banks from outside the country. If you wanted something that shows signs of confidence in the economy, then that is one example.

You said at the start of 2008 that TBI was planning to issue around \$7.5 billion in letters of credit. Did you hit that number?

We exceeded that target to reach \$8.1 billion.

What were the big growth areas in 2008?

The most significant growth area for us has been the developing private sector. Public sector trade finance is still our biggest income provider, but what we are increasingly seeing is growth in private sector trade finance activities. Most of the business is in providing logistics and supplies to the government, such as by providing equipment and commodities, but there has also been some movement in infrastructure projects.

Saudi Arabia, Qatar, the UAE and even Iran are all promising much in the way of planned infrastructure projects. Is Iraq going to go the same way?

I think so. It is definitely going to be quite big, although there are different numbers going around, ranging from \$200 billion to \$400 billion worth of projects that are supposed to be in the pipeline if Iraq wants to catch up with the rest of the region by way of infrastructure.

I mean, take a look at what needs to be either overhauled or built from scratch. Power generation facilities will have to be built, as will the water infrastructure network and other utilities, not to mention adding new oil refineries to the supply chain as well as adding new wells. Schools, hospitals, roads and ports will all have to be upgraded or built. All this is going to take up a large chunk of any future budget projections by the government.

Is there a role for foreign investors?

Of course. Iraq by itself cannot pay for all this and that is why the private sector, both Iraqi and otherwise, will play a big role in providing technical and financial expertise. I believe that project finance is going to be a major source of income for us in the coming years. It is hard to avoid that conclusion because of the amount of work that needs to be done. We will see more investors coming to Iraq when they realise the scale of what needs to be done, as well as the opportunities all these projects will offer. For now, we are seeing Iraqi investors who are beginning to play their part by bringing back some of the money it had taken abroad a few years ago. They appear to be putting their money into projects that are quite important for the economy.

Baghdad is one of the world's oldest centres of commerce, given that it sits at one of the most important junctions on the Silk Route. What about Iraq having something similar to Dubai's DIFC, or the QFC in Qatar or the Bahrain Financial Harbour in the future?

We don't have enough banks in Iraq. We definitely need to attract as many banks as the places you have mentioned. It is important to build a banking culture. There are so many assets in Iraq. Most people own their houses. They are not mortgaged. They have fixed assets. There are only 500 bank branches throughout the country, which makes it, by my calculation, around 50,000 customers per branch, which is ridiculous. The international banks that are here need to be more active as well. It probably isn't a good time to be thinking about establishing a financial centre at the moment, especially given the current credit crisis, but whether we have one or not, we have to be able to attract more banks to the country and when they come, they need to be more active.

Many parts of the Middle East, the West and even China and India all suffer from major shortages of electricity. Kuwait, Saudi Arabia and the UAE are all pouring money into power and water supply installations. Will electricity infrastructure projects be one of the first areas the money will start going into?

Mike, you have been here many times over the past few years. I do not need to tell you what the power supply is like. Blackouts are far from unusual. The current power capacity only meets half of what is required. Shortages are very common and everyone uses portable petrol-powered backup generators. We will need other banks to come in and help to provide the finance for the big power generation projects. That is a fact which cannot be avoided. The market will be quite substantial.

Right now we are not providing more than 5,500 megawatts of electricity. We need at least 27,000 megawatts. That is based on international standards of one kilowatt per person. We need at least five times the amount we have at the moment. That is the absolute minimum. The older plants will also have to be overhauled and maintained. It is a considerable challenge, but one that has to be met if the economy is to meet its true potential.

But isn't building these plants in the current economic environment is going to be difficult, given the difficult credit conditions?

One of the things that the government will do is sign a contract to buy the electricity and water from these companies on a Buy-Operate-Transfer (BOT) or Build-Own-Operate (BOO) basis. It has already started around here. If you go to Erbil you will see a power plant there. It is already selling electricity to the government and at a very competitive price. The most important thing is that it is already producing electricity. They are already producing 370 megawatts and should be producing 500 megawatts shortly. It is not something we are planning it is already taking place on the ground.

Are there are major similarities or differences between trade and project finance in Iraq and the rest of the Middle East?

Up until 2003, Iraq was a country in default that had quite a few creditors. It also had many lawsuits that were being lined up against it. However, we have moved on quite a bit since then. Any assets outside Iraq were subject to attachment risk and that is why there were very creative ways to do project finance, but we had to abandon such methods after 2003 (laughs). We have come a long way since then and have made a decent effort at establishing ourselves as a respectable player in the international financial markets.

For instance, there was a tremendous amount of appetite for the bonds that we issued and while the global economic crisis has had some effect, there is still a lot of demand for such products from Iraq, even compared to other countries. Some of Iraq's banks now have a better credit risk rating than many banks in the US. We have done quite well for ourselves, despite the security problems and how many countries can say that?

Sometimes it takes us a while to re-establish lines of credit, but we are establishing our contacts with the export credit agencies to help us in the trade finance business and to help us expand our lines of credit with international banks.

You started issuing Visa cards in 2005? How has that worked out for TBI?

It was obviously a new concept at the time, because cash was king and there was not much confidence in the banking sector. It was a cultural thing that took a while to become established, but it is doing very well now, especially for those who are doing business outside Iraq. They can see the benefits. Acceptance was initially very limited because there were few ATMs around, but it is beginning to take off. What helped was the fact that people began to realise that it was much more secure and convenient. Nobody wanted to walk around carrying too much money.

Is the infrastructure there?

The infrastructure to allow banks to operate more effectively is being put in place, but in terms of interbank lending, well, we are not quite there yet. There is no concept of interbank lending yet. Technically, the systems exist, but there is not so much confidence between banks at the moment and that is a bit of a problem. It will eventually take off because there is liquidity and that is something that doesn't exist in other parts of the world at the moment.

The selling point is our track record. People now associate TBI with trade finance. We do not have to do too much marketing in that sense. Having said that, we are trying to work with the private banks to have letters of credit issued through these clients and that is one way we will bring in more business, although we still have some way to go in that area.

Is Iraq going to be immune from the contagion of the credit crisis?

We are immune from certain aspects of the credit crisis in that Iraqi companies do not have investments in things like subprime. At the same time, however, there are no investors in our financial markets, so we didn't lose money from investments outside of the country and we haven't seen money being withdrawn from investments that were made in Iraq, unlike what has happened in other parts of the Middle East or Russia, for instance. In that sense we are immune.

On the other hand, the falling price of oil has meant that Iraq's economy has been affected directly. In some cases we lost lines of credit due to the collapse in the price of oil. In other cases people wanted to do business with us because they thought that whatever capital they invested was badly needed in Iraq, so they were willing to provide us with better terms and conditions of credit.

There is a chance that it could have a positive effect on us because this is a virgin market where people can come in and build up their investments and have better returns.

Any major plans for 2009?

We are going to be upgrading the entire banking system, back office, middle office, everything in 2009. When we started off we were strictly trade finance, but now we are more of a commercial bank. We are looking to expand our branch network throughout the country and internationally as well by establishing a presence in all the international financial centres. I am talking about say, London in the west and Dubai in this part of the world and eventually New York. It is also important to have a presence in the Far East.

We are introducing a range of new products in 2009 including salary cards, such as a chip card with biometric details. We are also going to start offering a pension card.

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