

Bankers flock to Iraq despite dangers

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Bankers flock to Iraq despite dangers

By Robin Wigglesworth in London and Camilla Hall and James Drummond in Abu Dhabi



Commerce in Iraq is forced to co-exist with extreme violence. When al-Qaeda-linked militants attacked a church in Baghdad's affluent Karada district last year, resulting in scores of deaths, the Iraq Stock Exchange opposite the church still opened its doors the next day.

The number of bombings and attacks has fallen sharply from the peak in 2006-2007 but Iraq still seethes with barely contained sectarian tensions and **intermittent bouts of violence**.

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However, that is not deterring investment bankers hungry for potentially lucrative mandates. Over the past year, a trickle of visits from intrepid bankers has turned into a steady stream of senior executives from some of the world's largest financial institutions.

"The international banks can smell the opportunities," says Shwan Taha, an Iraqi who formerly worked for the family office of hedge fund manager George Soros, and returned to Iraq in 2007 to set up Rabee Securities, now one of the country's largest brokerages. "More and more bankers are flying in, and more will continue to come."

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The head of a major private security company says he has seen a noticeable increase in visits by investment bankers in the past four to five

months.

“We’ll provide access to secure accommodation and personal security details, including close protection,” he says. “The biggest single threat to those kind of people is really kidnap – that’s obviously a fairly nasty outcome.”

Yet the lure of Iraq is obvious. The country sits on about a **10th of the world’s known oil reserves**, and has managed to ramp up production to about 2.7m barrels of oil a day. The International Energy Agency estimates that Iraq will be the **biggest contributor to global oil supply growth** between 2010 and 2035.

In addition, Iraq’s economy is expected to expand rapidly on the back of heavy government investment in rebuilding the country.

It is primarily these rebuilding efforts that are enticing bankers. Some estimate that the total bill for sorely needed investments in oil and gas infrastructure, electricity, healthcare, sewage and roads will end up being more than \$500bn in the coming decades.

The tiny but growing Iraq Stock Market (ISX) is also attracting some attention. It was opened for foreign investment in 2007, and in 2009 moved to daily trading and introduced OMX’s electronic trading system. The total market capitalisation of the 85 listed companies is still a minuscule \$3.5bn but the market has risen by about a third this year.

The planned **listing of Iraq’s three phone companies** could almost double the market’s size if they go through as proposed.

“We would like the ISX to become an integral part of the growth of Iraq,” says Taha Ahmed al-Rubaye, the exchange’s chief executive. “For that we are encouraging more companies to list and also educating the public and businesses on the benefits of capital markets.”

Yet despite all its promise, bankers concede that Iraq is fraught with potential pitfalls.

Security is the largest concern. Baghdad remains riddled by checkpoints, monstrous concrete barriers and barbed wire. “It’s a lot better than it was but security is still a major problem,” concedes a senior American banker.

Iraq’s convoluted, dysfunctional politics is another obstacle. While an Iraq Securities Commission has been established to regulate the capital markets, the law that spells out those regulations is still awaiting its turn in parliament – much like the long-delayed petroleum law that has stymied the development of Iraq’s oil industry.

Banks also run the risk of falling foul of Iraq’s murky politicking, vividly highlighted by a scandal at the Trade Bank of Iraq, set up and assisted by a JPMorgan-led group of banks.

Hussein al-Uzri, the bank's founder and chairman, was this summer forced to flee the country after the authorities accused Trade Bank of financial irregularities. Mr Uzri said the allegations were fabricated, and Sir Claude Hanks, an independent adviser to the bank, sent a damning open letter accusing prime minister Nouri al-Maliki of widespread "political corruption".

One senior investment banker says his institution is staying out of Iraq due to the "reputational risks" that can result from operating in the country.

Nonetheless, for many international banks contending with a bleak outlook in more traditional markets, Iraq's potential is simply "too big to ignore", says one senior banker.