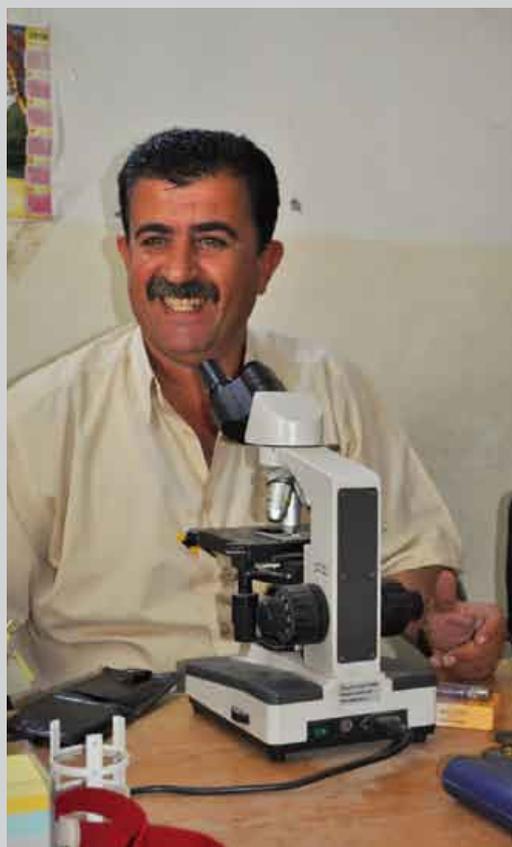




USAID | IRAQ

FROM THE AMERICAN PEOPLE

STATE OF IRAQ'S MICROFINANCE INDUSTRY



June 2010

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COVER PHOTOS: Falluja laborer Hani Mohammad Abdul-Razak, Ninawa medical laboratory owner Lahib Hanna Youssef and Erbil grocers Nader Ahmed Ismail and his wife Nahida improved their lives and expanded their businesses with microfinance loans from one of USAID-*Tijara's* 14 microfinance institutions.

STATE OF IRAQ'S MICROFINANCE INDUSTRY

All data and information in this report is current as of July 1, 2010

The USAID-*Tijara* Provincial Economic Growth Program is made possible by the support of the American people through the U.S. Agency for International Development (USAID). USAID-*Tijara* is implemented by The Louis Berger Group, Inc.

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LIST OF ABBREVIATIONS

AusAid	Australian Agency for International Development
BFF	Bright Future Foundation
BOP	Bottom of the Pyramid
CAGR	Compounded Annual Growth Rate
CBI	Central Bank of Iraq
CGAP	Consultative Group to Assist the Poor
CMOC	Civil Military Operations Center
COSIT	Central Organization for Statistics and Information Technology
DIG	Development Innovations Group
GB	Government Banks
GDP	Gross Domestic Product
GLP	Gross Loan Portfolio
GoI	Government of Iraq
ICBG	Iraqi Company for Bank Guarantee
ICF-SME	Iraqi Company for Financing SME
IDP	Internally Displaced People
IFC	International Financial Corporation
IQD	Iraqi Dinar
IMF	International Monetary Fund
JSC	Joint Stock Company
KRG	Kurdistan Regional Government
LLC	Limited Liability Company
LRWG	Legal and Regulatory Working Group
MBB	Micro Banking Bulletin
MENA	Middle East and North Africa
MFI	Microfinance Institution
MIM	Ministry of Industry and Minerals
MIX	Microfinance Information Exchange Market
MOLSA	Ministry of Labor and Social Affairs
MSME	Micro, Small and Medium Enterprise
NBFI	Non Banking Financial Institution
NGO	Non Governmental Organization
OPIC	Overseas Private Investment Corporation
PB	Private Banks
PCMS	Performance Classification and Monitoring System
PDS	Public Distribution System
PRT	Provincial Reconstruction Team
RI	Relief International
SBDC	Small Business Development Center
SME	Small Medium Enterprise
TEDC	Telafar Economic Development Center
TDMN	Al-Tadhamun
ToT	Training of Trainer
TWG	Transformation Working Group
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
USG	United States Government
VCF	Value Chain Financing
WB	World Bank

PREFACE

USAID-*Tijara* is pleased to release the State of the Iraqi Microfinance Industry, 2010. The Iraqi MF industry is relatively new to the Arab region. Established in the latter half of 2003, the industry now comprises 14 microfinance institutions (MFIs), international and indigenous, with presence in all 18 provinces of Iraq. The industry has disbursed more than \$453.3 million in loans since inception and currently has an outstanding loan portfolio of more than \$85.5 million extended to nearly 63,000 active borrowers.

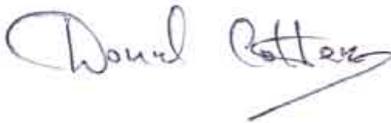
More than 780 people are gainfully employed in this industry that has 100 offices throughout Iraq. Capacity building and training for more than 600 professionals has been completed and several new initiatives are underway. MFIs have adopted internationally compliant reporting norms; developed effective rules and recently instituted an industry-wide code of conduct. They have also installed modern systems and software applications to effectively track portfolio growth. The Central Bank of Iraq and the NGO Assistance Office are also actively engaged in the regulation and supervision of the industry.

The development of the MF industry in Iraq is largely attributable to the efforts of the U.S. Agency for International Development (USAID). Over the past 5 years, USAID, through its implementing partner USAID-*Tijara* and its predecessor USAID-*Izdihar*, has been building the industry at the macro, meso and micro level through several targeted interventions aimed at integrating microfinance institutions into the formal financial system, capacity building of industry participants, product innovation as well as enhanced transparency and reporting.

On behalf of all industry participants I wish to thank the Government of Iraq, the Central Bank, the NGO office, the U.S. Embassy and USAID for their support for microfinance in Iraq.

We welcome you to review this report to gain an understanding of Iraqi microfinance as well as future trends that are likely to impact its future growth. We are proud to be part of a growing fraternity of microfinance practitioners in the Arab region.

Sincerely



DONAL COTTER

CHIEF OF PARTY, USAID-TIJARA

EXECUTIVE SUMMARY

Microfinance Institutions (MFIs) in Iraq have emerged as effective demand-driven financial intermediaries of quality offering a middle path – an alternative to inaccessible formal financial institutions and exploitative traditional money lenders. With early-stage donor funding from USAID to help overcome the challenges of Iraq's post-conflict environment, they have demonstrated commendable scale, depth of outreach to the poor, financial and institutional sustainability and consequent socio-economic impact.

The microfinance sector in Iraq includes 14 NGO-MFIs, operating in all 18 provinces. Since 2009, the overall regulatory environment for the sector improved with the issuance of the new NGO (non-governmental organizations) Law. This new law enables MFIs to continue as quality financial service providers for the 7.1 million low-income and poor people in Iraq. The greatest accomplishment to date for the sector was the Central Bank of Iraq's (CBI) recognition of microfinance as an effective intermediary for small and medium-scale enterprises (SMEs).

Microfinance in Iraq has achieved an ambitious rate of growth and socio-economic impact on those it serves. Despite critical views that Iraq is not ready for microfinance, the sector, as of the end of April 2010, has cumulatively disbursed over 197,000 loans of more than \$453.3 million. The Iraqi microfinance sector had at the same time period an outstanding portfolio of \$85.5 million serving an active client base of almost 63,000. With a 99% repayment rate and a portfolio at risk greater than 30 days of around one percent, Iraqi MFIs grew at the rate of 31% for the one-year period through the end of April 2010. The high level of activity, growing efficiency and greater depth of outreach, though, has only scratched the surface of this market. With less than one percent penetration, it is witnessing the entry of more donors and a growing list of stakeholders.

USAID, through its implementing partner, USAID-*Tijara*, has scaled-up initiatives at the macro, meso and micro levels to create an inclusive financial sector in Iraq. Taking the lead in donor coordination and creating stakeholder platforms for engaging with the Iraqi microfinance sector, USAID has been at the forefront of championing transparency, accountability and technology-based solutions. These improvements are facilitating the mainstreaming of microfinance based on internationally-accepted best practice standards.

As the sector matures, Iraqi MFIs will examine themselves to ensure that clients are at the core of their operations. They also will endeavor to create partnerships that make them stronger players throughout the country's economy. The Iraqi microfinance sector will witness its growing importance as a strategic partner and model within the broader micro, small and medium-scale enterprise strategy, growing focus of donors and the Government of Iraq alike. Donor coordination for the next stage of Iraqi microfinance's development and sustainability will continue to guide outreach and impact.

FACES OF IRAQI MICROFINANCE



CHAPTER I



THE IRAQI MICROFINANCE INDUSTRY OVERVIEW

The Izdiharona microfinance institution in southern Iraq helps many women with young children start cottage industries in their homes.

Despite significant challenges of a post conflict economy, the microfinance industry in Iraq, established in 2003, has demonstrated commendable achievements. With 190,465 loans issued to entrepreneurs across Iraq and a total disbursement of \$424 million as of March 31, 2010, the Iraqi microfinance industry is coming of age: evolving from a stabilization intervention to becoming an independent industry incorporating globally-prescribed best practices and multiple stakeholders.

I.1 CHALLENGES IN POST CONFLICT IRAQ

...Aversion to Self Employment and Income Generating Activities. About 30% of all household income comes from public sector employment. An additional 15% comes from government transfers including pensions, those in-kind through the Public Distribution System (PDS), and cash. Dependency on a state-run economy results in a significant disadvantage to self-employment. The U.S. Agency for International Development (USAID), through its economic development initiatives under *Tijara* (Arabic: Trade) and its predecessor *Izdihar* (Arabic: Prosperity), plays a key role in facilitating the culture of entrepreneurship in Iraq and unleashing the potential of its private sector.

...Security has improved, but the recent resurgence of violence shows that the situation remains fragile. The Iraqi Government authorities are strengthening security arrangements after deadly attacks against citizens and government offices. The resurgence of hostilities follows the withdrawal of U.S. forces from the cities and the lack of election results from the country's democratic election in March 2010. While the unstable security situation prevents a broader international presence in Iraq, including the microfinance sector, the long-standing partnership between the U.S. coalition military forces and USAID continues to provide secure linkages to client needs and market intelligence especially in conflict prone communities within Iraq.

...Refugees have slowly started returning home as security improves, but displacement remains a concern. The United Nations High Commissioner for Refugees (UNHCR) estimates that more than 4.7 million Iraqis have left their homes as a result of the recent conflicts. Of these, 2.7 million are internally displaced, while about two million are in such countries as Syria and Jordan. MFIs are providing much needed micro-loans to Internally Displaced People (IDP) by increasing flexibility in loan criteria such as removing the requirement that a client must have lived in the same neighborhood for at least two years in order to qualify for a loan.

...Financial sector reform continues but banks remain weak. The level of financial intermediation in Iraq remains low because the banking system is weak, with credit to the economy at only four percent of GDP. The banking system is dominated by two state-owned banks, Rafidain and Rasheed. These two banks account for 90% of total assets. Besides five other small state-owned banks, there are 22 small private banks and seven Islamic banks that serve a limited number of clients. Capital markets, besides government securities, are almost nonexistent. There is a serious skills deficit as well as inadequate planning for the development of human resources at banks, at all levels, especially at the middle management level.



When Saad Jabir Mohammad, 36, learned of the availability of USAID-Tijara microfinancing, he resigned from Karbala's sectarian militia and used his \$800 group loan to buy artifacts he could resell to religious tourists.

The International Monetary Fund's (IMF) December 2008 report on Iraq says that the proportion of credit to the economy as a percentage of GDP is: 3.94% in 2006, 4.43% in 2007 and 3.73% in 2008¹. Bankers in Iraq lack experience lending to the Small and Medium Enterprise (SME) segment, thus limiting financial intermediation. Many banks are new, with inadequate skills for analyzing credit risk and in conducting cash-flow analyses. Other obstacles include loans with repayment terms that are too short to accommodate longer term investments, and collateral requirements in excess of 150% of loan amounts. USAID's intervention in the SME sector led to the creation of an SME guarantee facility, the Iraqi Company for Bank Guarantees (ICBG) that guarantees SME loans, and the Iraqi Company for Financing SMEs (ICF-SME), an NBFIs established in 2009 to provide on-lending capital to banks for SME borrowers. Experience indicates that banks cooperating with USAID projects in Iraq have a more diversified portfolio, with over 50% of loans to SMEs.

¹ IMF Country Report 08/383, p. 24. The numbers were obtained by adjusting the percentage of domestic credit to non-oil GDP (9.3%, 8.4% and 10.4%) by the ratio of non-oil to total GDP. See Developments in Iraq's Economy and Private Sector in the Recent Period, USAID-Tijara's project paper, September 2009.

...**Cash based economy increases risks of fraud.** The Iraqi economy is largely cash-based. Banks are not viewed as safe depositories for wealth. While MFIs hold their funds in state-owned banks due to security risks of handling cash, there are tremendous inefficiencies in this business relationship. Clients often face logistical challenges, including liquidity constraints. In addition, as Iraq transitions into a more secure environment and as the Iraqi dinar (IQD) stabilizes in the short term, local currency will take precedence over U.S. dollars². The microfinance sector may face exchange rate challenges as MFIs shift from US\$ to IQD.

...**Unavailability of trained human resources.** The 1991-2003 embargo created a ‘brain drain’ of those Iraqis who would have been qualified to provide a human resource infrastructure to the financial sector. Further, a substandard system of higher education in Iraq is a challenge for human and institutional development. Information technology skills and qualified professionals remain in critically short supply. To help build the Iraqi microfinance sector, USAID has taken the lead in providing training in critical areas and developing the industry infrastructure of certified trainers in over eight areas of expertise, including financial analysis, delinquency risk management, and human resource management.

1.2 POVERTY IN IRAQ

Poverty levels are high in Iraq. Many Iraqis are vulnerable to falling below the poverty line of \$2.20 per day. The country’s rehabilitation needs are high: poverty and unemployment are widespread, and the security situation remains fragile.

According to Iraq’s National Strategy for Poverty Reduction and the World Bank, Iraq has an estimated poverty rate of almost 23%³, but the poverty gap-measured as the gap between the poor’s average incomes and the poverty line-is only 4.5%. Thus, a relatively small increase in people’s incomes could lift most of the poor above the poverty line. At the same time, however, a large proportion of the non-poor is just above the poverty line. A relatively minor deterioration of economic conditions would substantially increase poverty rates. Poverty rates are much higher in the southern and central Iraqi provinces.

TABLE I – POVERTY RATES ACROSS PROVINCES IN IRAQ⁴

Provinces	Location	Population	Number of Poor	Poor %
Baghdad	Capital	6,386,100	638,610	10%
Babil*	Central	1,444,400	592,204	41%
Karbala	Central	756,000	302,400	40%
Najaf	Central	946,300	378,520	40%
Diwaniyah	Central	866,700	346,680	40%
Wassit	Central	941,800	376,720	40%
Diyala	North	1,373,900	274,780	20%
Ninewa	North	2,473,700	494,740	20%
Salah al-Din	North	1,077,800	431,120	40%
Kirkuk	North	839,100	167,820	20%
Dahuk	North - KRG	616,600	61,660	10%
Erbil	North - KRG	1,845,200	55,356	3%
Sulamaniya	North - KRG	2,159,800	64,794	3%
Basrah	South	1,761,000	792,450	45%
Maysan	South	743,500	297,400	40%
Muthanna	South	536,300	262,787	49%
Dhi-Qar	South	1,427,200	570,880	40%
Al-Anbar	West	1,280,000	192,000	15%
Total		31,234,000	7,183,820	23%

² In April, 2010 Asiacell, the largest private Iraqi company, has announced plans to change the currency from USD to the IQD, based on the Iraqi Government’s request for telecom companies to use Iraqi dinars instead of US dollars.

³ Based on the 2006/07 Household Socio-Economic Survey, Central Organization for Statistics and Information Technology (COSIT), Government of Iraq.

⁴ April 2009 IMF Estimate. The population breakdown by Governorate is based on 1997 estimate by the UN.

The Iraqi economy consists of a vast number of micro, small, and medium enterprises (MSMEs) and informal sector activities that are the main source of livelihood for the majority of people. Lack of capital is a serious constraint to micro and small business development. People lack savings and may be indebted and formal banking services are very limited. Developing MSMEs is seen by many as a solution for much needed job creation and reconstruction. Small-scale credit (loan sizes of \$500 – \$3,000), often referred to as “microfinance” is seen as a way to ensure this development. The approach towards developing financial services in Iraq has so far attempted to deal with the entire market segment of MSMEs, using the enterprise as the unit of analysis, rather than the poverty level of the individuals who own these firms. However, as incidence of poverty at the household level becomes clearer through studies undertaken by the UN and the Government of Iraq, the focus on household levels will enable a broader strategy on inclusiveness and overall impact.

In November 2009, the Iraqi Ministry of Planning and Development Cooperation released the National Strategy for Poverty Reduction in Iraq for the years 2010 – 2014 prepared by the High Committee for Poverty Reduction Policies in Iraq. The strategy has the goal of reducing poverty to five million during this time period, or from the current poverty rate of 23% to 16% by 2014.

1.3 MICROFINANCE FOOTPRINT IN IRAQ

Microfinance in Iraq started in 2003 mainly as a tool to assist victims of war and violence. It now serves as the sole provider of sustainable financial services for the poor and those excluded from the financial sector, including MSMEs. Microfinance Institutions (MFIs) such as CHF International, ACDI/VOCA-supported MFI Al-Thiqa, and Relief International (RI) established operations in Iraq in 2003, 2004 and 2006 respectively, through funding received from U.S. Government sources⁵. Their operations, however, were limited to the non-violent areas in south and central Iraq, and the semi-autonomous Kurdistan region in northern Iraq.

USAID-Izdihar⁶, a provincial economic growth project funded by USAID from 2004 to 2008 and implemented by the Louis Berger Integrated Development Group, collaborated with the U.S. and coalition militaries in late 2006 to establish indigenous MFIs in order to ensure the presence of at least one MFI in each province to enable private sector growth. In supporting the development of MFIs, USAID envisioned local institutions serving communities through strategies for delivering locally acceptable loan products, fulfilling a market gap unmet by the larger players.

Security concerns impact all economic development activities in Iraq. To alleviate these, the military established civil-military operations centers (CMOCs) to provide oases of stability in otherwise violent regions. Allowing the MFIs to operate from CMOCs provided a relatively safe operational environment, lowering the risk for conducting financial operations that might otherwise be impossible. Building relationships between MFIs and the military also served to provide the latter with information on economic activity in the area of MFI operations.

USAID Partner MFI Al-Tadhamun

Al-Tadhamun was established in 2008 with assistance from USAID and support from the Ninewa based PRT as part of U.S.



Government's strategy to support the development of indigenous MFIs in Iraq. As the security situation improved in 2009, TDMN began lending. It is now providing loans to agri-businesses and micro, small and medium scale enterprises (MSMEs). It recently began offering Al-Murabaha Islamic loans. These Islamic loans meet the need for Shariah-compliant financial products in the Sunni communities where it predominantly operates.

USAID-Izdihar developed strategic partnerships with the Civil Affairs section of the US military to provide parallel funding streams for operational and loan capital. While the military (and later Provincial Reconstruction Teams) paid operational costs of the local MFIs, USAID-Izdihar provided loan capital grants and intensive technical assistance. MFI Al-Bashaer in Baghdad was established in 2005, followed by Al-Aman in Kirkuk in 2006. Building upon these models, USAID-Izdihar assisted in establishing local MFIs in Anbar Province (one of the most violence-prone provinces) as well as in Salah ad Din and Ninawa provinces.

The U.S. military's role in developing Iraq's microfinance sector has been significant. PRTs, which are small civil-military units, continue to serve as intermediaries with local MFIs in conflict-prone regions and help promote microfinance services within local communities.

⁵ Initial capital was provided by U.S. Coalition Forces, significantly augmented by support from USAID on a continuous basis.

⁶ Izdihar was a USAID funded private sector growth and employment generation project implemented by the Louis Berger Group and its joint venture partners in Iraq to support microfinance, SME lending, trade policy, investment promotion and business development services. The project worked at the federal and provincial levels in collaboration with the central government, provincial governments, provincial reconstruction teams (PRTs), Military and other local NGOs. This multidisciplinary program ended in March 2008. A follow-on USAID program (named Tijara) is continuing the initiatives undertaken by the Izdihar project, building on the successes and addressing sector level challenges through a sector development approach.

In November 2006, the first ever Iraq Microfinance Summit brought practitioners, donors, and other interested supporters together to take stock of the Iraqi microfinance industry, outline the issues facing the industry today and discuss donor objectives achieved through microfinance. This led to consensus on six key strategies that collectively form the Iraq Microfinance Strategy.

2010 Status: Looking Back at the Iraq Microfinance Strategy 2006 Priorities

Priority 1: Clearly Defining What Microfinance Means in Iraq

Microfinance includes the provision of diverse range of loan products to the poor and MSMEs across all 18 provinces in Iraq. Loan size ranges from \$500-\$25,000 with 81% of current loan portfolio representing loans for income generating activities.

Priority 2: Enhancement of the Legal Framework

The Iraqi Government NGO Assistance Office and the Central Bank of Iraq have recognized the importance of extending financial access for the poor and those who are excluded from the mainstream financial sector. The recently drafted CBI instruction on creating SME financing companies underscores the enhanced regulatory environment for microfinance in Iraq.

Priority 3: Capacity Building and Training

Over 600 professionals have been trained in microfinance best practices through 35 trainings. They include 12 certified Master Trainers in six CGAP Modules on Financial Analysis, Human Resource Management, Delinquency Management and Interest Rate Setting, Product Development, Operational Risk Management and Accounting. Also introduced are new training modules on Governance, Internal Audit, and Strategic Business Planning the microfinance industry infrastructure provides demand driven inputs to the sector's MFIs. MFI operational assessments and technical services are provided on a monthly basis through site visits.

Priority 4: Transparency, Standards and Reporting

More than ten Iraqi MFIs track their progress and performance and report to donors and stakeholders using the Performance Classification and Monitoring System (PCMS), a management information system (MIS) which compiles performance results across MFI branches based on internationally acknowledged standard reporting ratios.

Priority 5: Developing a Microfinance Network

Since 2006 and during the 20+ stakeholder consultative meetings, an informal network of the Iraqi MFIs emerged, serving as a platform for building consensus on the overall strategic direction of the microfinance sector in the country. With the issuance of the new NGO Law, allowing the sector to legally register a national microfinance network, USAID has allocated grant funding and technical assistance for Iraqi microfinance professionals to come together and institutionalize the network. The Iraqi MFIs have already adopted a Code of Conduct and Ethics for the sector as part of the network's ongoing initiatives. As a formal network, this entity will develop services catering the strategic and technical needs of the Iraqi microfinance industry.

Priority 6: Increasing Bank Linkages

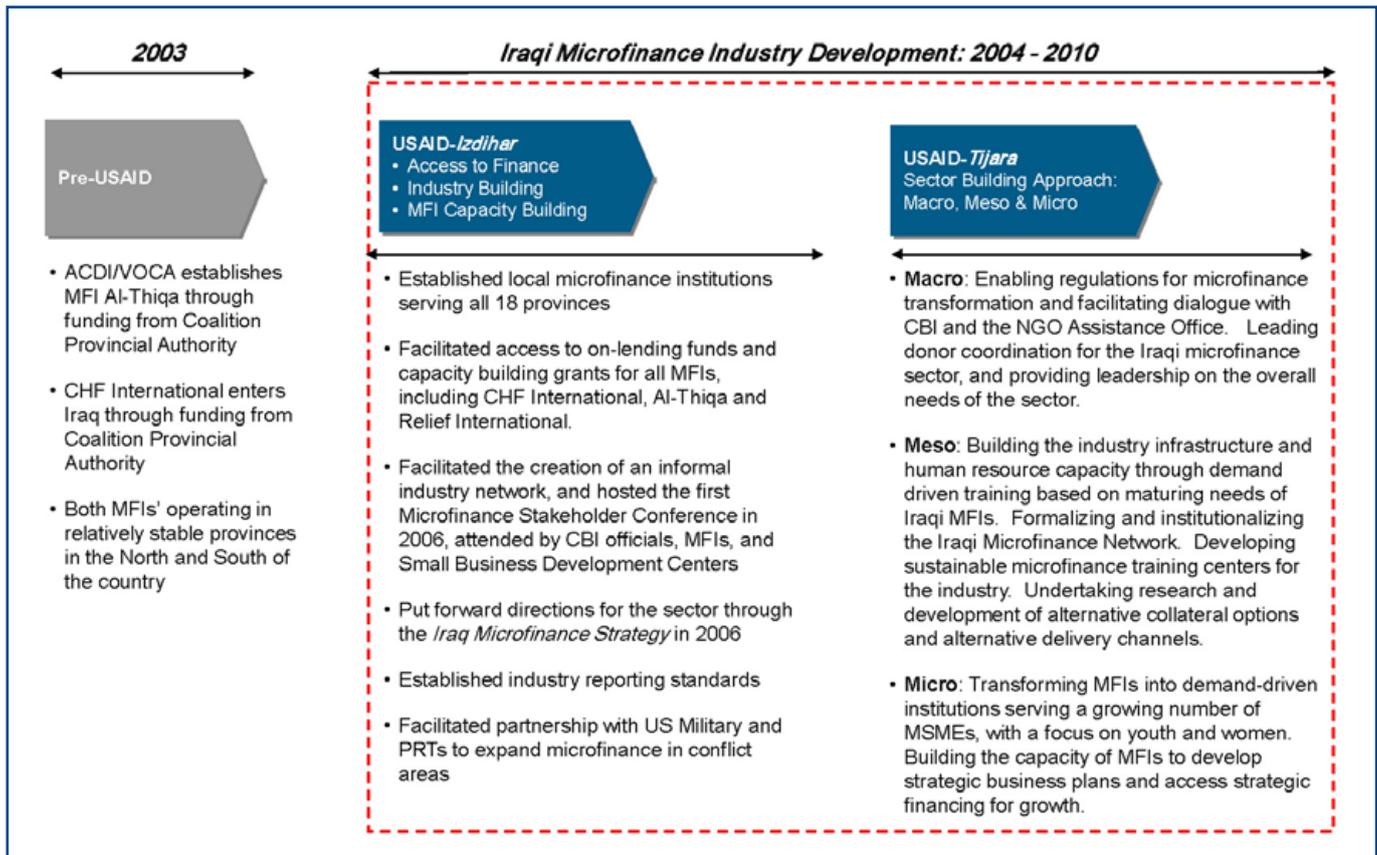
As the banking sector matures, government entities could enable access to low-cost debt capital for MFIs through the two state owned banks. However, based on the overall financial sector health in the country, linkage between the MFIs and Banks will require more time.

Recent Government pronouncements show that microfinance is gaining recognition among policy makers as an effective tool to fight poverty and enable economic growth. In 2007, the Government established microfinance programs with heavily subsidized interest rates (two percent in 2007, zero percent in 2008). The government microfinance program was started in mid-2007 by the Ministry of Labor and Social Affairs (MOLSA) as a pilot program and then expanded to all the provinces in Iraq except for the Kurdistan Region. A similar program was developed by the Ministry of Industry and Minerals (MIM) for industrial SMEs. The government programs offering funds at artificially low cost create an unreasonable benchmark among potential borrowers; with some diverting their resources into lobbying in an attempt to qualify for these schemes. Specifically, the modality of government-disbursed loan funds were not timely for approved clients, in addition to the one-time repayment of total loan at the end of one year instead of globally prescribed frequent repayments on a weekly or monthly basis. Even though economic theory suggests that a more flexible repayment schedule would benefit clients and potentially improve their repayment capacity, microfinance practitioners argue that the fiscal discipline imposed by frequent repayment is critical to preventing loan default⁷.

Iraq's rapidly growing microfinance industry reached a milestone in March 2010 when the Al-Tadhamun (TDMN) microfinance organization opened its third branch office in the province of Ninawa. This opening brings the total number of microfinance branches and satellite offices across Iraq to 100. It underscores the success Iraq's MFI sector has achieved in its drive to provide wider access to quality financial services across the country.

⁷ Repayment Frequency and Default in Microfinance, Harvard University Press, 2009

FIGURE 1: EVOLUTION OF MICROFINANCE IN IRAQ



In March 2010, the NGO Assistance Office of Iraq approved a new law that moves beyond the previous one in which microfinance activities implicitly were referred to as illegal. The new law raises issues regarding interest rates and taxation rules for revenue-generating NGOs; however, the NGO Assistance Office has demonstrated a strong commitment to engaging with the microfinance sector and the NGO-MFIs to assist in providing financial services to low-income Iraqis. Potential partnerships with government ministries such as MOLSA and MIM are taking shape as MFIs continue to demonstrate competency at delivering sustainable financial services for the poor.

FIGURE 2: MICROFINANCE OUTREACH ACROSS IRAQ AS OF APRIL 2010

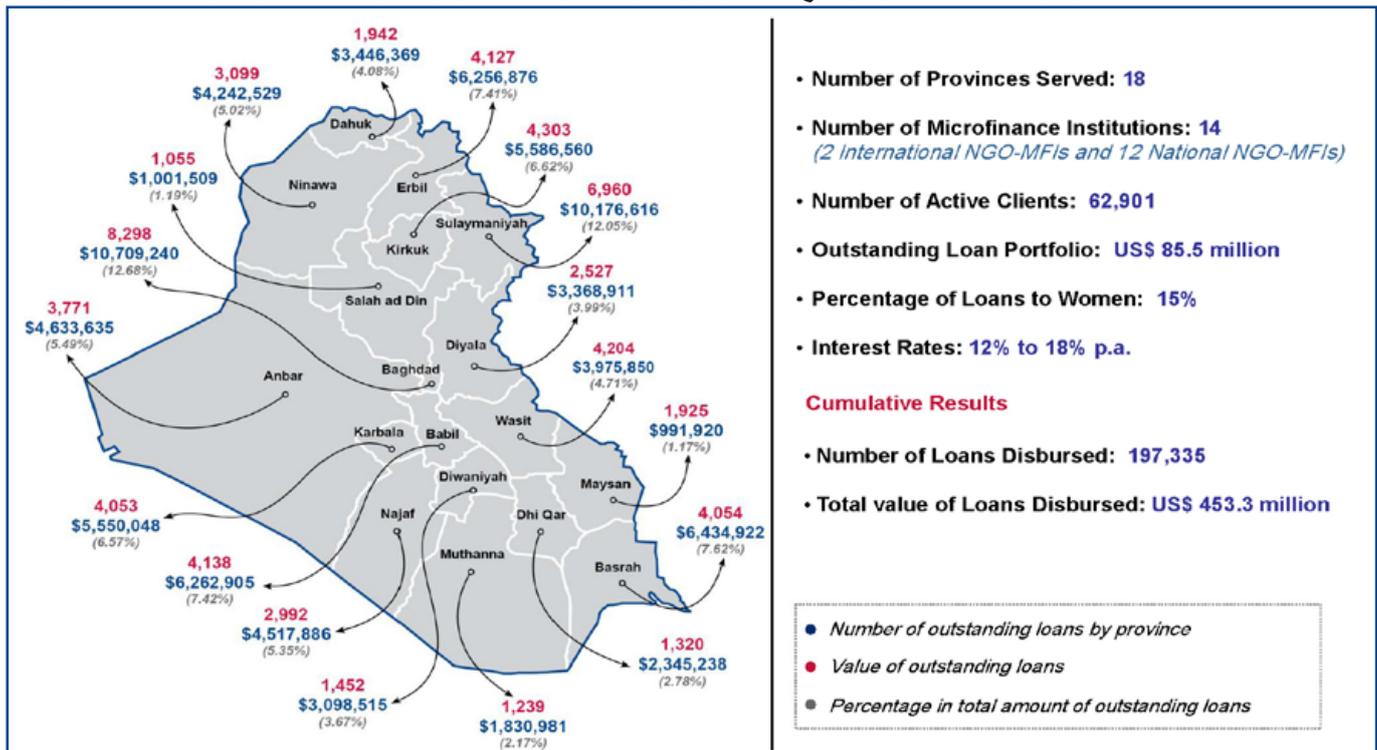


TABLE 2: POVERTY ADDRESSED BY MFIS IN IRAQ

Province	Number of Poor	No. Currently Served by MFIs**	% Reached by MFIs
Baghdad	638,610	8,209	1.29%
Babil*	592,204	4,354	0.74%
Karbala	302,400	4,126	1.36%
Najaf	378,520	3,308	0.87%
Diwaniyah	346,680	1,585	0.46%
Wasit	376,720	4,203	1.12%
Diyala	274,780	2,527	0.92%
Ninewa	494,740	3,299	0.67%
Salah al-Din*	431,120	1,104	0.26%
Kirkuk	167,820	4,337	2.58%
Dahuk*	61,660	1,953	3.17%
Erbil*	55,356	3,991	7.21%
Sulamaniya*	64,794	6,906	10.66%
Basrah	792,450	3,983	0.50%
Maysan	297,400	1,765	0.59%
Muthanna*	262,787	1,238	0.47%
Dhi-Qar	570,880	1,296	0.23%
Al-Anbar	192,000	3,784	1.97%
Total	7,183,820	61,968	0.86%

As Iraq stabilizes and innovation emerges, the microfinance sector is maturing. Innovation will emerge in alternative collateral options offered by the microfinance industry and in alternative delivery channels, leveraging the expansive outreach of the country's mobile telephone network of over 20 million subscribers. Iraqi MFIs are recognized as providing valuable community service with their proximity to clients. Together, the 14 MFIs provide financial access to approximately 51,000 MSMEs in the country. MSMEs are generally more labor-than capital-intensive and have relatively high production costs (because raw materials are purchased in smaller quantities). They lack technical experience in production, accounting, administration, and stock control. Most MSMEs are unregistered and family-operated. The entrepreneur usually obtains the small amount of finance he needs from his own savings or from his family. However, MSMEs find it difficult to grow without the possibility to borrow additional capital. Formal credit providers are often reluctant to lend to MSMEs and the informal markets that replace them typically lend at rates that may jeopardize their survival.

TABLE 3: MARKET SHARE OF IRAQI MFIS

MFI	% of Market Share
Al-Aman	3.78%
Al-Bashaer	6.7%
Al-Mosaned	2%
Al-Tadhamun (TDMN)	0.6%
Al-Takadum (Qaim, Fallujah, Ramadi)	6%
Al-Thiqa	22%
Amalkom	1.76%
Bright Future Foundation (BFF)	4.6%
CHF International	30%
Relief International	8.56%
Izdiharona	10%
Tal'afar Economic Development Center (TEDC)	4%

USAID seeks to provide a deeper understanding of microfinance and provide a basis for a policy-level consensus on the business, prospects, and contributions of microfinance in Iraq's economic development. With over 190,000 loans made to micro and small enterprises since 2004, the MFI sector is poised to play a greater role in the overall development of MSMEs at both the retail, industry and policy level.



Susan Abdul Razak Aziz used a microfinance loan to advertise her products on in-store banners, plastic grocery bags and on the sides of her delivery trucks.

AZIZ FROZEN FOOD A FAMILY FAVORITE

In 2004, Susan Abdul Razak Aziz was well on her way to having Kirkuk's most successful woman-owned business. The frozen pizza, beef burgers and shish kabobs produced by her Yasmn food company were family favorites due to their quality and convenience. She owned two delivery trucks, three freezers, four meat grinders and employed 63 people. Then one day the call came.

"It was Al Qaeda," Aziz remembers. "The man said to give him money or get out of town. I told him I supported 63 families and couldn't afford to pay him anything. He said he didn't care about the families, he just wanted the money."

Aziz was forced to abandon her business and flee to Sulaymaniyah, a peaceful city in Northern Iraq. When she returned home a year later, her employees had scattered, the factory was destroyed and her trucks and equipment were gone. Aziz noticed one positive change, however. A new company called Al-Aman had started giving microfinance

loans to struggling entrepreneurs. Supported by the USAID-Tijara program (*Tijara* means "trade" in Arabic), Al-Aman's micro loans helped small companies grow into larger ones that might qualify for a small and medium enterprise (SME) loan from a commercial bank.

Al Aman loan officer Mohammad Taha Hassan also had his eye on Yasmn Foods. Like many young professionals who had no time for daily trips to the market, his family often dined on Yasmn frozen entrees. So, when Aziz approached him requesting a \$2,400 microfinance loan he knew this client had potential. "Susan needed the money to advertise her products outside of Kirkuk," Hassan explained. "She knew that colorful packaging and advertising would make Yasmn Foods grow even faster."

Thanks to timely financial assistance from USAID-Tijara and Al-Aman, Aziz' business is thriving. Over the past six months, revenues have soared 30%. Supermarkets in Kirkuk, Tikrit, Baji, Mosul and Samara now stock her dinner selections. Aziz' workforce has grown to 19 employees, 70% of them women. Today she's seeking a second loan to buy a \$30,000 meat grinder. "I can increase production 80% with better machinery," she smiles. "I think I'm ready for an SME loan." Mohammad Taha Hassan couldn't agree more.

When properly invested in business expansion, timely microfinance loans can help struggling businesses achieve the critical mass that allows them to grow to a size to where SME loans ranging from \$5,000 to \$250,000 may make sense.



Part of Aziz \$2,400 loan was used to place advertising on the sides of her delivery trucks.

"I built my company but I never could have expanded as rapidly to so many cities without a microfinance loan from Al-Aman and assistance from USAID-Tijara."

SUSAN ABDUL RAZAK AZIZ

CHAPTER 2



THE IRAQI MICROFINANCE INDUSTRY: EMERGING TRENDS

Omar Akram Khalil, 26, helps his father Akram make wooden furniture for households in Falluja. A \$2,000 loan from the Al-Takadum Organization helped them to buy tools for their carpentry shop.

Iraq's Microfinance Sector is dynamic. In 2009-2010, financial products diversified, outreach to women deepened, operational efficiency continued its upward trend, and government demonstrated a commitment to creating an enabling environment for financial intermediation.

Informal Definition of MSMEs in Iraq:

Micro Enterprises
Loan Size: Below \$5,000
Number of Employees: 1-2

Small Enterprises
Loan Size: \$5,001-250,000
Number of Employees: 3-9

Medium Enterprises
Loan Size: Over \$250,000
Number of Employees: 10-29

Note: Loan size and number of employees are mutually exclusive, with loan size taking precedence in defining the category of business. Small and Medium Enterprises in terms of number of employees are based on guidelines provided by Iraqi Government's Central Organization for Statistics and Information Technology (COSIT).

Iraqi MFIs continue to exhibit scalability and scope as they broaden access and diversify their markets through client segmentation. This is characterized by three main types of average loan sizes: \$500 (ultra-poor clients), up to \$5000 (micro-enterprise clients) and \$5,001 to \$25,000 (small enterprise clients). With the focus on employment generation and poverty reduction, institutions in Iraq have enabled financial access to over 50,000 MSMEs, representing 81% of Iraqi MFIs' active client base.

This report identifies six major trends of the past year and how they will shape outcomes in the years to come – establishing microfinance institutions as downscaling and deepening outreach to poorer clients. They are progressively mainstreaming into the formal financial sector, signified by diversifying sources of capital such as from debt, equity and donors, the development of an enabling environment, and adoption of a microfinance code of conduct and ethics. All of these are facilitating the mainstreaming of MFIs and making the overall financial sector ever more inclusive.

TREND 1: DOWNSCALING TO REACH OUT TO POORER CLIENTS

With the availability of poverty data and improved security in Iraq, 2009-2010 saw the microfinance industry playing a greater role in deepening outreach to poorer clients, especially in southern and central Iraq where poverty is greater. Minimum microfinance loan size reduced to \$500 mainly due to the introduction of the solidarity group lending (SGL) methodology among four Iraqi MFIs. Adoption of SGL methodology enables financial access for those clients without the minimum collateral requirements stipulated by MFIs in Iraq (see Chapter 4 for further discussion on collateral options in Iraq). With 23%⁸ of Iraq's population living under \$2.2 per day, the microfinance market is enormous. MFIs will further refine their downscaling strategies in order to capture this market more effectively to achieve their overall mandate of enabling financial inclusion for those at the bottom of the pyramid (BOP).

TREND 2: FORAYING INTO MAINSTREAM FINANCIAL SECTOR

In 2009-2010, four Iraqi MFIs entered the mainstream financial sector domain to provide bigger loan sizes ranging from \$5,000 to \$25,000 to small businesses. Together, they continue to provide loans to over 4,000 small enterprises. Specialized business finance services for small enterprises can contribute to economic development through employment generation, which has a positive impact on stability in the current high-unemployment environment in Iraq. Demand for such finance is generally focused on credit. They are typically offered by banks or other regulated financial institutions. Collateral constraints, however, cause financing gaps for MSMEs in Iraq. MFIs, with a track record for financing micro businesses are now showing themselves as easier providers of such financing and have developed competency in accurately assessing the cash flow and repayment capacity of potential borrowers.

MFI collateral requirements for micro and medium enterprises are less stringent than banks given that a large proportion of these enterprises lack land or property required by banks. Over 11,000 SME owners were surveyed in market assessments recently undertaken by the USAID-Tijara project. Of these owners, 77% were planning to invest in their businesses over the next two years. About 83% listed long-term bank project financing as a service that they would like to be made available to them. In contrast, only three percent of them had received a loan previously. Nearly half of these businesspersons had found the complexity of bank requirements to be a serious impediment, an issue that may need to be addressed by a reform in banks' operating procedures.

⁸ Based on the 2006/07 Household Socio-Economic Survey, Central Organization for Statistics and Information Technology (COSIT), Government of Iraq

TABLE 4 – COMPARING BANKS AND MFIS IN IRAQ

	MFIs	Banks
Number	14 MFIs	22 Private banks, seven Islamic banks, four foreign banks, 7 government banks ⁹
Number of Branches	100 Branches	210 (PB), 348 (GB)
Number of (M)SME ¹⁰ Clients	50,152 ¹¹ (MSMEs)	1,700 ¹² (SMEs)
Number of Total Clients	61,968	930,000 clients ¹³ (estimated)
Loan Size	\$500 – 25,000	\$5000 – 250,000
Interest Rate	12-18%	10-18%
Repayment Period	1 Year	1-2 Years
Collateral Requirements	<ul style="list-style-type: none"> • Government Employee Guarantee • Solidarity Group: peer-to-peer 	Real Estate/Property or Cash Flow Based Lending, with Guarantee from Iraqi Company for Bank Guarantees (ICBG)
Services Offered	<ul style="list-style-type: none"> • MSME Loans • Agri-business Loans • Housing Loans • Trade Loans • Taxi Loans • Line of Credit 	<ul style="list-style-type: none"> • SME Loans • Regular Loans • Overdrafts
Processing Timeline	2-3 Days	1-5 Weeks

The year 2010 will see substantial funding coming into the country for SMEs, which will be directed to MFIs, given their proven competency of offering the ‘right’ type of services required by the small enterprises in the country. The development of SMEs is recognized as an integral to unleashing the Iraqi entrepreneurial spirit. These enterprises’ ability to access capital will be the key differentiator for choosing MFIs as the partner of choice for facilitating financial inclusion for these businesses.

TREND 3: DIVERSIFIED SOURCES OF FUNDS: EQUITY, DEBT AND DONORS CAPITAL

USAID has provided over \$37 million to MFIs since 2004. In 2009, two MFIs received grant funding from Australian Agency for Development Cooperation (AusAid) and the UN, and in 2010, capital commitments (in the form of ‘line of credit’) were made by Overseas Private Investment Corporation (OPIC), an Agency of the U.S. Government.

The microfinance sector in Iraq is fast gaining global recognition as an ‘investment worthy’ destination among donors and other more commercially-oriented development investment vehicles. In addition, with enabling regulations issued by the Central Bank of Iraq (CBI), donors and other stakeholders will enter the Iraqi microfinance sector not only as grant capital providers, but also as equity investors and low-cost credit providers. As USAID continues to play a leading role in providing timely financing to Iraqi MFIs for scaling-up outreach through a holistic sector development approach, it is poised to play an instrumental role in ensuring coordination among donors and capital providers to appropriately address gaps and continue building microfinance best practices in Iraq.



Najat Ahmed Saaid opened a beauty salon with a \$3,600 microfinance loan. She paid her debt, got a second loan for \$4,000 and began importing cosmetics. Her good credit history was rewarded with a third loan for \$5,000 which she used to start a company promoting concerts in Erbil.

⁹ <http://www.cbi.iq/index.php?pid=IraqFinancialInst>

¹⁰ Due to lack of legal definition of SMEs and/or MSMEs in Iraq, USAID-Tijara assumes that loans up to \$5000 are loans made to micro enterprises and loan size between \$5001-250,000 are made to small and medium enterprises.

¹¹ Total MSME clients financed under USAID Provincial Economic Development Project as part of its initiatives in the Iraqi microfinance sector.

¹² Total SMEs clients financed under USAID Provincial Economic Development Project as part of its initiatives in SME Lending.

¹³ https://www.fbo.gov/download/08f/08f0a3db71eb6de31518c4ee8ce701b/Feasibility_Study_CIB-Iraq.pdf

TREND 4: DEVELOPMENT OF A MORE FAVORABLE ENABLING LEGAL AND REGULATORY ENVIRONMENT

Enabling environment actors such as the NGO Assistance Office and the CBI increases their interaction with MFIs in the country and the regional microfinance market as part of USAID's sector building interventions at the macro, policy level. As Iraqi government agencies MOLSA and MIM review their success (and failures) of the subsidized loan program through technical feedback from USAID-*Tijara*, the government will work towards streamlining its interventions at the policy level and is likely to partner with Iraqi MFIs to extend sustainable financial services to the target population. The year 2010 will witness a more level playing field for the Iraqi MFIs and enable them to access capital for growth.

Based on the Government of Iraq's recognition of microfinance as a developmental tool for achieving their goal to reduce poverty from 23% to 16% as set forth in their 'Strategy for Poverty Reduction in Iraq for 2010 – 2014', the next couple years may see the seven government banks playing a greater role in lending to MFIs in addition to an introduction of broader schemes for MFI-bank linkage.

TREND 5: ADOPTING CODE OF CONDUCT & ETHICS FOR THE MICROFINANCE SECTOR

Iraqi MFIs, supported by USAID-*Tijara*, drafted and adopted the Microfinance Code of Conduct and Ethics. This marks the emerging leadership among MFIs to take stock of the sector and promote ethical good practices. The Code adopts principles of client protection¹⁴ prescribed by Consultative Group to Assist the Poor (CGAP), which include transparent pricing, appropriate collection behavior, ethical staff behavior and privacy of client data.



Microfinance client meets with Iraqi loan officer

CGAP Client Protection Principles

The Client Protection Principles for microfinance are part of a collaborative initiative endorsed and led by a broad coalition of MFIs, networks, funders, and practitioners. The purpose of the Principles is to ensure that financial service providers to low-income populations take concrete steps to protect their clients from potentially harmful financial products and ensure that they are treated fairly. There is now broad consensus that it is critical for the industry to join together and proactively safeguard the interests of microfinance clients through appropriate policies, practices, and products. MFIs that have embedded the principles into their core business activities will have a competitive advantage—not just with clients but with investors, donors, governments, and policy makers.

TREND 6: TRANSFORMATION

CBI is in the process of issuing regulations allowing NGO-MFIs to transform to NBFIs for extending financial services to SMEs. Under this legal status, MFIs will be able to access a broader range of capital for scaling-up their impact in effectively reducing unemployment among the low-income population in Iraq. With MFIs transforming into NBFIs, the Iraqi microfinance sector is poised for new growth and partnerships. Led by USAID, the Iraqi microfinance industry has come together to form a Transformation Working Group (TWG) to leverage ongoing dialogue with CBI to balance supervision and orientation of the transforming NGO-MFI. Specifically, the TWG will be engaging with the CBI and related government agencies to assure that the enabling environment will support transformation.

Based on preliminary observations of the challenges faced by maturing MFIs, USAID-*Tijara*'s TWG internal working group recommends the following, focusing mainly on MFIs' ability to leverage lending from banks, their permitted financial services, and on the issue of interest rates on loans to SMEs:

- Ability to Borrow from Banks – Limited Leverage Capacity
Avoid imposing any arbitrary leverage on MFIs' ability to borrow from banks, which is not inline with industry

14 <http://www.cgap.org/p/site/c/template.rc/1.26.4943/>

best practices. This could hamper the development/scalability of MFIs, which otherwise would be considered creditworthy enough by banks for receiving loan funds beyond (ceiling of) an imposed percent of the company capital.

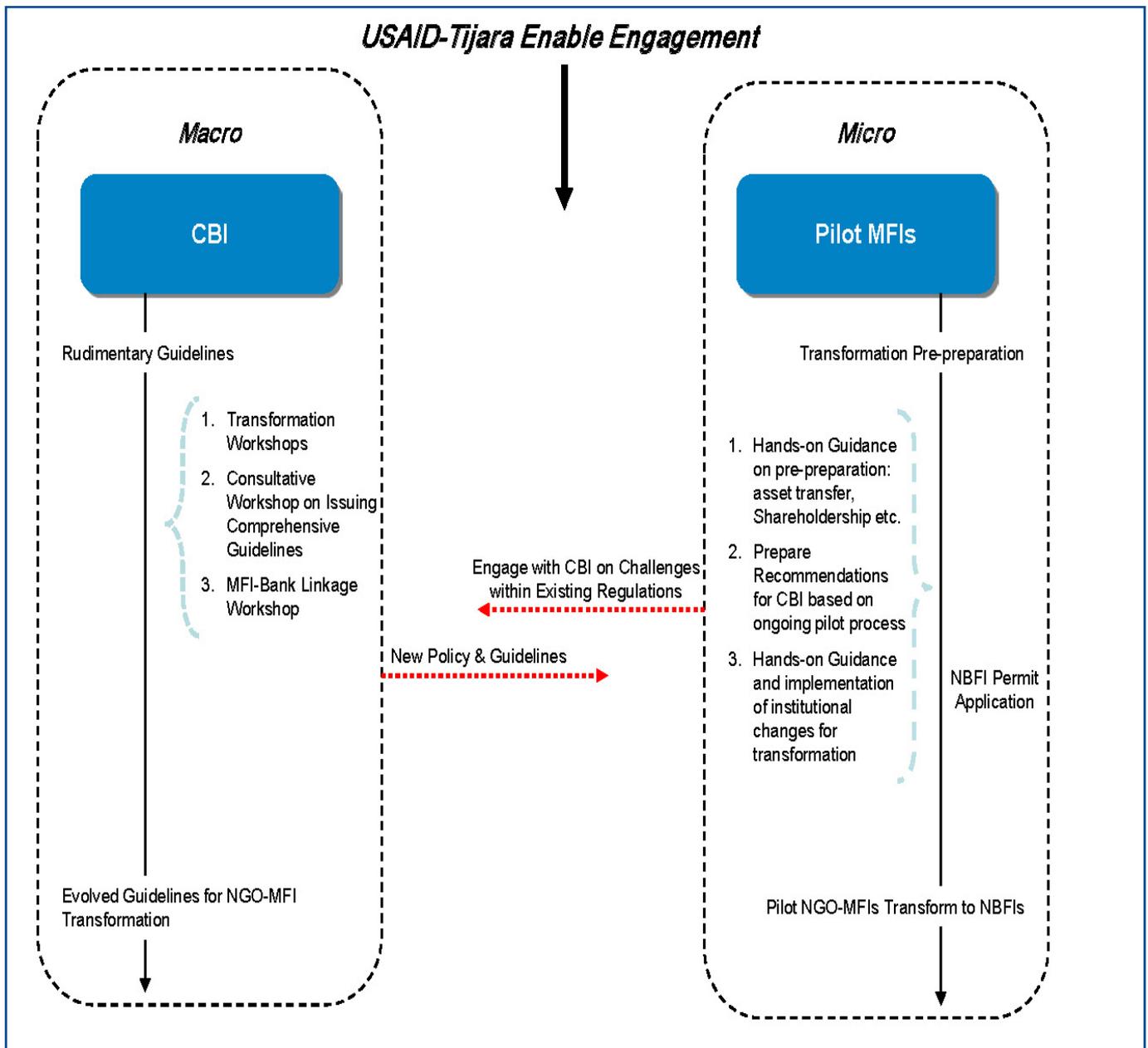
- Permitted Financial Services – Limited to Lending

An MFI serves a diverse range of clients among the low-income segment of the population, and therefore must be permitted to offer loans and credit facilities for both productive and consumption purposes in order to appropriately meet the financing needs of the Iraqi people living below poverty line.

- Interest Rates – Concessionary

Based on the social mandates of MFIs, interest rates charged as calculated based on the principle of sustainability, and therefore any indicative ceiling on an NBFIs ability to charge market interest rates will hamper the overall ability of MFIs to provide need-based financial services to the poor.

FIGURE 3: OVERVIEW OF TRANSFORMATION STRATEGY



PARTNERSHIP FOR PROGRESS:



Al Takadum loan officer Dia'a Ali Hadi and Falluja policeman Salah Mohammad Abdul-Razak became friends after Hadi approved a \$2,000 loan that allowed Salah to buy a car and start repairs on a house destroyed by terrorists.

Loan Officer and Policeman Work to Rebuild a Devastated City

It was around noon on February 17, 2007 and the Salah family was just sitting down for lunch when a group of masked gunmen belonging to Al-Qaeda suddenly burst into their home and began beating people with rifle butts. The family of Salah Mohammed Abdul-Razak was shackled and scourged because his older brother worked for the Falluja police. As they dragged the family from the house, the terrorists ordered everyone to leave Falluja. Then they blew up the house, crushing the taxi Salah used to make a living.

The family did not leave town. Indeed, Salah was so outraged by Al-Qaeda's actions that he joined his brother on the police force. But rebuilding his life was a slow, painful process that only began to improve last year when he met Dia'a Ali Hadi, a 33-year old loan officer working for the Al-Takadum Organization. A sociologist by training, Dia'a grew up in Baghdad but moved to Falluja in 2007 to work with Iraqis who were struggling with the complexities of life.

"Falluja today is a city where one person can make a real difference," Dia'a explains. "There's an Iraqi proverb that says, 'One hand can't clap alone.' Those of us working in microfinance are the other hand, a helping hand, that enables the people of Falluja improve their lives and achieve their dreams."

Dia'a certainly has done more than his share to help Falluja rebuild. Since arriving two and a half years ago, he has approved more than 650 microfinance loans. The loans have allowed city residents to start new business and rebuild shattered homes.

It only takes a few minutes walking with Dia'a down a busy shopping street to realize that he may be the most popular man in town. Trades people leave their shops to shake his hand. Business professionals embrace him to kiss both cheeks. Grocers rush toward him with handfuls of proffered produce. Says Dia'a: "I've shared hard times with these people and listened to many painful stories. Today, it's nice to be able to share moments of joy and know that microfinance funds from Al-Takadum contributed to the city's improvement."

Salah's life certainly is better. A \$2,000 microfinance loan provided the funds necessary to buy a car and start rebuilding his house. Salah and Dia'a see each other often. "I'm glad my family stood firm and did not allow Al-Qaeda terrorists to take control of the city," he says. "My police salary allowed us to stay but it was the microfinance loan that made it possible to rebuild."



Microfinance loans can be used to rebuild homes as well as enlarge business.

CHAPTER 3



BUILDING AN INCLUSIVE FINANCIAL SECTOR IN IRAQ

Mohammed Khaled Abdullah received \$800 when he and two neighbors received a group loan from the Amalkom "Your hope" microfinance institution in Najaf. He used the money to expand a neighborhood sundries shop selling soft drinks, candy and savory snacks.

3.1 VALUE CHAIN INTERVENTIONS FOR SCALING-UP FINANCING TO MICRO, SMALL AND MEDIUM ENTERPRISES

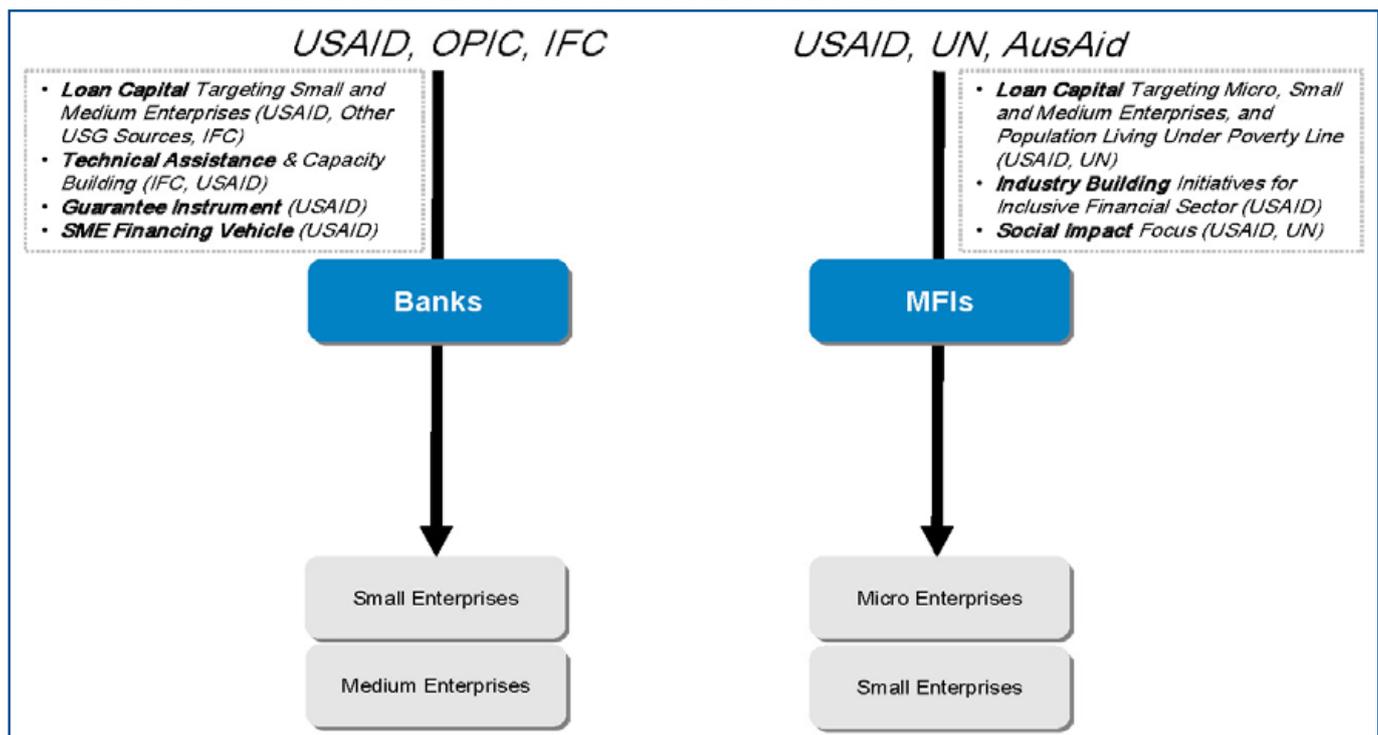
Micro, small and medium enterprises (MSMEs) are recognized as integral contributors to economic growth through several pathways that go beyond job creation, such as entrepreneurship, economic dynamism, linkages in value chains, and societal development. Growth of MSMEs is positively associated with economic growth. For these enterprises to grow, industry dynamism and linkages within value chains are important.

Iraq’s National Development strategy encourages the establishment of MSME projects and develops appropriate financing mechanisms for such projects. In Iraq, funding for micro enterprises is provided by microfinance institutions, informal lenders and family members. Lending to small and medium enterprise is just beginning, promoted predominantly by donors, through banks and now including MFIs as the small enterprise financiers. Banks have traditionally viewed SMEs as risky customers due to their vulnerability to market fluctuations, their relatively short operating history, and their lack of audited accounts. Their ability to lend to small and medium enterprises is hampered by:

- A deficit in skills, both managerial and technical, in the banking industry
- A legal/regulatory infrastructure that does not facilitate transactions, e.g., no modern bankruptcy law
- Inadequate IT infrastructure
- Lack of an awareness of market economics
- Lack of credit bureaus

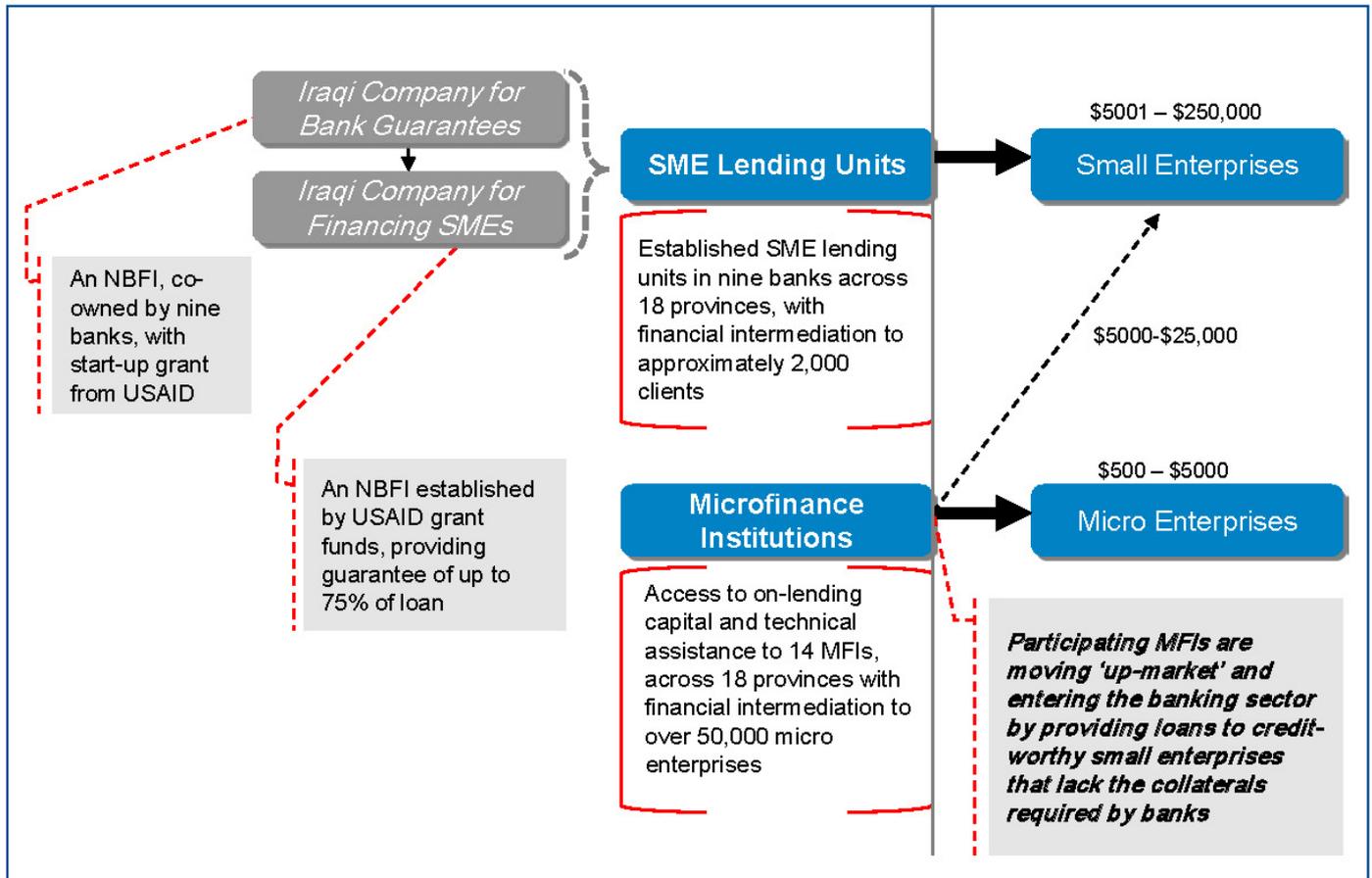
Support for micro enterprises is largely missing within the government’s initiatives. However, donors such as USAID, World Bank, International Finance Corporation (IFC), OPIC and the U.N. have been active in facilitating financing.

FIGURE 4 – DONORS INTERVENTION FOR MSME FINANCING

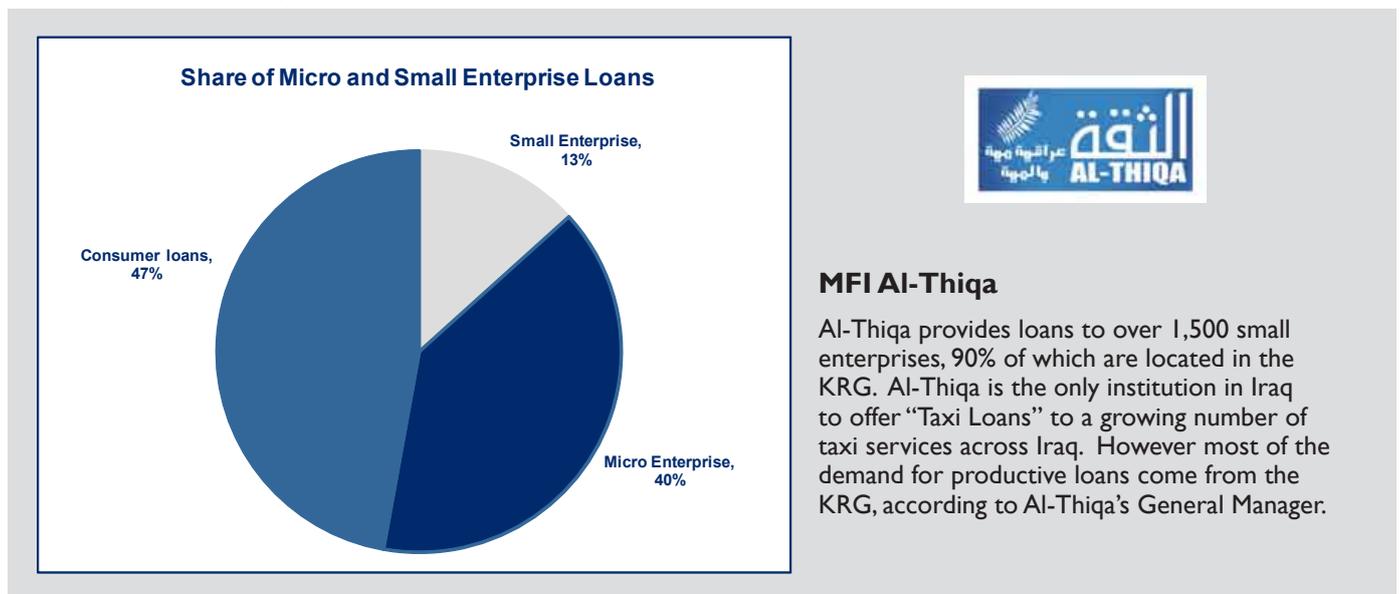


In order to build sustainable financing interventions for MSMEs, USAID has actively promoted the development of a broader ecosystem that looks at the financing value chain for MSMEs. Through USAID-Tijara and its implementing partners, two NBFIs were established in 2006 and 2009, namely the Iraqi Company for Bank Guarantee and the Iraqi Company for Financing SMEs. Co-owned by a group of private sector banks and financed through USAID grants, these institutions provide the necessary confidence to banks for extending loans ranging from \$5,001 to \$250,000 to small and medium enterprises in Iraq. ICBG also provides on-site support to bankers on credit analysis and loan administration through its extensive training programs focused on replacing asset-based lending with modern cash-flow based lending.

FIGURE 5 - USAID ENABLING ACCESS TO FINANCING FOR MICRO AND SMALL ENTERPRISES



As new donors enter the market and increase their collaboration with ongoing initiatives undertaken by USAID, the focus on MSMEs will scale-up and key challenges such as technical capacity of banks, MFIs and the government to facilitate broader financial sector reform for inclusive economic growth will be addressed. MFIs are increasing their outreach to micro enterprises and last year saw at least three institutions moving 'up market' to provide financial services to small enterprises.



Focus on MSMEs will grow beyond financing interventions. It will include a broader value chain that is sector specific in order to increase MSMEs' position. For example, the recently launched Youth Initiative by USAID-Tijara provides training, consultative business planning support to start-ups, and facilitates financing through a three-way partnership between small business development centers (SBDCs), MFIs and young entrepreneurs.

CHF-International in Iraq – Beyond Microfinance

Access to Credit Services Initiatives

CHF International provides a diverse range of loan products for micro and small enterprises, and individuals to expand their businesses and improve their living conditions.



Community Action Program

At the request of USAID, CHF International began working in three provinces in southern and central Iraq on the Community Action Program (CAP). The goal of CAP is to strengthen local governments so that they can more effectively prioritize, plan and implement projects based on community needs.

Iraq Middle Market Development Foundation

In 2004, the Overseas Private Investment Corporation (OPIC) saw a market gap in the finance industry in Iraq. Middle Market Enterprises—companies larger than small to medium enterprise (SME)—were also being excluded from traditional loans. As a result, CHF International and OPIC set up the Iraq Middle Market Development Foundation (IMMDF) to provide loans of up to \$5,000,000 to growing enterprises that show promise in the recovering Iraqi economy.

A broader MSME development strategy is being implemented, which will aim to leverage banks and MFIs as financial intermediaries for the Iraqi MSMEs. The strategy emphasizes sector specific development in order to create the required volume and network of entrepreneurs for strengthening their linkages to markets and position with suppliers and buyers.

3.2 USAID LEADING SECTOR DEVELOPMENT APPROACH IN IRAQI MICROFINANCE INDUSTRY

A sector development approach for achieving inclusive financial services is timely. USAID and its implementing partner, USAID-Tijara, have been taking the lead in scaling-up this approach to achieve greater impact and donor coordination as the Iraqi microfinance sector matures.

At the policy level, the NGO Assistance Office and CBI are now engaging Iraqi MFIs and other stakeholders working in the sector. All 14 MFIs in Iraq are registered as NGOs, with one transforming into an NBF in 2010.

MICROFINANCE LOANS BRING THE IRAQI CITY OF FALLUJA BACK TO LIFE

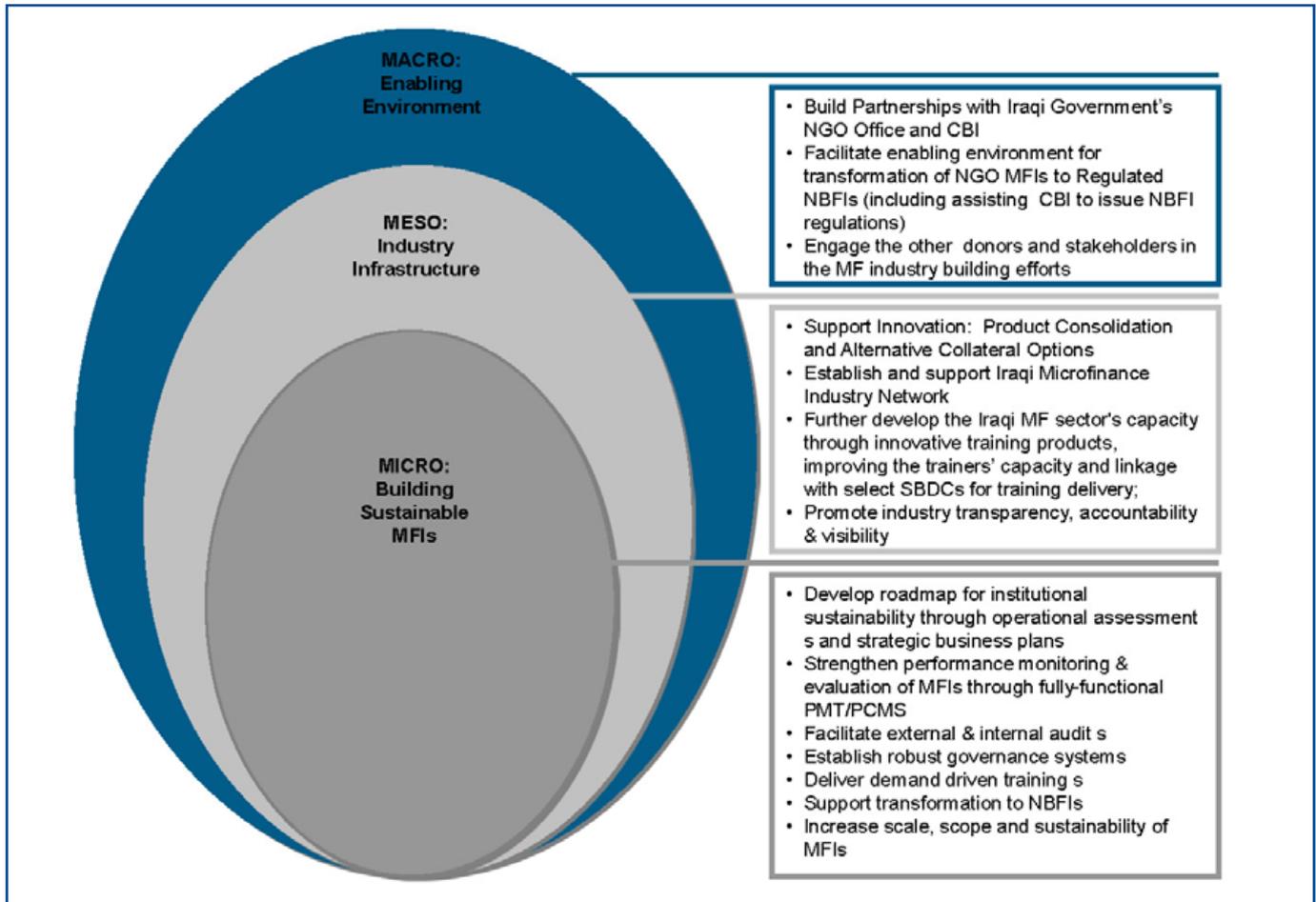
Fourteen microfinance institutions supported by the USAID-Tijara Provincial Economic Growth Program are working to rebuild Iraq one business at a time. The loan capital is especially appreciated in towns like Falluja, which prior to the Sunni Awakening was plagued by terrorist attacks and random violence. Microfinance loans ranging from \$500 to \$3,000 provide the needed financing to start a business - or save one when adversity strikes. Small loans made by Al Anbar province companies like Al-Takadum add up to a big investment in the future of towns like Falluja, which now has a modern photographic studio to capture life's important family moments on film.

BEFORE: In 2009, a bomb placed at a nearby political party office destroyed Mohammad Ali Nasrallah's photography studio. Gone in a flash was \$2,000 worth of equipment he had purchased with a loan from the Al-Takadum microfinance institution.

AFTER: Today, Mohammad is back in business thanks to a second microfinance loan for \$3,000 from Al-Takadum that allowed him to rebuild his shop, replace lost cameras and plan for future growth.



FIGURE 6 – NEW ERA OF SECTOR DEVELOPMENT APPROACH IN IRAQI MICROFINANCE SECTOR



3.3 MACRO: BUILDING AN ENABLING REGULATORY ENVIRONMENT

The policy environment for microfinance is improving. Multiple challenges and gaps, however, remain. Donors and MFIs need to coordinate with one another to resolve them. Until recently, the understanding of microfinance has been non-existent among the two main government stakeholders, the CBI and the NGO Assistance Office. USAID continues to lead this effort in the sector and has served as the coordinating agency for organizing stakeholder discussions with regulators.

USAID-Tijara continues to host the Legal and Regulatory Working Group (LRWG) meetings regularly since 2009. LRWG includes membership from CBI, USAID, U.S. Department of Treasury and MFIs, to advance further dialogue on creating a suitable enabling environment for microfinance to mainstream into the financial sector

Various consultations have taken place with the CBI, led by USAID, regarding the need for it to adopt initial guidelines for the microfinance sector in Iraq. OPIC and CGAP have contributed to such discussions on the need for the CBI to adopt workable guidelines for the microfinance sector. CBI has drafted regulations on NBFIs based on its overall objective of promoting sustainable growth, employment and prosperity in Iraq.¹⁵

3.3.1 Iraqi Government NGO Assistance Office

To date, the NGO Assistance Office has a limited view of the types of activities in which an NGO should engage. USAID and USAID-Tijara have hosted stakeholder meetings with the NGO Assistance Office, together with MFIs. The purpose of the meetings was to open lines of communication with the NGO Assistance Office, and to introduce basic principles of microfinance, and characteristics of the Iraqi microfinance industry. Concern remains about the interest rates MFIs charge clients, which are considerably lower compared to globally acceptable microfinance interest rates in the region and beyond. Client poverty levels, use and application of grants to MFIs, geographical areas of coverage, and future meetings and dialogue have also been reviewed. These meetings are recognized as critical first steps towards a more strategic and engaging relationship for creating an inclusive financial sector through this Office's support for NGO-MFIs in Iraq.

¹⁵ CBI Law Number 56, Article 3, 2004

Concerns Raised by NGO Assistance Office during First Stakeholder Dialogue

1. The Issue of Interest Rates

The NGO Assistance Office is concerned about NGO-MFIs charging “high” interest rates, particularly for the poor. As part of the engagement strategy with the NGO Assistance Office, USAID-*Tijara* has developed a focused initiative aimed at developing the knowledge capacity of NGO Assistance Office officials, which include training in basic microfinance concepts and principles, and papers on interest rate calculations adapted from CGAP, among others.

2. The Issue of Using Government Employees as Guarantors

The NGO Assistance Office expressed concern about the use of government employees as guarantors for the MFI borrowers. This Office warned that such deductions from government salaries are illegal. USAID-*Tijara* continues to engage with the NGO Assistance Office on the importance of guarantees for ensuring client repayments, and is exploring other acceptable alternatives.

The new NGO law is broadly enabling. It allows for a variety of activities related to microfinance, such as creating a microfinance industry network and opening multiple branches across the country. There are, however, several ambiguities that would constrain MFIs:

- Taxation for revenue generating NGOs

According to the new law, an NGO can be exempted from paying taxes after receiving status as a ‘public utility’ NGO, approved by a Council of Ministers. MFIs as revenue generating NGOs cannot apply for such a status, which reduces incentives for MFIs to continue operating as NGOs. In addition, newer MFIs will find their margins squeezed with additional costs as taxes.

- Dissolution of NGO and transfer of assets to successor organization of similar legal status

As NGO-MFIs scale-up and transform into NBFIs, the ambiguity on asset and loan portfolio transfer to a new organization of different legal status can constrain transformation.

USAID is working closely with the NGO Assistance Office through its partnership with UNOPS Civil Society Working Group, which is the U.N. Project engaged with the NGO Assistance Office for building their institutional capacity and systems to become effective promoters of civil society engagement in the country.

3.3.2 Central Bank of Iraq

The Central Bank of Iraq (CBI) recognizes the lack of depth in outreach for achieving the goal of financial inclusion given the largely underdeveloped banking sector in the country. In early 2010, the CBI drafted regulations for enabling NGO-MFIs to transform into NBFIs. The regulations are currently being reviewed by the Shura (legal) Council and will be formally issued later in the year. The ability of NGO-MFIs to transform into NBFIs will allow sustainable ones to become more accountable as regulated entities and access a broader spectrum of capital for growth. While the CBI does not endorse interference in interest rates charged by MFIs, the draft regulations make reference to “concessionary” rates.

The capitalization requirements under the draft NBFIs regulations for creating an SME financing company is \$1.7 million as a joint stock company (JSC) and \$850,000 as an LLC. With the exception of three large international NGO-MFIs, the Iraqi MFIs are unable to meet this stipulated minimum requirement unless international development investors with high risk appetites participate to enable transformation. In addition, the draft regulations permit the envisaged financing company to provide only loans to SMEs. Other financial services such as savings are not permitted.

3.4 MESO: BUILDING THE MICROFINANCE INDUSTRY INFRASTRUCTURE

The Iraqi microfinance industry infrastructure has achieved a variety of important initiatives at the meso level. USAID-*Tijara* has led the establishment of transparent reporting systems, human resources training for the microfinance sector and the development of a broader microfinance platform for coordinating with donors and global microfinance industry.

3.4.1 Towards Transparency and Accountability

MFIs continue to be challenged in accurately tracking, recording and reporting the performance data necessary to monitor progress. Donor agencies require credible information on the results and impact of microfinance activities in which they are investing. As sustainability becomes increasingly important as a means to diversify funding sources, accurate and consistent reporting of performance is crucial.

MFIs are increasingly interested in learning how they are performing in comparison to their peers at similar maturity levels across the Middle East and North Africa (MENA) region. There is also a need to begin asserting a place for the industry as an integral part of the overall financial system in Iraq. To assist the industry in tracking its own progress and to report to funders and stakeholders more broadly, the Performance Classification and Monitoring System (PCMS) was designed and tested by USAID-*Tijara*. In early 2010, all MFIs were consolidating data across branches and reporting using the automated MIS.

The goal of the performance classification and monitoring at the industry level is for the industry to be able to self-regulate by:

- Producing and presenting accurate and regular information on industry performance to stakeholders (clients, donors and potential commercial funders).
- Setting accurate benchmarks (actual performance averages).
- Monitoring and documenting progress against benchmarks over time.
- Providing feedback to individual MFIs on their performance against peer group averages.
- Possibly setting minimum standards for future performance as a means of accreditation.

TABLE 5 – CLASSIFICATION GRADE OF IRAQI MFIS

D: Start-up stage

Up to 500 borrowers having loans of up to \$1 million. Portfolio at risk (PAR) and operational expense ratios (OER) tend to be high, while loan officer productivity, and operational and financial self-sufficiency ratios are low (15 – 40%).

C: Consolidation stage

MFIs consolidate and solidify performance by growing their portfolio up to 1,500 clients with up to \$5 million outstanding. PAR and OER reduce; and loan officer productivity and viability indicators increase to 30– 60%.

B: Expansion stage

In the expansion phase, MFIs grow to reach up to 5,000 clients with an outstanding portfolio of up to \$ 15 million. PAR, OER and loan officer productivity ratios will reach industry standard levels, while viability indicators will be just below break even point (50 – 99%)

A: Commercial viability stage

For commercial viability, MFIs will earn a profit and generally comply with international microfinance performance benchmarks. There is a portfolio of over 5,000 clients with more than \$15 million outstanding. PAR will be below two percent. OER will decrease to below 12% and loan officer caseload will generally be above 200. Viability ratios (OSS and FSS) will both exceed 100%.

Tracking performance data has enabled the industry to document growth and development, while national performance benchmarks can be compared to international performance averages, for example by linking them to the global Microfinance Information Exchange (MIX) Market database¹⁶.

3.4.2 Building the Human Resource Capacity

USAID-*Tijara* continues to play a critical role in building the institutional, human resource capacity of the maturing Iraqi microfinance industry. A major part of this infrastructure development is the training of qualified Iraqis to become microfinance trainers so they can transfer skills to other Iraqi MFIs.

In 2006, USAID-*Izdihar* began developing 11 Iraqi microfinance trainers chosen from over 100 applicants to become CGAP-certified Iraqi Microfinance Trainers. As of early 2010, eight First Generation MF Trainers remain serving the Iraqi microfinance industry as leaders, including several who are MFI chief executives.

¹⁶ [Http://www.themix.org](http://www.themix.org)

Since 2009, over 400 Iraqis employed by or associated with Iraqi MFIs, USAID-*Tijara*-supported SBDCs, and other key stakeholders such as from government have been trained through 20 events. These events have included workshops and conferences in topics essential to institutional growth and financial sector mainstreaming. These trainers were also trained as Master Trainers of Trainers (MTOTs) in early 2010. The purpose of this training, and the considerable investment of resources incurred, is for the first generation to train a second generation of around 20 MF Trainers to carry on and meet the training demand that exists with the Iraqi microfinance industry.

SBDCs – A Critical Partner for the Iraqi Microfinance Industry

In early 2010, USAID-*Tijara* assigned certified microfinance trainers to selected SBDCs in Baghdad and Erbil in order to build these SBDCs' capacity to become training centers for the Iraqi microfinance industry. SBDCs are important partners at the meso level, and are well known training centers for a diverse range of business development areas. SBDCs are strategically placed to serve as demand driven training centers for MSME entrepreneurs, providing sustainable and need based inputs to MFI staff and the industry at large.

In line with USAID-*Tijara*'s long-term strategy to create sustainable and demand-driven microfinance training centers for the Iraqi microfinance industry, certified microfinance trainers are being linked to the SBDCs established through grant support by USAID across Iraq. It is envisioned that the SBDCs will serve as the institutional platforms in which the microfinance trainers will conduct training services in the areas of their financial sector competence. USAID-*Tijara* will continue in 2010 to provide technical assistance to two SBDCs in Baghdad and Erbil for developing their institutional capacity as microfinance training centers. Other SBDCs elsewhere in the country will be added.

3.4.3 Formalizing the Iraqi Microfinance Industry Network

Building on the Microfinance Strategy 2006 under USAID-*Izdihar*, an informal microfinance network supported the development of a sustainable microfinance industry in Iraq. It advocated reform and development of the microfinance industry by promoting training, and standardized MFI reporting to enable performance monitoring.

Based on the newly issued NGO Law which allows for the creation of a national microfinance network, USAID-*Tijara* is supporting the institutionalization of such a network in Iraq. As an initial step, the Iraqi MFIs agreed to a Code of Conduct and Ethics for the sector. The Code focuses on such areas as transparency, client protection, and respect for religion, among others. In 2010, USAID-*Tijara* allocated grant funding to establish and institutionalize the Microfinance Industry Network, an effort led by the Iraqi MFIs.

The network will support a number of programs and initiatives in support of the industry and its constituent Iraqi MFIs. The Iraqi microfinance knowledge portal (www.imfi.org) will be transferred from USAID-*Tijara* to the network. It will also have such other responsibilities as policy monitoring and advice, donor coordination and directing the sector towards best practices and sustainability. Most importantly, the network will serve as a unified voice for the Iraqi microfinance sector to lobby the government for a more favorable enabling environment and legal and regulatory framework, and guide international funders and technical assistance providers to help deliver targeted results for achieving financial inclusion in Iraq.

3.4.4 Cross Fertilization and Knowledge Sharing

USAID continues to provide platforms for building cooperation among Iraqi MFIs, promoting collaboration, partnership and healthy competition on interest rates and client services. In 14 provinces, more than one MFI serves poor clients, leading to improved services for the target clientele. MFIs such as Al-Takadum in Anbar, which has demonstrated competency in Islamic finance (Al-Murabaha), often hosts site visits from other MFIs who are facing increased resistance from religious leaders in their areas of operations. MFIs also extend full cooperation for any USAID-*Tijara* technical assistance experts' investigations in areas that would lead to improved impact for the broader microfinance sector.

3.5 MICRO: BUILDING THE ROADMAP TOWARDS INSTITUTIONAL SUSTAINABILITY

MFIs are the most rapidly growing providers of finance in Iraq. Between 2007 and 2010, the industry had a cumulative annual growth rate of 53.3%. By early 2009, this growth changed the dynamics of the Iraqi microfinance sector: MFIs gained their independence as demand driven institutions. They are becoming increasingly recognized as effective development institutions reaching out more to the poor and those excluded from the mainstream financial sector.

Based on the classification system used across the Iraqi microfinance industry, eight MFIs fall under Category A, the Commercial Viability Stage, while six MFIs fall under Category B, the Expansion Stage, one of which is initiated by the Kurdistan Regional Government (KRG).

Category A	Category B
Tal'afar (TEDC)	Al-Mosaned
Al-Takadum – Falluja	Al-Tadhamun (TDMN)
Al-Takadum – Ramadi	Al-Bashaer
Al-Aman	Al-Takadum – Qaim
Izdiharona	Amalkom
Relief International	Bright Future Foundation (BFF)
CHF International	
Al-Thiqa	

Compared to globally used standards of Tier I, II and III MFIs, five MFIs fall under the category of Tier II while the remaining nine can be classified as Tier III institutions. MFI tiers are defined using the CGAP endorsed portfolio size parameters:

- Tier I: GLP > \$50 Million
- Tier II: GLP > \$3 Million and < \$50 Million
- Tier III: GLP < \$3 Million

Tier II: GLP>USD 3 Million and < USD 50 Million	Tier III: GLP<USD 3 Million
Relief International	BFF
CHF International	TEDC
Al-Thiqa	Al-Takadum - Falluja
Izdiharona	Al-Takadum - Ramadi
Al-Bashaer	Al-Takadum - Qaim
	Amalkom
	Al-Aman
	Al-Mosaned
	TDMN

3.5.1 Continued Growth

.....Continued, impressive portfolio growth of 31.7%.

.....Category A MFIs lead the growth

As of March 31, 2010, MFIs recorded annual increases of 32% in their portfolio size and 42% in their active client bases. Over the period of 2004 and 2010, this translates into compounded annual growth Rates (CAGR) of 58.4% and 53.8% respectively. If analyzed across time, the MFIs have slowed down over this period, as the previous year witnessed an annual growth rate of 68% in portfolio size and a client growth rate of 54% compared to 2009-2010.

	March, 2009	March, 2010
Active Clients	43,666	61,968
Year on Year Growth	54.3%	41.9%
Outstanding Loan Portfolio	\$63 Million	\$83 Million
Year on Year Growth	68%	31.7%

The leveling off of the loan portfolio growth rate is due to the introduction of the Solidarity Group Lending (SGL) methodology in Iraq, with a new minimum loan size of \$500. The leveling off of client outreach growth is based on the decrease in client turnover, from 65.5% in March 2009 to 28.3% in March 2010, which measures the number of clients continuing to access services. The steeper slow down in outstanding loan portfolio is attributed to the reduced average loan size with the introduction of the group lending methodology in 2009.

Simultaneously, the continuing unstable security situation and unavailability of new funders contribute to the MFIs'

inability to grow at a faster pace. Iraqi MFIs also face challenges in accessing qualified human resources. They have high attrition rates where MFIs continue to lose trained staff members to more secure and stable opportunities with the Government or those outside Iraq.

FIGURE 7 – SHARE OF EACH MFI CLASSIFICATION IN OUTSTANDING LOAN PORTFOLIO

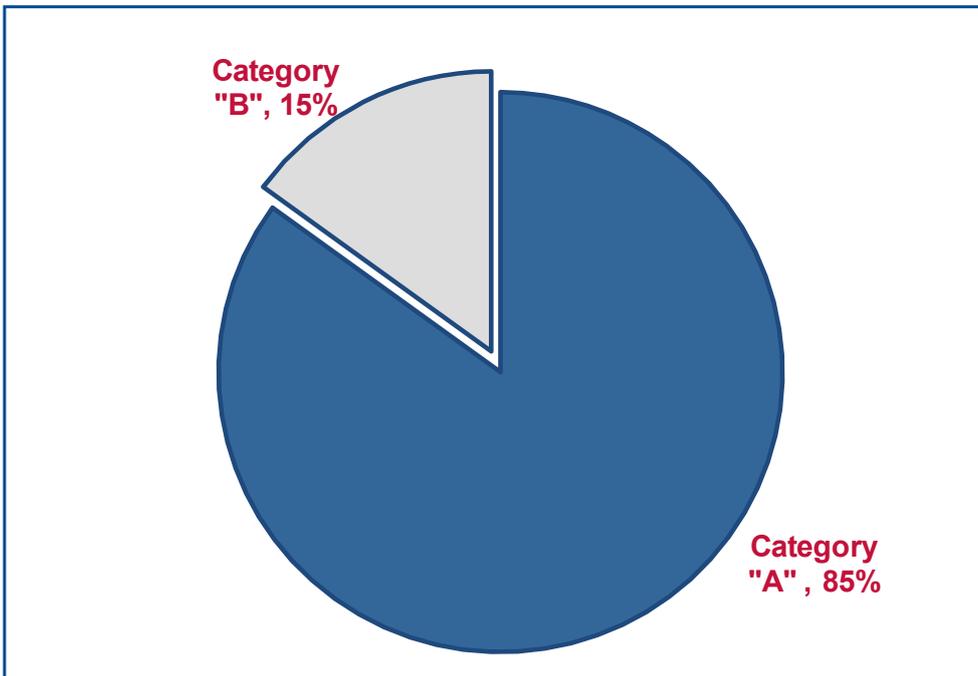


FIGURE 8 – SHARE OF EACH MFI CLASSIFICATION IN ACTIVE CLIENTS

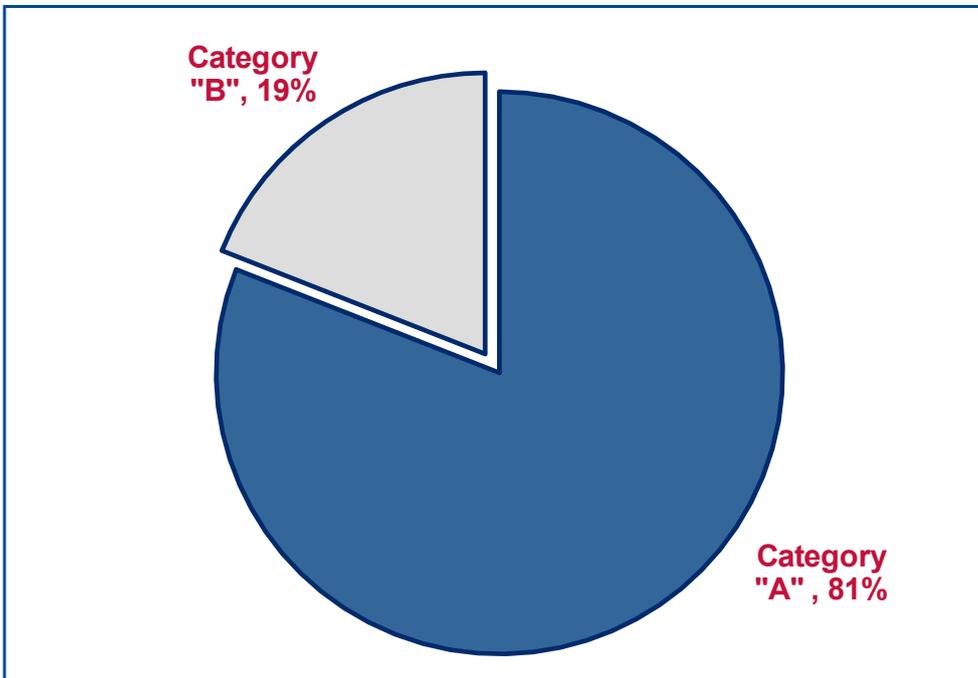


FIGURE 9 – GROWTH IN CLIENT OUTREACH, CUMULATIVE AND OUTSTANDING

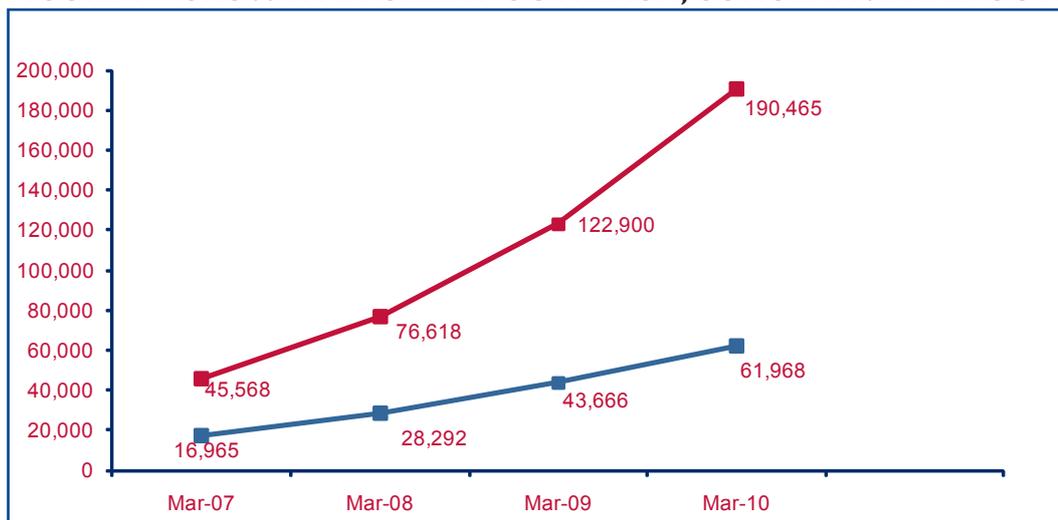


TABLE 6 – IRAQI MFIS AVERAGE GROWTH COMPARED TO MBB AVERAGES

	MBB ¹⁷ Average, MENA	Iraqi MFIs Average
Number of Active Borrowers	12,589	4,426
% of Women Borrowers	66.3%	15%
Gross Loan Portfolio per MFI	5,479,125	5,927,232
Average Loan Balance per MFI	\$317	\$1,146

Outreach to women as a proportion of total active clients increased from 13% in March 2007 to 18% in March 2010. MFIs have demonstrated a commitment to increasing the share of female clients by hiring female loan officers and targeting women groups. Female loan officers represent 19% of total loan officers among Iraqi MFIs, a proportion that continues to grow each year as MFIs attempt to extend their outreach to this target group. However, based on the limited economic and social mobility of women in Iraq, the microfinance sector has yet to unleash the entrepreneurial potential of Iraqi women. Women who access quality financial services demonstrate higher success rates both in terms of repayment and positive socio-economic impact on their families.

3.5.2 Portfolio Quality and Performance

...Increasing portfolio yields to cover costs

Iraqi MFIs hold a healthy loan portfolio with PAR > 30 days of less than one percent. Grade A MFIs have better credit/risk analysis systems as well as better collection methods in place. They therefore maintained good portfolio quality at one percent, whereas Grade B MFIs, with a PAR>30 days at four percent. The Grade B group will have to closely monitor delinquencies, and improve their client qualification and collection systems.

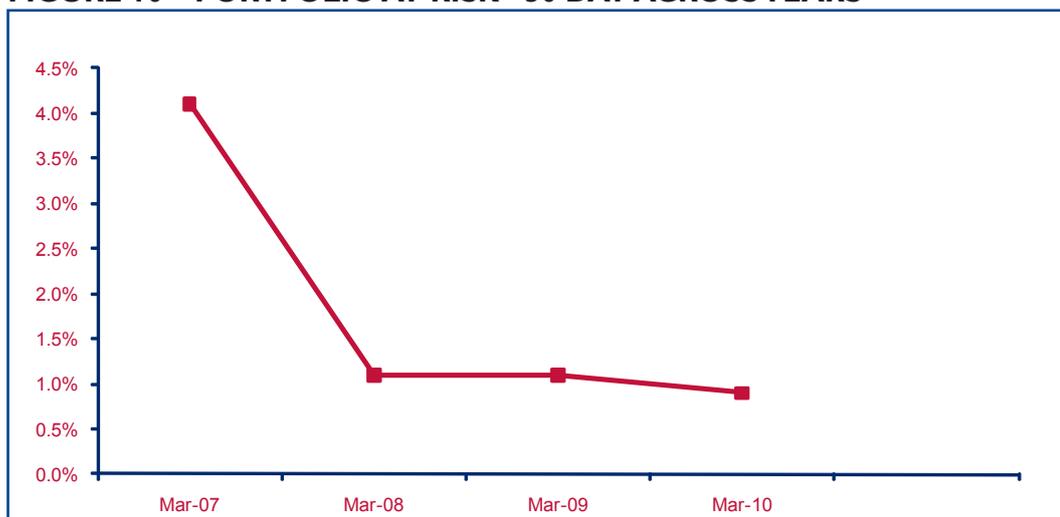
Risk	Grade A	Tier II	Grade B	Tier III
PAR>30 Days	1%	2.1%	4%	2.2%

TABLE 7 – PROFITABILITY RATIOS FOR MFIS ACROSS GRADES

Profitability	Grade A	Grade B	Overall
Yield on Gross Portfolio	28.7%	41.64%	35.2%
Profit Margin	619,792	100,098	420,212
ROA	11.2%	3.3%	8.1%

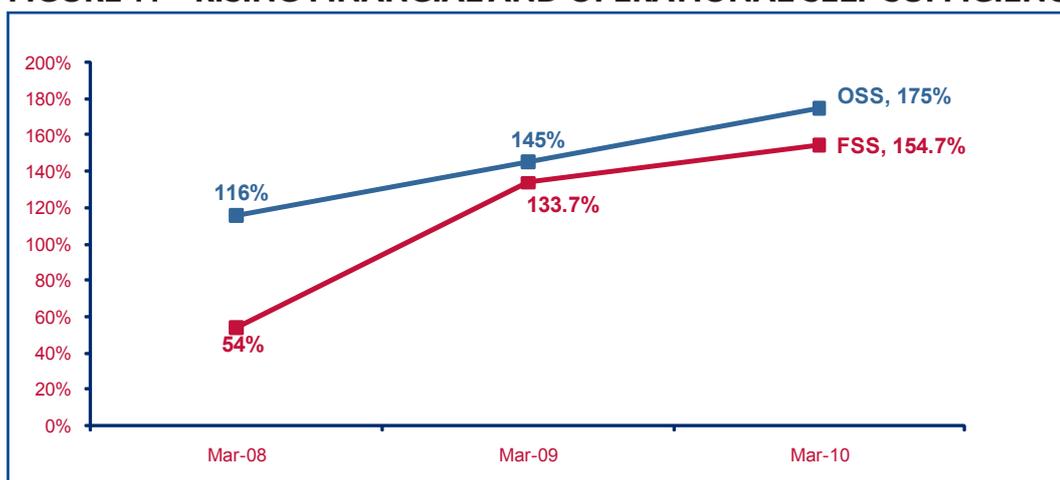
17 Arab Microfinance Analysis & Benchmarking Report, Micro Banking Bulletin 2009

FIGURE 10 – PORTFOLIO AT RISK >30 DAY ACROSS YEARS



The financial and operational self sufficiency for MENA was 107.3% and 119% respectively in 2009¹⁸ compared with OSS of 116% and FSS of 54 % in Iraq. MFIs in Iraq continue to demonstrate increase in both operational and financial sustainability.

FIGURE 11 – RISING FINANCIAL AND OPERATIONAL SELF SUFFICIENCY



3.5.3 Growing Efficiency in Loan Operations

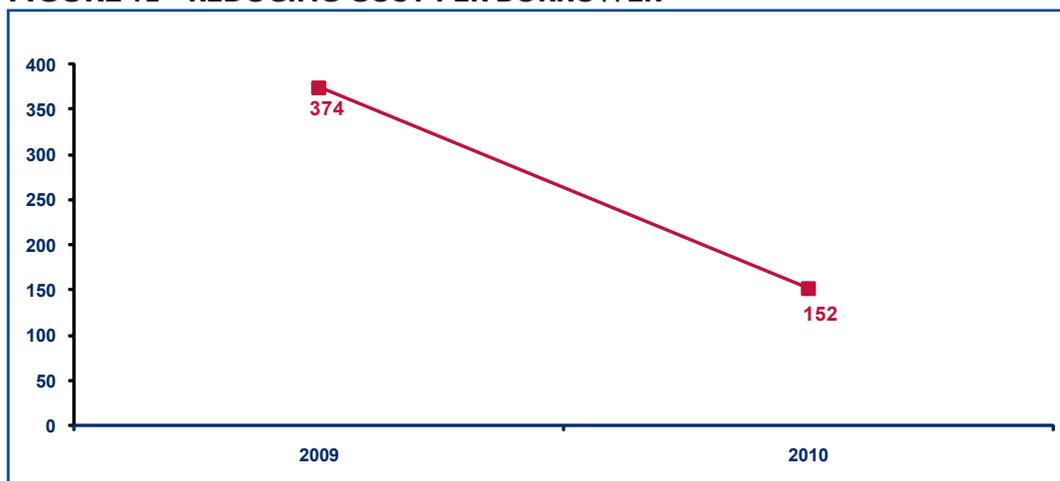
...Increasing scale of operations and improving cost efficiencies

In 2009 – 2010, Iraqi MFIs continued to be highly efficient in their loan operations, a trend that corroborates their increasing scale of operations. The operating cost ratio at 11.8% has improved dramatically from the ratio of 19.5% in March 2009 and 32% in March 2008. The cost per borrower has improved from \$374 in 2009 to \$152 in 2010.

In a country characterized by ongoing conflict and insecurity, operating costs are high. Staff salaries and other administrative costs are far higher in Iraq compared to other countries in the region. For example, the average monthly salary of a loan officer (including built-in incentive schemes) in Iraq is \$843, compared with India and Bangladesh, where the average is about \$100. In addition, hiring of extra support staff, mainly for security, increases personnel cost to a much higher level than in other regional countries. While most loan officers typically use bicycles or motorcycles in other countries for field work; those in Iraq are forced to use cars, which are more costly, due to weather and security conditions. Despite such costs, Iraqi MFIs show a healthy reduction in cost per borrower across years as their experience and outreach develops.

18 2009 Arab Microfinance Analysis & Benchmarking Report, CGAP, Sanabel and MIX Market

FIGURE 12 – REDUCING COST PER BORROWER



This reduction in the operating costs is due mainly to effects of scale as cost overheads are distributed over a larger base. Further, an improved level of standardization and increasing use of technology are also contributing to higher efficiency of Iraqi MFIs. Overall, this marks the merging of demand-driven, sustainable and competitive markets for quality financial services.

FIGURE 13 – OPERATING COST RATIO OF IRAQI MFIS

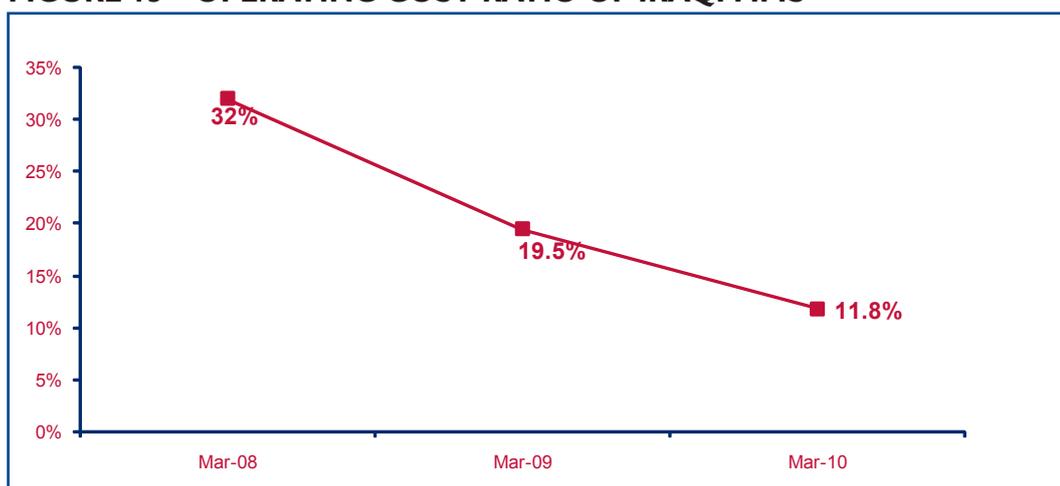


TABLE 8 – COST RATIO ACROSS GRADES

Efficiency	Grade A	Grade B
Operating Expense/Loan Portfolio (%)	10.8%	37%
Cost per Borrower	141	171.6

MFIs are moving from serving one province to now operating in multiple provinces, thereby increasing the competition in the sector, and consequently leading to improved services and lower borrowing costs for targeted clients.

More than One MFI	Province
Al-Bashaer; Al-Thiqa; CHF	Baghdad
Al-Aman; Al-Thiqa	Kirkuk
CHF; Amalkom; Izdiharona	Najaf
Al-Thiqa; BFF	Erbil
TDMN; TEDC; Al-Thiqa	Ninawa
CHF; Amalkom; Izdiharona	Babil
CHF; RI	Basrah
Al-Thiqa; BFF	Dahuk
Amalkom; CHF; Izdiharona; RI	Karbala
Al-Thiqa, CHF; BFF; RI	Sulaymaniyah
CHF; Amalkom	Diwaniyah
CHF; Izdiharona; RI	Wasit
RI; Izdiharona	Maysan

Al-Aman and KIVA

KIVA extended a loan fund of \$100,045 to Al-Aman in Kirkuk to provide micro-loans to local entrepreneurs.

The KIVA loan supported 40 businesses in generating income for their families, of which 35% were female entrepreneurs with informal businesses operating from their homes. Al-Aman's track record with KIVA paved way for other Iraqi MFIs to borrow through this global online lending platform.

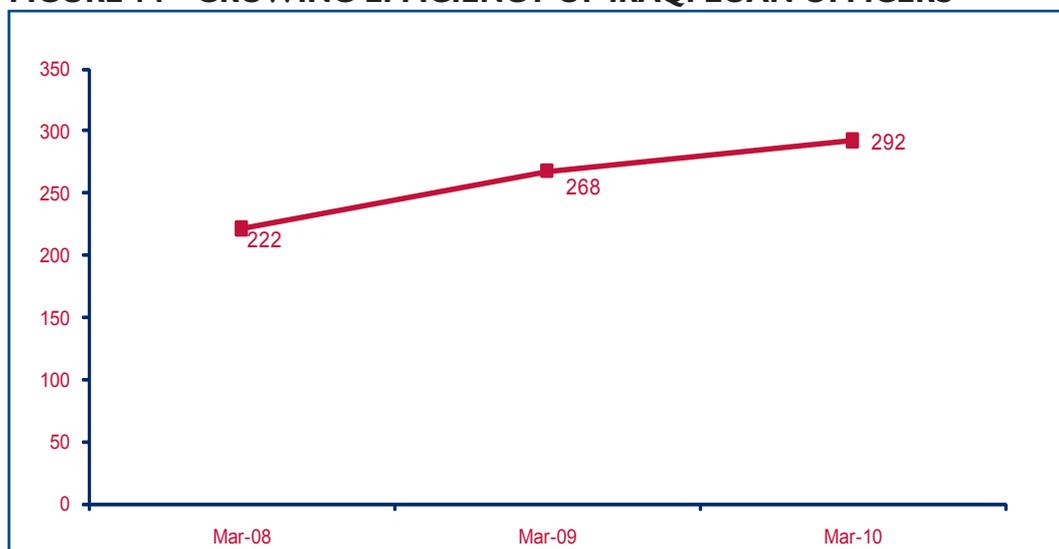


The financial cost ratio for Iraqi MFIs is negligible. Currently, there are no providers of debt capital in the Iraqi microfinance sector; domestic or international. Banks are unwilling to lend to MFIs. They themselves are receiving technical and financial support from international donors such as the IMF, USAID and the Iraqi Government to restructure the financial services infrastructure in the country. Grant capital for lending is provided predominantly by USAID, with 44% of total on-lending capital of \$73 million provided as loan capital. In 2009 and 2010, UNIDO, UNOPS, Kiva and AusAid contributed approximately \$7 million for microfinance lending in Iraq.

Interest charged on loans is the main source of internally generated income for Iraqi MFIs. Because MFIs do not bear financial costs, interest rates charged from 12 to 18% per annum are high enough to cover operational costs. Comparatively, the MENA average interest rate is 24%.

Iraqi MFIs continue to demonstrate higher cost efficiencies than their MENA peers, particularly analyzed on the basis of average number of clients per loan officer. MFI Al-Thiqa records 417 clients per loan officer, followed by Relief International at 279 clients per loan officer. On average Iraqi MFIs record an average of 292 clients per loan officer compared to the MENA average of 211 clients per loan officer.

FIGURE 14 – GROWING EFFICIENCY OF IRAQI LOAN OFFICERS





CHAPTER 4

MICROFINANCE PRODUCTS AND SERVICES

Raza Restaurant owner Esmaeel Ahmed Hamaa purchased chairs, Formica counters, ovens and a hot water heater with two microfinance loans totaling \$5,000. The Al-Thiqa Small Business Loan Fund was so pleased with his success – more than 350 people buy lunch from him every day - that it offered Esmaeel a third loan for \$5,000 to expand the size of Raza Restaurant.

Iraqi MFIs are livelihood-focused financial service providers that are starting to experiment with diverse financial products. It is vital that MFIs diversify their product mix if they are ever to achieve operational efficiencies of the sort that permit larger profit margins.

There are three main lending methodologies in the Iraqi microfinance sector – individual lending, solidarity group lending and Islamic lending. Different from much of the global microfinance sector, the Iraqi microfinance industry started lending with individual loans (similar to the Egyptian microfinance sector) and Al-Murabaha Islamic finance. As security improved in 2009 with access to more accurate data on poverty rates, solidarity group lending was introduced under the auspices of USAID-Tijara.

FIGURE 15 – SHARE OF ACTIVE CLIENTS BY LENDING METHODOLOGIES

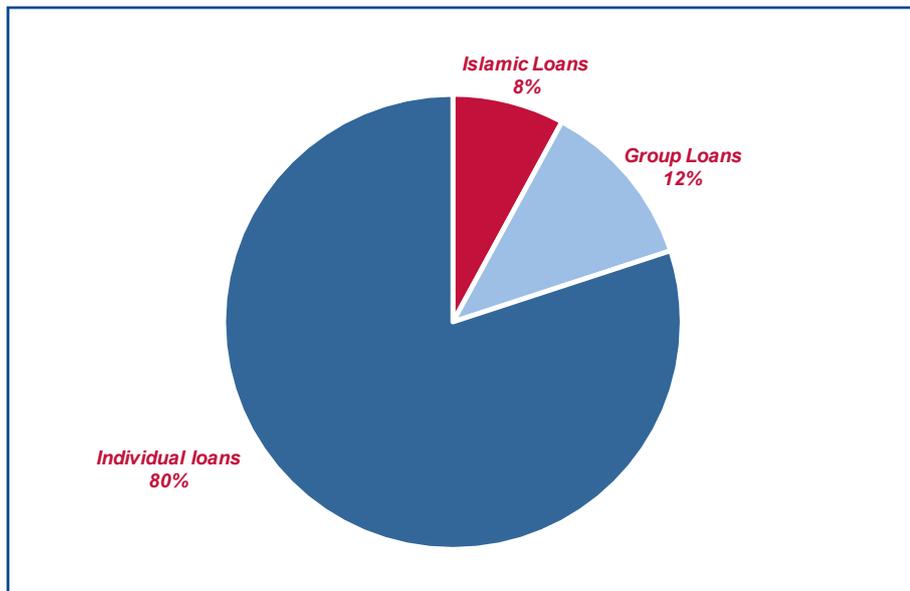
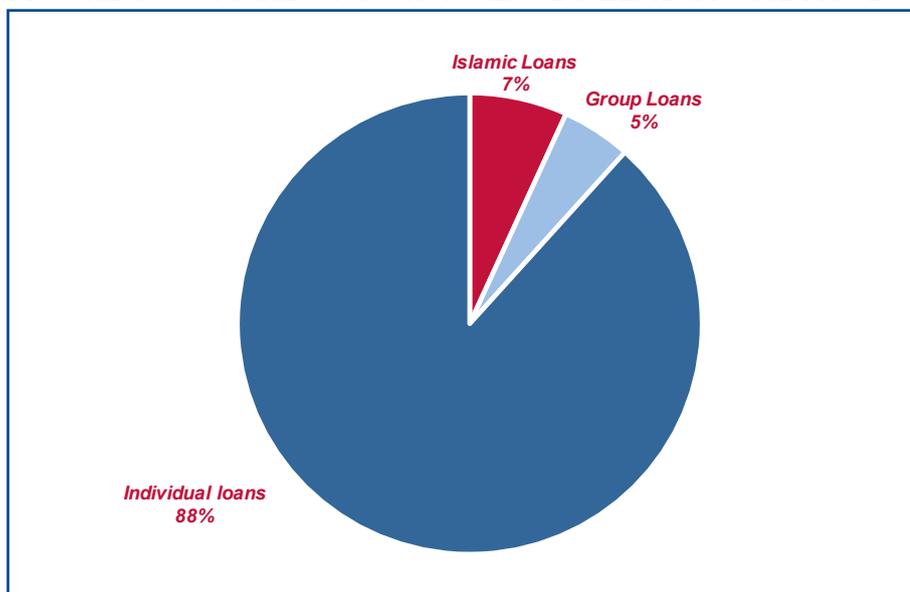


FIGURE 16 – SHARE OF PORTFOLIO BY LENDING METHODOLOGIES



Relief International approved over 7,500 group loans with an average loan size of \$539 in 2009. Group lending is concentrated in southern and central provinces where poverty is more prevalent and group cohesion high. Compared to individual loans’ outreach to women at 15%, group loans serve 22%, demonstrating this methodology’s growing success in reaching out to disadvantaged groups. Together, loans from Relief International and Izdiharona comprise 78% of the total group lending portfolio in the country.

Notes from the field...from Relief International and Izdiharona on Solidarity Group Lending

Challenges:

- More than five group members cause repayment problems
- Smaller loan size reduces the chance to form groups easily
- Socio-cultural restrictions limit the freedom of women to run their own businesses and deal directly with institutions and banks
- Demand for loans exceeds the reflows from repayments, negatively affecting new loan disbursement.
- Reserve funds should be taken into consideration by donors to keep up with demand and expansion



Recommendations:

- Increase program exposure through the marketing campaign by staff in neglected areas, especially rural communities
- Create livelihood linkages created for the poor and women by teaching them how to better manage their business
- Expand efforts to reach female clients in need of microfinance loans.



Relief International and Izdiharona are leaders in group lending in Iraq.

Islamic Al-Murabaha lending is a financing mechanism used widely across Iraq and other Islamic countries. It presents an enormous, yet under-realized, opportunity for the microfinance sector in the country:

- Compliant with religious sentiments
As a Shariah-compliant product, Al-Murabaha is acceptable in all provinces and in many communities. It is praised as an important service by religious sheikhs and imams. Their consent is important for continuing the offer and provision of quality financial services as well as for MFI outreach to the poor.
- No limit on mark-ups charged for Al-Murabaha loans
There is increased attention on the issue of interest rates MFIs are charging. Al-Murabaha charge a marked-up price on the procured good delivered to MFI clients. The methodology presents a unique opportunity for the Iraqi microfinance sector to become more profitable, taking advantage of this opportunity of the no mark-up limits offered.

Al-Takadum

Al-Anbar, one of the most violence-prone provinces in Iraq, suffers from widespread insurgency, terrorism and a volatile political environment. When the Al-Takadum Microfinance Institution was established in 2007, it faced enormous resistance from religious leaders who perceived microfinance as 'haram' or forbidden. The Al-Takadum team held 23 meetings with tribal and religious sheikhs to build consensus on microfinance, namely Al Murabaha lending, and traveled across the province to dialogue with local communities and people, many who were members of the Sunni Awakening Councils.



Today, Al-Takadum has three branches in Al Qaim, Falluja and Ramadi, serving 3,500 clients and has financed the re-establishment of 2,589 MSMEs and 300 homes destroyed by war and insurgency. Al-Takadum's vision in enabling financial access to the people of Al-Anbar was to replace violence with economic opportunity, and to empower the large number of widows and destitute women resulting from the war.

As a market leader in Iraq, Al-Takadum is the first MFI to successfully complete its external audit. Al-Takadum also leads in implementing best practices prescribed by CGAP. In order to replicate its success and leadership in Islamic lending, Al-Takadum is raising grant funding to establish a training center on Islamic lending for the microfinance sector in order to demonstrate practical and successful localized strategies for Al-Murabaha and other Shariah-compliant financial products in the near future.

Al-Takadum believes in meaningful dialogue to further develop Al-Anbar and Iraq and to build demand-driven, quality financial services for the communities it serves.

Even today, Al-Takadum is the target of militant violence, specifically Al-Qaeda. In January 2010, the vehicle of Al-Takadum's Loan Officer Ayoub Ahmad, 22 was blown up by a home-made bomb planted under his vehicle. Ayub suffered extreme burns and was accommodated in a secure location by Al-Takadum due to the high risk of renewed attacks by Al-Qaeda.

4.1 MICROFINANCE PRODUCT BASKET

MFI in Iraq offer a diverse range of lending products and target a variety of clientele profiles. Each loan is tailored to the individual and business involved. The Baghdad-based MFI Al-Bashaer recently introduced Home Improvement Loans. Different from its other loan products, the Home Improvement Loan is a stand-alone product and does not require new clients to graduate from Al-Bashaer's enterprise loans before availing this service.

Housing Microfinance for Better Living in Iraq – Al-Bashaer

According to a 2007 Iraq Household Socio-Economic Survey (IHSES), conducted by the Inter-Agency Information and Analysis Unit, 52% of Iraqi households are living under slum-like conditions. Al Bashaer conducted a market study, paying attention to household characteristics, sources of income, use of formal and informal financial services, desire for home improvement loans, capacity to pay installments, and loan terms. Results from data analysis clearly depict the demand for housing microfinance especially in areas where the population is expanding and economic opportunities are available.



With technical assistance from USAID-Tijara, Al Bashaer has developed a home improvement loan product to cater to the needs of its clients throughout Baghdad.

Al-Bashaer is meeting its client demand and strengthening links with its borrowers, factors that create client loyalty in the face of growing competition among the four MFIs in Baghdad.

TABLE 9: LOAN PRODUCTS

Loan Type	Loan Size (Range)	Interest Rate (Range)
MSME Start-up Loans	\$100 – 5,000	12 – 16%
MSME Loans	\$500 – 5,000	12 – 15%
SME Loans	\$5,001 – 25,000	12 – 15%
Agri-business Loans	\$500 – 25,000	12 – 16%
Home Improvement Loans	\$500 – 25,000	12 – 16%
Trade Loans	\$3,000	12 – 18%
Taxi Loan	\$500 – 25,000	12 – 18%
Consumer Oriented – Line of Credit	\$500 – 2,000	12%

Interest rates charged by the Iraqi microfinance industry are among the lowest across global and regional microfinance sectors, particularly in the context of the limited scale of Iraqi MFIs compared to more mature sectors such as in Morocco and India. However, MFIs may have to raise interest rates when they start incurring capital costs as they move towards more commercially-oriented sources of funds in the next few years. Increasing scale and outreach will enable MFIs to lower interest rates and increase efficiencies without disrupting their relationship with clients, unless future cost of capital is excessive.

Formal saving services are not available to the poor in Iraq, although a large proportion of the poor save informally with relatives or at home. Credit unions and savings cooperatives, generally seen in all microfinance sectors, have not yet formally developed in Iraq. Within such a context, Iraqi MFIs are reluctant to provide savings services to their clients either through voluntary or compulsory saving requirements. In the near future, these MFIs could take the lead in mobilizing client savings as a form of collateral and to deepen and diversify their financial service product offerings to remain competitive.

4.2 COLLATERAL OPTIONS IN A POST CONFLICT MARKET

Around 95% of the current outstanding portfolio of \$82.9 million and 88% of the loans to 61,968 active clients are guaranteed through the first two collaterals and the rest (both in terms of outstanding portfolio and active clients) are guaranteed using the solidarity group lending methodology. Over reliance by government employees on the use of collateral increases the risk to MFIs. There is a need to diversify risks to include other viable options. Current collateral options include:

- The co-signature of one who earns an Iraqi Government salary; in the event of default, one fifth of his/her monthly salary is deducted to satisfy a guaranteed loan.

- Solidarity group lending – peer monitoring: With this form of guarantee, three to five unrelated persons co-sign and borrow as a group. In the event one defaults, the other group members satisfy the outstanding loan balance.

These guarantees and the lack of other options, however, limit MFIs from achieving market potential. Physical tangible collateral options such as liens on equipment such as household appliances are not considered viable in the Iraqi market mainly due to the high registration costs. The Ministry of Trade charges two percent on the total value of the collateralized good, making physical collateral forms impractical for the small loans MFIs make.

Collateral plays three roles in the microfinance sector: it demonstrates the commitment of the borrower to honor his/her contract prior to disbursement of the loan; it focuses the mind of the borrower during the life of the loan; and it offsets the loss in the event of default.¹⁹ Borrowers prefer collateral that is easily available and minimizes impact on the household and transaction costs. Lenders prefer collateral that can be appropriated in a timely manner, is marketable, minimizes transaction costs, and provides protection in the event of liquidation.

A collateral substitute involves a consequence of default which is a deterrent to the borrower but does not involve an asset. These include such items as group guarantees, letters from a local authority, supplier credit arrangements, or a credit bureau listing.

Evolving new collateral options are being explored in the Iraqi microfinance market by USAID-Tijara. Within the broader collateral study being undertaken by USAID-Tijara, different forms of collateral are also under development. Collateral alternatives will diversify risks associated with lending to vulnerable segments of the population. In general, they will enable uniform access to credit for lifting those under the poverty line to becoming productive citizens of the growing private sector in Iraq.

4.3 INTRODUCTION OF YOUTH ENTREPRENEURS' ACCESS TO FINANCE

In 2010, USAID-Tijara launched the Iraqi Youth Initiative, as a program contributor to the Iraq National Development Strategy. As an innovative, integrated program, one of YI's initiatives is focused on facilitating youth access to financial services through the Youth Entrepreneurs Access to Finance (YEAF). With the objective of developing and expanding demand-driven financial services for 18 to 35 years old Iraqis, YEAF will introduce loan products to create entrepreneurial opportunities by facilitating access to finance. Young entrepreneurs will receive training in their business sector as well as financial literacy. Such training will potentially qualify them to apply and be approved for loans from participating MFIs based on the quality and substance of the business plans.

Youth-friendly loan products will make more flexible loan terms and conditions without compromising the overall credit culture in the industry. For instance, this product offers a 15-month loan repayment period instead of one year, and grace periods of up to three months. Collateral requirements are lowered and depend mainly on reputation/background checks undertaken by the MFI in addition to the motivation to repay as part of the broader Youth Initiative objective of instilling positive and results-oriented entrepreneurial vigor among participating youth.

Build a Brighter Future!
The Iraqi Youth Initiative

- Practical Business Training
- Access to Job Opportunities
- Microfinance Business Support

▶ Find a Good Job
▶ Start Your Own Business

What Does the Youth Initiative Offer?

- Specialized job training and apprenticeship programs
- Job placement services-help in securing permanent jobs
- Business start-up and training support to help you plan and set up your own business
- Micro-credit loans to help you launch and operate your new business
- Business mentoring and support to help your new business succeed

How to Apply:
Participation in the Youth Initiative is open for Iraqi nationals from 18-35 years of age who are entrepreneurial, innovative and committed to a brighter future.

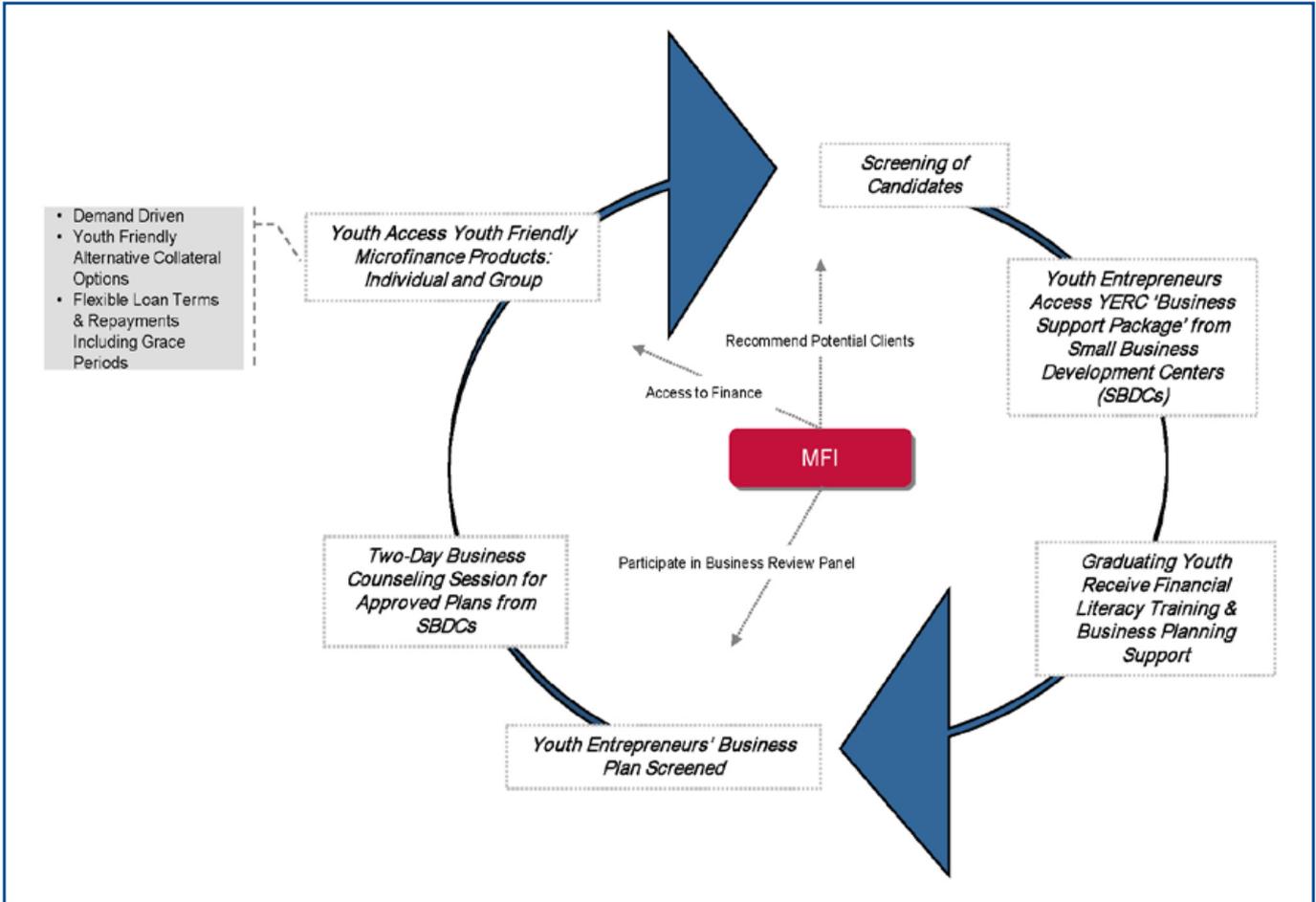
<http://www.sbdc-iraq.com> - <http://www.imfi.org> - info@sbdc-iraq.com - youthinitiative@imfi.org

The Youth Initiative is a new program that has been launched by the USAID-Tijara Provincial Economic Growth Program

SBDC USAID IRAQ TIJARA MUSTAQBAL

19 Balkenhol B and Schutte H, "Collateral, Collateral Law, and Collateral Substitutes", Social Finance Programme, Working Paper No. 26, 2001, Employment Sector, International Labour Office, Geneva, pg 7.

FIGURE 17: YOUTH FRIENDLY LENDING METHODOLOGY AND PRODUCTS ENABLES ACCESS FOR IRAQI YOUTH



MICROFINANCE FAMILY VALUES

Karbala date vendor Ntha Galta used a \$650 group loan from Relief International to buy new clothes for her college-bound daughter. Groups typically consist of five to eight people, each of whom receives a loan averaging \$600 in size. The group is collectively responsible for the repayment of each of its members. Micro group loans help the working poor establish a credit history. They can be used to pay for family emergencies and everyday needs in addition to starting or expanding a business.



Karbala date vendor Ntha Galta



CHAPTER 5

THE MICROFINANCE INDUSTRY: FUTURE DIRECTIONS FOR GROWTH

Sulaymaniyah's Hiwa Salih Mahmud started Barin Aluminum with a \$2,500 loan from the Al-Thiqa Small Business Loan Fund. Two subsequent loans, each for \$2,500, have enabled him to become one of the city's leading producers of aluminum doors and window frames.

USAID will continue to play a strategic role in leading the microfinance sector in its next phase of maturity. The Iraqi microfinance sector is nascent compared to markets such as Bangladesh, India and Morocco. The ability of the industry to leverage drivers of growth and prioritize initiatives at the sector level will determine the sector's success in reaching out to Iraq's 7.1 million poor. USAID, along with stakeholders including the 14 MFIs, has already initiated the next stage of development for the industry, which includes alternative delivery channels and value-chain financing.

5.1 KEY DRIVERS FOR GROWTH

5.1.1 Market Potential

The Iraqi microfinance sector faces vast unmet demand for financial services. Despite the high growth of such services, there is less than one percent market penetration. Consequently, the Iraqi microfinance industry will witness the entry of more actors seeking investment opportunities. Social motivations amidst key stakeholders such as MFI promoters, donors and policy makers will influence this drive for larger outreach. Client segmentation and demand-specific loan products with enabling features such as alternative collateral options and linkages to markets will scale-up financial deepening.

- **Untapped depth:** Reaching out to excluded communities by marketing their services through formal and informal networks will spread awareness about microfinance among potential clients. In addition, institutions need to form alliances with community driven programs and local events to engage with potential clients on the services provided by MFIs as well as assess challenges of access to finance for the target groups.
- **Under-realized rural markets:** Over 90% of the current microfinance portfolio is concentrated in urban Iraq, with nominal outreach to rural areas. As additional MFIs incorporate the solidarity group lending methodology and fine-tune group formation practices based on local contexts, MFIs will increasingly move to rural areas. Approximately seven million people live in rural Iraq, with agriculture and livestock as the predominant economic activity.²⁰ MFI success in providing financial services for the rural poor will be contingent on an improved security situation as well these institutions' ability to develop loan products and services targeting agri-based activities and enterprises.

5.1.2 Technology

Technology will help the Iraqi microfinance sector develop. The industry can gain speed and efficiencies if technology is used effectively at the head office and operational levels. Technology that improves management of institutional data and facilitates efficient reporting is already being adopted amongst MFIs through USAID funding. All MFIs have created in-house management information systems (MIS), and their ability to connect growing number of branches will allow institutions to make timely decisions and effectively analyze growth across short periods.

5.1.3 Leveraging Mobile Telephone Network and its Outreach

Mobile phones have become tools of economic empowerment for the world's poorest people. These phones compensate for inadequate infrastructure, such as bad roads and slow postal services. They allow information to move more quickly and freely, making markets more efficient and unleashing entrepreneurship. Mobile-money services, which allow cash to travel as quickly as a text message, allow small mobile retailers to act rather like bank branches.

Iraq's mobile subscriber base has grown to around 20 million at the end of 2009, with a remarkable mobile penetration rate of 65%.

MFI partnerships with mobile service providers will not only enable access to finance, they will also reduce transaction costs. Currently, MFIs incur \$1 per transaction with banks. As the clientele base grows, such costs represent a large sum. Within such a potential partnership, mobile retailers can accept client repayments and (by sending a special kind of text message) credit it to MFI bank accounts. MFIs can disburse loans (again, via text message) to approved clients who are registered users of the mobile service providers. The same clients can withdraw the loan by visiting their own local corner mobile shops. Such synergy not only benefits MFIs and their clients but also the mobile service provider and its usually small, retail vendors and traders in acquiring new customers.

²⁰ <http://www.faoiraq.org/>

5.1.4 Timely Availability of Trained Human Resources

The ability of Iraqi MFI management to successfully steer the industry will be a critical driver for growth. As microfinance becomes increasingly mainstreamed and interlinked to events and trends in the larger financial system, growth will pose unfamiliar demands. MFIs will also be challenged to maintain levels of remuneration that attract and keep the talent they need. Already the Iraqi microfinance sector is witnessing the mobility of loan officers and other senior level employees from one MFI to another, or outside the sector to government jobs. The ability of MFIs to develop a robust middle management, meet the expectations of risk capital and at the same time ensure that they stay close to their clients will be tested in the future.

5.1.5 Enabling Environment

Continued engagement and deeper partnership with MFIs on the part of the CBI, the NGO Assistance Office and other government agencies will safeguard microfinance best practices and enable MFIs to continue to play their key role as financial intermediaries for low-income disadvantaged Iraqis. Policy makers' increased understanding of the dynamic microfinance sector will ensure that principles such as sustainable interest rates and collateral options are adequately promoted within the broader policy framework for microfinance.



After three years of being engaged, a \$1,800 microfinance loan made it possible for Ziyad Fadhel Nayif, 35, and his 30-year old wife Bahya Awad Hasn to move into their own apartment

MICROFINANCE HONEYMOONS

The Iraqi Al-Aman Center in Kirkuk is one of 14 microfinance institutions started with assistance from the USAID-*Tijara* Provincial Assistance Program. Since mid-2009, Al-Aman has made starting a family easier by giving newly married couples financial assistance so they can furnish their new apartments with Murabaha financing. Instead of loaning money on which interest is levied, Al-Murabaha lenders themselves purchase the furnishings, decorations and appliances needed by newlyweds. Islamic lenders then charge a fee based on the amount of money they spend purchasing household items. Different nomenclature and financial structure allows the business transaction to take place within the conventions of Islam.

5.2 PRIORITIES FOR SUSTAINABILITY

5.2.1 Ensure Institutional Growth Capacities and Risk Management Systems

While following ambitious growth trajectories, MFIs also need timely and complimentary investments into human resources, technology, systems and processes. For all MFIs with non-profit origins, running business-like operations is a challenge. Still, many have done a commendable job managing high portfolio sizes of excellent quality. The presence or absence of investments in human resources, technology, systems and processes will have a great impact on the availability of future growth capital. Building on the success of the industry infrastructure in Iraq, MFIs now need technical assistance on operational growth management and risk management systems. Institutional capacities and strengths will play a key role in Iraqi MFIs ability to reach scale and maintain sustainability.

5.2.2 Client Focus: Putting Customers at the Core

The success of microfinance measured on social and commercial terms is built on the bankability of its clients and the ability of MFIs to offer services previously unavailable. As MFIs grow, it is important that clients' interests remain at the core of their institutional decisions.

- Client needs and product diversification: MFIs who understand their clients' needs and address them more effectively through a viable business model may benefit in the long term from greater client retention. The MFI should spend enough time understanding clients' needs and then design products that meet those needs.

- Client protection and responsible financing: The Iraqi MFI industry should develop a pro-client code of conduct.
- Credit bureaus: The envisaged Iraqi Microfinance Network aims to facilitate the establishment of a credit bureau for the sector in order to provide information on microfinance borrowers' credit history and interest rate structures of loan providers. Credit bureaus not only provide information on delinquent clients, but also protect borrowers against unfair lending practices. Credit bureau should be able to identify over-indebted clients. MFIs need to share information on client histories to minimize risks of lending and help maintain healthy portfolios. Credit bureau consultation helps reduce transaction costs and increase institutional efficiency by rapidly identifying clients with poor repayment histories. Government, donors, technical assistance providers, and MFIs must work together to develop an effective policy and institutional framework for client information sharing, while still protecting client confidentiality.

5.2.3 Access to Growth Capital: Diversified Sources of Funds

As MFIs mature and the sector establishes itself as a reliable provider of financial services, their access to capital for growth and investments will determine their sustainability. While donor funding for the industry is projected to increase, the Iraqi microfinance sector needs financing vehicles that not only provide low-cost accessible on-lending capital but also promote best practices and self-sufficiency.

5.2.4 Value Chain Financing

Value-chain financing has emerged as a useful tool to help farmers and small-scale rural businesses access timely finance, while also increasing their efficiency and strengthening their position with suppliers and buyers. In Iraq, seven million people live in rural areas with limited access to resources and markets. Recent gains in microfinance have yet to reach the majority of the poor. Value chain finance offers opportunities to provide greater value to clients at minimal costs and enhanced social impact. MFIs can introduce innovative approaches to value chain finance to serve both micro and small producers, enabling them to leverage relationship with suppliers and buyers in urban markets.

A value-chain is defined as "a sequence of activities that a product passes through, with value added in each stage – from design, to the transforming of inputs, to the financial market." The provision of finance along this chain is referred to as value-chain financing.

Small farmers are gaining increased attention as part of the government's mandate to promote inclusive economic growth throughout Iraq. In early 2010, the Agriculture Ministry approved over 2,000 loans of approximately \$15,000 each for small farmers.²¹ MFIs' ability to develop value chain capacity and structure new financing products focused on the livelihood potential in rural areas will enable them to create greater value for the poor. Microfinance Institutions are closely positioned to both producers and consumers of products and services. This positioning provides opportunities for synergies between MFIs with expertise in credit delivery and community mobilization with businesses operating with agriculture or low-income segments.

5.2.5 Alternative Delivery Channel

The Iraqi microfinance sector can utilize the proliferation of mobile phones to increase accessibility and outreach through research into alternative delivery channels. Examples of evolved models from successful partnerships between financial service providers and mobile companies, such as the M-Pesa model from Kenya, will serve as important lessons for the Iraqi microfinance sector. Donors can play an important role by supporting market research through technical advice and funding.

5.2.6 Donor Coordination

As the industry matures and new donors and development financing vehicles emerge in the country, setting up in-country donor working groups will be essential to the sustainable development of Iraq's microfinance industry. Donor cooperation and clear communication with microfinance providers can avoid duplication of funding.

To build a vibrant financial sector in Iraq donors will engage at the macro, meso and micro level, depending on their institutional mandates and capacity. It is essential that donors work within a framework of agreed-upon mechanisms to ensure coordinated inputs. Donors may provide funding to support the creation of an investment support facility in Iraq as part of the Iraqi Microfinance Network.

21 <http://www.iraq-businessnews.com/?p=2617>

COLLEGE BEGINS AT FOUR



Iraqi teacher Sayran Ismail Hamad borrowed \$7,000 from Erbil's Bright Future Foundation to start a day care center and kindergarten. Both are so successful she twice has moved to larger locations.

The Bright Future Foundation (BFF), one of 14 microfinance institutions supported by USAID-*Tijara* is a major player in the building of Erbil's educational infrastructure. In 2008, it gave a \$3,000 loan to Sayran Ismail Hamad to start a day care center that promised to teach toddlers colors and numbers. Sayran immediately was inundated with children of working mothers with office jobs. In 2009, Sayran was back for a second loan – this one for \$4,000 – to start a kindergarten offering an hour a day of English instruction. Demand is so strong that Sayran has twice had to move to larger locations.

The evolving role of women in Kurdish society is a fact well known to BFF. Of the 2,740 loans totaling \$7,078,000 that the program has made since USAID-*Tijara* began in April 2008, around 36% have gone to women.

Kurdistan's booming economy has reduced the number of stay-at-home moms, explains Sayran. "Today, even grand mothers are working," she smiles. "Working mothers like our approach to learning," says Sayran, pointing to a colorful banner in Kurdish adorning the kindergarten's foyer that reads, "College Begins at Four."

Iraq's economy may be dominated by state enterprises, but its educational system boasts exceptional private schools. In Baghdad, sons of fortunate families head off to the Al-Mansour or Al-Andalus academies. Baghdad's brightest girls are signing up to attend Al-Bayan. Baghdad College is the hallowed prep school started by the Jesuits in 1931 continues to produce leaders.

But no where in Iraq is the demand for quality private education stronger than in Erbil, seat of the semi-autonomous Kurdistan Regional Government. Eighteen years of peace have given Kurds the vision of a better life and the increasing flow of foreign investment has created the jobs to make that life possible.

Competition is intense to get into Erbil private high schools like the Lebanese Shweifaf International School, which charges an annual tuition of \$6,000. The Turkish College of Ishq and the English-language Classical School of Media are also highly prized. Private kindergartens and nursery schools teaching basic arithmetic and English prepare Kurdish children for their educational journey.



May Majid comforts her daughter before rushing off to work.

IRAQ'S MICROFINANCE NETWORK



CHAPTER 6



MICROFINANCE INDUSTRY STATISTICS

Hilla herbalist and spice dealer Fahim Jawad borrowed \$5,000 from the Cooperative Housing Foundation (CHF) to purchase machinery that will help him produce medicinal oil for hair restoration.

MICROFINANCE INDUSTRIES IN IRAQ AS OF MARCH, 2010

Indicators		CHF	Amalkom	Al-Thiqa	
Age		6 Y, 8 Mo	3 Mo	6Y, 2 Mo	
Started Date		July'03	January' 10	January'04	
HQ		Babil	Babil	Kirkuk	
Operating Area		Babil, Baghdad,Suleimaniya, Basra,Midina, Karbala,Samawa, Najaf, Dewaniya, Nassiriya and Kut	Hilla, Karbala, Najaf, Dewaniya	Kirkuk, Baghdad, Diyala (Baquba, Khanaqeen, Kifri), Erbil, Dahuk, Suleimaniya, Hamdania	
Total # of staff		294	21	128	
Total # of Loan Officer		93	14	32	
Female LO		11	9	7	
Case Load		202	78	417	
Loans Outstanding					
	Total Outstanding \$	33,034,065	823,074	20,175,993	
	Total Outstanding #	18,823	1,090	13,337	
	Female %	10%	25%	16%	
	Individual \$	33,034,065	-	19,918,000	
	Individual #	18,823	-	12,799	
	Female %	10%	-	16%	
	Group \$	-	823,074	257,993	
	Group Members	-	1,090	538	
	Group #	-	351	156	
	Female %	-	25%	7%	
PAR> 30 days		0.1%	-	0.2%	
Average loan Size					
	Total Outstanding	\$1,755	\$755	\$1,513	
	Individual	\$1,755	-	\$1,556	
	Group	-	\$755	\$480	
Outstanding Loan Structure					
	Business Loans	Service	22%	38%	23%
		Production	6%	4%	1%
		Trade	61%	58%	24%
		Total	89.0%	100%	48%
	Agribusiness Loan	0.5%	-	8%	
	Home Improvement	10%	-	44%	
Loans Disbursed Since inception					
	Total \$	224,781,623	866,900	111,155,849	
	Total #	90,635	1,090	41,607	
	Female %	10%	25%	17%	
	Individual \$	224,781,623	-	110,687,524	
	Individual #	90,635	-	40,980	
	Female %	10%	-	17%	
	Group \$	-	866,900	468,325	
	Group Members	-	1,090	627	
	Group #	-	351	187	
	Female %	-	25%	8%	
Outstanding Growth % past 12 months			14%	33%	
No. of jobs sustained		18,823	1,090	13,337	
No. of jobs created		25,352	995	41,607	

Indicators		RI	Izdiharona	AI-Aman	AI-Bashaer	
Age		3 Y, 8 Mo		3 Y, 8 Mo	3 Y, 7 Mo	
Started Date		July'06		July'06	August'06	
HQ		Suleimaniya		Kirkuk	Baghdad	
Operating Area		Suleimaniya, Kut, Karbala, Amara and Basra	Iskandarea, Kut, Sadda, Hilla, Najaf, Karbala, Amara	Kirkuk	Baghdad	
Total # of staff		55	62	20	47	
Total # of Loan Officer		19	23	13	32	
Female LO		5	9	-	7	
Case Load		279	267	180	131	
Loans Outstanding		Total Outstanding \$	4,916,588	4,159,181	2,821,402	3,859,420
		Total Outstanding #	5,307	6,131	2,340	4,186
		Female %	23%	16%	13%	18%
		Individual \$	3,937,482	2,195,128	2,821,402	3,859,420
		Individual #	3,591	2,013	2,340	4,186
		Female %	20%	15%	13%	18%
		Group \$	979,106	1,964,053	-	-
		Group Members	1,716	4,118	-	-
		Group #	549	1,289	-	-
PAR > 30 days		0.2%	0.01%	0.03%	7.9%	
Average loan Size		Total Outstanding	\$926	\$678	\$1,206	\$922
		Individual	\$1,096	\$1,090	\$1,206	\$922
		Group	\$571	\$477	-	-
Outstanding Loan Structure		Service	29%	30%	37.8%	25%
		Production	2%	2%	9.6%	1%
		Trade	46%	49%	36%	74%
		Total	77%	80%	83%	100.0%
		Agribusiness Loan	0.02%	20%	-	-
Home Improvement		22%	0.2%	17%	-	
Loans Disbursed Since inception		Total \$	24,719,165	9,810,000	9,461,639	15,130,050
		Total #	16,087	9,018	4,701	9,147
		Female %	19%	16%	11%	16%
		Individual \$	17,516,965	4,938,350	9,461,639	15,130,050
		Individual #	10,097	2,857	4,701	9,147
		Female %	19%	15%	11%	16%
		Group \$	7,202,200	4,871,650	-	-
		Group Members	5,990	6,161	-	-
		Group #	1,730	1,928	-	-
Female %		18%	18%	-	-	
Outstanding Growth % past 12 months		73%		81%	43%	
No. of jobs sustained		5,270	5,490	2,340	4,186	
No. of jobs created		3,689	1,241	4,728	8,988	

Indicators	AI-Takadum					
	Qaim	Falluja	Ramadi	Total AI-Takadum		
Age	2 Y, 7 Mo	2 Y, 4 Mo	2 Y, 3 Mo	2 Y, 7 Mo		
Started Date	August'07	November'07	December'07	August'07		
HQ	Anbar / Al-Qaim	Anbar/ Falluja	Anbar/ Ramadi	Anbar		
Operating Area	Qaim, Anna	Falluja, Amarya Al-Falluja, Al-Karma, Saqlawia	Ramadi, Het, Hidiitha	Qaim, Falluja, Ramadi		
Total # of staff	19	15	20	54		
Total # of Loan Officer	8	5	11	24		
Female LO	2	1	0	3		
Case Load	107	254	151	158		
Loans Outstanding	Total Outstanding \$	1,147,170	1,253,296	2,172,633	4,573,099	
	Total Outstanding #	854	1,270	1,660	3,784	
	Female %	21%	12%	17%	17%	
	Individual \$	1,147,170	1,253,296	2,172,633	4,573,099	
	Individual #	854	1,270	1,660	3,784	
	Female %	21%	12%	17%	17%	
	Group \$	-	-	-	-	
	Group Members	-	-	-	-	
	Group #	-	-	-	-	
PAR > 30 days	4.1%	2.7%	6.9%	5.0%		
Average loan Size	Total Outstanding	\$1,343	\$987	\$1,309	\$1,209	
	Individual	\$1,343	\$987	\$1,309	\$1,209	
	Group	-	-	-	-	
Outstanding Loan Structure	Business Loans	Service	0%	12%	37.5%	21%
		Production	0%	1%	-	0.2%
		Trade	66%	20%	56.8%	49%
		Total	66%	33.0%	94%	70%
	Agribusiness Loan	0.4%	1%	5.0%	3.0%	
Home Improvement	33%	66%	1.0%	27.0%		
Loans Disbursed Since inception	Total \$	4,542,750	4,255,300	6,923,200	15,721,250	
	Total #	1,746	2,374	2,839	6,959	
	Female %	12%	10%	17%	14%	
	Individual \$	4,542,750	4,255,300	6,923,200	15,721,250	
	Individual #	1,746	2,374	2,839	6,959	
	Female %	12%	10%	17%	14%	
	Group \$	-	-	-	-	
	Group Members	-	-	-	-	
	Group #	-	-	-	-	
Female %	-	-	-	-		
Outstanding Growth % past 12 months	4%	53%	31%	28%		
No. of jobs sustained	1,250	1,237	1,673	4,160		
No. of jobs created	698	604	720	2,022		

Indicators	AI-Mosaned	TEDC	BFF	AI-Tadhamun	Total		
Age	1 Year, 4 Mo	2 Y, 2 Mo	2 Y, 3 Mo	1Y, 2 Mo			
Started Date	November'08	January'08	December'07	January'09			
HQ	SalahAldin	Talaafer/ Nenawa	Erbil	Mosul			
Operating Area	Tikrit, Al-Dour, Sammara, Baiji	Talaafer, Sinjar, Al-Eyadhiya, Al-Qahtania	Erbil , Suleimaniya and Dohuk	Mosul, Telkef, Shorgot, Shekhan)			
Total # of staff	17	18	57	12	785		
Total # of Loan Officer	6	9	20	7	292		
Female LO	2	-	4	-	57		
Case Load	184	263	156	53	212		
Loans Outstanding							
Loans Outstanding	Total Outstanding \$	1,067,109	2,987,600	4,092,333	471,385	82,981,249	
	Total Outstanding #	1,104	2,366	3,128	372	61,968	
	Female %	26%	18%	24%	2%	15%	
	Individual \$	1,067,109	2,987,600	4,092,333	471,385	78,957,023	
	Individual #	1,104	2,366	3,128	372	54,506	
	Female %	26%	18%	24%	2%	14%	
	Group \$	-	-	-	-	4,024,226	
	Group Members	-	-	-	-	7,462	
	Group #	-	-	-	-	2,345	
Female %	-	-	-	-	22%		
PAR> 30 days	5.6%	0.00%	1.2%	-	1%		
Average loan Size							
Average loan Size	Total Outstanding	\$967	\$1,263	\$1,308	\$1,267	\$1,339	
	Individual	\$967	\$1,263	\$1,308	\$1,267	\$1,449	
	Group	-	-	-	-	\$539	
Outstanding Loan Structure							
Outstanding Loan Structure	Business Loans	Service	11%	6%	46%	23%	24.2%
		Production	1%	-	4%	8%	3.4%
		Trade	61%	61%	31%	54%	48.2%
		Total	73%	67%	81%	84%	75.7%
	Agribusiness Loan	2%	5%	0.2%	12%	3.6%	
	Home Improvement	24%	27%	18%	4%	20.4%	
Loans Disbursed Since inception							
Loans Disbursed Since inception	Total \$	3,706,220	7,200,200	14,009,730	829,200	437,391,826	
	Total #	1,810	3,308	5,709	394	190,465	
	Female %	24%	17%	22%	2%	13%	
	Individual \$	3,706,220	7,200,200	14,009,730	829,200	423,982,751	
	Individual #	1,810	3,308	5,709	394	176,597	
	Female %	24%	17%	22%	2%	13%	
	Group \$	-	-	-	-	13,409,075	
	Group Members	-	-	-	-	13,868	
	Group #	-	-	-	-	4,196	
Female %	-	-	-	-	18%		
Outstanding Growth % past 12 months	75%	199%	27%	5792%	32%		
No. of jobs sustained							
No. of jobs sustained	1,298	2,366	3,128	372	61,860		
No. of jobs created							
No. of jobs created	2,273	3,308	332	394	94,929		

IRAQI MICROFINANCE FORWARD INTO FUTURE

