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Provincial Economic Growth Program

STATE OF IRAQ'S MICROFINANCE INDUSTRY



TIJARA
PROVINCIAL ECONOMIC GROWTH PROGRAM

June 2011

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COVER PHOTOS: Ninawa carpenter Yaheah Ahmed Mohammed, Kirkuk grocer Ashwaq Jomaa Abdul Allah and Tallafar farm's owner Khalil Ismail Elyas applied for a \$5,000 loan from Tallafar Economic Development Center which is 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 December 2010

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LIST OF ABBREVIATIONS

ATM	Automated teller machine
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
DFID	Department for International Development, United Kingdom
DIG	Development Innovations Group
GAAP	Generally accepted accounting principles
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 SMEs
ICT	Information and communications technology
IDP	Internally displaced person
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
MoU	Memorandum of understanding
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
PPP	Purchasing power parity
PRT	Provincial reconstruction team
RI	Relief International
SBDC	Small business development center
SME	Small medium enterprise
TEDC	Tallafar 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 present the second State of the Iraqi Microfinance Industry Report 2011. The microfinance industry based on standards of international best practices is relatively new to Iraq and the Middle East and North Africa (MENA) region in which the country is located. Established in Iraq in the latter half of 2003, the industry has 12 international and indigenous microfinance institutions (MFIs) operating in all 18 provinces of the country. The industry through end 2010 disbursed more than \$592.7 million in loans to nearly 230,000 clients since inception. As of end 2010, there is an outstanding loan portfolio of more than \$106.4 million with 75,182 active clients. The industry continues to enjoy very high rates of loan repayment, notwithstanding ever-present security challenges.

I am further pleased to report that there is an increasing emphasis on more poverty-based lending. The industry is increasingly using the solidarity group lending (SGL) methodology. There is over \$7.2 million outstanding to almost 13,000 individual group members, one-third of whom are women.

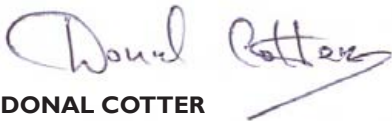
MFIs have adopted internationally-compliant reporting standards; developed effective rules and recently instituted an industry-wide Code of Conduct and Ethics. They have also installed more modern management information systems to more effectively track client outreach and financial information and trends. The Central Bank of Iraq (CBI) and the NGO Directorate are increasingly engaged in the regulation and supervision of the industry.

The development of the Iraq microfinance industry is largely attributable to the efforts of the U.S. Agency for International Development (USAID). Over the past six years, USAID, through its implementing partner USAID-*Tijara* and its predecessor USAID-*Izdiyar*, has been building the industry at the macro, meso and micro level through 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 thank the Government of Iraq, especially the CBI and the NGO Directorate, the U.S. Embassy, USAID and others 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 growth. We are proud to be increasingly integral with microfinance practitioners across the MENA region

Sincerely



DONAL COTTER

CHIEF OF PARTY, USAID-TIJARA

EXECUTIVE SUMMARY

Microfinance institutions (MFIs) in Iraq have emerged as effective, demand-driven financial intermediaries 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, MFIs have achieved significant scale, depth of outreach to the poor and women, financial and institutional sustainability, and consequent socio-economic impacts.

The microfinance sector in Iraq includes 12 NGO-MFIs, operating in all 18 provinces. Since 2009, the overall regulatory environment for the sector has improved with the issuance of the new NGO (non-governmental organization) Law. This new law enables MFIs to continue as quality financial service providers for the women, youth, micro and small entrepreneurs, and economically challenged 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 means of financial intermediation for micro, small and medium-scale enterprises (MSMEs).

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 year 2010, has cumulatively disbursed 257,209 loans, valued at over \$592.7 million and current outstanding portfolio of \$106.4 million reaching 75,162 micro, small and medium entrepreneurs. The industry enjoys a 99% repayment rate and a portfolio at risk greater than 30 days of less than 1%. Despite high levels of activity, growing efficiency and greater depth of outreach, the burgeoning industry has only scratched the surface of this potential market. With less than 1 % penetration, it is attracting 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. The United Nations Capital Development Fund (UNCDF) introduced the sector development approach to microfinance industry which later was adopted globally. These levels include:

Macro level: Strengthened and secured economic, legal, regulatory and infrastructure for an enabling environment that favors microfinance industry growth and sustainability.

Meso level: Strengthened technical and institutional infrastructure for a more inclusive financial sector.

Micro level: Strengthened capacities, diversified products and services, especially for vulnerable groups like women and youth, by creating viable, sustainable MFIs.

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 into Iraqi financial sector based on internationally accepted best practice standards.

As the sector matures, Iraqi MFIs will increasingly ensure that clients are at the core of their operations. They also will strive to create partnerships that make them stronger players, both in terms of breadth and depth, 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

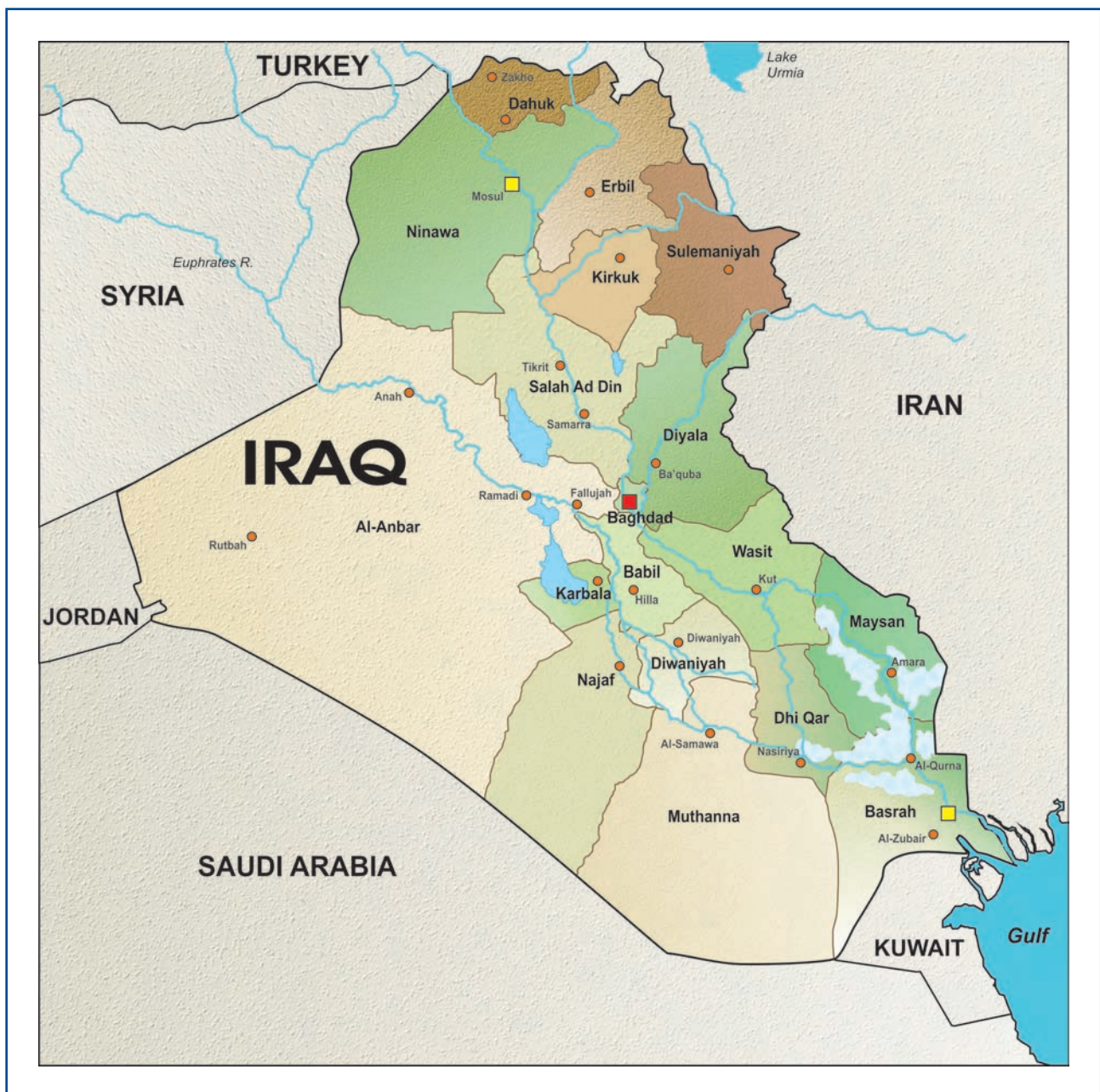
THE IRAQI MICROFINANCE INDUSTRY OVERVIEW

Today, more than 25,500 people like Kirkuk's Salima Abdul Qader have received nearly \$24 million to start or expand small businesses. Salima borrowed \$2,000 from Al-Aman microfinance organization and used the loan to restock her stationery shop in Kirkuk.

1.1 IRAQ

Iraq is bordered by Jordan to the west, Syria to the northwest, Turkey to the north, Iran to the east, and Kuwait and Saudi Arabia to the south. Iraq has a population of 31.5 million, of which 67% lives in urban settlements. Compared to Middle and North Africa (MENA) region, socio-economic indicators for Iraq are mixed. Poverty and human conditions in Iraq worsened in the 1990s and have not improved considerably in recent years. GDP per capita (PPP) is \$3,600, 160th in the world rankings¹. The population living below the poverty line (spending \$2.20 per person per day) is 25.3%, according to the World Bank². Average life expectancy at birth is 68 years, compared to 71 years in the MENA region. Overall unemployment (percentage of total labor force) is between 16.2% and 17.5% for men, and 22.5% for women³. Service delivery continues to be unreliable; only 12.5% of people whose dwellings are connected to the public network report that their supply of water is stable.

Iraq has been categorized as a middle-income country since the 1970s due to developing good infrastructure, efficient education and healthcare systems. Over the past three decades, wars, dictatorship and international sanctions have crippled Iraq's economy. The economy showed resilience in 2004, but annual growth rate is still too slow to rebuild this war-torn, security-challenged country.



¹ <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>

² <http://data.worldbank.org/indicator/SI.POV.2DAY>

³ <http://data.worldbank.org/indicator/SL.TLF.TOTL.IN>

TABLE 1: INDICATOR: IRAQ (LOWER MIDDLE INCOME COUNTRY)

Indicators	Iraq	MENA
Total Population (million)	31.5	331
Total Population Annual Growth Rate (%)	2.5	1.8%
Literacy (% of population aged 15+)	78	74
Percentage of Population Living in Rural Areas	33	42
Life Expectancy at Birth (Years)	68	71
GNI per Capita PPP (\$)	3,330	2,450
GDP Growth Rate (%)	7.8%	4.2%

Source: World Bank

1.2 IRAQI FINANCIAL SECTOR

The Iraqi financial sector is comprised of a variety of institutions, which include the Central Bank of Iraq (CBI), commercial banks, specialized banks, insurance and finance companies. These institutions operate within formal financial markets and are supported by a financial infrastructure consisting of payments and settlement systems within applicable legal and regulatory framework. The financial sector also includes 12 USAID-*Tijara* partner microfinance institutions, which are NGO-MFIs by their legal status.

TABLE 2: IRAQI FINANCIAL SECTOR

Commercial Banks	Non- Banking Financial Institutions and Companies	Insurance Companies	Microfinance Institutions (MFIs)
State Owned Banks (7) Private Commercial Banks (23) Islamic Banks (8) Foreign Banks (8)	Financial Institutions (4) Financial Companies (29)	State Owned Companies (3) Private Companies (10)	Local Iraqi MFIs (10) International MFIs (2)

The commercial banks, both public and private, dominate the financial system. Currently, there are 46 commercial banks including specialized, Islamic and foreign banks with a network of 774 branches throughout Iraq. As Iraq stabilizes, its banking system is growing both in size and focus. Stability of the Iraqi dinar (ID) and reducing inflation are at the core of this impressive progress. Most banks' income is generated from fee-based services such as financial transfers. However, thriving private banks are increasing intermediation. The volume of commercial bank lending, both corporate and consumer, has doubled since January 2008.

The performance of financial institutions has also been promising in the recent past. The Iraqi Company for Bank Guarantees (ICBG) was established in 2006 with a \$ 5 million grant from the United States Agency for International Development (USAID) through its Izdihar project. As of 31 December 2010, banks had disbursed about 2,100 ICBG-guaranteed loans valued at more than \$28 million. The Iraqi Stock Exchange (ISX), founded in 2004 with 15 companies listing their shares, already compares well with other regional exchanges in terms of the number of listed companies. The banking sector is the largest on the bourse, which also lists industrial, agricultural, and insurance firms. The total market value of shares listed on the exchange is around \$3 billion and the daily trade volume averages from \$2 million to \$3 million. These figures are likely to increase in 2011.

Twelve MFIs, two international and ten local, have disbursed 257,209 loans valued at over \$592 million since inception mostly to MSMEs. USAID-*Tijara* is providing capital and technical support to these MFIs, thus enabling them to offer an array of quality financial products and services on a sustainable basis. As of end 2010, twelve MFIs had an outstanding portfolio of \$106 million with 75,182 active clients, of whom 20% were women.

1.3 MICROFINANCE IN THE MENA REGION

Around 26% of 370 million people in the Arab region live on less than \$ 2 per day. The supply of microfinance services in the region is encouraging, especially when there is a lack of formal financial services by banks and formal financial institutions. Nonetheless, the region has reduced the gap between demand and supply in the recent past due to impressive growth in the depth and breadth of quality financial services, except in a few countries in the region which suffered from global economic recession.

The MENA region recorded the highest median and outreach only after Asia and Latin American countries (LAC). With the exception of Morocco, the regional industry's outreach and gross lending portfolio grew at 29% and 40% respectively in 2008 and at 27% and 29% respectively in 2009. In the Iraqi microfinance industry, active clients and loan portfolio grew at 52% and 48% respectively in 2009 and 27.7% and 28.4% respectively in the year 2010. Morocco was the only exception in the region where the industry recorded a decline in active clients and loan portfolio for the second consecutive year since 2008 due to increased delinquency. The Moroccan crisis has made cautious microfinance industry players across MENA to create a balance between growth and risk. The MFIs in the region revised their outreach growth plans and are focusing on precautionary measures to avoid and mitigate the risks.

Despite the contraction in active client and outstanding loan portfolio in the recent past, the Moroccan microfinance industry still enjoys the status of being the largest in the region. In 2009 and 2010, the Iraqi microfinance industry recorded impressive growth in its outreach and outstanding portfolio at 52% and 48.2% respectively, followed by the Palestinian microfinance industry, which grew at 34% and 36% respectively. The Jordanian and Yemeni microfinance industries are also growing modestly in the region to promote inclusive financial services for disadvantaged people.

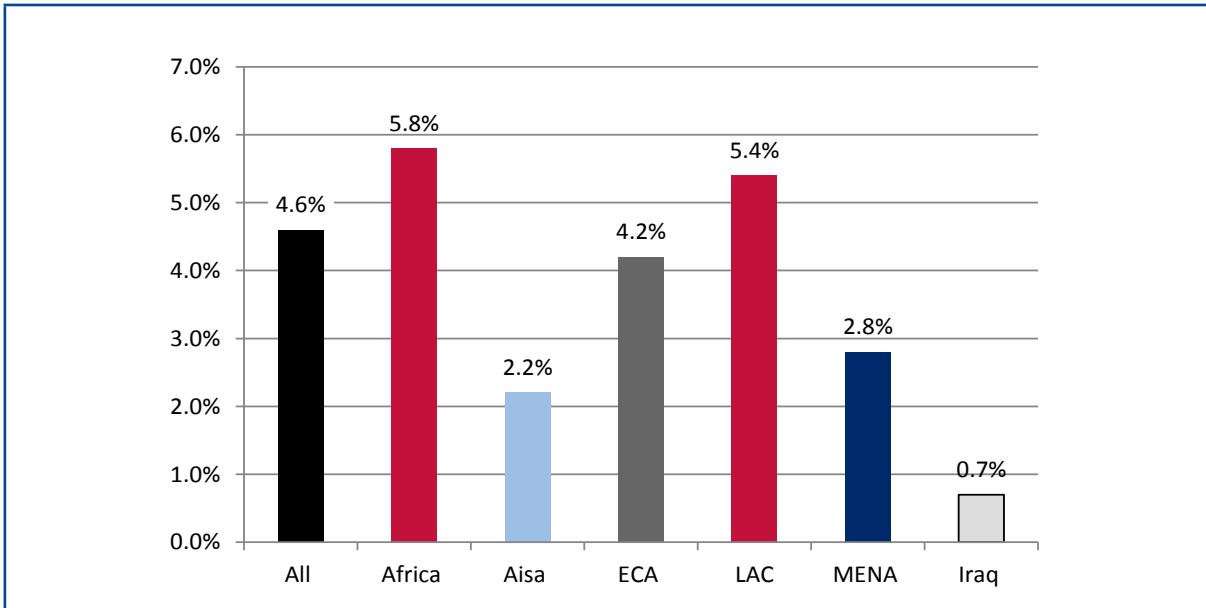
TABLE 3: MFIS FROM 10 COUNTRIES REPORTING DATA AT MIX MARKET FOR 2009

Country	MFIs	Number of Active Borrowers	Gross Loan Portfolio (GLP) in U.S. Dollars (USD)	Average Loan Balance in USD
Egypt	13	1,112,892	216,880,537	195
Iraq	6	43,273	35,775,065	827
Jordan	8	28,797	22,301,991	774
Lebanon	3	44,526	28,867,402	648
Morocco	10	919,025	611,695,078	666
Palestine	8	7,664	15,947,066	2081
Sudan	3	20,266	3,895,300	192
Syria	2	21,327	18,181,266	852
Tunisia	1	123,041	41,355,997	336
Yemen	7	32,837	4,298,741	131
Total	61	2,353,648	999,198,443	670

Source: MIX Market

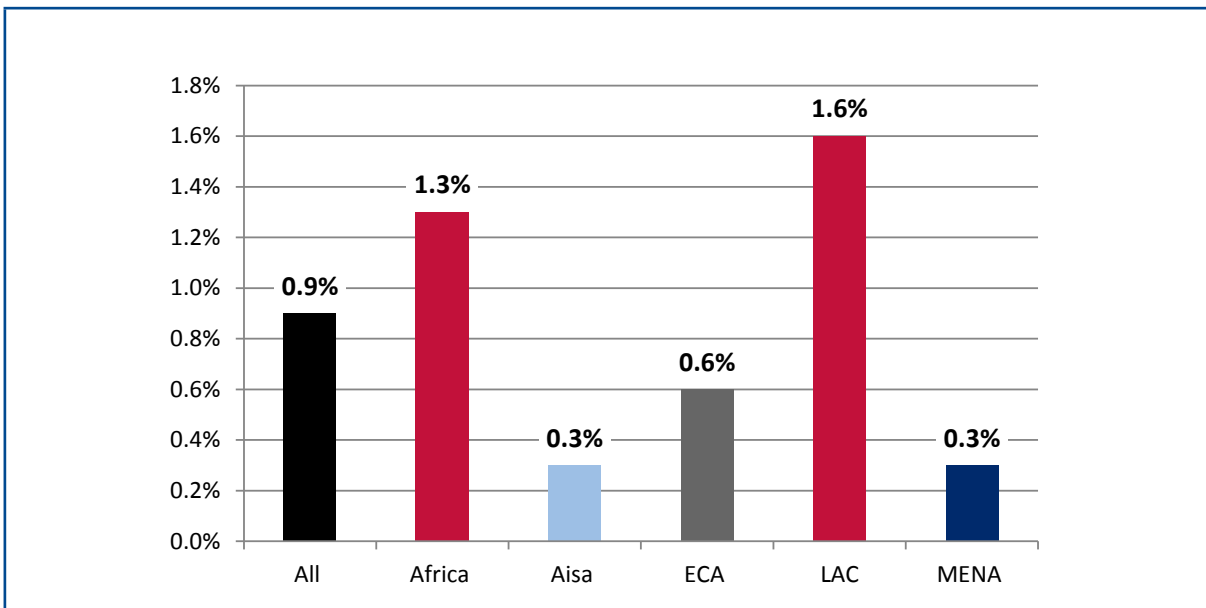
Portfolio quality plays a vital role in determining the sustainability of a microfinance institution in particular and the industry in general. The MFIs in MENA maintained high portfolio quality despite deterioration in the Moroccan industry in 2008 and 2009. The region's overall portfolio quality remained above the median, with the second lowest PAR > 30 days in the world at 2.8%. The Iraqi microfinance industry performs the best with less than 1% PAR>30 days. The MENA microfinance industry is at the top position in Asia with minimum write off ratios at 0.3%

FIGURE 1: PORTFOLIO AT RISK > 30 DAYS



Source: MIX Market

FIGURE 2: WRITE OFF RATIO

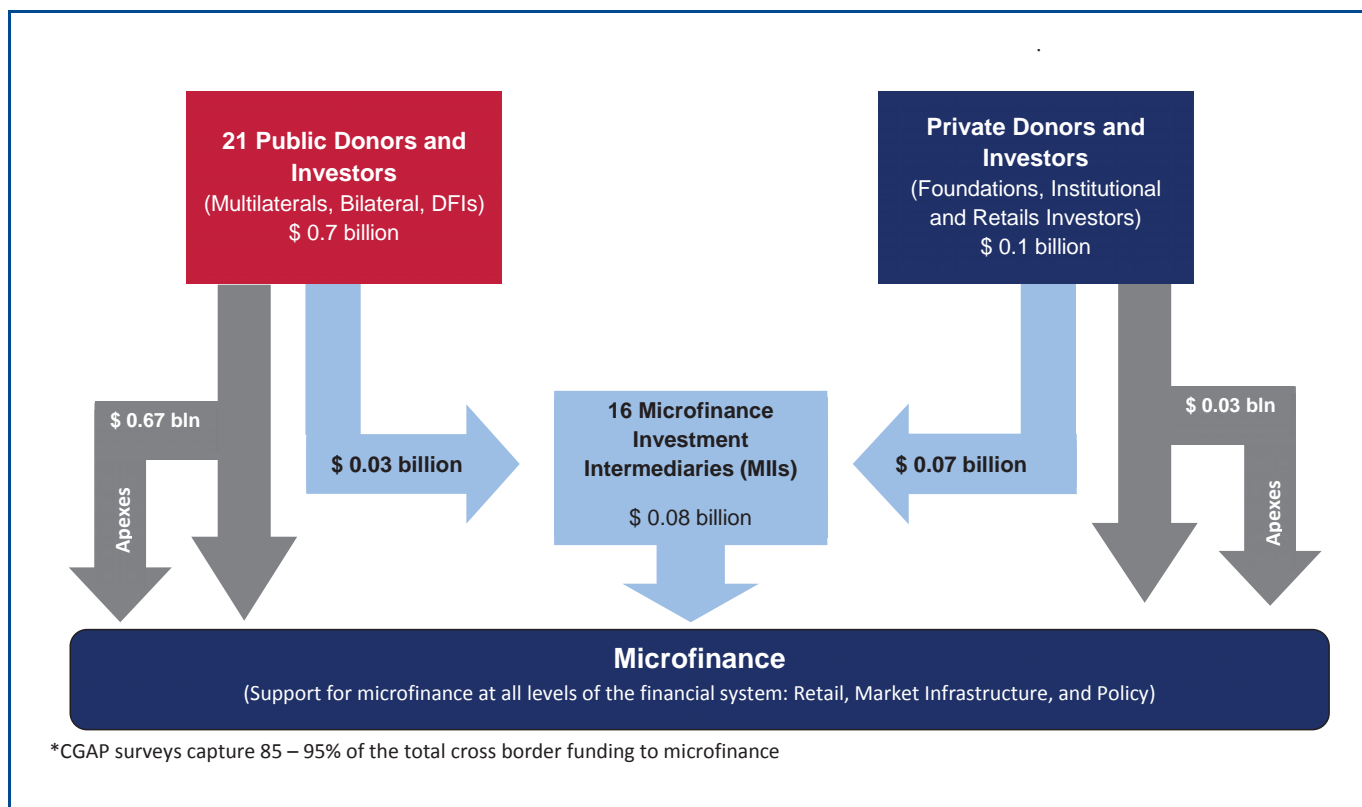


Source: MIX Market

Microfinance institutions in MENA, like anywhere else, have three different sources of funding: deposits, debt, and equity. The legal and regulatory framework in a few countries such as Sudan, Syria and Yemen allow microfinance institutions to mobilize savings. The rest of the MENA country microfinance industries face restrictive regulations for savings deposit mobilization. Donated equity has mainly been through various sources of funding throughout the region. The capital-to-asset ratio of the region is the highest (45%) compared to a global median of 23%. However, increasing debt financing and decreasing dependence on donated equity is a recent positive development.

According to the CGAP Funding Survey 2010, there are 45 funders active in the region, of which 21 are public funders, eight are foundations/NGOs, and 16 are microfinance investment intermediaries (MIs). Total commitments to the microfinance sector in MENA were \$80 million, representing 4% of total cross-border funding to microfinance sectors in the world. These commitments recorded a slow growth rate of 4% compared to 17% globally. Due to an unfavorable and restrictive legal and regulatory environment, the region attracted the lowest number of private funders and intermediaries despite excellent portfolio quality and potential in an untapped financial sector. However, as a result of measures taken by the governments and microfinance players in the region to create enabling legal environments, private funding grew by 80% in 2009 compared to 33% globally.

FIGURE 3: COMMITMENTS TO MICROFINANCE FOR MENA AS OF DECEMBER 2009: \$0.8 BILLION*



Source: CGAP

As the depth of outreach increases, the array of financial products and services is diversified and microfinance service providers are integrated more into the formal financial sector. There is also a need to adapt policy and legal frameworks that facilitate the operations of microfinance service providers offering quality services to the economically challenged people in the region. Over the past two years, new initiatives have been taken in many countries to regulate microfinance sectors. Syria, Yemen and Egypt have approved laws and regulations for the industry while the Central of Iraq (CBI), with the assistance of USAID-*Tijara*, has issued an SME Finance Companies ordinance to support commercialization of the sector and pave the way for the transformation of NGO-MFIs into non-banking financial intermediaries (NBFIs).

The microfinance industry can never reach its full potential until it is able to move into the formal financial sector, where it will have to be prudentially supervised. However, there are choices and balances to be made in deciding when, and how, this takes place. This is the time to bring the microfinance sector into the mainstream financial sector in the MENA region. Low levels of investment (international, domestic and social) to the region can be attributed to the lack of appropriate regulations and an enabling legal framework. Clear legal and regulatory financial regimes reduce some inherent operational and institutional risks and, consequently attract more foreign commercial and social investments in the microfinance industry. Many countries in the region have either not introduced specialized microfinance laws or have less favorable enabling environments.

The differences in stakeholder understanding of an enabling legal and regulatory framework for inclusive sustainable financial services are narrowing. As a result of the efforts by the stakeholders in MENA, the microfinance sector will attract an increased inflow of funds and capital from diversified investors, thus helping microfinance institutions to meet the double bottom line.

1.4 THE IRAQI MICROFINANCE INDUSTRY

The microfinance industry in Iraq based on internationally accepted standards of best practices and established in 2003, has made great achievements despite significant challenges of a conflict and post-conflict economy. With 257,209 loans issued to entrepreneurs across Iraq and a total disbursement of \$592.7 million as of end 2010, the Iraqi microfinance industry is coming of age: evolving from a stabilization intervention to an independent industry incorporating globally prescribed best practices and multiple stakeholders.

Challenges in Conflict And Post-Conflict Iraq

Aversion to Self Employment and Income Generating Activities

About 30% of household incomes 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. 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 has been strengthening security, but it remains highly fragile. The resurgence of hostilities follows the withdrawal of U.S. forces from the cities in August 2009 and the lack of election results from the country's democratic election in March 2010. While the 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 left their homes as a result of the conflicts. Of these, 2.7 million are internally displaced, while about 2 million are in such countries as Syria and Jordan. MFIs are providing critical micro-loans to internally displaced persons (IDPs) by increasing the flexibility of 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 23 small private banks and eight 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.

According to the International Monetary Fund (IMF), 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 2008⁴. Bankers in Iraq lack experience lending to MSMEs, 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 NBFI 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 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 doing so. 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. dollars. The microfinance sector may face exchange rate challenges as MFIs shift from US\$ to IQD.

⁴ 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.

Unavailability of trained human resources.

The 1991 to 2003 United Nations imposed 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 institutional, economic and human 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.

1.5 POVERTY IN IRAQ

According to Iraq's National Strategy for Poverty Reduction and the World Bank, Iraq has an estimated poverty rate of almost 23%⁵ or 7.1 million people. Additionally, many Iraqis live just above the poverty line of \$2.20/day and are vulnerable to falling as the poverty gap is only 4.5%. Thus, a relatively small increase in people's incomes could lift most of the poor above the poverty line. There is also a large proportion of the non-poor living just above the poverty line. Even a small reduction in economic growth would substantially increase poverty rates. Poverty rates are much higher in the southern and central Iraqi provinces.

TABLE 4: POVERTY RATES ACROSS PROVINCES IN IRAQ⁶

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%

In November 2009, the Iraqi Ministry of Planning and Development Cooperation released the National Strategy

⁵ Based on the 2006/07 Household Socio-Economic Survey, Central Organization for Statistics and Information Technology (COSIT), Government of Iraq.

⁶ April 2009 IMF Estimate. The population breakdown by provinces is based on 1997 estimates by the UN.

for Poverty Reduction in Iraq for 2010 – 2014, prepared by the High Committee for Poverty Reduction Policies in Iraq. The strategy seeks to reduce poverty from seven to five million people during this time period, or from the current poverty rate of 23% to 16% by 2014.

To do so, microfinance is seen as part of the solution. The Iraqi economy consists of a vast number of 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 MSME development. People lack savings and may be indebted. 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 from \$500 to \$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 the 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.

1.6 MICROFINANCE IMPRINTS IN IRAQ

Microfinance based on best practice standards in Iraq started in 2003 mainly as a tool to assist the victims of war and violence, and to help stabilize insecure areas. It has now become the sole provider of sustainable financial services for the poor and those excluded from the financial sector, including MSMEs. MFIs such as CHF International, ACDI/VOCA supported Al-Thiqa, and Relief International (RI) established operations in Iraq in 2003, 2004 and 2006 respectively, through funding received from U.S. Government sources⁷. 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-*Izdihar*⁸, a provincial economic growth project funded by USAID from 2004 to 2008 and implemented by the Louis Berger Group, Inc., collaborated with the U.S. and coalition military forces in late 2006 to establish indigenous MFIs in each province. The goal was to ensure the presence of at least one MFI in each province to enable private sector growth. In supporting MFI development, USAID envisioned local institutions serving communities through strategies for delivering locally acceptable loan products, filling an unmet market gap by 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-*Izdihar* developed strategic partnerships with the Civil Affairs Section of the U.S. military to provide parallel funding streams for operational and loan capital. While the military (and later provincial reconstruction teams, or PRTs) paid operational costs of the local MFIs, USAID-*Izdihar* provided loan capital grants and intensive technical assistance. The MFI Al-Bashaer was established in 2006 in Baghdad, 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 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.

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 a consensus on six key strategies that collectively form the Iraq Microfinance Strategy.

⁷ Initial capital was provided by U.S. Coalition Forces, significantly augmented by support from USAID on a continuous basis.

⁸ *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.

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 MSME's across all 18 provinces in Iraq. Loan size ranges from \$500 - \$25,000 with more than 80% of current loan portfolio representing loan for income generating activities.

Priority 2: Enhancement of the Legal Framework

The Iraqi Government NGO Directorate and Central Bank of Iraq have recognized the importance of extending financial access for the poor and those who are excluded from the mainstream financial system. Recently CBI issues SME Finance Companies Ordinance underscores the enabling environment for microfinance in Iraq.

Priority 3: Capacity Building and Training

Over 600 microfinance practitioners have been trained on microfinance related skills and knowledge. They include 12 certified Master Trainers in six CGAP Modules on Financial Analysis, Human Resources Management, Delinquency Management and Interest Rate Settings, Product Development, Operational Risk Management and Accounting. SMFC has also introduced modules on Governance, Internal Audit, and Strategic business planning to help manage the risks and returns.

Priority 4: Transparency, Standards and Reporting

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

Priority 5: Developing a Microfinance Network

With the issuance of the new NGO law, allowing the sector to legally register a national microfinance network, USAID-Tijara brought Iraq MFIs to a forum to 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 cater the capacity building, advocacy, information dissemination and transparency needs of the 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 big state owned banks. However, based on the overall financial sector health in the country, linkages between the MFIs and banks will require more time.

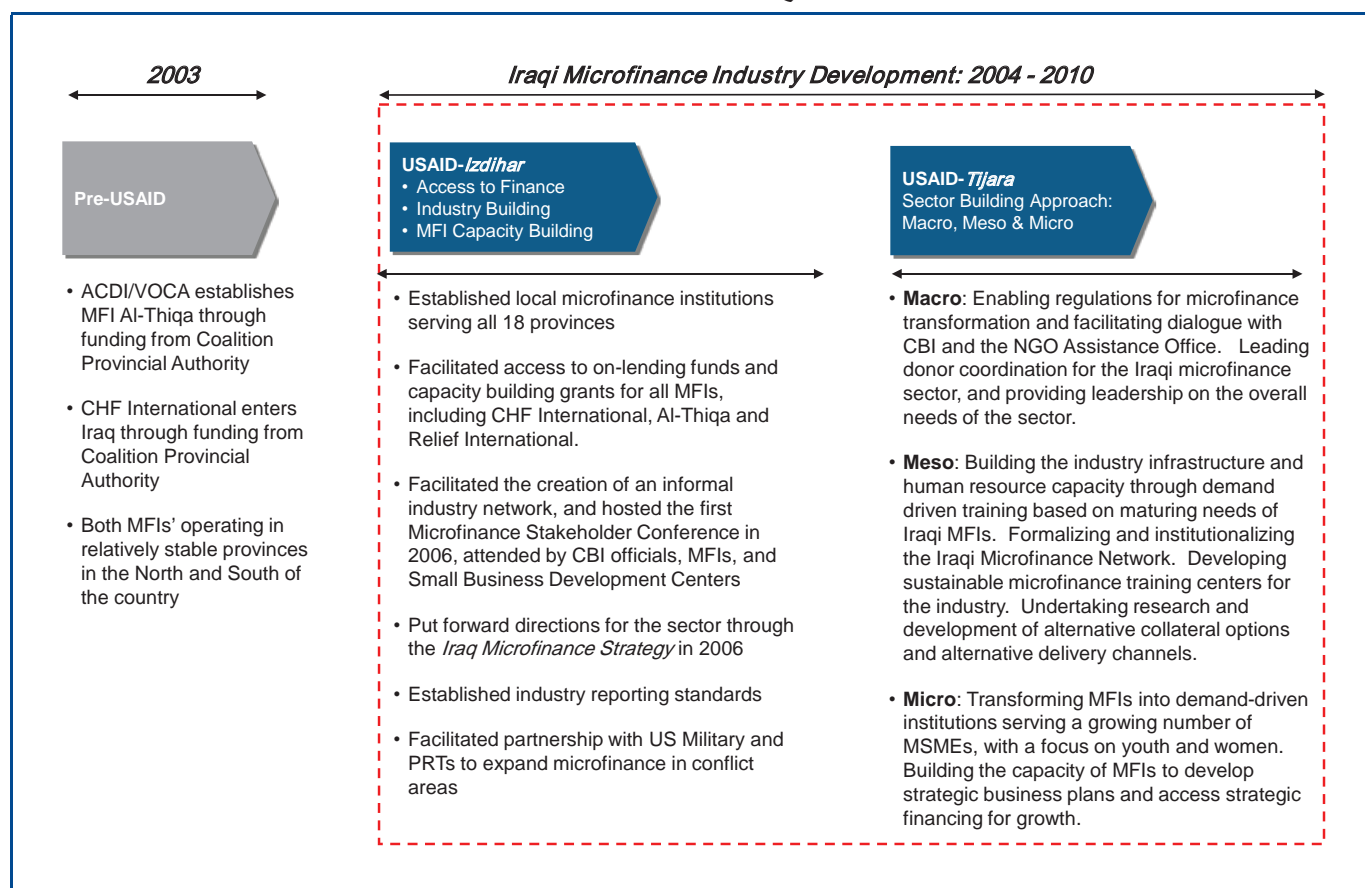
Recent government pronouncements show that microfinance is gaining recognition among policy makers as an effective tool to enable economic growth and reduce poverty. In 2007, the GoI established microfinance programs with heavily subsidized annual interest rates (2% in 2007 and 0 % in 2008). The government 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 the Kurdistan Region. A similar program was developed by the Ministry of Industry and Minerals (MIM) for industrial SMEs.

These government programs offer funds at an artificially low cost and 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 and the unreasonable requirement of a one-time repayment of the total loan at the end of one year instead of industry recommended 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 default⁹.

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 Ninawa Province. 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.

FIGURE 4: EVOLUTION OF MICROFINANCE IN IRAQ



In March 2010, the NGO Directorate 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 Directorate 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.

⁹ Repayment Frequency and Default in Microfinance, Harvard University Press, 2009

FIGURE 5: MICROFINANCE OUTREACH ACROSS IRAQ AS OF DECEMBER 2010

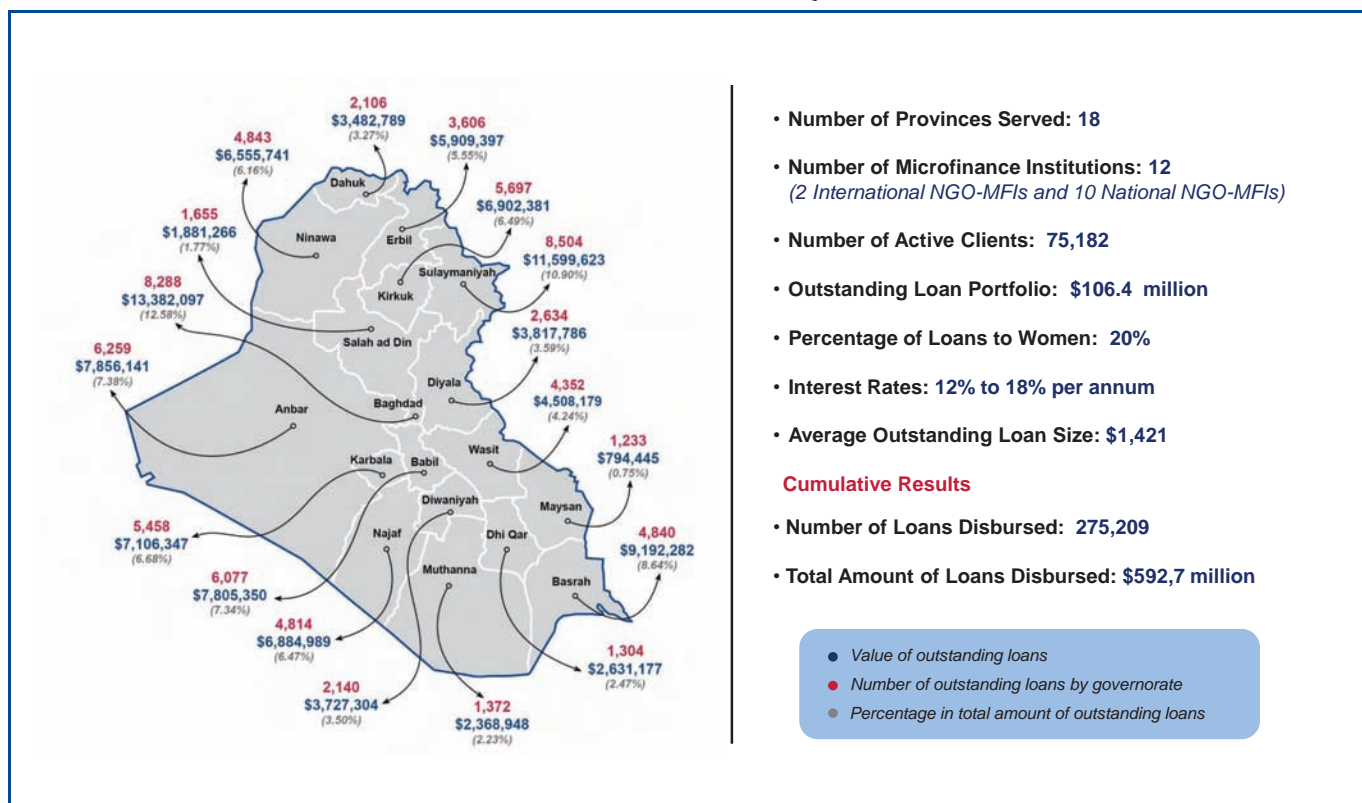


TABLE 5: POVERTY ADDRESSED BY MFIS IN IRAQ

Province	Number of Poor	No. Currently Served by MFIs**	% Reached by MFIs
Baghdad	638,610	8,288	1.3
Babil*	592,204	6,077	1.0
Karbala	302,400	5,458	1.8
Najaf	378,520	4,814	1.3
Diwaniyah	346,680	2,140	0.6
Wasit	376,720	4,352	1.2
Diyala	274,780	2,634	1.0
Ninewa	494,740	4,843	1.0
Salah al-Din*	431,120	1,655	0.4
Kirkuk	167,820	5,697	3.4
Dahuk*	61,660	2,106	3.4
Erbil*	55,356	3,606	6.5
Sulamaniya*	64,794	8,504	13.1
Basrah	792,450	4,840	0.6
Maysan	297,400	1,233	0.4
Muthanna*	262,787	1,372	0.5
Dhi-Qar	570,880	1,304	0.2
Al-Anbar	192,000	6,259	3.3
Total	7,183,820	75,182	1.0

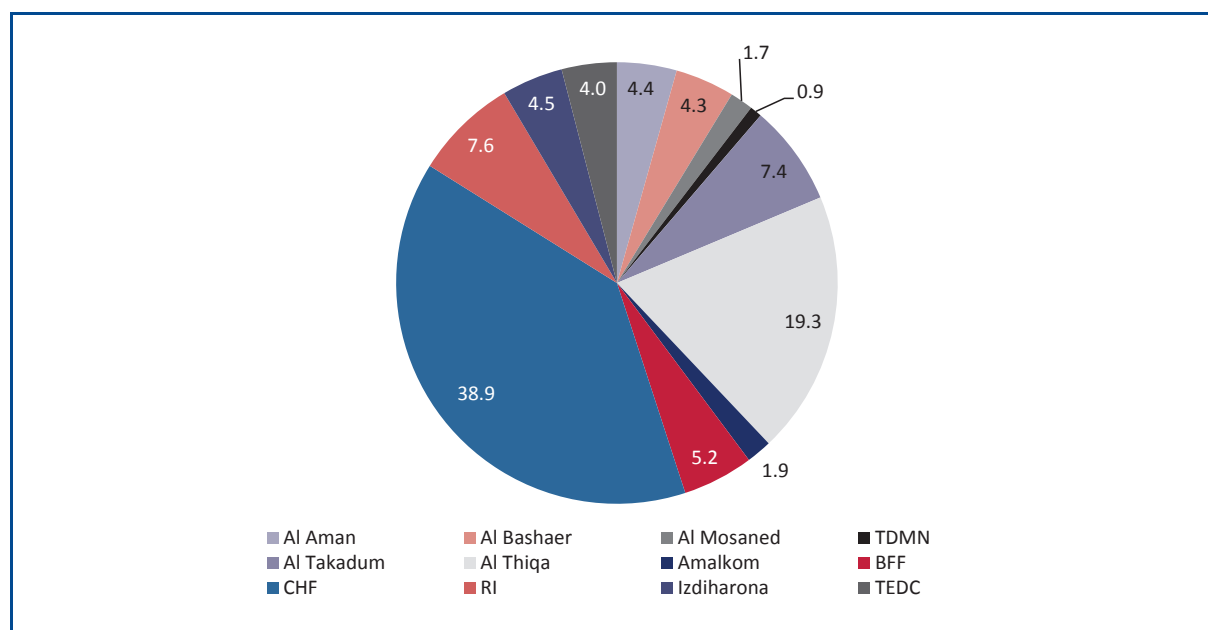
As Iraq stabilizes and innovation emerges, the microfinance sector is maturing. Innovation will emerge in the use of alternative collateral options and alternative delivery channels such as leveraging the expansive outreach of the country's mobile telephone network of over 20 million subscribers. Iraqi MFIs are recognized as providing valuable community service with their proximity to clients. Together, the 12 MFIs provide financial access to 75,182 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 gets the small amount of finance needed from savings or 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 6: MARKET SHARE OF IRAQI MFIS

Microfinance Institutions	Percentage Market Share by Portfolio (%)
Al Aman	4.4
Al Bashaer	4.3
Al Mosaned	1.7
Al Tadamun	0.9
Al Takadum	7.4
Al Thiqa	19.3
Amalkom	1.9
Bright Future Foundation (BFF)	5.2
CHF International	38.9
Relief International	7.6
Izdiharona	4.5
Tallafar Economic Development Center (TEDC)	4.0

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 257,209 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.

FIGURE 6: PERCENTAGE MARKET SHARE BY LOAN PORTFOLIO



LOANS FROM AL-MOSANED MICROFINANCE ORGANIZATION IN SALAH AD DIN HELP TO EMPOWER WOMEN ENTREPRENEURS THROUGH INCREASED HOUSEHOLD INCOMES AND FINANCIAL INDEPENDENCE



Sahra Maher Abdul-Lateef, a housewife in Salah ad Din sews clothes to make a living for her family with a loan from Al-Mosanid microfinance organization.

Sahra Maher Abdul-Lateef is a Salah ad Din housewife with three children who began working when her husband was captured and imprisoned during Iraq's war with Iran. To support her young children Sahra began sewing for her neighbors and relatives. Her husband returned home following his release but was too enfeebled by his imprisonment to substantially contribute to his family's support.

To keep her family clothed and fed Sahra applied for and received a loan from the Tikrit office of the Al-Mosanid microfinance organization. She used the proceeds of the loan to buy a newer sewing machine that allowed her to increase productivity. Despite the availability of cheap textiles from China, her business grew since many customers looking for bed spreads and pillow covers preferred her colors and ability to tailor

slip covers and bedroom linens to the size of the customers' beds.

Sahra hired one tailor and started producing bed covers and pillows in commercial quantities to sell in the markets. A second microfinance loan allowed her to purchase better cotton and diversify her product offerings. Today, Sahra makes wedding gowns and children's clothes in addition to her bed covers and pillow cases and expanded her business to the point that she has monthly revenues of around \$1,000 on average.



CHAPTER 2

THE IRAQI MICROFINANCE INDUSTRY: EMERGING TRENDS

Bashar Qasim Yahya, a Kirkuk-based artist expanded his shop with the help of a loan of \$1,500 from Al-Aman microfinance organization. He purchased a paints compressor and raw materials.

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).

Iraq's microfinance sector is dynamic. In 2010, financial products diversified, outreach to the poorest deepened, a greater percentage of women reached, operational efficiency continued its upward trend, and the government demonstrated a greater commitment to creating an enabling environment for sustainable financial intermediation.

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 (very-poor clients), up to \$5000 (micro-enterprise clients) and \$5,001- \$25,000 (small enterprise clients).

This report identifies six major trends of the past year and how they will shape outcomes in the years to come, MFIs achieving commercial viability stage of growth 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 play 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. Use of SGL enables financial access for those clients without the minimum collateral requirements required by MFIs for individual loans (see Chapter 4 for further discussion on collateral options in Iraq). With 23%¹⁰ of Iraq's population living under \$2.20 per day, the market potential is large. 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 increases 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 more accurately performing due diligence of potential borrowers.

MFI collateral requirements for MSMEs 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 50% 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.

¹⁰ Based on the 2006/07 Household Socio-Economic Survey, Central Organization for Statistics and Information Technology (COSIT), Government of Iraq

TABLE 7: COMPARING MFIS AND COMMERCIAL BANKS IN IRAQ

Indicators	MFIs	Banks
Number	12 MFIs	State (7); private banks(36)
Number of Branches	100 outlets	State (391) ; private banks (383)
Loan Size	\$500 - 25,000	For SME's about \$15,000 at disbursement
Interest Rate	12 to 15 %	Presently in the 10% - 13% range
Repayment Period	12 months	Loans typically under two years
Collateral Requirements	1) Government Employee guarantees 2) Solidarity Group: peer to peer	Usually physical collateral if > \$10-15K
Services Offered	1) MSME Loans 2) Agri-business Loans 3) Housing Loans 4) Trade Loans 5) Taxi Loans	Overdraft, trade finance, deposits and money transfers, loans and guarantees.
Loan Processing Time	2-3 Days	Highly variable, usually 30 to 60 days, but in some cases much less and in others much more.

The year 2010 saw substantial funding coming into the country for SMEs, which was 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 \$47 million to MFIs since 2004. In 2009, two MFI 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 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.

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

Enabling environment actors such as the NGO Directorate and the CBI increase 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 ministries 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 years 2011-12 will result in a more level playing field for the Iraqi MFIs and enable them to access capital for growth.

Based on the Gol'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 should 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 protection¹¹ prescribed by Consultative Group to Assist the Poor (CGAP), which include transparent pricing, appropriate collection behavior, ethical staff behavior and privacy of client data.

TREND 6:TRANSFORMATION

The CBI has issued MSME Finance Companies ordinance allowing NGO-MFIs to transform to NBFIs for extending financial services to MSMEs. 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 work (coordinate) 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 internal working group for the TWG 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 as it is not in line with industry best practices. Doing so could hamper the development and 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 Only to Lending**
A MFI serves a diverse range of clients among the low-income segment of the population, and therefore must be allowed 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 the poverty line.
- **Interest Rates – Concessionary**
Based on the social mandates of MFIs, interest rates are calculated based on the principle of sustainability. 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.
- **Idle Capital Deposit with the CBI – Too High to Justify**
MFIs, even if they become NBFIs, will not be able to legally mobilize deposits. As such, prudential requirements are much less. However, the CBI, in the new MSME regulations, has imposed unrealistically high capital deposit requirements for MFIs to fulfill in order to become NBFIs – capital that could otherwise be invested into more productive loans for the Iraqi poor and women. The requirements are around \$850,000 if an MFI registers as a limited liability company (LLC), and \$1.7 million as a joint stock company.

¹¹ <http://www.cgap.org/p/site/c/template.rc/1.26.4943/>

NGO-MFI TRANSFORMATION IN IRAQ: CHF-ACSI EXPERIENCE

Established in 2003, CHF International's Access to Credit Services Initiative (ACSI) has since become a major factor in the economic reconstruction and stabilization of Iraq. ACSI provides small, affordable loans to Iraqi individuals who do not otherwise have access to sufficient capital. Families use these loans for home improvement or to expand their small businesses, thereby improving quality of life; enhancing their financial stability and personal safety, and improving local economies in hundreds of communities across Iraq.



ACSI has become the largest microfinance program in Iraq with an outstanding portfolio of more than \$40 million, representing approximately 39% of the microfinance market in Iraq. But in order to increase growth and maintain sustainability, ACSI had no viable choice other than transforming into a profit-institution called “Al Tamweel Al Saree”. This affiliate of the CHF International Network will be incorporated as a private limited liability company in Iraq. The mission of Al Tamweel Al Saree’ is to contribute to the overall economic revitalization of Iraq by helping male and female business owners, and salaried home owners, to strengthen and expand their businesses, stabilize their incomes, and improve their habitat and quality of life. The company’s vision is to become a world-class, bank-like, micro finance institution that leverages its capital and is the leading provider of financial services in Iraq to its target clientele.

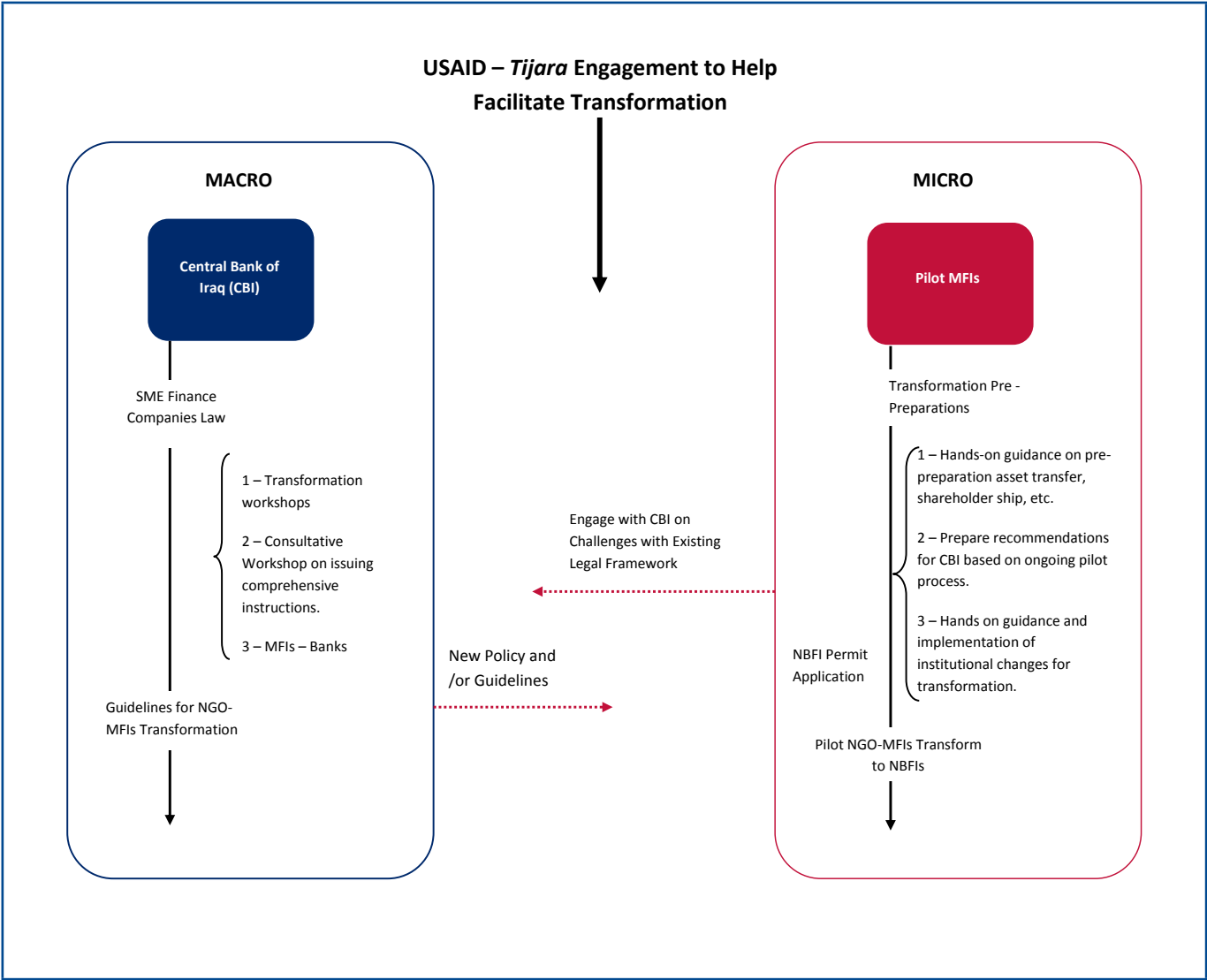
ACSI’s primary drive behind transformation is to gain more access to capital which will help increase leverage. Capital from banks and other funding sources will be leveraged such that donor dependency is reduced and assuring that liquidity for sustainability is maintained. Diversified sources of capital will help to massively increase client outreach, particularly to the poor and women. This is done by increasing market penetration, opening new branches, and increasing the mass of the loan portfolio. Al Tamweel will better serve existing and potential clients by offering a variety of products designed to fulfill their needs. In order to maintain our clients and encourage customer loyalty, Al Tamweel will offer an array of products and services to meet their needs. Transformation is the only viable option that allows NGO-MFIs to provide more quality services and products which leads to increased customer loyalty.

Challenges arise during the transformation process. Registering the company in Iraq is a challenging event since a “for-profit” MFI is a new idea for the Iraqi Government and its NGO Directorate, the Central Bank of Iraq (CBI), and the Registrar of Companies. However, USAID-Tijara has made significant efforts to actively engage these stakeholders in creating an enabling environment for an inclusive sustainable microfinance sector. CHF-ACSI has submitted its application to form an LLC. Once CBI will approve the application, the registrar office will register Al Tamweel as an LLC.

Several lessons from this process have been learned. The first is to engage the CBI, the NGO Directorate and other government policy makers early enough to ensure that they understand the mandate of microfinance institutions, need for quality financial services to economically challenged segments of the society and rationale behind the transformation. CHF-ACSI has been in continuous interaction with all stakeholders involved in the transformation to ensure its smooth transformation into a non-banking financial institution (NBFI). A systematic and objective process was followed in consultation with the CBI and Registrar of Companies to avoid any confusion and repetition of the activities and documentation. Transparency and open communication have been proved to be viable alternatives to face this challenge and overcome it.

Another lesson learned is to have strategic outreach, financial, and marketing plan to accompany the transformation application. The company’s clear and objective vision, mission, and core values will also create a positive impression while the application is being evaluated. CHF-ACSI ensured that all personnel know what the mission is and that policies and procedures are in place to prevent mission drift after transformation.

FIGURE 7: OVERVIEW OF TRANSFORMATION STRATEGY





CHAPTER 3

BUILDING AN INCLUSIVE FINANCIAL SECTOR IN IRAQ

With five consecutive loans from Al-Mosaned Center, a local microfinance institution in Salah ad Din, Mustafa Abdul-Lateef was able to establish and run two shops selling men's clothes.

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

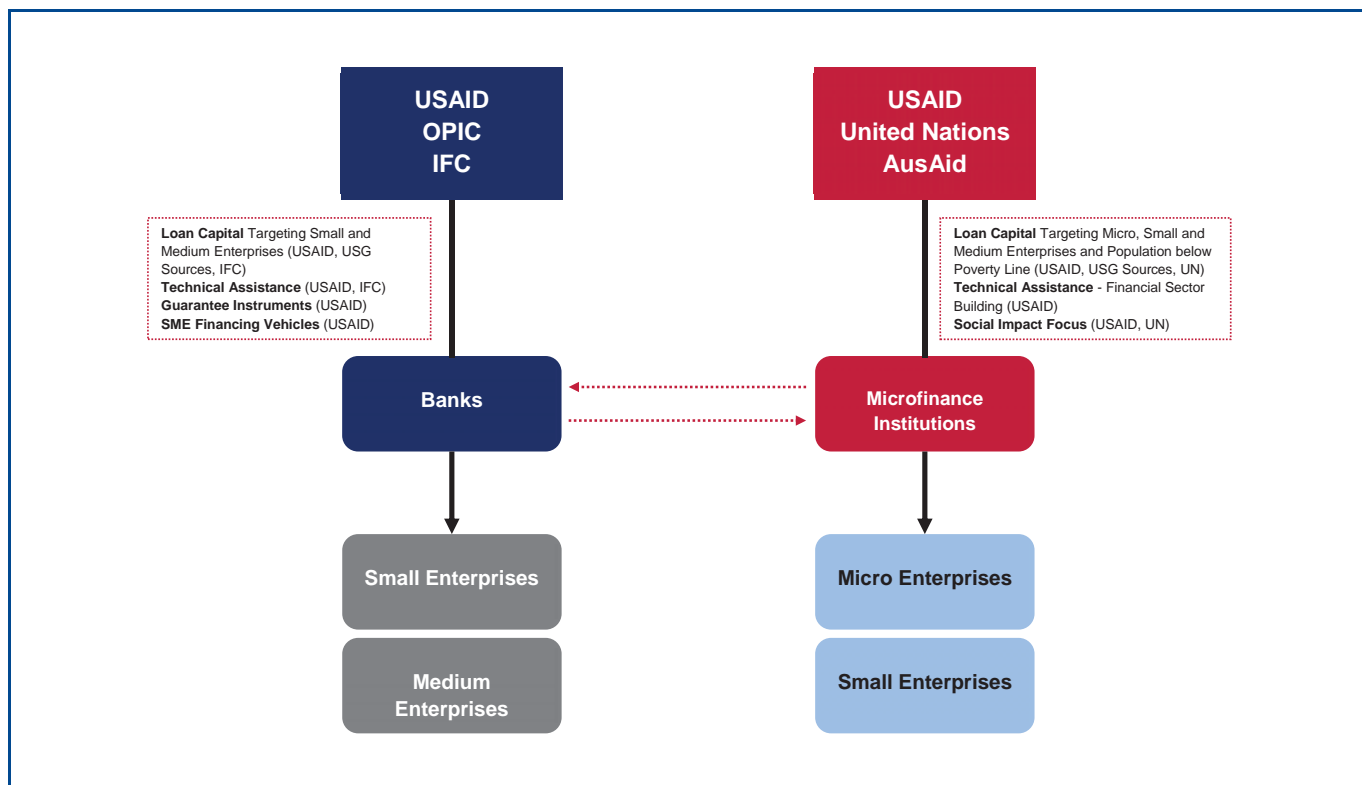
MSMEs are recognized as integral contributors to economic growth through several pathways that go beyond job creation, such as entrepreneurship, economic dynamism, linkages in value chains, and societal development. MSME growth is positively associated with economic growth. For these enterprises to grow, 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 them. In Iraq, funding for micro enterprises is provided by microfinance institutions, informal lenders, and family members. Lending to MSMEs is just beginning, promoted predominantly by donors through banks and now including MFIs as the financiers. Banks have traditionally viewed MSMEs as risky due to their vulnerability to market fluctuations, their relatively short operating history, and their lack of audited accounts. Their ability to lend to them is hindered 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 information technology (IT) infrastructure
- Lack of an awareness of market economics
- Lack of credit bureaus

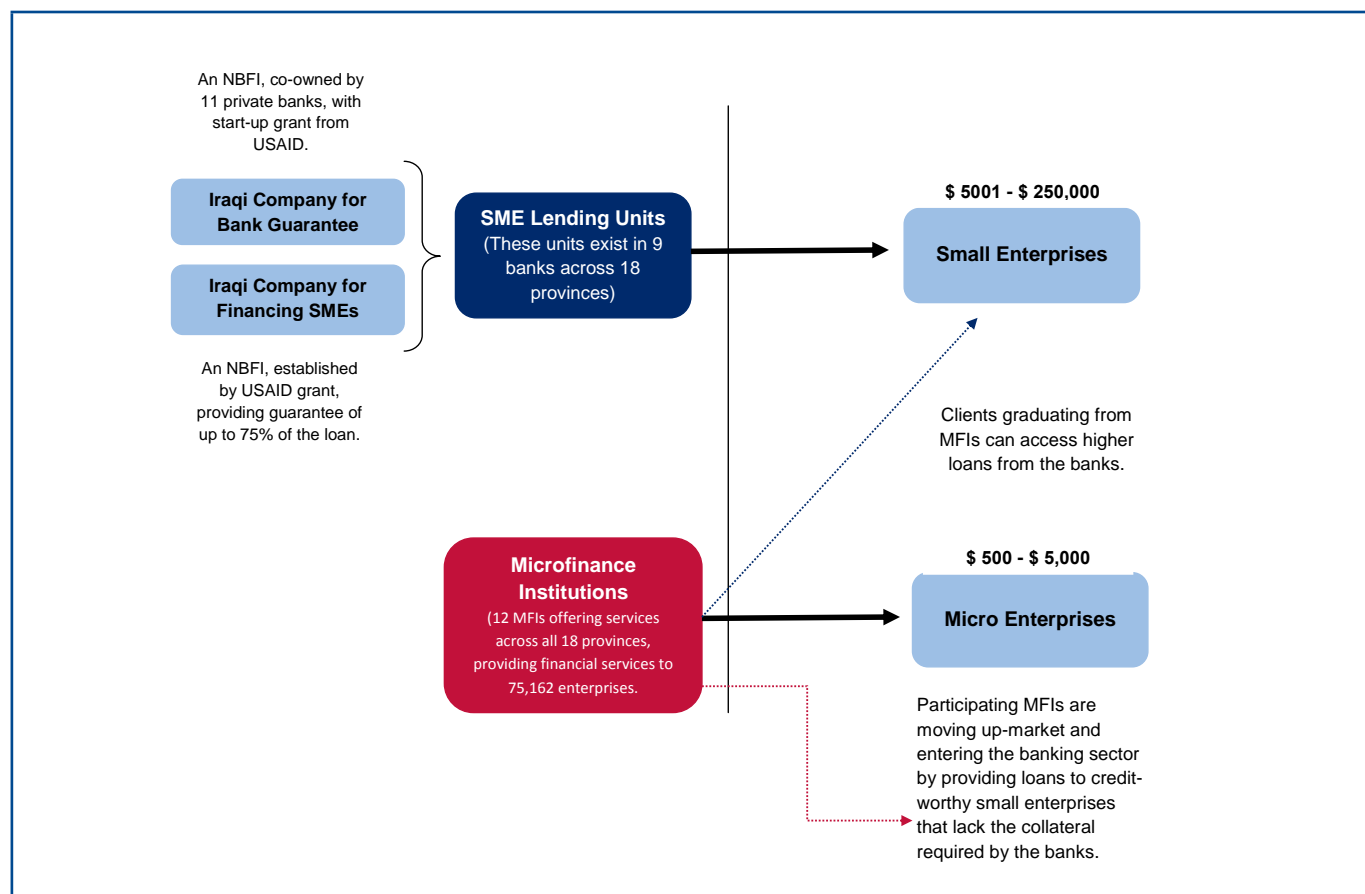
Support for MSMEs is largely missing within government initiatives. However, donors such as USAID, the World Bank, International Finance Corporation (IFC), Overseas Private Investment Corporation (OPIC) and the U.N. have been active in facilitating financing.

FIGURE 8: 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 value chain financing for MSMEs. Through USAID-*Tijara* and its implementing partners, two NBFIs were established in 2006 and 2009, namely the Iraqi Company for Bank Guarantee (ICBG) and ICF-SME. 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 MSMEs 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 9: 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 saw three institutions moving 'up market' to provide financial services to small enterprises in 2009.

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 Iraqi Youth Initiative (IYI) 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.

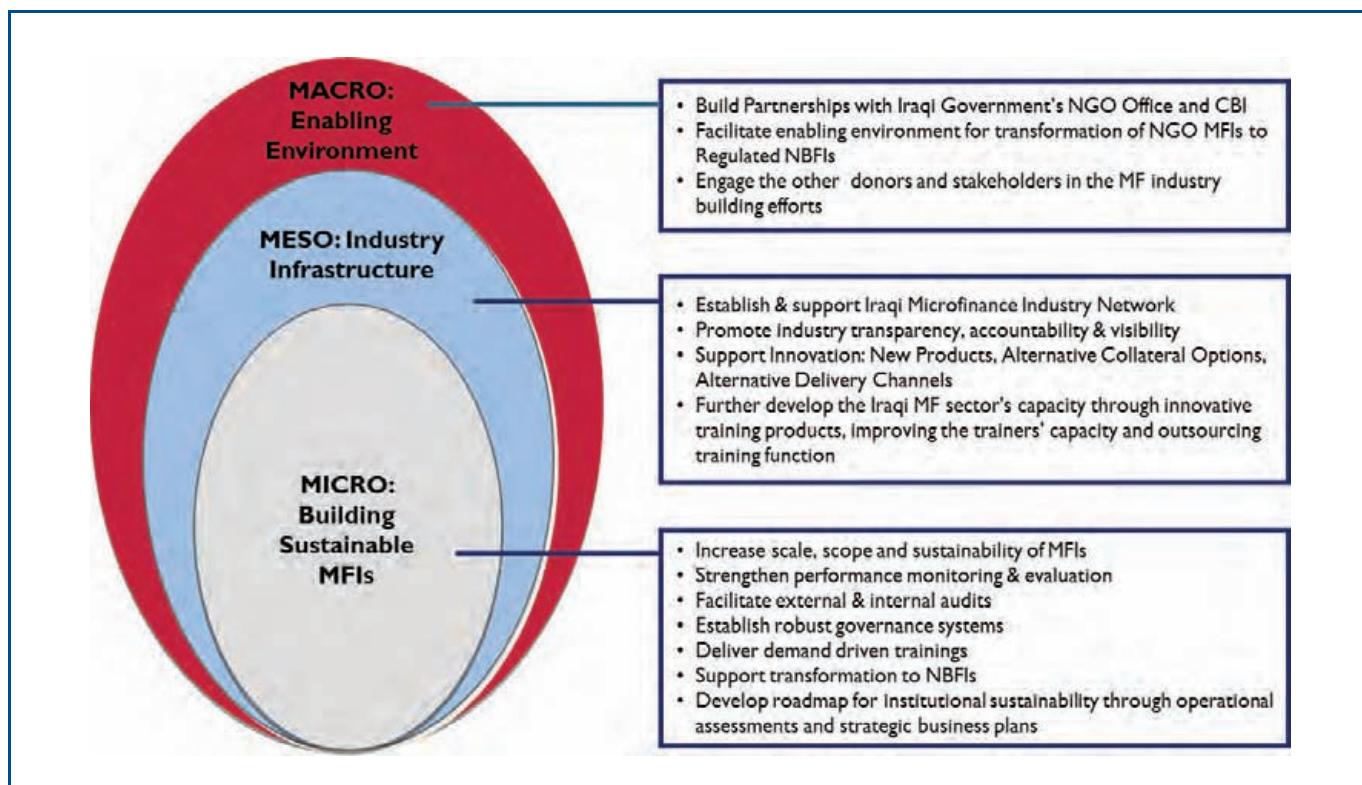
A broader MSME development strategy is being implemented, which seeks to leverage banks and MFIs as financial intermediaries for the Iraqi MSMEs. The strategy emphasizes sector specific development in order to create the required volume and network of entrepreneurs for strengthening their linkages to 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 taken 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 Directorate and CBI are now engaging Iraqi MFIs and other stakeholders working in the sector. All 12 MFIs in Iraq are registered as NGOs, with one likely to be transforming into an NBFIs in 2011.

FIGURE 10: 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 Directorate. USAID continues to lead this effort in the sector and has served as the coordinating agency for organizing stakeholder discussions with regulators.

USAID-Tijara has hosted the Legal and Regulatory Working Group (LRWG) meetings regularly since 2009. LRWG includes membership from CBI, USAID, U.S. Treasury Department, 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 issued ordinance on NBFIs based on its overall objective of promoting sustainable growth, employment and prosperity in Iraq.

3.3.1 Iraqi Government NGO Directorate

The NGO Directorate understands the types of microfinance activities in which NGO-MFIs should engage as a result of continuous interaction and regular communication. USAID and USAID-Tijara have hosted stakeholder meetings with the NGO Directorate, together with MFIs. The purpose of the meetings was to open lines of communication with the NGO Directorate, and to introduce basic principles of microfinance, and the unique characteristics and challenges 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. Other issues that have been reviewed include client poverty levels, grant use and application to MFIs, geographical areas of coverage, and future meetings and dialogue. The stakeholder meetings helped establish more strategic relationship among NGO Directorate and MFIs paving the way to create a more inclusive sustainable financial sector in Iraq.

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

- Taxation of revenue generating NGOs

According to the new law, an NGO can be exempted from paying taxes after receiving status as a 'public utility' NGO, which is approved by a Council of Ministers. However, MFIs as revenue generating NGOs cannot apply for such a status. A high tax burden reduces incentives for MFIs to continue operating as NGOs. Additionally, newer MFIs will face reduced surplus margins because of added start-up costs. This could reduce future profitability and sustainability of these new institutions and discourages further entry.

- Dissolving the NGO and transferring assets to a successor organization of similar legal status

According to the new law, in case of dissolution of any NGO the assets shall be transferred to the organization with similar mandate and activities. This could possibly create constraints for NGO-MFIs transforming into non-banking financial institutions (NBFI), which would be different in their legal status.

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 late 2010, the CBI issued the MSME Finance Companies ordinance to enable NGO-MFIs to transform into NBFIs. 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. In turn, this will allow them to increase their outreach. While the CBI does not endorse interference in interest rates charged by MFIs, the regulations make reference to "concessionary" rates.

The capitalization requirements under the MSME Finance Companies laws for creating an SME financing company is IQD two billion (USD 1.7 million) as a joint stock company (JSC) and IQD one billion (USD 850,000) as an LLC. With the exception of three large international NGO-MFIs, Iraqi MFIs are unable to meet this minimum requirement unless international development investors with high risk appetites participate to enable the transformation. In addition, the ordinance permits providing only loans to MSMEs'. Other financial services such as savings are not permitted.

TABLE 8: MICROFINANCE SECTOR IN IRAQ: COMPARATIVE LEGAL AND REGULATORY FRAMEWORK

Institutional features	NGO – MFIs	MSME Finance Companies
Regulatory Status	<ul style="list-style-type: none"> • Registered by Iraqi NGO Directorate • Not supervised or regulated by Central Bank of Iraq (CBI) 	<ul style="list-style-type: none"> • Incorporated by Registrar of Companies • Licensed and supervised by CBI as MSME – Finance Company
Legal Form	<ul style="list-style-type: none"> • Non- Governmental Organization (NGO) 	<ul style="list-style-type: none"> • Limited Liability Company (LLC) or Joint Stock Company (JSC)
Ownership Structure	<ul style="list-style-type: none"> • No owners or shareholders • At least three founding members • Maximum 25% foreigners, resident in Iraq, may become members 	<ul style="list-style-type: none"> • LLC: Minimum 1 shareholder and maximum of 25 shareholders • JSC: Minimum 5 shareholders • Foreign shareholders allowed
Capital Structure	<ul style="list-style-type: none"> • No capital requirements 	LLCs: One billions IQD JSCs: Two billion IQD
Profit Status	<ul style="list-style-type: none"> • Non-profit organizations; Profit from operations cannot be distributed to employees, directors or managers 	<ul style="list-style-type: none"> • Commercial, for profit organizations; dividend can be paid to shareholders
Financing from commercial banks: local and foreign	<ul style="list-style-type: none"> • Not allowed for on-lending purposes 	<ul style="list-style-type: none"> • Bank borrowing up to 300% of paid-up capital (for LLCs and JSCs) • Credit bonds up to 50% of the paid up capital may be issued (for JSCs only)
Grants from donors	<ul style="list-style-type: none"> • Yes, grants are treated as revenue for the NGOs 	<ul style="list-style-type: none"> • Yes, subject to prior approval from Ministry of Planning and Development Cooperation. • All grants must be converted as shareholder capital

Institutional features	NGO – MFIs	MSME Finance Companies
Provision of loans to target clients: the poor	<ul style="list-style-type: none"> Not prohibited in the law 	<ul style="list-style-type: none"> Allowed
Prudential Supervision	<ul style="list-style-type: none"> No 	<ul style="list-style-type: none"> Yes, by Central Bank of Iraq
Corporate Governance	<ul style="list-style-type: none"> General Assembly Board of Directors Board sub-committees may be formed under the by-laws Board members should meet basic criteria defined in NGO law and NGO's bylaws 	<ul style="list-style-type: none"> General Assembly JSCs: Board of Directors LLCs: Advisory Board Board sub-committees on risk management, audit and compliance Board members should meet professional criteria set by CBI
Audit	<ul style="list-style-type: none"> Only for NGOs with annual budget exceeding 75 million dollars by a public accountant By Board of Supreme Audit if NGO Office believes that NGO's accounts are manipulated or inaccurate. 	<ul style="list-style-type: none"> By a CBI approved auditor Inspection of records by CBI
Reporting to Regulator	<ul style="list-style-type: none"> A financial report including a detailed description of the source of the NGO's funds and financial transactions. A report of the NGO's activities including a briefing on the projects implemented by NGO during the year 	Annual report containing: <ul style="list-style-type: none"> Sources of finance. Statement of outstanding loans and statement of pledged loans. Prevailing interest rate(s) charged on credit products. Purpose of loans and strategic alignment of loan purpose to the Company's missions. Lending and collateral policies and procedures. A statement of loan-loss provisions.
Taxation	<ul style="list-style-type: none"> Yes ,except public utility NGOs 	<ul style="list-style-type: none"> Yes
Dissolution	<ul style="list-style-type: none"> Net assets transferred to successor organization with similar objectives 	<ul style="list-style-type: none"> As per the Companies Law
Loan Loss Reserve	<ul style="list-style-type: none"> Although not required by law, NGO-MFIs set aside 2-5% of outstanding loans as loan loss reserves 	<ul style="list-style-type: none"> The Company will set aside financial allocations to overcome risks facing the Company, determined by the CBI
Consumer Protection	<ul style="list-style-type: none"> Not required by the law. However, NGO-MFI adhere to a Code of Conduct and Ethics adopted by the microfinance industry promoting transparent pricing and consumer protection principles 	<ul style="list-style-type: none"> The CBI requires that the loans to target clients are used for purposes stated in the loan contract.

3.4 MESO: BUILDING THE MICROFINANCE INDUSTRY INFRASTRUCTURE

The Iraqi microfinance industry infrastructure has supported a variety of important initiatives at the meso level which has strengthened technical and institutional infrastructure for inclusive financial sector. USAID-Tijara has led the establishment of the Iraq Microfinance Network (IMFN), 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

MFI continue to be challenged in accurately tracking, recording and reporting the performance data necessary to monitor and manage 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, the accurate and consistent reporting of performance is crucial.

Iraqi MFIs are increasingly interested in learning how they are performing in comparison to their peers at similar maturity levels across the 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 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 9: 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%.

Source: http://www.imfi.org/files/PCMS_ReportDec09.pdf

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 database¹².

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 2010, eight First Generation MF Trainers remain serving the Iraqi microfinance industry as leaders, including several who are MFI chief executives.

¹² <http://www.themix.org>

Since 2009, over 700 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 by an International Training firm.

3.4.3 Formalizing the Iraqi Microfinance Industry Network

Building on the 2006 Microfinance Strategy 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.

The network will support a number of programs and initiatives for the industry and its constituent Iraqi MFIs. The Iraqi microfinance knowledge portal (www.imfi.org) will be transferred from USAID-*Tijara* to the network. Additionally, it will monitor and advise policy, coordinate donors and direct the sector towards best practices and sustainability. Most importantly, the network will serve as a unified voice for the Iraqi microfinance sector to lobby government for a more favorable legal and regulatory environment, 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 18 provinces, the MFIs have developed expertise keeping in view market characteristics, client's need, services delivery mechanism, and loan products leading to demand driven quality products and services. 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

Rapid client and portfolio growth of the microfinance industry changed its dynamics: MFIs gained increasing independence as demand-driven institutions. They are becoming more recognized as effective development institutions reaching out to the poor and those excluded from the mainstream financial sector.

Based on the classification system mentioned earlier, 11 MFIs are under Category A, the Commercial Viability Stage, while one MFI is under Category B, the Expansion Stage. This is a significant increase from 2009 in which eight of the MFIs were in Category A while the rest were under Category B. The improvement reflects the MF sector's readiness to be included in the mainstream financial sector.

Category A-Commercial Viability Stage	Category B-Expansion Stage
Al Aman	Al Tadamun
Al Bashaer	
Al Mosaned	
Al Takadum	
Al Thiqa	
Amalkom	
Bright Future Foundation	
CHF International	

Category A-Commercial Viability Stage	Category B-Expansion Stage
Relief International	
Izdiharona	
Tallafar Economic Development Center	

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 I: GLP>\$50 million	Tier II: GLP > USD 3 million and < USD 50 million	Tier III: GLP < 3 million
None	Al Aman	Al Mosaned
	Al Bashaer	Al Tathamun
	Al Takadum	
	Al Thiqa	
	Amalkom	
	Bright Future Foundation	
	CHF International	
	Relief International	
	Izdiharona	
	Tallafar Economic Development Center	

3.5.1 Continued Growth

.....Continued, impressive portfolio growth of 28.4%.

.....Category A MFIs lead the growth

From 2004 to 2010, the Iraqi microfinance industry experienced compound annual growth rates (CAGR) of 58.4% and 53.8% respectively.

In 2010, the Iraqi microfinance industry registered CAGR of 53.8%, a decrease from 58.4% in 2004. In 2010, MFIs grew at an annual growth rate of 28.4% in portfolio size and client growth of 27.7%, down from 52% and 48.2% respectively in 2009.

	December 2009	December 2010
Active Clients	58,852	75,182
Year-on-Year Client Growth	52%	27.7%
Outstanding Loan Portfolio (\$)	\$82,855,717	\$106,406,242
Year-on-Year Portfolio Growth	48.2%	28.4%

This decline is partially due to the introduction of the solidarity group lending (SGL) methodology to Iraq in 2009. In order to attract low-income clients, this has introduced a reduced minimum loan size of \$500. As a result, the outstanding loan portfolio has leveled off as the average loan size has declined.

Simultaneously, the continuing unstable security situation and limited number of new investors 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 as MFIs continue to lose trained staff members to more secure, stable and higher paid opportunities with government, international development contractors, private business firms or those outside Iraq.

FIGURE 11: SHARE OF EACH MFI CLASSIFICATION IN OUTSTANDING LOAN PORTFOLIO

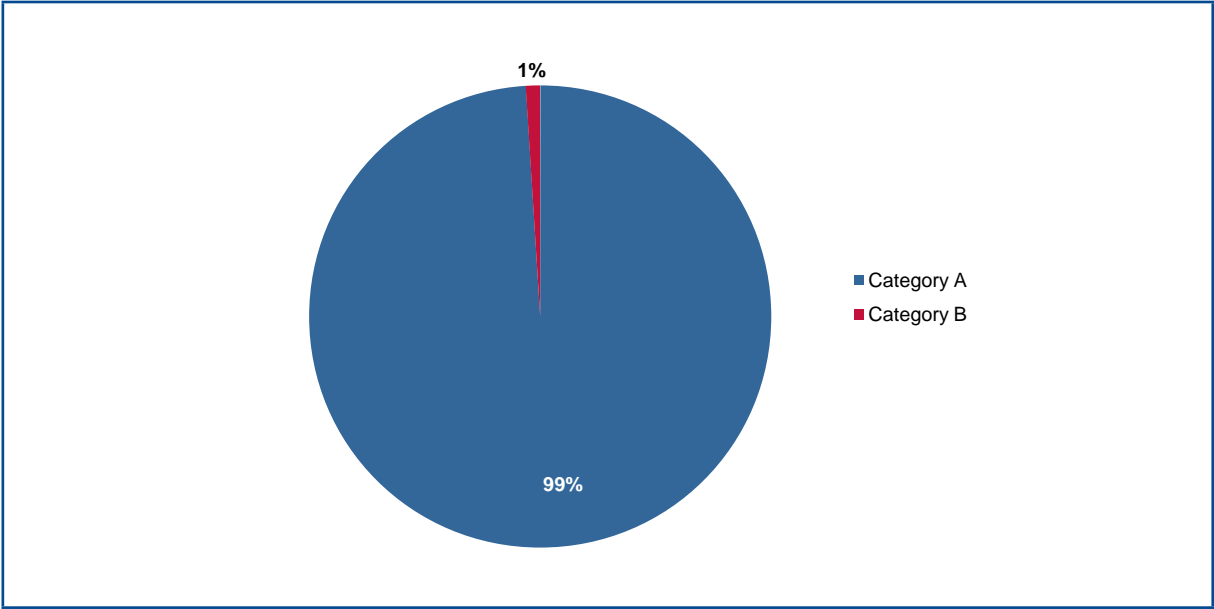


FIGURE 12: SHARE OF EACH MFI CLASSIFICATION IN ACTIVE CLIENTS

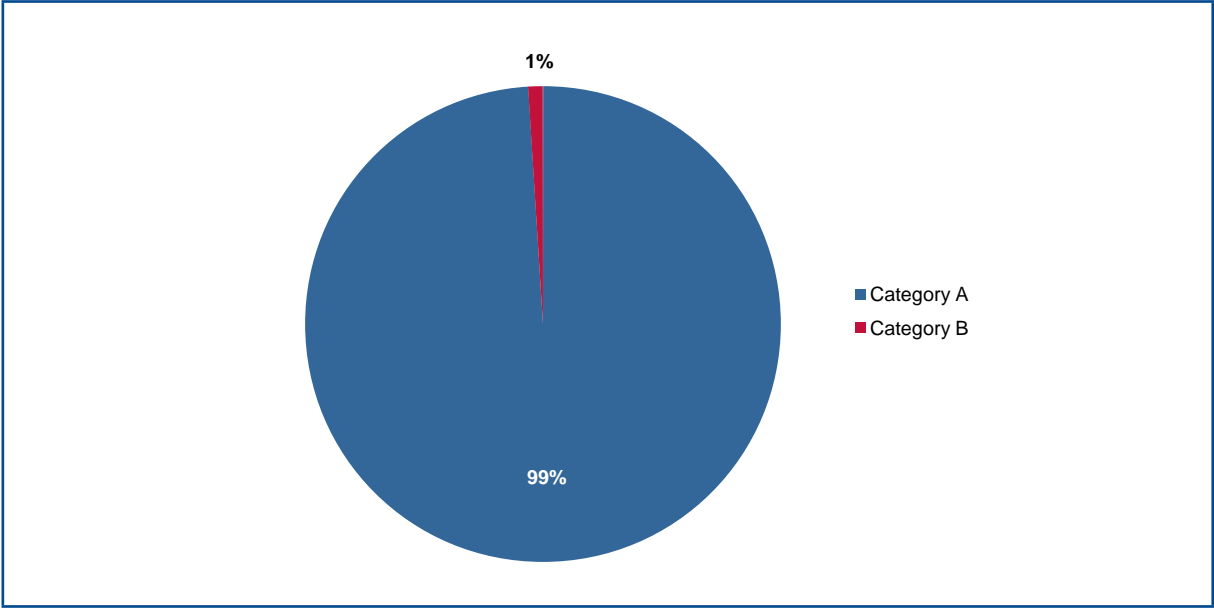
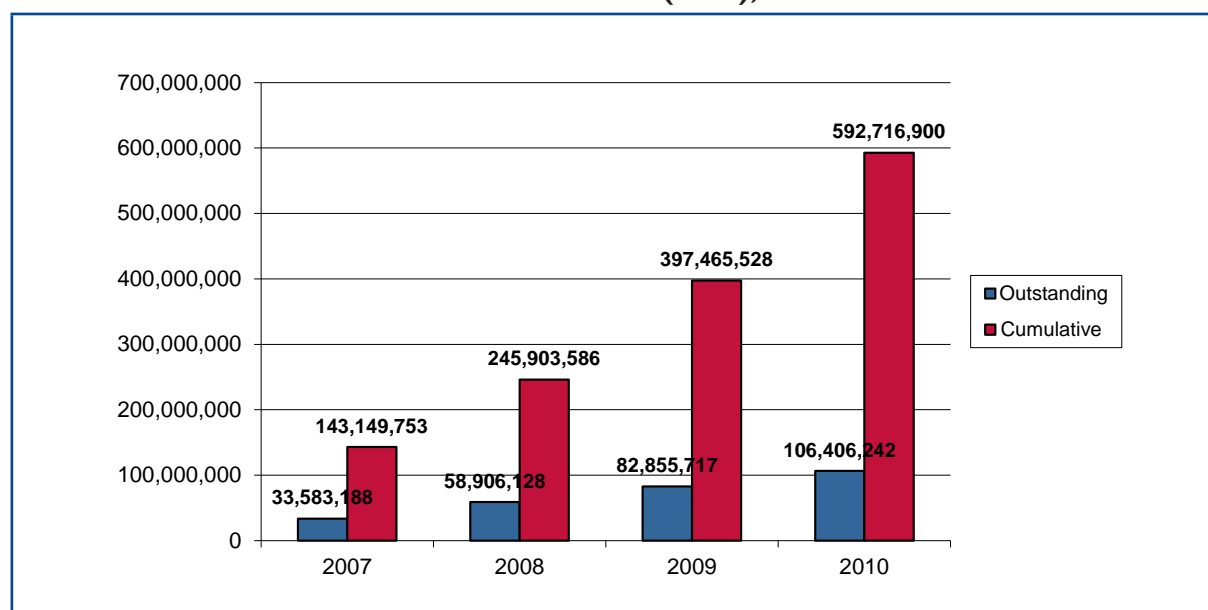
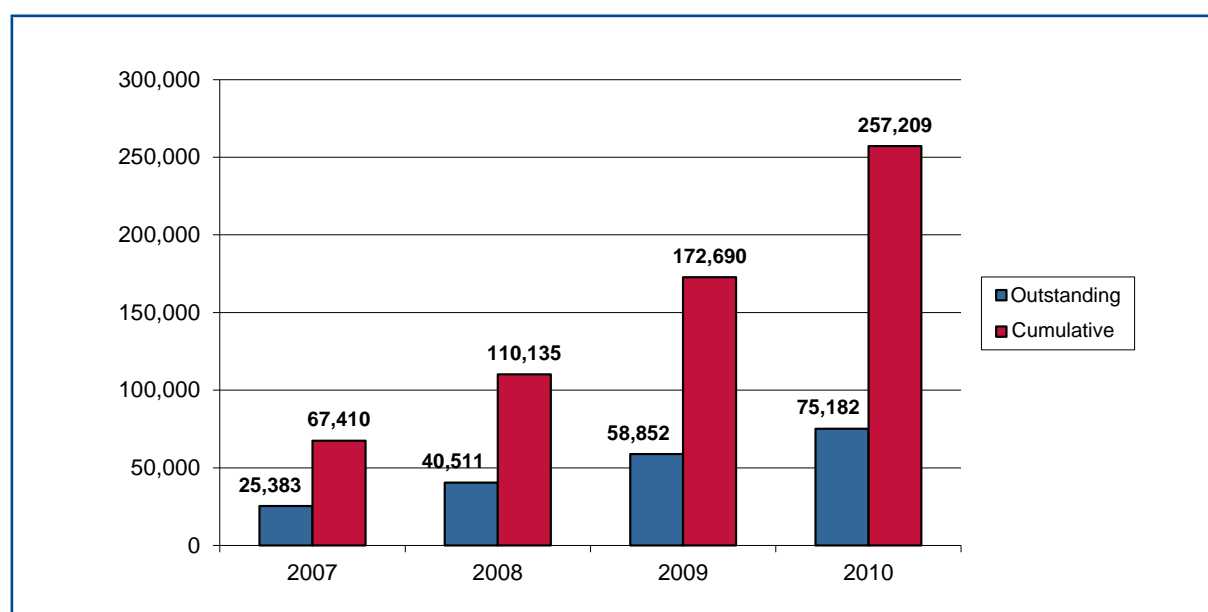


FIGURE 13: GROWTH IN LOAN PORTFOLIO (USD), CUMULATIVE AND OUTSTANDING**FIGURE 14: GROWTH IN CLIENT OUTREACH (NUMBERS), CUMULATIVE AND OUTSTANDING****TABLE 10: IRAQI MFIS AVERAGE GROWTH COMPARED TO MENA AVERAGES**

Indicators	MENA Averages (MBB)	Iraqi MFIs Averages
Number of Active Borrowers	13,161	6,265
% of Women Borrowers	67.6%	16%
Gross Loan Portfolio per MFI (\$)	\$6,229,943	\$8,867,186
Averages Loan Balance per MFI (\$)	\$363.83	\$1,415

3.5.2 Women Clientele

... Reducing the gender divide

Women entrepreneurs across the world contribute to the economic growth and sustainable livelihoods of their families and communities. Inclusive financial services help empower them from poor households to make their contribution. This empowerment through financial services including microfinance positively influence female client's decision-making power and enhancing their socio-economic status. Currently, 70% of the world's women are poor. They have been disadvantaged in access to credit and other financial services. This leads to their inability to effectively contribute to the informal economy and local economic development.

Commercial banks and formal financial institutions often focus on men and formal businesses, neglecting women who make up a large and growing segment of the informal economy. The collateral requirements often are so stringent that women fail to get those for loans and other financial services. Microfinance, however, often targets women. In some cases elsewhere in the world, women are exclusively targeted. The ripples of women's microfinance can build into waves of transformation, leading not only to enhanced empowerment and decision-making, but also to powerful institutions able to take on complex new tasks serving the whole of society.

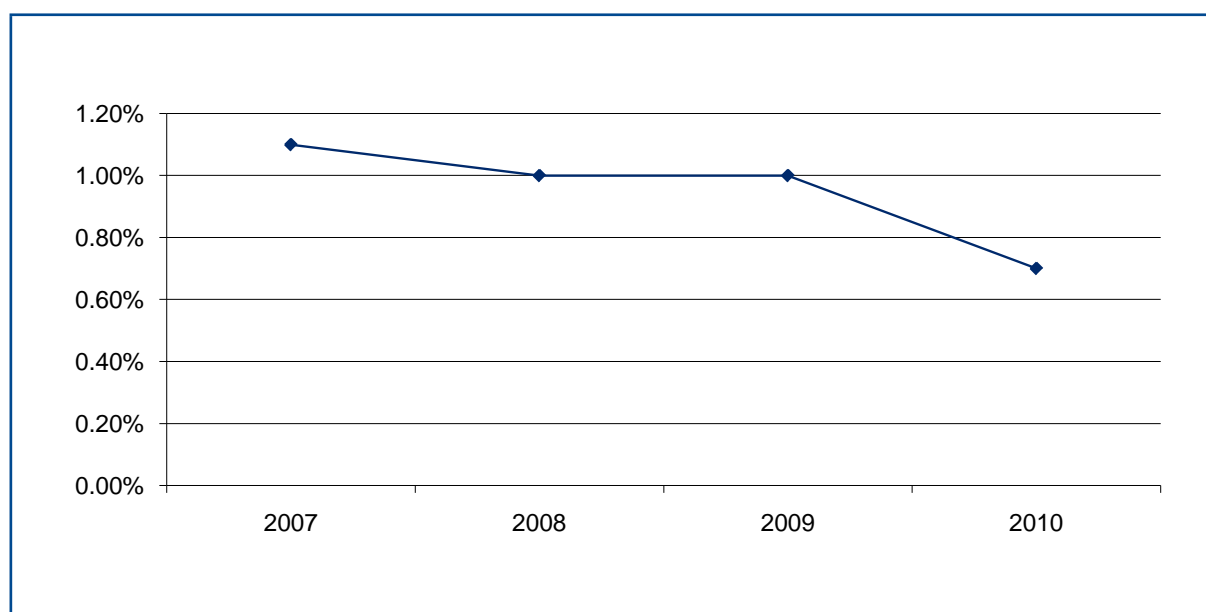
One in ten Iraqi households is headed by women. More than 80 per cent of these are widows. Women are 17% of the country's labor force, compared to 81% of men. The low participation rate of women is partially attributed to illiteracy, lack of access to capital, and conservative social apparatus. Since 2003, women have been proving their entrepreneurial skills by successfully running their MSMEs. Women who access quality financial services demonstrate higher success rates both in terms of repayment and positive socio-economic impact on their families. Thus, outreach to women has been a priority of the industry. As a proportion of total active clients, the percentage of women increased from 13% in March 2007 to 16% in December 2010. MFIs have also demonstrated a commitment to increasing the share of female clients by hiring female loan officers and targeting women groups using the SGL methodology. Female loan officers represent 19% of all 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.

3.5.3 Portfolio Quality and Performance

...Increasing portfolio yields to cover costs

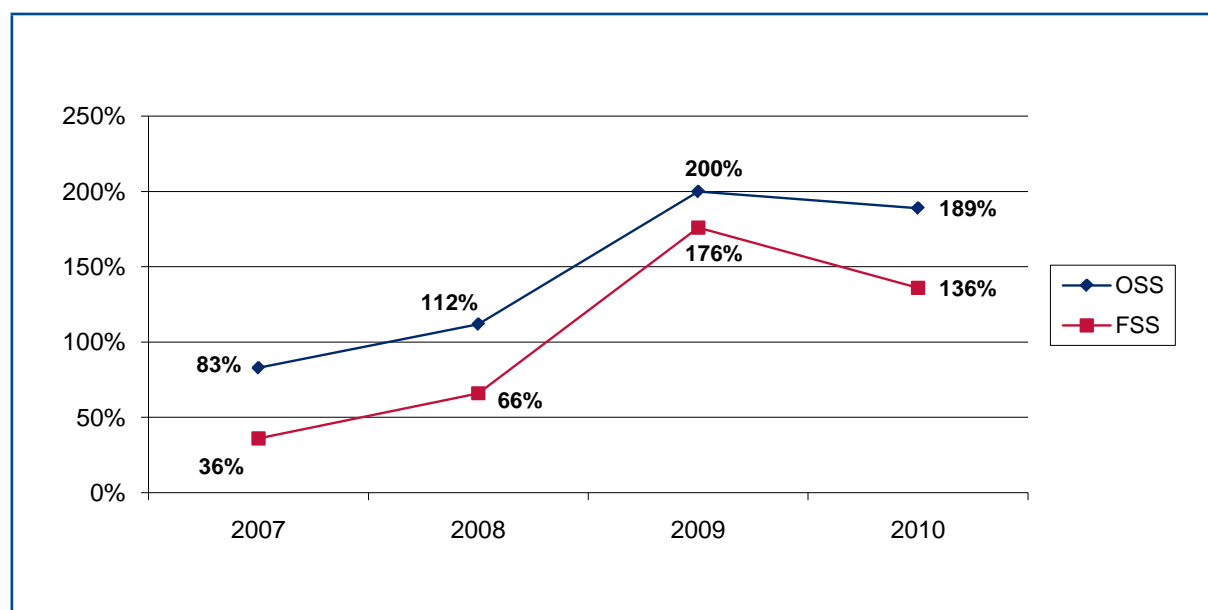
Iraqi MFIs hold a quality loan portfolio with the PAR greater than 30 days of less than 1%. Grade A MFIs have better credit/risk analysis systems as well as better collection methods in place. They therefore maintained good portfolio quality at 1%.

FIGURE 15: PORTFOLIO AT RISK > 30 DAYS ACROSS THE YEARS



The financial and operational self sufficiency for MENA was 121.3% and 123.5% respectively, according to 2010 Arab Microfinance Benchmarking Report, compared with OSS of 136% and FSS of 189% in Iraq. Rates of both operational and financial sustainability continue to increase.

FIGURE 16: RISING FINANCIAL AND OPERATIONAL SELF SUFFICIENCY



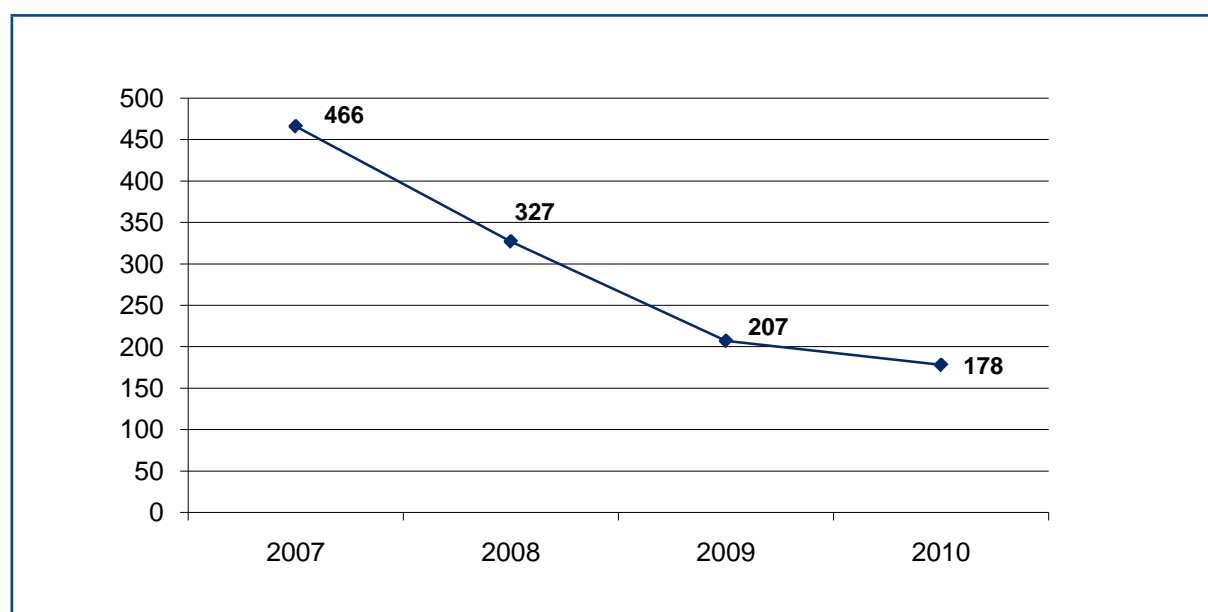
3.5.4 Growing Efficiency in Loan Operations

...Increasing scale of operations and improving cost efficiencies

During 2009 and 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% has improved dramatically from the ratio of 13% in 2009 and 28% in 2008. The cost per borrower has improved from \$207 in 2009 to \$178 in 2010.

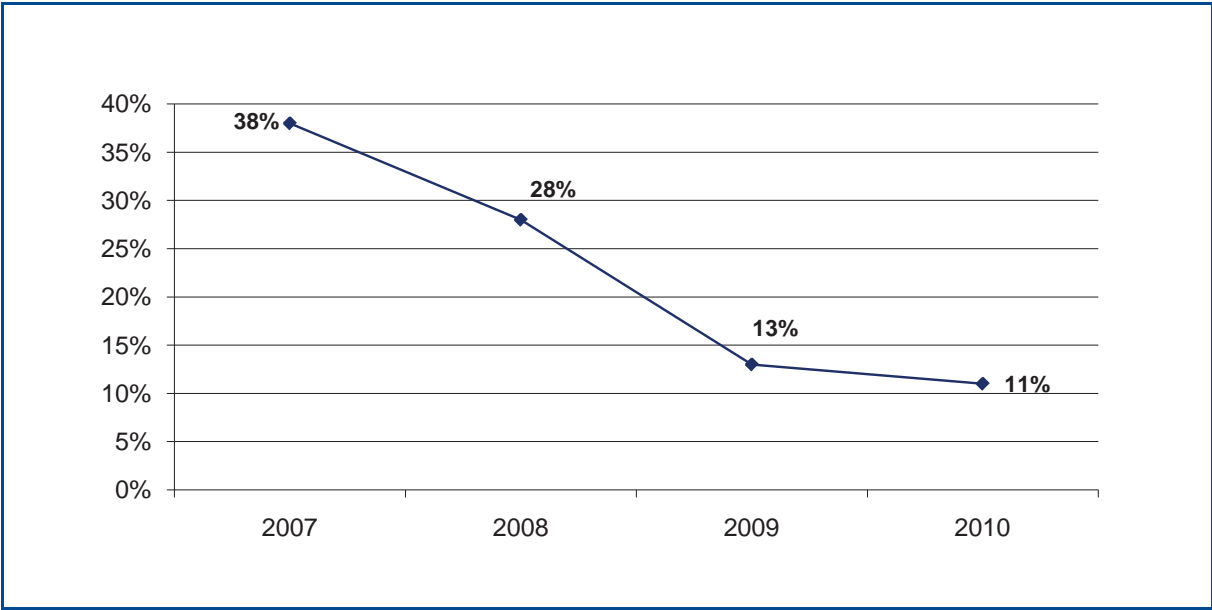
In a country characterized by ongoing conflict and insecurity, operating costs are far higher in Iraq compared to other countries in the region. For example, the average monthly salary of a loan officer (including built-in incentive schemes) in Iraq is \$843, compared with India and Bangladesh, where 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 over time as their experience and outreach grows.

FIGURE 17: REDUCING COST PER BORROWER



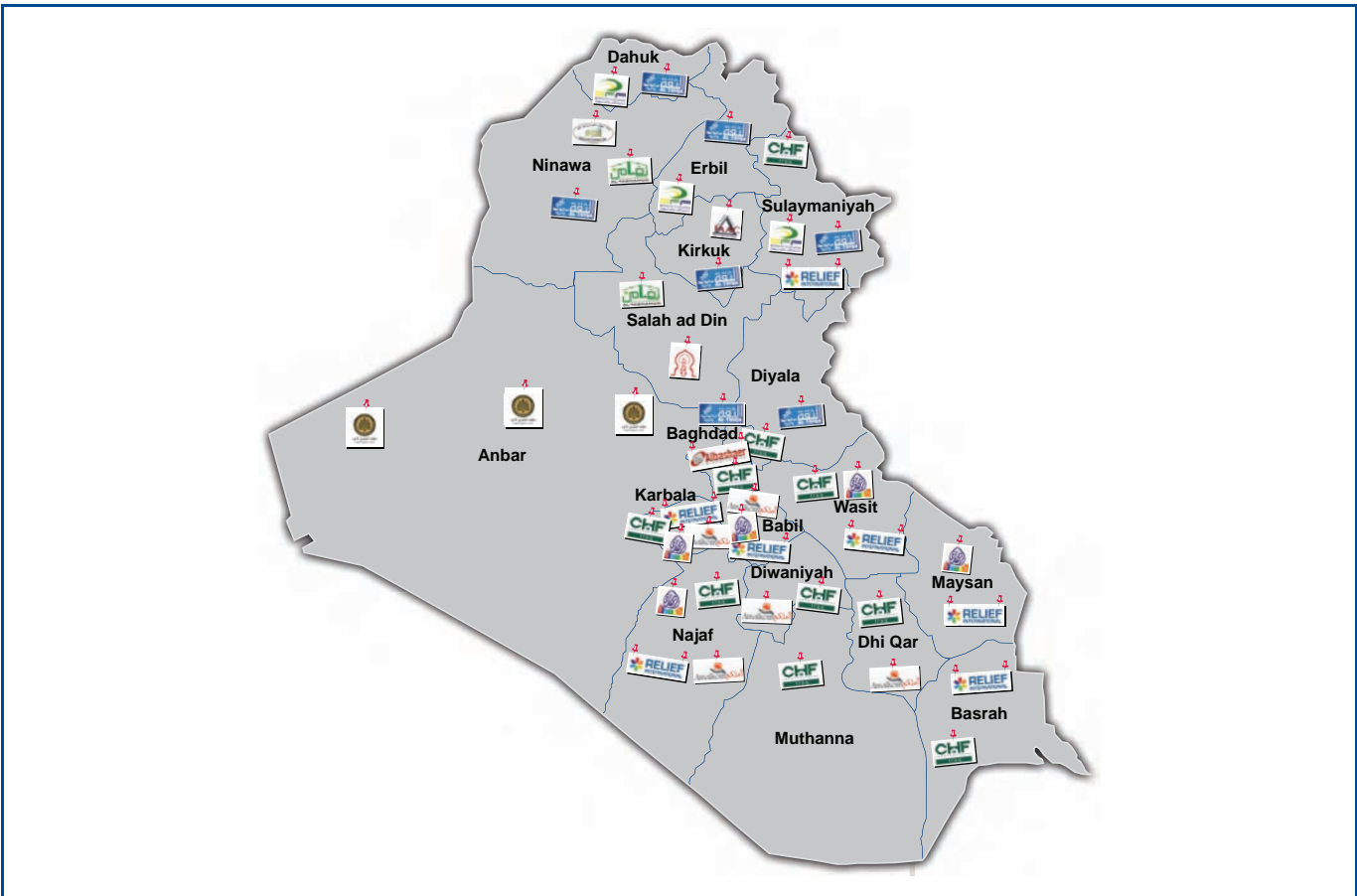
This reduction in the operating costs is due mainly to effects of scale as overhead costs are distributed over a larger portfolio base. Further, more standardization and increasing use of technology are also contributing to higher efficiency of Iraqi MFIs. Overall, this marks the merging of demand-driven,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

FIGURE 18: OPERATING COST RATIO



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.

FIGURE 19: GEOGRAPHICAL PRESENCE OF MFIS ACROSS 18 PROVINCES IN IRAQ



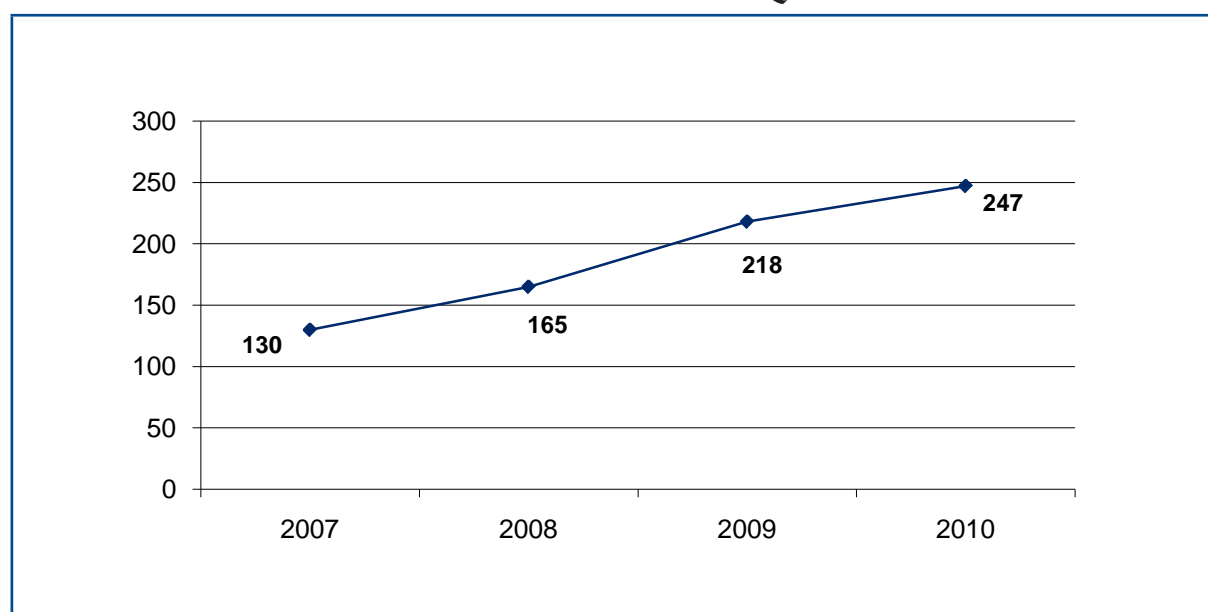
The financial cost ratio for Iraqi MFIs is negligible. Currently, there are no providers of debt capital in the Iraqi microfinance sector, domestic or international. Banks are unwilling to lend to MFIs. They themselves are receiving technical and financial support from international donors such as the 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 combined 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, annual interest rates charged from 12 to 18% 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. The MFI Al-Aman records 366 clients per loan officer, followed by Al Thiqa at 357 clients per loan officer. On average Iraqi MFIs record 240 clients per loan officer compared to the MENA average of 202.

Loan officers are the major link between MFIs and their poor clients. They are central for service delivery. Because they mediate transactions between MFIs and clients, loan officers implement policies of MFIs in ways that demonstrate deep understanding and compassion for successful lending. Therefore, if the case load per loan officer is above what is appropriate considering the local market, lending methodology, and product type, lower portfolio quality, higher delinquency, and less sustainable delivery of services are the results. Iraqi MFIs demonstrate the ability to balance quantity and quality.

FIGURE 20: CASE LOAD PER LOAN OFFICER IN IRAQI MICROFINANCE INDUSTRY



BUILDING MUSCLES AND BUILDING A BUSINESS IN SULAYMANIYAH



After completing a USAID business course, Zrng started a fitness center, financed with an Islamic loan from the Bright Future Foundation.

Zrng Abu Bakir, a 25-year-old, public library employee, had a dream to open a fitness center, but he did not know how to exercise it! He always had a personal interest in fitness and saw an opportunity in his own community to provide a service that did not previously exist. He decided to take a business entrepreneurship course at the Sulaymaniyah Business Information Center (S-BIC) which gave him the knowledge to change his career path.

In September 2010, Zrng and a friend participated in a “How to Start a Business” course. He could see himself starting a fitness center, but he also knew that it would take hard work and commitment to become successful. S-BIC helped Zrng build a business plan that would not only help customers live

a healthy life, but also make a profit. The S-BIC continued to stay on as a business advisor and soon pointed him to another organization that would be just as valuable.

The S-BIC linked him with the Bright Future Foundation, a microfinance institution (MFI) that provides Islamic as well as conventional financing. They assisted Zrng with purchasing \$5,000 of new fitness equipment. Under the Islamic financing agreement, interest was not charged. Bright Future bought the equipment up front and then resold it to Zrng at a higher price which he could repay over an extended period of time. While Bright Future normally does not provide “start-up” financing to new businesses, the strong relationship with the S-BIC and the assistance that the S-BIC provided to Zrng’s business plan gave Bright Future the confidence that his business was starting with the right combination of vision, business training and planning.

The Multi Sport European fitness center operates from the Saied Qdir Building on Salam Street in downtown Sulaymaniyah and serves its target clients, men and women, ages 17-45 years old, six days a week. Being the only fitness center within this area of town, Zrng’s business enjoys a large client base. To further strengthen his competitive advantage, he is planning to provide more services such as massage sessions to his clients in the near future.

CHAPTER 4



MICROFINANCE PRODUCTS AND SERVICES

A loan of \$3,000 from Al-Tadhamun Economic Development Center helped Ather Yako Toma to fund the expansion of his flour production unit.

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. Microfinance product diversification is also important because it deals with market failures, especially when the poor, women and others excluded have no access to financial services such as credit, savings and insurance. Through the diversification, MFIs can expect that more economically challenged and socially excluded clients would be served.

There are three main lending methodologies in the Iraqi microfinance sector – individual, solidarity group and Islamic. 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 and more accurate data on poverty rates became available, the solidarity group lending (SGL) methodology was introduced under the auspices of USAID-Tijara.

FIGURE 21: % SHARE OF ACTIVE CLIENTS BY LENDING METHODOLOGY

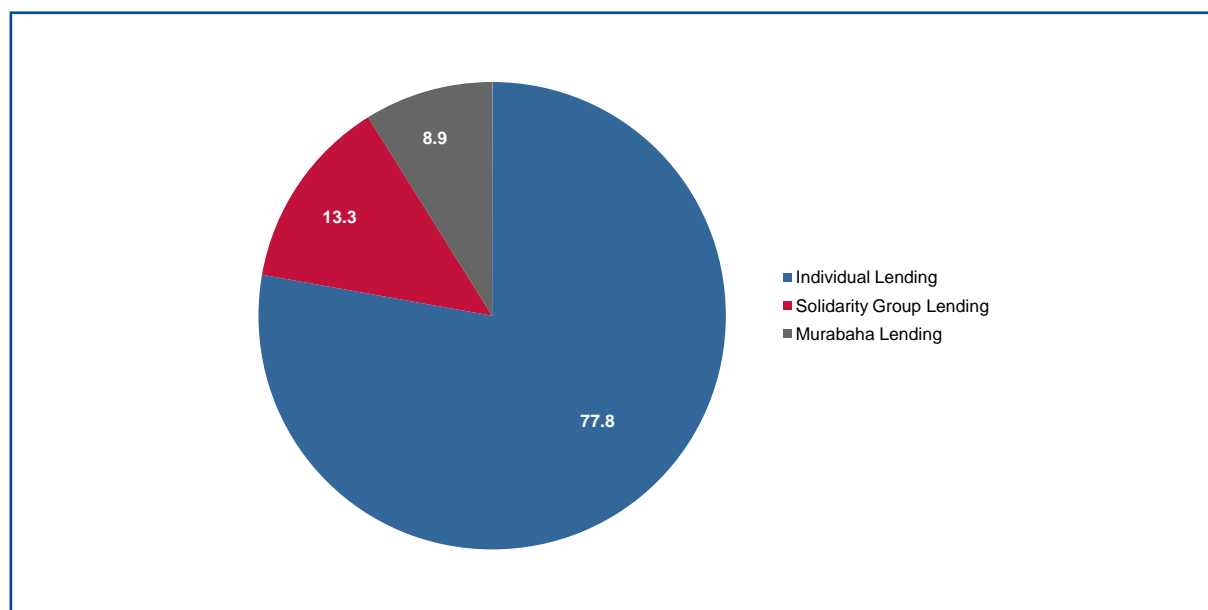
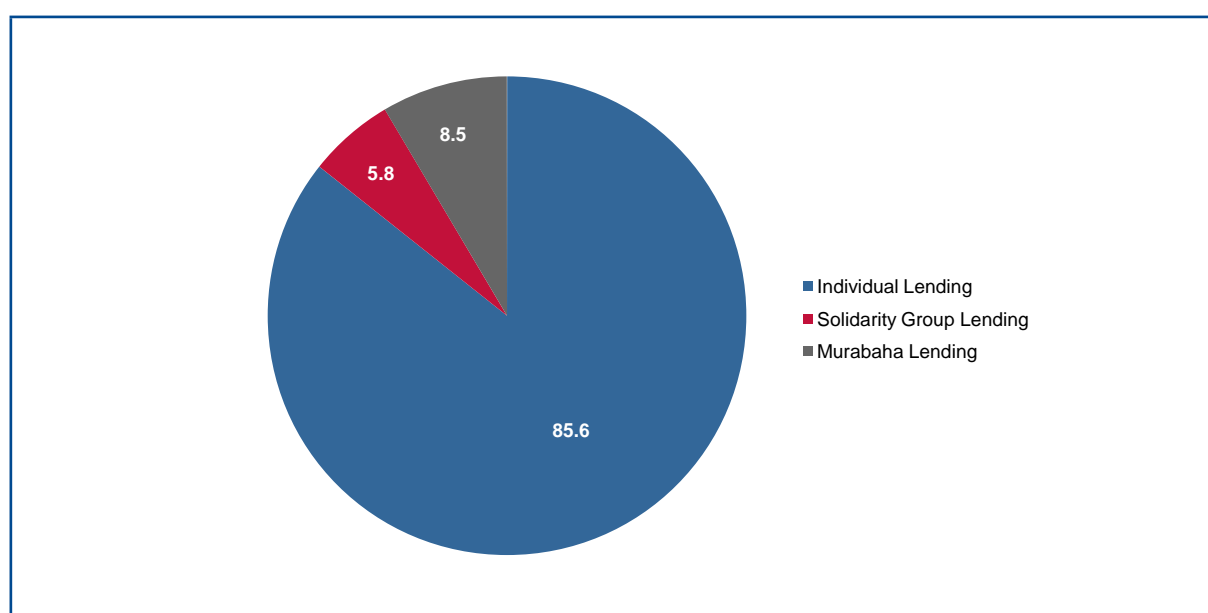


FIGURE 22: % SHARE OF LOAN PORTFOLIO BY LENDING METHODOLOGY



...Solidarity Group Lending

In SGL, members receive loans and then make regular monthly payments, with all group members providing a mutual guarantee of loan repayment. Solidarity group lending methodology has three principal goals:

- Providing services to more of the poor and women who lack formal guarantees required by financial institutions;
- Attaining operational and financial self-sufficiency; and
- Reaching large numbers of vulnerable groups especially women and youth.

Successful SGL programs have a strong commitment to management efficiency and strive to be responsive to their market. Loans through the SGL methodology are usually given to very poor semi-urban and rural settlements and vulnerable clients segments such as women and youth. These loans are used for micro and small enterprises, agriculture inputs, and cottage industries.

Group lending is concentrated in southern and central provinces where poverty is more prevalent and group cohesion high. Individual loans' outreach to women is 17% while group loans serve 32% out of 62,332 and 12,850 active clients respectively, demonstrating this methodology's growing success in reaching out to disadvantaged groups.

POOR PEOPLE SELDOM HAVE THE COLLATERAL FOR BANK FINANCING



Group leader, Sajad Jalil Ali, 30-year old entrepreneur, used his \$ 800 loan to expand a mini-market in one of the poor settlements in Najaf.

Poor people seldom have the collateral or connections necessary for bank financing. So, two years ago Iraq's microfinance institutions under the direction of USAID-Tijara began making group or solidarity loans to market vendors, neighborhood retailers and beginning entrepreneurs in the food preparation and services sectors. Group loans allow these people to vouch for each other instead of having to find a government employee to co-sign their note. Today more than 25,500 Iraqis have taken the first step toward financial independence thanks to nearly \$24 million in group loans.

In Najaf, 6,372 borrowers, 35% of them women, have borrowed close to \$5,325,000 to start or expand their small businesses. The funds that have helped them become businessmen and women are supplied by local microfinance institutions Amalkom, Izdiharona and Relief International.

Sajad Jalil Ali, Muhammad Bdewi and Ali Dakhel are typical of the people being helped by this program. All reside in one of Najaf's poorest neighborhoods. Together they approached the Amalkom microfinance institution and received \$2,400 which they divided equally. Sajad used his \$800 share to restock and improve his mini-market. Muhammad Bdewi, a 51-year old father of five, invested in water pumps and pipes he sold to home owners, some of whom had never before lived in houses with potable water and sewage. Once he saw many of his neighbors investing in home improvements, the third member of the group, 28-year old Ali Dakhel, took his money and opened a store selling construction materials such as cement and gypsum. All three businesses are prospering thanks to their hard work and the efforts Iraq's microfinance industry is making to expand the country's private enterprise sector.



Muhammad Bdewi, 51-year old man, married with 5 children, used his loan to buy drain pipes and water pumps to provide sewage and water services in his locality.



Ali Dakhel, a 28-year male, was unemployed and used his loan to start up small shop selling construction material like cement and gypsum.

Solidarity Group Lending in Iraq: Challenges and Recommendations

Challenges

- Five-member or more groups are difficult to manage and result in repayment problems.
- Small 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 direct marketing and mass product introductions by staff in neglected areas especially in rural and minority communities.
- Teach youth and women on how to better manage their businesses.
- Expand efforts to reach vulnerable client segments such as women and youth.

...Shariah-Compliant Lending

Shariah-compliant or Islamic-based lending refers to a system of credit access that is consistent with Islamic law (Sharia) principles. This system reflects Islam's teachings on wealth distribution, social and economic justice. Islamic finance researchers and practitioners agree that it is complementary to microfinance in terms of market access innovation, asset orientation, core concerns, and equitable nature.

	Islamic Finance	Microfinance
New-market Innovation	Reaches previously under-banked population	Focus on uplifting the poor
Asset orientation	Finance based on worthiness of ventures and assets, and not based on wealth	
Core concern	Routed in shariah-compliance	Fair access to capital
Equitable	Models advocate: <ul style="list-style-type: none">- Financial inclusion- Entrepreneurship- Risk-sharing through partnership financing	

Under Murabaha lending, the MFI literally buys goods and resells them to the microenterprises for the cost of the goods plus a markup for administrative costs. The MFI essentially becomes a goods trader. The borrower often pays for the goods in equal installments. This model is easier for borrowers to understand and simplifies loan administration and monitoring. The MFI owns the goods until the last installment is paid. Murabaha microfinance products and lending methodology has been widely adopted in Afghanistan, Pakistan, Yemen, Sudan, Iran, Indonesia, and Iraq. These countries have majority Muslim populations. According to their Islamic beliefs and teachings, interest (riba) is forbidden (haram). Therefore, clients in these countries prefer loans that are Shariah compliant. Demand for Islamic financial products, including microfinance, is increasing in the MENA region. Iraqi MFIs have responded to the market demands in a professional and innovative manner and are likely to be future leaders in Islamic microfinance.

MFIs offering Islamic microfinance have prospered due to increased demand for Shariah-compliant products in Iraq. The demand for such products, however, exceeds the current ability to supply. Together, the six MFIs providing Al-Murabaha financing serve less than one percent of a total market potential of 820,000 households in the country. The Islamic microfinance Al-Murabaha portfolio grew at a rate of 68% compared to the average industry growth rate for all lending of 36%. Despite this high growth rate, at only 10% of the total industry portfolio, scale is vital to driving down cost-income ratios for Islamic MFIs.

Al-Murabaha lending 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 lending 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 for MFI outreach to the poor and women.

- 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 loans charge a mark-up price on the procured goods 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.

MURABAHA LOANS HELP TO DEVELOP LOCAL CAPACITY FOR COMMERCIAL PRODUCTION AND TRADE IN SALAH AD DIN



Majid Taha, an entrepreneur at his power protection factory in Salah ad Din whose expansion was funded by a loan from Al-Mosanid microfinance organization.

Murabaha is a popular and flexible Shari'a-compliant financing structure introduced into Iraq by the USAID-Tijara Provincial Economic Growth Program and the Iraqi Microfinance Network. It is recognized as a financing scheme for start-ups and small companies whose businesses involve the sale and purchase of commodities. Murabaha involves a financing party, usually a microfinance institution, which purchases tangible assets from a seller and then re-sells the items to the microfinance client at a predetermined profit margin or mark-up. In Iraq, Shari'a compliance requires the buyer to settle the marked-up purchase price by way of installments across an agreed upon period, which is typically one year.

Majid Taha Yassin is a 40-year old electrician who back in 2007 used a \$1,500 Murabaha loan from the Al-Mosanid Organization in Tikrit to move his power protection factory to a safer location. Majid's factory was and is the only manufacturing facility in Salah ad Din producing power

protection devices such as surge protectors and 10 and 30 Amp circuit breakers. Majid entered the power protection field almost a decade ago because of the province's poor electrical services that often produce power surges and brown outs. Although his devices wholesale for just \$3 to \$10 each, Majid was able to pay off his first loan and obtain a second for \$2,500 that he used to expand his product line and hire new agents to take his inexpensive yet essential products directly to electrical retailers.

Murabaha Financing in Anbar Province: Lessons drawn from Al-Takadum Organization

The Anbar Province where USAID-Tijara MFI partner Al Takadum operates is one of the most security-challenged environments of MENA. Established in 2007, Al-Takadum faced considerable resistance from religious leaders who perceived microfinance as "haram" or forbidden. The MFI management team held 23 meetings with tribal and religious sheikhs to build consensus on the Al-Murabaha model of microfinance. During this course, the team travelled across the province to dialogue with local communities and people, many of those were members of Sunni awakening councils.



Today, Al Takadum has three branches in Al-Qa'im, Fallujah, and Ramadi serving 6,259 clients and has financed the re-establishment of MSMEs and home improvement in the midst of insurgency. Al-Takadum's vision in enabling financial access to the people of Anbar Province was to replace violence with economic opportunities, and to empower the large number of widows and destitute women.

Al-Takadum is a market leader in Shariah-compliant Al-Murabaha microfinance in Iraq. An external audit revealed the MFI financial and field operations are in compliance with GAAP and CGAP best practices. In order to replicate its success and leadership in Islamic principles-based lending, Al Takadum is raising grant funding to establish a training center on Islamic finance for the microfinance sector in order to demonstrate practical and successful localized strategies for Al-Murabaha and other Shariah-complaint financial products in the near future.

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

4.1 MICROFINANCE ARRAY OF LOAN PRODUCTS

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. Illustratively, the Baghdad based MFI Al-Bashaer recently introduced Home Improvement Loans. Different from its other loan products, the home improvement loan is a standalone product and does not require new clients to graduate from Al-Bashaer's enterprise loans before using this service.

Al-Bashaer Housing Microfinance Loans Help to Improve Living Conditions in Iraq

According to a 2007 Iraq Household Socio-Economic Survey (IHSES) conducted by the Inter-Agency Information and Analysis Unit, 52% of Iraqi households live in slum-like conditions in Baghdad. Al Bashaer conducted a market survey, paying attention to household characteristics, sources of income, use of formal

and informal financial services, demand for home improvement loans, capacity to pay installments, and loan terms. Results from the 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 developed a home improvement loan product to cater to the needs of its clients throughout Baghdad. Al Bashaer is meeting its clients' demand and which create client loyalty in the face of growing competition among four MFIs in Baghdad.



Unlike traditional housing finance from commercial banks which involves mortgages and prolonged loan processing, housing microfinance can be extended quickly with easier terms and simpler guarantees. Home Improvement loans allow MFIs to reduce its risks from financing housing through a microenterprise product, maintain low delinquency rates and expand their markets. As of end 2010, Iraqi MFIs disbursed 15,404 home improvement loans of \$22 million to address the high demand and need to improve, refurbish, and extend existing homes.

TABLE 10: 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 the globe and regionally, particularly compared to more mature industries 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 relationships with clients, unless future capital costs are excessive.

Formal savings services are not available to the poor in Iraq, although a large proportion of them 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

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 in terms of responsibility during the life of the loan; and it offsets loss in the event of default¹³. Borrowers prefer collateral that is easily available and minimizes impact on the household and transaction costs. Lenders prefer collateral that can be liquidated in a timely manner, is marketable, minimizes transaction costs, and provides protection of loan capital.

Over 90% of the current outstanding portfolio of the \$106.4 million portfolio and 85% of loans to 75,182 active clients are guaranteed through the collaterals mentioned below 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 to use their salaries as collateral increases risk to MFIs. There is a need to diversify risks to include other viable options while at the same time opening up lending to those who may not have access to government civil servants to guarantee their loans. Current collateral options include:

- The co-signature of one who earns an Iraqi Government salary; in the event of default, 20% of his/her monthly salary is deducted to satisfy a guaranteed loan. This option has proved to be very effective; however, it has an inherent risk with any change in political structure and stability in the country.
- Solidarity group lending – peer monitoring: With this form of guarantee, 3-5 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.

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 YOUNG ENTREPRENEURS' ACCESS TO FINANCE

The Iraqi Youth Initiative (IYI) is implemented through USAID-*Tijara*. The goal is to create a variety of opportunities for youth - primarily recent graduates - to enter new professions, establish businesses, earn salaries and profits, and generate additional employment. IYI is an innovative combination of institutional resources designed to ensure that young clients benefit from an effective, holistic approach. IYI is developed specifically to generate employment opportunities at the maximum possible rate. It has three major focus areas:

- Access to finance for youth previously not available called Young Entrepreneurs' Access to Finance, or YEAF.
- Creating self employment opportunities.
- Bridging the gap between employers seeking skilled staff and potential employees as indicated in the market assessments conducted by USAID-*Tijara*.

One of IYI's initiatives is focused on facilitating youth access to financial services through the YEAF. With the objective of developing and expanding demand-driven financial services for 18 to 35 year old Iraqis, YEAF introduces loan products to create business by facilitating access to finance. Young entrepreneurs receive training in their business sector as well as financial literacy. Such training helps to 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 have 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 lower and depend mainly on reputation/background checks undertaken by the MFI in addition to the motivation to repay as part of the broader IYI objective of instilling positive and results-oriented entrepreneurial vigor among participating youth. As of end 2010, 94 youth friendly loans of \$ 274,404 were disbursed by seven MFIs in nine provinces in Iraq.

13 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

YOUTH INITIATIVE BRINGS BETTER FUTURES

Finding that first job always is difficult for young adults. It's especially difficult in Iraq where adults face 13 to 30 percent unemployment depending upon the community. But prospects for youth employment improved in a dozen communities with the introduction of the Iraqi Youth Initiative. The program teaches business skills to ambitious youths aged 18 to 35 at USAID-Tijara's network of 12 Small Business Development Centers (SBDCs).

Young adults who exhibit entrepreneurial skill and write a detailed business plan are referred to one of seven microfinance institutions (MFIs) also supported by USAID. These MFIs are prepared to give loans averaging \$3,000 to deserving candidates. Ongoing mentoring by Initiative staffers, plus the SBDC and MFI, ensures implementation of the business plan and the timely repayment of the loan.

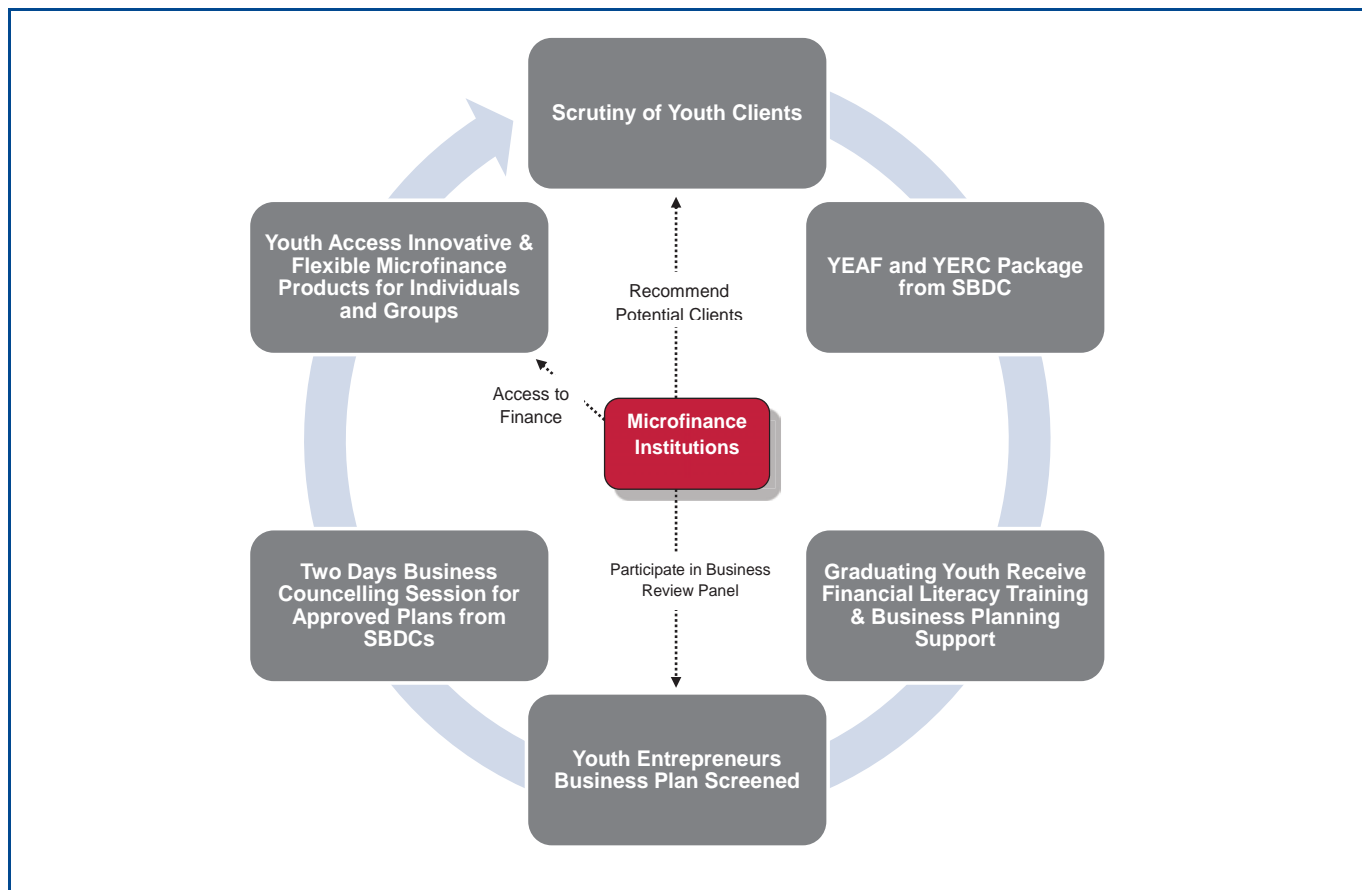
After taking a "How to Start a Business" course at the Al-Murshed SBDC in Kirkuk, 19-year-old Mostafa Arouan Medhat used his new accounting and management skills to become a backyard beekeeper. A \$2,000 microfinance loan from Kirkuk's Al-Aman microfinance organization enabled him to jump start his business with prebuilt bee hives. Six months later, following the autumn harvest, he sold his honey for \$6,000.

Around 100 young people, 19 percent of them women, have received loans totaling \$198,000. The primary goal of the Youth Initiative, however, is finding jobs for deserving young people. Toward that end, 78 Iraqi companies are working with the program to provide apprenticeships and new jobs for deserving youths. Over 240 previously unemployed young Iraqis today have permanent jobs because of the program and more jobs are on the way.



Kirkuk beekeeper Mostafa Arouan Medhat made \$6,000 on a \$2,000 investment selling honey after business training and a microfinance loan from USAID-Tijara.

FIGURE 23: YOUTH FRIENDLY LENDING METHODOLOGY AND PRODUCTS ENABLE ACCESS TO FINANCE FOR IRAQI YOUTH



CHAPTER 5



THE MICROFINANCE INDUSTRY: FUTURE DIRECTIONS FOR GROWTH

Walid Ali Hassan, a 30- year old businessman in Karbala province runs the Al-Nahirian fish shop that was funded by a loan of \$800 from CHF International. He later built a fish grill that now serves Almeskuv, a local Iraqi delicacy.

USAID will continue to play a strategic role in leading the microfinance sector in its next phase of maturity. 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 12 MFI partners of USAID-Tijara, has already initiated the next stage of development for the industry, which includes alternative delivery channels and value-chain financing.

USAID-Tijara has already helped building technical and industry infrastructure to create an enabling environment for inclusive sustainable microfinance sector in Iraq. One of such vital initiatives is the Iraq Microfinance Network (IMFN). The USAID-Tijara Sustainable Microfinance Component (SMFC) has been performing most of the activities of the IMFN to date. These activities are being established to develop a sustainable microfinance sector in Iraq. SMFC is following a sector development approach for the Iraqi microfinance industry.

Following is menu of activities currently taken up by SMFC:

- Serving as an information clearing house on the sector;
- Disseminating and promoting best practices;
- Attracting and encouraging coordination among donors;
- Facilitating linkages between MFIs and other development organizations;
- Providing or facilitating access to training for MFIs;
- Fostering transparency through performance monitoring;
- Advocating for a more favorable enabling policy environment;
- Encouraging a long-term outlook in the industry.

After USAID-Tijara completes its mandate, IMFN will assume most of the above mentioned activities approved and prioritized by its General Assembly, the members of which include the 12 MFIs that are partners.

FIGURE 24: FUTURE ROLES PERFORMED BY THE IRAQ MICROFINANCE NETWORK (IMFN); THE USAID-TIJARA CREATED MF INDUSTRY SUPPORT INFRASTRUCTURE.



5.1 KEY DRIVERS FOR GROWTH

5.1.1 Market Potential

The growth opportunities for the Iraqi microfinance industry will attract 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 to achieve more massive scale. 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 vulnerable and economically challenged communities by marketing their services through formal and informal networks will spread awareness about microfinance among potential clients. The innovative marketing techniques will be carefully applied to the specific needs of clients and the fragmented market where MFIs operate and face strong competition. Direct marketing, mass products and services introduction, advertising to potential markets and to entrepreneurs are very effective. In addition, MFIs need to form alliances with community driven programs and local events to engage with potential clients on the services offered and provided as well as address challenges of access to finance for the target groups. USAID-Tijara SMFC team regularly visits partner MFIs to provide on-site technical assistance on microfinance related activities. Field visits to clients are an important feature of these visits. The SMFC team identified specific challenges clients are facing to access financial services. MFIs are advised on how to address the challenges to provide inclusive products and services.
- **Under-served rural markets:** Approximately seven million people live in rural Iraq, with agriculture and livestock as the predominant economic activity¹⁴. Over 90% of the current microfinance portfolio, however, is concentrated in urban areas. MFIs will increasingly move to rural areas as they incorporate SGL and fine-tune group formation practices based on local contexts. Their success in providing financial services for the rural poor will be contingent upon an improved security situation as well as these institutions' ability to develop loan products and services targeting rural-based activities and enterprises such as those that sell or offer agricultural inputs, post-harvest storage facilities, irrigation equipment, food processing and value chain development.

5.1.2 Technology

A diverse range of technologies are available to help microfinance providers improve efficiency, track operations more accurately, increase transparency, and reach new customers. Selection of the right technologies and getting most of their investments is still a challenge for the MFIs. Use of alternative products and services delivery technologies and information systems is on the rise by the global microfinance industry. MFIs benefit from these technologies in the following ways¹⁵:

- Informed decision making
- Increased flexibility
- Lower operating cost
- Increased transparency
- Accurate reporting
- Increased deposits
- Improved client service and convenience
- Rural outreach

Use of technology will help the Iraqi microfinance sector increase its outreach to the poor and women. 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 MFI partners of USAID-Tijara have created in-house MIS and ICT systems. Their ability to connect a growing number of branches will allow institutions to make quicker, more timely decisions and effectively analyze growth.

5.1.3 Leveraging Mobile Telephone Network and its Outreach

Mobile phones have become tools of economic empowerment for the world's poorest. These phones compensate for inadequate infrastructure, such as bad roads and slow postal services. They allow information to move more quickly and freely, removing market barriers and unleashing entrepreneurship. Mobile money services, which allow cash to travel as quickly as a text message, create opportunities for small mobile retailers to act as micro bank branches while increasing access of financial services to the poor, women, and those in rural areas.

Mobile banking is relatively new in Iraq and has thus far been a 'mainstream' activity led by Amwal Electronic Banking Services, an Iraqi limited liability company founded in 2008 with 16 shareholder banks. In June 2010, Amwal entered into a partnership with one of two largest mobile network operators (MNOs), Asia Cell and two commercial banks¹⁶ in Iraq and formally launched MobiCash. This is a mobile banking platform enabling the ability to directly purchase airtime, buy goods and services from registered merchants, check bank account balances, and make mobile-to-mobile and bank account-to-bank account money transfers¹⁷. Despite being a security challenged

¹⁴ <http://www.faoiraq.org/>

¹⁵ Funding Microfinance Technologies, CGAP Donor's Brief No. 23, April 2005

¹⁶ Bank of Baghdad and Ashur Bank

¹⁷ <http://www.itp.net/579322-asiacell-and-amwal-bring-mobile-payments-to-iraq>

country, Iraq is far ahead of others with the existence of the aforementioned m-banking platform that can be further leveraged by the 12 Iraqi MFIs partners of USAID-Tijara.

USAID-Tijara always supported progressive and forward looking microfinance institutions to adopt cutting-edge technologies to increase outreach, serve disadvantaged client segments, and improve operational and financial sustainability. The MFI Al-Bashaer signed a MoU with Amwal and Bank of Baghdad to pilot mobile banking for its clients throughout Baghdad. Procedural formalities and services delivery modalities have been finalized. Results of the pilot will determine the future of mobile banking in Iraqi MF industry.

With the right market conditions and enabling environment, mobile banking could reach large numbers of poor people who are outside the formal financial system. Market forces are driving down costs. Experience in many countries where MFIs are using mobile technologies shows that a transaction on a cell phone or at an ATM costs one fifth of that of a traditional visit to a bank branch. Despite the cost savings, the full potential of mobile banking for poor people has not yet been realized. It is estimate that fewer than one in ten mobile phone banking customers are poor, new to banking, or doing anything more than payments and transfers. MFIs, donors, investors, mobile network operators and regulators can play a vital role in further pushing frontiers of mobile banking to unleash its potential for inclusive and sustainable access to financial products and services.

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. A potential partnership could enable mobile retailers to accept client repayments and (by sending a special kind of text message) credit it to MFI bank accounts. MFIs can also disburse loans (again, via text message) to approved clients who are registered users of the mobile service providers. The same clients can get disbursed to them loan proceeds by visiting their own local 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.

Due to fragile security situation, lack of formal financial services, limited branch network of commercial banks, and cost incurred to visit the MFIs, many clients find it difficult to avail quality financial services. Once MFIs adopt mobile banking models for services delivery, successfully implemented in many countries in Asia and Africa, it will be convenient to access credit, transfers, and savings services. The information gathered through mobile banking for disbursement and repayment can be used to track client credit history, and also be used by the credit registries as the industry grows. USAID-Tijara will continue supporting use of technology by the industry and facilitate partner MFIs to develop linkages with stakeholders such as commercial banks, mobile network operators, mobile banking platforms such as Amwal, and the CBI. Donors and investors considering intervening into Iraqi MF industry can play an important role by supporting market research through technical advice and funding.

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 commercialized 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 Directorate and other government agencies will safeguard microfinance best practices and enable MFIs to continue their key role as financial intermediaries for low-income, disadvantaged Iraqis. Policymakers' 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.

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 and become more commercialized, it is important that clients' interests remain at the core of their institutional decisions.

- **Client demographics:** MFIs should categorize their client segments based on demographic characteristics like age, gender, geography, education, profession or enterprises and align their products and services according to client needs.
- **Client needs and product diversification:** MFIs that understand client needs and address them more effectively through a viable business model should benefit from greater client retention. Products and services currently offered by MFIs can be complemented with new ones such as insurance, savings deposits, student loans, and home improvement loans which will result in risk diversification and clients loyalty.
- **Client protection and responsible financing:** The Iraqi microfinance industry, with the help of USAID-*Tijara*, has developed and signed a pro-client Code of Conduct and Ethics. This Code endorses ethical principles and a commitment to benefit low-income Iraqis.

The Code is a governing document that will provide guidance to the Iraqi microfinance industry on ethical lending practices and consumer protection principles. Endorsed by all MFIs operating in Iraq's 18 provinces, the Code obligates MFIs to uphold values such as high quality and sustainable financial services, transparency, respect for religion, fair lending and collection practices, privacy of client information and integration of social values into all business decision making.

- **Credit bureaus:** IMFN aims to facilitate the establishment of a credit bureau for the sector in order to provide information on microfinance client credit history and interest rate structures of loan providers. Credit bureaus not only provide information on delinquent clients, but also protect others against unfair lending practices. A good credit bureau also should help identify over-indebted clients, a growing concern in the microfinance industry. MFIs need to share information on client histories to minimize risks of lending and help maintain healthy portfolios. Credit bureau consultation also 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 confidentially. USAID-*Tijara* introduced a blacklist system, on the Iraqi Microfinance Knowledge Portal (www.IMFI.org) that offers the capability for authorized users to manage and search a database of blacklisted borrowers. No loan or other financial data is stored in the database. A client is either on the blacklist or is not. The system is a rudimentary credit bureau serving the MFIs' needs to identify delinquent and defaulting clients. The ICT Department through technical assistance and the partner MFIs feedback is regularly improving the system and its usability.

5.2.3 Access to Capital: Diversified Sources of Funds

Microfinance institutions throughout the world have three sources of funding to finance their growth; deposits from the clients through liability products, debt from government and commercial sources, and equity. The main source of funding for Iraqi MFIs has been donated equity from donors such as USAID, DfID, UNOPS and AusAID. As of January 2011, USAID- funded projects such as *Izdiyar*, *Tijara* and *Inma* contributed 51.3% of donated equity to Iraqi microfinance institutions while the rest of the capital has been provided through other sources. USAID-*Tijara* has been actively engaging stakeholders such as the CBI, NGO Directorate, and MFIs to create an enabling legal and regulatory environment for an inclusive sustainable microfinance sector. As a result of the efforts from USAID-*Tijara*, CBI issued an SME Finance companies law last year. It provides an opportunity to NGO MFIs to transform into for-profit legal entities.

With more MFIs transformed into for-profit companies, it is hoped that different financing options such as debt, equity and guarantees will be used as MFI investment vehicles. 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 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. Recent gains in microfinance have yet to reach the majority of the poor, especially in Iraq. 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.

Small farmers are gaining increased attention as part of the government's mandate to promote inclusive economic growth throughout Iraq. In early 2010, the Ministry of Agriculture approved over 2,000 loans of approximately \$15,000 each for small farmers¹⁸. 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. MFIs are experienced both with producers and consumers of products and services. This provides opportunities of synergy between MFIs with expertise in credit delivery and community mobilization with businesses operating with agriculture or low-income segments.

The value chain and agricultural financing has also been considered as an approach to improve food security and nutrition of poor and vulnerable groups such as the poor, women and children. Low income communities suffer from increased food price and security issues. Iraqi rural communities are no exception to this phenomenon. Agriculture and rural financing will help increase rural household income, create jobs, and enhance food security.

USAID-Tijara partner MFI, Tallafar Economic Development Center (TEDC) developed agriculture loan product to cater to the capital needs of the rural communities of the areas it serves in Ninewa Province. Response to the product has been promising and impact has been positive. Success of the TEDC agriculture loan product will encourage other Iraqi MFIs to follow in developing value chains, improve rural livelihoods, and enhanced food security in the country through the offer of quality financial services to the communities they serve.

AGRICULTURAL LOANS FROM TALLAFAR ECONOMIC DEVELOPMENT CENTER GIVE HOPE TO NINAWA FARMERS



Mr. Khalil Elias on the right with his father Mr. Ismail Elias on the left, farmers, planting different kinds of vegetables through the greenhouses on his 70 acre farm 12 kilometers southwest of Tallafar, Ninewa province.

The Tallafar Economic Development Center (TEDC), a microfinance institution operating in Ninawa Province supported by the USAID-Tijara Provincial Economic Growth Program, offers a variety of agricultural lending products that allow farmers to more carefully plan their crop yields and survive periods of bad weather and price fluctuations.

Since July 2010, TEDC has helped 3,600 Ninawa residents secure more than \$4.4 million in critically needed financing. Among the most grateful beneficiaries, however, are some 180 farmers who have received \$220,000 to help them harvest crops, buy pesticides and fertilizer and hire more than 100 farm workers.

One example of an agribusiness client whose enterprise was greatly assisted with a TEDC agricultural loan is Khalil Ismail Elias, a 25-year old Turkman who took out one of TEDC's first agribusiness loans. The loan consisted of \$5,000 offered by TEDC, repayable over 18 months with a three-month grace period. The loan's flexibility and the fact that its 14%

interest rate was much lower than anything offered by local banks allowed Elias to increase the productivity of his vegetable farm.

Located 12 kilometers southwest of Tallafar, Elias' 70 acre farm produces tomatoes, eggplant, pimento, red and green peppers and watermelons. Elias used the loan to purchase a small generator and truck, a motor to pump well water for irrigation, fertilizers and pesticides and rent an electrical transformer. As the result of his loan, the net monthly income of Elias' farm rose from \$300 to \$500. Not only is he repaying his loan on schedule but he also was able to hire four additional workers to assist in farm operations.

Elias looks forward to getting another TEDC loan once this one is paid off by the end of 2011. He also plans to diversify his agribusiness operations by raising livestock, and setting up a greenhouse.

¹⁸ <http://www.iraq-businessnews.com/?p=2617>

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.

IRAQ'S MICROFINANCE NETWORK





CHAPTER 6

MICROFINANCE INDUSTRY STATISTICS

Ghazwan Gorgees, a specialist mechanic runs a thriving business where he sells spare parts and maintains American cars in Mosul.

MICROFINANCE INDUSTRIES IN IRAQ AS OF DECEMBER 2010

Indicators			CHF	Amalkom			
Age			7 Y, 5 Mo	11 Mo			
Started Date			July'03	January' 10			
HQ			Babil	Babil			
Operating Area			Babil, Baghdad, Sulaymaniyah, Basrah,Al-Midaina, Karbala, Samawa, Najaf, Diwaniyah, Nassriya and Kut	Hilla, Karbala, Najaf, Diwaniyah, Nassriya, Baghdad			
No. of Offices			12 main offices and 1 satellite office	4			
Total # of staff			308	22			
Total # of Loan Officer			96	13			
Female LO			10	9			
Case Load			206	292			
Loan portfolio as of 31 December, 2010							
				Regular Loan	IYI	Total	
Loans Outstanding	Total Outstanding \$		41,404,440	1,858,668	118,100	1,976,768	
	Total Outstanding #		19,790	3,766	34	3,800	
	Female %		14%		21%	34%	
	Individual \$		41,404,440	94,366	118,100	212,466	
	Individual #		19,790	9	34	43	
	Female %		14%	11%	21%	16%	
	Group \$		-	1,764,302	-	1,764,302	
	Group Members		-	3,757	-	3,757	
	Group #		-	1,221	-	1,221	
Female %		-	36%	-	36%		
PAR> 30 days			0.2%	-	-	-	
Average loan Size	Total Outstanding		\$2,092	\$494	3,474	\$520	
	Individual		\$2,092	\$10,485	3,474	\$4,941	
	Group		-	\$470	-	\$470	
Outstanding Loan Structure	Business Loans	Service	22%	45%	29%	44%	
		Production	5%	3.7%	10.5%	4.1%	
		Trade	61%	50.6%	60.1%	51.2%	
		Total	88%	99%	100%	99%	
		Agribusiness Loan		1%	1%	-	1%
		Home Improvement		10%	-	-	-
Loans Disbursed Since inception	Total \$		281,928,123	4,372,900	118,100	4,491,000	
	Total #		106,394	5,066	34	5,100	
	Female %		13%	33%	21%	33%	
	Individual \$		281,928,123	102,900	118,100	221,000	
	Individual #		106,394	9	34	43	
	Female %		13%	11%	21%	16%	
	Group \$		-	4,270,000	-	4,270,000	
	Group Members		-	5,057	-	5,057	
	Group #		-	1,582	-	1,582	
Female %		-	33%	-	33%		
Outstanding Growth % past 12 months			25%				
No. of jobs sustained			19,790	3,766	34	3,800	
No. of jobs created			41,111	5,066	34	5,100	
Received Fund as of 31 December, 2010							
USAID/ Izdihar- Tijara (Loan Capital)			\$3,500,000	\$3,500,000			
USAID/ Izdihar -Tijara (Operation Capital)			\$3,207,865	-			
USAID/ Inma (Loan Capital)			-	-			
USAID/ Inma (Operation Capital)			-	-			
Total USAID			\$6,707,865	\$3,500,000			
Loan Capital Others			\$25,119,908	\$950,000			
Operation Capital Others			\$6,482,120	\$50,000			
Total Others			\$31,602,028	\$1,000,000			
Grand Total			\$38,309,893	\$4,500,000			
% USAID Contribution to Total			18%	78%			
Financial Ratios September, 2010							
Operational Self Sufficiency (OSS)1			168.2%	101.7%			
Financial Self Sufficiency (FSS)2			147.2%	88.9%			
Operation Expense Ratio (OER)3			15.5%	19.6%			
Yield4			29.5%	37.9%			
MENA Benchmarks5			MENA Medium	MENA Small			
Operational Self Sufficiency (OSS)			102.3%	114.1%			
Financial Self Sufficiency (FSS)			102.3%	107.3%			
Operation Expense Ratio (OER)			16.7%	19.1%			
Yield			30.2%	40.7%			

Indicators			RI	Izdiharuna		
Age			4 Y, 5 Mo	2 Y, 6 Mo		
Started Date			July'06	June,08		
HQ			Suleimaniya	Suleimaniya		
Operating Area			Sulaymaniyah, Kut,Karbala, Amara, Basrah, Hilla, Najaf	Iskandarea,Kut ,Sadda, Hilla,Najaf, Karbala ,Amara		
No. of Offices			7 main offices and 3 satellite offices	8 main offices and 4 satellite offices		
Total # of staff			84	62		
Total # of Loan Officer			32	21		
Female LO			8	8		
Case Load			268	318		
Loan portfolio as of 31 December, 2010						
				Regular Loan	IYI	Total
Loans Outstanding	Total Outstanding \$		8,060,851	4,756,090	18,523	4,774,613
	Total Outstanding #		8,578	6,669	10	6,679
	Female %		32%	19%	10%	19%
	Individual \$		4,713,350	2,900,112	18,523	2,918,635
	Individual #		3,845	2,868	10	2,878
	Female %		23%	17%	10%	17%
	Group \$		3,347,501	1,855,978	-	1,855,978
	Group Members		4,733	3,801	-	3,801
	Group #		1,774	1,201	-	1,201
Female %		40%	19%	-	19%	
PAR> 30 days			0.0%	0.11%	0%	0.1%
Average loan Size	Total Outstanding		\$940	\$713	\$1,852	\$715
	Individual		\$1,226	\$1,011	\$1,852	\$1,014
	Group		\$707	\$488	-	\$488
Outstanding Loan Structure	Business Loans	Service	27%	32%	62%	32.6%
		Production	2%	2%	-	1.6%
		Trade	33%	48%	38%	48%
		Total	62%	81.4%	100%	82.4%
		Agribusiness Loan		8%	18%	-
Home Improvement		30%	0.33%	-	0.6%	
Loans Disbursed Since inception	Total \$		37,311,045	19,046,535	38,000	19,084,535
	Total #		24,205	16,962	10	16,972
	Female %		26%	19%	10%	19%
	Individual \$		24,686,205	9,516,395	38,000	9,554,395
	Individual #		13,488	5,497	10	5,507
	Female %		21%	19%	10%	20%
	Group \$		12,624,840	9,530,140	-	9,530,140
	Group Members		10,717	11,465	-	11,465
	Group #		3,504	3,606	-	3,606
Female %		31%	20%	-	19%	
Outstanding Growth % past 12 months			49%	42%		
No. of jobs sustained			8,578	6,301	10	6,311
No. of jobs created			24,205	16,962	10	16,972
Received Fund as of 31 December, 2010						
USAID/ Izdihar- Tijara (Loan Capital)			\$4,145,156	\$1,850,000		
USAID/ Izdihar -Tijara (Operation Capital)			\$2,254,763	\$150,000		
USAID/ Inma (Loan Capital)			-	\$1,000,000		
USAID/ Inma (Operation Capital)			-	\$271,742		
Total USAID			6,399,919	3,271,742		
Loan Capital Others			\$1,698,062	\$1,136,154		
Operation Capital Others			\$200,000	\$363,846		
Total Others			\$1,898,062	\$1,500,000		
Grand Total			\$8,297,981	\$4,771,742		
% USAID Contribution to Total			77%	69%		
Financial Ratios September, 2010						
Operational Self Sufficiency (OSS)1			252.5%	198.7%		
Financial Self Sufficiency (FSS)2			191.3%	160.2%		
Operation Expense Ratio (OER)3			11.0%	15.3%		
Yield4			37.2%	33.2%		
MENA Benchmarks5			MENA Small			
Operational Self Sufficiency (OSS)			114.1%			
Financial Self Sufficiency (FSS)			107.3%			
Operation Expense Ratio (OER)			19.1%			
Yield			40.7%			

Indicators			TEDC	Al-Thiqa		
Age			2 Y,11 Mo	6Y,11Mo		
Started Date			January'08	January'04		
HQ			Talaafer/ Nenawa	Kirkuk		
Operating Area			Tallafar, Sinjar, Al-Eyadhiya, Al-Qahtania, Shimal	Kirkuk, Baghdad, Diyala (Ba'quba, Khanaqeen, Kifri), Erbil, Dahuk, Sulayimaniyah, Al-Hamdaniya		
No. of Offices			1 main office and 4 satellite offices	8 main offices and 4 satellite offices		
Total # of staff			23	132		
Total # of Loan Officer			12	35		
Female LO			1	8		
Case Load			282	357		
Loan portfolio as of 31 December, 2010						
				Regular Loan	IYI	Total
Loans Outstanding		Total Outstanding \$	4,293,541	20,494,744	15,185	20,509,929
		Total Outstanding #	3,384	12,488	7	12,495
		Female %	14%	15%	14%	15%
		Individual \$	4,293,541	20,216,872	15,185	20,232,057
		Individual #	3384	11,929	7	11,936
		Female %	14%	15%	14%	16%
		Group \$	-	277,872	-	277,872
		Group Members	-	559	-	559
		Group #	-	160	-	160
		Female %	-	11%	-	11%
PAR> 30 days			0.4%	0.23%	-	0.2%
Average loan Size		Total Outstanding	\$1,269	\$1,641	\$2,169	\$1,641
		Individual	\$1,269	\$1,695	\$2,169	\$1,695
		Group	-	\$497	-	\$497
Outstanding Loan Structure	Business Loans	Service	6%	20%	41%	20%
		Production	0.00%	0.4%	-	1%
		Trade	65%	27%	59%	27%
		Total	71%	48%	100%	48%
		Agribusiness Loan	5%	10%	-	9.6%
		Home Improvement	24%	42%	-	42%
Loans Disbursed Since inception		Total \$	13,219,450	141,950,189	16,400	141,966,589
		Total #	6,104	52,126	7	52,133
		Female %	16%	17%	14%	17%
		Individual \$	13,219,450	140,962,364	16,400	140,978,764
		Individual #	6104	50869	7	50,876
		Female %	16%	17%	14%	17%
		Group \$	-	987,825	-	987,825
		Group Members	-	1257	-	1,257
		Group #	-	369	-	369
		Female %	-	10%	-	10%
Outstanding Growth % past 12 months			80%	-9%		
No. of jobs sustained			3,384	12,488	7	12,495
No. of jobs created			6,104	52,126	7	52,133
Received Fund as of 31 December, 2010						
USAID/ Izdihar- Tijara (Loan Capital)			\$2,460,000	\$7,040,205		
USAID/ Izdihar -Tijara (Operation Capital)			-	\$3,503,801		
USAID/ Inma (Loan Capital)			-	\$3,988,658		
USAID/ Inma (Operation Capital)			-	\$80,254		
Total USAID			\$2,460,000	\$14,612,918		
Loan Capital Others			\$753,050	\$8,742,863		
Operation Capital Others			\$44,000	\$3,735,183		
Total Others			\$797,050	\$12,478,046		
Grand Total			\$3,257,050	\$27,090,964		
% USAID Contribution to Total			76%	54%		
Financial Ratios September, 2010						
Operational Self Sufficiency (OSS)1			310.3%	263.5%		
Financial Self Sufficiency (FSS)2			209.9%	144%		
Operation Expense Ratio (OER)3			6.5%	8.6%		
Yield4			26.1%	31.3%		
MENA Benchmarks5			MENA Small	MENA Medium		
Operational Self Sufficiency (OSS)			114.1%	102.3%		
Financial Self Sufficiency (FSS)			107.3%	102.3%		
Operation Expense Ratio (OER)			19.1%	16.7%		
Yield			40.7%	30.2%		

Indicators		Al-Tadhamun	Al-Aman			
Age		1Y, 11 Mo	4 Y, 5 Mo			
Started Date		January'09	July'06			
HQ		Mosul	Kirkuk			
Operating Area		Mosul, Tilkaif, Al-Shirqat, Al-Shikhan)	Kirkuk, Taza, Daquq, Al-hawija, Abaci			
No. of Offices		1 main office and 3 satellite offices	1 main office and 4 satellite offices			
Total # of staff		14	23			
Total # of Loan Officer		7	11			
Female LO		-	-			
Case Load		114	366			
Loan portfolio as of 31 December, 2010						
			Regular Loan	IYI	Total	
Loans Outstanding	Total Outstanding \$	938,852	4,627,951	17,446	4,645,397	
	Total Outstanding #	799	4,022	8	4,030	
	Female %	4%	20%	0%	19%	
	Individual \$	938,852	4,627,951	17446	4,645,397	
	Individual #	799	4022	8	4,030	
	Female %	4%	20%	0%	19%	
	Group \$	-	-	-	-	
	Group Members	-	-	-	-	
	Group #	-	-	-	-	
PAR> 30 days		6.1%	0.3%	0%	0.3%	
Average loan Size	Total Outstanding	\$1,175	\$1,151	\$2,181	\$1,153	
	Individual	\$1,175	\$1,151	\$2,181	\$1,153	
	Group	-	-	-	-	
Outstanding Loan Structure	Business Loans	Service	8%	26%	28%	26%
		Production	2%	9%	13%	9%
		Trade	46%	28%	59%	29%
		Total	56%	64%	100%	64%
		Agribusiness Loan	2%	0%	0%	0%
		Home Improvement	42%	36%	0%	36%
Loans Disbursed Since inception	Total \$	2,243,315	15,957,673	17,700	15,975,373	
	Total #	1,075	8,193	8	8,201	
	Female %	4%	15%	0%	15%	
	Individual \$	2,243,315	15,957,673	17700	15,975,373	
	Individual #	1075	8193	8	8,201	
	Female %	4%	15%	0%	15%	
	Group \$	-	-	-	-	
	Group Members	-	-	-	-	
	Group #	-	-	-	-	
Outstanding Growth % past 12 months		143%	85%			
No. of jobs sustained		799	4022	8	4,030	
No. of jobs created		1075	8213	8	8,221	
Received Fund as of 31 December, 2010						
USAID/ Izdihar- Tijara (Loan Capital)		\$1,085,000	\$3,650,000			
USAID/ Izdihar -Tijara (Operation Capital)		-	-			
USAID/ Inma (Loan Capital)		-	-			
USAID/ Inma (Operation Capital)		-	-			
Total USAID		\$1,085,000	\$3,650,000			
Loan Capital Others		\$445,738	\$366,999			
Operation Capital Others		\$50,000	\$379,609			
Total Others		\$495,738	\$746,608			
Grand Total		\$1,580,738	\$4,396,608			
% USAID Contribution to Total		69%	83%			
Financial Ratios September, 2010						
Operational Self Sufficiency (OSS)1		145.4%	270.3%			
Financial Self Sufficiency (FSS)2		109.1%	184.2%			
Operation Expense Ratio (OER)3		9.4%	7.5%			
Yield4		23.7%	28.5%			
MENA Benchmarks5		MENA Small				
Operational Self Sufficiency (OSS)		114.1%				
Financial Self Sufficiency (FSS)		107.3%				
Operation Expense Ratio (OER)		19.1%				
Yield		40.7%				

Indicators		Al-Takadum					Total Al-Takadum	
		Al-Qaim	Falluja	Ramadi				
Age		3 Y, 4 Mo	2 Y,1 Mo	3 Y		3 Y, 4 Mo		
Started Date		August'07	November'07	December'07		August'07		
HQ		Anbar / Al-Qaim	Anbar/ Falluja	Anbar/ Ramadi		Anbar		
Operating Area		Al-Qaim, Anah	Falluja, Amarya Al-Falluja, Al-Karma, Saqlawia	Ramadi, Heet, Hadithah, Habanea		Al-Qaim, Falluja, Ramadi		
No. of Offices		1 main office and 1 satellite office	1 main office and 3 satellite offices	1 main office and 3 satellite offices		3 offices and 7 satellite offices		
Total # of staff		18	18	34		70		
Total # of Loan Officer		7	8	16		31		
Female LO		1	1	1		3		
Case Load		142	288	184		202		
Loan portfolio as of 31 December, 2010								
				Regular Loan	IYI	Ramadi Total	Al-Takadum Total	
Loans Outstanding	Total Outstanding \$		1,098,335	2,346,045	4,354,446	57,315	4,411,761	7,856,141
	Total Outstanding #		991	2,301	2,949	18	2,967	6,259
	Female %		23%	11%	12%	17%	12%	13%
	Individual \$		1,098,335	2,346,045	4,354,446	57,315	4,411,761	7,856,141
	Individual #		991	2301	2949	18	2,967	6,259
	Female %		23%	11%	12%	17%	12%	13%
	Group \$		-	-	-	-	-	-
	Group Members		-	-	-	-	-	-
	Group #		-	-	-	-	-	-
Female %		-	-	-	-	-	-	
PAR> 30 days			3.8%	3.0%	4.0%	0.0%	3.9%	3.6%
Average loan Size	Total Outstanding		\$1,108	\$1,020	\$1,477	\$3,184	\$1,487	\$1,255
	Individual		\$1,108	\$1,020	\$1,477	\$3,184	\$1,487	\$1,255
	Group		-	-	-	-	-	-
Outstanding Loan Structure	Business Loans	Service	-	9%	46%	0%	46%	28%
		Production	-	0.39%	0%	0%	0%	0.0%
		Trade	77%	26%	45%	100%	47%	44%
		Total	77%	35%	92%	100%	93%	72%
		Agribusiness Loan	2%	1%	5%	0%	4%	3%
		Home Improvement	21%	64%	4%	0%	3%	24%
Loans Disbursed Since inception	Total \$		6,055,750	7,816,150	12,520,900	59,000	12,579,900	26,451,800
	Total #		2,496	4,509	5,336	18	5,354	12,359
	Female %		17%	11%	14%	17%	14%	13%
	Individual \$		6,055,750	7,816,150	12,520,900	59,000	12,579,900	26,451,800
	Individual #		2,496	4,509	5,336	18	5,354	12,359
	Female %		17%	11%	14%	17%	14%	13%
	Group \$		-	-	-	-	-	-
	Group Members		-	-	-	-	-	-
	Group #		-	-	-	-	-	-
Female %		-	-	-	-	-	-	
Outstanding Growth % past 12 months			-3%	98%	95%		72%	
No. of jobs sustained			991	2301	2949	18	2,967	6,259
No. of jobs created			2496	4509	5,336	18	5,354	12,359
Received Fund as of 31 December, 2010								
USAID/ Izdihar- Tijara (Loan Capital)			\$750,000	\$2,775,000	\$2,775,000		\$6,300,000	
USAID/ Izdihar -Tijara (Operation Capital)			-	-	-		-	
USAID/ Inma (Loan Capital)			-	-	-		-	
USAID/ Inma (Operation Capital)			-	-	-		-	
Total USAID			\$750,000	\$2,775,000	\$2,775,000		\$6,300,000	
Loan Capital Others			\$310,000	-	\$1,498,125		\$1,808,125	
Operation Capital Others			\$180,134	\$206,403	\$133,030		\$519,567	
Total Others			\$490,134	\$206,403	\$1,631,155		\$2,327,692	
Grand Total			\$1,240,134	\$2,981,403	\$4,406,155		\$8,627,692	
% USAID Contribution to Total			60%	93%	63%		73%	
Financial Ratios September, 2010								
Operational Self Sufficiency (OSS)1			87.8%	126.6%	117.7%		110.7%	
Financial Self Sufficiency (FSS)2			75.6%	101%	89.9%		88.8%	
Operation Expense Ratio (OER)3			22.8%	11.6%	8.8%		14.4%	
Yield4			20.9%	23.4%	19.2%		21.2%	
MENA Benchmarks5			MENA Small					
Operational Self Sufficiency (OSS)			114.1%					
Financial Self Sufficiency (FSS)			107.3%					
Operation Expense Ratio (OER)			19.1%					
Yield			40.7%					

Indicators		BFF	Al-Bashaer				
Age		3 Y	4 Y, 4 Mo				
Started Date		December'07	August'06				
HQ		Erbil	Baghdad				
Operating Area		Erbil, Dahuk, Suleymaniyah , Koisanjaq, Soran	Baghdad				
No. of Offices		3 main offices and 3 satellite offices	One H.Q and 13 satellite offices covering all Baghdad				
Total # of staff		60	42				
Total # of Loan Officer		21	26				
Female LO		3	7				
Case Load		184	151				
Loan portfolio as of 31 December, 2010							
			Regular Loan	IYI	Total		
Loans Outstanding	Total Outstanding \$		5,525,260	4,605,787	17,945	4,623,732	
	Total Outstanding #		3,858	3,927	6	3,933	
	Female %		34%	20%	33%	20%	
	Individual \$		5,525,260	4605787	17945	4,623,732	
	Individual #		3,858	3927	6	3,933	
	Female %		34%	20%	33%	20%	
	Group \$		-	-	-	-	
	Group Members		-	-	-	-	
	Group #		-	-	-	-	
Female %		-	-	-	-		
PAR> 30 days		0.6%	4.6%	0%	4.6%		
Average loan Size	Total Outstanding		\$1,432	\$1,173	\$2,991	\$1,176	
	Individual		\$1,432	\$1,173	\$2,991	\$1,176	
	Group		-	-	-	-	
Outstanding Loan Structure	Business Loans	Service	35%	31%	44%	31%	
		Production	3%	3%	0%	3%	
		Trade	22%	62%	56%	64%	
		Total	61%	95%	100%	98%	
		Agribusiness Loan		0.2%	0%	0%	0%
		Home Improvement		40%	5%	0%	5%
Loans Disbursed Since inception	Total \$		21,708,500	21,913,250	19,300	21,932,550	
	Total #		8,905	12,568	6	12,574	
	Female %		33%	18%	33%	18%	
	Individual \$		21,708,500	21913250	19300	21,932,550	
	Individual #		8,905	12568	6	12,574	
	Female %		33%	18%	33%	18%	
	Group \$		-	-	-	-	
	Group Members		-	-	-	-	
	Group #		-	-	-	-	
Female %		-	-	-	-		
Outstanding Growth % past 12 months		32%	6%				
No. of jobs sustained		3,858	3927	6	3,933		
No. of jobs created		8,905	13905	6	13,911		
Received Fund as of 31 December, 2010							
USAID/ Izdihar- Tijara (Loan Capital)		-	\$3,350,000				
USAID/ Izdihar -Tijara (Operation Capital)		-	-				
USAID/ Inma (Loan Capital)		-	-				
USAID/ Inma (Operation Capital)		-	-				
Total USAID		-	\$3,350,000				
Loan Capital Others		-	\$2,275,934				
Operation Capital Others		-	\$1,146,185				
Total Others		-	\$3,422,119				
Grand Total		-	\$6,772,119				
% USAID Contribution to Total		-	49%				
Financial Ratios September, 2010							
Operational Self Sufficiency (OSS)1		72.9%	131.2%				
Financial Self Sufficiency (FSS)2		62%	100.3%				
Operation Expense Ratio (OER)3		15.4%	9.6%				
Yield4		25.8%	29%				
MENA Benchmarks5		MENA Small					
Operational Self Sufficiency (OSS)		114.1%					
Financial Self Sufficiency (FSS)		107.3%					
Operation Expense Ratio (OER)		19.1%					
Yield		40.7%					

Indicators		Al-Mosaned			Total	
Age		2 Y,1 Mo				
Started Date		November'08				
HQ		SalahAldin				
Operating Area		Tikrit, Al-Daur, Samarra, Baiji				
No. of Offices		1 main office and 3 satellite offices			100 outlets	
Total # of staff		19			859	
Total # of Loan Officer		8			313	
Female LO		2			59	
Case Load		197			240	
Loan portfolio as of 31 December, 2010						
		Regular Loan	IYI	Total		
Loans Outstanding	Total Outstanding \$	1,766,828	29,890	1,796,718	106,406,242	
	Total Outstanding #	1,566	11	1,577	75,182	
	Female %	27%	18%	24%	20%	
	Individual \$	1,766,828	29,890	1,796,718	99,160,589	
	Individual #	1,566	11	1,577	62,332	
	Female %	27%	18%	24%	17%	
	Group \$	-	-	-	7,245,653	
	Group Members	-	-	-	12,850	
	Group #	-	-	-	4,356	
PAR> 30 days		1.0%	0.0%	1.0%	0.7%	
Average loan Size	Total Outstanding	\$1,128	\$2,717	\$1,139	\$1,415	
	Individual	\$1,128	\$2,717	\$1,139	\$1,591	
	Group	-	-	-	\$564	
Outstanding Loan Structure	Business Loans	Service	11%	20%	12%	24%
		Production	0%	0%	0%	3%
		Trade	61%	62%	61%	47%
		Total	72%	82%	73%	74%
		Agribusiness Loan	1%	18%	1%	4%
		Home Improvement	26%	0%	26%	22%
Loans Disbursed Since inception	Total \$	6,373,920	30,700	6,404,620	592,716,900	
	Total #	3,176	11	3,187	257,209	
	Female %	25%	18%	25%	17%	
	Individual \$	6,373,920	30,700	6,404,620	565,304,095	
	Individual #	3,176	11	3,187	228,713	
	Female %	25.3%	18.2%	25.3%	16%	
	Group \$	-	-	-	27,412,805	
	Group Members	-	-	-	28,496	
	Group #	-	-	-	9,061	
Outstanding Growth % past 12 months		61%			27%	
No. of jobs sustained		1,926	11	1,937	75,174	
No. of jobs created		3,669	11	3,680	193,776	
Received Fund as of 31 December, 2010						
USAID/ Izdihar- Tijara (Loan Capital)		\$1,603,195			\$38,483,556	
USAID/ Izdihar -Tijara (Operation Capital)		\$46,805			\$9,163,234	
USAID/ Inma (Loan Capital)		-			\$4,988,658	
USAID/ Inma (Operation Capital)		-			\$351,996	
Total USAID		\$1,650,000			\$52,987,444	
Loan Capital Others		-			\$43,296,833	
Operation Capital Others		\$310,446			\$13,280,956	
Total Others		\$310,446			\$56,577,789	
Grand Total		\$1,960,446			\$109,565,233	
% USAID Contribution to Total		84%			48%	
Financial Ratios September, 2010						
Operational Self Sufficiency (OSS)1		136%			170.2%	
Financial Self Sufficiency (FSS)2		109.8%			126.7%	
Operation Expense Ratio (OER)3		14.2%			12.6%	
Yield4		22.5%			27.7%	
MENA Benchmarks5		MENA Small			Average	
Operational Self Sufficiency (OSS)		114.1%			108.2%	
Financial Self Sufficiency (FSS)		107.3%			104.8%	
Operation Expense Ratio (OER)		19.1%			17.9%	
Yield		40.7%			35.5%	

CODE OF CONDUCT AND ETHICS SIGNED BY IRAQI MICROFINANCE INDUSTRY REPRESENTATIVES



USAID IRAQ
FROM THE AMERICAN PEOPLE



CODE OF ETHICS & CONDUCT FOR MICROFINANCE INSTITUTIONS (MFIs)

PREAMBLE

"Without firm commercial foundations, microfinance cannot become the profitable business that it needs to be in order to survive," said Elizabeth Littlefield, CGAP CEO. "But without firm ethical principles and a commitment to benefit poor people's lives first and foremost, it will no longer be microfinance."

Introduction

Microfinance is a powerful instrument against poverty. When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks. Poor households use microfinance to move from everyday survival to planning for the future. They invest in better nutrition, housing, health, and education. Comprehensive impact studies have demonstrated that: (i) microfinance helps poor households meet basic needs and protect against risks; (ii) the use of financial services by low-income households is associated with improvements in household economic welfare and enterprise stability or growth; (iii) by supporting women's economic participation, microfinance helps to empower women, thus promoting gender-equity and improving household well-being; (iv) for almost all significant impacts, the magnitude of impact is positively related to the length of time that clients have been in the program.

The microfinance sector in Iraq commenced operations in 2003 and since then has achieved remarkable outreach with the support of donors and the entrepreneurial spirit of the Iraqi people. As the sector continues to formalize and MFIs move towards transformation from NGOs to formalized non-banking institutions under the Central Bank of Iraq (CBI), it is imperative that MFIs are guided by a broadly established and recognized best practices code of ethics and conduct.

This document states core values for microfinance (Section A), a voluntary mutual code of conduct for microfinance institutions to abide by these values (Section B) and a process of compliance (Section C). All microfinance institutions, which receive funding and/or technical assistance from USAID-Tijara, unanimously and wholeheartedly agree to abide by the core values and the code of conduct as set out hereunder.

SECTION A - Core Values in Microfinance

A.1 INTEGRITY

Our mission is to service low-income clients—women and men—and micro, small and medium enterprises (MSMEs), providing them short term and/or long-term access to financial services, that are client focused, designed to enhance their well-being, and delivered in a manner that is ethical, dignified, transparent, equitable and cost effective.

A.2 QUALITY OF SERVICE

We believe that our clients deserve fair and efficient microfinance services. We will provide these services to them in as convenient, participatory and timely manner as possible. We'll treat our clients with respect and dignity, with no discrimination nor apartheid (Belief, Creed, Race, and Religion), empathizing with them most especially in times of crisis.

A.3 TRANSPARENCY

We shall give our clients complete and accurate information and educate them about the terms of financial services offered by us in a manner that is understandable by them.

A.4 RESPECT FOR RELIGION

We will respect the local religion of the communities in which we serve to ensure that our services to our clients do not hurt the sentiments of any community. We will work with communities through meaningful dialogues to ensure alignment, and as much as possible, seek cooperation with Religious Leaders.

A.5 FAIR PRACTICES

We are committed to ensure that our services to our clients are not unethical and deceptive. In providing microfinance services, we are committed to fair practices, which balance respect for client's dignity and an understanding of a client's vulnerable situation, with reasonable pursuit of recovery of loans.

A.6 PRIVACY OF CLIENT INFORMATION

We will safeguard personal information of clients, only allowing disclosures and exchange of such information to others who are authorized to see it, with the knowledge and consent of clients.

A.7 INTEGRATING SOCIAL VALUES INTO OPERATIONS

We believe that high standards of governance, participation, management and reporting are critical to our mission to serve our clients and to uphold core social values of respect and community wealth creation.

A.8 FEEDBACK MECHANISM

We shall provide our clients formal and informal channels for their feedback and suggestions for building our competencies to serve our clients better.

SECTION B - Voluntary Mutual Code of Conduct

To ensure that all our activities and dealings with clients are in compliance with the above core values, we all agree to adopt the code of conduct as elaborated hereunder:

B.1 APPLICATION OF THE CODE:

"This code applies to all categories of member microfinance institutions - irrespective of their constitution (public, private etc.) - whose principal activity is microfinance and related services.
"This code comes into effect from August 8, 2010 unless otherwise indicated.

B.2 WE AGREE TO:

"Promote and strengthen the microfinance movement in the country by bringing sustainable microfinance services to the low-income people of Iraq.
"Build progressive, sustainable and client-centric microfinance institutions in the country to provide integrated financial services to our clients.
"Promote cooperation and coordination among microfinance institutions and other agencies to achieve higher operating standards and avoid unethical competition in order to serve our clients better.

B.2.1 INTEGRITY

We agree to:

"Act honestly, fairly and reasonably in conducting microfinance activities.
"Conduct our microfinance activities by means of fair competition, not seeking competitive advantages through illegal or unethical microfinance practices. No officer, employee, or other person acting on our behalf shall take unfair advantage of anyone by manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.
"Prominently display the core values and code of conduct on the notice board of head office and all branches, and put systems in place to ensure compliance.
"Ensure that our staff and any person acting for us or on our behalf, are trained or oriented to put these values into practice.

B.2.2 TRANSPARENCY

We agree to:

"Disclose to clients all the terms and conditions of our financial services offered in the language understood by the client.
"Disclose the source of funds, costs of funds and use of surpluses to Board Member and Donor to provide competitive services to clients.
"Provide information to clients on the rate of interest levied on the loan, method of deducting interest, terms of repayment, and any other information related to interest rates and other charges.
"Provide adequate information on alternative financing mechanism such as Islamic Finance as applicable and work towards making available such products for our clients.
"Provide periodical statements of our accounts to the clients.
"Work towards providing our annual audited financial statement to the Mx. Market (www.ihemc.org).

B.2.3 FAIR PRACTICES

We are committed to follow fair practices built on dignity, respect, fair treatment, persuasion and courtesy to clients. We agree to:

"Provide micro finance services to low income clients irrespective of gender, race, caste, religion or language.
"Ensure that the services are provided using the most efficient methods possible to enable access to financial services by low income households at reasonable cost.
"Recognize our responsibility to provide financial services to clients based upon their needs and repayment capacity.
"Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients' confidence and long-term relationship.
"Maintain decency and decorum during the visit to the clients' place for collection of dues.
"Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/visits to collect dues.
"Scrupulously avoid any demeanor that would suggest any kind of threat or violence.
"Emphasize using alternative collaterals which includes various forms of peer assurance such as lending through groups and group guarantees at the neighborhood level, or other forms of collateral.

B.2.4 GOVERNANCE

We agree to:

"Observe high standards of governance, ensuring fairness, integrity and transparency by inducing persons with good and sound reputation, as members of Board of Directors. We shall ensure that the majority of the directors are independent directors and/or duly elected representatives of the community we serve, and that we will involve the Board in all policy formulation and other important decisions.
"Ensure transparency in the maintenance of books of accounts and reporting/ presentation and disclosure of financial statements by qualified auditors.
"Put in our best efforts to follow the Audit and Assurance Standards issued by the Iraqi Audit Association.
"Place before the Board of Directors, a compliance report indicating the extent of compliance with this Voluntary Mutual Code of Conduct, specifically indicating any deviations and reasons therefore, at the end of every half financial year.

B.2.5 FEEDBACK/ GRIEVANCE MECHANISMS

We agree to:

"Establish effective and efficient feedback mechanism.
"Take steps to correct any errors and handle complaints speedily and efficiently.
"Provide, where a complainant is not satisfied with the outcome of the investigation into her complaint, he/she shall be notified of his/her right to refer the matter to the Interim Compliance Committee facilitated by USAID-Tijara and in the future by the Iraqi Microfinance Network.

B.2.6 WORKING RELATION WITH DONORS/FUNDERS

We agree to:

"Build an environment based on mutual respect towards a common vision and goal.
"Attempt to harmonize our plans and operations with our funding agencies and loan fund providers framework, areas of priority, procedures and other relevant information.
"Ensure that the relations and transactions are transparent. Deception and misrepresentation will be avoided at all times, such as overstating client outreach and loan portfolios, double funding, diversion of grants and loans to unrelated activities.
"Maintain commitment to signed grants agreements conditions, and keep the mutually agreed upon the parameters of success of funded projects through evaluations that are participatory in nature.

B.2.7 WORKING RELATION WITH GOVERNMENT/CENTRAL BANK OF IRAQ

We agree to:

"Establish an environment of openness, mutual respect and engagement to improve and build inclusive financial sector in Iraq.
"Continued dialogue and communications with Government and CBI on policy reform recommendations for the conducive development of microfinance institutions and the sector.
"Commitment to comply with government laws and provide respective authorities with requested reports in an accurate and timely manner.

SECTION C - Compliance Mechanism

C.1 The 14 Iraqi Microfinance Network, in consultation with each other and facilitated by USAID-Tijara, will establish a Compliance Committee to oversee the implementation and compliance of the Code of Ethics and Conduct. The Committee will be represented by one nominated senior management personnel from each institution. In the long term, the MFIs, with support from USAID-Tijara, will establish the Iraqi Microfinance Industry Network, which will provide overall guidance and adherence to the Code and help in resolving any disputes.

C.2 The Board of the member microfinance institutions should adopt the ethics and the code of conduct on an annual basis.

C.3 In case of complaint received by the Interim Compliance Committee (and in the future by the Iraqi Microfinance Network) regarding non-compliance with the code by any member microfinance institution, the committee shall take the following steps:

"Assist in compliance.
"Failing which:
I. Formally write to the chief executive of that member microfinance institution to respond to the complaint within 30 days.
II. If the chief executive of that member microfinance institution fails to respond within 30 days of the receipt of the communication, the matter will be formally communicated to the board of that microfinance institution in writing to seek a response.
III. If the board does not respond within the 15 days of the receipt of the communication, the membership of that microfinance institution shall be suspended till further decision of the committee.
IV. If the committee decides it is necessary to expel the microfinance institution from membership, it shall then take the appropriate decision and if they decide to expel the member, the name of the expelled member will be published on the Imfi.org website.

USAID-Tijara Representative:

Doran Cotten
Chief of Party

August 8, 2010

Iraqi Microfinance Institution Members

Hussein
Executive Manager
Al Aman

Executive Manager
Al Mawassat

Director of Business and Operations
CHF International

General Manager
Al Tijara

Branch Manager
Al Takadum Fahighah

Mohammed Jundat
Team leader
Sustainable Microfinance

Chief Executive Officer
Al Bashaaer Iraqi Organization for Microfinance

Executive Manager
Al Tadthamin

Branch Manager
Al Takadum Al Qaim

Executive Manager
Tala'ar Economic Development Center (TEDC)

Chief of Party
Relief International

Branch Manager
Al Takadum Ramadi

Executive Manager
Iddiharona

General Manager
Bright Futures Foundation (BFF)

Senior Manager
Amalkon



Iraqi Microfinance Industry – Looking Forward

