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Success Story: USAID and the Iraqi Company for Bank Guarantees Sign \$5m Grant Agreement

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Additional funds for loan guarantees stimulate private-sector development

In February 2007, USAID and the Iraqi Company for Bank Guarantees (ICBG) signed a grant agreement under which USAID will provide \$5 million (USD) to the ICBG to supplement its loan-guarantee fund.

The agreement was formalized at the ICBG's second General Assembly meeting. IZDIHAR, a USAID-funded program that encourages private-sector development in Iraq, provides technical assistance to the ICBG and to Iraqi private banks.

Incorporated in March 2006 with operations beginning in November 2006, the ICBG insures loans – ranging from \$5,000 to \$250,000 – issued by its member banks to small- and medium-sized enterprises (SMEs) in several sectors, such as manufacturing, services and trade. With the recent addition of Emerald Bank in Erbil, the ICBG has expanded to 12 members. To date, the company has approved 10 guarantees, totaling \$187,000.

According to Christian Hougen, Director of the Economic Growth Office at USAID/Iraq, “The SME sector in Iraq has historically been deprived of access to formal sources of credit due to the prohibitive levels of collateralization required. This grant provides them with an opportunity to develop and grow.”

In addition to signing the supplemental grant agreement, the ICBG elected a new Board of Directors through a transparent nomination and closed-balloting process. The Board represents management from five of the leading private banks in Iraq.

“The ICBG's fair and transparent election process reflects corporate governance

procedures that it has adopted pursuant to international best practices,” said Baljit Vohra, IZDIHAR's Chief of Party.

The outgoing chairman reported to the Assembly on significant achievements of the ICBG during its first year, which include:

- Participating bank agreements with 11 Iraqi private banks.
- A training program for bank officers designed and implemented in conjunction with IZDIHAR, which has trained 400 Iraqi bank officers to date.
- The development of operational capabilities, systems and policy manuals to ensure the proper functioning of the institution.
- A Memorandum of Understanding (MOU) with the Jordanian Loan Guarantee Corporation (JLGC) for mutual cooperation and agreement at an operational level and on marketing, technological and training activities. To date, 24 Iraqi bank officers have attended on-the-job training at JLGC offices.
- An MOU with distributors of agricultural equipment, generators and light commercial vehicles to assist SME operators in obtaining financing for up to five years through the ICBG participating bank network.

“We are proud of the achievements of our company, which has been operating under very challenging circumstances,” said the newly elected chairman of the ICBG. “The pipeline of loan guarantee applications is significant and will help us exceed our business plan projections. We expect to expand our outreach, as another four banks stand ready to sign the participating bank agreement.”