



MICROFINANCE BUILDS IRAQI ECONOMY

Since 2003, the United States has been helping Iraqis to create and grow small businesses by enabling microfinance providers to begin bank lending operations in Iraq. By January 2007, over \$18 million has been lent through the U.S. Agency for International Development (USAID) to unemployed or underemployed Iraqis to build their livelihoods.

Twenty-eight offices of five microfinance lending organizations have been opened in 13 of Iraq's 18 provinces through U.S. start-up grants of lending and operational capital. President Bush reiterated his strong commitment to these successful efforts on January 10 when he announced his plan to significantly increase funds for microfinance activities in Iraq.

What is Microfinance?

Microfinance lending provides small loans, in amounts as low as \$25. The majority of microfinance borrowers are self-employed or owners of small family-businesses, many of whom are women. They are the foundation of the economic sector and the engine of economic growth and employment in many developing countries.

Microfinance loans are short-term, usually less than one year, and typically extend to the "informal economy" of a country, whose members, due to personal or financial circumstances, cannot get loans from regular banks.

The United States Government currently supports microfinance programs in Iraq, Afghanistan, Sudan, and more than 60 other countries around the world. These programs strengthen financial institutions and build financial sectors to ensure that poor people have access to loans so they can start or grow businesses, save for their children's education, and provide for family medical needs.

Microfinance in Iraq

USAID has provided start-up grants of lending and operational capital to both local and international microfinance providers to start operations in Iraq. International experts provide training and supervision in lending, risk management, portfolio management, business planning, marketing, and all other aspects of running a microfinance institution. Since the program began in 2003, USAID has provided 622 Iraqi trainees with 55,626 training days of microfinance education.



The microfinance providers in turn work at the community level to advertise their program and interview candidates for loans. If needed, potential borrowers are assisted in the development of a work plan for their prospective businesses. As the loans are repaid, the money goes into a revolving fund, increasing the capital

available for further loans.

These programs have been very popular with Iraqis, who have limited alternatives to securing loans. The program is administered at the community level by Iraqi nationals.

Iraq Microfinance Successes

As of January 2007, 16,455 Iraqis borrowed \$18 million from USAID-related programs, with an average loan size of \$1,140, and a loan repayment rate of 98%.

As early as the spring of 2004, microfinance lending was spreading throughout Iraq with loans made in At' Tamim, Salah ad Din, Arbil, Al Basrah, An Najaf, Karbala, Babil, and Baghdad Governorates. In Mosul, a U.S.-supported lending institution expanded its operations and has helped to revitalize the local economy of Ninawa' Governorate.

USAID has also supported microfinance lending in some parts of Iraq by co-founding small locally owned and operated microfinance organizations with Coalition partners. With \$250,000 in operational capital provided by the U.S. military's Commanders Emergency Response Program, and training and \$250,000 in lending capital supplied by USAID, this is a successful example of inter-agency cooperation to address urgent stabilization needs in Iraq.

Since the microfinance program began, there has been an emphasis on providing business opportunities for women and other disadvantaged groups. A training program in central Iraq helped businesswomen create business plans for entrepreneurial ventures in areas such as construction, architectural design, computer services, and publishing.

Microfinance programs have also affected the way traditional Iraqi banks do business. Since 2003, eight banks in and around Baghdad have lent a combined \$2.26 million to local businesses. These banks have encouraged the growth of local small business by transitioning from a conservative, collateral-based loan system to a more aggressive system based on the cash flow generated by businesses.