



USAID | **IRAQ**
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IRAQ PRIVATE SECTOR GROWTH AND EMPLOYMENT GENERATION PROJECT



Annual Component Summaries

Through December 2005

**USAID Contract No.
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THE Louis Berger Group, INC.
Engineers Planners Scientists Economists



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Annual Component Summaries

Through December 2005

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RESTRUCTURING AND PRIVATIZATION

Objective

To assist the government of Iraq to conduct privatization transactions through the establishment of a legal framework for privatization of selected state owned enterprises. This is to be accomplished by providing capacity building for an official agency or committee and enhance public acceptance of the benefits of transitioning to a dynamic and growing market based economy.

Situation at Outset (Beginning State)

The Government of Iraq has approximately 192 state-owned enterprises, employing 510,000 workers. When the project began in September 2004, there was no mandated official body tasked with, nor procedures describing, formulating a privatization policy or carrying out the necessary preparatory work and transactions.

Challenges

There has been little political will to push a privatization agenda, public awareness is poor, and resistance is high to workers losing their coveted SOE jobs.

Goals

- Advocate for and assist the establishment of a government-designated implementing organization on privatization.
- Provide technical support, including: developing “best practices” model legislation to support the creation of a single, transparent regulatory framework for privatization country-wide; develop MIS to collect information to support policy and financial analysis; study and provide options to address workers displaced by privatization; and support increased public awareness about the public benefits of privatization.

Achievements and Milestones

- The Inter-Ministerial Committee on Privatization was formed in September 2005. The project drafted a Cabinet Order, and is providing on-going technical assistance at the Chairman's request, including drafting the key recommendations of the IMC, all of which were reportedly approved by the IMC in some form.
- Produced an Excess Employment Study (August 15, 2005) providing recommendations and costing of various strategies for coping with labor redundancy in State-Owned Enterprises.
- Intensive work with the Ministry of Industry and Minerals resulted in the formation of a Privatization Working Group including other Ministries, formation of technical sub-units within the Ministry to support privatization, and continued progress toward preparing 8 selected SOEs for privatization including work on two cement companies that MIM would like to privatize immediately.
- Assisted MIM to develop a framework for Commercialization of SOEs. Completed 58 profiles of State-Owned Enterprises to form the initial content of a database to facilitate privatization efforts.
- A public awareness event on privatization (November 12, 2005) was attended by over 250 Iraqi business persons.
- Prepared a Draft Law on Privatization and presented for comment to the Parliamentary Committee on Finance (the same MPs are expected to return after elections).

Issues, Recommendations, and Next Steps

- Advocate for the creation of an **Iraq Privatization Agency (IPA)** with legal authority to set privatization policy and conduct transactions for all SOEs, as approved by the Iraqi cabinet on December 20, 2005.
- The **GOI** should lay the groundwork for privatization by: Setting objectives (revenues, employment stability, national competitiveness); Developing/promoting legislation and institutional framework; Preparatory work to privatize priority companies in MIM; Public awareness; Gathering SOE data and initiating prioritization and diagnostics work; Consider needs for compensation stability; Consider needs for donor support.
- The **USG** should engage the donor community to fund a redundancy scheme (the projected need is US \$1 billion; the World Bank has committed \$30 million).
- The **MIM Committee on Privatization** is likely to largely drive much of the process over the coming months – to date, they have had more interest in moving forward than the Inter-Ministerial Committee. USAID and Izdihar should continue to advocate to the IMC the benefits and importance of a sound privatization strategy, while continuing to move forward with MIM.

Key Counterparts

- **Inter-Ministerial Committee for Reform and Rehabilitation of State-Owned Enterprises.** Chaired by the Minister of Planning; includes Minister of Finance, Minister of Industry and Minerals, Governor of the Central Bank, President of the Board of Supreme Audit and a representative of the Prime Minister.
- **Ministry of Industry and Minerals.** Close working relationship, including working with the Central Committee for

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Transferring State Companies to Shareholding companies (CCTSCSC) to set up nine technical and support desks. MIM has short-listed eight SOEs under its' control to be considered for privatization.

Grants or Procurement

- **Ministry of Industry and Minerals.** Procurement of a \$102,810 IT package. Sept. 2005 – Jan. 2006.

Training

- None at this time.

INVESTMENT PROMOTION

Objective

To promote and facilitate increased foreign and domestic direct investment in Iraq, work with the GOI to identify and remove policy constraints on investors, and knowledgeably guide investors through the legal and regulatory steps related to investment. The ultimate goal is to create jobs and contribute to the general welfare of the population and the prosperity of the country.

Situation at Outset (Beginning State)

At the outset of the project in September 2004, the situation for investors and businesses in Iraq was one of deep uncertainty, with a provisional government preparing for the first free elections and the constitutional drafting process, a New Iraqi Dinar in circulation for only a year, and conflicting legal regimes and provisional decrees.

Challenges

High quality legal and general translations, reliable research, a general lethargy in government (partially due to the transitional nature of the 2005 regime), and a legacy of still pervasive attitudes inimical to free markets, free trade, and foreign investment also hamper promotion of investment and trade opportunities. GOI capacity to analyze and formulate responses to international and domestic investors' needs, set consistent and supportive policies, and promote investment in general is also in the nascent stage of development.

Goals

- Develop FDI and domestic investment targets and assist GOI and other entities to achieve them.
- Offer a cogent analysis of the Iraqi economy, help improve administrative practices, and execute a realistic plan to support trade and investment.
- Support establishment and development of two entities: (1) The **Iraq Investment Promotion Agency**, an autonomous, independent investment promotion agency capable of competing for investment to world standards, and (2) an **Iraq Trade Information Center** at the Ministry of Trade to offer a full range of services to Iraqi business and industry by making available, in its offices and on-line, data and other information intended to facilitate trade with Iraq.
- Produce analytical studies including: (1) a **Competitiveness Study** examining the competitive advantages of Iraq's major industrial and commercial activities to focus policymakers on needed economic reforms, and (2) an **Investor Roadmap** detailing of all the procedures and requirements confronting an investor who wishes to establish and operate a business in Iraq, and to provide a tool for the Government of Iraq to assess its procedures and devise ways to reduce barriers to investment.

Achievements and Milestones

- Successfully advocated for the formation of the Iraq Investment Promotion Agency (IIPA) and the Trade Information Center (ITIC), including drafting a proposed Law to formally establish the IIPA as an independent agency.
- On July 10, 2005 at the Amman JCRED meetings, a Memorandum of Understanding between USAID and the Minister of Planning was signed, by which USAID agreed to assist in establishing an IIPA.
- Facilitated IIPA and ITIC development including staff selection and training (staff seconded from the Ministries of Planning, Industry and Minerals, and Trade), physical renovation, and on-going technical and strategic assistance including development of procedures and proposed legal regimes. Physical renovations are nearing completion. Staff have been hired, trained on-site, completed initial study tours abroad, and have begun working. Websites and databases are under development.
- Reached final draft stage of both the Investor Roadmap and the Competitiveness Study. Conducting further studies focused on specific sectors (i.e. food processing).
- Established relationships with the Jordan Investment Board, Oman Trade Information Center, and Dubai Trade Information Center.
- Awarded a grant to an Iraqi organization to develop a tourism-related business and training center in Najaf.

Issues, Recommendations, and Next Steps

- The project will hold FDI targeting workshops in 2006 and continue to assist the GOI to achieve them.
- The Ministry of Planning is preparing legislation to officially establish the IIPA. The GOI should identify an Executive Director to take the helm of the Agency and pass the implementing legislation so that the Agency will have an official budget and be able to commence operations. The MoP should be encouraged to spin-off the IIPA as an independent entity.
- The project will continue development of the IIPA and ITIC, including adding content to the IIPA web site and ITIC data base, and begin the work of public relations and marketing that are the core of IPA work, including conducting business missions abroad.
- Deepening research in major economic sectors in order to devise specific, concrete recommendations for programs and policies to enable actual development and investment in those sectors.
- Working with the new GOI to improve, modernize, and simplify procedures related to business and investment.

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Key Counterparts

- **Ministry of Planning.** A key counterpart for establishing the **Iraq Investment Promotion Agency** (8 initial female staff seconded from various ministries).
- **Ministry of Trade.** The **Iraq Trade Information Center** has been established under MoT's auspices with 17 seconded staff.
- **Iraqi Economy Development Center (IEDC)/ Najaf Tourism Center.** A civil organization based in Baghdad.

Grants or Procurement

- **Iraqi Economy Development Center.** Grant of \$190,300 to start up the Najaf Tourism Center, awarded 24-Aug-05 and completed 28-Dec-05.
- **Iraq Investment Promotion Agency (IIPA).** Procurement of \$291,000 for building renovations, furnishing, & equipment, to be completed in 2005.
- **Iraq Trade Information Center (ITIC).** Procurement of \$608,300 for building renovations, furnishing, & equipment, to be completed in 2005.

Training

- **Investment Promotion Agency Staff Training,** 9/7/05-10/31/05, Baghdad. 8 female participants.
- **Principles of Economic Development and Investment Promotion (IIPA staff study tour),** 11/7/05-11/21/05, USA. 6 females.
- **Introduction to International Trade for TIC Staff,** 10/23/05-11/1/05, Baghdad. 17 participants (8 female).
- **Communication and Management Training for TIC Staff,** 11/9/05-11/22/05, Baghdad. 17 participants (8 female).
- **International Exposure for TIC,** 11/25/05-12/2/05, Dubai. 9 participants (4 female).
- **IT Training for Investment and Trade Center,** 11/18/05-12/12/05, Dubai. 4 female participants.

TRADE POLICY AND MARKET ACCESS

Objective

To support the creation and expansion of the Iraqi private sector by (1) enhancing the capacity of the GOI to effectively formulate and implement trade policy and international trade-related agreements (*trade policy*) and (2) support the creation and expansion of trade by removing legal, regulatory or institutional constraints to private-sector business and investment (*market access*).

Situation at Outset (Beginning State)

To accede to the WTO, the GOI will have to undertake ambitious economic, legal and regulatory reform. These reforms will include economic-related laws and by-laws; intellectual property rights protection; customs policy and administration; technical barriers to trade; food safety and inspection; agricultural policy; export promotion; tax policy; domestic regulation of services; company registration and business licensing; etc.

Challenges

The major challenge faced by the TPMA Component in achieving these tasks, is not a lack of political will on the part of the GOI or a lack of interest on the part of the private sector, but the logistic difficulty of maintaining momentum and fluid dialogue between so many different interested parties – namely between Ministries; between Ministers, bureaucrats and regulators within Ministries; and between the GOI and the private sector – when security and communication lines are hindered, and when interests compete or conflict.

Goals

- Support the GOI on trade policy coordination matters, including managing the **World Trade Organization (WTO) accession** process, by supporting the GOI to establish and support a ministerial-level central trade policy body (the **Inter-Ministerial Commission**) with sufficient authority and resources to coordinate trade policies among the sometimes competing and conflicting interests of the various government departments and the private sector.
- Provide support to the Inter-Ministerial Commission, and support and assist GOI staff on all levels (Director Generals, regulators, technicians, etc.) to implement trade policy and international trade agreements. Support the establishment of, and provide skills training to, a **Ministry of Trade WTO Working Unit** which can implement the decisions and policies of the WTO Inter-Ministerial Commission.
- Assist drafting of documents for submission to the WTO, training and capacity building within the ministries, and undertaking needs assessments and impact studies to facilitate Iraq's accession to the World Trade Organization. Assist development and encourage passage of draft laws and regulations to help bring the Government of Iraq's trade regime into conformity with WTO rules.
- Support development and implementation of a **WTO Public Awareness Campaign** to increase public awareness on WTO and trade-related issues.

Achievements and Milestones

- Assisted the Government of Iraq in submitting a request for accession (which was accepted by WTO Members) and in submitting the Memorandum on the Foreign Trade Regime to the WTO Secretariat (which provides a detailed summary of Iraq's current trade regime) in September 2005.
- Facilitated participation of two representatives from the GOI as the official Iraqi Delegation at the 36th Harmonized Committee Meeting of the World Customs Organization in Brussels, August 2005, with the intention of reestablishing contact and facilitating future trade. Additionally, in November 2005, the TPMA Component accompanied a group of 24 Director Generals to the WTO in Geneva for training.
- Conducting a comprehensive training program within the GOI on WTO issues and on matters related to regulatory review and reform. More than 200 government officials from more than 20 Ministries have received training (including the Ministries of Trade, Finance, Interior, Agriculture, Health, Culture and others, as well as the Customs Agency). Topics include trade-related issues such as Tariffs and Customs, Intellectual Property, and Trade in Services.
- Drafting and amending a wide variety of trade-related legislation and WTO-related documents, in particular a new Customs Code and new Intellectual Property Rights legislation. Translating key official WTO documents into Arabic.
- Undertaking a number of WTO conformity assessments and drafting relevant and appropriate model legislation for consideration and use by GOI regulators.
- More than 200 representatives from the private sector received awareness-raising training on trade-related topics.

Issues, Recommendations, and Next Steps

- The WTO Inter-Ministerial Commission should be empowered through development of a framework for regular meetings and rapid decision making. Likewise, the WTO Unit at the Ministry of Trade should be supported and direct contact between officials, staff, and technical assistance consultants facilitated.
- The GOI must respond to questions on the MFTR from WTO members and prepare for bilateral and Working Party meetings with WTO Members. The GOI should be supported in subsequent accession negotiations and in drafting WTO accession-related documentation.
- The GOI should implement new trade-related laws and regulations to be in conformity with international agreements. Technical assistance to review and collate the GOI's bilateral and regional trade-related agreements so that the GOI is

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familiar with its existing trade-related obligations will be offered, as will support for the legal, institutional and regulatory reforms required in order to comply with WTO accession requirements through preparation of legislative conformity assessments and model legislation for review and use by the GOI.

- The GOI should engage in dialogue with the private sector, and the private sector should be supported in order to have the substantive knowledge and language to effectively engage in policy discussions.
- Foreign government counterparts and overseas private sector representatives should be encouraged to engage and assist with the process.
- Offer continued support for the GOI's attendance and reengagement at meetings of international organisation concerned with trade issues (WTO, WCO, WIPO, Codex, etc).

Key Counterparts

- **Ministry of Trade, WTO Unit.** The unit has been established but support is hindered by lack of direct communication.
- **Ministry of Planning, Central Organization for Standardization and Quality Control (COSQC).** Training and collaboration is ongoing.
- **Ministry of Finance, Customs Service, and Ministry of Interior, Customs Police.** Training and collaboration is ongoing, including project facilitation of GOI participation in international meetings.
- **Various Ministries.** Introductory and specialist training has been provided to the Ministry of Culture (TRIPS-related subjects), Ministry of Agriculture, and others.

Grants or Procurement

- None at this time. Procurement to WTO Unit at the Ministry of Trade is on hold.

Training

- **Awareness events.** Seminars or short courses intended to introduce participants to the WTO accession process or to related topics. Conducted for both GOI and private sector audiences. (WTO Intro Training for Ministry of Agriculture, International Copyright Issues for Ministry of Culture, Intellectual Property Rights under WTO (TRIPS), WTO Agreement on Technical Barriers to Trade, and 7 events sponsored by BMS: Associations).
- **Trade-related specialist training.** Technical assistance to key GOI counterparts. These include: Post-Harvest Technology Course (delegation from Najaf Ministry of Agriculture attended this course in California), Trade in Services (GATS), and Customs Modernization (Part 1).
- **Study Tours and Assistance to Delegations.** Support to GOI delegations abroad in order to encourage Iraq's re-connection to key global trade organizations. These include attendance at the WCO Harmonized System Committee Meeting, 9/19/05-9/30/05, Brussels (2 high-level officials attended), and the WTO Training Institute, 11/13/05-11/19/05, Geneva (29 Directors General).

BUSINESS MANAGEMENT SERVICES: ACCOUNTING AND AUDITING

Objective

Improve private sector development through the expansion of financial literacy throughout the country. Acceptance and application of International Accounting Standards Board (IASB) practices using modern technology and knowledge will help Iraqis to plan and monitor their businesses, seek capital effectively and so improve private sector growth and employment.

Situation at Outset (Beginning State)

At the commencement of activities in 2004, the Iraqi accounting academic and professional groups were existing in a very confined environment. A substantial knowledge gap was created during the Saddam period as the profession grew out of touch with international developments. Development of techniques and technology as well as an exchange of thoughts with other members of this group was restricted and in some cases repressed. Text books and other instructional materials were out-of-date, many of the items were over 10 years old – some even dated back to the 1970's and 80's. There was a complete absence of exchange of academic developments – no international research journals were allowed into Iraq for over 10 years. Furthermore – there were very limited possibilities for academics or professional to participate in exchange programs, teaching sabbaticals or international symposiums. Iraq had once been a seat of international accounting and auditing research and practices development – prior to the Saddam Regime. Baghdad was the headquarters of the Arab Union of Accountants and Auditors, an organization which had significant regional influence. Deterioration of conditions Iraq resulted in the leadership being lost – development atrophied, talented individuals either became disheartened, immigrated or looked for alternative activities.

Challenges

The environment presents many challenges however each of these challenges presents opportunities that can be used in various ways. One of the major challenges that exists in the speed at which the counterparts are willing to work. With each of the operational domains of the sub-component – the Profession, Academia and Regulatory areas the counterparts wish to move forward quickly and in all areas. Another of the challenges that regularly presents itself is the general absence of Arabic language materials in the subject matters that are being approached. Many of the schools in the region teach in English, regrettably the previous regimes opposition to English presents challenges.

Goals

- **Accounting & Auditing Certification and Licensing.** Elevation of the quality of the accounting and auditing professions by re-engineering professional certification and licensing systems and competency evaluation examinations to meet world class standards and be compliant with World Trade Organization (WTO) and International Federation of Accountant requirements.
- **University Accounting and Auditing Programs.** Development of programs and assistance to improve physical resources, upgrade knowledge base, facilitate transfer of up-to-date accounting and auditing procedures, and modernize teaching skills at the university level.
- **Direct training.** Training individuals across all business sectors and academia in International Standards of Accounting and Auditing. Conduct training using international norms of education to insure future training activities are compliant to world-class standards once self-sustainability is achieved.
- **Sustainable maintenance of standards.** Assist and encourage Iraqi accountants and auditors at all levels to join regional efforts to improve the profession.

Achievements and Milestones

- Implemented a nationwide learning resource building program which is creating an environment for development of a modern common body of knowledge in a comprehensive and phased manner.
- Direct instruction to practicing professionals through an on-going nationwide network of seminars, educating thousands of individuals in International Accounting Standards as well as Professional Ethics. Additionally, these individuals are becoming acquainted with modern teaching practices. In this effort, 35 trainers and 760 professional accountants have received training, reaching all 18 governorates of Iraq in the first coordinated country-wide continuing professional education event in the history of Iraq.
- Hosted the founding meeting of a working group to renovate the Iraq Certified Public Accountant's Exam, which was once recognized by seven of the twenty-one Arab countries. The group includes the two organizations chartered by Iraqi law to issue the CPA designation.
- Assisted a professional association to form a Continuing Professional Education Working Group and a Standards Setting Working Group.
- Improving the environment available to students and academics for studying accounting and auditing by adding internet capabilities and upgrading classrooms at two Universities.
- Established working relationships with the Board of Supreme Audit and the Ministry of Education (Accounting Curriculum Setting Board), advocating for the inclusion of an International Accounting Standards class in the university curriculum.
- Selection and provision of text books in Arabic and English based on the norms for education of accountants set forth in the UNCTAD Global Curriculum for Accountants. Publishing or revising standards, textbooks, and quarterly journals together with various Iraqi project partners.
- The common body of knowledge of Iraqi professionals and academics is being brought forward rapidly by the creation of

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learning resource centers. These centers are being filled with the most modern text books available in Arabic and English on business skills subjects which important to accountants and auditors. At least one learning resource center with educational materials is being established and equipped in each governorate.

Issues, Recommendations, and Next Steps

- Specialist education will be necessary for particular areas of accounting and auditing, such as financial institutions, regulated industries, and the many branches of auditing which will include internal controls, tourism, value-chain analysis and others.
- The limited availability of up-to-date materials in the area of international accounting and auditing standards will be addressed by the component by working with leaders to create and publish materials.

Key Counterparts

- **Iraqi Union of Accountants and Auditors (IUAA).** Partnering and developing capacity of this professional association through the development of working groups, training of trainers, and roll-out of continuing professional education programs.
- **Baghdad University and Mustansyria University.** Working together to update curricula, introduce new courses, and modernize facilities.
- **Ministry of Education, Accounting Curriculum Standards-Setting Board.** Working to promote International Accounting Standards throughout Iraqi higher education.
- **Board of Supreme Audit.** The project is lending support to this official entity through provision of materials and invitation to training events.

Grants or Procurement

- **Mustansyria University.** Two procurements totaling \$115,928 for renovation and upgrading of the Accounting Faculty, 7/20/05-8/30/05.
- **Baghdad University.** Two procurements totaling \$110,864 for renovation and upgrading of the Accounting Faculty, 7/20/05-8/30/05.
- **Arab Accounting Books.** \$71,345 to set up at least 18 resource libraries throughout the country.

Training

- **Training of Trainers: International Accounting Standards, I and II.** (1) 6/10/05-6/20/05, Amman, 16 participants (2 female), (2) 8/24/05-8/31/05, Amman, 29 participants (7 female).
- **Roll-out of countrywide International Accounting Standards, I and II.** A 60-hour continuing professional education course reaching all 18 governorates.(1) 8/15/05-10/3/05, Baghdad, Mosul, Badrah, Diwaniya, Dhi-Kar (Nasiriya), Babylon (Hilla), Missan (Amara), 280 participants (50 female), (2) 9/15/05-11/15/05, Diyala (Ba'aquba), Salahaddin (Tikrit), Samawa, Kirkuk, Anbar (Ramadi), Dohuk, Erbil, Kut, Najaf, Sulaimaniya, Kerbala, 573 participants (162 female).
- **Roll-out of countrywide International Auditing Standards.** TOT and country-wide rollout planned for early 2006.
- **Arab Union of Accountants and Auditors Meeting.** 12/4/05-12/6/05, Algeria, 2 participants.

BUSINESS MANAGEMENT SERVICES: ASSOCIATIONS AND TRAINING

Objective

Improve private sector conditions, business growth and employment by strengthening business associations to become sustainable educators of their members and advocates for needed economic reforms.

Situation at Outset (Beginning State)

Business knowledge of individual businesses and civil discourse skills of associations are out-of-date. Associations do not have standard by-laws or business plans for sustainability, nor a concept of how to effectively advocate for their members' interests and assess and provide for member's needs.

Challenges

The environment presents many challenges however each of these challenges presents opportunities that can be used in various ways. One of the major challenges that exists is the speed at which the counterparts are willing to work. With each of the operational domains of the sub-component – the Profession, Academia and Regulatory areas the counterparts wish to move forward quickly and in all areas. Another of the challenges that regularly presents itself is the general absence of Arabic language materials in the subject matters that are being approached. Many of the schools in the region teach in English, regrettably the previous regimes opposition to English presents challenges.

Goals

- **Business Skills Training.** Development and implementation of a management training skills program for the business community in Iraq.
- **Business Association Development.** Creation and implementation of strategies and programs designed to enhance the development of selected business associations as well as the management skills of their leaders and members.

Achievements and Milestones

- Providing one-on-one technical assistance to strengthen ten strategic business or professional associations, concentrating on the development of business plans, adaptation of model by-laws, adoption of codes of ethics, and advocacy strategies.
- Planned for the establishment in early 2006 of IJMAA, an umbrella group of business associations. Assisting a women's association to launch a handicraft cluster. Assisting three business associations to establish a non-bank financial institution to extend credit to women and young entrepreneurs.
- Collaborating with the SME Development component to work intensively with a strategic partner in the banking sector to advocate for new lending to the SME sector, as well as to develop a training facility within the partner organization. Prepared a draft concept paper and presentation on Loan Guarantee Corporation schemes, and a paper on the Status of the Banking Industry.
- Providing intensive one-on-one technical and strategic assistance to a professional association related to the Insurance industry, including facilitating contact and information-sharing with neighboring counterpart organizations.
- Advocating the activities and objectives of all Izdihar components to the private sector, including support of component outreach activities with business associations and their members. Specific efforts include collaborating with the Trade Policy component to raise awareness of trade-related issues within the Iraqi business community, and planning a roundtable on the Status of Iraqi Industry.

Issues, Recommendations, and Next Steps

- Continuing to focus on business associations which provide the greatest opportunity to achieve economic reform both directly through educating members and indirectly through policy advocacy.
- Expanding local and regional impact through work with additional business groups outside of Baghdad and ongoing work with associations that have nationwide membership and outreach.
- Continue to support outreach of other project components through coordinating joint events with the private sector.

Key Counterparts

- **Business Associations.** 12 associations chosen on the basis of their membership, history, capacity, and relativity to other project component goals.

Grants or Procurement

- **Insurance and Reinsurance Association of Iraq (IRAI).** Grant of \$184,000 for start up. Awarded 25-Aug-05. Status: Active.
- **Center for Economic Dialogue and International Development (CEDID).** Grant of \$211,400 to upgrade training facilities. Awarded 8-Aug-05 Status: Active.

Training

- **Awareness events.** 11 events held with business association members in conjunction with other project components.
- **Strategic and Technical Assistance.** 9 seminars or training sessions to introduce and develop best practices, such as business and strategic planning. Numerous one-on-one meetings and consultations support on-going work with individual associations.

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CAPITAL MARKETS

Objective

To spur private sector development and employment generation by improving Iraqi access to capital. A fair, efficient and transparent market place for equity and debt instruments is essential for the efficient allocation of capital, foreign direct investment and privatization of state owned enterprises.

Situation at Outset (Beginning State)

CPA Order #74 disbanded the Baghdad Stock Exchange: (i) reincarnating it as the Iraq Stock Exchange (ISX), a not-for-profit, member-owned, self-regulatory organization; (ii) establishing the Iraq Depository as a division of the ISX with distinct responsibilities for depository, clearing and settlement operations; and (iii) establishing the Iraq Securities Commission (ISC) as the regulator of the Iraq securities market.

The ISC had no training or development activity to prepare them for their role as market regulator. The ISX resumed manual trading of equity issues in June 2004. There is no market for corporate bonds or government securities in Iraq. Trading occurs twice per week, 2-1/2 hours per session. Matched trades slips are processed by Depository operations. Reports are generated and settlement is performed manually, including processing of physical certificates. The Iraqi Association of Securities Dealers (IASD) was established in September 2004, but had no physical office space. The investment community has very limited technology experience regarding hardware, networks, and software. The Iraqi telecommunications infrastructure is limited and fragile. VSAT is the only reliable access to Internet services, and very expensive by international standards.

Challenges

The draft Permanent Securities Law and Regulations of June 2004 have not been adopted nor actively pursued for endorsement, and remain unchanged, too long and too complex for a fledgling market, with draft regulations unaddressed. Translation of these documents is very poor and useless to the market participants. Shortcomings in CPA Order #74 impede progress in a number of important ways (no provision for an autonomous depository, dematerialization, or foreign investment). The Foreign Investment Law is not in harmony with the Company Law negating the possibility of foreign investment. Some ISX Board Members are resistant to change and advancements in the marketplace, including resistance to admission of new broker/dealers, and the separation of depository, clearing and settlement operations from the ISX. The voice of the IASD is not yet strong enough, and it does not go as far as the monitoring of trading activity as with the NASD in the US. The lack of cost-effective broadband telecommunications infrastructure is a potential barrier to the technological expansion of the capital markets, and more generally the financial sector as a whole. Access to cost-efficient broadband data telecommunications will be an obstacle as the technology dependency of the market increases, particularly when trading and post-trade automation is adopted.

Goals

- Strengthen the **Iraq Securities Commission** to effectively regulate the securities industry in Iraq in order to ensure a fair and transparent market, including developing: an organizational structure, rules, procedures, and complementary training; licensing and listing regimes; and a publicly-accessible **securities information database** to facilitate public disclosure of information and build investor confidence.
- Build capacity of the **Iraq Stock Exchange**, including assisting development and implementation of rules, procedures, and **automation** of trade order entry, execution and reporting as a means to increase market participation by broadening the number of issuers and intermediaries participating in the market, and to enable the **introduction of other conventional securities instruments** such as corporate bonds and government securities, through both primary and secondary trading. Develop the ISX into a nationwide exchange, opening trading to investors beyond Baghdad and enabling expansion of market participants throughout the country.
- Assist the establishment of an autonomous **Iraq Central Securities Depository** capable of automated trade clearing and settlement and shareholder registry operations based on internationally acceptable norms.
- Build capacity of an independent **Iraqi Association of Securities Dealers** to effectively promote the Iraqi securities market, represent the member community, and educate investors on securities markets issues, including developing fee-based **training, licensing and continuing education programs** for broker-dealers, issuers, and investors in ethics, regulations and professional practices, as well as a market education and awareness program to give investors a better understanding of market benefits and risks.

Achievements and Milestones

- Developed a Joint Working Group (JWG) involving Izdihar, IRMO, USAID and key capital markets organizations. Reached agreement with the JWG on a method to dematerialize certificates.
- Developed an ISC organization structure, rules and procedures manuals, and an operational budget. The ISC will complete its relocation to its new facilities in December 2005 with upgraded technology and operational infrastructure provided through procurement.
- Providing feedback and suggestions to the ISC as they work to move forward with the Permanent Securities Law. Assisting with regulations and preparation of the ISC to fully assume their role as market regulator. Training in the area of Corporate Disclosure has begun.
- Developed ISX and ICSD formal governance and operational documents, including business plans, operational plans, and technology plans, and advocating for institutional development according to international best practices. Assisted establishment of new offices with upgraded IT capabilities, including planning for trade automation.
- A complete business package has been prepared for the creation of the ICSD, including Articles of Incorporation, By-Laws,

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Depository Rules, Registry Rules, Participant Agreement, Issuer Agreement, Clearing Bank Agreement, Job Descriptions, Organization Chart, and draft business plan. The guiding principles behind these documents are the establishment of an independent depository, clearing and settlement organization based on CPSS-IOSCO standards.

- Awarded a grant to the IASD to establish its Baghdad headquarters (on-track to open in January 2006), preparation for which included development of a business plan and budget, as well as agreements between institutions on revenue-sharing arrangements. Hiring of key IASD staff is underway and training has begun at the Izdihar compound. An additional support grant is foreseen.

Issues, Recommendations, and Next Steps

- Promote and aggressively seek the passage of the Permanent Securities Law and Regulations to empower the ISC as the market regulator. Provide support to the ISC to become an effective regulator of the Iraqi securities market.
- Encourage capital markets development through: the development of a national market system for trading of securities (discouraging geographical market fragmentation); adoption of banking automation and use of SWIFT to make settlement safer and more efficient; and Central Bank listing of government securities on the ISX.
- Development of websites and information systems needed by institutions to create a presence, manage relevant disclosure information, and make this information available to the general public. Provide additional support through developing operational policies and procedures for monitoring and maintaining technology infrastructure, and developing comprehensive system administration training to ensure day-to-day operational integrity as institutions become increasingly more dependent on the technology.
- Development of outreach programs designed to expand the horizons of key market participants and institutions through exposure and fostering of relationships with relevant regional and international organizations, such as the Association of National Numbering Agencies (ANNA), the African and the Middle East Depositories Association (AMEDA), the International Organization of Securities Commissions (IOSCO), and the World Federation of Exchanges (WFE).

Key Counterparts

- **Iraq Securities Commission (ISC)** Is the regulator of the market, with 5 Commissioners participating in this role. Their main objective is to help draft the Securities Law and the accompanying Regulations; then enforce these main legislative documents.
- **Iraq Stock Exchange (ISX) and Iraq Central Securities Depository (ICSD)** is governed by the ISX Board of Governors (9 members) and provides trading and post-trade operations to the broker community. The Depository is a division of the Exchange and provides ownership transfer and money settlement of trades executed on the Exchange.
- **Iraqi Association of Securities Dealers (IASD)** is governed by a 5-member Board and their main objective is to provide advocacy and training to the investment community.
- **Iraq Reconstructions Management Office (IRMO-Department of State)** is working with Izdihar to draft the necessary legislation to govern the Iraqi Securities Market. In addition, IRMO is providing the software and hardware for the automation of the trade and post-trade systems.

Grants or Procurement

- **IASD.** Grant of \$243,500 to support IASD start up. Awarded August 3, 2005. Status: Active.
- **ISX/ICSD.** Two grants of \$230,975 and \$207,210. Awarded and submitted to ISX November 9, 2005, but ON HOLD due to pending ISX Board decision on the wording of the milestones regarding autonomy/independence of ICSD.
- **ISC Procurement Phase 1** of \$33,631.00 to provide technology assistance to the new building. Awarded November 12, 2005. Status: Active.
- **ISC Procurement Phase 2 of \$325,960** to complete the move to the new building. Awarded December 10, 2005. Status: Active.

Training

- **World Federation of Exchanges Study Tour**, 6/1/05-6/10/05, Beijing and Kuala Lumpur. 6 participants.
- **IASD Capacity Building Staff Training Program**, 12/18/05-1/14/06, on-site training of 5 IASD staff members.

MEDIUM, SMALL AND MICRO ENTERPRISE DEVELOPMENT (MSME): BANK LENDING

Objective

To develop and implement bank lending programs for small and medium sized enterprises to help provide sustainable employment opportunities for Iraqis and to help the country transition from a public sector, state-led economy to a private sector-led, demand driven economy.

Situation at Outset (Beginning State)

The disparity between the level of credit in Iraq and high-income countries is great. Banks are the only formal source of credit in Iraq, and they are underdeveloped and weak. Loans must be repaid in a very short time frame, making it difficult to finance investments in new equipment or technology that would realize benefits in the long run. High collateral requirements are another burden on borrowers, since lending decisions are made largely based on the value of assets pledged rather than on expected revenues and cash-flows. Collateral requirements are often well in excess of 150% of the loan amount, precluding most potential borrowers from debt financing and, in particular, those desiring to start a new business.

The low-volume of lending to the private sector in Iraq is not primarily due to a lack of funds in the banking sector. Banks in Iraq generally lend only a modest portion of their total deposits to private sector borrowers, while a large percentage of their deposits remain in liquid assets such as cash positions, inter-bank loans, central bank debt or short-term government securities (50% or more of total deposits are in liquid assets). The liquidity within the banking system amounts to a significant percentage of GDP, which represents a massive failure of the financial system to allocate capital to its most productive uses.

Challenges

An absence of robust credit markets, limiting the ability of entrepreneurs to obtain loans, is a significant impediment to sustained economic growth. The greatest challenge is reluctance by private bankers to embrace new bank lending concepts (risk-aversion). Additionally, the security situation affects field activities. Due to heightened security, macroeconomic risk and volatility, it is prudent for banks to keep a high percentage of deposits in liquid assets. The likelihood of a run on the bank or an economic crisis that triggers a wave of defaults is greater here, and banks sensibly maintain substantial liquid assets so that they can withstand a sizable withdrawal of deposits and maintain solvency during periods of economic turmoil. The Central Bank also imposes higher reserve requirements (20%) due to this heightened macroeconomic risk and volatility. Nevertheless, banks often maintain reserves well in excess of the required amounts.

Goals

- Promote the practice of cash-flow based lending and progressive credit management methodologies in order to expand the pool of small and medium-sized business borrowers and generate sustainable, long-term jobs.
- Establish and provide management support to a Loan Guarantee Corporation (LGC), which will address banks' initial reluctance to lend to MSMEs and MFIs using new methods by lowering the credit risk.
- Promote progressive banking techniques through the establishment of training programs for key employees of partner banks in modern credit lending and good governance practices, including credit analysis, financial reporting and information systems.
- Establish a sound and accurate partner bank Management Information System (MIS) that will be actively used for loans management and tracking to facilitate sound decision-making, motivate performance and provide accountability for funds.

Achievements and Milestones

- Identified the need to reduce bank risk by developing a Loan Guarantee Corporation, allowing banks to pool risk, as well as to leverage official national, bi-lateral and multi-lateral funding. Consensus on the need for such a facility was reached following a significant meeting between private bankers and representatives from the Ministry of Finance, Central Bank, and USAID in August 2005, hosted by Izdihar.
- Established a strong partnership with the Private Bankers of Iraq Association (PBI) who support our lead in the development of a Loan Guarantee Company and who will host a Bankers Training Center.
- Signed Memoranda of Understanding with 4 private banks, formalizing their commitment to begin cash-flow based lending to SMEs. Provided training in Managerial Accounting and Credit Analysis. The first "cash flow based" loans and first loans to women made in four of five banks which received training.
- One female professional who received training from the project has been appointed as the new credit department Manager at the Middle East Bank. She is now redesigning the bank's credit dept in line with the Izdihar/SME bank lending approach.
- Developing the Integrated Computerized Banking System (ICBS) software to facilitate improved MIS for portfolio tracking and risk management at Iraqi private banks, including developing and translating materials. Training in the Core Lending Program, PEARLS credit monitoring system, and MIS information has been provided.

Issues, Recommendations, and Next Steps

- Establish and manage the Loan Guarantee Company which will provide loan and portfolio guarantees to banks lending to MSMEs and MFIs. Obtain commitments of Government of Iraq (Ministry of Finance and Central Bank of Iraq), other donors (WB, MIGA, IFC, EU) and the Iraqi financial community to take equity positions in the Loan Guarantee Company.
- Develop institutional and systems capacity of the credit function in banks by promoting cash flow lending methodologies and providing training to managers and loan officers on the PEARLS, CAMEL and BASEL II accords.
- Assist PBI to meet requirements to receive a grant to commence activity as a partner training platform to the banking sector.

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In conjunction with the establishment of the PBI training centre continue with business development / lobbying efforts to formalize participation by member banks of the PBI initially, and then non-PBI financial institutions throughout Iraq.

- Support Beirut-based “BML Istisharat S.A.L.” when they establish their office in Baghdad to implement the ICBS loan management software, and software maintenance support for the component’s participating private banks.

Key Counterparts

- **Private Bankers of Iraq (PBI).** This association is a key partner, providing feedback during the development of a Loan Guarantee Corporation, and developing a Training Center to disseminate best practices to Iraqi bankers.
- **Private Banks.** Work with individual partner banks will continue through PBI. MOUs with 5 banks were signed previously.
- **Ministry of Finance.** A representative participates on the Advisory Committee for the development of the LGC.
- **Central Bank of Iraq.** A representative participates on the Advisory Committee for the development of the LGC.

Grants or Procurement

- None at this time, although a support grant to PBI is anticipated.

Training

- **Managerial Accounting and Credit Analysis, 1 and 2,** (1) 2/17/05-3/14/05, Amman, 16 participants (2 female). (2) 7/3/05-7/13/05, Amman, 20 participants (8 female).
- **ICBS Software Training,** for component staff, 7/14/05-7/22/05, Amman, 2 participants.
- **Housing Fund Meeting for PBI Members,** hosted to present an overview from the Director of the Housing Fund of the Ministry of Housing and Construction to an audience of 35 bankers from 14 banks, 9/10/05.

MEDIUM, SMALL AND MICRO ENTERPRISE DEVELOPMENT (MSME): SUSTAINABLE MICROFINANCE

Objective

To help build a sustainable non-bank (microfinance) financial industry in Iraq that will provide loans to small businesses, women-owned firms and individuals in order to enhance private sector economic growth and employment across Iraq.

Situation at Outset (Beginning State)

At the project outset in 2004, two international microfinance development projects (run by CHF and ACDI/VOCA) were funded through the Coalition Provincial Authority (CPA) under the Access Small Credit Initiative (ASCI), (oversight of the ASCI subsequently transferred to the Iraq Reconstruction Management Office (IRMO)). The objective of these two programs focused on rapid credit delivery as response to address post-conflict stabilization needs rather than building sustainable "Best Practice" Microfinance Institutions with capable management. As a result, both have made exceptional outreach/impact but at the sacrifice of sustainability. CHF, operating from Baghdad to the South, with more than \$20,000,000 in loan capital have only been able to achieve little more than 60% operational sustainability. ACDI/VOCA, operating from Baghdad to the north, with \$8,000,000 in loan capital has achieved roughly half the operational level as CHF. These two MF programs represent the nascent MF industry in the country. Each have multiple branch offices covering most provinces of Iraq. However, neither program is in a market-tested competitive position or offer market-driven loan rates. In effect, the two organizations enjoy a monopoly in their contractually mandated areas of operation. To summarize the situation, the "Iraq Microfinance Industry" was a well capitalized donor response to the economic catastrophe that resulted from armed conflict. This is in direct conflict with Microfinance Best Practice as defined by the CGAP Principles of Microfinance.

Challenges

Weaning existing microfinance providers from the consequences of directed lending for security purposes to sustainable operating procedures is difficult. In addition, there are cultural/religious objections to sustainable loan fees and interest rates in general. Finally, a lack of funding for lending capital is anticipated.

Goals

- Support the development of a *sustainable* microfinance industry in Iraq through large grants to support operational costs and no-interest loans to provide capital to qualifying international institutions which will establish or continue operations in Iraq.
- Support the creation of *new, indigenous* MFI's to increase competition, extend geographic outreach and economic impact by providing start-up technical assistance to Iraqi business associations and business centers seeking to establish independent, Iraqi-run microfinance institutions, and through conducting in-country technical and management training programs for their founders, board members and executive staff.
- Provide immediate capacity building programs for existing institutions by facilitating 'best practices' training in CGAP (Consultative Group to Assist the Poor) courses for Iraqi employees of INGO MFIs, thereby building local management capacity to enable independence from international advisors and donor subsidies. Sponsor participation in select international programs. Develop a sustainable CGAP based training mechanism within Iraq
- Develop a creative financing mechanism to leverage donor investment with public sources of loan capital to insure the future capitalization of the microfinance industry as a whole.

Achievements and Milestones

- Through awarded and pending grants, funding will continue to the two existing programs as well as establish seven (7) additional International and Indigenous MFIs in FY 2006. The Large Grants program alone resulted in the receipt of and response to forty-three Expressions of Interest, submission of thirteen applications, and pursuit of award of four grants worth nearly \$12 million.
- Facilitated six CGAP training on a variety of topics (Principles, Financial Analysis, Delinquency Management & Control, and Operational Risk Management) to 439 microfinance practitioners (21% female) as of the end of September, the end of the FY 05 training plan. A plan is in place to develop a cadre of Iraqi CGAP certified MF trainers in FY 2006 (recruiting is underway).
- Initiated an innovative new collaboration with U.S. Military Civilian Military Operations (CMO) and Civil Affairs Officers, in which CMO will contribute operational start-up funds to new Iraqi micro-finance institutions affiliated with CMO-supported business centers, while Izdihar will provide technical training to Iraqi staff and to CMO officers providing on-the-ground oversight and assistance, as well as loan capital to the new MFIs.
- As part of the IZDIHAR-CMO collaboration, development of a pilot site in Kirkuk is underway (the IMCC has filed all registration papers, developed organizational and governing documentation, and identified and hired or approved Board members, management and staff), and the Radwadiya area west of BIAP is slated next. Discussions are also underway to begin activity in Ramadi and/or Falluja.
- A consortium of Iraqi business associations is being supported to set up a new, independent MFI to assist their members.

Issues, Recommendations, and Next Steps

- Complete the awards of large grants to the international organizations and provide on-going training support to their staff as well as employ a monthly and quarterly financial monitoring and evaluation system to promote best practice management and ensure sustainability.
- Start up MFI policy must adhere to one of gradual development. This will be especially important for the local indigenous institutions.

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- Continue CGAP training in FY 2006 and pursue a Training of Trainers plan to develop local capacity.
- Fully engage the MNF-I advisors and imbed one or two LTTA advisors to liaise with the MNF-I; Imbed 90-day STTA advisors at all start-up indigenous MFIs.

Key Counterparts

- **International Microfinance Institutions.** Support to **CHF** and **ACDI/VOCA (Al-Thiqua)** has been extended in 2005. New large grants to **Relief International** and **Women for Women** are nearly finalized. Through these four organizations, microfinance activity will be established in 17 of Iraq's 18 governorates.
- **U.S. Military/MNF-I Civilian Military Operations (CMO) office and Civil Affairs Officers.** This collaboration will leverage both parties' capabilities and funds to develop local Iraqi microfinance institutions in connection with business centers at various locations throughout the country. The project will provide microfinance expertise, training to both MNF-I officers and Iraqi staff, and loan capital. MNF-I civil affairs officers will provide on-the-ground oversight, management and support to the start-ups in connection with business centers they already support, including providing funds for initial start-up and operations.
- **Business Associations.** Three Iraqi business associations (AWE, YEBA, and IEDC) are establishing a NBF "Al Tamakun."

Grants or Procurement

- **ACDI/VOCA Al-Thiqua Bridge Grants.** Three grants totaling \$382,080 supported operations from June-Dec 2005.
- **Large Grants Program.** Four international microfinance organizations have been short-listed to receive multi-year grants totaling \$10,849,459 to support operations and provide loan capital: ACDI/VOCA Al-Thiqua (\$2,997,858), CHF (\$2,907,865), Relief International (\$2,999,919), and Women for Women (\$1,943,815).

Training

- **CGAP training series.** A variety of trainings in Amman, Jordan, including: Principles of Microfinance and Accounting (3 sessions), Financial Analysis, Pillars of Microfinance (4 sessions), Delinquency Measurement and Control (5 sessions), and Operational Risk Management (3 sessions). 419 participants (93 female) [Note: this is a per-event participation count, and may include individuals who have attended multiple events.]
- **International Microfinance Trainings.** Microenterprise Development Institute, Manchester, NH, USA, 6/13/05-7/1/05, 6 participants (2 female). Boulder Microfinance Training, 7/25/05-8/12/05, Turin, 7 participants (2 women).
- **International Microfinance Events.** Sanabel 3rd Annual Conference, 11/28/05-12/2/05, Marrakesh, 9 participants (3 female).
- **In-house training for MNF-I CMO Initiative.** Project staff provided introductory microfinance training to civil affairs officers, including an overview of the total Izdihar project in order to increase outreach and awareness of all initiatives through this on-the-ground channel.